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Estimating the impact of entertainment on the restaurant revenues of a Las Vegas hotel casino: An exploratory study

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ABSTRACT

Considering the growing presence of non-gaming amenities in a mature casino market such as the Las Vegas Strip, this study examined the indirect contribution of showroom entertainment to casino-operated restaurant business volumes. Using the internal data of a Las Vegas hotel casino, this research found a statistically significant and positive relationship between daily showroom headcounts and food and beverage revenues. For each additional show attendee, daily food and beverage revenue increased \$6.96. This finding suggests that casino executives should consider leveraging show traffic with additional revenue-enhancing venues such as restaurants.

1. Introduction

Casino operators commonly offer non-gaming amenities such as showroom entertainment, retail stores, night clubs, spas, hotels or food and beverage outlets on their properties in an attempt to attract customers who would otherwise not visit the casino. For example, showrooms in many casinos are offered for the primary purpose of increasing gaming volumes. Because casino operators historically viewed the role of non-gaming amenities as a complement to gaming revenues, it was not unusual to discover that these amenities routinely operated at a loss or break-even proposition. However, recently non-gaming amenities have become a significant source of revenue in many casinos. In fact, several properties on the Las Vegas Strip reported that non-gaming revenue had surpassed gaming revenue and represented more than half of their total revenue (Stratton, 2006; Yahoo! Inc., 2005).

As the number of non-gaming amenities offered by the casino grows, guests are more likely to patronize multiple outlets within the casino on the same trip. For instance, customers enticed by a show may also patronize a restaurant in the property before or after attending the show as well as the gaming area. If so, casino operators would be wise to develop strategies focusing on these guests and their propensity to increase their expenditures per visit. This strategy is similar to one used by mall operators who utilize high profile department stores to draw traffic to the mall thereby benefiting the other stores in the mall. In the same manner, a select casino amenity can produce spillover traffic into other revenue-producing units in the casino.

To maximize the potential revenue contributions of non-gaming amenities, it is vital to understand their spillover-generating ability. However, little is known about the synergistic relationship between casino amenities. Considering the paucity of empirical evidence in this area of research, this study explored the indirect effect of showroom entertainment on casino-operated restaurant business volumes. More specifically, the current study examined the relationship between daily showroom headcounts and the aggregate food and beverage revenues of multiple restaurants in a Las Vegas hotel casino.

2. Literature review

2.1. Non-gaming amenities

Casinos in a mature and competitive market such as the Las Vegas Strip seek to appeal to a broader range of customers than just their primary gambling target market. A recent survey of Las Vegas visitors' gaming behavior conducted by the Las Vegas Convention and Visitors Authority (LVCVA) revealed that non-gaming activities were a main trip purpose cited by a large number of visitors to Las Vegas. According to the survey, 42% of visitors stated that their main intention in Las Vegas was vacation or pleasure whereas only 11% cited gambling (LVCVA, 2008).

Findings from the LVCVA surveys seem to imply a different need and priority for casino experiences between entertainment-oriented and gaming-oriented customers. In fact, entertainment was found to be of relatively low importance for casino patrons in Pfaffenberg and Costello's (2001) study. These authors surveyed

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the patrons of Indian casinos in Michigan and Arizona and riverboat casinos in Illinois and Indiana on the importance of various factors influencing their casino experiences. They found that safety, friendly staff, and courteous service were of relatively high importance. Compared to gaming-oriented customers, Dandurand and Ralenkotter (1985) found that entertainment-oriented visitors tended to assign more time and importance to entertainment activities than to gambling. This finding was based on the analysis of self-reported accounts of gaming and non-gaming behaviors collected from surveys of Las Vegas visitors. The study also reported that entertainment-oriented visitors were likely to spend more money on food and beverage per day than other visitors. However, gaming-oriented customers are likely to receive complimentary food and beverage from casino management because of their gaming activities, resulting in less spending on food and beverage.

Lucas and Kilby (2008) noted an emerging "epicurean" customer segment in the mature market such as the Las Vegas Strip. This segment was described as non-gaming oriented: seeking activities such as dining, shopping and shows. According to Lucas and Kilby, casino executives of some Las Vegas hotel resorts are considering creating non-gaming host positions responsible for providing non-gaming related customer services. Given the significant revenue contribution of non-gaming operations, understanding of the needs and behavior of the "epicurean" customers is increasing in importance.

