Number 19 July 2012

Center for Gaming Research

Occasional Paper Series

University Libraries University of Nevada, Las Vegas

Pyramids to Players Clubs: The Battle for Competitive Advantage in Las Vegas

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ABSTRACT: The evolution of the Las Vegas casinos from owner operator to the institutionally financed and corporately managed casino-resort has been the predominant feature of the evolution of the US Gaming market in the past 30 years. This paper examines the strategic frameworks used by Las Vegas casino resorts and identifies the drivers for competitive advantage moving forward.

Keywords: strategy, marketing, casinos, gaming, competitive advantage

Lessons of the Past

As a gaming center, Las Vegas was established by a collection of entrepreneurs each developing various strategies to define and promote their resorts, and over time these have been emulated and refined and are evident to this day.

The time of the early owners is defined by Bernhard, Green and Lucas as the "Maverick Period," and this captures the essence of the dynamism and creativity of the unorthodox business leaders who pioneered many of the early innovations.

Amongst those was Moe Dalitz, whose interest in Las Vegas began in the 1940s with the financing of the Desert Inn, an upscale resort conceptually built on the strategy of the Flamingo but with the notable incorporation of a golf course on site in order to attract the affluent guests who, like Dalitz, were keen golfers.

Benny Binion influenced development of his resorts from the perspective of a gambler. By placing his name above the door he sought to create a resort in his image, much like Bill Harrah in Reno and Steve Wynn today. "(Binion) ran the place on the theory that every customer in there was somebody we were trying to get to come back." He offered lower odds than his competitors and he created the nicest environment to gamble, including novelties such as carpeted floors and air-conditioning.

Jay Sarno was an innovator in aspects of theme and casino design. He moved away from the motel model and was the first developer to center all aspects of the resort design in a wheel with the casino as a hub and he looked at bringing in additional revenues from alternative sources than gaming such as those in the convention trade and non-gamers who came to Las Vegas to see this modern Greco-Roman incarnation.

As the manager of the Mint and Sahara, Sam Boyd targeted traditional Vegas customers. However, when operating his own casino, The California (the Cal) he notably segmented offering Hawaiian food, a more laid back atmosphere and a packaged holiday service from that island, building Boyd Gaming's success on Hawaiian customers. Sam's Town catered specifically for local custom in Las Vegas.

Meanwhile, outside of Las Vegas, Bill Harrah was operating casino resorts in Reno and Lake Tahoe, with "a solid understanding of the gambling business and opportunism….But Bill Harrah was able to account for every quarter that passed through his gambling halls and his operations were successful."

The Corporate Gaming Acts of 1967 and 1969 were instrumental in regulating the industry with result being the development of the modern casino resort, as initiated between 1967 and 1975 by MGM's Kirk Kerkorian. The International, as designed by Martin Stern Jr, was the first of the "Y-Shaped" resorts, (which formed the basis of many of the 1990s resorts) with multiple showrooms, nightclubs and over 1,000 rooms.

Resorts of this era were, "a glimpse into the future of the casino resort: a large casino surrounded by thousands of hotel rooms geared towards the convention trade and international patronage".

"The conventional wisdom holds that the Mirage hotel changed everything on the Strip… when it opened on November 22, 1989…. (but) Wynn simply took the best of what he learned from others in the Casino business and put it all together in one cohesive place."

The opening of the Mirage is widely seen as the marker when the naïve approaches of resort operators met the world of corporate finance, which led to the emergence of structured operating frameworks, allowing for institutional investment into the industry.

However, focusing on the Mirage alone overlooks the contribution of a new generation of managers who transformed Las Vegas operations.

Armed with the work of modern management tools, these new executives, including Wynn, were able to reshape the city as an entertainment capital with focus and frameworks that have led to the city that stands today.

Throughout the evolution of the city and the historic positioning of Las Vegas' resorts, the operators succeeded in identifying their customers and developed the offering accordingly. This was innate to these early developers who operated in a smaller, simpler and more segmented market, with the entire concepts for these resorts created in the imaginations of their owners.

