Total Revenue Optimization–Casino Hotels

The essentials of managing casino customer demand to maximize profit

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Introduction

Casino hotels comprise only a tiny fraction of hundreds of thousands of hotels across the world. Perhaps due to this limited scope, the industry lacks universal performance metrics, and casino customers might find frustratingly varied booking experiences across different brands. The ongoing legalization of gambling-related activities, however, has fueled growth in the commercial and tribal casino industry over the past few decades. With casinos now in almost every state in the US, knowledge about gambling operations, loyalty programs, and marketing tactics is increasingly prevalent. Gaming operators have long expanded into other hospitality industries and, recently, online. Resort casino properties often host a vast array of offerings, including gourmet restaurants, spas, golf courses, and of course, hotels. About thirty percent of almost one thousand casinos across the US have a hotel on site. In most cases, the hotel is viewed as an amenity to the casino and not the other way around. How do ownership groups and leadership teams ensure they get the most out of each room and measure success accordingly? What does casino segmentation look like compared to customary market segments, and how can casino hoteliers ensure they provide the best experiences to their most valuable customers? This paper aims to address some of these questions, explicitly targeted at revenue optimization for casino hotel properties.

Since its inception in the airline industry over 50 years ago, revenue management has been applied across various industries and sectors. Already widely implemented to optimize airplane seat and hotel guest room revenue, revenue management has expanded into other profit centers, including cruises, convention space, restaurants, spas, golf courses, entertainment venues, and car rentals. The discipline has also extended outside travel and leisure to short-term housing rentals, storage units, and even hospital beds, to name some. Businesses of all leanings benefit from maximizing revenue and profit from perishable inventory. For many hotels and resorts, ancillary non-room spend can be well over 50% of total revenues. This is probably most true for casino hotels, where the vast majority of property income can come from the gaming floor.

It should come as no surprise to learn that casino hotel management companies were especially keen to adopt and implement the practice of revenue management and apply it to their casino guests. Yet while the ability to yield gaming revenue from casino segments is among the more crucial components of maximizing hotel worth in a casino environment, it is perhaps the least well-understood. Successful revenue management in a casino hotel requires in-depth knowledge of the gaming customer and an ability to measure projected guest worth. Revenue optimization also requires that all hotel demand is yielded. This means casino guest reservations are booked based on customer worth without preset offers or 'guaranteed' rates. The combination of understanding guest worth and yielding all demand allows for optimal revenue and profit.

Casino customer valuation and segmentation

Segmentation

Segmentation is a critical component of any successful hotel revenue optimization strategy. In casino hotels, the worth breakout for gaming guests is essential, but it is also necessary to understand the non-casino business mix. Increasingly, casino hotel properties analyze their hotel business on two levels—one for traditional market segments and the other for specific casino segment worth breaks. The main difference between the conventional market segments in casino vs. non is the need to include 'casino' as a source of business. For financial purposes, hotel leadership must ensure the casino source is further broken down into "cash" room nights and "free" or "comp" room nights, as demonstrated in the example provided.
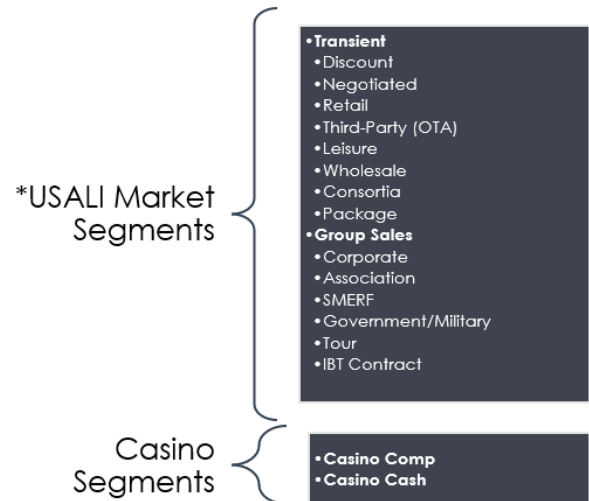
USALI is the Uniform System of Accounts for the Lodging Industry and is the guide for hotel owners, managers, and other parties for reporting and presenting hotel financial statements

Valuation

The casino segments, as defined above, work for financial reporting and budgeting but are insufficient for yielding purposes; hotel leadership has to collaborate with marketing to build out additional breakdowns based on projected customer worth. The guest's worth segment dictates whether they will receive a discounted cash rate, a comp offer, or a combination of both.

