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The Effectiveness of Casino Loyalty Programs - Their Influence on Satisfaction, Emotional Connections, Loyalty and Price Sensitivity

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ABSTRACT

Due to the rapid expansion in casinos and other gaming opportunities (e.g., web-based gaming, lotteries, racino, etc.), almost every casino is using loyalty programs and elite membership status as key components of their marketing strategies. However, the value of customer loyalty programs has been questioned in part because empirical research on the effects of loyalty schemes has been inconclusive. The purposes of this study are to aid understanding of the effectiveness of casino loyalty programs, to segment loyalty program members, and to compare these segments' characteristics including satisfaction with the casino experience, casino loyalty, emotional connection, perceived value, as well as other demographic, attitudinal and behavioral variables. In addition, this study identified and ranked casinos exhibiting the most effective loyalty and elite loyalty programs.

INTRODUCTION

Despite the impact of the recession, the United States remains the world's largest market for casino gaming. But revenues at casinos nationwide slipped 7% in 2009, with Atlantic City and Las Vegas markets experiencing much bigger declines. Casino customers cut their entertainment expenses by taking shorter trips for fewer days and spending less on high-end amenities like restaurants, shows and spas that are important sources of revenue for casino resorts.

The response of the industry has been, in many cases, to drop rates hoping to attract guests through deals and discounts. Some casino companies are making their loyalty programs more attractive. In theory, loyalty programs offer marketing value and serve as a powerful inducement to return. As a result, travelers are receiving some of the best incentives ever offered by the hotel and casino industries.

Casinos recognize the importance of rewarding their most faithful patrons and are experts at finding the right enticements to keep the players in the game. Casino loyalty programs typically provide a membership card that is swiped at all transactions (casino games, restaurants, stores, hotel stays). The programs use this transactional data (i.e., what games they play or what type of slot machines they prefer) plus demographics to structure offers and rewards.

This behavior-tracking technology gives casinos unparalleled customer knowledge and, in turn, the ability to distribute generous benefits while maintaining a profit margin in the customer relationship. Direct mail is also crucial; members of some casino clubs receive over 150 pieces a year.

Although cost-cutting has helped many casinos weather the recession and will bolster their bottom line in coming quarters, new customer demographics and behaviors require new strategies. While dropping rates will attract people to take advantage of deals, understanding consumer behavior and offering guests what they want, while attracting the right customer mix will be imperative.

STATEMENT OF PURPOSE

The purposes of this study are to aid understanding of the effectiveness of casino loyalty programs, to segment loyalty program members, and to compare these segments' characteristics including satisfaction with the casino

experience, casino loyalty, emotional connection, perceived value, as well as other demographic, attitudinal and behavioral variables.

LITERATURE REVIEW

An overwhelming number of studies have discussed and tested the concept of customer loyalty [1] [8] and its relationship with other variables [4] [10]. However, in spite of the growing number of loyalty programs, much less research has dealt with the effectiveness of such programs [13] or has focused on an understanding of who joins these programs.

A substantial body of research appears to be inconclusive as to the actual impact of loyalty programs on customer loyalty.

Some studies have concluded that loyalty programs have little or no impact on behavior [11] [5] [12]. For example, in their study of a large loyalty program, Sharp and Sharp [11] were not able to show that a particular loyalty program brought about significant changes in repeat purchase. Their conclusion was that it is very difficult to change the fundamental repeat purchase patterns of markets.

However, other research has reported that loyalty programs have a positive impact on loyalty [9] [6] [3]. For example, in a study of the impact of club membership and loyalty to casinos [3], it was determined that casino brands with a high membership - where more than 50% of guests are club members - have the most loyal customer base. Customer loyalty fell sharply among brands that have fewer members enrolled in their programs.

These mixed findings have contributed to a heated discussion whether loyalty programs create loyalty, or encourage customers to shop around and discourage loyalty.

