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MARKETING THE RACINO

Sponsors:

Panel Session: Smart Button Associates, Inc.
Refreshment Break: HorseRacing TV

Moderator/Speaker:

Stephen J. Szapor, Jr., Chief Operating Officer; The Innovation Group

Speakers:

Jack Breslin, Marketing & Gaming; G.A. Wright Marketing, Inc.
Mary Loftness, President; Profitable Customers

MR. REED: Good afternoon. Welcome again to the 32nd Annual Symposium on Racing.

(Applause)

And we're also pleased to have The Innovation Group working with us this year on the gaming content. Our moderator today, Stephen, has 18 years of operations experience in the gaming industry.

Steve has worked with a variety of clients on high-level strategies and financial plans with marketing research operations and marketing consulting and feasibility and marketing analysis.

Prior to working with The Innovation Group Stephen has been on the board of directors for Colorado Gaming and Entertainment, he has worked with Sahara Gaming Corporation, Hollywood Casino, Merrill Lynch and Arthur Andersen.

Please welcome the operating officer of The Innovation Group, Stephen Szapor.

MR. STEPHEN SZAPOR: Thank you, Doug. Welcome to our panel on marketing. When we were approached about putting a panel together on marketing racinos I thought the best way to approach it was to try and put together a panel of speakers and have us focus on effective and efficient marketing racinos, because we all know

given tax structures and costs to develop facilities, and more importantly savvy consumers in today's world, being as efficient as you can with your marketing dollars is important to success.

So we have with us today in addition to myself, speaking a little bit later, we have Jack Breslin with G.A. Wright Marketing, and Mary Loftness with Profitable Customers; she'll be showing up in a minute.

But I thought I would start off by introducing Jack Breslin. Jack is vice president of marketing for G.A. Wright Marketing. They're one of the leading marketing firms for the gaming industry based out of Denver, Colorado.

Jack works on developing marketing programs for several casinos throughout the country. He's held advertising or marketing positions with the Trump Organization, Sands Hotel and Casino in Atlantic City, Colorado Gaming and Entertainment, and the Mountain High Casino over a 20-year gaming career.

So please help me welcome Jack from G.A. Wright.

(Applause)

MR. JACK BRESLIN: Thanks; thanks, Steve. My piece of the presentation is going to focus on the importance of brand and data in building a personal connection and thus player loyalty. We're also going to touch on some research we have on communication tactics, things that have proven to help increase response. So let's touch first on brand.

Brand. What is it? Well, first let's discuss what it's not. It's not simply your logo or name. Those are just a symbol to represent who you are so people can find you in the marketplace. But it is the meanings and emotions that your target audience feels and associates with that name.

It is the combined result of the promise, product, service, and the channels, the media channels you use to get your message out. I was going through this presentation for a client last week and I got to this point in the slides and the woman just blurted out, "Shell gasoline."

I said, "What about Shell gasoline?"

She says, "I love them, I just love 'em."

She goes out of her way to go to Shell gasoline because she find the products good, the people are friendly, places are clean, coffee is fresh. She just loves it. And whether they charge a nickel more a gallon probably doesn't matter to her, and she definitely drives out of her way to go to them. It's just a connection she feels with that brand because they deliver on the promise to her.

Research has shown that we develop a deeper emotional response and attachment to brands than we realize. And brand should permeate every aspect of your property. So every person in your property should know what you represent and who your clients are and what you're trying to represent.

So what this illustrates to me is the key importance of internal marketing. We often spend — and I certainly did spend an awful lot of time in external marketing, all the ads and all the radio and all the messaging that has to get out there to the public — well internal marketing is also critical because your employees need to know what you stand for; they need to know what promotions are going on; they need to know what the latest machines are on their property, they need to know your brand so they can personify it. And also it illustrates the importance for research.

Steve can tell you and I could tell you all the casinos we visited across the country that go for years without doing any kind of player research. They don't ask their players what they think about them or what other players who are not frequent guests at their casino, what their perception of their property is. It's very important to do focus groups and research as often as possible; you know, once every couple years at least.

In an earlier session a woman was here from Harrah's, Maria Evans, talking about the kind of research they do. And if I read the numbers right they spend \$2.5 million a year just on research; and they also use that research, by the way, to help determine appropriate bonuses for their employees. So if Harrah's is doing it, it's something to look into.

I just wanted to take a moment too to talk about consumer research. This was presented at a marketing conference that we hosted at G.A. Wright last year by Yankovich and Partners, and it shows resistance to marketing and advertising tactics. But it also presents an opportunity, and certainly for the gaming industry. I'll talk about that in a moment.

First then the research. Sixty-five percent feel there's too much marketing or advertising, they're getting overwhelmed by it. About 60 percent feel it has very little if any relevance. Sixty-two percent feel marketing don't treat them with enough respect. And again, price is not a factor in choosing a product.

If you happen have an allegiance to that brand, like that woman does with Shell Oil, price isn't going to be a hindrance. Emotion trumps matter in those cases, and certainly they'll drive out of their way. If they love your product, they'll be your best salespeople. And we all know the value of word of mouth.

But they have far, far less patience with brands that do not deliver. Even if you've been loyal to a certain brand for years, and all of a sudden the quality is not there, what you thought it was, goodbye. So they will be loyal to you as long as you keep delivering.

So the recommendation from this particular presentation was precision, meaning targeting the right person for your message.