2.2. Showroom entertainment in casinos

It is not uncommon for casino managers to invest a substantial amount of money in building and operating showrooms. Despite considerable investment in showroom entertainment, negative cash flows from showroom operations are frequently accepted by casino management (Atlas, 1995; CasinoMan, 2003; Guier, 1999; Rowe, 1994; Yoshihashi, 1993; Lucas and Kilby, 2008). Casino operators endure these losses because entertainment is assumed to enhance gaming revenues indirectly by attracting people who would not normally patronize the property (CasinoMan, 2003; Christiansen and Brinkerhoff-Jacobs, 1995; Dandurand and Ralenkotter, 1985; Gaming Industry, 1994; Lucas and Kilby, 2008). Despite the widespread assumption that entertainment attracts casino play, little is known about the indirect gaming contribution of entertainment (Suh, 2006).

Suh (2006) examined the relationship between paid showroom headcounts and gaming volumes using the internal data obtained from two Las Vegas Strip casinos. The study found a significant and positive relationship between showroom headcounts and table game business volumes in both properties, after controlling for the simultaneous influences of different days of the week, major holidays and special events on gaming volumes. The estimated incremental table game wins per show attendee at each property were \$3.44 and \$16.47. With respect to slot gaming volumes, only one property reported a significant and positive relationship between show headcounts and slot gaming volumes. The estimated incremental slot wins per show attendee at each property were \$7.84 and \$2.85. Given substantial investment in showroom entertainment, the author argued that the showrooms should produce sufficient cash flows to be financially attractive investments.

2.3. Marketing literature

Similar to showroom entertainment in the casino, entertainment offerings in shopping malls, such as movie theaters, video arcades, special events and exhibits (i.e., fashion shows), are believed to enhance traffic to malls (Shim and Eastlick, 1998; Sit et al., 2003). These entertainment offerings provide excitement and pleasure, helping extend shoppers' stay and increasing the overall sales of the shopping mall (Shim and Eastlick, 1998; Sit et al., 2003). Given the similarity of entertainment investment between the gaming and retail industries, the authors reviewed the retail literature for empirical evidence. In particular, the work of Parsons (2003) and Sit et al. (2003) were relevant to the current study.

Parsons (2003) examined the effectiveness of shopping mall promotions in increasing the likelihood of consumers' shopping mall visits and spending at the mall. Parsons conducted a mall intercept survey in three regional shopping malls in New Zealand. The survey results indicated that entertainment-based promotions such as stage shows and exhibits were effective in increasing shopping mall visits but were not sufficient to increase spending. Price promotion was more likely to increase shoppers' spending. Parsons further compared weekly sales and mall visitor numbers by promotion type for one of the three shopping malls over a 13-week period. This comparative-period analysis indicated that the sales and traffic of the mall increased the most when both price promotion and entertainment were offered together. No notable increases in sales were observed during the entertainment-only promotion periods. However, this comparison failed to account for seasonal variations and/or temporal trends that might have influenced shopping mall sales and traffic.

In an attempt to understand consumer perceptions of shopping center image, Sit et al. (2003) examined 11 various attributes of the shopping center image such as merchandising, accessibility, service, security, food and entertainment. The focus of their research was to understand the contribution of entertainment to the shopping center's image. Using focus group discussions and mail surveys, the authors found that consumers visited shopping centers for various purposes including movies, video arcades, dining and socializing with friends or family. They further identified six distinct customer segments (clusters) using the attributes of the shopping center image. Of six segments, two segments were characterized as entertainment-seeking segments: "entertainment shoppers" and "service shoppers." The "entertainment shoppers" segment was the second largest (22%) of the six segments; and, perceived shopping centers as places for entertainment/leisure activities including dining and movie theater patronage. The "service shoppers" segment (16%) placed high importance on special entertainment features such as fashion shows/bridal fairs as well as entertainment venues such as movie theaters.

Sit et al. (2003) also reported segments which demonstrated less interest in entertainment: "serious shoppers" and "convenience shoppers." For "serious shoppers" (13%), shopping was an important responsibility. Compared to entertainment-seeking consumers, these shoppers were less likely to patronize a shopping center for entertainment or socializing but were more likely to patronize the food court for a break during or after shopping. Similar to "serious shoppers," "convenience shoppers" (17%) exhibited little concern regarding entertainment. Overall, the findings of Sit et al. emphasized the importance of entertainment as a means of differentiating one shopping center from another. The "entertainment shoppers" identified in Sit et al. were found to be mostly single teenage males with low annual incomes. However, the study did not address the average spending of entertainment-prone shoppers per mall visit or their role in buying decisions.

2.4. Real estate literature

Several researchers have addressed the presence of inter-store externality whereby anchor stores in shopping malls draw