

HOTEL WATERPARK RESORTS

Something New Under the Sun

By Bill Haralson & Jeff Coy

When we think there is nothing new under the sun, we find that there is. This time around, it is the waterpark resort, brought to us care of the resort owners of the Wisconsin Dells. The interesting thing about the waterpark resort is the way in which it was conceived. The concept was not born out of a desire to invent a new product. Its creators were not manufacturers or vendors of a product. On the contrary, they were the owners of the Wisconsin Dells lodging industry.

The Wisconsin Dells area is a slice of Americana, where Dad and Mom and the kids go during the summer to escape the heat and smog of the city. And everybody loves the Dells. The problem is that the summer season is short, about 100 days. And sometimes it is cold and rainy in the Dells --- conditions that are detrimental to the tourist industry and the bottom line.

Looking for Ways to Boost Hotel Occupancy

In 1994, Stan Anderson and his partners were looking for ways to boost room occupancy at the Polynesian Resort. While attending a trade show, Stan saw some waterpark features that he thought he could use to provide more entertainment for his guests. Moreover, he made the wise decision to locate these water features indoors. Thus, was launched a new industry: the waterpark resort.

The Dells is a small community and everyone in town knows everyone else. With one notable exception, the lodging properties in the Dells are mom and pop operations. Business decisions are made on-site, not in some boardroom in Chicago. Consequently, when the owners of the Wilderness Resort saw what was happening at the Polynesian Resort, they built a 9,000 square foot indoor waterpark of their own, followed by the development of a second indoor park of 60,000 square feet.

When other hotel and resort owners witnessed the action taken by the Polynesian and Wilderness, they began to develop waterpark resorts. Jack and Turk Waterman built an 18,000 square foot indoor waterpark as part of what is now known as Great Wolf Lodge. Soon after its opening, this property was expanded to 308 rooms and the waterpark was expanded to 44,000 square feet.

Not to be outdone, Treasure Island Resort, which already had an outdoor waterpark, developed Bay of Dreams, a 65,000 square foot indoor waterpark. Others followed suit.

The newest waterpark resort in the Dells is Kalahari Resort, which has 272 rooms, a 67,500 indoor waterpark and 29,000 square feet of meeting space. At present, there are some 16

properties in the Dells area with indoor waterparks. These 16 properties account for some 3,027 (2,820)rooms, 453 thousand square feet of water surface area, 32 pools, 75 waterslides and 27 spas.

Upon hearing the above statistics cited, one person asked: "How many more of these facilities can the Dells support? Our reply was: You're asking the wrong question. You should be asking how a lodging property in the Dells can survive if they don't follow suit. As Jack Waterman said: "We've raised the bar, and it's not coming down again"

Hotel Indoor Waterparks Attract More Visitors

The evolution of the waterpark resort industry in the Dells is indeed an extraordinary occurrence. Between 1993 and 2000, the number of visitors staying at least one night increased from 1.6 million to 2.5 million --- a growth rate of 56 percent, according to the Wisconsin Dells Convention and Visitors Bureau. The spectacular growth, however, has occurred during September-April period when the number of persons staying overnight in the Dells increased 273 percent. Clearly, the development of the waterpark resort industry in the Dells area has been responsible for the resurgence of the area's tourist market.

So how does the waterpark resort work? To answer that question, one must bear in mind that the waterpark resort is a component of the lodging business – not the waterpark business. Stan Anderson was not looking for a new business in 1994: he was looking for a way to fill empty hotel rooms.

Quite simply, the indoor waterpark adds entertainment value to a resort that is available every day of the year – not just when the weather cooperates. Almost everyone we interviewed described a similar pattern of usage of their waterpark resorts: (1) high patronage during the summer from mid-June through Labor Day, and (2) strong attendance on weekends from September through May. Some waterpark resorts also reported strong attendance on Monday and Thursday. Consequently, many hotels with indoor waterparks in the Dells reported annual occupancy rates of 70 percent, which is considerably higher than the occupancy rates of hotel WITHOUT indoor waterparks.

