

Tweaking Bottom Line Profitability

By **Steve Karoul**

For those of you that have followed my recent series of articles relating to value, you will remember that one of my favorite expressions by Steve Brown that says, “The casino business today is not about making money, it is about creating value”. You may also remember my last article where I also mentioned that a friend recently challenged me and asked me, after you create the Value, how do you make money? I felt that was a reasonable question that deserved a reasonable answer to a very complex subject. One critical area that I addressed in my last article was an area that I refer to as Customer Profiling with a number of recommendations to help casinos improve their profitability. That article generated a flood of E-mails from all across the country and from all around the world. My profiling article discussed a number of variable factors that all need to be considered in unison for casino management to be able to make intelligent decisions as to when it is time to fire a customer per se to help improve bottom line profitability. Many of the E-mails that I received asked for additional advice or suggestions based upon practical hands on experience as to how they could achieve additional savings or enhance revenues and profits.

There are no miracles or easy answers for improving bottom line profits in the casino industry today. Every decision that you make today will have implications towards decisions you will have to make tomorrow. However, over the years, I have found that there are some tricks of the trade that do work and can help achieve this goal. They may or may not be right for every casino depending upon management experience, staffing levels, available technology and gaming regulations. Therefore, please review each idea carefully before implementing any change.

Almost every casino that I know of has some type of a player rating system to evaluate their customers. Most of these rating systems are all based upon formulas that take into consideration four factors to determine the Theoretical Win that the casino can expect to earn from a customer. The four variable factors are average bet, number of hours played, theoretical house advantage for the game played and number of decisions per hour for that particular game. When you multiply all of these factors together you come up with Theoretical Win or Expected Win from the customer. We all know that Ratings are subjective at best and that it is very difficult to get very accurate ratings without recording every single bet which would be too labor intensive and expensive for most casinos. However, many casinos today do try to capture more accurate table game ratings for their premium players to be able to make better marketing decisions relating to rebates on loss or Loss Discount Programs which have become so common today.

For example, Foxwoods casino uses a numeric rating system ranging from 1 to 9 with number 1 being our best player. However, we noticed that the rankings are based purely upon theoretical and tell us nothing about player’s actual profitability. We track all expenses for every player so we decided to add an alpha code to the numeric code based upon actual profitability for the previous twelve months versus theoretical profitability. We used the letter A for players with actual profitability of greater than 75%, B

represented 51% to 75%, C represented 25% to 50% and D represented players with actual profitability below 25%. Therefore, a rank 1D player may not be as profitable as a rank 3A player. In the past, everyone only looked at the number and ranks 1 to 3 were given priority treatment and preference for almost everything here at the property. However, as you can see, a rank 4A could be more profitable and therefore more valuable to the casino than a rank 2D player. We have used this new rating system to selectively pull invitations for certain special events and because of this we have been able to tweak bottom line profitability for several of our special events. One word of caution is that this is only helpful if your actual ratings are fairly accurate. Therefore, I do not recommend this for ratings for the masses but it may work and be helpful for rating your high roller or VIP type players who often times are your most costly players to maintain.

One other helpful hint for tweaking bottom line profitability is a lesson that we learned from our Slot friends. Almost every good Slot Manager practices yield management in one form or another. You constantly see slot machines being relocated, modified or replaced based upon handle per day revenue figures. We felt that if this concept works so well for our Slot Department than why couldn't we duplicate a similar concept to help increase or improve yield management from a preset amount of casino floor space or a fixed number of gaming tables. Obviously other departments are involved such as Surveillance and our Cage Count Teams that have to manage the Drop boxes, etc. Never-the-less, we decided to pursue this with our Gaming Commission to try to develop a new system that would work for everyone without compromising the integrity of neither the system nor the controls but at the same time would allow us the opportunity to increase revenues. Yield management for table games translates into having the proper mix of games on the casino floor for a particular time period to maximize play and revenue. For example, Foxwoods has a very large Asian customer base. We host a number of different Asian special events and Asian concerts throughout the year. We know that our Asian customers prefer Baccarat as their game of preference. So, why not remove idle Blackjack games during these times and add more Baccarat games to the casino floor? We developed a plan with everyone's input and presented it to our Gaming Commission. They eventually approved our plan with some adjustments and to date this innovative new table game yield management system has enabled Foxwoods to tweak or maximize bottom line profitability to the tune of several million dollars per year in additional incremental table game revenue.

Once again, these are only ideas or suggestions of innovative ideas that we have developed that work for us. Don't under-estimate your own capabilities. Involve your own team members and develop some innovations of your own to help tweak your bottom line profitability. Good luck.

[Steve Karoul is an innovator and a recognised authority in the areas of International Casino Marketing and Casino Junket Operations. Steve has lived in South Africa, Istanbul, Hong Kong, Bangkok and the Philippines and has also conducted casino related business in well over 80 different countries around the world. Steve is a leading casino marketing consultant. Steve may be reached at Tel. (1-860) 536-1828, Fax 536-1898 or by E-mail at: skaroul@comcast.net.]

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