METHODOLOGY

Data from the Market Metrix Hospitality Index, a well-known hotel customer satisfaction panel in operation since 2001, was utilized to analyze data from casino hotel customers. Based on surveys from casino hotel customers, we split the casino industry into distinct customer groups based on geo-demographic, behavioral, and attitudinal dimensions. Based on Ward's method of hierarchical cluster analysis [7] using standardized data from our MMHI database, 7 distinct segments of casino customers were identified (see Figure 1).

Research Design

The analysis in this study is based on data from the 2008 and 2009 Market Metrix Hospitality Index (MMHI). The MMHI is a national indicator of customer satisfaction, emotions, loyalty, and price sensitivity regarding hospitality industry facilities and services available to consumers. The index is conducted on a quarterly basis on behalf of Market Metrix, LLC, by Harris Interactive, one of the world's leading custom market research firms. Since its inception in 2001, the MMHI has utilized Harris Interactive's national web-based research panel in order to evaluate participants' recent experiences with hospitality products and services, as well as track details about their travel habits and their general demographic profile.

All MMHI respondents answer approximately 80 online survey questions. Utilizing a proprietary ordinal scale, these questions measure participants' customer satisfaction, brand loyalty, emotions related to each experience, price sensitivity and demographic characteristics. Over the course of its nine-year existence, the questionnaire has been continually refined to reflect changing market conditions and evolving customer habits. In its modern form, it has been adapted to address current issues such as the growth and increased sophistication of loyalty programs, green programs, and the emerging impact of social media within the hospitality industry.

Harris Interactive and Market Metrix maintain numerous quality assurance practices to ensure respondent and data integrity. The database of respondent information is actively screened and updated along numerous demographic and psychographic variables to allow precision in the online sample. The participant panel consists solely of individuals who have double opted-in and voluntarily agreed to participate in an online research study.

Sample

To gain specific insight into casino customers, MMHI data for all U.S. hospitality brands was filtered to include only those responses for customers of casino brands. Utilizing two full years of MMHI data (over 280,000 responses), the analysis filtered 21,901 submissions by members of the panel who reported on a recent casino stay. The data of those casino customers was then manipulated statistically through cluster modeling performed in SPSS software.

The cluster model was loaded with 11 of the approximately 80 MMHI questions based on their relevance to casino customer profiles and the casino experience (See Figure 1). Only participants that answered all 11 of the selected questions were included in the analysis. This reduced the 21,901 MMHI casino responses to 4894 complete responses, representing the final sample size used for the modeling.

The 11 questions listed in Figure 1 were selected to distinguish loyalty members from non-members. Questions 8, 9 and 10 (see Figure 1), relate to loyalty program membership, elite status, and the importance of the membership, respectively.

FIGURE 1: QUESTIONS USED IN CLUSTER ANALYSIS

Question number	Question description
1	Age
2	Annual income
3	Average daily rate paid for room during most recent stay
4	Estimated total overnight stays at a casinos each year
5	Satisfaction with casino ambiance
6	Satisfaction with friendliness of casino staff
7	Perceived odds of winning at the casino
8	Membership in casino loyalty program
9	Membership in casino loyalty program as an elite member
10	Perceived importance of loyalty program
11	Likelihood to return as repeat guest of the casino

Limitations

Despite the rigorous quality standards maintained by Harris Interactive and Market Metrix, results are still susceptible to the limitation of a sampling approach. While quarterly data yields results for approximately 280 U.S. brands, it is not possible to include all hotels and casinos. Also because sample sizes are linked to room supply, there may be greater volatility of results for smaller properties and brands.

DATA ANALYSIS

The final sample of 4894 responses was put through numerous iterations of cluster analysis in order to separate the data into logical segments that were sufficiently differentiated from one another. The eventual output produced seven distinct segments, shown in Figure 2. In order to enrich the segment profiles, additional characteristics (e.g., demographics) were added to each segment based on the survey responses of persons within each group. The seven segments were compared using the averages for the 11 cluster questions and demographic information. Based on the expanded profiles, well-defined differences emerged among the seven segments.

