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## The Shifting of the Las Vegas Tourism Industry: A Historical Perspective on Management and Resort Revenues

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The Shifting of the Las Vegas Tourism Industry: A Historical Perspective on Management and  
Resort Revenues

By

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## **PART ONE**

### **Introduction**

Las Vegas has been internationally recognized as the entertainment capital of the world. Whether it is top dollar luxury, world class fine dining, or vibrant night life that one seeks, Las Vegas certainly has something for everyone. The latter half of the 20<sup>th</sup> century has shown the city unprecedented arenas of success, but with intense global competition on the rise, it is clear that Las Vegas is no longer the only major player in the game. The turn of the 21<sup>st</sup> century has brought a new wave of economic challenges, and though Las Vegas has adapted over the years with a remarkably consistent stream of reinvention, revenues have shifted not only to different subsets of the hospitality industry, but also abroad. The proliferation of the gaming industry worldwide has ushered in a new era of accessibility that will inevitably force Las Vegas' experiential product to reposition. Now, patrons need not travel thousands of miles to the Mecca of gaming and entertainment when closer destinations offer similar experiences, and this presents a reasonable threat to the city's potential revenue flow. Furthermore, domestic tourists are gambling less and less in favor of other forms of entertainment. The future of Las Vegas as an international resort destination is uncertain, but the city's history may shed some light on current and prospective predicaments.

### **Purpose**

The purpose of this paper is to trace the history of the hospitality and tourism industry in the Las Vegas Metropolitan area, with respect to predominant management styles and revenue shifts, and discuss the industry's economic outlook.

## **Statement of Objective**

This is an exploratory study that will detail the rise of the Las Vegas boom from a historical perspective and follow the transformation of this city from a gaming giant to a global tourism center. Over time, Las Vegas resort revenues have shifted, and whereas revenues have been predominantly generated by the gaming industry in the past, there are now several sources of revenue. The tourism industry has transformed Las Vegas from a band of high profile casinos to an international resort destination, and as a result, hotel rooms, entertainment, food and beverage, and meetings and conventions have all become significant revenue generators in their own rights.

## **Justification**

It can be argued that “Las Vegas” is an experience and though not tangible, it is a product. Much of the Nevada’s commerce depends on the successful operation of the hospitality industry, and Las Vegas’ product life cycle can be a tremendous indicator of the city’s future course. Many people believe that Las Vegas has matured as a product and is fast approaching decline. If this is the case, it should be of the utmost importance to key decision makers of this industry and government officials that special attention is paid to the shifts and shrinkages of revenues.

## **Constraints**

The research discussed in this paper is specific to the Las Vegas hospitality industry and therefore may not be generalizable to other international destinations. One externally imposed constraint on this study is the reliability of the data. Most of the financial data gathered is self reported and unaudited, and the reliability of such information can be somewhat questionable.

Considering the importance of reliable information when analyzing trends, faulty information could paint Las Vegas' outlook to be either bleaker or more desirable than it actually is.

### **Glossary**

Pertinent terms will be found and defined in the context of the literature review.

## **PART TWO**

### **Introduction**

To fully understand the current state of the city and project what realities it may face in the future, one must understand the history of Las Vegas from its humble mining beginnings in the early 20<sup>th</sup> century to the heavily boasted \$10 billion City Center project. This literature review aims to provide broad insight into Las Vegas' short centennial history for purposes of understanding managerial strategy shifts, and briefly discuss general hotel resort revenues in 5 distinct categories: Gaming, Hotel Rooms, Entertainment, Meetings and Conventions, and Food and Beverage. There will be data on Las Vegas Strip hotel-casino properties as well as downtown Las Vegas hotel-casino properties to help support an open and inclusive representation of the Las Vegas tourism industry.

### **Brief History of Las Vegas**

#### **Beginnings**

Before Las Vegas rose to prominence as a notably reputable metropolis, it was a small town sustained by the San Pedro, Los Angeles, and Salt Lake Railroad. It was a repair shop of sorts for the railroads, and when they flourished, the town of Las Vegas did as well (Rothman, 2002). In the early 1900s, the fate of the town, like the Nevadan Colony as a whole, was tied to the decisions and needs of the more populous states. Some states were closer in proximity, such as neighboring California, while others were farther, such as New York and Pennsylvania. However, it was clear that the town was inherently necessary in the sustenance of mining boomtowns such as Bullfrog and Rhyolite that sprang into productivity in 1910 (Moehring, 2000). Settlers of the eastern states poured across the country in hopes of reaching the land of opportunity, and with the promise of mining riches, settlement towns began to take hold of the

western region. These surrounding mining settlements also allowed the town to source commerce in a less socially acceptable arena. The attention Las Vegas attracted was not always favorable as the city had been a symbol of two shunned but widely acknowledge vices, prostitution and eventually gambling. There was a lack of suitable entertainment options available for hard working male miners in these settlement towns, and it was there that the opportunity for women to supply leisurely activities surfaced (Hausebauk, Brents & Jackson, 2009). Though prostitution would ultimately be outlawed in Clark County in favor of gaming, it is important to note that the root of sexual service in Nevada originated in the towns that grew around the mining industry. The dubious moral values that the city so defiantly maintained set the stage for the image that Las Vegas has so cleverly coined in the global marketing slogan “What happens in Vegas stays in Vegas.”

Las Vegas soon began to show signs of an extraordinary trend. Between 1910 and 1920, Las Vegas’ population more than doubled, from 937 residents to 2,304 residents. The city has continued this trend, nearly doubling in population every decade since (Moehring and Green, 2005). This was the beginning of the transformation from a railroad town to the twentieth century embodiment of tourism. In 1921, Union Pacific bought the San Pedro, Los Angeles, and Salt Lake Railroad and with that purchase, the company inherited the responsibility of Las Vegas’ infrastructure and social climate (Rothman, 2002). As a result of the transference of control, the town was subject to volatile shifts in the economy and the rise of unions. The national railroad strike of 1922 virtually signed the town’s death certificate and in a final blow to the economy, Union Pacific abruptly relocated the entirety of the railroad operation from Las Vegas to Caliente, California (Moehring, 2000). The western boom took a steep fall in the 1920s, and with mining settlements drying and the town’s central means of support departed, Las Vegas

was to either adopt or fade into inconsequence as so many other settlements had. Yet, the Prohibition was in full effect and in turn brought about the rise of an underground leisure economy.

Unprecedented industrial growth encompassed the workforce countrywide, and the American worker began to search for an escape from the bustle of productivity (Hausebauk et al., 2009). Nevada had found its next silver mine, tourism. The concept of “escaping” was all too familiar in Nevada, so naturally the influx of vacationers looking to get away from the daily grind presented a much needed prospect. Fascination with the “wild west” and the lawless lifestyle that openly opposed the Prohibition gave Nevada the national platform to lure these tourists (Hausebauk et al., 2009). Another integral part played was that of the open-minded leadership assembled in Nevada. The state was now in need of people with experience running illegal operations (such as casinos and brothels), and these people were often misfits that were cast out of “decent” society. As cited by Bernhard, Green, and Lucas (2008), the gaming leadership “refused to conform to societal norms that governed more respectable business environments elsewhere.” In 1931, Nevada became the first state to legalize gambling, which continued to fuel the state’s ascent into the international spotlight. With a significantly more liberal approach to regulation, Nevada was now regarded as a state of outlaws that all but jumped at deviant opportunities to foster and perpetuate criminal activity, but interestingly, Nevada became an escape not only for outlaws, but in due time for the masses as well.