Casino customer valuation requires a data warehouse with detailed revenue tracking at the individual guest level. Fortunately, a player database is the foundation of most casino loyalty and marketing programs. Casino customers are heavily incented to use a loyalty club or a "players card" to reap rewards such as free slot play, complimentary dining, and room nights. For chains or multi-property entities, a universal database is a best practice, encouraging loyalty to the brand and enhancing the customer relationship. The loyalty database will include various levels or tiers ranging from brand new customers to the most loyal 'VIP' guest. A customer's tier level is based on their cumulative worth, derived from slot and table play,

but increasingly RM teams are incorporating non-gaming ancillary spend (cash spend for hotels, F&B, etc.), and casino management companies are starting to integrate sports betting and online gaming with the recent advent of both in several markets.

While cumulative worth or loyalty can be a factor in the hotel valuation, from a hotel revenue standpoint, it is necessary to understand a customer's projected worth for each night of their stay. The customer valuation is usually an in-depth formula incorporating trip and play history to devise an average nightly estimate of a guest's potential future worth. This estimated worth (or profit) value, along with the forecasted demand, dictates the price quoted to that guest. More precisely, the value determines the customer's segment and dictates pricing at the segment level. A hotel gaming enterprise can decide which segment breaks are best suited to their business, just as they will want to customize the customer valuation for their needs. A smaller property, for example, may have fewer segments but more breaks at the higher worth end of the database. Certain hotels in high-frequency markets may ignore non-hotel trips in the valuation as it would be less predictive of their play behavior during their stay. More info in: "The Revenue Director & Casino Customer Valuation" by Matt Flemming, https://www.comops.com/our-insights

Examples of casino segment worth breaks

Segment	Sample Valuation Breaks	
	A	B
1	750+	500+
2	500-749	400-499
3	400-499	300-399
4	300-399	250-299
5	200-299	200-249
6	125-199	150-199
7	75-124	100-149
8	50-74	75-99
9	0-49	50-74
10	Transient	25-49
11		0-24
12		Transient

Demand forecasting

Finalizing the hotel valuation and determining the casino guest segmentation is crucial in casino revenue management. The segmentation must, however, become part of the forecast and pricing strategy to be effective. This integration can prove challenging since delivering optimal results requires multiple systems to interface. Further complicating the process, the valuation table will, of course, require regular updates, usually at least daily.
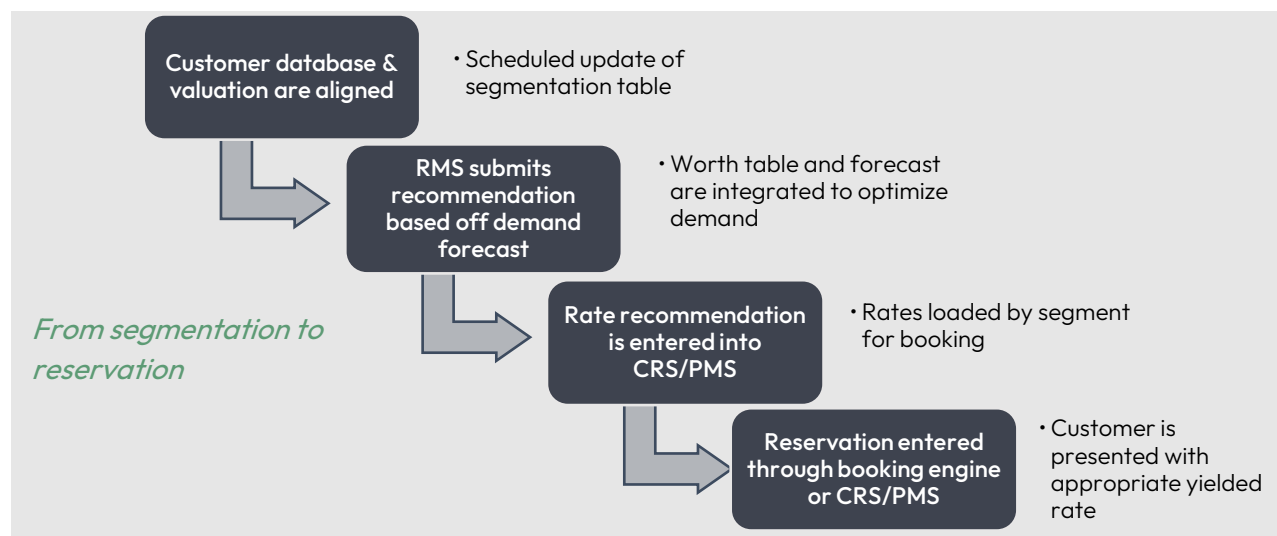
A revenue management system (RMS) is highly recommended in this environment. This section will focus on the critical functionality and requirements vs. specific system selection and setup. Normally the RMS provider assists in incorporating the segmentation into the system forecast. As with any demand forecast, it is crucial to look at the unconstrained demand by segment. Unconstrained demand considers the total number of rooms a property