Relevance. Make the message relevant and appropriate to that person, what's important to them. By power they mean give the consumer, your guest, some input in your decision, so survey them. What do you like about us? What don't you like about us? What did you think about this promotion? What do you like about these machines? And reciprocity, which is something that the casinos have been doing for years, certainly with reinvestment to get people to come back to the property.

So one of the things they said, specification in favor of saturation. I certainly don't favor the elimination of mass media by any means; you have to keep your awareness up, you have to let people know you're there, show your flag, as they say, keep people aware of what you stand for.

But as you build your database through your tracking system, you're able to specify and tailor your messages far better, and we're going to get into that now. We get into talk about data and the loyalty process.

With casino marketing the goal is to translate variable data into actionable communication tactics that motivate a response. Which is a very long-winded way to say, in other words let's get personal, make a connection and not just contact.

On the graph there you see data capture, analysis, segmentation, communication and then the response. I'm going to deal more with data capture and the communication application, Mary will talk more of the analysis segmentation and the rest.

This may seem awfully fundamental, but there's a key to the initial part of the data capture, and that is when people enroll and how critically important it is.

First of all, I've been in, again, a lot of casinos throughout the country and I've seen a lot of signage and collateral and tent cards inviting me to join the club. But they don't tell you why you should join the club in a lot of cases, they just want to you join the club.

You got to give them a reason, give them a benefit. You can earn cash back, you got comps coming to you; we buy you free meals, invite you to special parties; earn 10 points today and we'll buy you a buffet. Whatever the benefit is, make sure it's clear and concise so somebody understands why they want to join.

Also, club members traditionally drive more revenue at a casino than non-club members. Fifty percent of your floor may be club members but they may be driving 60, 70 percent of the revenue because they're more loyal and they have more invested into the club. So you do want to get them into the club.

Train your hosts and floor personnel to be ambassadors on behalf of your marketing efforts. They're on the floor a lot, more often than your club personnel

which are often stuck behind a booth. Train them to when they see somebody playing, "Hi, how are you doing? Can I get you a card? Just give me your driver's license, I'll take care of it, no problem."

They don't need to know every little detail about the club but they should help sell the club. Clear, concise, collateral. Tell them what it takes to earn cash back. How many points? Be concise about it. A lot of casinos I've known are very reluctant to give that kind of information, but the players want to know that and it's fair to tell them what it takes.

And design promotions, again, as I mentioned, to entice new members. Make the process friendly in terms of the application design and questions, capture e-mail addresses. This is a bit of a challenge for casinos. They're reluctant to give them up so casinos give you bonus points if you give your e-mail address, extra entry in a promotion, whatever it takes. E-mail is becoming far more of a powerful weapon in terms of connecting with the audience.

What are their outside-casino preferences? They spend a lot of time not in your casino, so find out what they're doing. We've seen a lot of research come back on casino players that by and large they love to garden, it scores very high in terms what their outside activity is.

Steve presented earlier today research that showed that people like working around the house. So use that information to determine how to develop strategic alliances with your club card. Show it at the local gardening place or Home Depot, they get special discount.

Travel method. How did they get there? How far did they travel? You want that information so you can tailor the messages appropriately. And of course, clean data entry, you want to make sure the names are getting imported correctly.

So key tactic to then reach out and touch the players is certainly direct mail. When players are asked by and large, "How would you prefer us to contact you?"

They say most often, "Direct mail."

Certainly e-mail is becoming, as I said, more popular, it's getting to be a very useful tool for a lot of casinos. But direct mail, I think, has more value certainly for the core audience, which is that 55, plus it's 3-D. It's tactile; smell it, taste it, and it just has more value for people to actually feel it. Obviously e-mail is just two-dimensional. And use it for improving the visits and frequency of visits, retention, creating new clients based on promotion responsive history, modeling to go after new guests — and we'll talk about that again a little bit later — and reactivating valuable customers.

It's a very important program for a lot of casinos in that you know the value of the players by the tracking system, and all of a sudden they haven't been coming in for

the last six to nine months. A perfect way to reach out and say, "Hey, come on back, we have a special offer for you."

Again, you're not just going after a shotgun approach hoping to get a body in there, you're getting a player back because you know the value.

Power of personalization. This is a study that was done recently by the Digital Printing Council. They started with a static black and white postcard as a baseline to get a response on that; it was very low of course.

So they added name only to see what the response was; it went up about 44 percent. Adding just color, about the same amount. Add both name and full color and you get a 135 percent jump. And when then you add some database information such as, in the case of a casino, what kind of machines they like to play or how often they come in, you can see the rate jumps up to 500 percent. So this was an independent study just talking about the power of color and personalization.

That leads into another study that was done recently by my company, G.A. Wright, on, do applications really matter? This is part of a white paper study that was done on a number of variables involving direct mail.

This was done in the retail sector but I certainly think it's appropriate for casinos. A control, a two-color envelope with a three-color letter versus the test, a four-color envelope and four-color letter. And the four-color outperformed it by 33 percent. So see, color does matter.

And I think certainly in the casino realm you want to make your communications as lively and as colorful as possible.

Letters versus self-mailers. This is always a dilemma with a lot of casinos, which one is going to work better. This is, again, a test in the retail sector. Two-color letter and envelope with a business reply card versus a four-color self-mailer. In this case the self-mailer outperformed the letter by 20 percent. So self-mailers are becoming far more popular with casinos. It gives them the real estate to highlight their promotions, show off the car they're giving away, show off the winners that have won last month.