Nevada grew even larger as federal interest began to increase. “From the huge reclamation projects of the 1920s, to the Hoover Dam— the single largest government project in the 1930s— to land grants for ranches, to the massive federal military spending in World War II, Nevada developed the infrastructure necessary to sustain larger populations,” as stated by

Hausebauk et al. (2009). This infrastructure helped to solidify Nevada's foundation as a tourism based economy. Between 1930 and 1939, the federal government spent over \$70 million dollars in southern Nevada, \$19 million of that allocated to the construction of the Boulder Dam (now the Hoover Dam), and with one stroke of Washington's proverbial pen, Las Vegas' strategic importance was cemented. The funding also included a permanent military presence in the form of a \$25 million air base built northeast of the city. The additional millions of New Deal dollars that were pledged by President Franklin D. Roosevelt furnished Las Vegas with an assortment of infrastructural improvements such as new roads and sewers (Moehring, 2000). In an effort to distance the Boulder Dam, now Hoover Dam, from "sinful activity", the Secretary of the Interior, Dr. Ray Wilbur, built the town of Boulder City to support the thousands of workers from the Dam, and though the city was seen as a barrier between the Dam and Las Vegas, worries of competition ultimately were rendered unfounded, retrospectively (Rothman, 2002). With harsh restrictions on leisure activities, including the outlawing of prostitution and gambling, workers sought solace about 30 miles outside the city limits of Boulder City in the town of Las Vegas (Hausebauk et al., 2009). Even at the height of the Great Depression, which was otherwise a crippling force to the rest of the nation, Las Vegas thrived off the provided paychecks of nearly five thousand Dam workers during the four year project (Rothman, 2002). The city was well on its way, and the projected path of tourism that would elevate the city was slowly starting to take definition. Following World War II in the 1940s, extravagant resorts came into existence in Las Vegas offering the vacationer a luxurious oasis of gambling, alcohol and headlining entertainment. As a result of this emergence, tourism became the largest employer in southern Nevada (City of Las Vegas, n.d.).

## **The Era of Organized Crime**

The start of this era actually lay with Nevada's legalization of gambling in 1931. Though the mob would not maintain a significant presence until the 1940s, much of the leadership that first operationalized Las Vegas as a tourism hotspot was of a somewhat similar nature. For example, the man responsible for the widespread title of "the Las Vegas Strip" was Guy McAfee, a former Los Angeles vice cop who was barred and cast out of Los Angeles for running illegal casino operations there (Smith, 2005). J. Kell Houssels, another outlaw from Southern California and a seldom mentioned Las Vegas pioneer, would also soon relocate to a place that was more than tolerant of his chosen occupation. McAfee and Houssels would eventually partner in running the Golden Nugget hotel-casino, and before Houssels' death in 1979, he would own the El Cortez hotel-casino in downtown Las Vegas, the Tropicana hotel-casino on the Strip, and the Showboat off the Strip (Bernhard et al., 2008). Even outside of Las Vegas' lucrative hospitality industry, Houssels' influence on the city was quite substantial including ownership stakes in a bus line, a taxi company, and a downtown restaurant, as well as involvement in local politics (J. Kell Houssels Jr., interview by Michael S. Green, May 7, 2005, Las Vegas, Nevada). Other notable figures include Tony Cornero, who opened the Meadows casino, and Marion Hicks, who built the El Cortez hotel-casino, but perhaps one of the most celebrated figures whose legacy continues to permeate the Las Vegas community is Sam Boyd. Bernhard et al. (2008) describe Boyd's strides in the business community as first of their kind by a gaming executive, and to this day Boyd Gaming is amongst the top 6 Las Vegas operations (the other 5 being Las Vegas Sands, Wynn Resorts, MGM International, Caesar's Entertainment, and Station Casinos).

Arguably the most distinguished era in Las Vegas history was that of the mob. With the Great Depression subdued, the government cracking down on organized crime all over the country, and the casino gambling industry showing tremendous growth potential in Las Vegas, the city became a safe haven of sorts for mob activity. Las Vegas was already amidst transformation from small supply town to full blown resort destination, and the contribution of the mob was instrumental to the success of the city's new image (Hausebauk et al., 2009). Leadership that was sent to establish a presence in Las Vegas was usually deployed by mob families in large Midwest cities such as Chicago, Detroit, and Kansas City (Bernhard et al., 2008). Mob interest was generally believed to be started with the infamous crime figures Meyer Lansky and Benjamin "Bugsy" Siegel, Luciano family made men that hailed from New York City (Griffin, 2006). Siegel was sent to develop west coast operations for the underground organization. Highway 91, also known as the Los Angeles Highway, Las Vegas Boulevard, and eventually the Strip, was blossoming with casino properties, and though the Mob initially just ran wire operations, the organization watched eagerly as the desert birthed an oasis.

In 1941, the El Rancho Vegas opened its doors as the first casino property outside of downtown on the Strip (Moehring, 2000). Closely thereafter, the Last Frontier opened in 1942, both properties paving the way for the casino resort that would redefine luxury and place Las Vegas amongst the affluent circles of the world. After opening before completion and closing in 1946, the glamorous Flamingo Hotel was officially opened in 1947. According to Moehring (2000), "the Flamingo was a turning point because it combined the sophisticated ambience of a Monte Carlo casino with the exotic luxury of a Miami Beach-Caribbean resort." Though the El Rancho Vegas and the Last Frontier were both considered upper-class casino establishments, the Flamingo Hotel was the first to break away from the "wild west" theme that was prevalent in Las

Vegas. Originally estimated to be a \$1 million dollar project, the construction of the Flamingo soon ballooned to nearly \$6 million dollars because of costly mistakes, unnecessarily extravagant materials, and imported furnishing (McCracken, 1997). While Siegel was confident that the Flamingo would be the gold mine that he had envisioned, his careless dealings with the mob and their concerns about a reasonable return on investment ultimately cost Siegel his life. His delight of the Flamingo's success was short lived as he was murdered in June of 1947 just as the resort began to gained traction (McCracken, 1997).

Though many leaders would follow in Siegel's path, the succeeding leaders had an entirely different approach to management. The mob was dancing the fine line between legitimate and illegitimate operation, and while violence was a powerful weapon, prudence would prove to be just as powerful. Asserted by Bernhard et al., (2008), "other operators in this era frowned on Siegel's visibility and open thuggery, realizing that his behavior was hardly helpful to their objectives of achieving respectability and larger-scale profitability." Coincidentally, this stance would give the Las Vegas community a sense of safekeeping, as the mob was not looking to attract negative attention. These velvet glove men, men that understood the reality of mob business but were not violent themselves, recognized the importance of discretion and its relationship to successful operations (Cahill, 1977). They would include Morris Moe Dalitz and Wilbur Clark,, operators of the Desert Inn, Gus Greenbaum, operator of the Flamingo and the Riviera, Benny Binion, operator of the Horseshoe, Tony Cornero, financier of the Stardust, and Anthony Tony the Ant Spilotro and Frank Lefty Rosenthal, later operators of the Stardust.

