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A VERY GOOD YEAR: LESSONS FROM OREGON WINE COUNTRY

Gary Gortz, F&B Director of the Three Rivers Casino and Hotel - located in the heart of South Willamette Valley of Oregon Wine country - shares strategies resulting from the Tribe's proximity to some of the country's finest vineyards

Oregon has established itself as one of the fastest, up-and-coming regions for wine-production. Its unique combination of soil, sunlight, and cool Pacific-coast temperatures have proven perfect for the growth of some excellent grapes, particularly Pinot Noir, which thrives in milder climates.

Within Oregon, the Willamette Valley has emerged as one of the important areas for wine, and it is here that you will also find the reservation of the Coos, Lower Umpqua and Siuslaw Indians and its successful Three Rivers Casino and Hotel. The F&B program at the resort is now led by Director Gary Gortz, a veteran of the Native American gaming industry who brings nearly 30 years of food and beverage experience - and a solid appreciation of wine - to the property. Gary recently met with Innovation Food & Beverage's David Rittvo to discuss how the Three Rivers operation has positioned its F&B and implemented several unique marketing events to take advantage of Three River's distinct locale.

RITTVO: How does the wine region affect your casino and its food and beverage program?

GORTZ: As you would expect, the surrounding wine region provides Three Rivers with a opportunity to showcase a wide array

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DEFINING BEVERAGE PROGRAMS IN A RECESSION

Senior Financial Analyst Erika Meeske of The Innovtion Group explains how craft programs have developed into a growth opportunity for savvy operators, despite today's economic challenges

The recession has had a significant effect on alcohol sales over the past two years, and unfortunately, it appears that trend has continued well into 2010.

According to a study by GuestMetrics, revenues from total beverage alcohol sales in 2009 declined by approximately 18% overall compared to 2008. Among the beverage classifications, wine was hardest hit with sales declining by approximately 30% compared to spirits and beer which declined by only 14% and 12%, respectively. Through Q1 2010, the trend continued as total beverage alcohol sales dropped an additional 17% from Q1 2010 compared to Q4 2009. Again, wine led the decline, dropping 26%, followed by spirits and beer with 14% and 8% declines. While the rate of decline has lessened, the compounding effect including 2009 further exacerbating the issue for suppliers and providers. According to numerous bar managers and bartenders surveyed, the consensus is that the most patrons are either ordering less expensive drinks or opting to patronize their favorite watering holes less often or altogether.

For forward thinking establishments, maintaining a keen eye on emerging trends may be the key to surviving the storm and potentially

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LESSONS FROM OREGON WINE COUNTRY

A conversation with Gary Gortz, F&B Director of the Three Rivers Casino and Hotel
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of quality local products. One of the most notable benefits of being so close to both the Oregon and Washington wine regions is that it has allowed our steakhouse wine program to offer more wines by the glass. We take advantage of our proximity and relationships with area vineyards/distributors to seek out local and regional offerings, and in doing so, we allow our guests to taste and experience the surrounding wine region at a lower price point then full bottle orders. This has proven to be a very valuable improvement given these economic times.

Add to that our proximity to the coast as well as some of the nation's most productive farmland, and we are able to complement those wine offerings with exceptional culinary options, including fresh oysters at the World Market Buffet and locally-sourced prime rib on our steakhouse menu. The result is a regionally appropriate, well-rounded F&B program.

RITTVO: Are there any benefits/detractors to being located close to a wine producing region?

GORTZ: Consistent with other casinos, the food and beverage program provides a support amenity for the casino. Our goal is to provide the value-added experience that a guest will appreciate while they are on property. If we can accomplish that through a solid and regionally distinctive dining experience, then I feel like we have accomplished something. The adjacent wine region and the local produce available to us certainly enhances our ability to create that such an environment for our guests.

RITTVO: Are there cost benefits to sourcing locally?

GORTZ: There are cost benefits to sourcing local wine and local produce, but they aren't as extensive as one might think. While we are often able to create some price differential on the wine that is being offered, in some cases, we actually end up having to pay more for some items like local fruits and vegetables. That said, our marketing team has done a fantastic job of using the freshness and local appeal we pay a premium for as a product differentiator against our competition, and we have found this usually outweighs any cost increase that we incur.

RITTVO: Do you notice that customer preferences are different because they are adjacent to a wine region?

