

Know When to Hold Them: Applying the Customer Lifetime Value Concept to Casino Table Gaming

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ABSTRACT *This article considers the impact of relationship marketing in the casino gaming industry. It illustrates how 'customer lifetime value' (LTV)—the estimated profitability of a customer over the course of his or her entire relationship with a company—can be uniquely and successfully applied to improve casino profitability. Findings indicate that increasing customer retention rates for prime customers and upgrading middle-tier customers to higher-volume betting tiers can both significantly increase long-term casino profits. Implementation of such a strategy also reduces a casino's reliance on the high-risk 'junket' segment for achieving targeted revenues and profits.*

Introduction

The phrase 'customer relationship management' (CRM) first entered the management and marketing literature just over a decade ago. It has since been well documented that relationship marketing efforts are only worthwhile to a firm if those relationships endure (Reinartz and Kumar, 2000). In order for CRM to be profitable, companies must be able to retain customers over long periods of time. In fact, a mere 5% increase in customer retention can, depending on industry, lead to a 25% to 85% increase in profitability (Reichheld, 1996). This 'leverage' or 'loyalty effect' can be attributed to long-term decreases in costs of servicing established customers and long-term increases in customer revenues. The underlying premise is that the long-term retention of customers significantly impacts on a company's net present values. Customer lifetime value (LTV) is the estimated profitability of a customer over the course of his or her entire relationship with a company. A recent study by Deloitte Consulting (as cited in Fredericks, 2001) shows that companies who understand customer value are 60% more profitable than those that do not. Thus, understanding and correctly applying LTV is an important factor in increasing a company's profits.

Creating long-term relationships with customers can be a costly undertaking. In 1999, companies spent an estimated US\$34 billion on CRM services alone (Sheth and Sisodia, 2001). CRM practice implies that it is financially worthwhile for the company to form relationships with its customers. Before making significant outlays on CRM-related products, companies must be certain that they are going to reap the rewards for their customer retention efforts through higher profits. This is where the concept of LTV becomes extremely important. LTV uses basic profitability measures to calculate the profit potential of customers over time. Most companies find that 20% to 40% of their customers are

not profitable at all or are only marginally profitable. Conversely, 20% of a firm's customers usually account for about 80% of the firm's profitability. LTV can be used to determine which of a company's customer segments are most profitable. Armed with this information, a business can decide where best to allocate resources in forging long-term customer relationships.

Currently, findings regarding the effect of customer retention on increased profitability are rather volatile. Reichheld's (1996) study alone offered a 60% variation in results. This variation could be impacted by the differences in the types of relationships and customers across industries. Thus, as has previously been established, consideration of the 'loyalty effect' across industries is warranted (McDougall, 2001). This article illustrates how LTV can be uniquely and successfully applied within the casino gaming industry. We first discuss the structural characteristics of the industry that make it appropriate for successfully applying CRM and LTV. A set of sample LTV calculations for two table games are then presented to demonstrate the significant impact that correctly targeted allocation of CRM resources can have on improving casino profitability. Finally, managerial implications and directions for future research are offered.

Usefulness of Applying CRM and LTV to the Casino Gaming Industry

CRM is meant to create long-term mutually beneficial relationships with customers by developing stronger customer loyalty and reducing supplier transaction costs (Davids, 1999). This customer-focused business model also goes by the various names of relationship marketing, real-time marketing, customer intimacy, and a variety of other terms.

Cahners In-stat Group (2001) projects that total CRM software application revenues will increase from US\$9.4 billion worldwide by the end of 2001, to approximately US\$30.6 billion in 2005. However, a study conducted by Insight Technology Group and CRM Insights in the year 2000 showed that 75% of CRM programs were yielding little or no benefits for their companies (Turchan and Mateus, 2001). Sheth and Sisodia (2001) report that 60% to 80% of CRM projects do not achieve their goals, and between 30% and 50% fail outright! Rather than jumping headlong into an expensive CRM program, it is crucial to determine whether forming long-term customer relationships is an appropriate strategy for increasing a firm's profits.

LTV is the profitability of a company's customers over the lifetime of their relationship. To successfully apply LTV, a company should be able to meet a few basic criteria. First, it must be in the best interests of a company to form long-term relationships with its customers. Second, customers must be able to be measured and separated with respect to their profitability to the company. Finally, in order to be able to manoeuvre customer profitability, services must be able to be differentiated across customers. The casino industry meets each of these three criteria.

