Don't Shoot The Messenger

by Andrew Klebanow

The recession of 2008-2009 has touched nearly every facet of American business. Indian gaming has not been immune from the sudden drop in consumer spending, which followed a rapid rise in fuel prices last summer. Nearly every US gaming market and the vast majority of casino enterprises operating in those markets saw declines in gross gaming revenue and net income, coupled with lower operating margins. Tribal governments in turn saw precipitous drops in revenue derived from their gaming operations and have been forced to reduce spending on essential services such as health care, education and elder care.

The sudden drop in the gaming revenue stream caught many tribal governments by surprise. Since budgeting often takes place in two to three year horizons, it quickly became difficult for many governments to meet their ongoing commitments. Unable to fully fund essential services, governments turned to their business enterprise boards who in turn looked to their casino management teams for solutions to very large and ultimately global business problems.

The reality of this recession is that there is very little a casino can do to grow profitability in this economic climate. Demand stimulation programs such as aggressive direct mail offers, promotions and increased advertising have had limited success in increasing traffic, but have not succeeded in growing profitability. Like many American industries, Indian casinos will have to wait for the nation's economy to recover before they can once again make the financial contributions that governments depend on.

The role of general manager in an Indian casino is more difficult and challenging than ever. Not only must he/she find ways to maintain revenue and reduce expenses, the general manager is often the bearer of bad news: that economic factors beyond the control of the casino enterprise must improve before the casino's business can improve. For some owners of casinos, a change in leadership often seems like the logical alternative to accepting this message. This is euphemistically referred to as 'shooting the messenger.'

Over the past year there has been an acceleration in the turnover rate among casino general managers and other senior level positions. During the second half of last year three large casinos in Southern California dismissed their senior management teams. The trend continued this year with the dismissal of three more leadership teams in that market alone. A large casino in Wisconsin also recently replaced their entire leadership team. It seems that not a week goes by without news of another long time general manager and his staff being dismissed and replaced by new leadership.

The driving belief for this human resource strategy is that new blood, new thinking or a new marketing plan can quickly restore revenue growth. Unfortunately, changes in leadership often have the opposite effect.

Most property level general managers have a keen understanding of the issues facing the casinos that they run. They know which gaming devices need to be replaced; whether the HVAC system can withstand another summer; what marketing programs work and do not work; which employees are committed to the business (and which are not) and essentially have their hands on the pulse of the business. When that person leaves, his/her replacement often has a steep learning curve at a time when the business can least afford it.

The first reaction of any new general manager in this kind of business climate is to just say "no" to every expenditure. Since the role of the new general manager is to increase the amount of cash flowing to the enterprise board and tribal government, the new general manager will forego every non-essential expense. Unfortunately, without a keen understanding of the needs of the property, bad things can happen. Essential preventative maintenance may be postponed and lead to significantly higher expenses later on. Information systems may fail. Key employees may grow frustrated and leave.

Marketing may also grow less efficient. Without knowing which demand stimulation programs work in a particular market, the new general manager may spend an inordinate amount of marketing dollars on programs that just do not work in a particular market. Car giveaways, cash drawings and generous free play offers may work in some markets, but other markets may not react positively. Finding out what works can get very expensive and further exacerbate a difficult financial crisis. By dismissing the current management team the most knowledgeable sources of a successful marketing strategy are lost and replaced by people who have to experiment.

A case in point: in 2007 a general manager of a large Southern California casino conducted research into the wants and needs of his customers. He and his marketing director designed a new tiered player rewards program modeled after one of the most successful locals-oriented casino companies in the country. Six months after launching that program, the leadership team was dismissed and replaced by someone from outside of the organization. One of the new general manager's first initiatives was to replace the new rewards program with one he had success with at another property. Just as players were getting comfortable with the new suite of benefits, they had to learn a new program. Essentially, casino leadership tested each player's loyalty at a time when loyalty was rapidly becoming fleeting.

Replacing casino leadership also negatively impacts the employee population. Employees build a rapport with their leaders and grow to trust them. When those leaders are removed, employees become uncertain about their own futures and communicate those fears to their customers on the floor.

There is a greater cost, not just to the property, but to Indian gaming as a whole. Each time a management team is replaced, the costs of doing business for all Native American gaming enterprises goes up. While every person who aspires to become a leader of a casino knows that being terminated is a risk that goes with the job, the incidence of such activities is greater in Indian gaming, simply because there are so many Indian casinos operating today.

More and more, casino managers view themselves as mercenaries hired to work in a property, and each year more managers decide not to take jobs at Indian casinos. In order to attract qualified talent, tribes must offer higher salaries and other perks as well as employment agreements that protect managers' interests. This raises the cost of doing business for all Indian casinos. It also limits tribes' ability to attract the best and the brightest talent.

2009 will be a difficult year for all casino operators. That is a fact of this economy. Business will return, but it will do so slowly. Casino managers are most often the bearers of this bad news when addressing those concerns to tribal leadership. Nevertheless, the people most capable of returning gaming properties to their previous performance levels are the ones that operated them in their successful times. The advice to tribal leadership is "don't shoot the messenger." ♣

Andrew Klebanow is Principal of Gaming Market Advisors. He can be reached by calling (702) 547-2225 or email andrew@gamingmarketadvisors.com.