



# The effect of promotion on gaming revenue: A study of the US casino industry



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## HIGHLIGHTS

- Promotion utilizing non-gaming products is increasingly important in the US casino industry.
- Hotel room promotion has a positive effect on gaming revenue.
- Interaction effect between promotions of hotel room and non-F&B businesses has a positive effect on gaming revenue.

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## ABSTRACT

In spite of the growing importance of promotion utilizing non-gaming products in the US casino industry, research on the effect of promotion for casino tourists on gaming revenue has been sparse. Especially, an examination of interaction effects among promotions utilizing non-gaming products on gaming revenue of US casino firms has been rare in the literature. Thus, this study aims to investigate the individual effect from each non-gaming product on gaming revenue in the US casino industry. Further, this study examines interaction effects of each pair of promotions utilizing non-gaming products on gaming revenue. The results of this study show a positive and significant effect of hotel room promotion on gaming revenue. In addition, promotions of hotel room and other businesses except for F&B in combination significantly contribute to an increase of gaming revenue.

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## 1. Introduction

The casino industry in the United States is a powerful economic growth engine that contributes \$240 billion to the nation's economy, accounting for \$38 billion in tax revenues used for critical public services. And, according to projections, the US casino industry, serving as a gateway to the middle class, is expected to add more than 62,000 well-paying jobs over the next decade (American Gaming Association, 2016). As casino tourism (CAT) has been growing, competition among casino firms has increased profoundly and satisfying customers' needs to attract more gaming players is becoming increasingly important in this industry.

Recently, as casino firms are evolving into large-scaled integrated resorts, they have developed various non-gaming products, such as hotels, food and beverage, entertainment, retail, convention, etc. to induce more players who seek a variety of activities

along with gaming, a main revenue source of a casino firm (MacDonald & Eadington, 2008; Prentice, 2013; Wong & Fong, 2012). Combined with an intensified competition in the US casino industry, operating relevant non-gaming products becomes a more influential factor for gaming players' travel destination choice (Bryant & Walker, 2010; Richard, 1997; Suh, 2011). Furthermore, casino players using non-gaming products tend to spend more money on gaming than non-users of those products (Lucas & Santos, 2003; Roehl, 1996). Therefore, US casino firms are more increasingly focusing on developing appropriate integrated operations of non-gaming products as a value-optimizing strategy, which can attract new tourists and making existing gaming players to concentrate on gaming by satisfying diverse customer needs.

In accordance with the development of diverse non-gaming products, US casino firms have implemented various marketing activities to optimize the value from operations of those products. As promotion utilizing non-gaming products, traditionally US casino firms offer free or discounted non-gaming products as 'comps' to induce tourists and ultimately enhance gaming revenue (Marfels, 2010; Repetti, 2013). Typical comps include free or

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discounted drinks or meals, show tickets, and hotel rooms, and an offer of comps is reflected in income statements as a specific accounting item, 'promotional allowances' (Gaynor, 2014). Provided with diversified non-gaming products, casino tourists may enjoy various services without leaving a casino complex, focusing more on gaming itself. Consequently, promotion utilizing non-gaming products is a unique marketing strategy in the US casino industry, which motivates gaming players to visit a certain casino resort destination continuously, and differentiating from competitors.

Whether promotion enhances revenue of the targeted product is a critical concern from the perspective of marketing. It is widely accepted that in the short run, promotion has a positive effect on revenue generation due to repeated purchases in an immediate response to lowered price (Mela, Gupta, & Lehmann, 1997; Pauwels, Silva-Risso, Srinivasan, & Hanssens, 2004; Rust, Ambler, Carpenter, Kumar, & Srivastava, 2004). The positive view about the effect of promotion on short-term revenue generation is based on self-perception theory arguing that consumers decide to purchase, driven by promotion's own benefits, although they don't have fundamental preferences for those promoted products themselves (Dodson, Tybout, & Sternthal, 1978). Further, behavioral learning theory asserts that promotion contributes to revenue generation in the long run as well, because promotion increases an intimate relationship between consumers and products, thereby forming a positive, sustainable brand image (Rothschild & Gaidis, 1981).

