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Casino marketing, problem gamblers or loyal customers?

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ABSTRACT

This paper draws upon the research gap identified in the current gaming literature, investigates the relationships among the commonly practiced customer acquisition and retention strategies in casinos, gambling behaviors, customer loyalty and problem gambling. In particular, the study examines the mediating role of gambling behaviors in the relationship between the strategies and problem gambling or customer loyalty. Gambling behaviors selected for this testing are length of stay, gambling frequency and budget, and average betting. These behaviors and the relevant criteria are consistent with those applied in casinos to assess customer profitability and lifetime value. This investigation involves two studies and was undertaken at 30 major casinos in the gaming capital – Macau. The first study aims to identify customer acquisition and retention strategies in casinos and the second is focused on hypotheses testing. Results from testing the hypotheses using various statistical techniques in the second study confirm some proposed relationships and fail to support others. The findings have significant implications for the relevant literature as well as for practitioners.

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1. Introduction

Gambling research has become prevalent along with rapid expansion of the casino industry across various regions. Two major streams are evident in the relevant literature. One theme is approached from business and management perspective and focused on growth and sustainability of gaming-related industries and organizations. Research immersed in this theme involves discussion around service profit chain in the casino industry, analysing the relationships among various casino strategies and customer loyalty and retention. For instance, drawing upon Asian gamblers and casinos in Asia, gaming research led by Wong and colleagues (e.g., Wong, 2013; Wong & Dioko, 2013; Wong & Fong, 2010), Lam and colleagues (e.g., Lam, 2007; Lam & Mizerski, 2009), and Prentice and colleagues (e.g., Prentice, 2013, 2014; Prentice, King, & Ohtsuka, 2012; Shi, Prentice, & He, 2014; Zeng & Prentice, 2014) approach customer (gambler) loyalty and retention analysis from gambling motivation, casino service, customer equity and loyalty program. On the basis of Las Vegas casinos, a plethora of research in the similar field has been published by Lucas and his colleagues (e.g., Lucas, 2003; Lucas, Dunn, & Karitnova, 2006). The other stream is centred on problem and responsible gambling. Studies on this theme have analysed causes of problem gambling and proposed remedies and treatment from psychological and sociological

perspectives (e.g., Abbott & Clarke, 2007; Davidson & Rodgers, 2011; Dickson-Gillespie, Ruggle, Rosenthal, & Fong, 2008; Welte, Barnes, Tidwell, & Hoffman, 2011; Williams, Volberg, & Stevens, 2012).

Like any other businesses, a casino's viability is primarily dependent upon its competitive advantages and ability to attract and retain customers, which, from marketing perspective, can be achieved by appropriate blend of customer acquisition and retention strategies. Initially casinos would employ various aggressive promotions including complimentary service, good Fengshui and offering cash back on the basis of theoretical win (acquisition strategies) to acquire customers. Once attracting their visit and gambling at the casino, casinos monitor and record their gambling behaviors. The employees would selectively approach the customers/gamblers who demonstrate potential to be profitable to the casino and offer them with various incentives or loyalty programs (retention strategies) with intention to attract their return.

However, as the nature of gambling is prone to incurring addiction on gamblers, the process of acquiring and retaining customers, unlike other industries, may generate problem gamblers. Customer (gambler) loyalty and retention could be interpreted as relevance to gambling addiction or problem gambling, as customer retention is often measured by gambler visiting frequency to the gaming venue. Consequently, the acquisition and retention strategies employed by most casinos may be perceived as negative influence on gambling problems. Though very small percentage of gamblers are identified as having gambling problems, implications generated from problem gambling research can be rather contrasting to those from marketing and managing research in this field. To date very few studies have combined the two streams and propose an integrated framework that examines the role of casino

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strategies on gambling behaviors and problem gambling. In light of this gap, this study examines the effect of commonly practiced marketing strategies by casinos, and investigates the relationships among casino marketing strategies, gambler loyalty and behaviors, and problem gambling. To accomplish the aim, the following section discusses the relevant literature and offers hypotheses. Methodology is outlined to test the hypotheses. Subsequently data analyses and results are presented. Discussion and proposed implications of the research findings conclude this paper.

2. Literature review

2.1. Casino strategies effects

Casino marketing efforts involve two general approaches: customer acquisition and retention. Customer acquisition focuses on acquiring new customers and achieving optimal marketing share. Common strategies include bus programs and various aggressive promotions such as complimentary chips, food & beverage vouchers, and discounted rate for hotel rooms (see Prentice, 2013). Cash back, which is based on the customer's theoretical loss, is another commonly practiced acquisition strategies in casinos. When the market begins to saturate and competition intensifies, customer loyalty and retention becomes the preferred approach to marketing. Popular retention strategies are loyalty programs and the relevant complimentary rewards, which differ from the above mentioned complimentary services and are focused on stimulating gambler patronage and revisit. These programs and associated rewards involve tiered memberships, free valet parking, meals, hotel stays, and airfare. For the high roller or premium market, some casinos deploy various tournaments such as Baccarat or golf tournament to entice their revisit. To determine the specific acquisition and retention strategies, the following study was undertaken to generate appropriate items to measure these strategies.

