

Casino Bets Not Paying Off

Marketing Investments by Casinos Proving Ineffective

Best Practices for Developing Best Customers

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Although there are many ways to measure the effectiveness of a marketing program, every marketer can determine his overall effectiveness by answering 3 questions:

- Are we winning increasingly larger shares of the market?
- Are customers coming back more frequently?
- Are customers spending more?

If the answer to any question is "no," then the marketer knows that some element of the marketing strategy is not working.

Introduction

Behavioral data is the most valuable information a marketer can have because it is information that competing casinos do not have and cannot purchase. The casino marketer who effectively uses this type of internal data has a strong competitive advantage over the marketer who has only external data at his disposal. For example, the host at a player's favorite casino knows what game he likes to play most and in which restaurant he usually dines, whereas the marketer at a competing casino does not have access to this personal data.

Customer Relationship Management (CRM) systems serve to provide marketers with the insight they need to understand customer behavior. CRM is not meant as repository of customer data, but rather as a tool for analyzing it in order to engage the customer and steer future behavior. Gauging the efficacy of a CRM strategy is straight forward: When the CRM investment is leveraged effectively, customers spend more money, more frequently.

The goal of marketing is to grow revenue. The model illustrated at right serves to help the marketer determine the impact of CRM on revenue. According to this model, there are three levels of CRM effectiveness. The cells shown in red indicate poor CRM execution. Yellow cells indicate questionable CRM performance and green cells indicate a successful CRM strategy.

CRM Failing. When data shows that players are making fewer trips to the casino per year and spending less per trip (Level 1), the CRM strategy is clearly failing. Likewise, when the data shows that players are either making fewer trips and spending the same amount each visit (Level 2), or making the same number of trips but spending less each visit (Level 4), the CRM strategy is in need of an overhaul.

CRM Questionable. When data shows that players are making fewer trips, but spending more (Level 3), the investment in CRM could be paying off if the increase in spending is greater than the decrease in frequency. Similarly, the CRM strategy could be fueling revenue growth when data shows that players are visiting the casino more frequently yet spending less per visit (Level 7) if the increase in frequency offsets the decrease in spending. When data shows that players are visiting the casino the same number of times each year and spending the same per visit (Level 5), the investment in CRM is breaking even.

CRM Successful. If the data shows that players are making the same number of visits per year and spending more per visit (Level 6) or visiting the casino more frequently and spending the same or more per visit (Levels 8 and 9), then the CRM strategy is fueling revenue growth.

Also referenced in this paper is the traditional Life Cycles model shown in Illustration 2.

Illustration 1:
CRM Effectiveness Levels

		Spending per Visit		
		Less	Same	More
Visits per Year	Fewer	1	2	3
	Same	4	5	6
	More	7	8	9

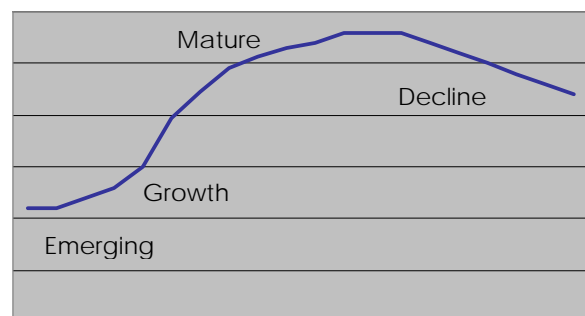


Illustration 2: Life Cycles

Industry Overview

The series of AGA surveys from 1999 to 2004 titled "State of the States" bring to light certain trends in the casino industry. One, the industry is maturing. Two, marketing efforts are largely ineffective.

The Industry is Maturing

From 1993 to 2003, the industry more than doubled in size from \$11.2 billion to \$27 billion in annual revenue. This translates into an average growth in revenue of \$1.6 billion per year, which signifies an stellar decade for the industry. Calculating the annual growth rate for these 10 periods shows that the industry grew at double-digit rates for the first part of the decade, experienced a brief period of accelerated growth coinciding with the transformation of Las Vegas from a gambling destination to an entertainment center, and has reported decelerating growth every year since 2000. In fact, the growth rates for the 3 most recent periods were 4.9% from 2000 to 2001, 3.1% for the period 2001 to 2002, and then 1.9% from 2002 to 2003. The AGA calls this "modest" growth, but Wall Street would call this "sluggish" at best. This slowing growth, shown clearly in Illustration 3, is symptomatic of a maturing industry.

