

The Evolving Casino Marketing Landscape

By [Clay Peister and Steve Gallaway](#) Mon, Jan 27, 2020

The industry has changed, but not in the way we expected



Twenty years ago, there was much talk in the gaming industry of how to engage GenXers, and the potential value of this segment. As GenX is only now becoming a meaningful contributor to the industry, this conversation has now evolved into the current hype around millennials.

What allowed GenXers to become gamers is simple: they began to acquire the two key items that people need to gamble—time and money. As millennials age, we will see them gravitate toward casinos gaming as well. While the demographics of casino participation have been little changed for a generation, there have been material changes in products, channels and, importantly, methods of engaging with casino patrons.

Technology is changing the industry in unexpected ways. A good example is marketing communication. Ten years ago, many people expected email to replace physical mail. Operators quickly found that response from email was lower than physical mail, and the switch to email never happened. A real-world example from Australia found that switching a bounce-back offer to email saved 9 cents in printing and postage, but cost the company \$60 in foregone incremental win.

Today, clever operators are figuring out ways to use digital channels to enhance a foundation of physical mail. We believe in the promise of big data, but big data, much like digital communication, will enhance our toolkit rather than replace it.

More Competitive, Diverse—and Complicated

Over the past 20 years, the industry has evolved in meaningful ways. For instance, electronic table games two decades ago were a clever, but niche product, developed to address labor and table-cap constraints. Today, electronic table games and stadium-style electronic table games are a distinct business unto itself.

Slots have evolved, too, with a video-based product now becoming more dominant than traditional machine reels in most—if not all—jurisdictions. Whereas the dominating large-denomination machines in the past were typical \$1 steppers, today they're penny slots, where the average bet is north of \$1.75, and playing full coin with full lines can often cost the customer more than \$5 per spin.

In terms of customer segments, Las Vegas has famously evolved into a broader destination where the volume of non-gaming visitors has risen, and where non-gaming dollars often outweigh gaming spend. Junkets, which once drove upwards of 80 percent of the gaming spend in Asian markets, are under increasing pressure. By extension, many of the billion-dollar integrated resort projects that initially relied more heavily on internationally mobile VIP players are diversifying into a business model that focuses more on mass-market and non-gaming patrons. Many high-frequency jurisdictions have become “buyer’s markets,” with patrons often receiving offers from five or more casinos per week.

The implication of these dynamics is that the industry is becoming more complex, while concurrently becoming less concentrated. For casinos to be successful, their marketing departments and lines of communication with their players must be improved. Sending paper mailers only is no longer a sustainable direct mail strategy. While customers in the U.S. may, on the surface, be resistant to providing an email address or mobile number, this barrier is quickly broken down when the player recognizes the value of providing this information.

In the world of big data, marketing departments have the opportunity to understand their patron’s needs and preference at an individual level. And by extension, the days of guessing at the success of promotions are over, or at least should be over at your casino.

The Challenge Casino Marketing Faces Today

As the industry becomes more competitive, we’re seeing the average lift from marketing offers decline. As an operator, the question is how to ensure that marketing spend is increasing the amount of net winnings (gross win, less all player reinvestment) from our guests.

Unpacking this objective illustrates the difficulties that operators face on a daily basis:

- Sending richer offers often doesn’t help, as casino marketing reinvestment has sharp-diminishing returns. For instance, we recently worked with a casino where free-play to high-end patrons actually cannibalized daily spend. Likewise, events frequently led to patrons skipping a regular trip.
- Sending more offers often doesn’t help either, as many casinos at times can be dependent on only a few responders. For instance, offers and promotions typically make money from only a handful of players, but actually lose money on the remainder of the patrons. In our experience, 80 percent of an event’s incremental revenue comes from 5 percent to 10 percent of players. Fifty percent to 60 percent of invited patrons don’t change their behavior. And the balance of respondents come, but don’t (or barely) play.
- The disparity of profitability by players at hosted events is even greater than direct mail promotions. Hosts often focus on their largest players, and neglect the balance of their list. We recently helped assess a high-value event sold by the host team. We found a massive spread of response rates across the hosts, a range too wide to be explained by randomness.

Current Marketing Tools Aren't Enough

The cornerstone of casino marketing programs today is monthly direct marketing offers, where the player is simply gifted a free-play amount. These direct offers are, generally, not play-based, and are difficult for the casino to yield.

For instance, if a player is accustomed to receiving a monthly direct offer with \$100 in free play per week, yielding this offer to \$50 will often spark a vocal dissent. Consequently, many properties are finding a low return on investment from their monthly direct marketing offers, but they still feel stuck because their patron base has grown accustomed to receiving this type of offer.