Forming Long-term Relationships with Customers

Long-term relationships are not financially beneficial in all industries (Berger and Nasr, 1998; McDougall, 2001). We shall examine the nature of the casino industry, using the Australian gaming market as an illustration, to assess whether casinos could benefit from cost/benefits-driven CRM analysis.

Industries that can benefit from CRM have four common characteristics. The first is that they have to have high customer retention rates. Because casinos in Australia hold regional monopolies and demand for gaming is relatively inelastic (Productivity Commission, 2000), it is reasonable to conclude that retention rates of casino customers would be relatively high. Even in the United States or Europe, where several casinos could be clustered within a given geographic area, CRM programs such as players' cards or loyalty cards have met with considerable success (Nash, 2001).

Secondly, industries suitable to CRM have to bear significantly higher costs to attract new customers than to retain existing ones (McDougall, 2001). The number of consistent casino table games players in the industry is quite low (Australia's Productivity Commission reported that only 18% of casino table gamers played more than once a month). Coupling this casino table gaming statistic with information about regionalisation and inelastic demand, it is reasonable to conclude that the cost of retaining existing casino table gaming customers is far lower than attracting new ones.

The third characteristic is the ability to calculate profit at a customer level. Casinos routinely calculate profitability at a customer level by knowing what games customers play, the house advantage, customers' average bets, and for how long they play. Finally, CRM-appropriate industries have the ability to easily segment customers based on volume and profitability. Casinos clearly base segmentation on volume and profitability, as evidenced by the familiar terms 'high-roller' and 'whale' used to describe extremely high-volume customers. Because gaming profit is based on a theoretical house win over the long term, high customer betting volume is directly correlated to high profit potential.

Thus casino table gaming seems ideally suited to the application of CRM principles in order to increase profits. Yet not many casinos around the world have explicitly adopted the LTV approach in designing their marketing strategy for table gamers. With table games revenues steadily declining in relation to slots, it is vital that casinos manage their table games with a clear mandate of retaining their best customers.

The one area where casinos excel in applying CRM strategies is in the slot machine (gaming machine) market. Loyalty program cards allow for sophisticated tracking of customer spending in order to analyse their potential LTV and tailor individual future marketing efforts towards profitable prospects. Harrah's offers a good example of successful use of a 'slot club' loyalty program (Ashbrook-Nickell, 2002). A player's slot club card transfers customer data to a central database. The data collected include such things as the number and types of machines played, amount spent on each machine, number of individual wagers and average bets. A software program then uses all collected information to develop a detailed profile of every customer that can be used to determine potential future profits. The data compiled in the process can subsequently be used to develop tailored marketing programs, including appropriate segment-level incentives for customers, and promotional programs customised toward a specific segment. While casinos have tried to extend these techniques to table gaming, results have been slow in coming. A better understanding of table customer segments and their LTV potential may help casino managers to develop more relevant and precisely targeted promotional programs for that market.

Segmenting Casino Gaming Customers

Implicit in understanding customer value is the realisation that companies do not have to serve all customer segments equally well. Keller Johnson (2002, p. 14) reinforces this sentiment by advising that 'an enterprise should not raise customer-service levels across the board. Instead, it should provide better service to customers with higher L[T]V.' More profitable segments should earn better service than less profitable ones. In other words, a cost/benefit analysis of improving services to retain different types of casino customers should be conducted using house odds and player betting habits. As was suggested in the previous section and will be numerically demonstrated, casinos can easily measure the current and projected profitability of its various customer segments. Revenue calculations are based on a player's average bet, hands per hour and length of play (Makens and Bowen, 1994). Direct incentives or 'comps' may then be subtracted from this figure to determine a customer's profitability. Therefore, making determinations about relative value of casino table game customers is relatively elementary.

