

The Old Annual Casino Budget Dilemma

By Steve Karoul

Casino budgets are an annual process that seems to come and go without too much ceremony or celebration. Depending upon your casino's budget process, it can be a productive activity or an activity of futile frustration. I have researched the budget process in many different casinos looking for common denominators as well as common helpful hints to ease the pain. However, one common denominator that was heard was "I wish we could change all of the B.S. that goes along with the budget process". So, you are not alone out there in casino land. It was the same comments from many different locations and many different kinds of casinos. Financial people view things one way, operations people view things another way and marketing people view things in an even different way. Further investigation did however divulge some common denominators as well as common complaints.

Everyone agreed that the budget process was in fact necessary and everyone agreed that some form of financial planning and record keeping is also necessary for every casino. Most individuals surveyed also felt that the casino business is different from the hotel industry, restaurant industry, manufacturing, etc. but do share certain commonalities. They also recognized that the accounting process must basically conform to certain pre-established standard accounting practices for record keeping and budgeting. Never-the-less, many casino executives felt that the overall process was in some ways counterproductive and could be improved upon. This common denominator or comment was intriguing.

Further investigation revealed that many casino executives felt that the budgeting process found in many casinos today is not always helpful since it sometimes may actually hide or hinder growth opportunities. It may mask the truth when market conditions change unexpectedly such as what we are experiencing today with gasoline prices in the \$3.00+ per gallon range or higher in some States. Budgets force people to still try to "make the number" no matter what. This can cause undue stress throughout the casino organization and create a very serious and stressful atmosphere that oftentimes is conveyed to the customer in the form of poor customer service or an "un-fun" atmosphere. Remember, customers come to casinos to have FUN whether it is from gaming, entertainment, dining, etc.

So, we need to ask ourselves the big question of "Why?" Many casino executives felt that budgeting in many casinos is disconnected from reality. It is a process that has become institutionalized. I heard "We've always done it that way" too many times. Interestingly enough, many of the larger casinos work backwards where Senior Management sets the Revenue and Profit numbers and operations management has to make the numbers in between fit whereas smaller casinos still tended to work with a zero based budgeting process and build up to the numbers. However, their numbers were still subject to final review and adjustment by either senior management or tribal council in Native American casinos. Going back to the question of "Why", we do find several common denominators in the casino budgeting process. Operations people tend to produce budgets with targets that they know

they can hit. This is only human nature since their rewards in the form of bonuses or stock options, etc. only materialize when they make budget. Consequently, senior management or tribal council tends to stretch the numbers and always ask for better results. This process ends in the old annual budget negotiation meetings which usually end up with a compromise somewhere in the middle of the two extremes.

The next question is "What's wrong with this picture?" Basically there are two things that jump out at you. First, this is an orchestrated compromise. Second, you do not hear about any of the more risky strategies that might further improve the financial results because of the current reward or incentive programs found in most casinos today. Budgets in casinos today tend to stymie real growth that often comes from innovation and creativity. Budgets are tools but the results are often influenced by the reward part of the budget formula. Casinos need to change the equation and develop new reward systems for their employees. Other non-casino industries have become especially creative at developing new metrics for measuring performance beside the numbers game related to budgets. What about customer service?

Other industries have begun to drift away from only viewing internally negotiated numbers to now looking at new real world measures. New measures include things like comparing how the overall business performed in comparison to the previous year with minimal emphasis on the pieces but rather putting more emphasis on the whole. In other words, does it really matter if the hotel and or the food and beverage departments make their departmental budget but the overall casino does not? Sometimes rooms, food and beverage, etc. are the loss leaders that may be needed to attract new business which ultimately will play in the casino. The casino is still the primary revenue generator in most casino operations today. This is one of the big differences found in casino budgeting compared to other industries. Entertainment is almost always a loss leader in casinos so why not the same for some other departments? That is a policy decision of the property and its owners and or directors.

Another strategy is to challenge your staff with another question besides "Why?" That question would be "What if....?" The "What if...question is the type of question that will stimulate the gutsy, risk taking view of potential new market opportunities that could possibly be incorporated into the current operation to help dramatically increase or improve revenues. However, not every one of these innovative or creative new ideas will be successful. There are no guarantees so the staff has to be comfortable with risk knowing that senior management also understands and that they will not be severely penalized for individual unsuccessful campaigns or ideas but instead will be evaluated on the overall end results at the end of the year. "What if..." scenarios about market opportunities usually result in new ideas that can be developed into operating plans filled with mutually agreed upon strategies and tactics to help expand casino revenues and profits even though we know that not every new idea is a guaranteed winner. Obviously these new ideas need some substance that can be measured but the big difference is that these creative new ideas should not be controlled by a strict budget but rather by general guidelines such as an upside number or best case scenario as well as a downside number or figure below which the business would not be allowed to go to. The big difference here compared to formal budgets is that the range of numbers will be the result of

discussions between senior management and staff about true market realities. Since they will be part of ongoing weekly meetings or discussions, these new operating plans can be flexible and can be changed or modified very quickly according to market conditions. I personally think that every casino should develop a new line item in their budgets called Innovation and fund it accordingly. This money can be used without penalty to fund new ideas, new innovation, new concepts, etc. but be viewed outside of the normal budget process.

There is a common denominator involved with this type of flexible budgeting and that denominator is called trust. Both groups need to trust each other. They have to trust that they will not be punished for not achieving stretch targets and they have to trust each other that they will make every possible good faith effort to achieve the expected results. With this mutual understanding, budgeting can be brought to the next level in many casinos around the world. The process of change is never easy but it is worth the effort especially during highly competitive times.

Are you ready for change? Good luck....Steve Karoul

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