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Planning For a New Buffet

As casinos expand from simple gaming centers with limited amenities to multi-faceted gaming entertainment destinations, gaming operators often increase the number and size of food and beverage operations as part of their expansion programs. Very often such expansions include a two-meal or three-meal buffet operation. There is a generally held belief that a casino should have a buffet in order to appeal to a broader base of gamers, feed large groups of people quickly (such as buses), give gamblers a quick meal option and to create an additional attraction to people who might gamble but have not yet demonstrated an interest in visiting the casino. Conversely, there is a belief that buffets, if designed and executed poorly, do little more than increase food costs, attract a marginal segment of the dining public that has little interest in gaming and place an undue burden on overall profitability. It is for these reasons that prior to starting construction of a new buffet the casino operator must first thoroughly research the market, develop a buffet business strategy, and then develop a predictive model that forecasts food revenues, expenses and incremental gaming revenues that would be derived from diners who gamble in the casino.

Understand the Needs of the Market

Prior to embarking on any new restaurant program, particularly a buffet, the casino operator must first understand the needs of the market. What do existing gaming customers want in their dining experiences? What do people who may have a propensity to gamble but do not currently visit local casinos desire in dining experiences? Is the local market driven by price or quality? To answer these questions, the operator would be wise to first conduct primary research into the wants and needs of customers, first in the form of focus groups with both current customers and non-customers, followed up with a quantitative study that tests research hypotheses.

What does the local restaurant market offer in terms of dining options? Many regional markets may already be well served by free-standing all-you-can eat restaurants that offer exceptional dining value. In such cases a casino buffet may not make sense since the casino operator will have to compete with restaurateurs that have already figured out how to operate buffets for profitability. Worse, the casino may have to spend an inordinate amount of capital dollars to create a dining environment that exceeds those offered by these competitors. Thus a careful examination of both buffet demand and buffet supply are essential in order to determine the casino buffet's feasibility.

Develop a Buffet Strategy

Once it is determined that a casino buffet is feasible, the next step is to devise a business strategy. Business strategy can take one of two courses: a differentiation strategy or a pricing strategy. When adopting a differentiation strategy, the goal is to develop a buffet dining experience that is truly exceptional. The décor of the dining room, quality of menu selections, and staffing levels all combine to help differentiate the casino buffet from other casinos as well as free-standing restaurants. The downside of such a strategy is that operational costs will be higher along with meal prices. "Will customers pay for quality?" is the question that must be answered.

A casino buffet can also compete on price. Such a strategy may be employed when there are a number of all-you-can-eat dining options in the community, when the buffet was poorly designed and cannot offer the breadth of menu selections experienced gamers expect or when the market demonstrates that it will not support a premium priced dining facility. Most casinos ultimately adopt a pricing strategy because they failed to gauge the wants and needs of the market and for casino managers' desire to "bring in the bodies," even if those bodies have no interest in casino gaming.

Forecasting Revenue and Expenses

Forecasting for a new buffet takes place on a number of levels. First there is the issue of forecasting the number of expected covers per meal period by day of week, which helps determine the seating capacity of the restaurant. Once capacity and expected covers are forecasted and the proper pricing/differentiation strategy is in place, the food and beverage director must forecast revenue and expenses. To accomplish this, he/she must first develop a variety of menus, test recipes, forecast each menu item's costs, and estimate consumption and waste. To do anything less is a recipe for failure.

Once recipes are developed and pro forma food costs are calculated, labor costs must be estimated. This is accomplished by examining current wage and benefit rates at other dining operations in the casino and in the market, estimating labor needs by meal period and day of week and building schedules. The total of food costs and labor costs yields what is referred to as the prime cost. Often a casino operator is willing to accept a prime cost equal to buffet revenues and allow an operational loss equal to the other expenses associated with operating the restaurant. Unfortunately, most buffets do not even generate enough revenues to pay

their prime cost. These expenses escalate if a decision is made to drop buffet prices further in order to stimulate demand.

Forecasting Incremental Gaming Revenues

By developing a predictive model as described above, the casino operator will probably discover that the buffet probably will not be able to operate at a level that can sustain profitability. It is therefore incumbent on the casino operator to estimate the incremental gaming revenues that will be derived by gamers living in the market who currently do not visit the casino because the suite of amenities do not hold sufficient appeal for them but they may in fact gamble at the facility if a buffet were present.

Forecasting incremental gaming revenue is part art and part science. It requires making reasonable assumptions about the market's adult population, the percent that have a propensity to gamble, the percent of gamers who do not currently visit the casino, the percent that would if a buffet were available and their expected daily gaming budgets. The net result is a forecast of incremental gaming revenue

that would be generated because of the availability of the buffet.

Conclusion

Developing a buffet requires thorough planning, strategy formulation and forecasting. Regrettably, most buffets are often ill-conceived and poorly planned. Revenues are over-estimated and expenses are under-estimated. Worse, there is no empirical data to support the contributions that the buffet may be making to gaming revenue. More often than not, management attempts to rein in costs by reducing food quality and labor costs. Alternatively, they may drop buffet prices in an attempt to stimulate demand. The end results are often the same: a restaurant that appeals to people who want a lot of poor quality food for not a lot of money while self-respecting gamblers opt out of the dining experience. ♣

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