



Rethinking the Three-Tiered Rewards Program

by Andrew Klebanow

The tiered rewards program has emerged as a valuable tool to acknowledge loyalty among the casino's most valuable players and allows the casino operator to bestow certain privileges on them. Tiered rewards programs are based on the Pareto Principle, also known as the law of the vital few, which states that 80% of the effects come from 20% of the causes. Applied to business, it means that 80% of business volume comes from 20% of customers. In reality, an examination of most casino databases shows that upwards of 85% of business comes from 15% of customers and it is for this reason that tiered rewards programs are created: to provide higher levels of service and amenities for the casino's most important customers and to publicly acknowledge their loyalty.

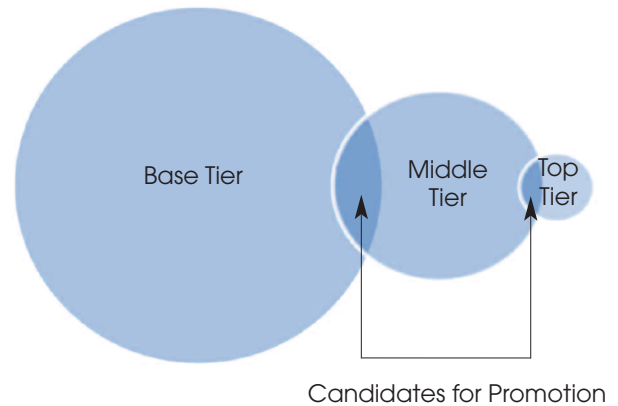
When embarking upon a tiered rewards program, most casino operators initially employ a three-tier model consisting of a base tier, a middle tier and a top tier. There is no qualification required for the base tier while the latter two premium tiers require substantial amounts of gaming activity in order to achieve premium tier status. The base tier normally contains the bottom 90% of the total database. The middle tier contains the 90%-98% segment and the top tier contains the top 2% of the database.

Each casino is left to craft the qualification periods and the wagering volume necessary to advance to the next tier and the suite of benefits associated with each tier. A middle tier customer may enjoy a separate queue at the buffet, cashier's cage or valet while a top tier customer may be given access to a private lounge and assigned to a personal host. The benefits tend to be aspirational in nature so that gamers whose play is approaching the next level aspire to reach it.

Players whose gaming activity approaches the middle or top tier are also encouraged by the casino to increase their play so that they may advance to the next level. They may receive a series of mail offers espousing the benefits of the next tier or even an invitation from a host. The goal is to get the customers to shift their play, which is often shared among a number of casinos in the market, and devote it exclusively to the subject casino. Within each tier are two small groups of players who are candidates for promotion to the next tier. This is illustrated in Figure 1.

As a tiered rewards program matures and the importance of the highest level players is realized, a casino may also add a fourth, ultra-premium tier, comprised of the top 0.5% of the database. These players are pampered with a variety of additional amenities that can include complimentary suites,

Figure 1



invitations to major sporting events and even exclusive vacations with hosts and other ultra-premium players. Qualification for the lower tiers remains the same.

While tiered rewards programs have become very effective tools for fostering loyalty among very high worth players, this basic strategy fails to address the bottom 90% of the database. The basic tiered rewards program essentially fails at developing mid-level players, who gamble at multiple properties, into true loyalists. For those players in the 50%-85% range, there simply is no way they can increase their gaming budgets or shift enough play from other casinos to qualify for any kind of premium tier status. In other words, it is beyond their budgets to advance to the first premium tier and as such, their gaming behavior does not alter. They will share their play with other casinos; readily redeem offers that they receive from other properties and share their gaming budgets among several casinos within the market.

The same can be said for those players in the first premium tier. While they too recognize the benefits of the next tier and may aspire to reach it, they simply do not have the gaming budgets to ever reach that next level. As such, they are not motivated to change their habits and gamble at both their preferred casino as well as others in the area.

Now imagine a tiered reward program that is comprised of six tiers: a base tier and five premium tiers. Instead of having two groups of candidates that can be considered for promotion, this strategy offers five groups that the casino can target and develop into loyal players. Figure 2 clarifies this.

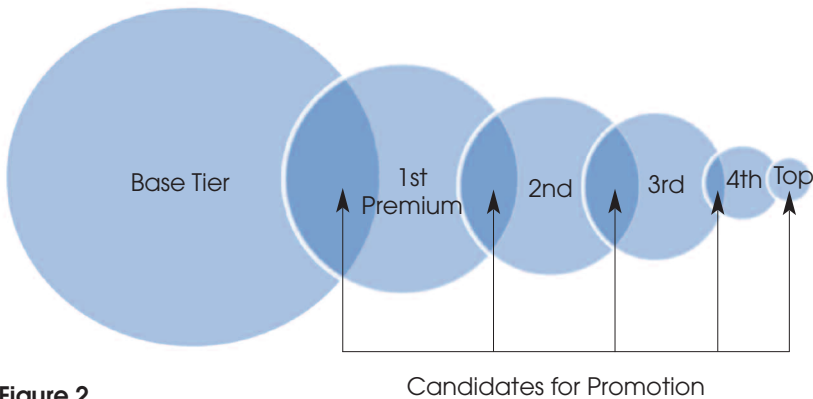


Figure 2

Attainment into the first premium tier is relatively easy for the avid gambler who shares his loyalty among several properties. A person who falls into the 50% range of the database can now qualify for premium tier status. Each successive tier is more attainable for players and each successive tier offers additional benefits that make advancement aspirational.

The result is a tiered rewards program that targets more customers and provides a system to develop a greater number of players into true loyalists. The key challenge for the casino operator is to define the appropriate suite of benefits for each tier. Segmenting and marketing to tiers only works if the perceived or actual benefits can be delivered at a cost where the casino yields a profit.

Tiered reward programs have emerged as a valuable tool for acknowledging and rewarding loyalty. By opening access to larger groups within the database and making advancement easier, the casino can transform their tiered rewards program into a true player development program; one in which players aspire to

rise to the next attainable tier and do so by shifting their entire gaming budget to one property. ♣

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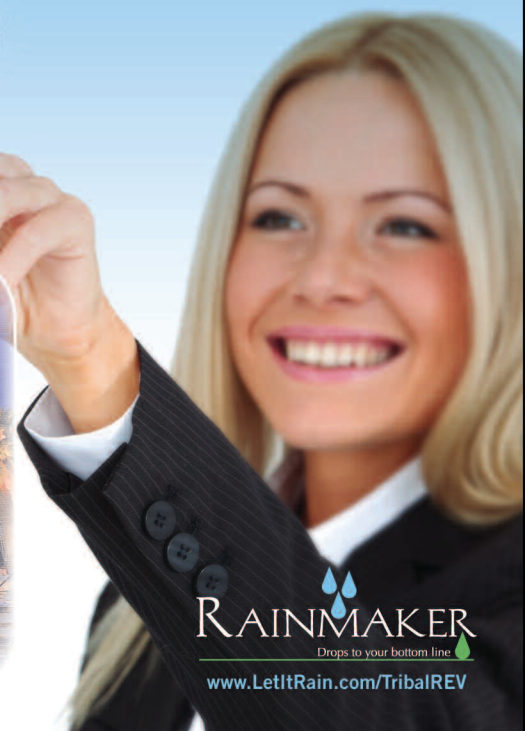
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