That concern is justified. These offers have become entitlements rather than promotions; entitlements are always less profitable, and inevitably the casino has many players for whom they are upside-down. For instance, after a client overseas recently turned off their monthly direct marketing program, slot revenues declined by double-digit values, and the program was subsequently reinstated.

In many markets in Asia and Australia, the majority of mass reinvestment is structured as generic promotions rather than direct marketing. Even when these generic promotions are tiered, they typically provide low return on investment.

This is similar to many direct mail marketing programs in the United States. Players tend to sail through the offers, and their behaviors do not meaningfully change. In short, most casinos' current marketing toolkit isn't capable of delivering on the objective of profitable wallet share gains over the long term.

Thinking Small by Thinking Big

Moving forward, the most successful properties will be those that excel in demonstrating the following seven capabilities:

Mass personalization: Best-in-class direct marketing programs start with an assessment of each player's upside. It's important to think about each player's frequency of visits, average length of stay, daily spend, daily-spend/ADT and churn-risk. Understanding the patron's upside with these metrics in mind is the basis for building an appropriately sized reinvestment program and customizing its terms and conditions.

Understand promotional elasticity: Efficient marketing requires an understanding of how promotional spend changes the player's behavior. For instance, a \$50 free-play offer may lift a player's frequency by 20 percent, while a \$100 offer to the same player might only lift their frequency by 25 percent. Most casino marketing tools (free play, event invitations, promotions, room offers, etc.) deliver different benefits to players, and the scale of these benefits is not linear.

In getting started with these first two capabilities, the most obvious pitfalls would be to analyze the player database too broadly or to rely too heavily on averages. By contrast, operators have found greater success with the newer analytical techniques—such as deep learning. Deep learning and other analytical techniques allow them to decipher the patterns of players we know a lot about and apply those patterns to players we know less about. This abstractive process is the basis of mass personalization.

Master the yield equation: The unintended consequence of a large non-gaming business is the tension between the casino comping and non-gaming cash spend. Getting this capability right requires an understanding of the expectations for gaming spend from non-gaming patrons, as well as non-gaming spend from casino guests.

Most properties currently collect a wealth of data allowing them to estimate the indifference point between their gaming and non-gaming guests. The most obvious pitfall here is the assumption that an operator needs to know absolutely everything about each of its guests in order to solve the yield equation. While the prospect of big data and new data is exciting, and while these data absolutely enhance the context of casino marketing offers, most properties today are already collecting enough data to get moving in the right direction.

Execute in real time: Often the best time to market to a guest is when he/she is active on the gaming floor. This is referred to as context relevance. For instance, if a patron has an “unusual win,” when it’s early in the day and the patron has been carded out for an “unusual” amount of time, it may seem appropriate to send that patron an offer. However, if the patron is already a hotel guest, the right move may be to suppress this offer. Zeroing in on this capability requires significant technical capabilities to apply forecasting models on the fly.

Likewise, artificial intelligence would be needed to identify key intervention points and machine-learning capabilities to ensure that the offers adapt over time. When properly executed, real-time marketing can be transformative to a casino and will continue to have an overall impact on the industry.

Player development: An operator’s success often depends on the service and player development team. Top-performing casinos help their hosts think beyond glad-handing to focus more on guided sales. Likewise, the best casino host managers will coach their staff on recognizing behaviors beyond the standard performance KPIs and use analytics to drive the host coding function.

Artificial intelligence can help scale this capability across the industry. The major pitfall here is shoehorning non-casino specific AI capabilities to the casino business. The proper expertise from the gaming industry must be utilized when coding AI applications.

Manage leakage: Particularly in Asia, but also in the U.S., there’s a significant amount of fraud in most marketing programs. Risky areas are rooms programs, drawings, point-picking and employee collusion. Fraud leaves indelible tracks that analytics can uncover, and AI can silently monitor this activity.

Big data: Most properties on a big data journey are getting it wrong. These projects are fantastically expensive, and are generally sold by big tech companies who are shoehorning their client’s vision for a hospitality or retail big data solution. While we’re believers in the promise of big data, we believe these projects require three capabilities to be successful:

- Clear purpose and vision: How does bigger data help?
- Guided ambition: If it’s not obvious how the data lifts response rates/spend, or lowers expenses, then likely the added complexity is not worth the effort. A solution with focused and attainable goals is key to the success of a big data program.
- Knowledge and experience: At the end of the day, having the right person to oversee the program, who understands the need to execute on the two above points, will be crucial to the success of your program.

While it’s now an old adage that “data is the new oil,” the concept is still true. Getting the most from your data doesn’t require a significant capital investment, but clever analytics. Most properties can yield actionable insights from the data collected today. But gathering and distilling those insights requires a blend of practical casino experience and technical analytical acumen.

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