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Milking the Brand

By Marjorie Preston *Mon, Jul 25, 2011*

With gaming growth prospects limited, operators invest in the global value of their brands

In 2007, when MGM Mirage established a new hospitality division, it signaled a strategy that's moving one of the world's largest gaming companies beyond its casino base to the global hotel business.

The company's 2010 name change, from MGM
Mirage to MGM Resorts International, underscored the new direction, and the plan for 18 international hotels under the Bellagio, Skyloft and MGM Grand marquees proves MGM is not simply dipping its toe in the water. It's taking the plunge.

Will it work? Will the luxury brands that resonate in Las Vegas carry the same heft in Vietnam and Dubai, or be lost in translation? Just as importantly, can the MGM brand succeed without gaming as a prop?

Advertising and marketing expert Sharon Walters, a partner at CMYK Creative in Las Vegas, says luxury hotels are a logical next step for a company that took its name from a star-making Hollywood studio, came to dominate the gaming industry, and now, in the wake of market saturation and fitful economies, must scope out fresh horizons.

"You're always looking for that white space where you can jump in and generate some revenue," says Walters. "You could build another one here, but with the economy, there are already too many partially constructed properties and steel-girder graveyards."

MGM is looking "outside, to markets where people still have some disposable income."

Those markets for now are concentrated in China, where the economy is flourishing and the middle class is on the rise. China's new "urban aspirational" class is more than 100 million strong, and though they account for just 1 percent of the population, they control 10 percent of the disposable income. A 2006 report from the McKinsey Global Institute was prescient: it said the middle class in China "voraciously consume globally branded luxury goods, allowing many companies to succeed without significantly modifying their product offerings or business systems."

Companies that ignore this evolution, said the report, "risk missing a significant opportunity."

Greener Pastures

MGM CEO Gamal Aziz, in the understatement of the year, recently said there's "not a lot of demand for inventory in North America and Europe." The opposite is true in China and India, and while the bans on gambling in those countries may be more honored in the breach than the observance, they could make swanky hotels the best opportunity for growth.

The litmus test for MGM will be the MGM Grand Sanya, on Hainan Island, China, set to open later this year. It will be followed through 2014 by hotels in Beijing, Tianjin, Chengdu and Shanghai. Also on the drawing board are projects in India, Egypt, the United Arab Emirates and Latin America.

Gary Border, president of Marketing Results Inc. of Las Vegas and Atlantic City, says the transition is "almost a natural expansion" for MGM.

"The brand, from its beginnings in Hollywood, was perceived as extravagant and experiential; it was fantasy, taking us to places we couldn't otherwise go through the movies. Later on, casino gaming tapped into that, and to this day people are attracted to the brand. I don't think MGM will have any difficulty as long as it applies good management and good site selection."

The concept has worked on a smaller scale in Las Vegas, Border notes. "Look at Aria. It does more hotel and convention business than gaming. The Mansion is another one. The MGM brand has already migrated successfully from gaming to lodging."

Walters says the Asian enthusiasm for Las Vegas will pre-sell the MGM brands, even when they're not tied to gaming.

"Wynn has been very successful in Macau, and so has Sheldon Adelson," he says. "I don't think the success of their properties is completely tied to the gaming floor. Think about the name—it's Wynn Resorts. Consumer association with the brand and what it stands for will transfer over. There's already been some establishment of brand identity from people who've been to Vegas."

In Border's view, the non-gaming properties will act as calling cards for the company's casino hotels, and vice versa.

"The gambling market segment that comes to major gambling destinations also uses great hotels around the world," he says. "For both sides, it's fantastic exposure."

Empire-Building

Caesars Entertainment is following in MGM's footsteps. In May, the world's dominant casino company—which draws more than 60 percent of its annual revenues from gaming—announced that its Caesars Global Life division will enter into licensing, franchising and management agreements to spread the famous brand in Asia and Latin America. It will utilize the Caesars name and possibly others, including the Flamingo.

Caesars Vice President Alexander Mirza, who's heading up the new unit, told the Associated Press in May that the company hopes to develop 25 hotels over the next five years.

"We really want to focus on luxury and lifestyle," Mirza said. "Even Flamingo, we think, could be a five-star brand in Asia."

Some aren't so sure. Michael A. Meczka, president of Meczka Marketing Research Consulting Inc. of Los Angeles, says casino brands aren't that elastic. No matter how ubiquitous, brands are effective only through "extreme protection of the idea, reinforcement of the idea from the first time the customer is exposed to it, and fulfilling expectations every time at every level," says Meczka. "You have to develop a niche, work to that niche and stay within that niche."

Neither Caesars nor MGM has a track record in the non-gaming sector, Meczka notes, "and MGM—those are the wonderful people who brought you CityCenter." The $4 billion Las Vegas boondoggle is struggling precisely because it doesn't attract a robust gaming clientele.

The stalwart MGM brand could even be tarnished by the failure of CityCenter, says Meczka. And the verdict isn't in on Caesars' decision to shed the well-known Harrah's name, which has a "strong brand presence in the United States, relates well, and has some panache internationally."

"I'm not sure what Caesars will do," says Meczka. "But currently, the only way to run non-gaming amenities is with the strong support of revenues from slots and tables. No one is making revenue and profits from non-gaming except a few select nightclubs. The profit margins for slots and tables cannot be beaten by restaurants or hotels except in the casino environment."

Meczka is not persuaded that casino brands will translate to non-gaming ventures, because those brands are best known by devout casino customers. In the U.S., he says, that's just 5 percent to 10 percent of the populace.