Serving different customers with different levels of service first requires the ability to divide customers into different tiers. Zeithaml *et al.* (2001) offer criteria for creating a tiered customer segmentation system. First, they stress that usage is not the only criterion for creating meaningful tiers. They emphasise that profitability is an even more important criterion. This concept is uniquely dealt with in the gaming industry because of the implicit relationship between high volume and profitability. There are four conditions under which creating tiered customer segments becomes viable. A company must first be able to determine different and identifiable segment profiles. For example, the high-roller segment generally gambles in extremely large volume and expects significant perks and discounts from casinos interested in its business (MacDonald, 2001). Next, different tiers must view service quality differently. Again, high-rollers expect a significantly different level of service compared to the average once-a-month low-betting casino table player. Third, the impact of improved service quality on profitability varies greatly across tiers. High-rollers are currently offered incredibly high levels of service across the industry. Offering them even higher service levels could potentially erode profitability, while offering other segments improved services could increase their spending, and hence the casino's profitability. Finally, different factors drive incidence and volume of new business across tiers. For example, the type or amount of perks offered to a junket may influence business from high-rollers, while seasonal tourism may impact business from more casual customers. By appreciating these differences across segments, casinos are better able to adequately separate customers into different tiers.

We have developed a two-by-two taxonomy of casino customer segments based on customer profitability and level of relationship with the casino. While the data used for describing the various segments (and used as the basis of our computations in Tables 1 and 2) are industry-wide aggregate data for the whole of Australia, the conceptual underpinning of the segments identified here should be applicable to all casinos regardless of location. Individual casinos can input their own figures as to segment size and average bet in order to arrive at the LTV of each segment and the dollar value of increased retention across the four

segments. Figure 1 depicts the four identified customer segments for table games.

'Prime customers' represent the casino's most desirable target customers. This segment includes high-volume gamblers usually comprised of brand-loyal individuals with a high net worth. They are often local and are the casino's most frequent gamblers. Their main gaming interests lie in table games.

'Mobile customers' (sometimes known in the gaming context as 'tier-2 and tier-3 premium players') comprise less than 1% of a casino's customer base, but are also the highest volume customers (Productivity Commission, 2000). This segment chooses providers on a transaction-by-transaction basis. Customers constituting this segment negotiate heavily for extremely high levels of added service before committing their business to any casino. These added services can cost as much as 50% to 70% of the theoretical house winnings based on player turnover (MacDonald, 2001). Thus, from the standpoint of the casino, the process and level of cost is similar to winning a new high-volume customer with every transaction. Junkets and a few individual high-net-worth international players also fall into this segment.

'Valued customers of tomorrow' would include the majority of the 18% of table gamers who gamble more than once per month. Players falling in this category in Australia are generally 18 to 24-year-old males (Productivity Commission, 2000). In relation to their cohorts, these individuals have above average net worth and a serious interest in gaming. They are also likely to be local and frequent customers. While their volume of gambling is quite high, their individual average bets are at a far lower level in comparison with prime customers. It is possible that some customers in this segment could become prime customers as their net worth increases over time.

'Incidental customers' are usually the curious and casual gamblers who are not really interested in gaming. They would include the occasional gambler who bets less than once a month. Often they are there more as spectators, or to partake of other services offered by a casino such as the bars, shows or restaurants. Undesirables often fall into this segment as well, those who act inappropriately and disturb more valuable clientele.

Applying Service Differentiation to Casino Table Gaming Segments

Having determined that a company is able to identify meaningful customer segments, it then needs to consider the development of appropriate customer service tiers to suit those segments. Zeithaml *et al.* (2001) consider a tiered service system appropriate when seven criteria exist.

1. Service resources are limited. This should reasonably apply to any hospitality organisation delivering services to customers and the casino industry is no exception.
2. Customers want different service levels. Casino patrons' service expectations increase as their betting volumes increase. The existence of high-roller clubs and VIP rooms in casinos is evidence that customer tiers already exist in casinos. MacDonald (2001) reports that many mobile high-rollers will negotiate for the highest possible levels of service from competing casinos because they believe they deserve the highest customer tier status.