It's important, though, to note that even in self-mailers, never sacrifice the letter for the sake of a self-mailer. The letter is a very important component of direct mail. It helps make that connection with the player, you can personalize that communication. Otherwise it just becomes a piece of advertising that you're sending out that appears generic. You don't want to lose the letter.

Now, there's a lot of other findings in that white paper study, by the way. Everything from, "Does stock really matter?" response to a number of different variables. And I can get you copies of the white paper if you want to see me after the presentation and give me your business card.

Some other communication tactics. Customize based on preferences and past history. Do people like the buffet offer? Do they enjoy the free tickets? As The Innovation Group has seen and has studied, a lot of people love free or discounted rooms, that's one of the most popular offers.

But what kind of player is associated with that? You always have to monitor, not only the response, but what kind of play do you have going on? Are they a slot or table players? And what kind of denominations do they like to play? That information you're capturing in your tracking system and you should translate that into the communication you send out after they come in.

Of course, data warehousing helps you develop a sharper image of that player. So if you have a lot of amenities at your particular property, and they engage in doing a lot of different activities, you can help tailor your offers and your communications based on that.

Players' club point value. This is getting more and more popular with casinos. They dedicate a space within the mailer to say, "Dear Robert, as of this date you have 1,300 points in your program, which is \$130 in cash back." Not only helps personalize it but also helps remind them the investment they have in your club, and by concentrating their play with you they can get better values.

Again, geography; are they local, regional or tourist? Again, speak to them a little differently based on where they come from and how far they have to travel.

And the various programs that are popular, the retention is kind of the workhorse of the casino industry, that monthly mailer that goes out to drive play; but also if somebody hits a jackpot you want to get a mailer out automatically.

Birthday programs are a good way to again build loyalty, make that connection with your players.

New member: Very important type of program that can be set up to get mail out on an accelerated basis. Research has shown that the quicker you reach out and touch a player that has come in, the higher your chances are to build his loyalty. If he just goes into the database and you're not sending him out a mailer until the regular retention goes out, it could be another four or five weeks later and you've lost some critical time.

A new member program can generate that messaging a lot quicker. And as I mentioned before, inactive players, very important to reach out to them.

Color variable. It's a program that not only personalizes your communication with text but also with images. And this is more appropriate for the higher level player because it is a little more of an expensive process. But switching out the pictures and the imagery in a mail piece that are appropriate to what that player enjoys at your property. This particular player likes video poker. Going to the buffet and the

review shows. So again, it's just a matter of coding that particular information on the production side and switching it out based on what that person likes.

New members. When I was working in the casino industry, not that long ago, when we wanted to go out and prospect for new members we're really left with going after certain zip codes, household income, and maybe laying on gaming propensities and kind of hope for the best. And the best really wasn't always that great.

This is a program that helps sharpen and strengthen that effort by taking your current database, leads into a program and out comes all these wonderful graphs, about a dozen of them, that tell you who your players are, what their average income is, whether they're married, whether they have kids at home, most likely where they like to shop and so forth; matches it up with a big database that gives you a profile of what they are. From there a model is built that matches up with the general population.

Say: "Okay, I've got — this is what these people are like. Who else is out there that matches up to them?" And here in this particular graph on the left, the top 10 percent of the people out there are four times more likely to respond to an offer based on that profile than the average player. Top one percent is about nine times more likely. And when the assessed value on the right is 50K or plus, the response probability goes up by a factor of 1.6.

So now you have an idea what's out there and you want to target maybe just that top 10 percent. You say, "Okay, these are the zip codes I want," and here comes back the records, ranked based on the information you fed into it. And then you have a stronger, more fertile prospect list to go after.

Finally, these are just some of my kind of tips that I always like to share; send a personal communication, not an ad. Any of you familiar with John Romero will be familiar with these tapes. John is kind of a casino marketing guru who has written a couple books on casino marketing and he really focuses on direct marketing. But it's always important.

Messaging, again, letter is the key element in a package, don't sacrifice that. And write in a conversational tone. Don't have it read as if it's something from a bank. You want to be friendly; you're engaging them and you want them to come back to your property. It's an entertainment event. Use the envelope teaser as a headline.

I think his first headline that he wrote on an envelope was, "Here's 20 bucks to play next time you come back to the Sahara." Nothing terribly clever about it but it was to the point and it made people know what was inside. Get clever if you want to but make sure the message is clear.

Don't allow design to overwhelm message. I love our designers. They do great jobs. You can ask them to do something and they can make magic out of it. But there

are times they kind of go a little nuts sometimes with their design and it overwhelms what you're trying to communicate to the player.

And again, with the casino player predominantly being 55-plus, you don't want to make it difficult to read or have color on top of color and try to get too cute with it. Make sure it's clear and concise. It can still be promotional, it can still be exciting, but don't let the design overwhelm the message.

And the P.S. is always important in a letter, of course, to reinforce whatever the offer is or deadline or: "Hey, don't forget to go online and check your points; here's your link to go do that."

So P.S. is, I think, the third thing that typically people read in a letter after they open it.

So those are some rundowns on communication tactics. And as I mentioned earlier, segmentation and analysis is to the very capable Mary Loftness.

MR. SZAPOR: Thank you, Jack.