Adopting Frameworks

"An industry begins with the customer and his or her needs, not with a patent, a raw material, or a selling skill. Given the customer's needs, the industry develops backwards, first concerning itself with the delivery of customer satisfactions."

Within Las Vegas there are many resorts in a small amount of space. The market is competitive and customer satisfaction levels are high. The market offering has grown from the bottom up rather than top down, leading to the development of strategies formed on the concept of the lifetime value of the customer.

Customer Equity

"The lifetime value of a loyal customer can be astronomical, especially when referrals are added to the economics of customer retention and repeat purchases of related products. For example, the lifetime revenue stream from a loyal pizza eater can be $8,000, a Cadillac owner $332,000, and a corporate purchaser of commercial aircraft literally billions of dollars."

This lifetime value of the customer is defined as Customer Equity, within which are three primary components- Value Equity, Brand Equity and Retention Equity.

Value Equity is the relationship between expectation and experience. In order to enhance this area the company must give the customer more of what they want or reduce costs. This is particularly relevant in an area of high exposure to competing products, where the decision-making processes are complex and where there are high levels of innovation evident, such as within the luxury sector of Las Vegas resorts. Quality, service delivery, price and convenience are key.

Brand Equity is "the portion of the Customer Equity attributable to the brand" and is important where there are low involvement decisions with highly visible products, where there is longevity in the consumption and difficulty in evaluating the product before use. With reference to the research question, this is of lesser importance, however the development of brands, such as Caesars Palace, The Bellagio, Hard Rock and Planet Hollywood can imply an aspirational or self-segmenting aspect of decision-making.

The third component is Retention Equity. Once a customer has engaged with a company or product the relationship must be developed for retention; "Building retention impact can take many forms. A firm can provide additional benefits that make it more costly for the customer to switch to a competitor….a firm can reward behaviors that enhance retention (such as) rewarding purchase transactions...monetary value of transactions...or even length of consumption experience (and) strengthening the emotional relationship with the customer through emotional ties may be the most effective in building Retention Equity."

Within Las Vegas the drivers of Retention Equity are loyalty programs, special recognition and treatment programs, affinity programs and community programs.

<u>Managing The Customer As An Asset</u>

"Managing the customer as an asset is more critical to a firms success than ever before for three reasons. First, marketers who take an asset based view of the customer make better decisions than those who limit themselves to product brand or transaction views. Second, today's computing technology makes precise customer asset management possible…. Finally, changes in market conditions, driven by advances in information systems, communications and production, will help companies that understand and manage the values of each international customer to overtake, and then displace, mass marketers."

Blattberg's thesis features the several stage customer lifecycle where customers are: Prospects, First Time Buyers, Early Repeat Buyers, Core Customers and Core Defectors.

Based on the 2011 LVCVA figures, only 16% were first time visitors to Las Vegas and in the past 5 years over 80% of visitors were repeat visitors. This indicates that the majority of visitors have a realizable long-term value if they could be retained by the operators.

Blattberg focuses on key customer retention over generic loyalty, justifying the nuance on the value of some customers compared to others with a lower value. This is particularly valid in the gaming industry and several of the resort operators have developed positions based on the nature of the customer's decision making.

He further notes that customer retention strategies should be created during the initial customer acquisition. He identifies three types of customer - the committed loyal customer, the customer who continues purchasing a product, but is vulnerable to alternative offers and the defector.

<u>Generic Competitive Strategies</u>

In his seminal text, Competitive Strategy, Porter identifies the generic strategies of Overall Cost Leadership and Differentiation, however there are problems in applying these holistically to Las Vegas as various segments are targeted, where operators seek differentiation as well as cost leadership in room rates. Within the core product – gambling, a low cost leadership approach is difficult as there can be little variance in the price of a bet (although through discounts and offers, the benefits offered may offer effective discounts on the price of a bet, or the odds may differ slightly). The secondary product - the room, may be a price leader, but if room rates are reduced too low, the value proposition disappears. Facing the intense competition seen in the current economic downturn, many resorts have not operated rooms profitably.

