Customer Relationship Management: How Casinos are Taking Advantage of Technology to Improve and Retain Customer Relations

Chang-tseh Hsieh

University of Southern Mississippi
Hattiesburg, MS 39406
601-266-6124
e-mail: Hsieh@cba.usm.edu

Michael D. Barnes

University of Southern Mississippi
Hattiesburg, MS 39406
601-266-4653
e-mail:Michael.Barnes@usm.edu

ABSTRACT

Customer Relationship Management, or CRM for short, is a rapidly growing business practice used today in the gaming industry. As competition increases and customer bases and markets grow larger, it is becoming more important for companies to maintain and grow their market share. Gaming has championed the practice of customer relationship management. For years since the advent of the player's card, a casino can keep track of a customer's name, address, average bet, and win loss theoretical based on length of play. With CRM, casinos can take the customer relationship on a much larger scale.

INTRODUCTION

Customer Relationship Management is a new marketing practice in business today. Companies want to get more information about their customer in order to maintain market share and build customer lifetime value. Later in this paper we will discuss the importance of customer lifetime value, particularly in the casino industry.

Many industries use a form of CRM in one way or another. In the airline industry, many companies utilize frequent flier programs in order to cater to their best customers to ensure their loyalty to the company (Esse 2003). Financial institutions gather millions of bytes of data on customers in order to market and promote their services to the most valued customers (Alton and Wiryawan 2004). The hospitality industry, casinos in particular, truly values the importance of customer relationship management. In the hospitality industry, you are always in contact with the customer. With such a large customer base, casinos really to need to get to know their customers on a more personal level just because of the intimate relationships forged on a daily basis.

Casinos have typically been at the forefront of realizing the enormous value of truly detailed customer information and using this information in managing their customer relationships. Data on player statistics, such as average bet, duration of play, and win/loss have been a part of almost every casino's information system for several years. For example Harrah's Casino has taken customer intelligence to a whole new level. Harrah's uses it CRM data warehouse as a marketing workbench to track twenty million guests visiting any of its casinos, restaurants, hotels, or entertainment locations. It's patented WIN network allows the company to analyze customer preferences, predict visit frequency and desired rewards, manage promotions and personalized offers, and most importantly, drive marketing campaigns that have effectively generated over 20 percent growth in profitability since implementing the CRM strategy (Loveman 2003). On January 15, 1998, Harrah's stock (ticker symbol, HET) traded at around $19.50. On January 15, 2003, it traded as high as $38.49, almost twice the price, at a time when market value of the industry as a whole had declined by more than 25% (Kale 2003).

This paper introduces the key facets of CRM in the gaming industry and goes on to discuss the important factors accounting for both the success and failure of CRM ventures, It questions the implicit notion in the minds of many managers that CRM is all about technology. As we shall proceed to discuss, technology is one *small*, albeit *vital*, part of the CRM technology. A sound customer strategy, executive commitment across the board to CRM philosophy, customer-centric processes, appropriate metrics, dedicated internal marketing, and a thorough understanding of customer lifetime value are more important to CRM success than technology (Kale 2003).

OBJECTIVES OF CASINO CRM

According to Kale (2003), CRM helps a casino in achieving one or more of the seven objectives listed below.

Providing better customer service through customization.
Coding (grading customers).
Routing (e.g. making call centers more efficient).
Targeting specific customers with appropriate offers and promotions.
Sharing customer information across the enterprise.
Improving cost management.
Increasing profitability (through grading, targeting, and retention).

Customization of Customer Service: Mr. Bling-Bling is a famous music celebrity who likes to gamble at the Big Ballers Casino in Vegas. One of his requirements while he is staying at the casino is he always has to have a bottle of Cristal no matter where he is at. Given Mr. Bling-Bling's high roller status, the CRM system used at Big Ballers casino should be able to provide limo services, room service, and the food and beverage department with information on his favorite drink. This small piece of customization will go a long way to help Mr. Bling Bling feel valued at Big Ballers Casino.