Welcome, Mary, glad you could make it. Mary Loftness is president of Profitable Customers, and Mary provides a variety of strategic and data-based and marketing consulting for a variety of casinos and racinos around the country.

Prior to starting Profitable Customers she was with Station Casinos for a number of years.

Welcome, Mary.

MS. MARY LOFTNESS: Thank you. Please accept my apologies for being late.

I'm a numbers person; a marketer who's also a numbers person. And I think one of our challenges in all of our organizations is we have a lot of staff. We have tons of numbers that we can deal with on a daily basis, and we're getting better and better technology which will tell us all kinds of additional information, and in a lot of cases maybe we never needed to deal with it in the first place.

And what I'm seeing as I travel around the country is that we have a tendency to start getting bogged down in things that are not necessarily the most important parts of our business.

So just as a point of reference, how many of you in the room have player tracking systems?

(Show of hands)

Is everybody tracking play or — like half? Sixty percent? Seems some of our groups are having more difficulty, I think, getting player tracking implemented across the

whole organization, but certainly a lot of what I'm going to talk about involves having a player tracking system where you understand everything about your key customers.

We certainly do different techniques in places that don't — you have data available that you might not have thought of in places without player tracking, and still building a database and still doing the direct mail techniques that Jack talks about is really important, even without player tracking.

And so I'm just going to spend a couple minutes talking about the analysis of casino marketing and what we should really care about at the end of the month, at the end of the week, at the end of the promotion; what's important out of all these crazy numbers that we see every day.

You know that we spend tons of money in marketing, a huge percentage of our overall revenue; I've seen five, I've seen 25, I've seen even higher than that.

In this particular organization, and this is from a financial statement, 37 percent of their overall revenue picture was going to promotional allowances, marketing and admin. One of the things that we don't necessarily measure or aren't necessarily attending to is, "Where is every marketing dollar spent?"

So we need to know, number one, what percent of our revenue is spent in marketing; and number two, of that dollar spent in marketing where's it going? And what percentage — you know, what part of that dollar is going to retention marketing versus acquisition marketing?

I typically think of mass media marketing as an acquisition-type marketing, and database marketing as retention marketing. So you really need to understand how much of the dollar that you're spending are you doing to keep your existing customers versus getting new customers? And the slide you see is just an example. Your organization's going to be completely different, and there is no right or wrong answer here.

These numbers are set by what's happening in your competitive environment, what's your tax structure, and how much do you have to spend on marketing? And are you really needing to steal visits or are you looking to build more business in your market?

For those of you that are managing your databases and have good bits of tracked play, you'll understand that 80 percent of your business is coming from 20 percent of your customers. And it is never more evident than in a casino database how this works. All players in your casino are not created equal, and that's why database marketing is such a fabulous tool in casinos, because you can privately extend the right offer to the right customer for the right dates that you need. And understanding those 20 percent of your customers that are generating 80 percent of your business is crucial to building revenue over time.

You'll want to know, how much do we spend on marketing and how much are we spending on our 80-20 folks? And that typically is in the form of reinvestment through points, comps, direct mail coupons. And we'll talk about that in a moment.

Databases are living, breathing, wonderful things, and databased segmentation needs to happen all the time, and you never set your — well, you run your database segmentation all the time because people move around in segments and they change, and you want to mail with the most possible current data.

This is a typical example of data-based segmentation based on average daily theoretical win. For the machine player, the slot player, average daily theoretical win is the best indicator of future spend at this moment that we have.

And so for those of you that might be using other measures of customer value, I would strongly encourage you to understand your best players by average daily theoretical win, and to incent future visitation based on this number. In this case, this is a normal casino database. They have 89 customers who play an average of \$500 in theoretical win per day. Those 89 people generated two million dollars in "theo."

Those bottom people, the no-play right above the "total" category, there's 28,000 of those, and they averaged \$10 spend per day. And so we're gaining \$1.7 million in "theo" out of that group.

So we've got 89 folks generating more money than the 28,000 in the bottom. And that's why you need your player tracking system and to understand your player tracking system, because just attracting people does not necessarily contribute to your bottom line. You need to understand what segment of customers you're attracting via any promotion or special event.

The best place to find new customers is in your racino. It's in your building. And if you're not tracking over 50 percent carded play we really don't have a great database of who your customers are.

So sign-ups on the floor are very important.

And you really never need to worry about, "Well, I don't want to sign up too many people because I'll fill up my database." Don't worry about filling up your database. The most important — put tons of names, every name you can find in your database and then understand their value and market appropriately based on value.

I've seen player tracking systems with millions of names, and none of them have blown up because of millions of names. Thirty-six percent of your new sign-ups will probably average less than \$5 a day. And you need to sign — one in five obviously is going to contribute to your 80-20, because 20 percent generate 80 percent. So you've got to sign up five people really to get one great one. But you got to sign them up continuously.

Certain promotions will bring you a better profile customer. Less than half of your new sign-ups are — can you profitably market to. That was a bad sentence, I'm sorry. But reasonably your under \$5 average daily customers, there's not a lot of value in incenting that visitation, especially if you're in a location of excess demand.

Some of us are in places where, on Saturday night, you can't get on a machine. Well, you certainly don't want to have a postcard out incenting visitation from a low value customer on that night. Because then you've got somebody sitting in the chair that's beating out the guy that was going to play a \$100, \$200, \$300. So some of us are really in floor yield management situations, and you can use your database very effectively to market those days appropriately.

