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# Evaluating the indirect impact of resort casino amenities on gaming revenue

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## **Executive Summary**

### **Problem**

In order to meet customer needs, casinos must provide amenities such as restaurants, concerts and shows. However, in most casinos gaming remains the main source of casino profitability and in some markets, amenities do not produce any direct profits. Operators often assume that amenities attract customers and stimulate gaming. However, evaluating the indirect impact of amenities on gaming can be a challenge.

### **Objectives**

The current research develops a process for evaluating indirect gaming impacts and applies it to one type of amenity, namely restaurants. In Las Vegas, dining can be a profit-making attraction, with many fine dining establishments available. In many regional or local markets, dining may simply be an amenity for gamers who want to eat, or it can be used as a marketing tool to attract gamers through offers. The current research analyzes the relationship between casual dining and low-end gaming to focus on the "mass market" casino guests that make up the majority of customers for most casinos. The research also compares the impact of dining on gaming in a local versus a regional destination market.

### **Methodology**

The analysis utilizes daily performance data provided by the sponsor for a 182-day period from February-August 2009. Data were provided for two properties: one local Midwest casino and one regional drive-in tourist destination. Data were analyzed using time series multiple regression analysis with autoregressive and moving-average terms as needed to address serial correlation. Two dependent variables were analyzed: slot coin-in for 25 cent and lower denominations, and cash table drop. Independent variables included casual restaurant covers, day-of-week, holidays and event periods, and a trend variable to measure linear trend over time.

### **Results**

The results revealed that restaurant covers were significant predictors of gaming in all four models produced, with  $R^2$  values of 85% or higher. For the Destination market, the B-coefficient for the impact of covers on slot coin-in was 84.32, meaning that a one unit increase in casual restaurant covers produced a gain of \$84.32 in slot coin-in. The coefficient for cash table drop was 6.19, a \$6.19 gain in cash drop per cover. For the local market, the effects were much larger. The B-coefficient for slot coin-in was 875.29, a gain of \$875.29 per cover. The B-coefficient for cash table drop was 39.66, or \$39.66 per cover.

### **Managerial Implications**

A statistically significant result only has practical implications when it is also economically significant. The dollar contribution to operating profits can be estimated by multiplying the regression coefficient (i.e., the increase in volume per cover) by the average house advantage (i.e., hold %) to obtain gaming revenue per cover. This value is multiplied by the estimated departmental operating profit margin for either slots or tables to obtain the profit per cover.

Multiplying that value by total covers in the 182-day sample period yields the indirect profit, which amounts to \$2.9 million for the Destination casino and \$19.2 million for the Local casino. The operator would have to weigh these values against any operating losses to determine whether the dining establishments are profitable. However, it is reasonable to assume that in the local market, the indirect effect on gaming is sufficiently large to offset any operating losses and generate a substantial profit. The findings further suggest that casual dining may serve a different function in local versus destination markets, which may require different marketing tactics. The research also provides a general process that can be used to evaluate the indirect impact of other amenities, which can assist operators in providing the optimal mix of non-gaming options within their resorts.