DM
DENTINO MARKETING

5 MYTHS & REALITIES OF DATABASE MARKETING FOR CASINOS

By anyone's measure, casino gaming is a maturing business in the U.S. According to the American Gaming Association website, 35 states have some form of legalized electronic gaming device—including traditional slot machines, video poker and bingo—at Indian casinos, commercial casinos, racetrack casinos and/or bars, restaurants or other licensed establishments. More are on the way. A patron living just about anywhere in the U.S. is within a two-hour drive of a casino. Almost every casino has a slot system and players club to keep track of patron value and to incent return visits. One could hypothesize that virtually *all* of the "profitable" casino gamblers in the U.S. are already identified as members of at least one casino's players club loyalty program.

This level of our maturity raises some compelling questions about brand loyalty. Are there *new* profitable gamblers being created to help demand keep pace with supply? Do players increase their gambling budget when the number of casinos in their market rises? Do trees grow to the sky? As the last question implies, the answer to these questions is no. While it is true that new gamblers are born every day, gambling is not a behavior we can influence in the same way a company can influence a new car purchase or what brand of cereal to buy. The fact remains that a percentage of the population will never gamble, no matter how many casinos are built. This is one reason why there are no reliable gambler direct-mail lists on the market. There is no way to use geo-demographic information to indicate likelihood to gamble. Likewise, there is no way we can compel consumers to raise their gaming budgets to keep pace with the supply. You simply can't create a gambler and you can't make someone permanently raise their level of gambling.

INFINITE COMPETITORS, FINITE CUSTOMERS

Whenever you have a mature category that has reached its saturation point, and all of its most desirable customers are loyal to more than one brand in the category, an interesting dilemma must be confronted: *The only way to increase share of market is to increase share of customer.* This means that the database becomes front-and-center in terms of importance in the marketing mix. Unfortunately, there are many misconceptions that come with its popularity. Here are the 5 most common held myths and corresponding realities:

MYTH 1 Database marketing for casinos is like filling a leaky bucket—you must add customers faster than you lose them.

REALITY: It is cheaper to fix the holes than to keep filling the bucket. Recognized research indicates that small lifts in customer retention results in huge revenue gains in a matter of a few years.* Fixing the holes in the leaky bucket means that every casino must have: 1) an early warning metric in place to identify changes in play patterns that signal a potential defector and 2) a proven offer strategy in place to minimize chances of defection. Filling the bucket means finding new patrons who are going to convert to profitable rated players. Because of category maturity and saturation this is going to cost more and take longer than ever to develop. It doesn't mean that casinos should stop advertising. It means that *every* new-customer marketing strategy, including advertising, should be conceived through the eyes of a new-member campaign. Quantified objectives should be established so that the new-customer offers are developed to attract the quality and value of players who are most likely to convert into profitable and loyal club members. When using mass media to attract new customers, it is important to realize that the *offer* is where the leverage is in finding players of the right *quality.*

MYTH 2 The only way to build customer loyalty is to give costly cash rewards to the best patrons.

REALITY: Cash is still king but the better the patron, the greater the impact of soft benefits. There are two components to loyalty: *rational* and *emotional.* Cash incentives give people an economic or rational reason to be loyal. *"I like to play at ABC Casino because they give me the most cash back."* Emotional reasons work through a player's ego. These include recognition, preferred player treatment and privileges. They satisfy the emotional reasons for loyalty. *"I like to play at ABC Casino because they really care about me."* Recognized loyalty marketing research indicates that as customer value increases so too does the importance of emotional or soft benefits.** This is because the economic rewards are undifferentiated from the competition and because soft "recognition" benefits are more difficult for competitors to copy. This means your players club should revolve around recognition as well as economic reward.

MYTH 3 Database marketing will validate the Pareto Principle (80/20 Rule): There can only be a finite percentage of highly profitable patrons on each database.

REALITY: The Pareto Principle is pliable and database marketing can influence it. Chances are very good that there are average and even below-average patrons on your database who display some behavioral characteristics that resemble best patrons. These patrons are likely to be the best customers of your competitors. Statistical segmentation techniques can help you identify those who are most likely to be splitting budget and giving majority share elsewhere. A careful strategy of increasing reinvestment ratios against these players can result in increasing your share of customers to ultimately create more "best customers." The other important factor to keep in mind is that database segmentation doesn't begin and end with a customer's theoretical value. It is important to segment on the basis of "what value a player receives from a company" in addition to "what value a customer gives to a company." Therefore, make sure that your segmentation and offers acknowledge patron *preferences* in addition to patron profitability.

MYTH 4 Effective database programs are all about delivering the right offer to the right patron at the right time.

REALITY: This is only 50% of the equation. Patron experience on-property is the other half. The most effective database programs are those that are integrated with effective customer service programs. We call this "brand and database integration." The key is to recognize that every casino has two sustainable competitive advantages: brand and database. No one can copy the way our customers feel about us and no one can steal the information we keep on them. Integrating the two is the heart of contemporary direct marketing. For a casino, it means providing an on-property experience that is consistent with the value of the patron on your base.

MYTH 5 A finite number of patrons with an increasing number of gaming choices means ever-shrinking market share.

REALITY: More choice doesn't necessarily mean more satisfaction. The battle for market share is won or lost at the individual level. The key motivator is *relevance.* The casino that uses powerful analytic tools available through the data warehouse to combine patron *redemption* data with *transactional* data has the best chances of being most relevant. Remember, no one can copy the information you have on your customers. If a competitor offers a high-end dinner comp to steal your best customer who *only* visits during the day, the offer lacks relevance. As they say, knowledge is power!

***The Loyalty Effect: The Hidden Force behind Growth, Profits and Lasting Value*
F Reichheld Frederick—Boston: Harvard Business School Press, 2001

***Loyalty Trends For The 21st Century—The Mid-Life Crisis In Loyalty Marketing*
M. Cappizzi, The Colloquy Group, COLLOQUYtalk, colloquy.com, December, 2003

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Carole began her direct marketing career at Wunderman Worldwide where she contributed to strategic direction and managed programs for diverse clients including American Express, Time, Prudential, Colgate-Palmolive, Merrill Lynch and Book of the Month Club. Carole is a graduate of the State University of New York (SUNY) College at Cortland.

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