



Positioning the F&B Department

by Craig Pendleton

Tribal casinos typically have food and beverage outlets for a variety of reasons. The most common reason is typically, “We need Food and Beverage because all casinos have it.” Food and beverage offerings are considered a normal amenity of all gaming establishments. Another reason is, “Our nearest competition has it.” Market pressures demand that offerings are similar with your competition for sake of comparison. A third reason is, “We need to keep our players here on property.” Again this is a valid point. Without food and beverage offerings the time your players spend at your casino could be greatly reduced to a short visit. The final reason commonly heard is, “Food and beverage is another source of casino revenue.” This is true in many cases.

It is certainly true that you need food and beverage at your casino for the first three reasons, but casino food and beverage is very different from free standing restaurants outside of casinos. This is due to the power of gaming revenues and marketing funds that allow you the ability to undercut surrounding restaurants with lower prices and larger portions. You have a distinct advantage. After exercising this advantage you can generate additional player visits and playing time by the strategic use of your outlets. This use of your outlets returns a greater profit than trying to compete for regular profits on an even playing field with other restaurants.

How can playing time be increased by the use of food and beverage outlets? By attracting additional player visits to your casino and increasing the time players spend at your property. More playing time during the visit on a gaming station or additional visits over and above the normal visitation pattern of a player both result in more gaming revenues.

Why is it more profitable to use food and beverage operations to increase playing time than try and use them to make their own profit? To answer this, review the difference between potential gaming profits and potential food and beverage profits.

Every casino has a system for calculating the amount of win per player visit. Typically this number averages somewhere around \$30-\$80 per playing guest per casino visit. This number is the net win per guest visit after payouts. All of the costs of operations, including marketing, offers, discounted meals and beverages, staffing and facility overhead, are subtracted from the actual house win to arrive at the figure of clear profit.

A typical restaurant will make 8-15% profit under optimum conditions. While certain casinos may overstate this profit number in their financial statements by not charging rent or utilities to each food and beverage outlet within the casino

(occupancy cost) there is a true cost borne by each outlet for the use of these items to operate.

If your restaurant or buffet averages \$15 sales per guest, then the profit (at 8-15%) is \$1.20 – 2.25 per guest. This profit reflects the profit by operating on a level playing field (prices and portions) with other non-casino restaurants in your surrounding area.

In relation to gaming revenue this profit margin is very small. If your restaurant discounted offerings to attract players to the casino that resulted in a visit to your property instead of to your competition (an additional visit leading to playing time or the decision to stay, dine and play longer) a break even model or programmed loss for your food and beverage outlets can return this amount rapidly.

If you discounted your product pricing to a lower level than surrounding restaurants or increased portion sizes over your competitor's to attract more gaming players to your restaurants allowing a 15% loss (-\$2.25 per dining guest), it would not take long with a player on a gaming station to recapture this loss. In this situation your food and beverage outlet becomes a marketing amenity driving potential gaming revenues.

If your strategy is effective in creating additional visits resulting in gaming play the loss of \$2.25 (or even double that if you want to include the additional \$2.25 of possible profit if prices and portions remained at \$15 per guest = total loss \$5.50) would easily be recovered by the additional visit gaming revenue of \$30-80 or the amount of increased gaming revenue by keeping the player in the casino longer.

What can't be measured as easily is the additional amount of positive public relations and marketing value evidenced by the street reputation of the increased value offered by your casino restaurants. When this reputation is passed by word of mouth to others there is a strong potential of attracting visitation or the tendency of your players to bring along new players in their next visit to dine at your restaurant and stay and play in your casino. This is the advocacy level improved within your players group through your strategic use of your food and beverage outlets.

Regardless of your pricing and marketing strategy to utilize your food and beverage outlets to increase and drive gaming revenues your product and service must be better than your competition's. If not, you won't attract any additional guests. You will only lose money.

Should you discount your food and increase your portions to everyone? No. The goal of every element of your casino must be to enhance and increase revenues. The most profitable of

these revenues per investment are gaming revenues.

Some casinos have employed the blanket strategy of restaurant/beverage discounting within casinos. This is counterproductive towards the goal in mind. The goal of your restaurant should never be to feed all of the citizens in the surrounding community including those of your competitors. No one is advocating the return to the \$1.99 buffet.

Your goal must be to attract, feed and reward your players and potential players in your casino. If you feed them and they don't play, you lose money. If you attract them and they play the casino will profit.

By lowering prices or increasing portions you will generate more traffic to your food and beverage outlets. To effectively achieve the desired goal of increased gaming revenues you must direct and control who is attracted. This must be accomplished through a series of filters. Filtering strategies, targeting and rewarding gaming customers are the systems employed to achieve success.

The great news is that you probably already have the funds in your current operations to pay for the discounting or increased portions. The majority of food and beverage

operations have a potential 10-20% of efficiency improvements that are currently not being captured. With an analysis of operations by an expert outside of your casino these areas (of profit or promotion funding) can be discovered.

Food and Beverage may be one of only a few truly great experiences during a player's visit. The majority of players lose to the house during their visit. The odds favor the house. If this wasn't true casinos would not be in business. The more gaming time achieved by the casino from players the greater the revenues for the house.

In addition to great customer service from friendly employees, food and beverage can provide the player with a great meal/beverage experience and the feeling that, "Even though I didn't win today, I had a great meal at a great price, so at least I got something from coming to the casino." This can be the definitive difference to your players when deciding which casino they will visit the next time they go gaming. ♣

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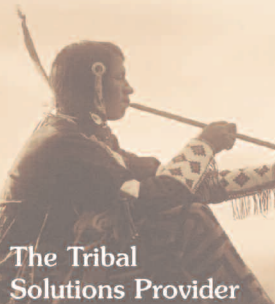
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