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Examining the effects of lottery-style promotions in casinos☆

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ABSTRACT

The efficacy of lottery-style promotions within casinos is explored in this field study. These expensive promotions are ubiquitous within the casino industry, yet their incremental profitability remains questionable. Daily performance data from an Australian casino were gathered over a two-year period, featuring both promotional and nonpromotional periods. Three lottery promotions failed to impact daily slot wagering levels, leaving only the costs to be absorbed by the operator. While few studies have addressed the efficacy of these casino promotions, the broader literature on sweepstakes and promotional games provides several helpful recommendations to improve performance, including the following: Improved targeting, multiple revisions to prize structures, incorporation of skill-based activities, and image-based advertising. All of these dimensions have been identified as effective, yet all were absent from the failed casino promotions. Access to this rarely available performance data added valuable results to both the sweepstakes research stream and the casino management literature.

1. Introduction

The mainstream popularity and broad application of sweepstakes and promotional contests is well established within the marketing literature (Chew and Tan, 2005 Kalra and Shi, 2010; Yan and Muthukrishnan, 2014; Goldsmith and Amir, 2010), with aggregated annual expenditures for these activities estimated in the billions (Kalra and Shi, 2010; Laporte and Laurent, 2015). Such promotions are ubiquitous in the casino industry (see Aliante, 2017; Greektown, 2017; Hollywood, 2017; Pauma, 2017; Wind River, 2017); however, their incremental profitability remains questionable (Klebanow, 2013; Suh et al., 2014; Zender, 2014). These lottery promotions typically feature a qualification period where participants earn tickets for drawings by way of their gaming activity. On specified drawing days, high-value prizes are awarded to a prescribed number of winners. These guaranteed prizes often take the form of cash or near-cash equivalents, but cars, boats, and even houses have been featured as top awards (Lucas and Kilby, 2008; Suh et al. 2014).

Given the paucity of empirical research aimed at measuring the efficacy of these casino promotions, this paper adds valuable results to a small but growing research stream. Additionally, with the considerable cost and ubiquity of these promotions, understanding the incremental profit associated with casino lotteries takes on an exaggerated importance for operators. For the most part, these promotions have been continually offered in the same format, with few attempts to meaningfully alter their structure (Klebanow, 2013). Given their questionable success, structural revisions may represent helpful start positions for improved results. To this end, the broader sweepstakes and promotion literature is reviewed to provide insight for potential design improvements. The current study contributes to this literature by adding results from a field study aimed at measuring the efficacy of actual promotions in a live commercial setting. Such contributions are important to the development of promotional game theory (Ward and Hill, 1991), as most existing work in this area stems from lab studies (Zhang et al., 2016).

2. Literature review

2.1. Sweepstakes and contest literature

This literature distinguishes sweepstakes from promotional contests by way of the skill component (Ward and Hill, 1991; Karla and Shi, 2010). For example, in sweepstakes, winning is defined purely by chance, whereas winning a contest involves some measure of effort and/or skill. In spite of this technical difference, the level of skill required to participate in contests is often minimal, providing little real distinction between these two forms of promotion (Karla and Shi, 2010). It is not clear where casino lotteries fit into this general framework. While the prize drawings are random, the number of entries earned is based on the extent of the participant's play during the qualification period (Lucas and Bowen, 2002). Increased effort/play results in an increased chance of winning. Therefore, studies from both the

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sweepstakes and contests literatures are reviewed in Subsections 2.2 through 2.4.

2.2. Prize structure

Expanding on the theoretical start position established by Ward and Hill (1991), Yan and Muthukrishnan (2014) found prize structure to influence desire to participate in general lottery promotions. Specifically, they found the presence or absence of consolation prizes to affect willingness to participate. In general, their findings suggested that consolation prizes can decrease the willingness of consumers to participate in lottery promotions. Khan and Kupor (2017) produced similar results in their experimental studies. In short, the high probability (or certainty) of winning a consolation prize shifted the focus from the dollar value of the grand prize to the low probability of winning it, which ultimately decreased valuations of the promotions (Yan and Muthukrishnan, 2014). The lotteries examined herein as well as those examined in Lucas and Bowen (2002) did not feature consolation prizes, which should have added to the valuation of the primary prizes.

Along similar lines, other researchers have identified conditions in which offering multiple identical prizes does not produce optimal results (Laporte and Laurent, 2015 Kalra and Shi, 2010). For example, more identical prizes were not effective in optimizing responses from brand loyal customers (Kalra and Shi, 2010), or when the likelihood of winning the sweepstakes was difficult to estimate (Laporte and Laurent, 2015). These findings are applicable to the current study in that each lottery featured multiple identical awards (i.e., two top awards and three second-tier awards). The positive effects associated with the absence of multiple identical prizes and consolation prizes generally demonstrates what has been identified as the less-is-more phenomenon, regarding the bottom-line impact of sweepstakes (Kalra and Shi, 2010; Khan and Kupor, 2017; Laporte and Laurent, 2015; Yan and Muthukrishnan, 2014).