Table 1. LTV calculations and impact of increased retention rates across segments

Game played Betting assumptions	6-deck Blackjack				Baccarat			
	PC	MC	VCT	IC	PC	MC	VCT	IC
Average relationship length (years)	8	6	6	3	8	6	6	3
Attrition rate	12.5%	16.7%	16.7%	33.3%	12.5%	16.7%	16.7%	33.3%
Retention rate	87.5%	83.3%	83.3%	66.7%	87.5%	83.3%	83.3%	66.7%
House advantage	0.50%	0.50%	0.50%	0.50%	1.25%	1.25%	1.25%	1.25%
Average number of visits per year*	104	2	24	2	104	2	24	2
Average hours of play per visit	3	48	3	1	3	48	3	1
Number of hands played per hour	54	54	54	54	100	100	100	100
Average bet per hand (\$)	200	5,000	25	10	200	5,000	25	10
Average % of takings spent on service	20%	50%	10%	5%	20%	50%	10%	5%
Average LTV per customer (AU\$)	\$107,827.20	\$388,800.00	\$2,624.40	\$15.39	\$499,200.00	\$1,800,000.0	\$12,150.0	\$71.25
% of customer base*	2.5%	0.5%	15%	82%	2.5%	0.5%	15%	82%
% of total revenue	53.4%	38.5%	7.8%	0.3%	53.4%	38.5%	7.8%	0.3%
<i>Effects of increases in retention</i>								
1%—increased revenue per customer	\$9,376.28	\$24,817.02	\$167.51	\$0.48	\$43,408.70	\$114,893.62	\$775.53	\$2.20
2%—increased revenue per customer	\$20,538.51	\$53,018.18	\$357.87	\$0.98	\$95,085.71	\$245,454.55	1,656.82	\$4.55
5%—increased revenue per customer	\$71,884.80	\$166,628.57	\$1,124.74	\$2.72	\$332,800.00	\$771,428.57	\$5,207.14	\$12.57
1%—increase in total game revenue	4.6%	2.5%	0.5%	0.0%	4.6%	2.5%	0.5%	0.0%
2%—increase in total game revenue	10.2%	5.3%	1.1%	0.0%	10.2%	5.3%	1.1%	0.0%
5%—increase in total game revenue	35.6%	16.5%	3.3%	0.0%	35.6%	16.5%	3.3%	0.0%

*Figures estimated from the Australian National Gaming Survey conducted in April 1999 by the Productivity Commission (2000).

3. Customers are willing to pay for different service levels. Following MacDonald's discussion, currently customers who play higher betting amounts in the hope of winning big believe that they are also paying for a higher level of added service.
4. Customers define value differently. Some customers may consider the benefit they receive from gambling to be different from others. For instance, among regular Australian gamblers, 66% cite the 'dream of winning' as a reason for gambling, while 65% cite social reasons and entertainment (Productivity Commission, 2000). The perceived value in gambling thus differs across punters.
5. Customers can be separated from each other. Casinos generally separate customers based on betting volume. They may also distinguish regular local customers from other incidental or mobile customers based on visit frequency.
6. Service differentials can lead to upgrade. A low-betting customer who enjoys gambling may begin to spend more money at a casino if she sees that she can start receiving better service (e.g. high-roller club membership) in exchange for increased bets.
7. Finally, customers can be accessed as groups or individuals. Individual high-volume betters are known individually to casino managers, and may thus be recognised as fitting into the 'high-roller' customer segment, based on betting volume. Because casino table gamers are already segmented into at least two distinct tiers, applying LTV and CRM is an appropriate strategy for reaching these customers.

Having established the appropriateness of CRM in the context of a casino, we shall now demonstrate how a casino's bottom-line can vary dramatically based on retention levels across the four segments. We reiterate that though the calculations for this article are based on aggregate data, individual casino operators can engage in a similar exercise for strategic insights into their table games operations.

Applying CRM and LTV to the Casino Table Gaming: An Example

Wyner (1996) points out that there are three basic ways in which a firm can increase its revenues. The first and most commonly recognised method of increasing revenues and profits is to engage new customers (also known as conquest marketing). Another method of increasing revenues is to encourage increased spending by existing customers. This method would involve achieving customer tier upgrades as discussed in the previous section. This option is feasible within the gaming market as statistics indicate that participation in casino gambling increases with income and age (Productivity Commission, 2000). The third option, the maintenance of existing customer spending while reducing transaction costs, should intuitively be the least costly source of revenue. By maintaining longer relationships with existing customers, the LTV of those customers increases exponentially. Understanding and exploiting this facet of CRM can significantly increase the profit potential of the service provider. This section discusses the revenue streams from the four main customer segments identified in this paper. Table 1 provides numerical evidence to illustrate the profit-building power of long-term customers in table gaming.