In addition to their impact on occupancy rates, indoor waterparks generate higher revenue per occupied room. The primary impact on revenue is the waterpark "premium" that is added the hotel room rate. Most properties do not charge a daily admission for the use of their waterparks. Rather, they package the waterpark admission charges into the room rate. A typical practice would be to issue a set number of bracelets with each room rental. Guests wearing the bracelets are given free reign of the property, including the waterpark. Persons not staying at the hotel are not allowed to use the waterpark, with two exceptions: Treasure Island and Kalahari.

"Treasure Island allows up to 300 persons per day from the outside, although that number may be less on busy days," according to Tim Finger, marketing director. Admission rates for persons 3 years of age and older are \$14.95 for week days, \$19.95 on weekends and

\$23.95 on holidays. Tim stated that he did not believe that admitting outsiders into Bay of Dreams has caused any problems with his guests.

Todd Nelson, owner of Kalahari Resort, says he will admit up to 250 persons from the outside for a flat \$30.00 per day. He did not think that mixing in a limited number of outsiders had caused him any problems.

Hotels with indoor waterparks also influence the level of spending in other areas. Lodging facilities typically provide shelter. Guests go elsewhere to find entertainment. By contrast, waterpark resorts provide shelter and on-site entertainment. When hotel or resort guest stay on-site for longer periods of time, they tend to spend money in other areas, such as restaurants, bar/grille, arcade game room and gift shop.

So, what is the appeal of the waterpark resort? The waterpark resort represents a variation on the concept of one-stop shopping. You go there, you stay there. Once you have unpacked your suitcase, you are free to enjoy all the recreation and entertainment. The key to success is to have everything under one roof. Parents can take comfort from knowing that, when their kids leave the room, they will be safe and secure. They do not have to leave the building to use the waterpark.

Can the Success of Wisconsin Dells Be Transferred to Other Markets?

Hotel owners and developers frequently ask "Is there something unique about Wisconsin Dells that makes the waterpark resort successful? Can the waterpark resort be transferred to other markets?" Waterpark resorts at the Dells, in our opinion, have succeeded in spite of their location. For as long as 100 days per year, the Dells area is a major tourist destination spot, drawing families from Chicago, Milwaukee and Minneapolis-St. Paul. The rest of the year, the Dells area is virtually a dead zone --- at least that was the case before the development of its 16 waterpark resorts. The fact that families are willing to travel to the Dells during the cold of winter speaks volumes about the drawing power of the waterpark resort concept.

So, is the waterpark resort transferable to other locations? The answer is a resounding yes. Over the past two months, we have conducted an extensive survey of waterpark resorts and have found the following. If you were to drop a pebble into a puddle, you would notice that, after the initial splash, you would see a ring radiate out from the point of impact. That is what has happened with the waterpark resort industry. In addition to the 16 waterpark resorts in the Dells, we have surveyed five more properties in Wisconsin, eight in Minnesota, two in North Dakota and one in Ohio. And several new properties are either under construction or in development planning.

One company that is taking the waterpark resort concept seriously is Great Lakes Companies, Inc of Madison, Wisconsin. Great Lakes' first venture into the waterpark resort industry was the purchase of Great Wolf Lodge from the Watermans. As part of that deal, they also acquired Great Bear Lodge in Sandusky, Ohio, which opened in 2000. Great Lakes Companies has projects pending in Traverse City, Michigan, Niagara Falls, Kansas

City, Kansas and the Pocono Mountains, according to spokesman Eric Lund. He stated that his company is committed to “creating memories worth repeating”. To that end, Great Lakes is introducing new features designed to please their guests. One innovation at their Great Wolf Lodge is their Aveda Spa and Hair Salon, which has six treatment rooms where patrons can choose from more than a dozen massage selections, facial therapy, body raps, manicures and pedicures. Also at Great Wolf, Great Lakes has introduced their animated clock tower, which come alive twice a day with the sounds of the forest and a cast of forest dwellers. Aveda Spa and the clock tower are just a couple of the ideas that Great Lakes have for making memories at their resorts.