One of the things I find that marketers are not very good at, and this is very simple, is to keep a diary of all the things affecting business on a certain day. And to understand, these are my 10 best days last year, this is my 10 best Saturdays, this is my worse 10 Saturdays, this is the — you know. And then as you plot your 10 best days and the business factors that were affecting your ten best days, you start to see that, you know what? This thing worked. And that thing didn't work.

I just did this for a client and they found that they put their entertainment on Thursday nights like they're supposed to so they're not displacing anybody and they've got spots in the parking garage and all of that, but not one of their entertainment Thursdays made it into the best Thursday category. None of the entertainment days actually even beat the average. So you start to see a picture.

There is not — I'm not going to give you the silver bullet today on, you know, "I dove into your customer's head and yes, indeed that really brought an extra visit. He wasn't going to gamble today." I can't tell you that. But I can give you lots of helpful hints on how to find indicators that you won or you lost on a given day.

The things that I want to know every month, every week, every day, I love to visit places where they can tell me how many new females they've signed up from 60 miles away that are playing \$50 or more. And I always then ask, "Okay, how many new sign-ups did you sign up overall? And how does that compare to last year? And how many new A players did you sign up this year versus last year?"

And they are typically really proud of the fact that they know how many females signed up from 60 miles away, but they're losing the big picture in all of this number freak-out that we're having.

I want to know new sign-ups and I want to know new sign-ups by value, so I want to know how many new high value, mid value, low value customers we got last month compared to last year, compared to any kind of time period you personally look at.

Seasonally. I want to understand the database value, and I'll show you a slide on this. I want to know how many database customers visited, how many days did

they play? How much did they play? And how is that compared to last year? This is a great overall picture that we're forgetting to look at every month. I want to know trends and coin in. What's going on with tournaments and special events?

Direct mail analysis. Is our response going up, down, sideways? How's our hosting program? How are our player development efforts going? How's the bus program? And what's our reinvestment on a bus customer compared to another customer in the property? And what's our overall reinvestment at the property?

A lot of these are just examples. I mean, this is a simple example of new customer acquisition, year over year, comparative month over month. I would recommend that your marketing team generate a month-end packet of helpful information that your executive team can digest, to check for trends.

This is a sample of a database value analysis. And there are two sections in the database. On the left-hand side are those 80-20 customers, those are our best, the 20 percent of the database; in your case it may be 17 percent of your database is generating 86 percent of your revenue. But it always plays out in that classic zone of about less — something less than 30 is generating more than 70.

And in this case we had those people pegged and we looked at how many of them played. How many days did they play? What's their average day played? What's their "theo?" What's their coin-in? What's their average daily?

When I'm managing marketing in a machine game or slots facility, theoretical revenue is where we live. Your marketers have nothing to do with your actual win on your games. And they really can't be measured that way. They need to be measured on how many people came in the door, how often did they come, what's the theoretical win generated by those folks?

The coin-in is a great indicator of volume, especially on promotional nights; but theoretical win is the number to attend to as you're comparing month over month, year over year.

And this also compares the overall database where we're increasing average days played on fewer customers, if you'll note. I see this actually a lot this year; that we have fewer people coming through the door probably for more visits, and the average spend is up. That may be your case or maybe not.

I've also seen places where these numbers are really going — both players and days played are going down, but the "theo's" still going up, which says your database is probably working.

But then I start to worry about acquisition strategies. What's your media plan? Are you communicating promotions effectively? Because you really have to build — you want to build every number to really be healthy. Simple coin-in analysis year over year.

I was the vice president of relationship marketing at Station Casinos and have worked at lots of different places for the last 10 years, and it's always fun for me when we look at budget season and people forget — like there was an extra day in February last year; and last year March was a five-Saturday month. For some reason when we do our future budgeting we forget to look at the calendar.

In the hotel business we always budgeted by day, which was really smart. And I know it's a little overwhelming to budget by day in the gaming business. But please, as you're looking at next year's financial plan remember which months have good calendars. You guys know what the good calendars look like.

At any rate, coin-in analysis year over year.

Here's an example of just a one-line or tournament special event. What happened with the offer that you did, just offer one, two, three, four? I think that it's important that marketers sort of roll-up at the end of the month. You guys need to do your detailed pro forma of, this is every expense with the tournament versus the customers that came and how much they played. Or, this is every expense associated with giving away the car, and this is what we perceived as the bump in coin-in really on a car giveaway on that night. And the theoretical revenue of those participating in the drawing.

But this rolls up, how many redemptions and how many players. All of us that are mailing cash and making offers to customers understand that some customers come and take the offer and walk out the door, and you need to know that variant.

So we had four walks on offer one, with the "theo" of \$186,000 and a \$10,000 cost. So that offer we reinvested five percent of the customers' theoretical win and had an average daily theoretical per respondent of \$154.

Here's a sample mailer analysis. Were you to mail based on varying cash for varying average daily theoretical levels, in this case our A's got a \$50 coupon, we estimated a 20 percent response.

We actually got 14 responses. Cost, revenue, profit obviously before production and mailing costs. And a roll-up. And this is something you should trend over time. What's happening with the mailer responses over time. I know that all of us make a lot of changes with our mailers each month or we're changing markets or we're changing offer types, but it's important to be able to understand changes in response over time.

If you have a player development effort I recommend that hosts are assigned to customers, because that's really the only way to measure the value of that host relationship. And once those people are assigned to their host, you can measure, like, you know, your Merrill Lynch stockbroker, the net worth of those customers over time.