Coding Customers: You have two different customers. One is a wealthy businessman from China. We'll call him Mr. Lee. Mr. Lee plays Baccarat and Pai-Gow Tile. He visits the casino about four times a year. He usually bets about $5000 a hand. His credit line with the casino is $1,000,000. Then you have Anna Mae Johnson. She comes with a bus junket from Pensacola, Florida. She loves playing Nickel slots. If the casino has Penny slots, she will play those too. She usually frequents the casino about twelve times a year. Her average budget is about $75-$100 a trip. Both Mr. Lee and Ms Johnson are important customers. As individuals though, each person should be treated differently. Basically, Mr. Lee can move a company's balance sheet up or down in one visit. Ms Johnson is important in the fact she is part of the casino's largest market segment. An efficient CRM system can classify these two individuals into the proper segments and gear offerings accordingly.

Routing Customers: This concept coincides with the coding customers concept. Both Mr. Lee and Ms. Johnson call into the casino at the same time to make show booking for the same event, and there are not enough reps to handle both calls, the call center should tend to Mr. Lee first while politely putting Ms. Johnson on hold. An efficient CRM system provides appropriate customer information, and in turn, callers are routed based on their importance to the organization.

Targeting Customers: Certain promotions are offered to certain customers based on their worth to the casino. Mr. Lee would normally be offered all room, food and beverage comped by the casino. He would be put up in the best suite in the hotel. Ms. Johnson on the other hand would be given some free buffet passes and some free play on her player's card. These marketing efforts are tailored specifically from information CRM can derive about each player. Targeting various customers with the right promotional offers is a critical function of CRM.

Sharing Customer Information: Not only is CRM effective for Casino Marketing purpose, CRM is also effective for all other departments that touch the customer. For example, if a customer walks into a buffet and swipes his card for his complimentary meal, the personnel has all of the information about their customer right at their fingertips. They should not have to ask the customer's name or what room they are staying in. This helps make the customer feel more valued. Sharing customer information is also very useful when it comes to cross-selling between properties. If you have a customer that frequents a certain casino, and they want to visit a "sister" property in another state, a CRM system can provide all the information about the customer to the other casino. So when that customer arrives at the other casino, the staff can welcome the customer and provide to that customer's need. This technique is similar to retail practice known as same store sales, which is covered later in this paper.

Improving Cost Management: The problem with players' card systems is that they could not differentiate between a player who frequented a casino once every two years and a player who frequented once a month. So casino companies would send promotional offerings to the customer that rarely visited just as much as they would send promotional offerings to the regular customer. An effective CRM system can mine and sort data according to who will use the promotions. CRM can help cut down on wasting marketing dollars. CRM also would increase loyalty to the customers that actually used the promotions on a regular basis.

Increasing Profitability: Research conducted by the Gartner Group (2001) suggest a positive correlation between a company's CRM maturity and it profitability. There are two ways to justify an investment in CRM- through increased revenues and through reduced costs. A good CRM solution should ideally enhance the bottom line in both these ways. Effective CRM improves productivity levels, workplace environments, and customer retention, thus increasing

(Rembrandt 2002). High customer retention means savings in acquisition costs for replacing customers who would otherwise be lost to competitors. Appropriate segmentation, precise targeting, and thorough understanding of customer lifetime value achieve high levels of customer retention. Effective CRM also results in the savings in the cost of servicing customers. A good CRM system will accomplish these results without compromising customer service. It will inform casino operators that they should invest in the likes of customers we have already met, such as Mr. Lee, Ms Johnson, and Mr. Bling Bling. It will also guide direct mail campaigns such that only relevant materials and invitations are sent to these individuals, thereby minimizing the unnecessary wastage in direct mail campaigns and other similar programs.

How CRM Technology Works in the Casinos

Harrah's entertainment has $75 million worth of Web, direct mail, telephone and customer-analysis systems. Harrah's plans to install an automated campaign and contact management application that will run in near real time, said John Boushy, the company's CIO (Songini 2001). During the next two years, the system is expected to electronically tie together Web and e-mail campaigns, front desk services and even slot machines. For instance, if a customer played a slot machine for four hours in the afternoon, the system could advertise a lunch special on the machine's screen, said Boushy. The struggle is how to integrate all of the capabilities seamlessly (Songini 2001).