Other numbers in the AGA surveys indicate that the industry is maturing. According to US Census data, the adult population has grown 12% or 1.2% per year since 1993. The AGA reports that the number of gamblers grew 17% during the same period or 1.6% per year. This indicates that for the decade, the casino marketer captured a larger share of the adult market. However, the data for the most recent years, most importantly 2001 to 2003, shows that the number of gamblers is receding. There are fewer gamblers today than there were 4 years ago. These results, shown in Illustration 4, actually match the decline stage shown in Illustration 2.

To draw a stark comparison, the digital photography industry is growing at accelerating rates every year and reporting revenue growth that outpaces the market. Companies in this market are not trying to win customers from their competitors but are focusing instead on earning business from new customers.

Conclusion: Casinos are competing against each other for fewer players.

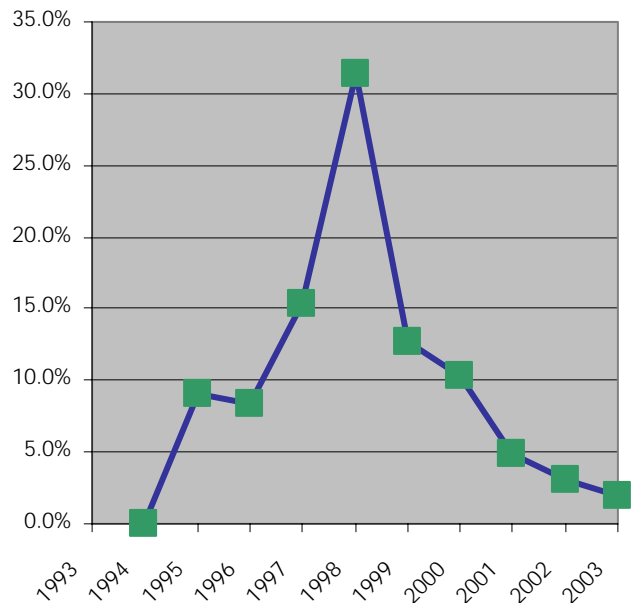


Illustration 3: Annual Growth Rates

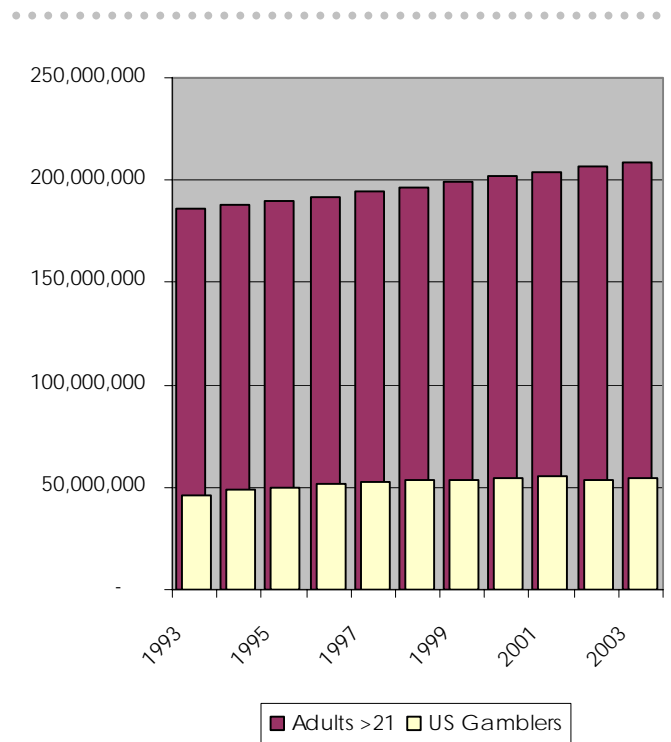


Illustration 4: Adults and Gamblers

Marketing is Ineffective

The AGA surveys show that from 1993 to 2003, the number of casino visits per year increased from 78.5 million to more than 310 million. This translates into an average annual growth rate of 17%, which is ten times that of the gambling population. Clearly, the increase in the number of visits per year is not a function of the gambling population. Instead, the growth in visits is related to the increase in frequency. Data for the same period shows that gamblers visited casinos 3.3 times per year in 1993 and 5.8 times per year in 2003. Again, since 2000, the number of visits has settled at 5.8 per year. This could indicate that the frequency limit has been reached. More importantly, the data shows that the amount gamblers spent per visit decreased from \$142 in 1993 to slightly more than \$87 in 2003. This corresponds to cell 4 in Illustration 1.

