

Fast-Food Franchises: An Alternative Menu for Hotel/Casinos

by
Skip Swerdlow
Assistant Professor of Finance
Larry Strate
Assistant Professor of Business Law
Francis X. Brown
Assistant Professor of Hotel Administration
University of Nevada, Las Vegas

Hotel/casino food service operations are adding some non-traditional fare to their daily offerings in the form of fast-food franchises. The authors review aspects of franchising and cite some new Las Vegas food ideas.

According to the Nevada Gaming Abstract of 1985, statewide food and beverage figures for hotel/casino operations exceeded \$1.24 billion. This intense tourist use of restaurant and bar is indicative not only of high visitor traffic, but also of the wide variety of menu offerings that visitors sample. While most restaurants within the hotel/casino properties are traditional, coffee shops, gourmet dining rooms and buffets, and innovative moves in food marketing now allow tourists to select a fast-food franchise as one of their meal choices.

Burger King, a leader in franchising mobility, boasts a restaurant location in a Las Vegas hotel/casino. This innovation in restaurant marketing makes for a timely review of the growth and changes in the fast-food industry, and the non-traditional expansion of franchise operations in Las Vegas.

While franchising is a relatively old means of operating an enterprise, franchising food businesses, particularly fast food, has become popular only in the past 15 to 20 years. In a March 1986 review of franchising, *Restaurant Business* reported the following statistics:

- Over 60 percent of all restaurants are franchisee-owned. This relationship is also paralleled in dollar sales, which has exceeded \$53 billion.
- Restaurant franchising expansion has grown at an annual rate of 12 percent per year for the past five years.

The largest numbers of franchise restaurants are fast-food operations. Names like McDonald's, Burger King, and Kentucky Fried Chicken dominate the list. Although a variety of food types are now entering the food franchise business, *Restaurant Business* predicts that

“burgers will still gain the lion’s share.” According to *Franchising in the Economy* 1984-86, franchising has been described as the “wave of the future.” The success of the burger has not only launched national chains like McDonald’s and Burger King, but also has supported regional chains like Carl Jr.’s and gourmet hamburger newcomers into local markets, such as Flakey Jake’s and P.B. Wizard’s.

Franchise Operations Are Successful

The franchise concept has provided an easy method of going into business for the entrepreneur with minimal business experience, but a desire to work hard to make a profit. Franchising offers the following advantages:

- Individuals with limited start-up and operating capital can open a business that has a reasonable chance to become successful. While most large franchisors do not arrange 100 percent financing, nor will they guarantee franchisee loans, the name recognition of a major organization eases capital acquisition from traditional sources of financing, such as commercial banks. Franchisors sometimes provide lease financing for the franchisee by purchasing the land, constructing the building, and leasing to the operator.
- The franchisee can use the name of a nationally recognized company. This brand name recognition enables the operator to have significantly greater sales volume and profit than would otherwise be possible. For example, a franchisee who opens a Burger King restaurant should expect to be much more successful than one who opens Skip’s Hamburger Stand.
- The franchisor offers numerous beneficial services to the franchisee to help ensure business success and operational consistency. The franchisor’s success is based upon a consistent application of company policy throughout the geographical market in which he operates, regardless of how large that market is. Among these services are training to run the business, periodic counseling on how to maintain company standards, pooling of advertising and marketing dollars for more effective promotional efforts, and offering real estate advice so that the optimum location for construction can be selected.
- The franchisor pools potential national chain buying power to develop special pricing arrangements with major vendors. These arrangements allow the franchisee to buy the staples of the business at lower prices than they could buy as individuals.
- The franchising concept permits the franchisor to expand its operation throughout wide geographical areas at significantly less capital investment than would be required for a franchisor-financed, company store expansion. This desire for more units may provide opportunities for the franchisee to become a multi-unit operator. In fact, during the early stages of franchisor expansion, the parent company will grant territorial exclusives that allow the

franchisee to build within prescribed geographical boundaries without fear of competing against other independent or company operators in the same business.

Franchises Require Large Investments

Historically, the food franchise has utilized a free-standing building, usually requiring a sizeable capital investment which places practical limitations on individual operator expansion. For example, the average initial investment for a new Burger King restaurant, if the operator owns the real estate, is close to \$800,000. These costs are separated into land (\$250-400,000), building (\$190-290,000), equipment (\$175-250,000), organization costs (\$10-30,000), and a "technical assistance or franchise fee" of (\$15-60,000). Other fast-food franchise operations may have lower costs, but the numbers are nevertheless substantial.

The financial requirements for initial approval as a franchisee may also be imposing. Burger King requires that the net worth of the owners exceed \$500,000, not including the primary residence. A managing operator must have no less than a 50 percent unencumbered ownership and entitlement to profits. This partner has to be 100 percent involved in the operation. The debt/equity ratio may be no more than 1.5:1, and the projected cash flow must be positive.