Socioeconomic databases, loyalty cards, the cross-matching of credit card data with other files; they're all at work in the gambling business. These aren't things that supermarkets, banks or retailers don't do. But casinos have become masters of CRM, having mined more complex customer data on a larger scale for a longer period of time than just about any other industry.

Loyalty cards are the key. At a typical casino, when a player swipes his card at a table game or slot machine, a network of databases jumps into action. The system captures, among other things, how long the person plays, how much he wins and loses and what his betting strategy is. It can compare statistics from previous visits and provide real-time hints to casino workers about how to treat a given customer, based on how much he is worth to the company. Customers, meanwhile, collect card points as they gamble, eat, shop or see shows, which they redeem for prizes, such as free hotel rooms or tickets to hot shows. For example, MGM Mirage can sort its 6 terabytes of data on Microsoft Corp. SQL Server databases to tell you which of its 9 million customers are poker players who also like onions on their hamburgers (Nash 2001). MGM Mirage's goal is amass producing a high roller experience for the common person, according to Glenn Bonner, CIO at MGM Mirage in Las Vegas (Nash 2001). Basically whatever a customer does gets tracked and logged in the system.

Casinos do what other industries do but are more sophisticated about it, partially because of the unforgiving conditions in which the technology has to perform. Casinos are always open, so there is no down time for backups and database updates. To make CRM work, casino employees need data as soon as possible—while the customer is standing in front of them. Usually an Ethernet network quickly moves that customer data to touch screen terminals used by pit bosses, hotel clerks, restaurant hostesses and others.

Strict gambling laws mean casinos must be more careful marketers than other kinds of companies. Some financial institutions routinely send credit card promos to minors, even toddlers. Casinos don't send direct marketing material to underage people. In some ways, casinos are more mindful of privacy than other companies. For example, New York-New York Hotel & Casino, which is owned by MGM Mirage, stipulates in its membership agreement that points "may not be transferred upon death or as part of a civil or domestic relationship matter" (Nash 2001).

CRM IMPLEMENTATION

CRM implementation can also bring competitive advantages over rivals who also use a CRM strategy. At Harrah's CRM is so strategic they have won seven patents for various parts of its customer tracking systems. One critical patent covers Harrah's method for consolidating gambling and hospitality data from its 23 properties. Information about those activities is culled from local databases and consolidated into a central patron database. In this situation, Harrah's patents give it a business edge. According to John Boushy, CIO of Harrah's, if a competitor wants to consolidate data from their own multiple properties, they have to come to Harrah's or run the risk of a lawsuit. Harrah's may license its intellectual property or settle on some other form of compensation (Nash 2001).

In using CRM tools, Harrah's takes an analytical approach in using their information. Harrah's uses Teradata data warehouse program from the NCR Corp. that stores all of the customer information they have. On top of that program, they deploy the Cognos Impromptu query tool from Cognos Corp. Both of these programs run on top of their AS/400 systems in Las Vegas. Marketing managers use the Cognos business intelligence tools to query and access the data warehouse, which is populated with customer information from the company's custom built legacy systems, which run on UNIX hardware. Marketing managers can also do predictive modeling using data tools from SAS Institute Inc. In addition, Web-based tools from Cognos let customer service representatives access information via Web browsers over the corporate intranet (Chen 2001).

One big strategy that the MGM Mirage employs with its CRM is a consolidated customer database (CCD). MGM Mirage counts the MGM Grand, the Bellagio, the Mirage, New York-New York and Treasure Island among the Las Vegas hotel-casinos it owns. MGM Mirage designed a CCD to help build more customer loyalty by making sure that when customers walk into any of its properties they'll be treated differently when they walk into one of their competitor's properties. MGM Mirage's CCD collects customer data from the all of the company's properties and makes it available to appropriate on-site personnel, including front desk agents, pit bosses and casino hosts. The technology behind CCD uses eXtensible Markup Language (XML) and Microsoft Message Queuing Services (MSMQ) to route customer transaction data from each hotel into a central Microsoft SQL Server 2000 data warehouse. XML provides standardized format for the data coming from a variety of systems; MSMQ provides guaranteed delivery of that data as it is sent from each location to the data warehouse or central data store (Kelly 2002).