Increasing Customer Retention Rates

A casino's gross profits increase substantially by simply extending the life span of its relationship with certain customers. Calculations use estimates of relationship lengths, theoretical revenues, servicing costs, and percentage of customer base, so as to determine the profitability of each table games customer segment. Figures used here are based on aggregated published sources as well as on discussions with three casino managers in Australia. Some figures will vary across individual casinos. The relationship length and size of each segment would vary among individual casinos based on location, catchment area, and competition. By simply substituting the aggregate figures used here with their property-specific data, individual operators can evaluate their unique LTV implications across the four segments.

Table 1 suggests that in the case of table gaming, the traditional marketing principle that 80% of a firm's revenue comes from 20% of its customers may not necessarily hold, at least at the aggregate level. Instead, according to the calculations, a mere 3% of table games customers can generate approximately 90% of all table games revenues! Also, the 'prime customers' segment generates approximately 53% of all table revenues. Of course, these data do not account for short-term wins or losses, but are based on long-term statistical odds. In this example we have assumed that the distribution of player types remain the same across table games, and therefore profit ratios between segments also remain consistent across all table games.

Let us now examine how the application of LTV to increasing customer retention rates affects a casino's revenues. Customer retention rates are calculated based on the number of customers lost from a given segment each year. If one out of every eight customers in a segment is lost each year, the attrition rate is 12.5%, thereby making the retention rate for the segment 87.5%. An increase in retention is equivalent to increasing the average life span of that customer segment. As a customer's life span increases, so will his or her revenue and profit generation for the casino. Calculations indicate that increasing the average retention rate of 'prime customers' (PC) by just 2% will yield an average increase of 10% in overall table revenues. Even more interesting, the revenue increase generated by increased retention is not linear; an average 5% increase in PC retention will draw in excess of a 35% increase in overall table games' revenues.

The 'mobile customers' segment (MC) provides a different perspective of how retention can influence LTV of customer segments. This segment is less significant to the casino's long-term bottom line than the PC segment. Increases in retention rates among this segment will not provide profit increases as high as equivalent retention increases in the PC segment. For example, a 2% increase in retention in the MC segment will increase overall table revenues by only 5%, or half as much as the same retention increase in the PC segment. However, the influence of this segment on casino operations should not be underestimated. The calculations shown here are average long-term takings based on odds and do not allow for big wins or losses on the part of the MCs in the short-term. The short-term fluctuations in cash flow of the casino caused by these customers can be significant. The MGM-Mirage, Hilton, and most recently Harrah's (or The Rio, more particularly) have all fallen foul of low-hold percentages as a result of poor win rates brought about by dealing high-limit Baccarat to a select few (predominantly Asian) customers (MacDonald, 2001).

