# CUSTOMER VALUE TO THE CASINO vs. CUSTUMERS' VALUATION OF A CASINO

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Day in and day out, casino management deals with a significant volume of data (Big Data?) coming in very fast and in more complex forms both from different external and internal sources of information but basically from the enterprise management system and its modules (Player Tracking, CRM,…).
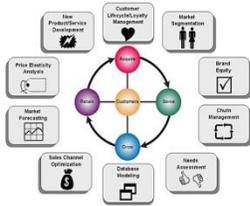
Through the use of formulas, statistics analysis, dashboards,BSC Kits, and other tools, heuristic and complex predictive analytics models, they try sort data and extract useful information from them to get the appropriate segmentation of their customer and determine who are the most valuable players? Where and How much to reinvest? Develop appropriate campaigns, How much can I spend to acquire a customer?…among other things. In general, trying to determine proper segments of **CUSTOMER VALUE** and, beyond, **COSTUMER LIFETIME VALUE (CLV, CLTV, LCV or LTV)** or the gross(net) profit attributed to the entire future relationship with him/her.

Simultaneously , the same customers being evaluated together with other sometimes unknown potential customers do their own conscious and unconscious calculations of the **CASINO VALUE** by trying to answer one simple and natural question: *What is in there for me? What do I get back for my business? Should I go there or go here?* That is, as long as the customer has a choice. Contrary to several years ago, with live gaming expansion, online and social gaming in the move, it seems that the great majority of customers do have choices.

While we have commonly heard about the casino valuation of customers, customers' valuation of casinos are not talked about as frequent. We are too much accustomed to hear and say : *'Our casino is the prettiest, has the best machines, the lowest hold % and tables games are excellent. Where else would they go? I always have more traffic than the rest!!,….*
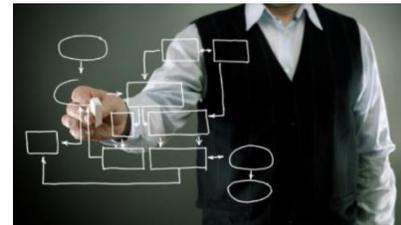
We all know a familiar and simplistic formula to calculate a nominal amount which represents the value of a customer:

LIFECYCLE VALUE A (of a customer) = [(No. Visits a Month) x (Avg. Total Bet per Visit) x (House Edge) x (Expected Customers' LifeTime (In Months))]

You could become more financially correct if you adjust the above determined amount by calculating the Net Present Value of the expected cashflow stream,

LIFECYCLE VALUE B = NPV [(No. Visits a Month) x (Avg. Total Bet per Visit) x (House Edge) x (Expected Customers' LifeTime (In Months))]

Or even more accurate by incorporating a percentage of customer retention (CRR) that changes periodically as time goes by and using Average Gross Margin per Customer Lifespan.

While considered to be simplistic approached to CLVs, in any and all cases, armed with such significant number and other calculated parameters like Cost of Attrition, Cost of Customer Acquisition, Cost of Servicing…etc. Management develops strategies and plans to attract more customers, expand and maximize the lifecycle value of customers, minimize attrition and 'keep them playing'. All by assuming **customers as assets**. Which is a legitimate approach if you correctly consider **CLV as a dynamic value and not a static one**. After all, doing this calculations is certainly much *better than taking action and drawing plans based on faith, guts feelings or 'I've done that before'.*


Even better if you properly segmented you customers and did not use just average results and also if you adjusted your past figures and results to make them projected figures. **CLV is not the past but the future**. Is not historical but predictive.

There are ARPU-Based models (Average Revenue per Costumer Per Month), Statistics Regression Models and Probabilistic Models. We know well though that traditional casino management is not too much into analytics which, without being evidently self serving, is a mistake under current and future business conditions so, during such calculation and determination process, casinos have come to believe that one very good indicator is **Time at Device** or **Time at Table Games**. 'As perceived' it is assumed to be one of the best, if not the best, data produced from customers to determine their value while, at the same time, used by costumers to show or assign their value to the casino. Expressions like these are frequently heard : *'Keep them playing at all cost?!', ' There more they play the more they lose!!',' That woman is always here, she loves us!!'…* Simply put by traditional casino management: **the more time a customer spends playing my games the more 'loyal' he is to my operation. The larger his lifetime as a customer is the more valuable he becomes to me**. Mathematically, there seems to be not much to argue against these. Is it?

However, **Time at Device** it is not the only metric, not always a good one and most of the time over a player's lifetime, not the most determinant one. 'Time at device' (or at a table) is a perception and, therefore, a result of several combined physical and psychological inner and outer factors. Since most of the players come into a casino with an 'exit strategy' defined by considerations as to 'amount to bet', 'time to spend', 'expected win/loss',… customers will try to maximize their exit strategy by making sure to play the set limited time with the amount of money they have to bet. If possible, take some money home or, at least, receive something of value in the meantime (comps, points, free play, cashback … a conversation). Something that seems to remain a common factor is : **players want to have the feeling**
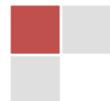
that they are getting something for free!!. They also have **Revenue Expectations** which, if not met, triggers automatic negative sentiments towards operation, casinos and the gaming activity as a whole.

