

# Gaming Industry Outlook for 2009

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The year 2009 will be the most challenging ever faced by casino operators. The downturn in the global market is dramatically affecting the gaming industry, a sector that until now has enjoyed relative insulation from dips in the market and even recessions. Many casinos, both large and small, will confront the distinct possibility of layoffs, bankruptcy, acquisition or closure.

The impact of this market will touch almost everyone involved in gaming: owners, employees, vendors and customers. Owners will see profits evaporate forcing them to downsize their operations leaving thousands of workers unemployed. The ripple effect will require less spending by casinos, cutting into the revenue streams of the many vendors that supply the industry. In the past, some small vendors have disappeared due to slow payment from their prime customer; this may now expand considerably if the vendors are not very large and draw from a small customer base. Finally, customers will feel the pinch too, as offers from their favorite casinos dwindle to almost nothing. Only the most loyal and high worth customers will continue to receive the engaging offers to visit their casino of choice.

Of course, there will be some operators that attempt to “buy” the business of their competitors by increasing offers and promotions during this downturn. This strategy only works for a short period of time and really doesn’t affect profits – both top line revenue and expenses will increase thereby mitigating any real return on investment. It’s never a good idea to “buy” your business, especially during these economic times. It can only serve to hasten the path to bankruptcy or acquisition.

## **Focus on Performance Improvement**

Casino executives will be directed to cut expenses and increase revenues in an attempt to keep the profits up and operations afloat. Typically, they may receive instructions to make a property-wide cut of 5-15%, which usually is focused on headcount. Short-sighted and inexperienced General Managers will pass this edict along to all department heads and simply manage the direct reports to fulfill the sweeping request. This is tantamount to blindfolding a chef and asking him or her to cut up a pie in equal slices. I doubt the slices will be anything close to equal, and there just might be a finger in the pie! There is a better way to approach the expense problem, one that assesses the need of each area and matches personnel and experience to those needs. It takes longer but is worth the time to streamline your operation and keep it functioning in a way that is consistent with your business model. Efforts to cut staff that happens without any real thought will almost certainly lead to decreased employee morale, poor customer service, and inefficient operations, all which will result in lower revenues.

## **“For Sale By Owner”**

I am certain that all of the major gaming corporations will be forced to sell off one or more of their properties in 2009. MGM MIRAGE, Harrah's, Station, and Colony are all carrying a huge amount of debt that is already cumbersome for them to service. Look for major properties, not just laggards, to be sold off and sold off soon. There are quite a number of investors, both inside the US and internationally, that are prowling around Las Vegas looking for the best deals. These investors have been itching to get into gaming realizing that the industry *will* recover, and that they will never have a chance to buy some of these prime resorts at such bargain prices. The question is, can they operate them as efficiently as the major gaming corporations? The answer is clearly no – they will not enjoy the purchasing power the corporations have, huge customer databases, nor the opportunity to create shared services for IT, HR and other back-of-house departments. And they certainly won't have a corporate marketing budget that is hundreds of millions of dollars. But the smart buyers will hire experienced management teams to create a successful operation by leveraging brands, building promotions and creating unique experiences that the larger gaming corporations are unwilling or unable to create.

## **Stop the Madness!**

The gaming industry, and the market in general, will certainly recover. The million dollar question is when? Optimists say sometime in 2009; pessimists say 2012 and I've heard maybe just about everything in between. I believe that gaming will recover ahead of the general market, as consumers become anxious to return to their lives of splendor or to just feel better after such a long recession. I have hopes, as I'm sure we all do, that we recover sometime in 2009 but it would be foolish to try and predict exactly when we will bounce back. There are too many variables that are still in flux at this time to make any kind of prediction. However, as we transition into 2009 and many of these variables stabilize, we'll have a much better idea of when we can expect a recovery.