GORTZ: We have noticed two groups of guests with different preferences. First we have locals, which are appreciative of the value perceptions and are not as interested in sourcing and paying a premium for the local products. On the other side of that coin, are tourists, which frequent the casino and the area more during the summer. For this group in particular, it is important we provide them with an opportunity to taste what the local area has to offer, especially since they tend to be willing to pay a premium to have that experience.

RITTVO: As the F&B Director, what are some other ways you coordinate your programs with the property's marketing department, particularly to create unique player club development opportunities?

GORTZ: One of things I am most proud of is that we have started to integrate the local wine program into player club development programs. For example, in the next few weeks, we will be hosting another VIP player club event which will feature a quality food experience in the steak-

house, as well as higher end wines from the area. We have invited a limited number of select guests to participate in this unique event, offering them an exclusive culinary experience featuring a multitude of exceptional wines from the surrounding wine regions. We think it is a great way to say thank you to some of our most important guests.

RITTVO: Do you have any other marketing initiatives planned to tie into the local wine region?

GORTZ: Absolutely. In addition to the more exclusive dinners for our Player Development VIPs, we have started to integrate the local wine region and the area produce and proteins into other marketed events. These offerings are open to all participants, including existing patrons and other members of the community.

One example of this is that we are preparing to roll out a new "Winemaker Dinner" program in our steakhouse. Initial plans are to host an event every two to three months. The dinners will feature a local winemaker to talk about his or her wines, followed by a 4 to 6 course meal prepared by our in-house chef and paired with the guest vintner's offerings. The goal of these events is to drive traffic and expose guests to the abundance of local wines and produce available to us.

RITTVO: How do all of these efforts impact your buying habits/efficiencies?

GORTZ: Of course we like to support our local community and highlight the regional wines, so we tend to purchase from the local providers when we can. But I wouldn't go so far as to say our buying habits are altered just because we are close to a wine region. It would be remiss of us not to look locally first, but our selections also have to make financial sense for the overall program.

RITTVO: Nationwide, TIG has been monitoring a dip in both cover counts and average check volume, and its disproportionate affect on high-end restaurants. How do you see these types of events helping to offset that trend?

GORTZ: We believe that these events provide a great opportunity to drive traffic and to stretch the average check. Because we are providing an experience more than a meal, there is a higher perceived value and inherently the ability to charge more for it.

RITTVO: What can a casino that is not adjacent to a wine region glean from your experiences to utilize in their casino?

GORTZ: For me personally, I think it is extremely important to get out and talk to both employees and guests. This allows an F&B manager to better understand the demographics and psychographics of the patron base, and how to implement changes that will respond to the client base and improve the bottom line - even if on a smaller scale.

The Wines by the Glass program I mentioned earlier is an example of this tactic. We listened to our guests that they wanted more of a tasting-like capability at a lower price point and with greater opportunity to sample a larger volume of the local wine products. Offering a broader by-the-glass selection has turned out to be a huge win-win for us and our guests.

And then of course, we complement all of this with menu items that are fresh, regionally appropriate and reasonably priced. While some guests are going to want the high tickets items, others will want lower priced, more value-oriented selections. Menu balance, variety and quality are the key, and I believe that Three Rivers has done an exceptional job of achieving all of these goals.

Photos courtesy Three Rivers Casino & Hotel

DEFINING BEVERAGE PROGRAMS IN A RECESSION

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gaining market share away from competitors. While many reasons exist for the dissimilarity of the falling rates, the declining differences may also be an indication of changes in consumer preferences. Identifying these potential changes is essential in maintaining an edge over industry competitors.

As previously mentioned, the rate of decline differs based on the type of beverage. Take for example the wine sales numbers - a 2010 decline of approximately 26% overall - more than three times the rate of decline for beer and nearly twice the decline on spirits sales. As diners cut back on expenses, wine expenditures, particularly higher priced wines by the bottle, appear to have been the first to be sacrificed.

Wine sales in typical markets declined by approximately 26% in the first quarter of 2010, more than three times the rate of decline for beer and nearly twice the decline of spirits sales.

To combat this trend, owners and operators have been forced to think outside-the-box when it comes to wine sales approach. More sophisticated opertors like Emeril's Burgers and More restaurant at the Sands Casino Resort Bethlehem, have exemplified an effective response to this challenge by offering a revised wine list with high-quality domestic wines affordably priced marketed at $10 and under per glass. Other restaurants are also offering an option for a flight of wines, allowing the consumer to try various wines before buying a full glass. While wine flights are nothing new to the industry, the perceived value of the wine flight could influence consumers to try new wines, and the reduced menu prices may be just enough to convince consumers to buy a glass, thereby increasing the check average.