Table 2. LTV comparison table with a 5% tier upgrade in the VCT segment

Betting assumptions	(A) Original position							
	PC	MC	VCT	IC				
Average length of relationship (years)	8	6	6	3				
Attrition rate	12.5%	16.7%	16.7%	33.3%				
Retention rate	87.5%	83.3%	83.3%	66.7%				
House advantage	0.50%	0.50%	0.50%	0.50%				
Average number of visits per year*	104	2	24	2				
Average hours of play per visit	3	48	3	1				
Number of hands played per hour	54	54	54	54				
Average bet per hand (\$)	200	5,000	25	10				
Average % of takings spent on service	20%	50%	10%	5%				
Average LTV per customer	\$107,827	\$388,800	\$2,624	\$15				
% of customer base*	2.5%	0.5%	15.0%	82.0%				
% of total revenue	53.4%	38.5%	7.8%	0.3%				
<i>Effects of increases in retention</i>								
1%—increased profit per customer	\$9,376	\$24,817	\$168	\$0				
2%—increased profit per customer	\$20,539	\$53,018	\$358	\$1				
5%—increased profit per customer	\$71,885	\$166,629	\$1,125	\$3				
1%—increase in total game revenue	4.6%	2.5%	0.5%	0.0%				
2%—increase in total game revenue	10.2%	5.3%	1.1%	0.0%				
5%—increase in total game revenue	35.6%	16.5%	3.3%	0.0%				
Betting assumptions	(B) 5% Conversion							
	PC	CPC	All PC	MC	CVCT	VCT	All VCT	IC
Average length of relationship (years)	8	4	6	6	4	6	5	3
Attrition rate	12.5%	25.0%	18.8%	16.7%	25.0%	16.7%	20.8%	33.3%
Retention rate	87.5%	75.0%	81.3%	83.3%	75.0%	83.3%	79.2%	66.7%
House advantage	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Average number of visits per year*	104	104	104	2	24	24	24	2
Average hours of play per visit	3	3	3	48	3	3	3	1
Number of hands played per hour	54	54	54	54	54	54	54	54
Average bet per hand	200	200	200	5,000	25	25	25	10
Average % of takings spent on service	20%	20%	20%	50%	10%	10%	10%	5%
Average LTV per customer	\$107,827	\$53,914	\$80,870	\$388,800	\$1,750	\$2,624	\$2,187	\$15
% of customer base*	2.5%	0.75%	3.25%	0.5%	0.75%	14.25%	15.00%	82.0%
% of total revenue	49.5%	7.43%	56.95%	35.7%	0.24%	6.87%	7.11%	0.2%
Revenue increase through 5% conversion	8%							
<i>Effects of increases in retention</i>								
1%—increased profit per customer			\$11,623	\$24,817			\$240	\$0
2%—increased profit per customer			\$25,227	\$53,018			\$510	\$1
5%—increased profit per customer			\$85,363	\$166,629			\$1,562	\$3
1%—increase in total game revenue			7.5%	2.3%			0.7%	0.0%
2%—increase in total game revenue			16.2%	4.9%			1.5%	0.0%
5%—increase in total game revenue			55.0%	15.3%			4.6%	0.0%

* Figures estimated from the Australian National Gaming Survey conducted in April 1999 by the Productivity Commission (2000).

The cost of servicing these customers is also extremely high compared to other segments and the overall size of the segment is quite small. Therefore, reducing reliance on MCs for maintaining overall casino profitability would be worthwhile. As Lucas *et al.* (2002, p.75) warn in a recent article, 'Many casino executives assume that the high-roller segment is inherently profitable. Combine that assumption with a misunderstanding of gaming mathematics and you have the makings of a downward profit spiral.'

Increasing the relationship life of 'valued customers of tomorrow' (VCT) would increase casino revenues by only 1%. Therefore, it is not immediately obvious why a casino might want to put effort into servicing this segment. However, as will be discussed shortly, a significant profit opportunity still exists in servicing customers in the VCT segment if they can be upgraded to a more profitable customer segment.

'Incidental customers' (IC), despite making up the majority of customers, seem to provide very little value to a casino in terms of revenues. According to relationship marketing theory, ICs should only be retained so long as the casino is breaking even in servicing them. This segment has its utility to a casino in that it makes the property look busy, thereby enhancing the ambience of the establishment. Also, customers in this segment may spend their money in casino bars, restaurants, gift-shops, and theatres, thus providing revenues for high-margin supplementary businesses on the property.

Upgrading Customers to More Profitable Customer Segments

Table 2 illustrates the comparative effect on revenues of converting 5% of the VCT segment into PCs. It is assumed that the customer life span of converted VCTs (CVCTs) would be four years, or half of the life span of a PC. They would then spend the next four years as converted PCs (CPCs). This implies that conversion would take place halfway through their overall average life span. VCTs have relatively similar profiles to PCs. The only major difference lies in the average size of their bets. Because PCs offer clear opportunities for profit increases through increased retention, it stands to reason that upgrading VCTs to PCs should offer a prime opportunity to further increase revenues. Relationship building with the VCT segment, through the creation of appropriate service tiers, should lead to upgrades to the PC level. Conversion of only 5% of VCTs (labeled as CVCTs in Table 2) into PCs over a four-year period would increase table hold by 8% without any increase in retention rates. By then increasing overall PC retention rate by an average of 2%, the overall increase in casino table games revenue would be 16%, an extra 6% over that gained without VCT conversions.

As in the previous example, revenues resulting from retention are not linear. Increasing overall PC retention by 5%, after the 5% VCT conversion, can lead to an incredible 55% increase in table game revenue. Not only do revenues increase as conversion of VCTs increases, the percentage of revenue derived from MCs also drops, thus reducing the casino's reliance on them for income. Applying the concepts of CRM and customer service tiers thus offers a simple yet compelling approach to substantially increase casino table takings.