It is widely believe that mob money was behind the purchase and maintenance of several Strip properties during this time including the Sahara and the Sands, both opening in 1952, the

Riviera and the Dunes, both opening in 1955, the Hacienda, opening in 1956, the Tropicana, opening in 1957, and the Stardust, opening in 1958 (Denton & Morris, 2001). Because of skimming operations, “cash that was removed from casino count rooms before it was ever counted” (Griffin, 2006), it is difficult to measure just how profitable these casinos. These loads of cash were taken from the casinos on a regular basis and delivered to the mob families in the mid-west and on the east coast. With the addition of burglary and fencing (selling stolen goods) operations, the mob was established as Las Vegas’ invisible but present guiding hand, a reality that would continue to blur the lines between the good guys and the bad guys (Griffin, 2006).

Another interesting byproduct of the Mob Era was the introduction of a delicate dance between the law and organized crime. As droves of money from questionable sources continued to pour into the state, the federal government started to gradually narrow its focus on Nevada, thus further heightening Nevada’s rebellious image and also moving state officials to take considerable action. The tactic had a significant impact and made officials “paranoid and eager to rid themselves of any image of vice that might be detrimental to that of a resort destination” (Hausebaur et al., 2009). As gambling had now become the centerpiece of operations in Nevada, the establishment of the Gaming Control Board in 1955 would help to regulate and legitimize the exploding industry. Earlier in this paper, prostitution was briefly discussed as having been crucial to the development of the city. Prostitution was tied to Las Vegas in the city’s infancy, but the trade eventually became an integrated piece of the casino gaming industry as well. Because open prostitution was seen as a vice that would detract from the boasted resort image, the resort towns and their casino operations distanced themselves from prostitution in urban areas and started to relegate it to rural areas (Hausebaur et al., 2009). However, in 1980 Nevada Supreme Court gave control and licensing of brothels to local counties with a population of less

than 400,000 people. Though there was tremendous opposition from the gaming industry, an industry that wanted to control prostitution on its own terms, and the newly flourishing convention industry, an industry that was fearful of the tainted image Las Vegas was subject to if prostitution was legalized, the support from rural communities was unwavering as brothels were unquestionably a major source of revenue for rural areas (Hausebauk et al., 2009).

The mob and the Nevada government had been on what most would have considered friendly terms, each unofficially supporting and protecting the interests of the other on certain levels (Denton & Morris, 2001). According to the American Gaming Association (2009), the 1950s brought federal suspicion of Las Vegas casino operations, and the Senate Committee to Investigate Organized Crime in Interstate Commerce, lead by Senator Estes Kefauver, began federal proceedings with hopes of evidencing significant criminal influence in the casino industry. The government believed that several owners of the casinos were but front men working for the mob, and though many relevant figures were subpoenaed and questioned, the government received little cooperation (Griffin, 2006). Nonetheless, Mob-run Vegas continued to pull ahead in the hay days of the 1960s and 1970s.

Under the management of Frank Lefty Rosenthal, the Stardust became the premier casino in the still ever burgeoning town. Ownership of properties changed frequently during this time period as the Strip started what proved to be an unending cycle of reinvention. Las Vegas was shifting into a new phase of operation, the corporate era, and who better to usher in that era than the likes of Howard Hughes? Arriving at the Desert Inn in 1966 and deciding to simply purchase the property rather than vacate, Hughes went on to buy the Frontier, the Sands, Castaways, the Landmark, and the Silver Slipper, and at the height of his ownership, Hughes controlled nearly one third of the gaming revenue on the Strip (Rothman, 2002). As each of those properties was

believed to be backed by mob funding, this marks the first legitimate opposition to the mob's stronghold (though it was surely not directly intentional), and when the government finally decided to intervene, the city found itself in the thick of yet another transformation.

### **Rise of the Corporation**

By the late 1970s, it was clear that the grand days of mob controlled Vegas were fast fleeting as the Nevada State government made exceptional progress in ridding the state of mob ownership. The deviant and sinful practice of "gambling" was taking new form as the legally and social more acceptable leisure activity of "gaming," and the state began to constrict regulation. There were two pivotal events that indicated the commencement of a new time. First was the 1979 ruling of the Gaming Control Board that permanently revoked Rosenthal's gaming license. The Stardust was considered to be the pinnacle of mob ownership in Las Vegas at that point, and by revoking Rosenthal's license and forbidding him to operate in gaming in Nevada, the state completely overhauled the management at the Stardust (Jaschke & Otsch, 2003). The second was the stance the state took about gaming operators. As the proliferation of gaming spread in the forms of state lotteries and the legalization of gaming in Atlantic City, the industry that once solely relied on people with less than desirable pasts to operate was no longer stigmatized. Nevada legislatures were now liberated from having to allow devious backgrounds to control and operate the state's main source of commerce (Rothman, 2002). The year of 1979 proved to be the revolutionary year that yielded strong federal muscle, and when Gaming Control agents shut down the Aladdin's casino after three years of ongoing investigation, there was no doubt that federal presence was there to stay (Jaschke & Otsch, 2003).

The toppling of the mob's empire in Las Vegas drew much attention in the 1980s. The decade brought a vigorous round of prosecutions, hordes of corporate capital, and a new vision

for the newly mob-eradicated city. With the law's implicit blessing of the industry, gaming operations were now being consolidated into large corporations. The dominating gaming companies of the 1980s were Harrah's, the MGM, Del Webb, the Hilton, and Caesar's World, all of which were publicly traded companies (Jaschke & Otsch, 2003). While the city acclimated to the new reign of legitimate business, another prominent figure whose influence was as much a contribution to the Las Vegas of the 21<sup>st</sup> century as Howard Hughes was Steve Wynn. Though Wynn had investments in Atlantic City and Las Vegas (the Golden Nugget) during the 1980s, arguably his defining contribution was the Mirage. In 1989, the over 3,000 room megaresort was opened (LVCVA, 2012). The resort was a spectacle the likes of which the world had not seen, complete with a white tiger habitat, a dolphin tank, and a magnificently erupting volcano that spewed at the top of every hour.

The Mirage went on to lead a massive development of Las Vegas Boulevard over the next decade and by the close of the century, Las Vegas' skyline and culture had been entirely altered (Jaschke & Otsch, 2003). From 1993 to 1998, the city stood watch as corporate developers imploded four historic hotels, the Dunes, the Sands, the Landmark, and the Aladdin, to make room for new properties. The decade saw the opening of several megaresorts including the following: the Excalibur in 1990 (with 4,000 rooms), the Luxor, Treasure Island, and the MGM Grand Hotel and Theme Park (with 2,500, 2,900, and 5,000 rooms, respectively) in 1993, the Stratosphere Tower and the Monte Carlo (the latter with 3,000 rooms) in 1996, the New York New York (with 2,000 rooms) in 1997, the highly anticipated Bellagio (with 3,000 rooms), and Mandalay Bay, The Venetian, and the Paris (with 3,700, 4,000, and 3,000 rooms, respectively) in 1999 (LVCVA, 2012).