When possible, another way to provide value to the customer through quality inexpensive wines is to highlight local wine producers in the region. In addition to the widely recognized wine-growing regions, smaller artisanal vineyards have been popping up all over the United States. These grapes are developed through natural elements of the region and provide a perfect opportunity to pair with locally grown ingredients. In addition, some offerings can be negotiated at lower prices compared to better known brands, while highlighting the unique flavors of the region. Among many other casino resorts in wine regions, this model is used at the Three Rivers Casino (as highlighted in the interview section of this newsletter) and has been extremely successful.

In contrast to wine sales, it appears that beer and spirit sales are faring somewhat better. The likely savior of both the beer and spirits industry is the influx of new independent producers and emerging trends. According to the Brewers Association, the number of regional craft breweries, microbreweries and brewpubs has grown significantly over the past decade, reaching approximately 1,599 U.S. Craft Breweries nationwide as of July 31, 2010, a record high for the industry. Furthermore, craft brew sales in 2009 grew by 10.3% on top of a 10.1% growth in 2008, despite the fact that overall US beer sales decreased by 8%. According to the Brewers Association, the craft beer industry has grown by 9% by volume in the first half of 2010 and 12% by retail sales, while overall U.S. beer sales dropped by approximately 2.2% by volume during that same period. As the craft beer industry continues to mature, new trends emerge along with it.

Just as wine consumers appreciate a good wine paired with dinner, beer consumers also seek a beverage to complement their dish. Until recently, the idea of pairing beer with a meal was not common practice in mainstream restaurants. In fact, it appeared that beer selections at most restaurants tended to list approximately the same or similar domestic and import beers without a second thought as to how the beer would complement their menu items. However, as the craft beer industry grew and flavors evolved, the practice of pairing food with craft beer started to become more commonplace. Though the trend has not permeated mainstream restaurants, many are warming to the idea as the pairings not only enhance the dishes, but also promote sales. Furthermore, it also creates a memorable dining experience for the consumer thus encouraging repeat visitation.

There are many ways to create a craft beer program. Some casinos, such as the Feather Falls Casino in Northern California, are creating their own personal brand of beers by constructing their own brewery on property. While this will be likely be quite a draw, particularly for local patrons, an existing restaurant need not convert into a brewery for a quality craft beer menu. Instead, the time and energy could be better spent understanding what beers best complement the restaurants overall flavor profile. Again, this is an opportune time to involve the head chef, particularly if they use a specific beer in the preparation of the dish.

Keep in mind that beer preferences tend to vary depending on the region. According to Oregon-based Bar Manager, Jeffery Morgenthaler of Clyde Common, beer drinkers in the Pacific Northwest region tend to prefer hoppier flavors (which are more bitter) while areas to the southeast U.S. may prefer sweeter or lighter brews. As with local distilleries and wineries, highlighting local breweries can be an inexpensive way to incorporate craft beers into the restaurant while also ensuring that the beers selected respond to local market preferences. Often times, microbreweries have at least five or six selections varying from lighter colored and flavored beers to much heavier stout beers, and often try out new flavors as they expand their offerings. If local breweries are unavailable in the area, try selecting some regional bottled beers to introduce into the restaurant: again starting small with a light, medium and full bodied beer. Keep in mind that craft and microbrew beers tend to have a shorter shelf life than mainstream beers, therefore it is better to start small, introducing a few select beers to the restaurant. This also allows the restaurant to rotate their stock and highlight new beers while maintaining a supply of those that are more successful with the patrons.

Craft beer selections can be handled either in-house (especially if the head chef is incorporating the beers into the dishes), or outsourced to a Craft Beer Sommelier, which is a newer industry certification similar to that of a wine sommelier. It may also prove worthy to establish an ongoing relationship with local and regional beer distributors who may be more abreast of new beers on the market.

Not to be outdone, the spirits industry has also grown exponentially, due in part to the renaissance of craft spirits, the emergence of mixology, and influx of people willing to pay

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5 Simple Rules for Launching a Craft Beer Program

KNOW YOUR CUSTOMER

Often preferences in beers can vary depending on your regional location. Generally, Pacific Northwest region beer drinkers tend to prefer hoppier, more bitter flavors while areas to the southeastern U.S. may prefer sweeter or lighter brews.

START SMALL

Begin with a few different styles of beer . Consider a light-bodied, medium-bodied and full-bodied beer to over a full spectrum of flavor. The key is to provide variety.

GO LOCAL

Highlight local breweries in the area, or if they are not available try some regionally-bottled beers.