		Future relationship value	
		High	Low
Customer profitability	High	Prime customers <i>(PC)</i>	Mobile customers <i>(MC)</i>
	Low	Valued customers of tomorrow <i>(VCT)</i>	Incidental customers <i>(IC)</i>

Figure 1. Taxonomy of casino customer segments

Managerial Implications and Directions for Future Research

Wyner (1999) maintains that three elements are needed to appreciate and practically apply the notion of customer profitability: the concept and its measurement, its link to strategy and business design, and the implementation issues that accompany it. The simple calculations presented in the previous section meet these three criteria and offer salient strategic insights for casino operators. Findings indicate that increasing PC retention rates and upgrading VCTs to PCs can substantially increase a casino’s table takings. By successfully converting 5% of VCTs to PCs, casino tables can increase their revenues by an average of 8%. VCTs closely resemble PCs in terms of gaming frequency. The more transactions or experience customers have with a company, the more likely they will be to repurchase (Bolton *et al.*, 2000). With proper understanding of their VCT customer base, table operators should be able to determine which VCTs have the best potential for conversion. Because VCTs’ disposable incomes increase over time, conversion may be slow. It is important to learn to recognise VCTs with high conversion potential and to groom them slowly over time to become future PCs. This can be achieved through customer relationship management and the development of meaningful service tiers for various segments.

Customers remain loyal because of the value they receive from a company (Reichheld, 1994). However, a wide range of features that change over time drive the value that each segment receives. Individual casinos must understand the different benefits their customers derive from their services and determine how elements of their services differ in terms of customers’ value perceptions. They should then develop services to best meet individual customer segment needs, while still offering tiered incentives for upgrades by VCTs (Zeithaml *et al.*, 2001). The drivers of the service benefits given to the PC tier should include elements that add value for both current PCs and VCTs to provide incentive to upgrade.

More in-depth knowledge of the customers in each segment is required in order to develop these service tiers. Zeithaml *et al.* (2001) suggest that becoming

a customer expert through technology will aid in achieving increased incidence and volume of business from a middle-tier segment such as VCT. Casinos have tremendous opportunity to monitor customers at the mid-range betting tables in order to look for regulars and track their spending habits. Astute and selective player development is crucial to tier upgrade success. A thorough understanding of gaming motives, perceptions of value, and service requirements across segments would allow casinos to maximise the effectiveness of service tier systems. These improved systems would, in turn, lead to higher customer retention and increased profitability.

Data relating customer spending to psychographic and demographic profiles are still sparse in the casino industry. Understanding segment composition along personality dimensions—as well activities, interests, and opinions (AIOs) and demographics—would enable casino executives to have a 360-degree picture of their target markets. Such a composite picture will enable casinos to better tailor their service experience so that it is in line with their customers' preferences and expectations. Such service-based differentiation will not only guarantee survival in a turbulent and increasingly competitive industry; it will also enhance customer retention and thus improve the bottom line.

Summary

This article considered the impact of LTV analysis on table games within the casino gaming industry. Based on a customer's average bet and betting frequency, we disaggregated the table gaming market into four distinct customer segments. We then calculated LTV for each of the segments using aggregated industry estimates. The impact of increasing customer retention on revenues was then examined. Further analysis considered the influence on casino revenues of upgrading the 'valued customers of tomorrow' to 'prime customers'. The two segments that provide the best opportunities for increased profitability are the VCTs and PCs. By increasing PC customer retention and by upgrading VCTs to PCs, not only do the casino's profits increase, its dependence on MCs for revenues also proportionately decreases. This drastically reduces the risks MCs can pose to the short-term cash flow and long-term survival of a casino.

At a time when many casinos are busy building or refurbishing multi-million dollar facilities to cater exclusively to 'mobile customers', this article espouses a fresh and less risky perspective. Casinos do not necessarily have to engage in one-upmanship to woo the fickle-minded high-rollers. Findings from this article, as well as earlier writings by MacDonald (2001) and Lucas *et al.* (2002) have established that the 'mobile customers' are not as attractive to a casino as was previously believed. We have demonstrated how a casino can wean its dependence on the MCs and still accomplish its bottom-line objectives by focusing on retention of less-risky segments instead.

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