More generally, the design of promotional games should carefully target participants (Kotler, 1997; Ward and Hill, 1991), as empirical results clearly suggest that the optimal form of elements such as prize structure can vary by segment (Karla and Shi, 2010; Laporte and Laurent, 2015; Zhang et al., 2016). For example, brand switchers have been found to prefer different prize structures than brand-loyal customers (Kalra and Shi, 2010), and high-value or premium customers prefer different prize structures than low-value customers (Zhang et al., 2016). Both Laporte and Laurent (2015) and Kalra and Shi (2010) identify other important contextual factors related to the optimal design and targeting processes related to promotions such as participation frequency, evaluability of the rewards, risk aversion profiles and advertising strategies. All of these results suggest that one size does not fit all, when designing promotional games.

Goldsmith and Amir (2010) found that promotions that offered uncertain reward structures could produce purchase intentions in line with those that offered a guaranteed and valued reward. This suggested that the best possible outcome is the basis of customer expectations related to uncertain incentives. Their results suggest that casino marketers may be better off with lottery promotions that feature uncertain rewards, rather than free-play coupons that offer guaranteed rewards. That is, the mere chance to win the top prize in the lottery may elicit the same visitation behavior as the more costly guaranteed incentive. If so, this would allow casino marketers to garner more bang for their promotional buck, by appealing to the overly optimistic expectations associated with uncertain reward structures (i.e., such as lottery promotions).

Some casino marketers are beginning to embrace this notion by offering lotteries that feature variable values for top prizes (Green Valley Ranch, 2017). These top awards can incorporate skill-based activities, or activities that feature the illusion of skill. For example, the grand prize winners of a lottery promotion in a Las Vegas casino earned the right to putt a golf ball into a hole (Green Valley Ranch). A hole-in-one garnered the maximum prize of $1,000, while the more likely unsuccessful attempt earned a $500 prize. This structure can advertise a top-award equivalent to the greatest possible outcome, even though that outcome is not certain. Such structures offer potential if not likely cost savings. Additionally, a skill component is introduced to increase the intrinsic value of the promotional game, as described in Ward and Hill (1991).

Staying with the previous example, the act of putting the golf ball may also increase the participant's subadditivity. That is, Kalra and Shi (2010) contend that the action/effort associated with this type of participation could produce optimistic estimates of the ultimate outcome. More generally, promotional designs that increase the effort required to participate could be related to what Langer (1975) describes as an illusion of control. In the case of promotional games, increased subadditivity is a likely component of what Ward and Hill (1991) refer to as intrinsic value. Karla and Shi (2010) contend that the level of promotional subadditivity is related to prize structure preferences. The three promotions examined in this paper featured guaranteed award structures. Aside from playing the slot machine to earn tickets for the drawings, no effort was required to participate in these promotions.

Laporte and Laurent (2015) invoke evaluability theory to explain how the number of identical prizes affects participation and valuation of sweepstakes promotions. Hsee and Zhang (2010) contend that something is evaluable when a specific level, quantity or amount of it can be deemed as favorable or unfavorable, even when that something is evaluated in isolation. Laporte and Laurent's experiments found subjects generally insensitive to the number of identical prizes offered, when separately evaluating sweepstakes featuring one and ten prizes. Neither willingness-to-participate nor likelihood-of-winning were significantly affected by the difference in the number of identical prizes (i.e., 1 vs. 10). Hsee et al. (2005) described magnitude insensitivity, which provides further explanation for the inability of subjects to make significant value distinctions between different numbers of identical prizes. Very generally, magnitude insensitivity outlines conditions in which changes in the valuations of a stimulus (e.g., the number of prizes) do not linearly correspond to changes in the amount or degree of that same stimulus.

The magnitude insensitivity observed by Laporte and Laurent (2015) suggested a possible cost savings for casino marketers who choose to offer multiple identical prizes. For example, a single grand prize of $100,000 may elicit the same participation as three top awards of $50,000 each. Consistent with promotions analyzed by Lucas and Bowen (2002), the lottery promotions examined in the current study featured two levels of multiple identical prizes.

Additionally, Laporte and Laurent (2015) discovered that as the subject's knowledge of and familiarity with sweepstakes increased, sensitivity to the number of identical prizes also significantly increased. With experience and familiarity comes perspective, including magnitude sensitivity, i.e., an appreciation for an increased number of identical prizes. This is an important experimental caveat, given the popularity and frequency of casino lotteries in most markets. Many participants in these promotions would be considered familiar and knowledgeable with respect to sweepstakes, per the guidelines established by Laporte and Laurent. For example, the host casino examined in this study catered to a frequently visiting clientele, and offered daily lottery promotions for an entire year. Given this context, three top awards of $500 may elicit greater participation than a single top award of $1,000.

2.3. Promoting promotions

Illustrations of the number of identical prizes have been found to improve the evaluability of sweepstakes reward structures, as well as participation rates (Laporte and Laurent, 2015). Similarly, experiments in product marketing have manipulated package illustrations to establish a positive relationship between (1) the number of items illustrated