Franchised restaurants have been expanding in suburban areas into shopping malls and "bedroom communities," where consumers live and eat. The traditional form of this expansion has been free-standing units and mall storefronts, when growth has been sufficient.

This growth is most recognizable in the hamburger market, which dominates the fast-food sector. Building among the three largest chains has topped one to one and one-half new restaurants opened by each per day, 365 days each year. According to *Restaurant Business*, McDonald's is the nation's largest chain with \$11 billion in sales in 1985, and some 6,972 restaurants in the United States. In Las Vegas, the company has 26 restaurants. Burger King, which is second among the fast-food operators, has approximately 4,500 outlets nationally, and eight outlets locally. Wendy's has over 3,000 domestically, and 13 in the local area. A regional franchise, Carl Jr.'s, has 13 Las Vegas locations.

Recently, fast-food franchise and company operations have been moving into locations that were once considered unprofitable, or even too bizarre for the traditional organization. Mobile restaurants, bus depots, zoos, military bases, and college campuses are among the innovations with which franchisors and franchisees are experimenting.

Burger King has assumed a leadership role in non-traditional expansion. A successful experience in building and operating non-traditional locations, such as mobile restaurants and military bases, led Burger King Corporation to consider unusual approaches to attracting tourist dollars. Las Vegas's hotel/casino operation offered as a unique opportunity for an unusual approach to franchise fast-food marketing.

The demographic statistics were encouraging for an experiment. The population is approximately 650,000 for the metropolitan area (Clark County Metropolitan Statistical Area). As part of the Sun Belt, Las

Vegas is one of the fastest growing cities in the United States. The number of tourists, especially during peak travel and convention season, add considerably to the temporary population (1.20 million for the first two months of 1986). The attraction for tourists is non-stop gambling on the Las Vegas Strip and in "Glitter Gulch," the nickname for the downtown area. These are locations with high density, 24-hour tourist traffic.

Hotel/Casino Menus Vary

The menu offerings at the hotel/casinos included almost every type of food, but not nationally recognized fast foods. This variety of food operation covers the full spectrum, from ethnic foods and gourmet restaurants, to delicatessens and buffets (See Appendix A). The scope of the food and beverage operation within the local hotel/casinos is greater than what one might expect from a large dinner house or major urban hotel. The Mint Hotel, for example, recently opened 12 new food outlets in one central area called the Food Promenade. Another example is the Bally Grand Hotel (formerly the MGM Grand Hotel) which employs approximately 1,450 people and prepares an average of 22,000 meals per day. This operation has four gourmet restaurants, a delicatessen, a 24-hour coffee shop, room service, and convention and banquet facilities.

The idea to operate a fast-food franchise in a Las Vegas hotel/casino occurred when the management of the Riviera Hotel approached Burger King and several of the other major fast-food hamburger chains. The hotel had been operating under Chapter 11 of the bankruptcy laws and viewed a major fast-food hamburger franchise operating within its property as the means to improve cash flow and profits. The prospect of the captive audience in a building with a high room count (the large hotel/casinos average 2,000-4,000 rooms) and high personnel statistics (some properties have as many as 2,000-3,000 employees) led to the construction of an in-house Burger King in the Riviera Hotel.

The advantages of this type of location included:

- An additional market location that did not cannibalize existing, traditionally located restaurants. Las Vegas visitors who gamble often prefer to remain in the hotel where they are staying and gambling. Consequently, they will eat in a conveniently located restaurant.
- The appeal of a quick "home-away-from-home" meal for tourists. The environment of the hotel/casino moves fast, and is often impersonal. Eating in a familiar restaurant that serves the same food that guests eat at home provides a feeling of comfort.
- A 24-hour sales opportunity, since the casinos operate on an "around-the-clock" basis.
- A reduced need to discount food to attract business, since the "play money" atmosphere of the casino make tourists less concerned about vacation spending budgets. The ticket average of fast-food operations is considerably less than hotel food offerings. Consequently, a fast-food meal is probably perceived as inexpensive.

One of the primary concerns for franchisors considering this location was the possibility that food handlers would have to become members of a union. Fast-food operations are traditionally non-union. An agreement not to organize was reached with the union; members would not lose their jobs because the new restaurant opened. To further disassociate the restaurant from the hotel operation, Riviera owner Mesahlum Riklis formed a separate company to act as the franchisee.

Burger King Corporation won the right to negotiate a franchise relationship with hotel management. The Riviera Burger King opened in the summer of 1984. Its sales and profits have been among the highest in the southwestern United States. Because of this success, Riviera management has opened a privately owned and operated fast-food pizza parlor, with similar results.

