



The Components of the Marketing Audit

by Andrew Klebanow

With the economic downturn affecting casinos in jurisdictions throughout the U.S., casino managers are trying to reduce variable costs to better match business volume. The largest variable expense for a casino is labor, followed by marketing and advertising. While managers have begun to trim labor costs through layoffs and a reduction in hours for hourly workers, many managers are reluctant to reduce marketing expenses. In fact, many operators feel the need to increase marketing expenses in order to maintain revenues and market share.

While maintaining market share is critical, it is often done at great expense and can have a deleterious effect on cash flow. Large scale drawing drum promotions, free play offers and point multiplier days are typical programs that gaming markets see during economic downturns. What casinos should first do is determine how to best allocate their precious marketing dollars. This is done through a marketing audit.

Marketing audits differ from traditional financial audits performed by accounting firms in several key ways. The latter tend to focus on internal controls, cash handling procedures and how marketing expenditures are accounted for. They rarely question why certain promotions are conducted, only how they are conducted. They also do not question how marketing allocates its expenditures across advertising, promotions, direct mail, comps and other programs. Most important, traditional audits do not broach the subject of player reinvestment.

A true marketing audit should examine four broad areas: the alignment of marketing strategies to tactics, the marketing process, marketing measurement and marketing organization.

Marketing Strategies and Tactics

Marketing theory teaches that once a business establishes its goals and objectives, it then creates a strategy to achieve those goals. Once a strategy is established, a series of tactical plans are created that are derived from the strategy. Often in casinos, tactics deviate from strategy. This is very common particularly during tough economic times as casinos attempt to maintain market share.

An example might be when a casino employs a differentiation strategy, but adopts a series of pricing tactics to compete in the marketplace. A casino with a four-star hotel, multiple fine dining outlets and higher table game minimums is built to be clearly differentiated in the marketplace.

Customers are willing to pay more for nicer amenities and higher levels of service in the form of higher food prices and room rates as well as higher slot hold percentages and less liberal table game rules. A misalignment occurs when a casino implements a series of pricing tactics to maintain market share. This would include room and food discounting, higher cash back allowance rates, and other pricing tactics. A marketing audit examines a casino's marketing strategies and tactics to see if they are indeed aligned.

The Marketing Process

The task of implementing casino marketing programs is a series of processes. Customers earn bonus points and redeem them for various benefits. Customers receive offers in the mail for cash, comps and free play. Customers also participate in various promotions including drawings. Each of these marketing programs is governed by a series of processes. Sound marketing processes take advantage of technology to speed the process and make it more convenient for customers. Conversely, inefficient processes require customers to take additional steps to redeem offers or participate in a promotion. An example would be a free play offer that a customer receives in the mail. Under an optimal process, the customer would visit the casino and redeem the offer at their favorite slot machine without any other human interaction. A less efficient process would require the customer to first stop by the slot club booth before having their account credited.

Another example of an inefficient process is a traditional drawing drum promotion in which customers must fill out drawing tickets and place them in a drum. A more efficient process would be an electronic drawing drum where players earn drawing tickets electronically. The drawing itself takes place electronically and is displayed throughout the casino, using the property's closed circuit televisions. A marketing audit examines these marketing processes and recommends how those processes can be made more efficient.

Marketing Measurement

It is generally understood that the sum of all marketing and advertising expenditures is one of the largest expenses in a casino. However, despite their impact on a property's profitability, it is difficult to easily identify all of the costs that make up marketing and advertising on a property's profit and loss statement (P&L) and see their effects on both

property revenue and cash flow performance. It is equally difficult for the marketing professional to quickly calculate the property's player reinvestment rate based on the data presented in the P&L.

Most casino P&Ls do an excellent job of detailing each operating department's revenue and expenses. However, marketing and advertising expenses can be found on multiple pages of this report. For instance, system generated comps (those generated by the casino's player rewards program) normally appear as an expense to the slot club department. In addition, comp expense can be found in slots, table games, hotels and within almost every revenue-generating department's monthly operating statement. Thus, answering the simple question, "what is the ratio of comp expense to property revenue?" becomes a time consuming task.

Other marketing and advertising expenses are just as difficult to identify. Direct mail is divided into a number of categories. The design and printing of mail pieces may be booked as an advertising expense under "print production."

Postage may be booked to casino marketing while the actual value of the offers redeemed might be booked to the slot club. This in itself is ironic since no other marketing activity has a greater impact on property revenue than direct mail and yet it is difficult to answer simple questions as, "What is the relationship between direct mail expense and property revenue?" or "Did direct mail have an impact on cash flow?"

A marketing audit consolidates all of the marketing and advertising expenses in a report called the marketing analysis report. It shows the effects of advertising, promotions, comps, direct mail, etc. on gaming revenue and cash flow and allows casino management to optimize their marketing expenditures.

In addition, the marketing audit examines the casino's player reinvestment rate. Player reinvestment is comprised of all marketing expenses that are used to foster loyalty and encourage repeat visitation among rated/carded casino patrons. The player reinvestment rate is a simple fraction with total player reinvestment expenses in the numerator and carded/tracked win (win that is attributed to players who



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use their player reward cards) as the denominator. The resulting ratio is the player reinvestment rate and is an essential part of the marketing audit.

Marketing Organization

The organization of the marketing department can have a profound impact on the effectiveness of a casino’s marketing efforts. A casino’s organization chart is often developed at a time when the casino was much smaller. Over time, casinos add additional amenities including hotel rooms, golf and restaurants. As properties grow, marketing organization may need to be re-aligned to better meet the needs of the property. The marketing audit examines the casino’s organization chart, interviews key constituents and attempts to identify obstacles caused by an inefficient marketing organization. It then proposes a new organizational structure to better meet the needs of the property.

With marketing expenditures representing such a large variable expense, it makes sense to devote the time and effort to examine the casino’s marketing department to make sure it is operating at its most effective level. The marketing audit is the tool for such an examination.

With marketing expenditures representing such a large variable expense, it is important to devote the time and effort to examine all the components of the casino’s marketing department, especially in a time when maintaining revenues is so challenging. The marketing audit is the tool to make sure that the right marketing programs are in place and operating as efficiently as possible to ensure that the casino is growing profits as opposed to “buying revenue.” ♣

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