And this just sort of expands on that by saying, how many accounts, how many trips, the average visits per account, the "theo," the actual. Obviously when you get into player development we have more of a table game spend at which point you need to attend to actual one-time losses, actual loss over time. Because players' skill ratings vary.

And in this case we did something fun with freshness dating. The average number of visits, average number of days since their last visit, which is kind of helpful because you need, obviously, your host to be attracting these customers and bringing them in quickly.

This is a sample of a bus program analysis. If you have a bus program and you incent visitation to those bus passengers in a different way than a regular customer, i.e., I give them cash and a coupon book and a free buffet, you really have to manage that segment of customers completely different than other customers in your database. You can't really afford to mail them the same cash coupon you mail to someone else because you've already invested X percent in that customer.

So we all know bus customers are more expensive, but I also think because of the age of our customer, buses can be a great customer acquisition tool, and they can provide us a market that we don't always have. But you really need to attend to how much you're giving versus how much you're getting. And on any bus you're going to win some and you're going to lose some, but at the end of the day if you understand the reinvestment, you'll be able to make sure that you don't layer other costs on the top of that bus customer.

So in this case we looked month over month at the overall database where we were reinvesting about 28 percent. We had a profit margin of 72 percent. Our bus customers, we're investing about 52 percent in them. And in non-bus customers we are investing about 17 percent. And that investment number would include points, comps, direct mail coupons, any other specific offers that you made directly to the customer. It's a number you really want to have a handle on.

This is the overall recap of a player reinvestment. At the end of the month you need to know by average daily theoretical win segment, how much are you investing in each customer?

So in this case our A's, we had one unprofitable A; their average daily is \$500 or above, and we reinvested six percent. And if you look down at the bottom of that no-play customer, in this case a customer under \$5 average daily, we were in the red with that group because we had layered offers onto customers who had no value.

So by doing this by customer segment you'll understand that we are overinvesting in some and underinvesting in others. And you can adapt your strategy to tweek that so you're putting the right money on the right customer.

And that's my last slide. And we'll take questions at the end. But Mr. Szapor's up.

MR. SZAPOR: Thank you, Mary.

Well, Mary and Jack have spoken about being effective and efficient in your marketing efforts with your existing database. But what about prospecting? What about going out and trying to find new customers? Or what about opening a facility in a new place and trying to be more efficient with your marketing dollars?

We know from numerous studies across the country that you look at any population center and somewhere between 27 and 35 percent of the population will have gambled at least once in the past year, either at a racino or casino or some other form.

So if we're going out and doing mass advertising, which you may have to do to do branding and other things, you in effect are only reaching about a third of the potential customers, because the other two-thirds of the population just doesn't gamble.

At Innovation Group and Innovation Marketing we worked on a couple of database prospecting efforts, that I'm going to go through, with our clients to try and be a little bit more efficient in the prospecting area of database marketing.

The three tools that we use are a GIS spatial analysis of the database, we then use Siemens Data Survey, and third is using — linking that information to a PRIISM lifestyle cluster analysis.

These things can be used in and of, by themselves alone or in conjunction with each other. Most of the time we use them as a three-part tool with our customers.

The first one is a GIS Spatial Analysis of the database. And what this simply is is geocoding, taking your database and mapping them on a zip code basis in your trading area. And what that does is it provides you with an analysis of where your database is and where it's coming from.

We have most of the data in our player tracking of theoretical win, player visits and things of that nature, and a zip code basis. And it's really easy to not only map that information but map it by level of customer.

For example, this map here is an example and it shows, on this example of a database, where their database is coming from with the darker colors representing more database visits.

What does this information mean? I think what we then do is we take that information and we overlay it over the population in that area. And the result is a participation rate. So we know from the south side of the city we're getting a 10 percent penetration rate and from the northeast side we're getting 30 or 35 percent. And a lot of that may have to do simply with your location and access, but

it may also do with the marketing efforts that you have or what your competitors are doing.

Like I said, a low participation rate may be indicative of a variety of things. If we overlaid that, this map represents the participation rate, as I mentioned, and you can see, these would represent areas where you have a low participation rate and represent opportunities.

In terms of what that means for you is you can use that data to be more efficient in your target efforts, whether it be billboard placement or direct mail efforts. Obviously, one of the questions that you have to ask yourself is: Is that information that we have — does that mean that there are good target markets or good players?

And so the second piece of the information we do is we gather information from Siemens and we overlay that on that information; so we not only want to target zip codes where we're under-penetrated but we want to target zip codes that have a good source of gamers in it.

And Siemens is a national company that performs a large number of media surveys annually. And some of the questions that they ask specifically to people are: Have you gambled? How often do you gamble? And what type of casinos do you visit? Specifically, do you visit Native American facilities or others?

And this information is available for purchase at the zip code level, and it's provided on the basis of a market potential index. So, for example, a value of a hundred means that the person gambles on average — if a person has a 200, the zip code has a 200 MPI, that means they're twice as likely to have gambled in the last 12 months.

So we take that data and now we can go back to the first piece of information we have, which is; we have zip codes where we have a low penetration rate. Well, are there gamblers in those zip codes? And we overlay the Siemens data on top of that and we're able to identify therefore zip codes where we have a low penetration rate; but more importantly, gamers live there.

