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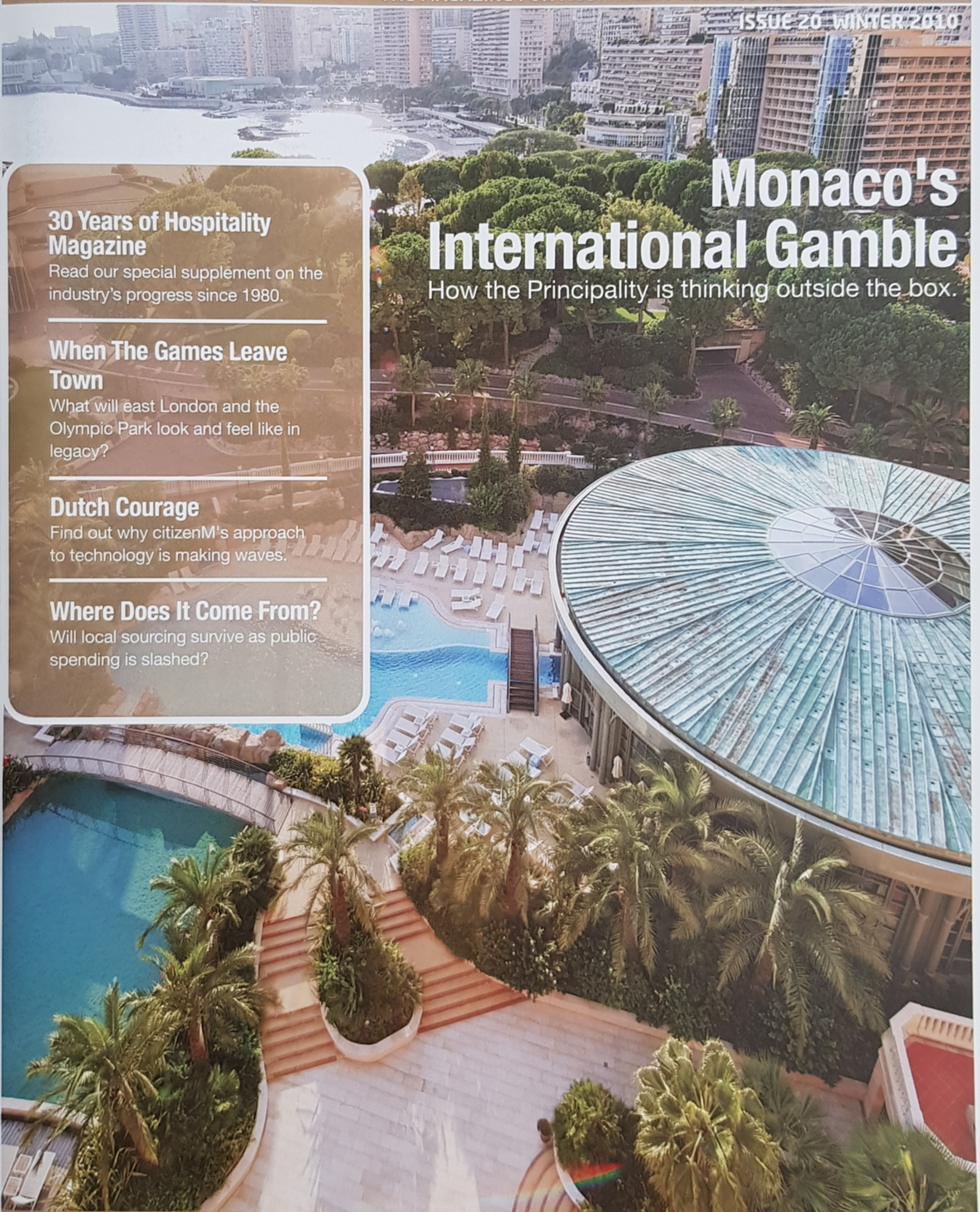

Monaco's International Gamble

How the Principality is thinking outside the box.

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Monaco's International Gamble

Few resorts have as much mystique as Monaco. Home to Europe's first casino in 1863 it gained fairytale status when American starlet Grace Kelly became princess of the principality. But Monaco's heritage alone hasn't been enough to maintain its sparkle. It has had to think literally outside the box to keep up with the times, writes **Christian Sylt**.