Three of the seven segments (Unmoved Members, True Blue and Elite Elders) were comprised predominantly of loyalty members and one segment (Elite Elders) included mostly (86%) elite members. Together, the three segments included 2749 of the 4894 responses, representing about half of all casino customers.

FIGURE 2: CASINO CUSTOMER SEGMENTS AND LOYALTY CLUB MEMBERSHIP

Segment	Total responses	Percent of total sample	Percent loyalty members	Percent elite loyalty members
1	1028	21.0%	2.7%	7.1%
2	456	9.3%	4.6%	14.3%
3	460	9.4%	7.6%	2.9%
4	201	4.1%	13.4%	7.4%
5 (members)	1613	33.0%	94.9%	2.2%
6 (members)	587	12.0%	96.4%	1.4%
7 (elite members)	549	11.2%	98.7%	88.6%
Total Members	2749	56.2%		
Total All Segments	4894	100.0%		
Excluded Cases	17007			
Total Casino Cases	21901			

Names and descriptions of each segment are presented in Figure 3. The segments are sorted according to the number of nights per year these persons spend in hotels.

FIGURE 3: CASINO CUSTOMER SEGMENT NAMES AND DESCRIPTIONS

	Segment	Description	Favorite brands	Share of industry	Nights per Year
HIGH FREQUENCY	Mr. High Roller	High spenders, very frequent travelers with over 10 trips/year, non-members, fairly satisfied, predominantly male, very high income, travel on business and pleasure	Bellagio, Encore, Venetian, Wynn	4.1%	28.0
	Elder Elites	Elite loyalty members (take most trips among members), sufficiently satisfied, not optimistic, oldest, predominantly male, high income	Harrah's, Caesar's Palace, Trump, Bally's	11.2%	17.4
MEDIUM FREQUENCY	Unmoved Members	Regular loyalty members, lowest satisfaction among all members but inclined to recommend and return, take shorter trips	Tropicana, Orleans, Harrah's	33.0%	11.5
	True Blue	Regular loyalty members, highest satisfaction among members and most likely to recommend and return, would pay premium for room (sometimes comped)	Foxwoods, Mohegan Sun	11.9%	11.4
LOW FREQUENCY	Happy-go-lucky	Happy non-members, highly satisfied with service, optimistic about gambling, likely to recommend and return (and sometimes do take multiple trips) young, average income, would pay premium for room	Hard Rock, New York-New York	9.3%	9.1
	Ice Queens	Hard to please non-members, not satisfied with service, pessimistic about gambling, unsure about returning or recommending, young, predominantly female, average income, rely on reviews for selection	Circus Circus, Excalibur, Mandalay Bay, Imperial Palace	9.4%	8.9
	Accidental Travelers	Least frequent travelers, non members, fairly optimistic and satisfied, youngest, average income, say they may return but seldom seem to do so	Luxor, Excalibur, MGM Grand, Treasure Island, Palms	21.0%	7.5

Note: Three segments: Unmoved Members, True Blue and Elite Elders, include the majority of loyalty members.

