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## Applied Insights & Targeted Growth Strategies for Gaming Operators in Challenged Economies

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### ABSTRACT

Increasing profitability and growing top-line revenue are not the same thing. In the gaming sector, this is an important distinction. Government agencies are focused on top-line revenue growth, while operators focus on bottom-line profits.

Could gaming operators be looking within their businesses to identify and activate targeted growth opportunities, shifting their focus to top-line revenue growth while still maintaining a commitment to efficient operations?

The answer is “yes”.

Bricks-and-mortar gaming operations possess a wealth of business data and customer research that can be used to uncover opportunities when considered holistically. In this paper, operators are encouraged to understand how cost reduction endangers actual revenue growth, particularly in the long-term and offers approaches for targeted revenue growth.

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**Issue:**

Identifying new opportunities or ways better to service your customers so as to generate incremental revenue can be challenging. Typically, businesses look outside their current operations to grow revenue or replace lost revenues. Increasingly, proactive cost management/containment/cost-cutting is the norm for businesses. During times of economic uncertainty, many gaming operators believe they cannot invest in experiences, amenities or marketing to maintain or grow their businesses. Rather, they may choose further to reduce expenses to maintain profits. This is particularly true of gaming operators that engage in revenue sharing agreements on gaming revenues with government agencies (sometimes up to 85%), but it happens in all business sectors.<sup>1</sup>

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**Context:**

All businesses generate data as they conduct their business, and the gaming industry is no exception. In bricks and mortar facilities (including casinos, racinos and gaming centres),<sup>2</sup> business data can take many forms:

- Revenue trends;
- Gross gaming revenue (GGR);
- Revenue on other lines of business (food and beverage, entertainment, online, retail, hotels, horseracing);
- Operational expenses;
- Capital expenses;
- HR Margins;
- EBITDA (see footnote #6 for a definition);
- Hold rates on slots and tables;

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<sup>1</sup> Canadian Pacific Railway announced it would be cutting 1,000 jobs in 2016, anticipating the impact that falling commodity prices would have on its business. See the *Toronto Star*, January 21, 2016.

<sup>2</sup> We have elected to exclude discussions of bars and other venues that host VLTs from this paper, as the business model is very different from the forms of bricks and mortar-based gaming being discussed.

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- Carded play metrics (often linked with loyalty programs) – including average daily theoretical win, percentage of total play that is carded, number of carded players, action days, reward redemption rates, and more;
- Demographic data of customers specifically, and the market generally, including age, household income, levels of education, employment type, and more;
- Behavioural information:
  - Visitation – carded and un-carded;
  - Slot utilization;
  - Restaurant covers;
  - Google analytics;
  - Geo-fencing data.

Sophisticated marketers will consider player reinvestment rates, which align the marketing investment to the players' value to the business. Gaming operations also typically collect other softer information such as customer satisfaction and public perception metrics. Additionally, many casino operators and government agencies invest in both qualitative and quantitative research. This is used to validate or probe ideas they are interested in exploring. It is also used to understand how they are perceived compared with their competitors, or to probe psychographic<sup>3</sup> motivators (and barriers) for their customers and prospects.

Given the amount of information gathered by most gaming facilities, it is no wonder that many operators believe that they are, in fact, using this information proactively to move the business forward.<sup>4</sup> The focus may be on one part of the data, typically the financial results, without working to understand how all this intelligence comes together to point to trends and opportunities. **Operators are too busy running the day-to-day business to step back and focus on the bigger picture, so financial results become the default metric.**

Another reason it is so difficult to bring all of the information together is that various metrics and data points exist within organizational silos. The financial information may be stewarded by one group, player information by another group, and game performance by yet another. Food and beverage operations may not

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<sup>3</sup> Psychographic data moves beyond a demographic or transactional understanding of your customer or prospect to include preferences, beliefs, motivators, and barriers.

<sup>4</sup> It is interesting to note that the business development and finance teams within casino organizations and Crown/State/government agencies often look at the big picture when working to win new business or deciding whether to expand. Once that decision is made, too often, the intelligence that informed that choice is not shared with the operations team.

*For many operators, the need to be efficiency-conscious becomes the priority over strategic planning – despite the availability of business intelligence.*

review their results in the context of gaming revenues or player data. **With so many different data points and parties involved in collecting and stewarding the information, a conscious decision must be made by the operator’s leadership to ensure that all information is brought together for meaningful analysis, interpretation and actionable outcomes.**

As noted, gaming operators are focused on the day-to-day concerns; finding time to step back to consider the business strategically, taking a 360-degree view, can be challenging. In Canada, and other markets where operators revenue-share with government agencies, the commission system<sup>5</sup> requires them to be very lean. **Depending on the operating agreement, the parties may share up to 85% of gross gaming revenues.** Operators that receive lower commissions would have different expectations for support from their partners than those that receive higher commissions. There are many expenses that must be paid from the commission including marketing, cost of goods and payroll, before the profit is determined. **The need to be efficiency-conscious becomes the priority over planning and analysis, even though the information is a potential gold mine that can inform business decisions quickly to improve business results.**

Another point to consider is the differing objectives of operators and their government partners. Government agencies are in the business of offering regulated gaming – through ticket lottery, casino gaming, horse-racing, video lottery, and increasingly online betting – to:

- Ensure the integrity of the gaming offerings;
- Create employment opportunities;
- Control and manage potential social issues;
- Provide a sustainable revenue stream for the region.