As noted previously, a key aspect of Las Vegas development has been in differentiation and where the product is generic a producer or operator must seek to create differentiation around the core product, whether by creating a theme, brand or other aspect, but some aspects have greater value to different customers.

Strategy Implementation: Inside-Out vs. Outside-In

In implementing differentiation strategies, Treacy and Wiersema take the view that a company determines what segment they wish to target, then develops a business strategy to suit accordingly.

"No company today can succeed by being all things to all people, it must instead find that unique value that it alone can deliver to a chosen market...The first value discipline we call operational excellence… the second value we call product leadership…the third we have named customer intimacy."

Much of these strategies are dictated by business capabilities and evidence of this approach is seen throughout Las Vegas. Contrary to this Inside-Out view is the Outside-In approach as advocated by Day and Moorman;

"Inside-Out companies narrowly frame their strategic thinking by asking "What can the market do for us?" rather than, "What can we do for the market?". The consequences of Inside-Out versus Outside-In thinking can be seen in the way many business-to-business firms approach customer solutions. The Inside-Out view is that solutions "are bundles of product and services that help us sell more. "The outside-in view is that "the purpose of a solution is to help our customers find value and make money- to our mutual benefit" (See Figure 1).

In order to pursue an Outside-In strategy, a company must have real insights into the market by being aware of both customer behavior and competitor movement. Thanks to technologies such as the internet, loyalty cards and customer tracking, this is now achievable.

In implementation, a company must look at how they offer value to customers - the customer is viewed as a business asset with value. Harrah's/Caesars collected customer data to determine their customer base and sought to develop relationships in order to understand the motivations of non-core clients and increase their customer value by rewarding customer behavior. The outcomes of this successful Outside-In strategy allowed Caesars to expand efficiently and increase profits from $102m in 1998 to $398m in 2005.

Day and Moorman further develop their platform to include value leadership, which includes product innovation, developing the brand in order to seize focus and initiative in the sector.

Understanding Loyalty

Ayling (2006) notes four types of loyalty.

Contractual Loyalty is based on a formal agreement, which is not applicable in this type of relationship.

Transactional Loyalty is identified as loyalty based on price, value and convenience. This is easily to stimulate using rewards and benefits and is prevalent throughout Las Vegas particular by Caesars and MGM.

Functional Loyalty is based where the product differentiates or is perceived to be superior, offers a particular benefit or where the customer associates with that particular product. This is evident in the case of some of the MGM resorts where the resorts are targeted for segments, or the Wynn and Venetian, which are aspirational resorts, thus Functional Loyalty and resort positions are set to align.

Finally, **Emotional Loyalty** is based on an appeal to values. Whilst this may apply within retail, this is an unlikely source of loyalty within the gaming environment, unless the source is of an intangible nature, like a "lucky" casino or where a uniquely positive experience occurred, such as a wedding or engagement proposal.

Unlike conventional loyalty, where investment is made to attract initial customers, the challenge to the operators is on customer retention and it is this area (transactional loyalty) where the operators focus most of their effort, once customer value has been identified.

Strategic Loyalty

The gaming sector realized the benefits of transactional loyalty and on-going customer value early and since delivered ways to harness this.

The concept of player clubs and customer tracking grew from this sector. Harrah's/Caesars growth is seen as the market benchmarks in this field. Today all operators operate player clubs, but not all use the Harrah's/Caesars analytical approach using customer behavior to develop their strategies from an Outside-In perspective, or use the data to try and engender some form of incentive to focus spending on a particular resort or generate reward.