Thanks to the CCD, visitors can gamble, eat, drink and shop at any MGM Mirage property and have the charges forwarded to their main hotel. And customer service personnel have a multitude of information to help them be more proactive in keeping their customers happy. For example, a pit boss at Treasure Island could see that a card playing customer was registered at the Bellagio and that his favorite restaurant is one at the Mirage. The casino host might then give the customer a complimentary dinner at that restaurant. Similarly, the VIP concierge at the Mirage might analyze the customer's history and line up some complimentary show tickets to his favorite show at New York-New York. These types of instances, according to Tracee Nalewak, Director of CRM Operations for MGM Mirage, are called "cross-selling" between properties (Nalewak 2004). The CCD system at MGM Mirage brings them a higher level of visibility and understanding of their customer base. This can't be done without technology.

Foreshadowing what's to come in CRM, some casinos plan to add wireless technology and advanced storage-area networks (SAN) to the mix. MGM Mirage is working directly with Dell Computer Corp. to make SANs more flexible. Bonner said he would like to switch the casino systems to alternate servers when he upgrades host servers and have the SAN running all the while. Presently, the SAN must come down during server upgrades. Harrah's wants to become "totally device independent" by letting users access the company's extensive databases via PCs, handheld computers, even cell phones (Nash 2001).

TECHNOLOGY VS. TRADITIONAL

For years now, casinos went with the thought, "if you build it, they will come" attitude. Now companies are looking at ways to improve customer loyalty at reduced costs. Usually those two don't work hand in hand. With CRM, companies are leaning towards technology in order to grow and maintain market share. Harrah's has been at the forefront with the utilization of technology and CRM in particular.

While other casinos on Las Vegas' famous strip are luring customers with extravagant rooms and entertainment, Harrah's is placing its bet on CRM technologies that allow it to track and analyze the behaviors and preferences of its customers as they rove the casino floor in search of a hot slot machine—or even as they travel one from one the company's 23 clubs to another. So far the initiative has paid off like a loose slot machine in the form of increased gaming revenues and customer loyalty (Chen 2001).

Like many other casino operators, Harrah's has for several years been collecting information about customers' gaming preferences by using a frequent gambler program called Total Rewards. Customers receive encoded ID cards they can insert into the slot machines they're playing. Players collect points and rewards for gambling, and Harrah's collects information about gamers' preferences (Chen 2001).

Total Rewards was started in 1997. It was designed to provide regular customers with incentives to visit Harrah's properties throughout the country. Of course like most players' card systems, Total Rewards could not differentiate itself from its competitors efforts as well. Also, customers earned different rewards at different properties within Harrah's. Lastly, customers were not given any incentives to consolidate their gaming with Harrah's. This is where CRM technology and philosophy come into play. Harrah's built quite the database of customer information, transactional data points about customers, and gambling spending and preferences. Harrah's focused on a loyalty strategy basis on same-store sales growth. Same-store-sales is a retail loyalty strategy. The goal is to get the customer to visit your store regularly, just as he might visit the barber or mechanic (Loveman 2003).

When companies do formal calculations, they often find the 80-20 rule applies – the top 20% of their customers account for 80% of their revenue. In some companies, it is 90-10 (Ulfelder 2003). Harrah's discovered that 26% of gamblers who visited generated 82% of their revenues (Loveman 2003). Amazingly the majority of their customers were regular everyday people, not the multi millionaire jet setting customer most companies fawn over. So Harrah's set out to maintain those customers. They saw the importance of customer lifetime value. So now the Total Rewards program has grown into a three tiered program. The program breaks customers into different groups based on their theoretical worth to Harrah's. With this marketing approach, the higher the tier the customer, the more perks and benefits you get. Customers aspire to get the next tier. This in turn makes the customer want to spend more of their gaming budget at Harrah's. CRM allows Harrah's to slice and dice information in their database to tailor their marketing efforts towards their customers.