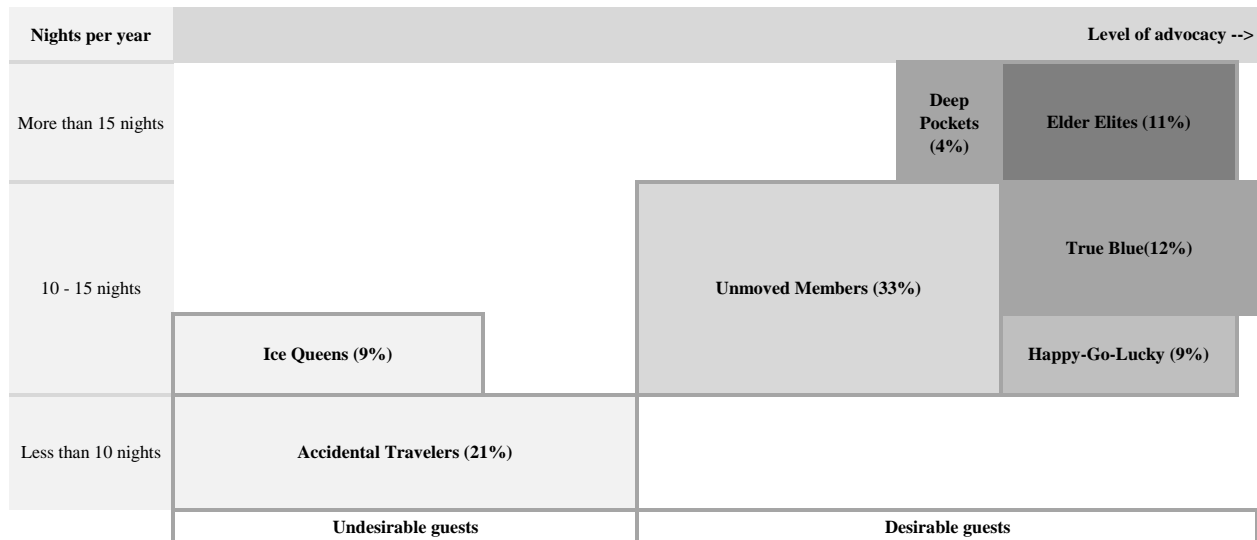
To evaluate the relative desirability of each segment, we paired customers’ “Likeliness to recommend” scores with their annual room nights (Figure 4).

FIGURE 4: CASINO SEGMENT NIGHTS PER YEAR AND LIKELINESS TO RECOMMEND

No.	Name	Nights per year	Likely to recommend (1-3)
1	Accidental Travelers	7.5	2.4
2	Happy-go-lucky	9.1	2.8
3	Ice Queens	8.9	2.0
4	Mr. High Roller	28.0	2.4
5	Unmoved Members	11.4	2.6
6	True Blue	11.3	2.9
7	Elite Elders	17.4	2.8

Mapping each segment on these two dimensions (using nights per year as the Y-axis and level of advocacy as the X-axis) provides additional insight into the desirability of each segment (Figure 5). The three segments with a majority of loyalty program members (greater than 95% members) are all found in the top right corner of Figure 5.

FIGURE 5: CASINO SEGMENT DESIRABILITY



EXAMINATION OF LOYALTY SEGMENTS

Overall Characteristics

Figures 4 and 5 illustrate that casino loyalty programs are not perfect. While the three loyalty club segments report high number of annual room nights and generally positive scores for likeliness to recommend, they are not the highest on either measure.

To evaluate this further, additional respondent detail is presented in Figures 6 and 7. Figure 6 presents the loyalty characteristics for each of the three member segments. Figure 7 includes demographic profiles of both member and non-member segments.

FIGURE 6: LOYALTY CHARACTERISTICS OF MEMBER SEGMENTS

SegmentNo.	Name	Percent loyalty members	Percent elite loyalty members	Likely to return (1-3)	Likely to recommend (1-3)	Importance of loyalty membership (1-3)	Percent read online reviews	Percent wrote online review
5	Unmoved Members	94.9%	2.2%	2.58	2.56	1.97	16.5%	6.5%
6	True Blue	96.4%	1.4%	2.91	2.90	2.04	20.9%	9.6%
7	Elite Elders	98.7%	88.6%	2.83	2.77	2.69	8.8%	11.5%