Las Vegas boomed at the turn of the century with some 36 million visitors per year (Jaschke & Otsch, 2003), and development plans continued to abound. The country was brought to an abrupt halt in the events of September 11, 2001, and even the bright lights of Las Vegas were not able to escape the looming cloud of the first economic recession of the decade. Overnight, national security constricted travel, and business in the Las Vegas tourism industry was nearly halved. The effect of the attacks on Las Vegas was best described by Brean (2011) in the statement, “It emptied our skies and our hotel rooms....Even in a city built on implosions, we are haunted by the sight of buildings falling down.” The city struggled to recuperate from the unforeseen blow with most of the major hotels laying off employees. A year later, however, the swirl of devastation had subsided, and by 2004, corporate M&A was rampant. Mass conglomerates were in the making as MGM Grand and the Mirage merged to acquire several properties, and Harrah’s merged with Caesar’s World to become Caesar’s Entertainment (Jaschke & Otsch, 2003).

The city was alive with the promise of new projects, chief among them, Steve Wynn’s \$2 billion Le Reve (later opening as Wynn Las Vegas). The lavish property would eventually open in 2005 with 3,000 rooms, once again leading the mass of new developments that dominate today’s Strip. The city was back to business as usual; Revenues were exceptional in 2006 and 2007, and the world was buzzing around the announcement of the City Center project, the first \$10 billion complex and soon to be largest private development in United States history. After recovering relatively quickly from the last slight recession, no one could have imagined that the worst economic downturn since the Great Depression was right around the corner. Corporations continued to build and open such properties as the Palazzo and Encore (with 3,000 and 2,000

rooms, respectively) in 2008 (LVCVA, 2012), but that year would mark the first year of declining revenues.

As the subprime lending crisis mounted wings and the financial system collapsed on itself, the city's source of revenue was quickly drying. Few cities and states were impacted as heavily as Las Vegas and Nevada. In addition to the failing housing market, the state is greatly reliant on the hospitality industry as the primary source of commerce. However, a tourism based economy survives on the discretionary income of the market, and with consumers reeling in their wallets, Las Vegas headed straight for financial distress. In an analysis published by the Center for Gaming Research, Schwartz (2011) reported that the sharpest decline for Nevada's gaming industry was seen from late 2008 to early 2009. With the highest foreclosure and unemployment numbers in the country, Nevada has struggled in recent years to stay afloat, and the projects that were supposed to pull Las Vegas back to the peak of the late 1990s have been met with lackluster reception. Multi-billion dollar projects such as Fontainebleau and Echelon were halted due to capital deficiencies and liquidity concerns, and even the prolific City Center project, long touted to symbolize the resilience of the city, nearly went bankrupt before opening in the fourth quarter of 2009 (Schulz, 2009).

The Cosmopolitan opened at the close of 2010, and though the property seems to be doing rather well considering the circumstances, Deutsche Bank is still struggling to recoup the nearly \$4 billion dollar investment (Schulz, 2009). Though the city that was thought to be impenetrable has been significantly wounded, revenues have slowly started to increase since 2010. The "Big 6" gaming operators continue to control the majority of Las Vegas Strip hotel-casino properties, those operators being Wynn Resorts, MGM Resorts International, Caesars Entertainment, Las Vegas Sands Corporation, Boyd Gaming, and Station Casinos (Bernhard et

al., 2008). As the city wades further into the 21<sup>st</sup> century, these corporations will aim to address many unanswered questions. The next few years of action could determine whether the city is restored to its former glory or fall from the ranks as quickly as it rose.

## **Las Vegas Resort Revenues**

### **Casino Gaming**

Tourism is the dominant driver of Nevada's economy. Under this umbrella, gaming is the largest revenue generating industry in the state, and one of the largest revenue generators of the entertainment sector in the United States. For purposes of analyzing Las Vegas' economic landscape in particular, statistics referenced in this section will specifically regard casino gaming. The University of Nevada, Las Vegas Center for Gaming Research defines a casino as a non-restricted gaming licensee with annual revenues of at least \$1 million (Schwarz, 2012). The Nevada Gaming Control Board tracks licenses, tables, games, and slots in their quarterly report, also providing definitions to each of the terms. Licenses now includes restricted slots only, non-restricted slots only, slot operators, non-restricted slots and games, manufacturers, distributors, and slot route operators. Games include craps, roulette, blackjack, baccarat, bingo, keno, race book, sports book, and other casino games. Tables include poker, pan, gin, and other non-house-edge games. Finally, slots includes all slot machines and mobile gaming devices (2012). As of 2011, Nevada has 2,885 operating licenses, 5,901 games, 957 tables, and 187,372 slots with about 80% coming from Las Vegas gaming operations (Nevada Gaming Control Board, 2012). As an aside, though lotteries have been seen to compose a significant portion of overall gaming revenues, the state of Nevada does not have a lottery, and thus lottery statistics are inapplicable. In terms of sourcing the Las Vegas gaming industry, there are several large gaming suppliers including Shuffle Master, Inc., International Game Technology (IGT), Bally Technologies,

Aristocrat Technologies, and Konami Gaming, most of which have international headquarters in Las Vegas (Vegas, Inc., 2012).

From a global perspective, the gaming industry is on the incline and has been consistently over the years, and according to Global Betting and Gaming Consultants (2012), global gambling revenues passed \$400 billion in 2011. However, the adverse effects of the recession on Las Vegas hospitality as a whole paint more of a bleak picture through a local lens. Gaming revenue spiked in Clark County in 2007 and took a steep dive until 2010. The last two years of data suggests a slow but gradual uptick in revenues. While downtown Las Vegas boasts 16 non-restricted casino gaming operations and the Strip boasts 22 non-restricted casino gaming operations, the industry has only recently started to show signs of improvement from the crippling economic downturn (Schwartz & Liao, 2012). Clark County gaming revenues for 2011 were \$9.2 billion, an increase of 3.5% overall from 2010 revenues. The Strip contributed \$6.1 billion to that figure, increasing 5.1% from 2010 revenues, and downtown Las Vegas contributed \$497 million, increasing 0.07% from 2010 revenues (LVCVA, 2011). In 2011, the Strip gaming operations accounted for 37.92% of total revenues and downtown Las Vegas gaming operations accounted for 55.11% of total revenues (Schwartz, 2012). Gaming revenues continue to yield the largest contribution to overall revenues, and Las Vegas has set the bar relatively high for the rest of the globe with many of the most profitable casinos in the world. It should come as no surprise then that the casino gaming industry is also a large source of employment in Nevada. According to the Schwartz & Liao (2012), in 2011, casino departments of the Strip properties employed nearly 24,000 people, and casino departments of downtown Las Vegas properties employed nearly 3,000 people.

## **Hotel Rooms**

Las Vegas is known for having hotels with a larger than average number of rooms. Most hotels in other cities have somewhere around 300 rooms, but in Las Vegas, that would not only be considered a boutique hotel, but a hotel on the smaller end of the spectrum. The Las Vegas Conventions and Visitor's Authority, or LVCVA, reports that the city has over 150,000 hotel rooms (2011). Collectively, the Strip has nearly 90,000 of those rooms across the 22 properties averaging about 4,000 rooms per property (Schwartz & Liao, 2012). With this information, it is easy to understand just how far Las Vegas is out of the typical scope of worldwide hotel operations; of the 25 largest hotels in the world, based on number of rooms, there are 23 Las Vegas properties (Vegas Today and Tomorrow, 2012). Revenues for the room departments are not quite at the levels of the casino departments, but nonetheless they are still significant to the city's broader hospitality industry.