Behind the Curtains

There is a misconception that operating a casino is a license to print money, however the evidence shows a more nuanced picture, particularly when one looks at Las Vegas in entirety (See Figures 2, 3)

After a sustained period of growth, gaming revenues on the Las Vegas Strip fell sharply in 2007. This coincided with an expansion of supply in the market, with City Center (5,800 rooms), Cosmopolitan (3,000 rooms), Encore (2,000 rooms) and Palazzo (3,000 rooms) opening between 2007 and 2011 and over 9,000 rooms withdrawn aborted developments Fontainebleau (3,889 rooms) and Echelon (5,300 rooms).

This shift has led to a refocusing on the market in an attempt for the operators to not just capture new customers but also to develop an emphasis on loyalty in order to preserve market share.

From 1984 to 1999 gaming returns were the dominant source of revenue for casino resorts but in 1999 combined non-gaming revenues exceeded those of gaming revenues.

Much of this change comes from the development of the Strip resorts. 1999 marked the opening on the Venetian and the first anniversary of the Bellagio, which were the first mega resorts catering for a high end clientele.

Gaming

Although declining, at 38.2% (c. $5bn) of total revenue, gaming is still the largest single source of income and the catalyst that has enabled the development of the modern Las Vegas casino resort.

Casino games fall into several categories. There are table games of chance, (roulette, baccarat and craps) games where skill reduces the odds, (poker and blackjack) and fixed odds games, where the distribution is predefined at a percentage of receipts (slots)

Based on probability, the house advantage ensures that casinos will win over time. This advantage to the house is known as the hold, the theoretical win or the expected value (EV) and the greater the EV the higher the house margin.

Rooms

Little research is available on the evolution of the casino resort room, however whilst high roller rooms were always notable for their opulence, the focus of resort developers was not on the emphasis of the rooms until the development of the Rio and latterly Venetian which sought to use rooms to differentiate from other Strip operators in the convention market and offered all-suite resorts with the smallest room at 650sqft.

Since this period and the subsequent development of strip resorts between 2005-2011, standard strip resort rooms have become larger and better equipped. Whereas rooms were "comped" or sold at discount in the past, today as noted above in Chart 3, rooms provide the second largest component of strip resort revenues today.

Food, Beverage and Nightclubs

Las Vegas has become a key culinary destination in recent years with 21 Michelin Stars found in 16 restaurants on the Strip alone. These may be appealing to a high-end segment seeking a unique experience, but one can stay and play at one resort and dine at another and it is rare that a restaurant is a source of competitive advantage.

In terms of total returns, nightclub revenues are small, but there are reputational benefits and the opportunity to attract certain customer segments with a successful operation.

Entertainment

Las Vegas is a destination brand identified with entertainment.

Across the city, showrooms feature Broadway musicals, international entertainers and production shows. Analysis of the performers is based on ticket sales and also per capita casino "drop" their performances produce.

Today, resorts use entertainment not just as a differentiator and profit center, but also as a brand enhancer to align fans of the artist and resort. This is notable across demographics, with rockers such as Motley Crue taking a mini-residency at Hard Rock and Caesars' headliners appeal to an older market segment with Celine Dion, Elton John, Rod Stewart and Shania Twain presently on rotation, artists with their own customer base, cachet and brand value cross leverage their value with the resort.

Players Clubs

"(Gary) Loveman noted that Harrah's gamblers spent only thirty-six cents of every wagering dollar at Harrah's…If he could get them to spend just one penny (more) of every wagered dollar at Harrah's, Harrah's annual earnings would jump by more than a dollar a share."

Harrah's/Caesars adopted several of the frameworks as previously discussed around the topics of customer lifetime value and created a tiered player's club, Total Rewards, which would monitor customer behavior including regularity of play, average spend and in the case of slots, the velocity of play (how fast the customer pushed the button!). This also allowed the company to tailor promotions for the customer and monitor performance versus probability.

Today all leading resorts operate player clubs. Wynn operates Red, LVS have Grazie, MGM operate M life, Cosmopolitan has Identity and Boyd Gaming uses B Connected.