Another firm that has made a commitment to the waterpark resort industry is Marcus Hotels and Resorts. Marcus has two waterpark resorts in Wisconsin: Hilton Milwaukee City Center and Timber Ridge Lodge near Lake Geneva. These properties are quite different from one another. Hilton Milwaukee Center City is located in downtown Milwaukee, while Timber Ridge Lodge is a 225-room facility located on the outskirts of Lake Geneva. However, the attendance patterns at the two resorts are quite similar, according to Bill Otto, president & COO of Marcus, reflecting the patterns we discovered for the Dells resorts.

A third company that is deeply involved in the waterpark resort concept is Central Group Companies of St. Cloud, Minnesota. This company has a number of lodging properties but has only recently opened its first waterpark resort in Owatonna, Minnesota. This property combines three major components: (1) Holiday Inn & Suites; (2) Green Mill Restaurant and (3) Serengeti Indoor Waterpark. We visited this property on a Thursday afternoon in January and witnessed a steady stream of families checking in for a long weekend. Several were carrying coolers and food items. The rooms manager advised us that this was a common sight on Thursday and Friday afternoon.

Bob Pace, president and CEO of Central Group Companies, indicated that his company was quite pleased with the performance of their Owatonna property. However, he stated that the hotel waterpark resort does present certain challenges that are unique in the lodging industry. For example, he cited the need to gear up to handle large numbers of people in short periods of time. “When those families come through that front door, those kids have only one thing on their mind – getting to the waterpark,” according to Pace. In this respect, waterpark resorts are, indeed, in the waterpark business. On the other hand, Bob pointed out that there are some unusual marketing opportunities associated with his Owatonna property. “I’ve never seen so many grand parents bringing their grand children to stay in one of our properties,” he said.

National Hospitality Services (NHS) presently has two properties that include indoor waterparks: (1) Ramada Plaza Suites & Conference Center, Fargo, North Dakota and (2) Ramada Plaza Hotel, Green Bay, Wisconsin. The Fargo property has 168 rooms and a 5,000 square foot waterpark. It is scheduled to be expanded to 10,000 square feet, according to president of NHS, Mr. Robert Leslie. “This property draws family business from a 200-mile radius. I will never build another hotel without a waterpark or some form of entertainment.” he said.

The second property in Green Bay has 148-rooms and a 4,000 square foot swimming pool. In May 2002, the pool area will be expanded to 10,000 square feet and include two waterslides.

Our discussions with the owners of waterpark resorts have revealed unanimous agreement that indoor waterparks have a dramatic, positive impact on the occupancy and room rates of a hotel. However, several owners offered caveats for consideration.

Stan Anderson emphasized the operating costs associated with an indoor waterpark and suggested that one should consider just how big a “box” is needed to accommodate the guests of a property.

Todd Nelson made the point that there are a lot of pitfalls to be avoided in the development of an indoor waterpark. Anyone contemplating such a development would be well advised to seek the help of consultants and technical experts.

Bob Pace pointed out that engineering is a challenge, particularly with respect to HVAC. He cautioned against the temptation to develop guest rooms that open out to the waterpark, citing the problem of excess humidity.

Waterpark Hotels Achieved 26 Points Higher Occupancy in 2001

Hotels WITH indoor waterparks performed at 26.9 points of occupancy higher than hotels WITHOUT indoor waterparks at Wisconsin Dells in 2001, according to a joint report issued today by JLC Hospitality Consulting Inc of Rochester MN and William L. Haralson & Associates Inc of Richardson TX.