could sell without capacity constraints. On a peak date, demand might exceed the hotel's capacity; gauging the level of excess demand is crucial to setting the right price and achieving the optimal mix. In an ideal scenario, the forecasted demand is optimized and generates a 'hurdle' price for each day, influencing the recommended rate. Optimization entails determining the most profitable business mix from the unconstrained demand forecast. Considering its influence on hotel rates, the demand forecast is critical to the overall pricing strategy and should run regularly for short and long-term horizons.

The demand forecast requires sufficient historical room night & reservation data with booking pace by segment, an understanding of seasonality within the market, and knowledge of specific events at the property, both past and future. Although not covered in detail here, it is necessary to ensure that the foundational elements of an accurate demand forecast are available when looking at system options or forecasting methodologies.

Dynamic yield & pricing by segment

A reliable demand forecast, and customer segmentation table lay the foundation for real-time rate recommendations or 'dynamic yielding.' In this setup, each prospective hotel customer receives a customized rate offering based on their worth. A higher-worth guest may have enough predicted value to offset the rate requirement altogether, in which case the guest could receive a free room night. In the casino environment, this is quite prevalent due to the worth generated on the gaming floor. The flow chart and reservation example below help to illustrate how the integration of forecasted demand and guest worth dictate the recommended offerings for each prospective customer.

From segmentation to reservation

- Customer database & valuation are aligned
  - Scheduled update of segmentation table
- RMS submits recommendation based off demand forecast
  - Worth table and forecast are integrated to optimize demand
- Rate recommendation is entered into CRS/PMS
  - Rates loaded by segment for booking
- Reservation entered through booking engine or CRS/PMS
  - Customer is presented with appropriate yielded rate

In this two-night stay example, the forecast for the arrival date is soft, but it is very strong for the second night, with unconstrained demand exceeding capacity. The $150 worth guest has enough projected value to offset the hurdle price on Day 1 but not enough on Day 2. For the second night, that guest is offered a discounted rate in line with their value. The $350 worth guest has enough projected worth to offset the rate requirement for both nights

Sample rate recommendation:

	Day 1	Day 2
Demand Forecast	60%	110%
Retail Rate	$125	$295
Hurdle Price	$40	$295
Rate Quote $150 Worth Guest	Comp	$145
Rate Quote $350 Worth Guest	Comp	Comp

No risk of displacement. Hurdle price is equivalent to the room turn cost which includes variable cost of turning the room such as hourly housekeeping labor and in-room amenities and fixed costs such as management salaries and utilities.

Understanding a customer's value and customizing the hotel offering accordingly makes it possible to get the most out of each room night and optimize revenue based on demand. Casino properties are known for sending offers to their customers; hotel offers can often be static, meaning they are not yieldable. Guests are essentially trained to expect that they can book what they received within an appointed offer window; this type of setup is counter to a fully yielded environment and restricts a property's ability to maximize revenue. Static offers also limit a customer's booking capabilities. It is far better to create a fluid environment where customers can book any time based on their worth and where they are encouraged to book their varying discounted rate or comp room nights versus being guaranteed a pre-set price. With a static model, it is often difficult, if not impossible, to ensure that customers receive the right rates at the right time for each calendar date. Introducing dynamic yielding can be a game-changer for casino properties. The main drawback to this dynamic model is that it may take some customers time to adjust and that certain customers might abuse their hotel privileges if comp controls are not in place. For the latter issue, solutions do exist in the form of comp room limitations or restrictions. The RMS, or property management system (PMS) provider, or both in some cases, should be able to assist in implementing this stopgap.