Leading players clubs can be used across retail platforms, e.g. Total Rewards can be used with retailers as diverse as Apple and Avon.

"Comps"

Early casinos gave away drinks to playing customers and by the end of the 1950s, RFB comps were usual for most playing customers. What was intended to be a privilege became commonplace and "casinos use comps as a marketing device to generate business and management can evaluate this marketing tool by determining the effect of the comp policy on the drop."

In recent years, with the advent of loyalty schemes and the ability to track play, operators can accurately garner a player's theoretical value and reward play-time accordingly, based on the mathematics, but customers now expect comps and demand them; in 2011, \$1.2bn (25.9%) of casino resort expenses were allocated as comps, slightly under payroll expenditure.

Service

From the mid-90s onwards and originating from the celebrated article, "Putting The Service-Profit Chain To Work" the prevailing wisdom was that with top tier service, not only can loyalty be achieved, but also the customer will be an advocate or "apostle" for the service provider.

Whilst this can be true in some industries and although universal good service may have been possible in Las Vegas of yesteryear, in resorts with 3,000-8,000 rooms and 5,000-16,000 guests per night, customers have high levels of expectation to be managed.

The use of databases and identifying customer equity allowed operators to identify different values and needs of their guests, therefore they could efficiently deploy the levels of service needed to achieve retention, loyalty or to avoid defection, and develop a proposition appropriate to value of the customer.

A consequence was the raising of standards for mass market gaming consumers, high levels of service are a basic expectation in all resorts. Thus the customer service inflation evident prompts the question of whether competitive advantage is really to be gained by offering such high levels of service. Rather, having raised expectations, there may be a cost to not meeting the customer's expectation, particularly in the highest end of the market.

Who Are the Customers?

During the course of this research we undertook primary research, which holds a confidence level of 95% and a confidence interval of 4.25%

Our dataset shared much of the profile of the LVCVA sample; c.90% of respondents were repeat visitors. 50% had visited over 5 times in the past 5 years.

We developed a detailed profile of various customers and their requirements.

26% of visitors are fairly, but not totally loyal (where loyalty is being measured as repeat patronage) and 65% actively stay in different resorts, therefore suggesting within the Las Vegas market, the majority of customers do not currently display loyalty in terms of repeat patronage. Indeed, even the "fairly loyal customers" like to try somewhere new.

Of those that always stay in the same resort, we note that the most frequently visited resorts were The Wynn and Flamingo (17%) and Caesars Palace, Mirage, Encore, MGM Grand and the Mandalay Bay (14%).

Of the visitors who have stayed over 5 times, 22.6% say that they always stay in the same resort and 66% mainly stay the same resort but occasionally try somewhere. This is more than just repeat patronage and is indicative of loyalty, but also indicates a desire to seek different experiences. Therefore we can assume that the more frequent and experienced the guest is, the greater the chance they have of finding a resort that they prefer, but will still continue to seek different experiences

In order to understand why there were such high satisfaction ratings and repeat custom to Las Vegas we asked a series of questions relating to services facilities and expectations:

The majority of visitors who come to Las Vegas have high expectations; irrespective of price, first class service is expected and the facilities must be market leading.

Moreover, only a small minority have not had their expectations met.

We asked respondents which of these influenced the resort that they stayed in and if they were Key, Important, Taken Into Consideration or Not Relevant.

(See Figure 4)

Thus we identify the main drivers in influencing customers' decision-making.

For 91% of respondents price is important, for 43.3% it is key and only 7.3% of customers who claim price is not important. On the theme of price we asked if level of "comp" affects where the customer stays, to which 59.8% said it was relevant and 40.2% said it was of no relevance.

Therefore, despite all the differentiation strategies, customers are generally price sensitive and a slight majority are highly sensitive to their "comp".

17.4% of the respondents had hosts, which is a small but significant minority at it identifies those customers with an existing relationship.