Operators are in the business of generating profits. For publically traded operators this comes in the form of EBITDA.<sup>6</sup> Human resource margins and EBITDA are critical metrics for investors, which are often at odds with some of the government

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<sup>5</sup> Commissions and operating agreements vary widely by jurisdiction. Essentially, all gaming revenues belong to the government agency tasked with conducting and managing legal gaming in that area. Operators receive a commission from that government agency. For example, in Canadian provinces where gaming is “outsourced” (i.e. not managed by government employees), operators may receive a commission of as much as 50% of gross gaming revenues or as little as 15%. When the operator’s commission is higher, the operator will be responsible for more aspects of the operations. Some operators will refer to the share of gaming revenues retained by the government agency as a “tax”.

<sup>6</sup> EBITDA stands for “earnings before interest, taxes, depreciation, and amortization.”

*There are long-term risks to a business strategy that is primarily concerned with expense containment.*

objectives that can be both resource and labour intensive. Governments are much more interested in top-line revenues, which is how their share is determined.

Finally, when operators decide aggressively to manage expenses to retain their profits, they put at risk the customer experience and therefore endanger long-term customer loyalty. By reducing investment in labour or marketing, or by increasing food pricing or changing hold rates, operators are influencing the experience customers have at their properties. If customer satisfaction declines, then visitation frequency, duration of visit, coin-in and table drop will surely follow. As a result of this approach, top-line revenues will decline, while the EBITDA will stay flat or grow. While there are short-term benefits to operators, there are long-term risks as customer satisfaction and public perception shift and social licence is eroded. There are also risks to the relationship with the government agency as this approach does not improve their financial position. It is hard to recover from these decisions, even when the economy rebounds, because loyalty has been lost.

It is clear that there are many barriers to aggregating and applying the business intelligence, qualitative customer insights and quantitative behavioural data that gaming operations collect organically. The revenue share structure can lead to lean staffing and leadership, a focus on operating at the expense of planning, anxiety around making capital investments, and a strong focus on cost containment rather than top-line revenue development, thus distracting operators from making strategic, insight-based investments to grow revenue.

### **Opportunities:**

A strong case can be made for working with the information that operators have collected through regular business activities, to create a coherent business narrative that reveals the opportunities that exist from within your business.

Some activities that have generated results are to:

- **Work outside of silos.** Put together interdisciplinary teams including people from operations, marketing, and business analytics to identify and brainstorm issues in your business. People who do not typically work in one area often have a different perspective than those that work on that subject daily.<sup>7</sup> Consultants can also provide an objective, third-party perspective and help guide internal teams. Leaders should be careful to discover consultant partners that are truly interested in helping the business for the long-term.

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<sup>7</sup> This is a well-understood concept. It was championed in Machiavelli's The Prince (1513). See his dedication to the principal member of the de' Medici family during his age.

*Planning becomes a waste of time and resources if you do not activate your plans.*

- **Change your thinking: stop thinking there is no time to plan and understand the plan is not just for the Executive.** Planning becomes a waste of time and resources if you do not activate your plans. With an investment of time and dedicated or reassigned resources – combined with a determination to act at all levels of the organization – operators may realize returns on their investment in excess of revenues generated by the present way of doing business or through determined downsizing. Managers, supervisors and hourly employees need to understand and need to be motivated to do their part to drive business results that are connected to the overarching business objectives.
- **Know your customer.** Most businesses think they know their customers. However, it is critical to look beyond the demographics and the customers’ transactional relationship with your organization. What are your customers’ hopes and dreams? How does the experience you offer enable their vision of themselves? These insights can be used to make your business offering relevant and meaningful.<sup>8</sup>
- **Look within for the best opportunities.** Businesses are often distracted, looking beyond their current customers to sustain or grow revenues. Acquiring new customers is expensive and requires a longer timeframe than maximizing your existing customer base, carded and non-carded. Be honest, do you think you are doing the best job ensuring the loyalty of your existing customers? Businesses should ask themselves what could we be doing to better meet the needs of our current customers? Focus on doing your very best to retain your current customers before expanding your focus.<sup>9</sup>
- **Understand what growth means for your business.** Growth does not always mean expanding operations, it could mean doing “less, better”, but

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<sup>8</sup> An illustration: If your business groups player data based on value (theoretical win) and frequency, depending on the size of your database some segments may have 10,000, 25,000 even 50,000 people in one group. Are all the customers in that group exactly the same? Of course not. The same offers, language and communication channels cannot have the desired influence on the behaviour of every member of that segment.

