

**A High Roller in the Game of System Integration: The Mirage & MGM Merger**  
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**The Mirage/MGM Merger**

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## **Could it be a *Mirage*, or does Glenn Bonner's *Grand* effort at merging information systems for two of the world's largest hospitality empires make IT look easy?**



In the wake of the gaming world's biggest deal, I traveled to Las Vegas to learn more about the trials and tribulations with which any CIO faced with a merger or acquisition must contend. Admittedly, I anticipated hearing about hard lessons learned with a little bit of luck. After all, Las Vegas is the consummate proving ground for hotel and customer service technology while only six months had passed since the nuptials between Mirage Resorts and former competitor MGM Grand were finalized. One would expect to find the man responsible for integrating 100+ applications and 20+ operating systems haggard and hurried, with a heap of Tums® in his desk drawer. Not this CIO. Seldom does Las Vegas fail to surprise and amuse me, but at the conclusion of our interview, I found myself astonished. From an employee and customer perspective the two formerly competitive companies are nearly 100 percent integrated, leaving Glenn ample time to contemplate and plan for the future of hospitality and gaming technology.

Over the past three years we have witnessed the largest hotel and gaming merger transactions in history. Fulfilling prophecies of consolidation and globalization, the hospitality industry has sought economies of scale and efficiencies through mergers and acquisitions that continue to reinvent and redefine its major players. As super-groups emerged, others followed suit in order to remain competitive. While many analysts in North America believe the activity of this era is tapering off, the lessons learned in the information age will continue to be applied and refined on a global scale.

With a softening of the economy, hotels that have a hard time serving their bottom line will increasingly focus on costs. No doubt technology will play an important role in cutting costs, but the industry will continue to seek synergy through mergers, acquisitions and outside alliances. However, simply increasing the number of assets is not the most effective growth strategy. Integrating businesses, deploying enabling technologies and capturing customer data across the enterprise must be immediate priorities of the newly (or soon-to-be) formed company.

In many mergers, the shareholders, lenders, analysts and even the consumers are wooed by claims of cost savings attributed to economies of scale; however, financial returns seldom meet expectations. One reason is that the due diligence process does not typically include a sound technology review to determine the costs required for integration. The many millions of dollars needed to integrate mature systems are difficult to factor into the transaction. Likewise, the benefits of integration may not be realized without substantial expense and failure to integrate could end up costing the company more than it bargained for. For some smaller companies, the cost of sound integration could well exceed the benefits. This was certainly not the case for MGM Mirage.

The \$6.4 billion-dollar takeover of Mirage was friendly, as opposed to hostile. Pundits may have predicted it based on the company's stock performance, but it was certainly a surprise to Mirage Resort's IT department. Fortunately, it was their own internal reorganization in the years prior to

the merger that gave them the will and the skill to wow their new owners and win their place in the new company. For every tale of successful organizational and system integration in the hospitality industry, there are scores of distress stories. Although I wished that Glenn had more of the latter for us to learn from, there is a lot to be garnered from his positive results.

After assuming the responsibilities of CIO for Mirage Resorts in January 1997, Bonner began preparing for the opening of two new properties in late 1998/early 1999. Prior to the selection of the hotel and gaming systems at Bellagio and Beau Rivage, it was necessary to make sure current systems were appropriate and find new ones, if needed. In doing so, it was crucial to critique the current standard and challenge the status quo of operational efficiency. After reviewing a myriad of potential systems and encouraging extensive end-user input, Mirage properties standardized primary hotel and casino systems while simultaneously addressing their Y2K concerns.

The next priority called for a composite view of all operations to be obtained, so that the quality of support could be measured and improved. Network, desktop and application support had been encapsulated at each property, where a handful of people specialized in various systems, while troubleshooting a plethora of others. Glenn saw immediate opportunity for centralization and was pursuing the integration of IT services long before the MGM acquisition of Mirage Resorts was a twinkle in the chairman's eye.

True to his industrial engineering roots, Bonner introduced principles of total quality management (TQM). All support operations were moved under one roof and users were given a single point of contact for any desktop, hardware or application issue. Entering problems in a central tracking system allowed the staff to better monitor performance levels of the various systems, drive permanent resolutions for reoccurring problems and better manage their vendor relationships. Knowledge sharing is another obvious benefit to this structure whereby the new employee learning curve is accelerated. Employee ownership of problems reported to them contributes to the customer service environment of the support center.

Once the staff had consolidated support for the Mirage, Treasure Island and the Golden Nugget, bringing the fourth and fifth properties online was a breeze. They won rave reviews from hoteliers, even awards from the technology world. Although 85 applications were being supported, the properties were (for the most part) using the same primary systems, and almost all of them had been purchased from third-party vendors. On the other hand, the hotel and gaming systems at the MGM properties were predominantly custom developed applications, and although they had a high level of functionality, they are more expensive to maintain.

In the spring of 2000, the acquisition of Mirage Resorts by MGM was announced. Bonner was committed to preserving the efficiency and value he had built. The group was confident they could demonstrate and quantify savings attributed to the central support mechanism. Bonner extended himself to the new organization and sought to educate the decision makers about the benefits of his team's track record. An executive connection was imperative to his success, so he made his strategy clear to the former Mirage executives who had joined the management of the new company.