A small majority of customers with hosts either always stay in the same resort (27.6%) or mainly, stay in the same resort (26.2%), thus we note that those customers with a host are significantly more loyal than those without, however there was little loyalty to the particular host, with only 10.7% of respondents claiming to move resorts if their host moved.

The Total Rewards players club is the largest (70% of visitors hold the card), but MGM's M life has gained significant traction since its launch with 67.8%. Wynn Red and Grazie are held by 43.3% and 40.3% of customers, respectively.

The data further suggests that Total Experiences card-holders hold cards from other resorts; of Total Rewards card holders 83% hold Mlife cards, 53% hold Grazie, 54% have Red and 27% are members of another players club.

Total Rewards cardholders are also more likely to be regular visitors to Las Vegas - 67% have visited over 5 times compared to the average of 55% of general visitors.

Of those who were not members of any players club, most were infrequent visitors with 38.5% only having been once and the same amount having visited twice or three times in the past 5 years.

Of those who were not members of players clubs, 50.1% were under 35, compared to the sample total of 34.4% within that age range.

<u>Segmentation Analysis- Customers' Gambling Habits</u>

Unsurprisingly, a disproportionate amount of those regularly visiting casinos at home have been to Las Vegas over 5 times in the past 5 years (65%). In terms of their influences, player clubs (44%) and resort location (50%) have the highest significance for this segment and the Flamingo is the most popular resort (which may because of comps or offers through player clubs).

Those who never visit local casinos, cite bedroom quality (50%) and resort appearance (53%) as key in influencing their decision-making.

Almost 90% of frequent gamers are Total Rewards cardholders and only 75% M life holders. Within this segment, 75% are influenced where they stay by the size of their "comp", which proves that the value of the comps to the gaming segment as players are evidently lured by incentives.

When we cross-reference this data with the LVCVA findings, we note that there is a marked decline in average gaming spend per customer. This leads us to ask whether the "traditional" gaming customers are gambling less or if the overall increase in visitor numbers, including non-gamers, is skewing the figures. The answers will be held by the operators' datasets, but will have real value in determining the extent of the shift in value between gaming and non-gaming customers.

<u>Segmentation Analysis - Duration</u>

We examined if there were significant differences based on duration of trip in Las Vegas, but there was nothing notable in the majority of the findings. With those staying over 5 days on an average trip, there were no dominating factors influencing decision-making, with bedroom quality only slightly above the average.

For those staying longer, price sensitivity is a greater issue and the level of "comps" is significantly less important.

27.9% of visitors staying for over 5 days were from Europe and 16.0% from Canada, compared to 13.6% and 9.42% from the respective countries within the sample.

<u>Segmentation Analysis - Budgets</u>

We filtered the findings based on the level of spend to identify any noticeable trends.

The key finding is that for those with a smaller budget, resort price is of real importance as 72.1% state that price is the key determinant of decision making, versus the average of 43.3%.

Those on a small budget are less likely to be a member of a players club (and therefore not tracked) and are more likely to be influenced by a deal on social media. This segment is slightly younger than the rest of the sample.

Those who spent £5,000-10,000 were more likely than average to be loyal to an individual resort and are typically more demanding of the facilities on offer.

73.6% of this segment hold membership of the MGM Players Club, M life, compared to the sample average of 67.8% and are tone of few segments more likely to be members of Mlife than Total Rewards. They are less likely to be influenced by offers on social media (58%) and 23.6% say that price is unimportant, compared to the average of 7.34%. This tells us that in the medium range and largest segment, MGM Resorts are a preferred operator with a price premium associated.

Of those with a budget of $10,000 and upward there are some interesting trends. This segment are three times more likely to have stayed in Caesars Palace (63.6%) than the average (27.2%) proving that Caesars Palace still has the power to attract (or target) larger gamers. For this segment 72.7% say that bedroom quality is the key influence in choosing the resort (sample average is 41.8%) and friendliness of staff is significantly above the average (36.4% to 28.5%) in the key influences. They place significant importance to star rating of the resort (81.9% say it is either key or important, compared to the sample average of 50.3%) as they only to want a premium experience and the star rating gives external validation of this.

