

Lessons From the Casino Industry



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The casino gaming industry has long been perceived as a competitor to state lotteries. While it can be argued that the country's adult population has a limited budget for all kinds of wagering, lotteries and casinos have, in fact, long operated in harmony. Casino expansion across the United States has not impeded growth of lotteries and lotteries did not affect the growth of casino gaming. The reality is that lotteries and casinos do not so much compete as share gamers. People buy scratch cards and draw tickets from budgets that are exclusive of casino gaming budgets. This is most evident during periodic events of lottery frenzy, when mega-jackpots attract widespread consumer and media interest. In those states that offer both casino gaming and lotteries, casino gambling does not decline during mega-jackpot events.

Both industries have grown but for different reasons. State and provincial lotteries continue to introduce new games and improve merchandising at the point of purchase. Lotteries also continue to expand their channels of distribution, signing up new retailers, and increasing the number of vending machine locations. Casino operators also continue to introduce new games, primarily electronic, and enhance their gaming environments. They also employ a variety of marketing strategies that are mostly unavailable to, or have never been considered by, state lotteries. Nonetheless, there are valuable lessons that lottery operators can learn from the casino gaming industry - in particular, customer engagement and customer relationship management.

Customer Engagement

Casinos are at an inherent disadvantage in that they do not enjoy the channels of distribution (mainly the massive network of land-based retailers) that lotteries offer. One does not have to venture far in order to purchase a lottery ticket. A casino operator must get customers to their property in order

to get players to purchase their products. Advertising is their primary tool to appeal to potential customers to visit their property. Once inside the casino, customers are encouraged, and often incentivized, to join the casino's player rewards program and to use their player reward cards whenever they place a wager. This allows the casino operator to quickly develop a profile of each individual player, accurately determining their frequency of visitation, recency of visitation and monetary value.

With an understanding of a customer's wagering behavior, along with their name, address (both physical and electronic) and phone number, the casino operator can engage the customer in a series of ongoing, personal communications. Over the past three decades, casinos relied on direct mail to

personalized offers and promotions. More sophisticated mobile apps can identify where customers are at a moment in time and send those players limited-time-only offers in order to encourage them to visit the casino. Mobile apps also allow the casino to inform players of upcoming drawings and events through messaging. While many of these marketing tactics are not applicable to the lottery industry, they offer insights into how to better inform customers of products and promotions, enhance brand awareness, and encourage loyalty and repeat play.

Become a customer centric industry

The casino industry's competitive advantage has long been their ability to create a database of customers and engage them in a series of ongoing communications. The database is the foundation of any customer relationship management program (CRM). CRM actually dates back to the days before electronic databases. Going back as far as the 1950's, casino hosts in Reno and Las Vegas would observe players on the casino floor, identify higher-worth players, introduce themselves, and exchange business cards. Hosts would then build relationships with their customers with per-

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communicate with their customers. Informational newsletters, personalized letters and various offers have traditionally been used to foster loyalty and encourage repeat visitation. More recently, those communications have been further enhanced with mobile apps, personal URLs (a link on a casino's website) and various social media. These channels of communication give the casino operator a distinct advantage over lotteries: the ability to engage their customers through a variety of media, all personalized and tailored to the individual player.

A mobile app and a personal URL allows customers to access their accounts and view

sonalized letters and invitations to events.

The concept of CRM advanced in the 1980's with the advent of electronic player reward programs, often called slot clubs. These casino management systems allowed the casino operator to track customer wagering activity electronically. These systems have grown in sophistication and now include mobile apps, text notifications as well as integration with a variety of social media.

For many practical reasons, lotteries have been locked out of CRM programs. The channels of distribution, relationships with partner retailers, concerns over responsible gaming,

and the ability to track consumers' lottery purchases have prevented lotteries from better understanding their customers and building a dialogue with them. The advance of digital communications is removing this inherent disadvantage. With the advent of mobile apps and other technologies, lottery providers can now avail themselves of many of the tools that casino operators rely on to communicate with their customers.

Several state lotteries have already introduced mobile apps that enhance the information they provide through their websites. The more advanced apps, such as those found in California, allow customers to scan barcodes to determine winning tickets and also capture database information by offering "second chance" games, exclusive to those players that reside in the state, download the app, and provide a name and address. In other words, these apps allow for the creation of a database, the first step in building a CRM program. Even without player names and addresses, mobile apps allow the lottery operator to send push notifications, jackpot alerts and information regarding new games. It also allows customers to maintain a certain degree of anonymity, should they choose to do so. This differs starkly from casinos that insist on inspecting a new member's identification during the sign-up process.