Conclusion: Gamblers are returning the same number of times per year and spending less each year.

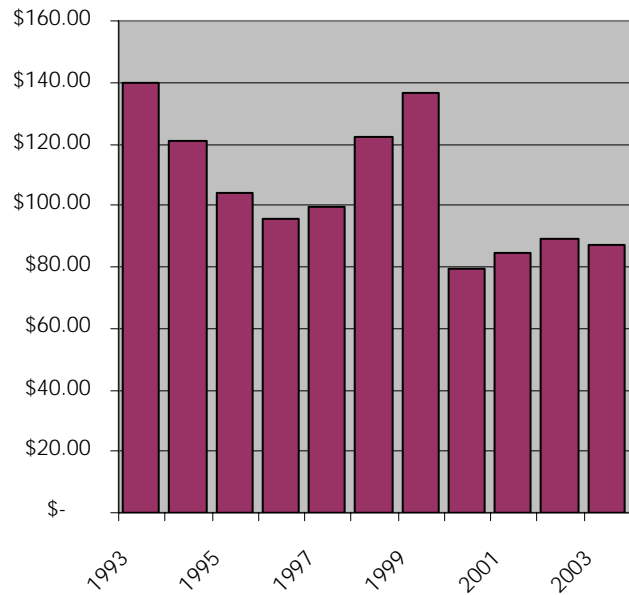


Illustration 5: Dollars Spent per Visit

Casino Overview

Even though the number of casinos has fluctuated over the past decade, the share of casinos owned by the top 10 companies (at the time this paper was written MGM was acquiring Mandalay Bay) has remained constant at 30%. The 133 casinos owned by these companies today account for \$22.8 billion or 80% of the industry's total annual revenue.

Individually, these top gaming companies have not performed better than the industry and it's not expected that they would considering the portion of the industry they represent. Despite the acquisitions and reports about successful marketing initiatives, only 5 companies are able to report any revenue growth in the past years and only 3 of those 5 companies report increases in revenue that outpace the market. Ameristar grew revenue by 30%, Stations grew revenue 9%, and Harrah's by 4.6%. Mandalay Bay and Argosy grew revenue by less than 2%. The remaining 5 casino companies actually lost ground.

On a side note, all but 1 of the 11 largest casino companies reported growth in profitability over the past 3 years. This means casinos are finding ways to become more profitable even though sales are flat and customers are spending less every year.

Illustration 6: Casino Performance

Company	Annual Revenue (\$ billions)		
	2003	2002	2001
Caesar's	4.46	4.65	4.63
Harrah's	4.32	4.13	4.27
MGM	4.32	4.46	4.42
Mandalay Bay	2.49	2.35	2.46
Isle of Capris	1.27	1.29	0.98
Boyd Gaming	1.25	1.36	1.22
Trump	1.16	1.23	1.49
Argosy	0.96	0.94	0.00
Ameristar	0.91	0.70	0.66
Stations	0.86	0.79	0.84
Aztar	0.81	0.83	0.85

Solution

In the previous sections we showed that

- The gambling population is shrinking.
- Gamblers are making the same number of casino visits per year.
- Gamblers are spending less per visit each year.

Clearly, the industry is challenged and marketing initiatives have not been effective. There are 3 things casino marketers need to do now:

- Target best customers
- Create relevant incentives
- Communicate more effectively

Target Best Customers.

Enhancing data quality and appending external data to internal data enables more targeted customer communication and enhances performance significantly.

Over the years, casinos have compiled vast amounts of behavioral data in order to predict an individual customer's value to the casino. Where casino marketing falls short is how customer data is leveraged to develop existing customers and acquire new profitable customers.