After only a few moments of being in Monaco the Mediterranean state's biggest strength becomes apparent but so too does its biggest weakness. At under two square kilometres it is small enough to fit inside Hyde Park, London, which makes it one of the world's most exclusive tourist destinations. However its size has also led to the state becoming overcrowded, particularly since its status as a tax haven has attracted over 30,000 residents along with countless banks and businesses. To combat its lack of space Monaco has come up with a strategy which is audacious even by its own standards.

In a bid to draw in more visitors, Monaco's leisure operator, Société des Bains de Mer (SBM) has begun to take over and brand hotels outside the confines of the principality. SBM has €800m to draw on after years of sparkling results but with the economy still in recovery mode could it be cashing in its chips too early?

Monaco's new direction is epitomised by the Monte Carlo Bay hotel. The soaring structure swung open its doors in 2005 and was the first new hotel SBM had opened in 75 years. It looks like it would be more at home in Las Vegas than on the Riviera. Belle époque balustrades have been replaced by a more minimalist Art Deco style dripping with glitzy touches. It has Europe's first sand-bottomed swimming lagoon and a fountain choreographed to classical music. Crucially, its casino is the only one inside an SBM hotel to have no table games. In a destination made famous by James Bond and baccarat, the Bay has made a big splash and helped SBM shake off its greying image.

Founded 147 years ago, SBM has a monopoly concession to run Monaco's casinos until 2027. It owns five of them as well as 32 restaurants, an 18-hole golf course, opera house, tennis club and several of the Riviera's hippest nightclubs. Its four hotels include the world-renowned Hôtel de Paris and the Hermitage but the Bay is the most innovative. With no construction space left in the state, SBM had to reclaim 10-acres of land to build the 334-room €200m resort. The strategy was spearheaded by Bernard Lambert, SBM's chief executive.

Classically-trained at Nice's hotel school, Lambert cut his teeth working for the luxury Meurice chain before spending nearly 30 years at Méridien rising to become CEO of the global hotel company. He took over the top job at SBM in 2002 and immediately got to work on the Bay project.

With an average rate of just over half the €500 charged by the Hôtel de Paris, the Bay has made Monaco more accessible and Lambert says that it has "a younger and more of a family crowd." However this was only part one of a plan to bring Monaco into the 21st century.

Destinations don't come much more opulent than Monaco. Shopping centres are adorned with chandeliers, and spotlessly-clean streets are lined with palm trees

> The Monte Carlo Bay Hotel looks like it would be more at home in Las Vegas than on the Riviera.

wrapped in fairy lights. But this alone isn't enough to outdo European resorts gifted with gaming deregulation and others farther afield which are being opened up by low-cost travel. "Dubai is a competitor," says Lambert adding "on the French Riviera Cannes has the promenade and we don't have that. Also, Barcelona, Prague, Budapest." He is taking the fight right to their doorsteps.

"We want to become a global luxury leisure brand," says Lambert and in December 2008 he announced SBM's first ever international expansion. In late 2012 the first SBM-managed hotel outside Monaco will open – a 93 suite five star resort and spa in Marrakesh. It will be called 'Jawhar (the jewel), by Monte-Carlo SBM' but there is much more to it than just branding.

In addition to the branding in the name and the obligatory in-room SBM directory, there will also be more innovative marketing such as having signature dishes from its chefs in Monaco on the restaurant menu. "Marrakesh is close enough to us and is a destination for short breaks from all over Europe so it's a good window for us for promotion," explains Lambert.

Indeed, although it is two years away from completion, Lambert has already been so impressed with the feedback about the project that in October 2010 SBM signed not just one but two more management contracts.

These hotels will be located on Abu Dhabi's Saadiyat Island where a museum run by the French Louvre is being built alongside a €290m Guggenheim Museum dedicated to modern and contemporary art. "We have just finalised two management contracts for Abu Dhabi on the museums Island," says Lambert explaining that they will be "a Monte-Carlo Beach Club, such as the one here, and a 200 bedroom hotel next to the museums."