COMPLEMENT YOUR CUISINE

Try beers that complement the restaurants food offerings, or better yet, incorporate the beer into the preparation of the dish.

LISTEN TO THE CUSTOMER

Keep stock of the beers that are more successful among patrons and replace less successful beers with new craft brews to grow the overall program.

“ASK THE EXPERTS” SEGMENT

The industry’s opportunity to pose questions to the Innovation Food & Beverage team

Quint Hanson

David Rittvo

Q: What are the typical prime cost margins that Innovation Food & Beverage is seeing at casino restaurant? Food? Labor? Beer? Wine? Liquor?

A: While we would love to answer this question with a simple answer and provide ranges of margins for operations (28-32% for Food, 40-43% for Labor etc), we believe it is a bit more complex and requires a more in depth look at the question.

It is important to look at each venue as a standalone business and decide what is the operational intent of the venue. Does the venue serve the function of supporting gamers through comps and promotions or can it function with low proportion of comps and drive cash revenue? On one hand, a venue that is driven by comps, such as the buffet and/or steakhouse, will provide a product that is either one dimensional or requires very high labor and food margins and will have to factor in the potential of incremental gaming to gain a true understanding of the operating margins. On the other hand, the mid-scale casual restaurant (which in most cases does not drive a large proportion of comps or promotions) should allow for a more effective analysis of the true margin.

If the venue is driven by comps and promotions, the margins will be have to be flexible and analyzed based on the relationship between the food and beverage department and the marketing/promotions/player development department. If the venue is driven predominantly by cash sales, the margins should fall in line with industry averages which are provided as ranges below:

Target Prime Cost Margins by Segment

FOOD

28% - 32% of food sales

LABOR

Not to exceed 43% of total sales

BEER

12% - 15% of beer sales

WINE

20% - 22% of wine sales

LIQUOR

10% - 13% of liquor sales

Submit your questions for next quarter’s issue to David Rittvo via drittvo@theinnovationgroup.com.

DEFINING BEVERAGE PROGRAMS IN A RECESSION

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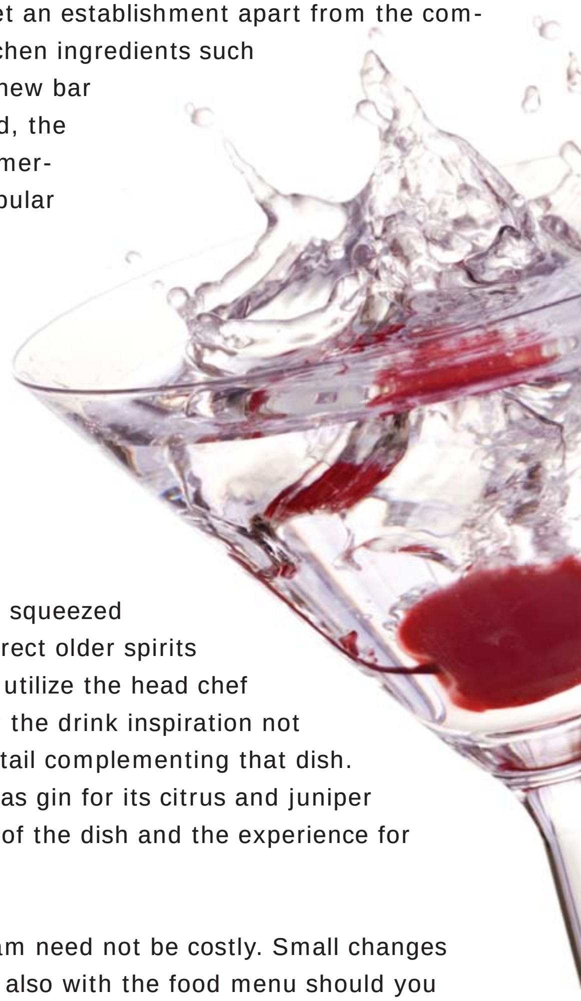

for a quality cocktail. While the signature cocktail is nothing new to the industry, the craft of mixology has transformed the idea of a mixed cocktail into an experience of flavors, which if done properly, can set an establishment apart from the competition. The core of this trend is a strong focus on freshness; utilizing common kitchen ingredients such as fruits, vegetables, juices, herbs, syrups and even teas, with both old and brand new bar spirits, to create unique flavor combinations. Not surprisingly, as this trend emerged, the perfect spirit pairing was sure to follow. Though not new to the industry, with the emergence of more unique flavor combinations, spirit pairing is becoming even more popular as it adds yet another element to the overall guest experience.

