



Examining the effects of various promotion types on slot gaming volumes



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ABSTRACT

This study examines the effects of different types of casino promotions on daily slot volumes, using data from two riverboat casinos located in the Southern and Midwestern regions of the United States. Results suggest that promotions featuring drawings for big prizes, such as large amounts of cash, cars and boats, were more effective in generating incremental slot volumes than those with small prizes. However, drawing frequency and slot volume were not significantly related. Play incentives were positively associated with slot gaming volume, while slot tournaments and player events had no significant effect on slot volume.

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1. Introduction

"In 1997, we started giving away a car or truck every month," she [Marketing manager Laura Shelby at Bally's Casino in Tunica] said. "We have several auto businesses that we deal with and it's always the last Friday of the month. We have fun with it and have drawings for keys five times during the day before selecting the winner." (Lofton, 2004, para. 16).

Casino operators employ a variety of promotions to increase visitor traffic to the casino and generate additional gaming volumes. As shown by Ms. Shelby's statement above, lottery promotion, also known as drawing-based promotion, is popular, especially in repeater markets (Lucas and Kilby, 2008). Lottery promotions typically feature cash or car giveaways. Examples of other casino promotions are slot tournaments, invitational player events, point promotions, and play incentives (e.g., free-play and match play coupons). As competition in the U.S. gaming market increases due to more states legalizing and expanding gaming, a player can be easily inundated with numerous promotional offers from multiple casinos. While some casino marketers increasingly rely on more frequent and larger promotions for customer attraction and

retention as well as differentiation, others are seeking alternatives to such promotions.

"We don't do a lot of promotions," he [General Manager, Steve Schutte at the Sheraton Casino in Tunica] said. "About a year and a half ago, we loosened our slots and pretty much directed money spent on promotions back into the slots. We're putting value in day-to-day playing." (Lofton, 2004, para. 32).

The term "loose slots" indicates slot machines offering a higher payback percentage compared to other machines. The payback percentage is the return that a player can expect to earn from a slot machine over a period of time. It is a common term used by casino marketers to promote their slot machines, though it does not guarantee bigger or more frequent payouts for a short-term play.

Researchers have expressed their concerns regarding the profitability and effectiveness of current marketing efforts in the gaming industry (e.g., Gu, 2002, 2007; Klebanow, 2002; Lucas and Brewer, 2001; Lucas et al., 2002, 2005; Lucas and Bowen, 2002; Lucas, 2004; Lucas and Kilby, 2008; Suh, 2012). They have pointed out that the increased foot traffic driven by casino promotions and complimentary awards does not necessarily lead to increased gaming revenues or attract the desired customer base. They also cautioned against the provision and blind application of marketing programs in response to competitors' actions without a complete understanding of customer needs, company goals, marketing strategies and return on investment.

Despite the noted concerns regarding casino promotions, there has been very little research that empirically examined the relative effectiveness of different types of promotions in increasing gaming

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volumes. When a casino promotion was examined, it was primarily utilized as a control variable in models designed to predict daily gaming volumes (e.g., Lucas and Brewer, 2001; Lucas and Santos, 2003; Suh, 2011; Suh and Lucas, 2011; Suh and Tanford, 2012; Suh and West, 2010; Tanford and Lucas, 2011). Casino promotion was the focus in only a small number of cases (e.g., Lucas, 2004; Lucas and Bowen, 2002; Suh, 2012). Relatively few types of casino promotions were examined, limiting the comparison between different types of casino promotions. Furthermore, these studies exhibited mixed findings regarding the effects of casino promotions on gaming volumes. To the best of the authors' knowledge, Lucas and Bowen (2002) is the only published study that examined the relative effects of different types of casino promotions in a single model. Finally, the majority of gaming research has dealt with casinos in tourist destinations such as Las Vegas, while only a few studies have examined repeater-market casinos in other regions. It is critical for casino operators to examine whether their promotions are cost effective in stimulating gaming revenues, and helpful in achieving marketing objectives. Given the increasing number of promotions and the substantial cost associated with promotions in the gaming industry, more research on casino marketing is warranted.