Like gaming revenues, room revenues too spiked in 2007 before depressing annually for three years, but in 2011, room revenues for the Strip were \$3.5 billion with an increase of 12.9% from 2010 revenues, and room revenues for downtown Las Vegas were \$140.6 million with an increase of 3.7% from 2010 revenues (Schwartz & Liao, 2012). The 2011 average daily rate (ADR) for the Strip hotel properties is \$130.58 and for downtown Las Vegas hotel properties the ADR is \$51.91 (Nevada Gaming Control Board, 2012). Occupancy is another key metric in presenting a complete picture of the rooms department. According to the LVCVA, the average hotel occupancy across Las Vegas in 2011 was 86.9% (2012), and the Nevada Gaming Control Board reports an average of 91.12% occupancy for Strip hotel properties and 83.13% for downtown Las Vegas hotel properties. Though occupancy seems to have slipped over the last few years, it is still well above the national average occupancy of 60.1% (LVCVA, 2012). In

2011, the Strip hotel room departments accounted for 24.27% of total revenues and downtown Las Vegas hotel room departments accounted for 15.62% of total revenues (Schwartz, 2012).

With the average visitor's stay at 3.7 nights for 2011 (LVCVA, 2012), this department is largely dependent on the efficiency and reliability of its employees. The hotel room departments of the Strip properties employ about 20,000 people and the hotel room departments of downtown Las Vegas properties employ about 1,600 people (Nevada Gaming Control Board, 2012). However, an interesting noteworthy trend has emerged from this category of revenue over the past two decades. In their reporting, Schwartz & Liao have asserted that revenue from room departments have grown faster than any other hospitality category for the Strip properties increasing by 431.14% since 1990 (2012). The noteworthy mention is the disproportional parallel of employment costs. Apparently, the rates at which revenues are growing are not matching the rates at which employment costs are growing. Room rates have been steadily increasing since the 1990s, and naturally, we would have expected to see a subsequent increase of a similar pace in employment costs, but it seems that employment costs have only quadrupled while revenue growth has quintupled (Schwartz & Liao, 2012). This trend suggests an increase in productivity of the room departments as the average number of rooms per employee has risen from 3.32 in 1990 to 4.37 in 2011. In a time when labor and corporate relations are frequently on the verge of upset, this could be a point of concern in the future for hotel management.

### **Food and Beverage**

The food and beverage department is one of the few departments that visitors can rarely bypass. Chances are relatively high that visitors will spend money on food or beverages at some point during their visit, and though the food and beverage department was originally meant to compliment and generally support the influx of gamblers back in the day, the department is now

a stand alone, significant revenue center. According to the 2011 Las Vegas Visitor Profile, 99.8% of respondents reported food and beverage expenditures, and the average expenditure during a single trip in this category was approximately \$275.27 (LVCVA, 2011). Together, the combined revenues of food and beverage departments contribute just about as much revenue as hotel rooms. Historically the food and beverage department has maintained about a 20% portion of total resort revenues since the mid 1980s, but as hotel room revenues increased over the past 30 years, revenues from the beverage department have slightly decreased and revenues from the food department have slightly increased. In 2011, food and beverage revenues were \$3.29 billion for the Las Vegas Strip, an increase of 12.4% from 2010 revenues; for downtown Las Vegas, food and beverage revenues were \$204 million, only a slight increase of .4% from 2010 revenues (Schwarz, 2012). The food and beverage department is also one of the most human capital intensive departments, if not the most intensive, employing nearly 36,000 people at the Strip properties and nearly 3,000 people at downtown Las Vegas properties (Schwarz & Liao, 2012).

It is important to distinguish the food and beverage department from the restaurant industry. Food and beverage encompasses all venues that serve food and beverages, but fine dining restaurants are a unique subset that generally have different characteristics and target a different demographic than the larger umbrella. Just as Las Vegas touts some of the most famous hotels and attractions in the world, the restaurant industry also includes some of the most famous world class dining establishments. According to LasVegasRestaurants.com, there are 147 restaurants on the Las Vegas Strip (2012). Las Vegas holds 4 spots on Gayot's 2012 top 40 restaurants in the U.S., and those restaurants include Joel Robuchon (MGM Grand), Picasso (Bellagio), Restaurant Guy Savoy (Caesars Palace), and Twist by Pierre Gagnaire (Mandarin Oriental) (2012). Many of those restaurants are stand alone operations that are not associated

with any hotel casino property, but nonetheless, they most likely have to maintain some measure of profitability to have space on some of the most expensive real estate in the world. It is also important to mention that many of the restaurants that are hosted by the hotel-casino properties are not actually owned by the hotel. For example, N9NE Steakhouse at Palms Casino Resort, STK Steakhouse at the Cosmopolitan, and Tao Asian Bistro at the Venetian are all operated by outside parties, N9NE Group, One Group, and Tao Group respectively. The hotel-casino operations collect a very small portion of the revenues, the rest of which are retained by the third party. Las Vegas has certainly attained a decent slice of an industry that is projected to total \$632 billion in 2012, according to the National Restaurant Association (2012).

## **Entertainment**

Las Vegas has a broad scope of entertainment options including nightlife, shows, exhibits, museums, theme parks, and pool parties. For purposes of discussing revenue trends, this portion of the review will focus on nightclubs, live shows, and pool operations. While in the past Las Vegas was able to thrive by catering almost exclusively to gamblers, the city soon realized the potential profitability of offering numerous amenities to extend past gaming. Las Vegas' close ties to Hollywood celebrities back in the 1950s built the foundation of which the city's image as "the entertainment capital of the world" stands. The A-list entertainers that gambled, dined, performed, and even married in this city paved the way for headliners that call Las Vegas home today.

Most of the hotels had lounges, showrooms, and bars to entertain guests, but it was not until 1995 that Club Rio, the first large scale nightclub, was built (Stein, 2011). As far as most casino operators were concerned, the primary form of entertainment was gambling and as a result, the concept of the nightclub was seen as an unwelcome distraction. There was also much

risk associated with hosting a nightclub for hotel administration, and outcomes such as attracting the wrong type of crowds, increasing liability because of fights and physical confrontations, and imposition on regular guests were all considered too uncertain to justify. However, after the successful openings of several off Strip clubs, hotel operators began to reconsider their stances on nightclub operations, and suddenly, Las Vegas exploded into the international nightclub industry. With the openings of mega night clubs such as RA at the Luxor, Studio 54 at MGM Grand, Rum Jungle at Mandalay Bay, and C2K at the Venetian between from 1997 to 1999, Las Vegas' began to attract a whole new demographic (Stein, 2011).

The city continued expansion of the nightclub industry through the 2000s, and according to a report by the trade publication *Nightclub & Bar*, Las Vegas nightclubs hold 22 spots on the list of top 100 nightclubs in the country (based on revenues) (2012). The top night club in the country, *Cosmopolitan's* Marquee nightclub, brought in revenues of over \$70 million in 2011 which was also the club's first full year of operation (*Nightclub & Bar*, 2012). Las Vegas also holds the next three positions on the list, with *XS* at Encore and *Tao* at the Venetian both reaching revenues of over \$60 million, and *Pure* at Caesars Palace reaching over \$45 million (*Nightclub & Bar*, 2012). The nightclub industry has been regarded as one of the few bright spots during the recession as the industry grew by as much as 20% annually from 2007 to 2011 (Gelt, 2011). The results from LVCVA's 2011 Visitor's Profile Study support this information reporting that 46% of survey respondents indicated that they had visited a hotel club, bar, or lounge during their visit (2012).

