



How to Increase Gaming Revenue in an Economic Downturn

by Andrew Klebanow

The economic downturn continues to impact gaming revenues in markets throughout the United States. In the face of declining or stagnant revenues, casino operators continue to look for new ways to grow gaming revenue. Some have allocated resources to new media such as social networks, yet none have been able to monetize these new channels of communication. Others have simply turned up the volume of promotions, offering more drawings for cash, vehicles or simply giving away stuff to get people into the door. While those efforts often increase foot traffic, they don't necessarily have a positive impact on profitability. So what new methods are there for a casino operator to grow revenue? The answer often lies within its own database.

Casinos have long recognized the value of their databases. With the advent of newer slot system technologies casinos have over the last decade introduced tiered reward programs to better acknowledge the value of higher value customers. Caesars Entertainment has long been at the forefront in utilizing a tiered reward program to acknowledge those customers and develop them into very loyal customers. Customers in those premium tiers, referred to as Platinum, Diamond and Seven Star levels, receive a suite of benefits so great that they often gamble exclusively within the Caesars brand family of casinos. They would rather aspire to the next higher tier than spend their gaming dollars at another casino.

Caesars and other large gaming operators have long recognized the importance of the Pareto Principle and its relevance to casinos. Also referred to as the 80/20 rule, the Pareto Principle states that for many events, 80% of the effects come from 20% of the causes. In business, it means that 80% of profits come from 20% of customers. In casinos often 90% of revenues are generated from 10% of all the customers who walk in the door. It is for this reason that tiered reward programs were originally developed: to acknowledge and reward the top 10% of the casino's database with premium levels of service and more value for their gaming dollars.

While many operators readily acknowledge this, few have reward programs that actually admit the top 10% of their database to premium tier status. More often than not, less than 5% of a typical casino's customers qualify for premium tier status. The reasons are fairly simple: most patrons' gaming volume is simply not sufficient enough to justify admission to elite levels. Why grant premium status to players that have fairly low theoretical win levels? Why give them anything more than a beverage, slot club points, and a climate controlled environment in which to gamble?

What these operators may fail to recognize is one important fact: casino customers tend to share their gaming affections among a group of casinos. What each casino operator that faces this problem must ask is, "what would the impact be on gaming revenue if the casino were able to move a greater portion of its casino population into premium tier status?"

The most effective reward programs rank 10% of their players into premium tier status. A stratification of tiers is illustrated in the following table and compares what is typically found in casinos to what is considered an optimal stratification.

Comparison of Reward Program		
	Typical	Optimal
Base	95.0%	88.5%
Entry level premium tier	3.0%	6.5%
2nd premium tier	1.8%	4.5%
Top premium tier	0.2%	0.5%
Total	100.0%	100.0%
% in premium tiers	5.0%	11.5%

Aspirational and Attainable

Only the best casino reward programs train their customers to be truly monogamous and they do so by designing their reward programs to be both aspirational and attainable.

A program that is aspirational simply means that players aspire to rise to premium tier status. Successful operators employ a variety of strategies to make their reward programs aspirational. The simplest techniques involve the creation of separate queues at the rewards center, valet, buffet, showroom or wherever there tends to be a bottleneck during peak demand periods.

Some casinos have invested significant capital into creating separate environments for their highest level players. They offer their hotel guests a more exclusive place to check in such as a separate lounge. One casino in Las Vegas with a very popular buffet created not only a separate queue, but a separate dining room for its premium tier players. Dine there once and you will never want to eat with the masses again. Many casinos also offer exclusive lounges where the highest level of players can relax, enjoy a snack or a beverage away from the din of the casino. However, all of these techniques cater to only the highest tier of the database. Few casinos succeed at creating aspirational elements that would make base level players aspire to the first premium tier or first premium tier players rise to the next level.

Many casinos do not have the capital to allocate to building premium player lounges, VIP check-in or private dining rooms. Regardless, most casinos do a very good job of catering to the needs of their very best, top tier customers. But they may not get base level customers to commit their entire gaming budget to their casino. In order to get the loyalty of those players casino operators must answer the fundamental question that all customers ask when a casino requests their undying allegiance: "What is in it for me?" In other words, what benefits is the casino willing to bestow on customers who play enough to reach the first premium tier?

A second element of a successful tiered reward program is that each successive level must be attainable. In other words, customers at each level must be able see the next level as achievable. A base level customer, who may only have a daily budget of \$50, but who shares his loyalty among several properties, can attain access to the first premium tier if he/she shifts their loyalty exclusively to one property. Likewise, members in the first premium tier should be able to rise to the next tier if they too devote their entire gaming budgets exclusively to one casino. A general rule of thumb is that each

successive tier requires 2 ½-3 times as much gaming revenue in order to reach the next level.

So how does a casino convert base customers to premium tier status without giving away too much? First, make the first premium tier attainable. This may require the creation of a new entry level tier or an adjustment to the current formula. Second, create a series of promotions that require premium tier status in order for customers to participate. This may mean shifting promotions that were once available to everyone to only those players who have a premium tier card. Food specials, once available to everyone, may only be available to those in possession of premium cards. By giving players reasons to aspire to premium tier status and making that status attainable, players will see the value in that status and shift their loyalties to the property that effectively answers the question, "What's in it for me." The reward to the casino operator will be more loyal patrons and growth in gaming revenue. ♣

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