Building a replica of the Beach Hotel is perhaps the most direct way of advertising Monaco. Built in 1928, the Beach Hotel is located on a secluded bay on the outskirts of the principality and looks like it has come straight from the pages of an Agatha Christie thriller with terracotta-coloured walls and awnings over each of the room windows. The hotel is steeped in history as it has been home to celebrities

such as Eva Peron who stayed there in 1947 during her Rainbow Tour of Europe to promote Argentinian interests. A replica will be a bold statement of SBM's intent to become a global brand but Lambert isn't stopping there. He has a long shopping list for further expansion. "We are looking in Paris, London, Milan, Geneva, Berlin, Budapest and New York and Los Angeles," he says adding that although the majority of the deals he is planning are management contracts, SBM may acquire a hotel outright.

He says SBM has "a keen interest in establishing a hotel and/or a hotel and casino in London as we believe this city will always remain the centre for business and finance for Europe and to a certain extent the world." SBM was reported to be bidding for the historic site of the former In and Out members' club in Piccadilly but Lambert says it has "no specific bid" on it.

He adds that SBM is "still looking but have no specific plans at this stage. Certainly some hotels may be for sale, but those with four stars and a not ideal location are of no interest to us ... Nevertheless transactions are scarce these days so it may take a while." His aim is to have a collection of 15 hotels over the next ten years, which is a daring goal given the weak health of the economy.

Lambert is confident that international development and investment is a strategy for coping with the downturn. He believes that SBM's risk is mitigated since it will own very few hotels. "To tell you the truth," he adds "today the situation with the worldwide economy will offer opportunities we had never thought of ... deals are going to become cheaper than a year ago" And Lambert doesn't have to worry about securing funding.

The Monegasque State holds 69.5% of SBM's share capital with the majority of the remainder traded on Paris's Euronext exchange at a market capitalisation of €571.5m. Lambert expects to spend more than that, up to €800m, on the expansion and he explains "we have cash and we have a €160m line of credit that we haven't touched in the last five years because business has been extremely good."

The reward could be well worth the risk since the ultimate objective is to drive more guests to Monaco through what Lambert refers to as 'windows' around the world. He forecasts that once it is open, Jawhar in Marrakesh will bring SBM an additional 10% of revenue over the following four years. It couldn't come soon enough.

After three years of record growth, the sparkle came off SBM's results in 2009. The company's revenue fell 12.6% to €400m and in the year to 31 March 2010 it tumbled even further to €374.1m with operating profit plummeting 38.8% to €11.6m. The main driving force behind this was a fall in occupancy which led to hotel revenue in 2010 falling 11.5% to €154.8m whereas gambling takings only dropped 4.9% to €200.4m.

"Guests do not book as far in advance, but will ring a couple of weeks ahead, rather than a year before," says Lambert adding "they used to stay for three weeks. Now, they are here for a long weekend." Given the weak market conditions it is a feat that SBM managed to make an operating profit in its latest financial year but Lambert sounds a note of caution for the future saying that "business is more challenging this year especially in the casino area."

He faces a Catch 22 situation in that the glitz and glamour which has made Monaco famous is not something many companies want to be associated with in a downturn, even if it is priced competitively. It is "a question of face," says Lambert and this is further fuel for his expansion outside the confines of Monaco.

> "Further land reclamation was planned on a giant scale, but the downturn put a stop to it."

SBM is well diversified in terms of guests' geographical origin since "no nationality accounts for more than 15%, which contributes to mitigate the risks," says Lambert. He adds that green shoots "will be coming from a diversified individual clientèle especially from Russia and the CIS countries as well as the Middle East." In summer 2011 he will also benefit from the eyes of the world being on Monaco when its ruler Prince Albert gets married.

SBM faces a different challenge when it comes to growing gaming revenues after the principality introduced a smoking ban in November 2008. In response, Lambert pioneered outdoor gambling and he says that "we expect to see in 2011 a certain recovery in view of the fact that we will add more outdoor terraces for slot machines and table gamings."

But for all of Monaco's image of excess and spending its way through the recession, it knows its limits. The principality had planned further land reclamation on a giant scale which would solve its space problem for once and for all. The project was set to add 275,000 square metres of land and was projected to cost around €10bn but the downturn put a stop to this.

"In the current climate, it would be irresponsible to launch a project of this scale," said Prince Albert in December 2008 when the plan was shelved. It may have sounded ominous but Lambert says that Monaco will always glow no matter how dark the economic climate: "Things will improve. There are always those who make money and want to come here."