The Fusion Mixology Bar, a Latin inspired mixology bar located at the Palazzo in Las Vegas, Nevada, uses lesser known spirits and flavors that are more common in Latin America such as Cachaça and Pisco, as well as fruits such as pineapple and mango to create innovative concoctions less familiar to the domestic traveler. In this case, the management team sought inspiration from the Latin theme, utilizing ingredients native to the Latin culture to create their craft program. Implementing a craft beverage program can be relatively easy.

To begin a craft spirit program, start with an inspirational ingredient such as freshly squeezed juices, fresh vegetables, or unique liquors from local distilleries. You can also resurrect older spirits such as Elderberry Liqueur and begin mixing flavors. This is an ideal opportunity to utilize the head chef and the kitchen for the fresh ingredients. Utilizing produce from specialty dishes for the drink inspiration not only cuts down on food waste but also provides a perfect opportunity to pair a cocktail complementing that dish. In addition, more often than not, chefs use liquor in the preparation of dishes such as gin for its citrus and juniper berry flavors. Pairing that dish with a specialty gin cocktail can enhance the flavors of the dish and the experience for the guest.

Regardless of your chosen bar program, it is important to realize that a craft program need not be costly. Small changes in the offerings can make a big difference with not only the beverage selection, but also with the food menu should you choose to pair beverages with meals. Though the initial costs of training and product may be frontloaded, the return on investment on the back-end will pay off. However, to ensure success of the program it is vital to introduce your bar and wait staff to the concept and train them thoroughly. Without the knowledge of the product and the reasoning behind the pairing, all efforts, as well as the guest experience, will go unrealized.

While the signature cocktail is nothing new to the industry, the emergence of "mixology" has transformed the concept of a mixed cocktail into an experience of flavors which, if done properly, can set an establishment apart from the competition.

Best practices dictate that an operator venture into any craft program by starting small and simple. Begin with a few fresh juices, spirits, local wines or bottled craft beer, and incorporate the drink menu with the food menu and build upon successful pairings. The importance of staff training cannot be emphasized enough, otherwise the drink concoctions and pairings will not be fully realized. The idea is to create the best overall experience for the guest to ensure repeat visitation. ■

Innovation Food & Beverage keeps a keen eye on emerging trends and shifts in consumer preferences in the food and beverage industry through research, experience, and know-how. We utilize our knowledge to formulate a well thought out food and beverage program that best suits the needs of the restaurant and/or bar establishment both individually as well as part of a grander scheme. This edge allows Innovation Food & Beverage and the Innovation affiliates differentiate you from your competitors and gain market share.

INNOVATION F&B

Innovation Food & Beverage is a specialty advisory discipline within The Innovation Group of Companies. The IFB experts support all of our affiliates as they help clients develop market-appropriate strategies that complement the entertainment experience, improve ROI, develop opportunities and and maximize the price-value relationship for patrons. Services and contacts include:

RESEARCH & ANALYSIS

- Demand Sizing & Analysis
- Consumer Preference Research & Analysis
- Market Demographics Analysis
- Database Development & Mining
- Food & Beverage Market Strategy
- Trend Analysis & Integration

OPERATIONS & MANAGEMENT

- Operational Reviews
  - Hiring & Training
  - Design & Layout
  - Menus & Price Points
  - Food Product & Purchasing
- Labor & Staffing Modeling
- Policies & Procedures
- Cash vs. Comp Analysis
- Quality Control
- Production & Presentation

CONCEPTING & IMPLEMENTATION

- Menu Concepting
- Recipes & Preparation
- Cocktail Design
- Other Culinary Requirements
- Implementation & Integration
- Celebrity Chef / Partner Evaluations & Negotiations

POSITIONING & MARKETING

- Positioning Testing
- Secret Shopping Services
- Accreditation
- Brand Analysis
- Coordination with Player Development Programs & Database
- Social Advertising & Networking

DEVELOPMENT & RENOVATION

- Design Integration & Smart Design
- Sustainability Strategies
- New Technologies
- Cost Benefit Analysis
- Life Cycle Planning
- Optimal Physical Positioning
- Pre-Opening/Opening Support

FINANCING & ASSET MANAGEMENT

- Finance & Capital Raising
- Valuations
- Financial Restructurings
- Mergers & Acquisitions
- Leasing vs. Ownership Cost/Benefit Analysis
- Site Selection & Optimization
- Operational Fit Analysis

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