SUCCESSFUL TRAITS TO CRM

According to Insight Technology, a consulting firm in Boulder, CO, they conducted a study of 202 CRM projects in 2003 and found that nearly one-third of the companies reported not return on their efforts, while slightly more reported only minor results (Breidenbach 2000). Among the successful projects, Insight found six universal traits:

Executive sponsorship (buy-in): This is probably the utmost important requirement to have in order to make CRM a success. CRM without executive level buy-in never succeeds. Selling your CEO on a CRM project is a lot like selling something to a new sales prospect. Unless you go in with specifics – cost, benefits and possible outcomes – it's unlikely you'll succeed. The first step is to outline the company's business processes, see what systems were already in place to handle those processes and identify gaps in the coverage. It is extremely important to meet with each department that CRM touches, and make sure the module meets all of their requirements. Once everything is in synch, it makes things easier. You know ahead of time if you have to change anything.

Some upper-level managers erroneously think a software installation falls under the IT department's guidance and want nothing to do with it. This way of thinking can be very detrimental because CRM programs benefit the entire company. Plus executive level buy in has a cascade effect. Once upper management is excited about a project and communicates that excitement to the rest of the company, it's more likely a CRM project will succeed. Getting the CEO involved before embarking on an installation can help keep customer service strategies aligned with the corporate strategy. The CEO should help solidify a plan of action, from which department will be the first to roll CRM out to how much money should be allocated for training (Bannan 2003). If Harrah's never obtained approval from the likes of Phil Satre (former CEO) and Gary Loveman (current CEO), Harrah’s would not be at the forefront of the CRM revolution.

Processes first: Before deciding on any software, look at where the weak spots lie in your customer interaction process. A situational analysis of the company’s current value propositions, customer segments, and ROI objectives should pinpoint areas and processes most likely to benefit from CRM (Kale 2003).

Technology fit: Find technology that will address your most pressing customer interaction need. Along the way you can invest in more complex technology as your CRM initiative evolves. Make sure that the basis you start with in CRM can be extended in the future with the ever changing technology.

Expertise: Evaluate internally the technical skills of the people that are going to help implement CRM. Fill any gaps with hiring and outside consultants. Make IT help provide training and help desk support. Without adequate training, it is hard for those responsible for making CRM happen. Ongoing training at every level us needed to ensure that the organizational change so essential to CRM is achieved and sustained. For example in 1998, in order to get CRM rolling for Harrah’s, they had to train all of the employees in a matter of five months. At the Rio Casino & Hotel, which Harrah’s owns, they ran 200 sessions with 20 people in each to get through 4000 employees. At the end of the program, you had to pass a test—otherwise you could not keep your job (Becker 2003).

Start Small: Implement a relative simple CRM component first, especially in the users are not particularly computer savvy. Small measurable goals are achievable in the short and mid term range. It may not be possible or desirable to automate all CRM functions at once. It makes sense to pick a small functional area like a call center to spearhead the CRM program (Kale 2003). For example at the MGM Mirage, their CRM is fairly new. Call center operations for Casino Marketing head-up the CRM program currently in place. Their goal is customer retention and keeping customer loyalty. They are not quite analytics driven as Harrah’s. One day that may happen.

User Buy-In: As soon as CRM starts, initiate an ongoing campaign to sell users on the concept. Like the old saying goes, “change is inevitable”. Training is the key. Yet training is the most under budgeted area in CRM implementation. According to crmindustry.com, they conducted a study in August 2001 and found out of 100 companies that 63.2% don’t have a formal training program to help gain employee acceptance and usage of CRM applications, but only 11.8% of companies reported this as their biggest internal challenge (crmindustry.com, 2001). This all goes back to executive level buy-in. If the initiative is not supported from the top, why expect everyone below to buy into the process.

CUSTOMER LIFETIME VALUE

An important aspect to focus on in measuring success in CRM is the customer lifetime value (LTV). LTV is the estimated profitability of a customer over their entire relationship with a business. Customers who understand customer value are 60% than those that do not (Kale

2003). A mere 5% increase in customer retention can lead to 25-85% increase in profits (Kale 2003). Therefore, understanding customer lifetime value is critical in increasing company profits.