The casino industry has strived to grow by capturing a larger share of the adult population's entertainment budget. Since the late 1990's, the industry has endeavored to transform itself from a gambling industry into an entertainment industry and has launched expensive mass marketing campaigns to capture wallet share from the other entertainment segments such as movie theaters and amusement parks. We showed above that this strategy has fueled neither an increase in the number of unique visitors nor an increase in the dollars spent per visit. Granted, the number of visits per year has increased, but the numbers show that this is apparently from customers, so-called "strollers", taking advantage of the wonderful sites or free shows.

Instead of marketing an entertainment concept to the masses, casinos need to identify prospects that are similar to their best customers and market to them directly. In other words, the industry needs to develop more best customers and provide more valuable products and services to them. It needs to better qualify its target customer and not lower its standards in exchange for more traffic. After all, the increase in traffic, we showed, is not generating more revenue or more profit.

Building a best customer database is a straightforward process. The first step is to define the casino's best customers. This definition should not be based on frequency, play level, or predicted value, but on actual individual profitability. For example, a customer who returns frequently and has above average spending habits is not necessarily a profitable customer if his customer service requirements and comp expectations are high. Customers should be ranked by profitability in descending order and the top 30% should be extracted to create a list called "best customers." This list should include both gamblers and non-member guests. Obviously, there are very profitable customers who frequent casinos strictly to take advantage of the excellent entertainment prospects and/or who gamble but are not a member of the casino's player club. These top 30% represent the most profitable customers. These are the customers the casino wants to return more frequently and the customers the casino wants to duplicate.

Internal data is valuable, but it has limitations because casino behavior does not vary significantly. The 2004 AGA survey showed that more than half of all casino guests displayed similar behavior – in the casino. The system used by most casinos to predict a player's theoretical value yields few, homogenous tiers. In June 2004, we processed a large casino list against Acxiom's Personix database to determine how 13 theoretical values are distributed across household clusters. We found that all theoretical values were represented by at least 30 different household clusters, more than half were represented by as many as 70 different clusters, and that no cluster accounted for more than 20% of any theoretical value. The results of this test showed clearly that customers with similar activities in the casino live disparate lives outside the casino.

The Best Customers this should be appended with external information to build a more accurate profile of each customer. The household information managed by Acxiom, for example, includes interest data, entertainment preferences, purchase habits, as well as financial indicators. This is information that cannot be deemed from internal data. The resulting file is called the Best Customers Profile (BCP).

The BCP should be leveraged to create a database consisting of the following groups:

- Under-developed customers. Existing customers who look like the best customers. These can be new customers for whom the casino has little play history or customers who visit several casinos to find out which has the best service, the nicest dealers, the most generous comps, or the loosest machines before selecting a “dominant property.”
- Non-member guests. Not every one who gambles is a member of the player’s club. Only 70% of casino play can be tracked. This means that 30% of a casino’s revenues are generated by anonymous players. Some of these players are registered guests and some of those guests match the best customer profile. This group also includes the most profitable guests who do not gamble.
- Non-guest players. On average, gamblers spread their play activity across 3 casinos and spend 5 times more in the casino where they are a guest than in the other casinos they visit.
- Prospective best customers. Buy lists of individuals who match the BCP. List providers like Acxiom manage data at the household level and can deliver lists with a high level of accuracy.

Create Relevant Incentives.

Rewarding customers with token gifts and allowing customers to redeem points for merchandise are more cost effective than traditional casino comp programs.

Before creating an incentive schema, the casino marketer must first accept the fact that there isn’t just one ideal customer, but many ideal customers.

Marketing in this industry has been driven by “theoretical values” and this has led to homogenization: Players with identical theoretical values are often treated as if they also had identical demographic profiles and they often receive identical comp packages, rewards, and incentives.