A mobile app is only the first step. The missing piece of the puzzle is capturing customer spending patterns. Up until now, this would have been cumbersome, slowing down the ticket sales process, which traditionally occurs in high-volume sales environments. With a mobile app, capturing a player's purchasing information is as easy as a player swiping their phone at the point-of-purchase. With that kind of data, lotteries can learn about individual spending patterns and build programs that enhances player experiences. CRM also allow lotteries to take responsible gaming initiatives to a level beyond simple informational signs and brochures.

As lotteries take steps to open up a dialogue with their customers and build their CRM programs, the industry should continue to look at what other industries are doing to engage customers and learn from them. There is much to learn from casino operators even though their business models differ from lotteries. ■

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New Commandments continued from page 40

It is difficult for companies to coordinate customer engagement across an increasingly non-linear customer journey using a burgeoning admixture of mobile, social, and digital touchpoints. It takes executive willpower to implement D2C systems that knit together marketing, sales, product, agency, and communications silos in service of an "anytime, anywhere" customer experience in direct channels.

Hyperlocalization is an increasingly important consideration in D2C concept stores. Through a deep analysis of customer demographics and shopping behavior in the immediate physical geographies surrounding brand-name stores, D2C operators optimize their merchandise mix and local pricing strategies.

Big data represents the heartbeat of any D2C strategy. Identifying the optimal formula for delivering choice, personalized experiences, and relevant content is essential for success. Knowing how to extract key insights from terabytes of data distinguishes the good players from the great in the D2C arena.

Other D2C imperatives include managing channel conflicts and supporting direct sales with high quality content. Few executives think of a D2C approach as being disruptive of their own industry or their own business, but new profit models that reflect the contributions of various channels can accelerate movement along the D2C path.

Content plays a different role in D2C channels than it does in awareness-building and branding programs. Video content, personalized elements, education, stories, and thought leadership are essential in the digital experience.

D2C calls for new thinking in how to measure performance. The direct model defines success in terms of measurable client outcomes – satisfaction, activation, conversion, subscriptions and profitability. To enable D2C business models, brands will need to embrace a "performance marketing" mentality and define success as more than impressions, brand awareness, and engagement.

Logistics - 3PLs

A mastery of logistics – distribution, transportation, and on-time delivery – is a hallmark of excellent D2C brands. However, retailers that are relatively new to e-commerce initially struggle with the speed of delivery (order fulfillment) expected by digital-native customers. Companies that do not have the resources to build distribution/fulfillment infrastructure like Amazon, Wal-Mart, and

Target rely on third-party logistics operators (3PLs), including UPS, FedEx, the U.S. Postal Service, and others. This large-scale outsourcing requires specific management systems and – if something goes wrong – can harm the brand even though the fault lies with the 3PL.

Conversely, e-tailers that are opening physical stores are realizing a significant operational advantage in processing product returns. Online retailers have a return rate of about 30% compared with 10% for physical store retailers. And return shipping costs are expensive. Beyond the avoidance of expense, however, is the opportunity to sell additional products and services to those customers who come into a store to make a return.

Implications of D2C for Lottery

Many of the D2C approaches may not resonate in the Lottery business, but here are a few considerations that may stimulate new thinking:

Partner with a D2C Player

Lottery could partner with a respected D2C brand whose "good works" mission could represent an extension of Lottery's own mission. To wit, Warby Parker, the successful D2C company who donates eyeglasses to needy people with its "Buy One, Give One" strategy. During a designated promotional period, Lottery agencies could donate \$x for every ticket sold that is co-branded with Warby Parker.

Max Out Video

Lottery agencies should dedicate increasing amounts of resources to developing video content. Every agency should create its own YouTube channel that shows videos of Lottery good works, game winners, TV ads, and promotional partners. Little movies that tell charming and compelling stories are powerful ways to advance a brand's image and reinforce its promise.

Player Data

In those jurisdictions that permit online Lottery games, agencies should construct individual player profiles based on robust data analytics so that the person, the place, and the purchase behavior can roll into personalizable experiences.

Conclusion

There are many lessons yet to be learned in the D2C era of retailing. There are many questions still to be answered. It will require faith to embrace the new tenets, but the payoff could be heavenly for brands and their customers. ■