The Las Vegas Strip is saturated with various forms of entertainment, but the live shows dominate outdoor advertising along and around the Strip. With an excess of options, visitors can see anything from comedy shows to magic shows to exotic shows to international headliners.

According to LVCVA's 2011 Visitor's Profile, 60% of visitors surveyed indicated that they attended some sort of live show during their visit, down from 68% in 2010, and the most popular category of live shows attended was lounge shows (2012). There are many residencies including Elton John, Celine Dion, and Shania Twain at Caesar's Palace, David Copperfield at MGM Grand, Donny and Marie at the Flamingo Hilton, and the Jabbawockeez at the Monte Carlo.

Perhaps the best known headlining shows in Las Vegas, however, are the Cirque Du Soleil shows. The company currently has seven productions on the Strip, *Mystere*, "O", *Zumanity*, *Ka*, *Love*, *Criss Angel Believe*, and *Zarkana* according to the company's official website ([Cirquedusoleil.com](http://Cirquedusoleil.com), 2012). Resident Cirque Du Soleil shows play to over 9,000 people a night just in Las Vegas alone, which is about 5% of Las Vegas' nightly population (Gould, 2012). Revenues across all productions are forecasted to exceed \$1 billion dollars this year with ticket prices soaring as high as \$253 a piece (Carone, 2012). The average ticket price for Las Vegas shows as a whole increased from 2010 to 2011 to \$76.46, and of the nearly 95 shows in Las Vegas, 29 of the shows have consistently sustained price increases (Yancey, 2011). Amongst the visitors that attended some type of live entertainment in Las Vegas, the average number of shows seen in 2011 was 1.1 headlining shows, 1.2 production/Broadway shows, 1.7 lounge acts, 1.1 comedy revues, and 1 impersonator/tribute show, and 1.1 magic shows (LVCVA, 2012).

Live shows and nightclubs reign Las Vegas nights, and for a while daylight hours were somewhat untapped and ignored. As Las Vegas has shifted its image to appeal to a broader demographic that now includes younger patrons, focus has had to shift as well. The casino floor is no longer "the only game in town," and with a large portion of visitors completely bypassing gaming operations (nearly 23% of all visitors over the age of 21 in 2011, in fact), other areas of hotel properties were quickly primed to start generating revenue (Schwarz, 2012). In the past,

pool season has consisted of a few seasonal employees idly monitoring guests lest a grown man would try to drown in the hotel's four foot deep swimming pool. However, it would only be a matter of time before "nightlife" would be translated into "daylife" next to those very same pools. In 2004, the Hard Rock Hotel mirrored the activities of the night world with the opening of its pool party, Rehab. For the first time, a Las Vegas hotel was offering all guests, even outside of the hotel, the opportunity to continue the party after the nightclubs closed.

Fast-forward to 2012, and Las Vegas hotels now host over a dozen pool parties. Several properties closely followed suit thereafter Rehab including MGM Grand with the opening of Wet Republic, the Mirage with the opening of Bare, the Venetian with the opening of Tao Beach, the Palms with the opening of Ditch Friday, Wynn with the opening of Encore Beach Club, and the Cosmopolitan with the opening of Marquee Day Club (Finnegan, 2011). According to Joe Magliarditi, former president of the Hard Rock Hotel, the pool has now been fully incorporated into the hotel product, and the revenue stream is solid. "The conservative number, revenue wise, is that a pool can generate \$1 million per week, and that mostly happens over the course of a weekend," says Magliarditi (Kaplan, 2010). That figure may be a bit hard to believe when considering an amenity that has long been regarded as a past time for the wives of high rollers, but with admission fees ranging anywhere from \$20 to over \$100 per person, bottles of alcohol going for several hundreds of dollars apiece, and cabana and daybed reservations costing multiple thousands of dollars, it becomes less difficult to grasp the immense revenue potential of these pool operations (Finnegan, 2011).

### **Meeting and Convention**

The city's initial interest in the meetings and conventions industry started in the 1950s. Because new hotel-casino properties were opening nearly every year of that decade, the city

became interested in attracting large business groups to help supplement occupancy during traditionally slower periods of the week (McCracken, 1997). The city opened the Las Vegas Convention Center specifically for conventions in 1959 (LVCVA, 2012), which was also the same year the state legislation created the Nevada Gaming Commission. As cited by Fenich & Hashimoto (2004), the meetings and convention segment was originally deemed irrelevant by gaming operators in the past because of the narrow focus on gaming patrons. After all, the profile of a serious gambler and the profile of a businessman or a businesswoman have only the slightest of likeness, one primarily concerned with premier entertainment, cheap food, nocturnal gambling sprees, and comp accommodations and the other with business meetings, reasonable yet classy dining options, and conservative spending. In the changed tune of 1990s, the casino industry started to embrace this long neglected bunch, eventually to be referred to as the MICE sector (Meetings, Incentive, Conventions, and Exhibitions), by building facilities and accommodations to attract them (Fenich & Hashimoto, 2004). Thus meetings and conventions soon outgrew the Las Vegas Convention Center though it preceded all of the modern day convention centers of the hotel-casino world, and the sector has since become an important source of revenue for the Las Vegas hospitality industry.

With nearly 5 million of the 40 million annual visitors being convention delegates and over 19,000 conventions landing in Las Vegas (LVCVA, 2012), attracting and retaining convention business is crucial in maintaining a competitive edge in this hyper-competitive market. Resorts are not only competing with each other; they are competing with the city. Beyond even the state level, resorts are also competing with other popular convention cities such as Orlando and San Francisco, but Las Vegas has continued to top the list of cities with the top number of trade shows. According to the Trade Show News Network, Las Vegas hosted 55 of

the largest shows in the country which is more than the closest two competitors combined (2012). The city currently has more than 10.5 million square feet of convention and meeting center space composed primarily of the Las Vegas Convention Center (with 2.3 million square feet of space), the Mandalay Bay Events Center (with 1.7 million square feet of space, and the Sands Expo and Convention Center (with 2.25 million square feet of space) (Las Vegas Online, 2012). Even during the economic downturn, the meetings and conventions segment is on the rise and has contributed \$4 billion in non-gaming revenues (Las Vegas Online, 2012).

### **Gradual Shift in Revenues**

Make no mistake, the gaming industry is still in domination of the Las Vegas tourism industry and continues to generate the largest revenues of any of the other tourism related industries. However, the last 30 years have brought a significant shrinkage to gaming revenues not only as a result of trying economic environments, but as a proportional percentage of all Las Vegas departmental revenues. Ryan asserts that the trend of Las Vegas Strip properties that make more money from restaurant, entertainment and rooms than from table games and slots is moving upward (2012). In addition, Schwartz (2012) reports that “Gaming win, as a percentage of total revenue, has declined over the past 25 years, chiefly because of the emergence of lodging, dining, and nightlife components of casino resorts as revenue centers.” The report goes on to show that gaming revenues for the Las Vegas Strip were 58.63% of total revenues in 1984, but that percentage has gradually decreased to 37.92% of total revenues in 2011 (Schwartz, 2012). Even generating roughly 38% of total revenues though, the gaming divisions still outperform all other departments by at least 13%, the closest being the rooms department (Schwartz, 2012).