If the casino’s offering is limited to a gift shop, a few restaurants, several shows and a spa, then tailoring an incentive package for each segment will be a challenge. How can a casino reward 70 different customers when it has only 10 offers? To address this matter, Carlson Marketing Group (CMG) offers a virtual mall of more than 1,000 offers from brand name retailers and service providers including Sharper Image, Samsonite, Royal Caribbean, and Blockbuster. Once the ideal customer is defined using Acxiom’s household segmentation, which also shows hobbies, shopping habits, and entertainment preferences, CMG can create a set of incentives for each cluster and even a special gender specific set within each cluster. The goal of the incentive set is two-fold. First, reward the customer immediately with a free gift or coupon from a CMG partner. Second, motivate the customer to earn points toward a valuable merchandise offer. Both the reward and the incentive are tailored to reflect not only the cluster but the customer’s gender.

“Sally! Thank you for visiting our casino. As a token of our appreciation, we want you to enjoy a free bouquet of flowers from at any FTD florist. Your recent play earned you 1,000 points. You can collect your points and redeem them for exciting services and merchandise like a personal massage wand from Panasonic or a luxurious spa weekend at the Auberge Resort in Sedona.”

“Dan, Thank you for visiting our casino. As a token of our appreciation, we want you to enjoy a free round of golf at the lake Shore Country Club. Your recent play earned you 1,500 points. You can collect your points and redeem them for exciting services and merchandise like a Tommy Hilfiger golf shirt or an all inclusive golf vacation on Maui.”

Studies by CMG show that customers spend more money, more frequently when they can earn points and redeem them for brand named merchandise and services. Furthermore, redeeming points for merchandise instead of for comps is more cost effective for the casino, especially when resort occupancy rates are

greater than 90%. Studies by CMG show that the cost of a merchandise-for-points program are typically 0.5% of total revenue.

Communicate More Effectively.

Customers are motivated to spend more money, more frequently when they receive timely recognition and relevant rewards.

Once the best customer database and incentive schema are established, a communication solution is necessary: Investments in excellent household level data and a rich catalog of incentives will not generate a return if these assets are not used in a timely manner to communicate with customers. The communication solution needs to be able to leverage the data and incentives in real-time, customize messages at the individual level, and deliver communications using the customer's preferred channel.

CEG offers a customer communication solution that fully leverages internal and external data and the incentive library. Furthermore, using web-enabled tools developed by CEG, the casino marketer can establish and manage a development plan for each customer group.

This technology is used to support, for example, a new customer acquisition and development program. To do this, the casino marketer creates a series of direct marketing pieces called "passive track communications" geared to inviting the prospective best customer to visit the casino. The marketer also lists the possible responses to these invitations, e.g. a reservation, application for player's club, website query, or offer redemption, and creates for each response a follow-up communication. These are called "active track communications." Although the format of these communications is pre-defined, the content is dynamic in that (a) images and messages are driven by data, and (b) the marketer can update images and messages any time - online. Furthermore, for every communication and for each Personix segment, the marketer can establish a unique set of incentives, including merchandise, entertainment, and comps.

When the communication program is launched, prospective customers periodically and reliably receive highly personalized invitations - until they respond. The fulfillment of passive track communications is triggered by a response. This differs from the traditional linear acquisition model of create-send-measure-modify. The passive track model requires the marketer to schedule acquisition activities in advance and allows the marketer to edit the content of those communications any time to reflect response data, changes in services or incentives, or changes in the casino. So, instead of measuring responses and modifying content at the communication level, responses are tracked and content is modified at a segment/individual level.

Whereas active track communications are triggered by a date, passive track communications are triggered by a specific customer activity. Every time a customer activity is recorded in the casino's database, a predefined highly personalized follow-up communication is automatically produced and sent to the customer. The passive track communication recognizes the customer activity and contains a token reward, as well as an offer for more valuable merchandise that can be earned through more frequent play. This, too, is a departure from the standard follow-up procedure. The industry today takes 45-60 days to respond to a customer activity. In fact, in a report published by the APQC, one of the largest casino companies boasts about responding to customers in just 60 days. The active track model requires the marketer to define a response and allows the marketer to edit follow-up content up to the time the behavior takes place.

Because the Personix data contains information pertaining to hobbies, music and shopping preferences, both passive track and active track communications can easily be tailored to appeal to the individual customer. The message and incentive are determined at the record level on the day the communication is triggered for production to guarantee that the most up-to-date content is delivered.

The results show that customers return sooner and spend more money, more frequently when they receive timely recognition and relevant rewards.