In order to understand customer lifetime value in a casino, you must first look at a casino's typical customer segments: Prime Customers, Mobile Customers, Valued Customers of Tomorrow, and Incidental Customers (Kale 2003).

Prime Customers: This is the casino's most desirable customer segment. Game of choice is table games. These customers tend to be local customers who frequent the customer twice a week. They usually play for eight hours and average about $200 a hand. Average patronage is eight years. Attrition rate is about 12.5 percent. These customers are key. They are usually low frills. All they want to do is play and hopefully go home with more money than they came with. They are there to gamble. They are not really interested in seeing shows or relaxing poolside.

Mobile Customers: This is the smallest segment of the casino's customer base. Mobile customers are the highest volume producing customers for the casino. They expect to be treated like royalty no matter where they are in the casino. Their average relationship with a casino lasts about six years and they visit about twice a year. The game of choice is usually Baccarat. Average bet is around $5000 a hand. In casino circles, people refer to these high rolling customers as "whales". A typical whale though spends a minimum $1,000,000 a visit (Ulfelder 2003). Since $5000 a hand may or may not equate to millions, I consider anyone who spends that amount of money, in a matter of seconds, a "whale".

Valued Customers of Tomorrow: These customers are typically male customers 18-24 years old. Usually the game of choice for these customers is craps or black jack. This group loves to party and have a good time. Usually you will see them in the casino bar and lounge. Their relationship with a casino averages about six years. They usually have above average net worth. Typical bet is about $25 dollars a hand. They also like spending their money on entertainment and food at some of the pricier restaurants. They want to feel like a high roller even if they are really not. They are an important segment because they are young and their personal net worth usually increases over time.

Incidental Customers: These are the risk avoiding customers. They usually don't gamble too much. Usually they will come to casino to watch other people gamble or come to the casino for something other than gambling, e.g. to eat at a restaurant or watch a show. If they do gamble, they may spend at the most $20.

All of these segments are important. Of course prime customers are the most important because they comprise the largest segment of gamblers. Mobile customers are not that loyal, a casino has to really cater to their needs in order to keep them happy. Valued customers of tomorrow can grow into a prime customer over even a mobile customer as long as they are treated right so they keep coming back. Incidental customers are important for other revenue producing departments. Marketing dollars should not really be spent on these customers unless the company knows they can exceed their cost in offering a promotion to this customer. An effective CRM program can help personnel in differentiating between these different segment bases and gear the marketing efforts of the casino appropriately.

CONCLUSION

Companies like Harrah's and MGM Mirage have already placed large bets on CRM. This paper looked at the keys to success for a smooth transition with CRM. Attention to the current resources readily available is more important than the amount of money spent on elaborate systems. It truly is what you do with that information in order to benefit from CRM. The process starts from the top. CRM will not fail if you plan accordingly. Companies need to fully recognize value of customers over time. Technology is a part of the CRM puzzle, but companies cannot just focus on the technology behind it all. CRM is philosophy and business practice. Once you start focusing on just the technology, you are doing the company and customer a disservice.

The future of CRM lies in the hands of employee. Once CRM is established, it is people that deal with the customer on a day-to-day basis to ensure that the customer is truly being catered to. CRM forces companies to handle business differently. It is like a lifestyle change. You definitely want competent people that can carry out the initiatives. Gary Loveman put it best, "jobs don't belong to people, jobs belong to the company. It is the company's responsibility to get the most capable people it could find to do the job." Having competent workers and a talented management are keys to a successful customer service initiative like CRM (Becker 2003).

With competition growing into areas outside of Las Vegas like Indian reservations, other states, and even online, it is becoming more difficult to attract and retain new customers. This will only get harder in the future as more states are allowing casinos into their communities. CRM will help companies focus harder at their customers in order to keep them coming back. As long as companies focus on their business strategies and the people they have in order to make this technology work, CRM can definitely help grow the business.

(References and complete copy of the paper available upon request)