A 2005 article by Mr. Steve Karoul on a Gaming Management portal, called it **Volatility Comfort Level (VCL)** of the customer and most casino managers know this. Difficult to express in a math formula but, here it is:

VOLATILITY CONFORT LEVEL = TOAL VALUE RECEIVED / TOTAL CASH BET(PLAYED)

While CASH BET is easy to be quantified by both the casino and the customer, VALUE RECEIVED is not. While casinos look at W/L figures and cost of goods and comps, customer does look at how much money he won but might have a different approach to value what he has received for his business. Even more, he quantifies and values some intangibles that casinos normally do not consider. Just attend a couple of

good focus group to hear that, besides the complaint about *'stiff machines, dealers cheating at table games or waitresses not serving me a drink..'*, the largest amount of time is spent talking about other not so easy to measure aspects like human relations, service, cleanliness, security, darkness, comfort, sound, respect,…. As a result, game and floor mixes are then designed to accommodate market segmentation since not two players are alike (from lose to stiff machines, from low limits to VIP rooms, from local attractions to what foreign visitors look for...). Game developers also realize this condition by allowing side bets, bonus rounds, free plays, in-game offers, volatility and hit frequency variations of the same game,....That is all math and quantifiable.

Yes, you guessed it. Patrons are also an excellent source of information. Sometimes with lots of noise surrounding it, but with very valuable and loud signals. It is just that, many times, we do not want to hear it because we are too busy, we know better, we claim customers will always complain, or we prefer to gratify ourselves with reasons similar to this : *'Let them go and compare…they'll come back'.*

There are however, many other variables that affect 'perceived value' of a casino and that are not as simple to quantify but are as determinant as the first to provide customers with the **'best experience'** (nice buzz words!!) . Same as *not two customers are equal, not two casinos are*. Just take the Strip up-and-down or A.C.'s Boardwalk or Panama's City close-by casinos, Macau's Casinos, Detroit's 3 casinos vs. the one just across the river, or any city with sufficient choices. So, we must make sure to differentiate between them. **Differentiation takes many different roads:**

- Type of casino: Resort-Destination, Local Casino, city or beach resort,....?
- Gaming Market level of Maturity
- Level of Competition: High, monopoly or oligopoly?

- Hotel-Casino and Non-Gaming amenities
- Gaming Menu and Quality of Games offered
- Casino Size

In addition, the perceived value of each casino will be determined by variables which differentiate not only individual operations and management styles but also individual players. Let us mention some of

the most significant variables used, either consciously or not, to determine casino value and put next to some of them related basic human need:

- Location and parking (distance, neighborhood, valet parking, distance from parking space to entrance...) (Accessibility needs)
- Environmental Conditions (cleanliness, odors, colors, lighting, sense of space...)
- Floor Arrangement – is it so tight that I can hardly walk or is so big I fell oppressed?
- Security (internal and external) (Security needs)
- Friendliness of Host(ess), Dealers, Attendants, Cashiers, managers,...(Need to be a part of…)
- Not-all is gaming. What else can I do? (Stores, Restaurants, family entertainment, relaxation areas...) (Life is much more complex!)
- Level of activity: Shows, entertainment, variety...(cannot live with spaghetti every day?!)
- Bonusing and turnbacks to players (Player's Cubs, CashBack, Raffles, Prizes,..) (Need to feel a winner)
- Communication methods, frequency,...(Privacy issues, frequency of emails, phone calls,….)(Privacy needs)

- Means available to provide feedback and be listened to (Need to be heard!!)
- Familiarity: Do they know my name? Do they remember my birthday? Do they ask me how am I? Do they know my favorite dealer? Do they know my favorite drink? Do they say hello? (Recognition needs)
- Do they treat me like a number on my player's card or am I recognized as an individual?
- Social Group of Players: Do my friend go to that casino? Do I know many other players? (Social and grouping needs)
- Past experiences;
- Associated Brands (i.e. Branding) (Identification and differentiation needs)
- Word-of-Mouth and Social Reputation of the operation
- Recognizing emotional states of the client. Do they notice?

Almost 100% of the players know they will lose over a period of time. They accept that. Sure, no one likes to lose too soon and maybe without even getting a soda but...players are human beings and I am sure you have plenty of examples to show where one single non-quantifiable variable determines the more or less popularity of a casino and, consequently, its much needed volume of operations. The dark side is that traditional management hates to look at benchmarking studies (*We are the best..why waste the money?*), life is not as simple anymore, **game field has changed and the all so powerful customer has larger requirements for their business, even larger for their loyalty. Traditional methods of analysis are not useful anymore.**

Furthermore, nowadays and in the immediate future, the challenges faced by Marketing and Management are difficult but analyzable. Noise can be minimized so that proper signal is shown. It is not like they need to find a mysterious alchemy.

Loyalty of customers and its metrics must be further analyzed if we are to succeed in times when **Entertainment Value supersedes Customer's Experience.** In times when the 'disposable income' is disputed by many other sources of gaming,…but much more competition inside and outside of the gaming floor. We will talk more about this shift in valuation of a casino.

For now, we are sure of one thing **: LIFETIME VALUE OF A CUSTOMER is much higher when his satisfaction with our operations is boosted. His/her VALUATION OF OUR BRAND will exponentially increase and so will word-of-mouth and his/her lifespan as a customer. Ten we can talk about loyalty.**

When was the last time you took a hard look at your costumer's LTV?

Have you asked yourself why customers prefer you?

AGL360CG, SRL is a gaming consulting company addressing its services to the Caribbean and LatAm areas and with strong emphasis on gaming and marketing analytics studies, metric and KPIs development to be used by Management to support sound decisions.

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