Again, one of the things we can do with this information is we can target our marketing efforts. We know that we can concentrate our direct mail efforts, you know, if you're able to buy media by cable buy you can by specific cable buys in that area, specific newspaper placements, things of that nature. And it maximizes the return on investment by increasing, obviously, the effectiveness of our overall plans.

So now that we have the information of our database and the opportunities that reside, how do we go about marketing to those folks? What do we know about people that reside in those potential zip codes?

Well, the third phase of what we do is obtain PRIISM lifestyle clusters for each of those zip code areas. Every neighborhood in the U.S. is defined according to 62 distinct types of clusters, and each of them is defined by demographic variables such as income, household size, ethnicity, age and lifestyle information.

So now we can go to the zip codes and say, what kind of messaging should we put forth there? Again, from this information about the cluster groups, we can understand the demographics, the type of food and beverage that they like, the type of leisure activities they participate in, what kind of magazines do they read? What kind of TV preferences do they have? What kind of TV shows?

So obviously, our application is, we can design our marketing program around that. Whether it be a market expansion or retention we can go in and say, instead of mass media buying across the whole zip code universe in our target markets we're going to target these specific variables, these specific zip codes; and we're going to go after them through database marketing or through billboards or through other applications, and specifically utilize messaging that ties into those lifestyles and preferences and information that we've obtained from the PRIISM cluster information.

We're also going to select the specific magazines that we want, the newspaper, the specific placement in the newspaper, things of that nature. It also goes even further in terms of entertainment.

If we understand the motivations and the preferences of those people in those specific zip codes we can make sure that we're putting in entertainment programs and entertainment acts that go specifically to their lifestyle and things they like to do.

I mentioned before, billboard placement and content. We can narrow our billboard placement specifically to be on routes into and out of those zip codes, and again, we'll get into our food and beverage mix and interior design and things of that nature.

So the whole process is a three-step process, as I mentioned, really allows us to be more efficient, and instead of taking a shotgun approach to prospecting, really try and target those areas that have the gamers that live in them.

I think at this point we'll open up questions to the three of us on all the topics that we talked about here today. And again, I think we want you to give your name as you ask your question.

Yes, sir?

MR. DON HOLOCEK: Don Holocek. Can you give me a sense of what percentage of your marketing budget is appropriate to spend on research?

MR. SZAPOR: You know, again, a lot of variables depend on your competitive nature; you know, your competitive environment, things of that nature. But when I put together budgets and have worked with our customers on it, and even back on the operating side, I would use about one or two percent of my marketing budget to go into research.

MS. LOFTNESS: I would also add that it kind of depends on where you are in the lifestyle of — of your property. And how long have you been in business? And do you know the answers to the big questions; like, what's the gaming propensity in your market, and how's that changing over time, and things like that.

So I think earlier on you need a little more money than you might need ongoing.

Yes?

A VOICE: The amount of statistical information is overwhelming. Once a casino, individual casino gets it all, what's the best way to ensure or to make sure your people understand what the hell it is they've got?

MS. LOFTNESS: Well, I think from the executive level it's —

MR. SZAPOR: Repeat the question, please?

MS. LOFTNESS: If I can restate it; you've got piles of statistical information. How do you make sure that you're paying attention to the right thing? Is that right?

A VOICE: Yes, your own staff in-house; now that they've received all this either by the consultant or in-house or however they get it; now what do they do with it? Is it the general manager's responsibility to now use this or is this a lot of intellectual matter that a lot of people just don't understand?

MS. LOFTNESS: Right. I think what the general manager can do is ask the question and have consistent questions that you ask each month; you know, the database value question, the new sign-up question, the carded play question, the — you know, to have five or six metrics that you want to trend over time for marketing.

And if you can't get the answer to that, you've got to dig deeper; because if you have player tracking you should be able to get 90 percent of your questions answered, it's just a matter of getting at the information.

But you've kind of got to pick what you as an organization are going to care about over time. And keep asking more questions about stuff and watching trends over time. You know, the marketing spend as a percent of revenue.

A VOICE: Follow up to that, you said you were with Stations. Everybody says, "Oh, Stations is a local marketing place as opposed to maybe an MGM, which is around

the world." Do you look at those statistics differently at Stations compared to a Mirage?

MS. LOFTNESS: You bet. But most of us are in local markets. I mean, I live my life in local markets. I don't work at — Vegas is a unique beast unto itself, and most of us are not doing destination marketing the way the MGM Mirage Corporation does destination marketing.

So typically the metrics you care about are the local casino metrics. And yeah, Stations was measured somewhat differently, and certainly it depends on your revenue mix.

I mean, you've got race revenue, obviously MGM Mirage has a huge table game revenue base, bigger hotel revenue base. But for those of us who are making our money in machine gaming, the metrics can be very similar.

MR. SZAPOR: Yes, way in the back.

MS. ROSE ROSSI: Rose Rossi. It's been years getting information from the customers, a long, long field. They don't want the mailouts because they don't want their husbands or they're 70 or how many times they've been there or — but the customer, the last thing they want to do is provide us some of this information.

MS. LOFTNESS: And your name is Rose Rossi, right?

MR. BRESLIN: Well, a certain percentage, you're right, are never going to want to join a club for various reasons. One is they don't want any mail, they don't want any contact coming to the house. A lot of players feel it's superstitious, putting a card in a machine is going to impact the jackpot or the payouts of the machine, which absolutely doesn't happen; but they feel it does so they don't want a card at all, you're right.