Typically the buying company is in a position to dictate most strategic decisions, which include technology. A well-executed acquisition will make policy and personnel decisions based on a "best practices" approach. When this is the case and there are two existing IT departments; each may have to present alternatives for integration, demonstrate their strengths, highlight opportunities and support their proposal with projected costs and savings. Once a decision has been made, both groups need to support the vision for the technology direction of the new organization.

The timing of the MGM Grand renovation, the casino opening in Detroit, and the full acquisition of Primadonna Resorts had kept the MGM staff extremely busy in the months leading up to the Mirage

transaction. These events, coupled with the decision to stop developing custom software in-house, put the MGM systems administrators at a slight disadvantage for the integration project. Recognizing that this was a well-respected organization with many talented IT professionals committed to the industry, Bonner sought to keep the team intact. They were critical to successful integration.

One might presume that a powerhouse such as MGM Mirage would be unconstrained in funding an integration project, but keep in mind that the objective of the merger was to build shareholder value in the new company's stock. The organizational aim was to reduce overall expenses by \$150 million. Those savings were likely to be wrung from the back-of-house and the IS department was no exception. It is estimated that the integration of support services saved the new company nearly \$8 million in direct costs. Manpower for the newly consolidated department was decreased by 15 percent, while the combined IT departmental expense was reduced by 24 percent.

The integration tasks were classified as immediate, short-term or long-term priorities. Indicative of an employee focus, the immediate term priorities concentrated on employee communication systems for the 48,000 personnel of the new company. Within hours of the final merger agreement, all employees were accessible via company e-mail and internal distribution lists. For all departmental projects, Bonner insists on dedicated project managers and heavy non-IT involvement. He recognizes the importance of end-user buy-in at the earliest stages and prefers not to leave critical issues such as user interface and system design purely to the IT gurus.

Inherent to any integration project is user cooperation. Both organizations had a satisfied user base, meaning that migration of either user group to new systems would have added complexities and training costs to the integration effort. A widely held belief is that core systems and processes must be uniform in order for data to be integrated and useful. Yet Bonner professes, "By allowing users to determine preferred functionality, you reduce the risk of failure as a result of resistance to change." The users of MGM's proprietary systems have not been migrated to the software employed by the Mirage properties, but an institutional view of each customer's worth has been obtained across all properties. This was accomplished by merging the data of each property's four primary systems (PMS, POS, casino credit and slot management) into one data warehouse using Microsoft Message Queuing Services (MSMQ) technology.

The transition was virtually transparent to line-level employees. As a result, productivity remained high and revenue streams were not adversely impacted. Employees were satisfied, operations were streamlined and costs were decreased substantially. Given the 4Q earnings report from MGM Mirage released in February, shareholders should be ecstatic. By all accounts, the integration of information systems at MGM Mirage was a success.

If there is one clear message to take from the conversation with Glenn Bonner, it is that once a merger is announced, the technology and procedures already in place will be evaluated and scrutinized for their contributions going forward. Even if one's organization never faces a merger or large-scale integration project, demonstrating the ability to proactively manage change, leverage technology and provide a high level of service to customers (as well as users) will determine one's fitness to meet such challenges. It will help to ensure a high degree of success in the field of hospitality information management.

## On the Future of Hospitality Technology

When asked about the future of hospitality technology, Glenn has many groovy ideas. Here are a few of his thoughts (embellished with my own, of course).

**Wireless.** Although exponential growth is expected for Internet reservations, room night

contributions from the Internet have yet to reach target levels for most operations and the cost of development for integrated wireless solutions may still exceed the benefit. Until the Internet reservation mechanisms are firmly in place and widely embraced, then how can we expect wireless applications to make a big difference in the cost of a reservation? However, Glenn points out that there is no better place to sell distressed inventory than the airwaves. Alerting regular customers or bargain shoppers, via pager devices or cell phones that room inventory is available immediately at a huge discount, is a great way to fill rooms and restaurant tables.

**Enterprise Resource Planning (ERP).** Why do you think a guy as smart as Glenn Bonner has 100+ applications running on 20+ operating systems? No software developer is perfect and no provider can be all things to all operations. Nowhere is this more evident than the hospitality industry. There are brilliant tools for guest service and property information management, but inherent to those systems are the complexities of integration. Springer Miller Systems develops the PMS applications in use by all of the Mirage properties. They have done a great job at building the functionality of the guest service delivery systems, providing a high level of customization and integrating with other vendor systems. The need is increasing for enterprise management systems offering everything from line-level applications, Internet development and administrative tools to networking and data warehousing if complex operations are going to be truly seamless in the future. Glenn predicts that some of the commercial ERP providers will move into the hospitality market as their current markets mature. They will most likely acquire and integrate the best property management components, as PMS will remain the central nervous system of any operation.

**Internet applications and guestroom access.** One would assume that a Las Vegas hotel isn't going to put anything in the guestroom that takes you out of the casino. If it saves labor and gives the guest a better overall experience, then it makes sense to explore the opportunity. In-room access devices and PCs will facilitate communications between guest and property in almost any market. Online reservations will continue to increase, the trick to making them cost effective is removing the intermediaries, not just paying one more Web site to advertise your property. Convenience services tailored to your most valuable customers, as well as sticky content targeting the potential customer will drive consumers to the hotel Web site. For an example of sticky content, visit [www.wagerworks.com](http://www.wagerworks.com), the brainchild of MGM Mirage and Silicon Gaming.

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