<sup>9</sup> Most customer complaints – except “I never win” and “my money doesn’t last long enough” – are easy to fix. “You need more accessible parking”, “I can’t seem to get anyone’s attention to get a drink”, “your staff need to smile more”, “I always have to wait to play blackjack”. Address the items that are easy to correct and, most importantly, let customers know that you have listened to and responded to their concerns. Customers will then know they are important to the business and reward the operation with their loyalty.

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only when you understand your customers. Another restaurant or a new blackjack pit may not be the solution to declining revenues or visitation. By sharpening the current service package better to align with core customer preferences, the operation may actually be able to grow its revenue line and manage expenses concurrently.

- **Make alignment & communication a priority.** Improving the dialogue between government partners and operators is key. The stewardship of the business – from public perception to customer experience to marketing – is a shared responsibility and need. Establish clear business objectives that meet the different needs of both organizations. Try to find the overlapping areas of interest and build on those.
- **Be consistent.** Customers know when you are investing in them and in the business; conversely, they also know when you are pulling back. They feel acutely the consequences of the business decisions you make. Customers can easily become ‘change fatigued’. The price of inconsistent and indifferent service is realized in loss of loyalty and ultimately in profitability.

#### Conclusion:

Of course profit is critical. **How profit is assessed is different for operators and government partners in the gaming industry.** Operators are concerned with what is left after everyone has been paid. Governments want to see the revenue number grow *responsibly*. Looking to top-line revenue growth is a smart way to align the different interests of the partners, but it has to be done strategically. Large investments intended to attract a broad audience are not necessarily going to yield tangible results now or in the future; nor is this approach appropriate for today’s business climate and the financial pressures placed on gaming operators.

Fortunately, gaming operators are sitting on a wealth of data and business insights that can be used to make smart investments, many with quick returns. By focusing first on existing customers and secondly on the acquisition of new customers, operators can more effectively invest in products and amenities that will grow the business in a targeted manner. This strategic thinking is not a packaged commodity, nor is it a software solution that can be bought off-the-shelf or ordered online. **Human intelligence is required to review the information, identify opportunities and determine how to action them.**

*By considering the business holistically operators can make smart investments in the future that benefit both their bottom-line and their government partner's top-line.*

Operators must always make sure when making business decisions that the customer experience is top-of-mind. You must also:

- Take the time and make the investment in understanding how your various data points and business information come together. This will allow you to identify opportunities and make targeted investments to sustain and grow business;
- Have focus: know your customers, know your place in the market;
- Have clear business objectives that are understood organization-wide from the CEO to property services;
- Do not forget to look at your current customer base for further opportunities before fretting about people who have shown no interest in gaming; this is especially important when the economy is in flux and consumer confidence is unstable;
- Make sure you understand how cost reduction endangers revenue growth, particularly in the long-term. Revenue growth is only possible when you are strategic, cost conscious and smart.

Cost containment is a necessity, but on its own it is a recipe for erosion. By considering the business holistically – leveraging information from all parts of the business to see both the forest and the trees<sup>10</sup> – operators can make smart investments in the future that benefit both their bottom-line and their government partner's top-line.

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<sup>10</sup> If there is one distinctive feature of the All-In approach, it is to insist that any marketing or business strategy which is going to be effective has to grasp the general and the particular, the universal and the individual completely and at the same time in order to move forward.



### About the Author:

**Kara Holm** is an independent business consultant who specializes in helping clients to identify opportunities through enhanced understanding of their customer leveraging research, and converting consumer insights into actionable business strategies. Her experience includes extensive work in the private, public and non-profit sectors. Kara is now part of the All-In Gaming & Hospitality Advisory Group Inc. where she serves as ExO for Strategic Insights & Application. She also curates the online publication “It Is A Dirty Job! Reflections on the Customer Experience & More” ([www.itisadirtyjob.com](http://www.itisadirtyjob.com)).

### The Contributor:

**Helen MacMillan** is Founder and Principal Advisor of All-In Gaming & Hospitality Advisory Group Inc. Prior to launching All-In Helen spent 15 years working in senior marketing and operational roles with Caesar’s Entertainment, Great Canadian Gaming Corporation, and at Casino Nova Scotia and Hotel. Her ‘anything can be done’ approach stimulates innovative strategic thinking, leading to positive top and bottom-line results.

### About All-In:

**All-In Gaming & Hospitality Advisory Group Inc.** invites clients to leverage our collective wisdom. We are an innovative consulting collective that works as a think-tank to provide operators and government agencies with a unique, all-inclusive perspective. Offering a 360°, customer-centric approach, we identify opportunities and the best strategies to achieve them. We are All-In and we will help you see the forest and the trees.