This study examined the effects of different types of casino promotions on slot gaming volumes using company-specific proprietary data obtained from casinos in repeater markets other than Las Vegas. More specifically, it examined the individual effects of a broad range of casino promotions on daily slot gaming volumes in a single model designed to predict daily slot gaming volumes (e.g., daily coin-in which typically refers to the aggregate dollar amount of wagers made on gaming devices by players). Casino promotions examined in this study included promotions that were not examined in previous gaming studies (e.g., the number of drawings per day, non-monetary prizes, and non-invitational slot tournaments). This, in turn, allows for comparison of slot volume changes associated with each of the promotions. Additionally, while the majority of previous studies examined the aggregated daily coin-in regardless of source, this study examined the effects of casino promotions on both rated and unrated coin-in separately. Rated slot play is tracked gaming volume generated by players who use their player club cards while playing slot machines. On the other hand, unrated play refers to the untracked gaming volume. Hence, examining rated and unrated coin-in separately could generate more precise estimates of casino promotion effects on slot gaming volumes as promotions tend to influence the two types of coin-in differently.

According to an American Gaming Association report, in the thirteen states where annual data for commercial casinos with table games and slot machines are available, casinos produced the majority of their gaming revenue from slot machines, ranging from a minimum of 63 percent (Nevada) to a maximum of 91.2 percent (Iowa and South Dakota) (American Gaming Association, 2012). Due to the fact that slot machines contribute significantly to gaming revenue, this study focused on promotions designed to increase slot play.

Given the lack of empirical research on casino promotions compared to the variety of casino promotions and offers frequently used in the gaming industry, this study contributes to the limited literature on casino marketing by adding empirical evidence on the effectiveness of various promotions in the gaming industry. The study is also unique in the fact that the majority of previous studies have primarily examined the Las Vegas market, ignoring markets such as those found in the South and Midwest. It also provides casino managers with a better understanding of the effects of different casino promotions on gaming volume, thereby helping them improve their current marketing practices.

2. Literature review

2.1. Drawing frequency

Drawing-based promotions offer qualified participants chances to win prizes such as cash and cars. For example, Seminole Hard Rock Hotel and Casino in Hollywood, Florida announced its drawing promotions for April 2011, which featured prizes such as cash and free play ranging from \$200 to \$1,000,000 and a Cadillac CTS car (Seminole Hard Rock Hotel & Casino, 2011). A player could receive one free entry to a drawing by simply swiping his or her slot club card, and earn one additional entry for every 50 players club points accumulated. The more entry tickets a player earned, the greater the player's chances of winning a prize. At the end of the promotion period, winning tickets for different levels of prizes were drawn.

By offering multiple entries and a large prize, casino operators hope to attract more customers to the casino and to increase gaming volumes. Furthermore, drawing-based promotions often create a fun and exciting atmosphere on the casino floor. Typically, lottery promotions offer players free entries to drawings and often provide an opportunity to earn additional entries as well.

Regarding the effect of drawing promotions on slot gaming volume (coin-in), Lucas and Bowen (2002) reported that a variable representing drawing frequency failed to produce a significant and positive effect on the daily coin-in of a Las Vegas hotel-casino which catered to local residents. Drawing frequency in Lucas and Bowen's study was expressed in a binary format to indicate each of the 95 days with casino promotions. Contrary to the finding of Lucas and Bowen, Lucas et al. (2006) found a significant and positive effect of a binary variable representing the event days of lottery promotions on the daily slot gaming volume of a Southern California casino. The difference in findings between the two studies may be explained by the fact that the drawing promotion in Lucas and Bowen's study lasted 95 days (actual drawing days plus qualification days), while only six days with actual drawings out of 42 promotion days were expressed in binary format in Lucas et al.'s study.

Despite the frequent use of lottery promotions or drawings in the gaming industry, there is a lack of research and consistency in findings regarding the effect of drawing promotion frequency on gaming volume. As noted earlier, previous studies tested the effect of drawing promotions using a binary variable representing the presence, or the absence of, a drawing promotion on any given day. However, the varying number of drawing promotions on a given day may have potential effects on daily gaming volumes. Hence, the effect of drawing frequency on daily slot volumes was tested using two sub-hypotheses: one testing the relationship between the number of drawing promotions on a given day and the aggregate daily slot gaming volume; and the other testing the relationship between the presence or the absence of a drawing promotion on any given day and the aggregate daily slot gaming volume.

H1a. There is a positive relationship between the number of drawing promotions (Drawing frequency 1) and daily slot gaming volume.

H1b. There is a positive relationship between the absence or the presence of a drawing promotion(s) (Drawing frequency 2) and daily slot gaming volume.

2.2. Drawing types

2.2.1. Cash prize drawings

Cash is one common type of award offered in drawing promotions. Lucas and Bowen (2002) reported a positive relationship between the amount of cash prizes awarded through drawings and the daily slot gaming volume of a Las Vegas hotel-casino serving

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