FIGURE 7: DEMOGRAPHIC PROFILE OF CASINO CUSTOMER SEGMENTS

	Segment	Age	Gender (% Male)	Income	Purpose of Trip (% Business)	Nights per Year
HIGH FREQUENCY	Mr. High Roller	51	68%	\$175,183	26.9%	28.0
	Elder Elites	57	65%	\$99,735	3.8%	17.4
MEDIUM FREQUENCY	Unmoved Members	52	55%	\$82,831	5.7%	11.4
	True Blue	51	50%	\$85,932	4.3%	11.3
LOW FREQUENCY	Happy-Go-Lucky	47	46%	\$73,849	10.1%	9.1
	Ice Queens	46	42%	\$76,884	14.1%	8.9
	Accidental Travelers	46	46%	\$73,875	14.5%	7.5

Descriptions of Segments of Loyalty Members

Elder Elites – This group encompasses mostly elite loyalty program members and represents about 11 percent of the overall casino market. These persons are predominantly male, older, with a comparatively high income (see Figure 7). They put their membership to use by spending more nights (17) in casino hotels each year than the other segments with loyalty members. Their high number of annual room nights, ability to spend and willingness to recommend the brand of their choice makes them a desirable segment to casino operators.

The elite members also give high marks for the friendliness and helpfulness of staff, indicating that casinos understand the importance of this valuable segment. This exceptional customer service supports the value these customers place on their membership and, as a result, their high intent to return scores.

Considering the growing importance of online reviews, this segment looks even more desirable. This is the only segment that actually writes more reviews than it reads. This is especially unusual given the older demographic of this segment. Clearly, the elite membership creates a very engaged group of customers.

True Blue – This segment consists mainly of regular loyalty program members. It represents 12 percent of the total market which is about the same size as the Elite Elders segment. The demographic profile of this group is balanced in terms of gender distribution, income and age (see Figure 7).

True Blues take fewer trips to casinos compared to Elite Elders (Figure 3). However, they are just as loyal as the Elite Elders, reporting similar scores for likeliness to return and recommend (Figure 5). True Blues also score highly across a range of casino experience scores, making them desirable to casino operators (Figure 6).

But True Blues are different than Elite Elders. They value their membership in the loyalty program less (not a surprise because lower tier members receive fewer perks). And True Blues are also very receptive to casino promotions. Although this may suggest they may switch to a competitor with better promotions, their loyalty score remains relatively high. But the fact that True Blues do not value their membership very highly is a red flag for casinos. Management should be doing more with their standard loyalty program to engage these customers before they eventually defect to a competitor with more appealing promotions.

Unmoved Members – This large group comprises an entire third of the overall consumer market. Like the True Blue group, they are members in the regular loyalty programs, spend the same number of nights at casinos, and are similar demographically except for a slightly lower income. Unlike the True Blue segment however, Unmoved Members are defined by consistently mediocre scores on casino experience and reporting the lowest likelihood to return of all three member segments.

The Unmoved Members are undoubtedly at risk as a customer group given their low opinions of the casinos which they frequent. This risk is reaffirmed by lack of importance they place on their membership. Where True Blues respond to casino promotions making them somewhat loyal, the Unmoved Members have no such incentive as an anchor. Interestingly, the Unmoved Members report very low scores for feeling “respected” during their stay.

This segment represents risk and opportunity. The danger is that these customers don’t particularly enjoy their casino experience, don’t feel their stay was a great value, and the loyalty program is not important to them. But clearly the opportunity is that these are current customers who are already members of the loyalty program. With targeted efforts to beef up the standard loyalty program benefits, focusing on selected areas of the casino experience, improved promotions, and more respectful treatment and messaging, this huge segment offers a solid opportunity for casino operators.

Loyalty and Elite Loyalty Program Effectiveness

Many hotel loyalty programs reward the long-term benefits of membership. The extras -- which range from points for free stays and airlines tickets, to room upgrades and free coffee -- get sweeter as you move up to the elite tiers of

a membership program by staying more nights. Obviously guest satisfaction with elite membership is linked to the benefits delivered by the programs. But other elements, such as program image and execution, can also impact overall satisfaction with these premium programs.