Marketing to casino guests:

Hotel marketing for casino properties is heavily targeted at the player database. Just as casino marketers will segment and dissect their database to increase profitability on the gaming floor, the revenue management team must work with marketing to ensure the same scrutiny is applied to hotel offers. Aligning the offer strategy to the demand forecast is the best way to incent the right demand. With a fluid and dynamic hotel offer process, the potential for marketing to the casino database is significantly broadened. If implemented correctly, the overall process is highly fluid, customers will receive different rates or comps

based on their segment, and their segment may change based on their play. Once the dynamic model is effectively implemented, the message to the guest could be something like: 'Book your exclusive hotel offers at any time." The ability to book at any time without waiting for an official "offer" is a big plus and can become a tremendous loyalty booster for existing and prospective customers, transforming the way customers view casino hotel offerings. The ever-changing digital landscape and large-scale technological advancements make real-time access to hotel bookings crucial. Having the right digital platforms integrated into loyalty or player database systems is critical to hotel revenue optimization; it's difficult to over-emphasize the importance of a reliable booking engine and seamless booking process. Regrettably, there are limited options for casino hotel companies in this area.

Performance analysis:

Tracking revenue management performance for a casino hotel requires a complete understanding of the ancillary spend; in this case, the contributions on the gaming floor must be tracked back to the casino customer staying in each room. While still important, the typical RM performance metrics, Revenue Per Available Room (RevPAR) and Revenue Generation Index (RGI), are insufficient to track success in the casino environment. The RevPAR valuation is the total hotel room revenue divided by the total number of available rooms (RevPAR = Room Revenue/Rooms Available). RevPAR combines the average daily rate (ADR) and occupancy level to measure performance. ADR alone will not explain how a hotel is performing. If a 100-room hotel has an ADR of $450 but only occupies ten rooms, for example, ADR looks excellent, but RevPAR will be suboptimal at only $45. The hotel would have been much better off filling 50 rooms at a much lower ADR of $150, resulting in a RevPAR of $75. To really understand performance, however, in a non-casino environment, the RGI needs to be considered. RGI is a ratio of the hotel's RevPAR divided by the RevPAR of the competitive set, also sometimes known as RevPAR Index (RGI = RevPAR /Competitive Set RevPAR). The RGI illustrates how a hotel performs relative to its competitive set and is crucial for providing context around performance. While these performance metrics can still be useful for casino hotels, they are not nearly as vital as knowing Worth Per Available Room or WorthPAR. WorthPAR includes the non-room revenue associated with each room night; in this case, it is theoretical gaming worth (WorthPAR= (Total Cash Room Revenue + Total Theoretical Gaming Worth)/Total Rooms Available). The casino hotel industry does not have the equivalent of an STR report against which to index a WorthPAR value. Casino hotel

properties rely upon property trends and year-over-year comparisons to assess their WorthPAR performance. As reviewed earlier in this paper, utilizing the guest's specific predicted worth to determine the room rate means some customers may have such a high predicted value that they qualify for a $0 room rate. This happens pretty often in casino-dominant hotel properties. Since the expected worth of the casino guest dictates the room rate, the actual value has to be part of the performance assessment.

Conclusion:

Due to the often-disproportionate weight of the hotel guests' gaming contribution, effective revenue management for casino hotels can yield significant value beyond what might be garnered in a non-casino environment. However, of the estimated three hundred or so casino hotels across the US, perhaps one-third employ an effective RM strategy. Considering the interfaces needed between the RMS, casino management system (CMS), property management system (PMS), central reservation (CRS), and or channel management system, along with proprietary booking engines and customized databases, the technological requirements alone can be daunting. This increasingly on-demand digital world, however, further commands the importance of modernizing and streamlining casino hotel yielding and booking tactics. With recognized standards in place, technology providers might be more inclined to further develop the integrations and tools needed to meet requirements. Appropriate segmentation and customer valuation, along with accurate demand forecasting and dynamic yielding, are the basic building blocks for optimizing guest worth from the casino customer database. Coupled with a solid commercial strategy targeting non-casino segments, these tactics, when implemented effectively, can ensure optimal WorthPAR.

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