WISCONSIN DELLS HOTELS PERFORMANCE 2001						
<i>WISCONSIN DELLS HOTELS</i>	<i>#</i>	<i>Rooms Supply</i>	<i>Occupancy %</i>	<i>Average Room Rate</i>	<i>Rev PAR</i>	<i>Room Revenue</i>
ALL	62	5466	54.8%	\$92.14	\$50.49	\$100,737,521
WITHOUT indoor waterparks	44	2402	39.7%	\$44.82	\$17.79	\$15,600,130
WITH indoor waterparks	18	3064	66.6%	\$114.24	\$76.13	\$85,137,390

Source: JLC Hospitality Consulting Inc.

The report also states that hotels with indoor waterparks captured \$69 higher average room rates than hotels without indoor waterparks. Hospitality consultant Jeff Coy and leisure industries consultant Bill Haralson teamed up to build a database on a new segment within the hotel industry and a new segment within the waterpark industry, which until recently has consisted of outdoor waterparks and attractions.

During the 1990s, waterparks came indoors. Eighteen hotels in Wisconsin Dells now have indoor waterparks. The Dells market is a great market to study because indoor waterparks were born here. A large number of hotels both with and without indoor waterparks exist within the same market, which makes for great comparisons and projections to other markets in the Upper Midwest.

In 2001, Wisconsin Dells hotels achieved 54.8% occupancy at \$92.14 average room rate, down from 55.0% and \$95.52 in 2000. The slight drop of 0.2 points and 38 cents indicates that the Wisconsin Dells continues to perform well despite the soft national economy and terrorist attacks in 2001. Hotels with indoor waterparks ran high occupancies Thursday through Sunday all winter long with families driving over 200 miles from Chicago, Milwaukee and Minneapolis-St Paul.

And herein lies the problem. Hotels WITH indoor waterparks are doing well; hotel WITHOUT indoor waterparks are not doing well at the Dells.

That 54.8% annual occupancy in the Dells breaks down to 66.6% occupancy for hotels with indoor waterparks and only 39.7% occupancy for hotels without indoor waterparks.

In the old days before indoor waterparks, the Dells hotels would capture their annual revenues during a 100-day summer season and then close for the winter. Nowadays, the big waterpark resorts are booked solid in the summer, spring break and every weekend during the year.

Hotels with indoor waterparks captured an average room rate of \$114.24 at Wisconsin Dells in 2001. Hotels without indoor waterparks earned an average room rate of only \$44.82 in 2001. Big difference!

Wisconsin Dells is quickly becoming a land of haves and have-nots.

The *haves* are 18 hotels with indoor waterparks averaging 170 rooms. They tend to be newer, bigger and higher-priced. Waterpark resorts, such as Kalahari Resort, Great Wolf Lodge, Treasure Island, Wilderness and Polynesian all have more than 250 rooms each and tend to have the biggest waterparks, too. These hotels penetrate 122% of the lodging demand and generate 84.5% of the total room revenue in the market.

The *have-nots* are 44 hotels without indoor waterparks averaging 55 rooms. They tend to be older, smaller and lower-priced. These hotels penetrate only 72% of their fair share of the lodging demand and generate only 15.5% of the total room revenue at the Dells.

Question is, how much longer can hotels survive without indoor waterparks at the Dells? Some hotels are already for sale. Others will soon face the decision to renovate and expand or become obsolete. Meanwhile, the idea is spreading; there are more than fifty hotels with indoor waterparks in the Upper Midwest. Many are becoming both the occupancy leader and price leader in their markets. Hotels with indoor waterparks are extending their short peak seasons to year round, and they are running 95% to 100% every weekend. Many new hotel developers are considering the feasibility of adding indoor waterparks to their future projects.

JLC Hospitality Consulting Inc of Rochester MN and William L. Haralson & Associates Inc of Richardson TX are working together with architects Planning Associates of Madison WI, the

World Waterpark Association, hotel owners, suppliers and technical consultants to gather a hotel-waterpark database of construction costs, industry operating ratios as well as before and after impact of indoor waterparks on occupancy, average room rates and room revenues in the hotel industry.

Contact Jeff Coy at 507-289-7404 or email jeffcoy@aol.com or go to www.jeffcoy.com. Contact Bill Haralson at 972-231-7444 or email wharalson@aol.com.