So some of those you're never going to convert, and that's fine.

If they're a good player that's where the host should come in to make sure that player's taken care of; when you come in, "Let me buy you lunch. Let me buy you dinner tonight."

They can do it privately one on one, and their name isn't on any kind of document and they're not getting anything.

Other players can be converted into the player program, it just takes some convincing that it's worthwhile for them to join for all the benefits they get. But if I'm hearing your question correctly, I think, again, there's some people you're just never going to convert.

MS. LOFTNESS: But I would also say that those places that are having a lot of trouble getting people into their program, it's sort of an inverse relationship. The

customer, if they feel like they're getting great stuff they're going to sign up; if their neighbor gets great stuff and they don't get great stuff, they're going to figure out that they need to sign up.

So you need a to sell your card program like crazy; and the value, and it's the best card program and it provides great value to customers. Because otherwise if there's nothing in it for the customer, they're not going to sign up very often. But if they see great things happening when they sign up, your card of play will go up.

A VOICE: My question is along those same lines. Would you ever, with regard to like a spouse, to get the more valuable party to come with — like let's say you're giving a special to the guys to make them feel more comfortable, that they bring their wives because they really want her money in the machines?

MS. LOFTNESS: I think that it becomes a bit complicated from the database perspective. I think your hosting program — if you have a player development program you can work that angle much, much better than you necessarily could through a direct marketing angle.

But make darned sure that that slot customer is getting incented properly for their play. So not just points but direct mail coupons and other offers to make them want to come in and bring their husband.

A VOICE: Is there, in your opinion in marketing a Native American casino, any advantages, disadvantages or is it neutral?

MS. LOFTNESS: I think it all depends you your competitive set and what market you're living in. I mean, I've worked with Native American places in the middle of rural Minnesota where they have 10,000 people within 50 square miles. It's not very much fun to be there.

It's a whole lot of fun to be downtown Milwaukee with four million people out your back door. So quite frankly, I work with all different kinds of clients, and it is very market-driven. Steve, you probably have —

MR. SZAPOR: Yeah, the fact of the matter is, too, most Native Americans don't pay a set tax structure so they have a lot more flexibility, to be honest with you, in terms of what they can spend. And we tend to see them be more aggressive on the marketing side because they can afford to, to be honest with you.

But in terms of marketing, in terms of a messaging or product it's really not that much different.

MR. BRESLIN: Yes, I would agree with that too. Also I've seen some properties that enjoy what Mary's talking about, being in a great location and their club really hasn't been developed and they have very low-rated play. But they don't really care because the overall play in the property is going well.

But once the competition starts coming in they realize, well, we really have to get the club to a level where it's really worth joining and given some benefit in it, and they start. They have to start investing in it.

But I've certainly seen that with some Native American properties, that they haven't invested in a club because they didn't see they need to. But with competition they do.

MR. SZAPOR: Well, I know from my perspective I've always been a proponent of strategic alliances with area or regional businesses, things of that nature; anything that can bring a value and credibility to your product is always advantageous, and I think there's a room for that in any marketing budget to be closely aligned to regional and other strategic partners to be able to enhance that.

In terms of, again, what Mary said before, it's all location dependent and competitive dependent also; you know, if you're in a location that's going to require you to be out there and more aggressive on the branding side you're going to have to put more of your budget to it.

MS. LOFTNESS: I would tell you that you need to make sure that you know everything that the competitors are doing and you have all their ads clipped and you get their mail and all of those things so you understand; because a lot of marketing budgets are set in that sort of way as well to make sure that you stay in front of people.

I would, just from a tactical perspective when you're buying mass media, I'm seeing most casinos spending more in TV and radio than they are in print right now. And you know, take that as it is.

That might not work wherever you are; but to that point about not having a customer database, if you can get at your cash advance transactions, you definitely have W2-G transactions, you may have check cashing transactions. You could have a drawing, people participating in drawings; you can do swipe and win stuff. So even though you don't have player tracking at the machine you can have a healthy database marketing program, which is the best way to steal visits or to ensure you share of wallet from your customers.

MR. BRESLIN: It also comes back to research as well; you don't need player tracking in order to just talk to your players. Do some focus groups, ask them where they get their news and what they like to listen to on the radio and make sure that you can gather that information if you're not getting it through any kind of application process.

A VOICE: As a follow-up statement, perhaps what they may be responding to at our property is after a half a dozen years, if you just concentrate on those that are coming into the building we're finding that they have less and less money and they would be attending fewer times, and so the win per units starts to go down and the attendance starts to go down. So right away you might then look for an external

program that would rejuvenate that business. And I don't know that that — how one feeds the other.

MS. LOFTNESS: Well, it always is a balance; and I can always tell, even by looking at the database, whether we're out of balance in the mass media zone. But you do have to have inviting and interesting promotions that attract new customers into your building, and if you can get people signing up to some sort of club then you can bounce them back.

But yes, I mean, if you have been — if all your eggs are in the direct market basket, you will start to see declining head counts over time.

Because you have to be the place to be on Saturday night. You've got to be the place that people want to go to be entertained. And just talking to your existing customers is not going to make you full every Saturday night, you've got to be the place to be. Thank you.

MR. SZAPOR: Thank you. Any other questions? Well thank you.

MR. BRESLIN: Thank you.

MS. LOFTNESS: Thank you.

(Applause)

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