To compare these programs we evaluated “Program Effectiveness” (Figure 8). This critical measure identifies the amount of influence a loyalty program exerts in hotel selection (“How important was this loyalty program in your decision to stay at <hotel name>?”). Based on this measure, Figure 8 presents the ranking of casino hotels based on the effectiveness of their loyalty programs.

FIGURE 8: MOST EFFECTIVE* CASINO LOYALTY PROGRAMS IN 2009

Standard loyalty programs (non-elite)

IP Casino Resort Spa
Borgata Casino
The Palazzo Resort & Casino
Rio
Caesars Palace

Elite loyalty programs

Trump Entertainment Resorts/Casinos
Rio
MGM Grand
Treasure Island
Paris Las Vegas

*“Effectiveness” was measured based on the survey question, “How important was this loyalty program in your decision to stay at <casino hotel name>?”

IP Casino Resort Spa and Trump Entertainment were the winners for program effectiveness and elite program effectiveness respectively. In both of these casinos’ programs, customers earn credits each time they visit and play. Accumulated credits are traded for rewards, cash, coupons or complimentary services, and tallied to determine customer loyalty levels. Associated services and privileges become increasingly valuable with each new level.

Most loyalty programs simply use historical data, which shows how often customers visit and how much they spent. Harrah’s program (Rio’s and Paris Las Vegas are owned by Harrah’s) goes further by identifying an accurate estimate of each customer’s potential value. Based on this potential value, these casinos distribute generous benefits that help move their guests up the loyalty ladder.

We also compared elite members to non-elite members and to non-members. The results clearly demonstrated that elite guests are different and important to hotels. Guests with elite status are, on average, older, male business travelers with higher incomes. This privileged group of guests is more satisfied, reports fewer problems and is more likely to recommend the hotel brand to others. But perhaps most important is these guests perceive a higher value for their experience and would be willing to pay significantly more (17%) before switching hotels.

Discussion and Implications

This study is one of only a few empirical studies of customer loyalty programs and is perhaps the most comprehensive study of customer loyalty and elite loyalty programs in the casino industry. This study resulted in a number of findings that shed light on loyalty, designing loyalty programs, and casino management. This empirical validation of customer loyalty will improve the understanding of the value of these programs and will lead to suggestions for their use by the gaming industry.

Although the research on loyalty programs is inconclusive and has provided mixed results, this study shows that loyalty programs are effective for selected groups of people. For Elite Elders segment, the loyalty programs are very effective and create apostles who actively recruit others by writing online reviews. Unmoved members, on the other hand, the experience delivered by their membership was not effective in changing their attitude or behaviors.

The largest segment of casino customers, Unmoved Members, represents a real growth opportunity for casino operators. These customers are already members of the casino loyalty program, but in many cases these customers are not aware they are members. Consequently, the program is meaningless to them. For others who may be aware of their membership, the benefits of membership are not sufficient. This segment needs to receive a significantly different experience if they are to become engaged. This can be delivered through the loyalty program with better personal treatment, enhanced promotions, and perks that will directly impact their casino experience.

The global recession caused serious problems for many hotels and for casinos in particular. However, many properties remain optimistic. Loyalty programs can play an important role in their recovery. Rather than falling for short-term solutions by offering more discounts, casino hotels can succeed with stronger loyalty programs that offer sufficient benefits to motivate targeted guests and impact hotel selection.

AUTHOR'S PROFILES

Jonathan Barsky has been a professor at University of San Francisco since 1985. Since he began at USF, Jonathan has brought his expertise in customer satisfaction to the School of Business and Professional Studies. He has conducted extensive research on how to measure customer satisfaction and the determining factors that influence customer satisfaction, with a focus in the hotel industry. He has published 100 + articles in various journals and trade publications as well as two books, including his first book *World-Class Customer Satisfaction*, now going into its 13th year of publication.

Todor Tzolov is an Account Manager at Market Metrix, based in San Rafael, CA, where he works with numerous casino brands across North America. His interests include the importance of employee engagement and the effective management of social media. Todor is a graduate of Georgetown University.

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