3. Study one

3.1. Method

A systematic scale development process based on Churchill (1979) was taken to generate items measuring casino acquisition and retention strategies. Prior to the current study, a series of semi-structured in-depth interviews were conducted to understand how different casino strategies attracted gamblers. The interview questions include: "What motivates you to gamble?" "What attracts you to gamble in a specific casino?" "What are some casino service offerings do you like?" A total of 75 gamblers participated in the field study. The interviews took place at several casino properties in Macau – the world's gambling capital with gambling revenue atop the world (USD \$45.2 billion in 2013 or about seven times of the gambling revenue generated from the entire Las Vegas). Each interview lasted for about 20 min. The interview verbatim was translated into English. The data was analyzed through open coding in which the researchers read the verbatim transcript line by line. In vivo, constructed codes were organized into categories with reference to the literature (Bigelow, 2007; Rosenbaum, Ostrom, & Kuntze, 2005; Wan, 2011; Wong, 2013; Wong & Wu, 2013).

The items generated through the interview were carefully examined and analyzed by a panel of researchers who have expertise in the relevant area. As a result, 11 items are retained. Each item was evaluated using a 7-point Likert scale ranging from 1 (strongly disagree) to 7 (strongly agree). A further self-administered survey using these items was conducted with casino customers in Macau. A filter question was raised to ensure that the respondents did gamble in the corresponding casino. The prospective respondents were intercepted at the exit of major casinos in Macau.

A total of 321 complete responses were retained. Of the respondents, 58.6% were males; 36.4% between the age of 21 and 30, and 26.2%

between the age of 31 and 40; 33.6% had a bachelor degree or above while 34.9% received up to high school education; 48.0% were from mainland China, 15.3% were from Hong Kong, and 27.7% were local residents.

3.2. Results

To assess the dimensionality, validity, and reliability of the scale we randomly split the dataset into two sub-samples, we conducted exploratory factor analysis using the first sub-sample and confirmatory factor analysis using the second sub-sample. Results presented in Table 1 indicate that the set of items explains 68.13% of the variance of the scale and could be reduced into three factors: Fengshui, complimentary service and loyalty program. The items that indicate location of the casino, easy access to gambling fund were merged into Fengshui variable. However, for the purpose of this study, we still use Fengshui as the label hereafter that includes the items indicating location and money access.

The scale demonstrates adequate convergent and discriminant validities with all primary loadings $\geq .63$ and secondary loadings $< .30$, average variance extracted (AVE) $\geq .50$, and the square of the correlation for each pair of factors is less than the variance extracted for each factor. The Cronbach alpha values and composite reliabilities for all factors are more than .74. The measurement model of the scale demonstrates adequate fit between the data and the implied model: comparative fit index (CFI) = .97, root mean square error of approximation (RMSEA) = .08, and root mean square residual (SRMR) = .04. Consistent with these findings, complimentary service, Fengshui and loyalty program are adopted as customer acquisition and retention strategies for this paper. The following section presents the relevant literature review involving the proposed model and form hypotheses on the basis of the proposed relationships.

3.3. Hypotheses formation

3.3.1. Complimentary service effects

Complimentary services or comps are one of the popular customer acquisition strategies that casinos use to encourage gamblers or players to visit the casino and gamble. Casinos at different locations or regions vary on their offerings, depending on factors such as market situations

Table 1
Scale items for casino service strategy.

	Factor loading	Cronbach's alpha	Composite reliability	AVE
Fengshui		.82	.83	.50
The casino has good Fengshui	.63			
The casino brings me luck	.81			
I could win money from the casino	.83			
The casino's location is convenient	.52			
The casino allows easy access of money	.83			
Complimentary service		.74	.78	.54
The casino offer good shuttle services	.68			
There are ample complimentary entertainment facilities	.85			
There are free food and drinks for me while gambling	.80			
Loyalty program		.89	.88	.72
The loyalty program allows me to enhance my social status	.89			
The loyalty program has many options for me to redeem my points	.75			
The loyalty program gives me special privilege	.92			

Note: Total variance explained = 68.13%. Kaiser–Meyer–Olkin measure of sampling adequacy = .83 and Bartlett's test of sphericity: $\chi^2_{(55)} = 684.52, p < .001$. Model fit statistics: $\chi^2/df = 2.79$, comparative fit index (CFI) = .97, root mean square error of approximation (RMSEA) = .08, root mean square residual (SRMR) = .04. All factor loadings are significant at the .001 level. AVE = average variance extracted.

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