On top of those traditional effects of promotion, the US casino industry contains unique characteristics that generate idiosyncratic effects of promotion. First, the US casino industry has a hierarchical business structure. More specifically, non-gaming products serve the supplementary role of contributing to the enhancement of gaming business, which is considered the core product (Wong & Fong, 2010). Accordingly, the main objective of implementing promotion utilizing non-gaming products is to maximize gaming revenue. Second, the US casino industry has a feature of economics of complementarities. That is, an indirect effect generated from an interaction between non-gaming products strengthens a direct effect of a certain non-gaming product on gaming business (Kang, Lee, & Yang, 2011; Milgrom & Roberts, 1990). Reflecting that synergistic effect, US casino firms adopt an integrated promotion strategy that utilizes an interaction among non-gaming products, for example, between hotel rooms and F&B, hotel rooms and entertainment, F&B and entertainment, etc. to fulfill casino tourists' needs for diverse non-gaming products in combination.

Considering the prevalence, increasing importance, and unique characteristics of promotion utilizing non-gaming products in the US casino industry, it is critical to comprehensively examine the effect of promotion in casino tourism academically and practically. However, study on the effect of casino promotion has been insufficient in the literature. According to previous study conducted by McGowan and Brown (2009), promotional comps of non-gaming products increase total sales and gaming revenue. But they examined the effect of total volume of promotion only, not the effect of promotion of each non-gaming product separately. In addition, to our best knowledge, a study that investigates the effects of combined promotion among different non-gaming products on gaming revenue does not exist in the current literature.

Consequently, the purpose of this study is to examine the individual effect of promotion of each non-gaming product and interaction effects among promotions utilizing diverse non-gaming products on gaming revenue in the US casino industry to fill the gap in the literature. More specifically, this study first attempts to investigate the effect of promotion of hotel room, F&B, and other businesses (i.e., entertainment, retail, and convention, etc.) on gaming revenue in turn, based on the promotional allowances data provided in financial statements (more detailed explanations exist

in Methodology section). And then, this study aims to examine interaction effects of each pair of promotions utilizing non-gaming products on gaming revenue in US casino firms. This study expects to provide unique insights for comprehensive understanding of the effect of promotion in the casino tourism context and practical guidelines for optimal integrated operations of non-gaming products in the US casino industry. Following the literature review, the study discusses the research methods employed. Subsequently, results and discussion are provided, and limitations and suggestions for future research finalize the study.

## 2. Literature review

### 2.1. Effects of promotion

Promotion not only helps a firm to retain existing customers through brand loyalty, but also it encourages consumers to switch brands and make a purchasing decision more easily (Kim, Park, & Jeong, 2004; Sun, 2005). As a result, with promotion as an effective marketing tool, a firm can commit consumers to its own brands more easily, thereby achieving its ultimate goal, boosting sales.

Promotion provides consumers with different dimensions of benefits, which are utilitarian and hedonic benefits (Chandon, Wansink, & Laurent, 2000). Utilitarian benefits provide consumers with an opportunity to experience high-quality products at discounted price with a reduction of searching and decision-making costs. That is, utilitarian benefits are instrumental and functional (Batra & Ahtola, 1991). On the other hand, hedonic benefits of promotion relate to the emotions of cheerfulness and excitement (Chitturi, Raghunathan, & Mahajan, 2008). For example, provided with other products added by promotion, consumers enjoy new experiences with which they can fulfill their desire of new products (Palazon & Delgado-Ballester, 2013). Hedonic and utilitarian benefits of promotion enhance both consumers' delights and functional satisfactions, from which consumers tend to form brand loyalty more effectively.

A casino resort is a typical example of entertainment complex with hedonic features of multisensory images and fantasies, and therefore emotional factors involved in promotion may heavily influence the effect of promotion in casino tourism (Wakefield & Barnes, 1996; Wong, 2013). Besides, tourists to a casino resort have a need for consuming a product mix consisting of, for example, hotel room, F&B, and entertainment in a constrained boundary with lower shopping costs. Consequently, the effect of promotion in the casino industry contains both hedonic and utilitarian dimensions.

The effect of promotion on performance can be explained from both short- and long-term perspectives. The argument of a short-term effect of promotion is based on self-perception theory asserting that consumers may have smart-shopper feelings with intrinsic rewards through buying promoted products or services at discounted price (Schindler, 1992). Even if consumers don't have actual preferences for a purchased product itself, they may buy a certain brand, induced by benefits from promotion (e.g., discounted price). However, in this case, without consecutive promotions in the future, consumers may not intend to repurchase the brand (Gedenk & Neslin, 2000). Further, in the consumers' perception, the internal reference price with which consumers compare the promoted price when making purchase decision tends to be diminished through previous promotion (Marshall & Bee Leng, 2002). As a result, promotion may even damage the brand image by lowering the internal reference price, which implies that promotion mostly influences short-term performance through repeated purchases.

On the other hand, behavioral learning theory asserts that promotion has a long-term effect, in that a purchasing behavior

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