"If you take that to China with a billion people and an emerging middle class, they have fierce propensity for gambling, and they may know MGM from Macau. But why do luxury hotels when they already have them? Who wouldn't rather go to a Fairmont or a Ritz-Carlton?"

It's true that plenty of luxury accommodations can be enjoyed in the target cities—Beijing, for example, has two Ritz-Carltons, two InterContinentals, a St. Regis and a Fairmont, among dozens of five-star digs—but in a June interview with the Las Vegas Review-Journal, Aziz said MGM offers an "energy-based destination" and a "sophisticated" vibe that's unique.

If nothing else, people will try something new, and if they like it, they'll come back, says Border.

"There's a small market niche that's absolutely brand-loyal, but most people sample. Some will find that MGM is the perfect solution in certain circumstances—for a business trip, or a family trip. I stay at the Fairmont or the Four Seasons—the stodgy, established brands. I also stay at the Hyatt when I'm on business and have to move around fast.

"People will think of the MGM experience as being something exciting and exhilarating. The Four Seasons is the opposite: a place to wind down, escape and get some pampering. MGM just has to deliver a high-quality product."

Gaming expert David G. Schwartz of the University of Nevada-Las Vegas says both MGM and Caesars "have done a lot to refresh the brands."

"MGM has pretty fresh hotel products out there in all parts of world," Schwartz says. And both could benefit by "taking their management expertise and selling that instead of buying land and building hotels."

Rocky Road

A singular example of brand and identity confusion is the Hard Rock, which originated as a restaurant in London in 1971, developed into a global chain of eateries famous for their music memorabilia, and in the ensuing decades slapped the famous logo on hotels, casinos, concert venues and even an amusement park (the $400 million Hard Rock Park in Myrtle Beach, South Carolina, which opened in April 2008 and was bankrupt by September of the same year).

For a time in the U.S., Hard Rock was divided legally along geographic lines—Morgans Hotel Group owned the brand west of the Mississippi, and the Seminole tribe of Florida owned the rest. The Seminoles now run the whole show with one exception: the Hard Rock Hotel & Casino in Las Vegas, which barely avoided foreclosure in February, and has since been taken over by its lenders.

In late 2010, the tribe and Hard Rock International sued the Vegas property for trademark infringement due to the raucous TV series Rehab: Party at the Hard Rock. The reality show depicted guests and employees getting drunk, hooking up, and selling narcotics. The parent company huffed that such conduct was "contrary to the values our world-famous Hard Rock brand embodies;" it demanded that the property stop using the Hard Rock name.

The Vegas Hard Rock claimed the hijinks at its pool parties were no different than those at "Detox" at the Hard Rock casino in Biloxi, Mississippi, which is owned by the Seminoles. The TV show has since been canceled, which puts the case in limbo. Schwartz doesn't know what all the fuss was about.

"It's almost like they're saying there's too much sex and drugs in 'sex, drugs and rock 'n' roll,'" he says. "On one hand, they have memorabilia from Jimi Hendrix and Gene Simmons, who aren't known for being Sunday-school-teacher types. Of course, the allegations of sexual harassment and narcotics use aren't so glamorous."

Art Jackson, partner with Sharon Walters in CMYK Creative, says the lawsuit "was silly from a marketing standpoint."

"The Hard Rock demographic is youth. Whether we like it or not, that's what the youth like to do, and that's what they like to do in Vegas. I understand the Seminoles have their vision of propriety, but we're talking about Hard Rock here, with pictures of Jimi Hendrix, who died choking on his own vomit. I don't know what the Seminoles fear other than somehow losing that geriatric demographic."

Speaking of that younger clientele—a double-edged sword in places like the Cosmopolitan, where kids party but do not gamble—Border says luxury hotels "probably can't be everything to everybody. You have to choose your target audience." Young people will eventually age into the target demographic, and hoteliers, like banks and insurance companies, can court their future business by providing what they will eventually want.

"You have to be relevant to your audience," Border says. "Not being the Four Seasons is as important as being MGM. How they manage and build the image is the art of management and branding. You need to target a significant segment that's worth enough money to go into the market."

The Right Position

Border says companies must not only position themselves within a market, but also position their competition, as in the successful Avis rent-a-car ads of the 1970s. Hertz was undeniably No. 1 in the field, so the smaller company, Avis, came up with the slogan, "We try harder."

"The Claridge in Atlantic City did this once, when the Taj Mahal opened," Border says. "The catchphrase 'Smaller is Friendlier' was great and worked for a couple of years. It bridged the gap, saying, 'We're not the biggest guy in town, but the little guy can be friendlier.'"

But they must also hew to cultural standards, Jackson warns, to avoid the debacle experienced by a major U.S. auto manufacturer in its first foray into the Japanese market.

"I believe Ford came in and ran comparison ads between their cars and Toyota or Honda," says Jackson. "It was a national scandal. In the Japanese culture, you can say how great your product is, but you cannot degrade a competitor. It was a huge faux pas and a huge marketing mistake.

"I don't know if that's the case in China, but they have to watch the cultural norms or it could backfire. At least from my experience, it's better to build up your brand than tear down another."

When it comes to name recognition, Jackson adds, "it's not Trump. It's not name recognition so much as just ensuring you offer an experience that people enjoy and are drawn to. They can't rest solely on their names, but they can do as well as any other hotel if their amenities are as good as other international hotels."

At the end, the crossover is not too risky, says Walters. "MGM, for one, has been firmly established as a luxury high-quality brand that offers a wonderful experience. When you visit their property, no matter where it is, those attributes, that association with luxury and service, will transfer over."

By Marjorie Preston

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