With the exception of the beverage department, a department that has not deviated too greatly from 1984 levels of revenues, every other category of revenue for the Las Vegas Strip has seen substantial growth. The food department has increased from 11.41% of total revenues in 1984 to 15.47% of total revenues (Schwartz, 2012). The “Other” category, which consists of entertainment, meetings and conventions, etc..., has exploded more than doubling its 1984 percentage of total revenues of 6.14% to a staggering 15.13% of total revenues in 2011 (Schwartz, 2012). This dramatic increase can most likely be attributed to booming meetings and conventions business since the century’s opening and the growth of entertainment options with the introduction of the nightclub, dayclub, and pool party scenes. Finally, the hotel rooms category has increased from 16.10% of total revenues in 1984 to 24.27% of total revenues in 2011 (Schwartz, 2012). These shifts in Las Vegas revenues support the general idea that the Las Vegas tourism industry is shifting away from gaming.

### **Macau’s Gaming Revenues**

Long gone are the days when Las Vegas could afford to solely depend on gaming revenues to sustain its exponential growth. Not only have other international cities stepped into the gaming spotlight, but Las Vegas’ target market has expanded as well. The gaming industry is highly competitive, and several other international gaming destinations (Macau, Singapore, etc...) are grabbing considerable portions of the pie. Macau in particular presents the greatest threat to Las Vegas gaming, but presumable from the proportion of international visitors to Las Vegas, the threat is international rather than domestic in nature. As cited by the LVCVA, international tourists composed a modest 16% of all tourists in 2011 (2011), and this percentage could be greatly impacted by the growing desirability of Macau.

It has been over a decade since control of the Portuguese colony was returned to China, and almost immediately, Macau's gaming revenues skyrocketed eventually surpassing Las Vegas revenues in 2006 to become the world's new gambling center (Barboza, 2006). Gaming revenues have grown percentage wise by double digits each year including a 13% growth in the first 11 months of 2012 (Stutz, 2012). In 2011, Macau reported an astonishing \$33.5 billion in gaming revenue, a figure that is over five times the revenues of Las Vegas Strip casino properties (Stutz, 2012); as stated previously, the collective of Las Vegas Strip properties reported \$6.1 billion in gaming revenues (LVCVA, 2011). It seems that the global gaming industry as a whole is shifting, but while the Las Vegas tourism industry should be aware of this movement, it should aim to hold the attention of the 84% of Las Vegas tourists that are domestic.

### **Conclusion**

Las Vegas has progressed leaps and bounds during its short 107 year existence, but not without setbacks. The town's growth was stunted after the mining boom and with the expulsion of the railroad in the 1920s, the town faced complete obliteration. The small settlement was left with a trivial population, extremely limited resources, and a looming question of direction, but when the city turned to tourism, it became clear that Las Vegas was headed for stardom. It is the pioneering spirit of reinvention that carried Las Vegas through the desperate times and into prosperous times. Criminal organizations, largely responsible for supplying the illegitimate funds that paved the foundations of Las Vegas tourism, flocked to the city at the height of federal scrutiny. Though the mob's contribution to the realization of the city's alluring image is indisputable, the city was soon removed from unlawful practices and transformed into a corporate investment hub. Even before the government "cleaned up" the city's hotel-casino operations, corporations began to buy and restructure properties.

As the industry began to focus on the broader tourism market outside of gaming operations, revenues in other crucial divisions such as hotel rooms, food and beverage, and entertainment rose; Eventually, those revenues would help to support the city in periods of slowed gaming revenues. At the turn of the century, Las Vegas was considered one of the premier international destinations in the world, and the Las Vegas Strip was in its prime as a beacon of opulence and ubiquitous recognition. Even through the few economic downturns of the past decade, the city has continued to expand and contract as necessary, but with such an uncertain position, the future of tourism in Las Vegas has been the subject of much debate in recent years. The next section of this paper will present a case study of the Houston oil industry, an industry with interest parallels to the Las Vegas tourism and hospitality industries. The discussion will include a brief background of the Houston industry, the challenges that the city faced following global shifts, actions that were taken to compensate for the shifts, and similar recommendations for Las Vegas based on those actions. Other relevant recommendations will conclude the paper.

## **PART THREE**

### **Introduction**

Though there may be different schools of thought as to what is and will be happening in the Las Vegas tourism industry, one widely agreed upon conclusion is that the industry is in fact changing. As discussed in the literature review, revenues are gradually shifting away from gaming, and as the centerpiece of the Las Vegas tourism industry slowly shrinks, the city will be faced with the challenge of reinvention yet again in the coming years. However, much can be learned from observation of other industry examples. The following case study provides the basis of which the primary recommendation of this paper is built upon. Other recommendations include identification of new revenue sources that cater to the next generation, expansion of the focus on current revenue bright spots (nightlife, entertainment, etc...), and continual application of reinvention.

#### **Case Study: The Houston Oil Industry**

One of the foremost industries that Houston, Texas has a close knit history with is the oil industry. When oil was discovered 90 miles east of the city in 1901 and in several other areas around the city from about 1905 to 1919, Houston was alive with the potential to become a major oil and gas production center (Feagin, 1985). There were several distinct advantages that Texas oil fields took advantage of during this time period, three of which greatly contributed to the city's domination of the national oil markets. Firstly, Houston benefitted from the development of a solid infrastructure that regional competitors did not have; past agricultural commerce provided the city with the banking and railroad infrastructure needed to facilitate the operation of the oil industry (Feagin, 1985). Secondly, the city's location away from the Gulf coast line made it ideal for oil production. Many competitors were facing extraneous circumstances that were out

of the company's control such as floods and hurricanes (Feagin, 1985). Thirdly, the synergistic integration of another pivotal industry in the industrial city of Detroit expanded the use of crude oil and thus positioned Houston at the helm of a revolutionary turning point in United States history. Prior to the first decade of the 1900s, crude oil was used for kerosene, fuel oil, and lubricants (Feagin, 1985). However, it was Henry Ford's perfection of mass automobile production starting in 1908 that shifted the course of Houston's oil industry and tied the two complimentary industries together.

The automobile industry exploded in the 1910s. According to the U.S. Bureau of the Census (1961), 1.8 million automobiles were registered in the U.S. in 1914, but that number had increased to 18 million by 1924. Furthermore, there was an increase in fuel usage from 2.7 billion gallons in 1919 to 15.7 million gallons in 1930. During this period, the oil industry accounted for over half of the city's jobs (Feagin, 1985). The industry continued to grow into the 1960s when large reserves of oil were discovered in the Middle East. The companies controlling the Texas oil fields began to shift focus to international operations, a decision which left Houston in a difficult predicament. The one industry town watched as its main economic engine relocated to international subsidiaries (Bernhard & Ahlgren 2011). However, the intellectual capital and the wherewithal to successfully operate the oil industry lay in the office headquarters that continued to reside in Houston. "By the 1960s and 1970s Houston had evolved into the oil-technology distribution center for the world's oil industries," according to Feagin (1985). Houston's permanent ties to the U.S. and world oil industries proved to be costly; the expansion and contraction of the city's economy mirrored the activity of the global oil industry (Feagin, 1985). This resulted in severe economic slumps when oil pricing was depressed in the 1980s and is an excellent example of what can happen to a city built around a core industry. Even a city

prospered by the coat tailing of the world can experience desperation. Best said by Feagin (1985), “this suggests how critical any shift in the economic context can be for urban development-and how quickly the fortunes of a city tied to the capitalistic world-market system can change.”