Recognizing this untapped potential for substantial franchise royalties and advertising dollars, Burger King Corporation has expressed interest in opening more hotel/casino operations. Their plan is to use an independent franchise operator. They have found that hotel management perceives the Burger King to be no more than another division of the food and beverage department and consequently places a lower priority on maintaining operational standards than the corporation does. The latter feels that an independent franchisee with no management or ownership tie to the hotel and its other profit centers will be more motivated to operate in accordance with Burger King Corporation standards.

The successful operation of the Burger King in the Riviera has sparked interest by other existing hotel/casino operations and fast-food restaurant chains. Burger King's operation, like so many other industry leadership decisions, provides impetus for healthy competition in a market that is burgeoning not only because of expansion that recognizes traditional population growth, but because of bold moves that search for customers in non-traditional areas.

As gaming continues to be host to millions of tourists each year, the high visitor traffic not only supports the traditional restaurants in the hotel/casino operations, but also this non-traditional expansion of fast food. The Riviera Burger King experiment has been successful, successful enough to see fast-food franchising as a promising alternative menu for hotel/casinos.

Appendix A

Las Vegas Casino/Hotel Food Facilities

Casino or Hotel Name	Restaurant Name	Key
1. Aladdin Hotel	Magic Lamp (was Oasis)	3
2. Alexis Park Hotel	Cafinao	3
	Pegasus	1

Appendix A (continued)
Las Vegas Casino/Hotel Food Facilities

Casino or Hotel Name	Restaurant Name	Key	
3. Bally Grand Hotel	Barrymore's	1	
	Cafe Gigi	1	
	Caruso's	2i	
	Orlean's	3	
	Swenson's	6	
	The Deli	3	
	Tracy's	2c	
4. Barbary Coast Hotel	Michael's	1	
	Victorian Room	3	
5. Binion's Horseshoe Hotel	Coffee Shop	3	
	The Steakhouse	2	
6. Bourbon Street Hotel	French Market	3	
7. Caesar's Palace Hotel	Ah So	2j	
	Bacchanal Room	1	
	Cafe Roma	3	
	Circus Maximus Showroom	7	
	Palace Court	1	
	Paladium	4	
	Primavera	2i	
	Spanish Steps	2e	
	8. California Hotel	Aloha Specialities	2h
		Market Street Cafe	3
Pasta Pirate		2i,s	
Redwood Bar & Grill		1	
Ultimate Snack Bar		6	
9. Castaways Hotel	Coffee Shop	3	
10. Circus-Circus Hotel	Circus Buffet	4	
	Pink Pony	3	
	Pizzeria	5	
	Skyrise Dining Room	3	
	Snack Bar West	6	
	Snacktrain	6	
	The Steakhouse	1	
	Renaissance Room	3	
11. Continental Hotel	Florentine	4	
	12. Desert Inn Country Club	The Grill	3
		Howan	2c
		La Promenade	3
13. Dunes Hotel	Monte Carlo	1	
	Portofino	2i	
	Dome of the Sea	2s	
	Oasis Snack Bar	4	
	Savoy Room	3	
	Sultan's Table	1	
	Terrace Room	4	
14. El Cortez Hotel	Zanadune's Hot Dogs	6	
	Emerald	3	
	Roberta's	1	
15. El Rancho Hotel	Snack Bar	6	
	Alamo Coffee Shop	3	
	Wagon Wheel Buffet	4	
	The Depot Dinner	1	
	Joe's Oyster Bar	2	

Appendix A (continued)
Las Vegas Casino/Hotel Food Facilities

Casino or Hotel Name	Restaurant Name	Key
16. Flamingo Hilton	Beef Baron	1
	Crown Room	4
	Food Fantasy	4
	Lindy's Deli	3
	Peking Market	2c
	Flamingo Room	3
17. Four Queens Hotel	Hugo's	1
	Magnolia's	3
18. Fremont Hotel	Overland Stage Cafe	3
19. Frontier Hotel	Pony Express	4
	Bonanza Buffet	4
20. Golden Gate Hotel	Branding Iron Steakhouse	1
	Comstock Cafe	3
	Diamond Jim's	1
	Burger Bar	6
	Coffee Shop	3
	Hoffbrau	4
21. Golden Nugget Hotel	Lillie Langtry's	2c
	Elaine's	1
	Steffano's	2i
	The Buffet	4
	Zacharia's	3
22. Hacienda Hotel	Charcoal Room	1
	Garden Room	4
	La Cosina	3
	Pool Snack Bar	6
	Claudine's	1
	Galley	4
24. Imperial Palace Hotel	Hot Dog Cart	6
	Veranda	3
	Emperor's Buffet	4
	Kobe Steakhouse	1
	Ming Terrace	2c
	Papa's Pizza	5
	Rib Room	1
	Tea House	3
25. King 8 Hotel	Mama Leone's	3
26. Lady Luck Hotel	Lady Luck's Pride	1
	Winner's Choice	3
27. La Mirage Hotel	Oasis Cafe	3
28. Landmark Hotel	Buffet	4
	Cascade Terrace	3
	Sunset Room	1
	The Dugout	3
	The Great Moments Room	1
30. Las Vegas Hilton	Baronshire	1
	Bavarian	2g
	Coffees and Pastries of the World	2
	Imperial Crownroom	1
	Hibachi	2j
	Leonardo's	2i
	Mamchen's Deli	3

Appendix A (continued)
Las Vegas Casino/Hotel Food Facilities

Casino or Hotel Name	Restaurant Name	Key
	Market Plaza	3
	Odyssey Buffet	4
	Roberta's	2j
	Steakhouse	1
	Tempura Room	2j
31. Las Vegas Inn	Gold Mine Coffee Shop	3
32. Mardi Gras Inn	Fat Tuesday's	3
33. Marina Hotel	Captain's Cabin	1
	Port of Call	2s
	The Galley	3
34. Maxim Hotel	Da Vinci's	1
	Maxim Snacks	6
	The Treehouse	3
35. Mint Hotel	Broadway Deli	3
	Celebrity Pizza	5
	Charcoal Charlie's	2
	Chinese Wok	2c
	Coffee House	3
	Estemed Clams	2s
	Fiesta De Mexico	2m
	Greens & Things	2a
	Prime Cuts	2
	Supreme Potato	6
	True Confections	6
36. Nevada Palace Hotel	Gold Mine	3
37. The Paddlewheel	Captain's Country Kitchen	2
	Down by the Levee Pizza	5
	Playhouse	6
38. Palace Station Casino	Fishermen's Broiler	2s
	Haagen Daaz	6
	Iron Horse Coffee Shop	3
	Pasta Palace	2i
	Pizza Cart	5
	Whistle Stop Deli	3
39. Rainbow Vegas Hotel	Coffee Shop	3
40. Riviera Hotel	Gourmet Buffet	4
	Burger King	6
	Del Monaco's	1
	Jacopo's	5
	Kady's	3
	Rickshaw	2c
41. Royal Las Vegas Hotel	Ristoranti Royal	2i
	Royal Coffee Shop	3
42. Sahara Hotel	Cafe Sahara	3
	Congo Room	7
	Don the Beachcomber	2p
	Garden Room Buffet	4
	House of Lords	1
	Pool Side Snack Bar	6
	Sports Book Snack Bar	6
43. Sam's Town Hotel	Diamond Lil's	1
	Willy & Jose's	2m

Appendix A (continued)
Las Vegas Casino/Hotel Food Facilities

Casino or Hotel Name	Restaurant Name	Key
	Smokey Joe's	2
	Snack Bar East	6
	Snack Bar West	6
	Virginia City Buffet	4
44. Sands Hotel	Garden Room	4
	Mediterranean Room	3
	Regency Room	1
	Snack Bar	6
45. Showboat Hotel	Buffet	4
	Coffee Shop	3
	Snack Bar	6
46. Silver Nugget Casino	Silver Nugget Steakhouse	2
	Silver Nugget Coffee Shop	3
47. Silver Slipper	Dining Room & Buffet	3&4
48. Stardust Hotel	Moby Dick	1
	Palm Room	3
	Pizzeria	5
	Stardust Buffet	4
	Tony Roma's	1
49. Sundance Hotel	Buffet	4
	Cassidy's Steakhouse	1
	Chicago Joe's	2i
	Coffee Shop	3
50. Travel Lodge Hotel	Int'l House of Pancakes	2
51. Tropicana Hotel	Antonio's Pizza	5
	Coconut Grove Snack Bar	6
	El Gaucho Steakhouse	1
	Ice Cream Castle	6
	Island Buffet	4
	Java Java	3
	Mizuno Hibachi	2j
	Pool Snack Bar	6
	Rhapsody Room	1
	The Tropics	3
52. Union Plaza Hotel	Center Stage	1
	Champagne Brunch Showroom	4
	Kung Fu Plaza	2t
	The Diner	3
53. Vegas World Hotel	Cooperhead	3
	Kelly and Cohen's	1
54. Westward Ho Motel	Ca-Fe & Buffet	3

Keys:	1. Gourmet Restaurant/Steakhouse	m. Mexican
	2. Ethnic/Thème Restaurant	p. Polynesian
	a. Salad	s. Seafood
	c. Chinese	t. Chinese & Thai
	e. Spanish	3. Coffee Shop/Deli
	g. German	4. Buffet
	h. Hawaiian	5. Pizza
	i. Italian	6. Fast Food/Snack Bar
	j. Japanese	7. Specialty/Sho Room