According to Bernhard & Ahlgren, there were several actions made in Houston that are applicable to cities such as Las Vegas, many of which are not directly linked to the primary industry of oil (2011). Per their 2011 report, they assert that the city refocused with the following actions:

- Houston companies sought out new business opportunities internationally and outside of the oil industry
- Houston used its expert oil capabilities in manufacturing, operational, engineering and financial knowledge to become a global exporter of intellectual capital
- Houston attracted other industries such as the alternative energy industry (wind and solar power firms)
- Downtown Houston launched four major sports teams in brand new arenas
- Houstonians embraced and adapted to the globalization
- Houston became a global command center for international energy industry
- City leaders and officials invested in and promoted civic and cultural programs to improve the quality of life for Houston residents

This case study on the development and transformation of the Houston Oil industry echoes the familiar case of the Las Vegas tourism industry. Based on these actions, Bernhard & Ahlgren recommend the following actions to be taken in Las Vegas:

- Las Vegas should develop local talent by investing in educational and developmental programs that will equip leaders with the tools to handle the complexity of the tourism industry's future
- Las Vegas should expand upon the existing technology base that has already been established with gaming source manufacturers that are interested in creating a strong presence in the online gambling community
- Las Vegas should boost airport connectivity to both Asia, where the gaming industry is flourishing, and Latin America, where gaming activity is likely to increase in the future
- Las Vegas should look to attract a higher level of talent in the commercial gaming industry by investing in local arts, cultural, and diversity programs

There is a large emphasis on the development of educational programs and local talent in these recommendations, and while Houston may have jumped at the opportunity to tap their system's educational potential, Nevada has not historically been as welcoming of education in the tourism industry. Because of the high turnover rates of the hospitality industry in Las Vegas, a large supply of interchangeable human capital is required, and that workforce mostly does not meet the national standards of education. With imported experts such as Gary Loveman of the Harvard Business School, and Steve Wynn of the University of Pennsylvania, the industry seems to shun local development of talent in favor of East coast wisdom. This will most likely be the greatest point of resistance in the consideration of the aforementioned recommendations.

### **Conclusion**

The laws of gravity imply that the rise and fall of every empire is inevitable, but ultimately, timing is what allows for reinvention. As the king of reinvention, Las Vegas has thus far done a remarkable job transitioning through management changes, economic success and

challenge, generational succession, and social evolution. In the wake of what has now been ruled a global financial crisis, the city built on the discretionary income of the masses is struggling to hold onto the rope of former glory. Studying the situational parallels of other industries that have experienced detrimental threats, such as those of the Houston oil industry case study, can help our hospitality leaders make informed decisions about forward movement. There is at least one certainty; a clear and confident outlook on the future requires thorough analysis of the past and a firm understanding of the present. An introspective recap of what has worked in prior times is not just ideal, but necessary for the CEOs of present day Vegas if the industry is to sidestep similar mistakes and the possibility of an untimely conclusion.

### **Recommendations**

In conjunction with the previous section, the primary recommendation of this paper is for the casino gaming industry to firmly reposition itself in the global gaming market. “The entertainment capital of the world” continues to be the city’s fitting tag. However, the proliferation of gambling across the world has made it quite difficult for Las Vegas to hold onto the title of “the king of gaming” because of the variety of gambling experiences that can be had not only outside of the city limits, but outside of the United States. Macau, Singapore, and the Bahamas have all attracted substantial international attention in the gambling community, the first of which has been named the new gambling center of the world (Barboza, 2007). With the addition of internet gambling, the city’s grip on that title becomes even less pronounced. As stated in the previous section, Las Vegas’ strength in the casino gaming industry is the intellect behind gaming technologies. There are several gaming technology companies that already have established headquarters in Las Vegas off of Sunset Road including Konami Gaming, Bally Technologies, International Gaming Technologies (IGT), and Shuffle Master. These companies

have the benefit of international reach, a corporate tax friendly environment in Nevada, and an established customer base of high profile corporations such as MGM Resorts and Caesars Entertainment. Similar to Houston's response to drying oil reserves, Las Vegas should seek to capitalize on casino gaming intellectual capital. Houston changed its dwindling primary industry to become one of the premier exporters of oil industry knowledge. Regardless of the future of Las Vegas gaming revenues, it would be in the city's best interest to fortify the casino gaming industry.

Expanding on the first recommendation and as discussed near the conclusion of the case study, the city should begin to invest in and uphold the educational system in Las Vegas. The local university, the University of Nevada Las Vegas, is full of intellectual resources and knowledge from the International Gaming Institute to the Center for Gaming Research, all of which are housed by a world renowned, top 5 hotel program. Gaming and hotel minds such as those of Dr. Bo Bernhard of Harvard University and Dr. Karl Mayer of University of Wisconsin/Harvard University speak to the caliber of professionalism projected onto the University's student population. The Las Vegas education system is bursting with the potential to produce and mold exceptional local talent that can lead Las Vegas' tourism industry into the future. However, as mentioned earlier, this would most likely be a point of friction with current corporate ideology and approaches to managerial acquisition.

The second recommendation is to identify new sources of revenue that cater to the next generation. The classic Las Vegas visitor was ready to gamble at some point when they entered the city, but the new generation is less concerned with gaming than entertainment. Generation Y largely seems to define fun and Las Vegas in different terms than the preceding generations. Las Vegas is an experiential product, and the next generation will want entertainment during every

aspect of their experience, a wide range of variety at that. Though there are several of these experiences that are not generated “in house,” such as the Electric Daisy Carnival (EDC) that comes to Las Vegas every year, these experiences can be created in a new capacity by corporate conglomerates that operate the Las Vegas tourism industry. Along with the recommendation to find new sources of revenue comes the recommendation to expand on the new sources that have been brought to the forefront of the Las Vegas scene over the last decade. The industry has already begun to move on this generation with the nightclub, dayclub and pool party operations. The market now has an overabundance of options for patrons to choose from, but as mentioned earlier, these operations have grown tremendously, and even amidst the recession they have been one of the few areas of progress. An in-depth analysis of generation Y and its preferences in relation to tourism experiences (hotel, entertainment, etc...) should be a point of future exploration.

The final recommendation is to continue to cling to the model of reinvention. When assessing Las Vegas’ list of core competencies, the ability to constantly reinvent the experiential product is atop the list. Though the model was originally applied in an effort to avert the town’s demise, the model coincidentally blazed the trail for what would become a quintessential Las Vegas characteristic. Reinvention has pulled Las Vegas through Everest highs and discouraging lows all the while keenly differentiating each transition period. Now almost a naturally cyclical process, a decadal transition is not only necessary, but unabashedly expected of this city. Patrons take note of worn furniture, outdated property design, and stagnant entertainment venues, and as time goes on, remodeling cycles will likely shorten. It is important that key decision makers do not forsake the fantastical element of escapism. The world often turns to Las Vegas with

curiosity of new things to come, and as long as the city continues to reinvent itself, it will not fail in that delivery.

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