Whilst none say room price is key in making the decision 54.5% say it is important, so price remains a determinant even in this segment.

Of spenders of more than £10,000, 72.4% have a host, (compared to the average of 17.4%) but there is a lower than average membership of players clubs, with the exception of the Wynn Players Club - Red, at 54.5% compared to 43.3% on average. This may be because of the integrated room key/players club card that the Wynn operates, compared to a separate card so there is no requirement to physically join the players club.

81.2% of this segment is influenced by the levels of their “comp”.

54.5% say that nightclubs are key or important, compared to the sample average of 8.64%. 36.4% of this high expenditure bracket is aged 29-34 and 54.5% are from outside the USA. 36.4% of these players state they never visit a casino in their home jurisdiction, which is above the sample average of 23.1%.

Thus, for the segment spending over $10,000 the overall experience is substantially more important than just gambling.

Segmentation Analysis- Age

Within the youngest age group, (21 – 28) it is unsurprising to note that this group have visited less frequently than the overall sample, but a similar amount state that they plan to return within the next 12 months. Within this sector the MGM Grand is the most frequented resort. This group has higher than average expectations in the facilities (74.1%).

In understanding what influences this segment we note that the range of bars is a higher priority (47.7% key or important) than average (28.3%), the bedroom quality is slightly more key or important than average (90.6% to 85.0%), just outside the margin of error.

Significantly, nightclubs are disproportionately attractive to this segment (45.3% to 1.4%) and both the swimming pool and themes are slightly more important than average, however the odds on the tables are of less relevance.

This segment is significantly less likely to be a member of a player club with over 25% not being a member of any, compared to a sample average of 15.6%

Otherwise, the spending patterns of this group do not alter significantly from the sample average.

Ages 29-35 are also are slightly less inclined to be members of a players club and do not differ from the sample average in any significant way, other than a slightly higher importance placed on the range of restaurants in a resort.

The 35-45 profile are slightly more likely to try different resorts (65.3%) to (62.6%) and therefore more keen on experimenting than average, however they are slightly more likely than average to be members of players clubs, but notably 73.9% are members of Mlife and 71.8% are members of Total Rewards.

The decision-making influences do not differ from average in many ways; however this segment is more aware of the odds and limits of bets than the average and is probably less keen to play in lower odd environments seeking preferable odds and bets which are aligned with their budgets.

The segment aged 46-59 visits Las Vegas more frequently than others, with 66.9% having visited over 5 times in the past 5 years, compared to 55.7% in the sample. This segment is more pragmatic, expecting less than average in terms of service and facilities, but still has over 90% satisfaction ratings. For this segment, price is less of a key influencer (37.3%) than average (43.3%), but a higher percentage are members of players clubs.

Within this segment most key influences in decision-making were slightly below the average indicating a less polarized decision making process. However, 61.0% of respondents believed that the Players Club element was either a key or important influencer in decision-making, compared to the average of 55.7%.

96.3% of 46-59 year olds plan to return to Las Vegas within 12 months.

64% of the over 60s have visited Las Vegas over 5 times in the past 5 years and all are multiple visitors. This segment is more loyal (12%) always stay in the same resort, but 32% are willing to try something new.

With this segment key influences are not so pronounced with bedroom quality the key influence, less a factor than the average. However, poker was important for 28% of the respondents as were the odds on the table games.

For this segment gambling is still significantly important, including players clubs, which are a key influencer for 44% of this segment, compared to 27% of the sample.

This segment tends to stay in Las Vegas for longer than average; 40% stay over 5 days compared to a sample average of 27%. 100% of all respondents within this segment plan to return to Las Vegas within the next 12 months.

The most valuable customers are those who have been to Las Vegas on multiple visits and either always or mainly stay in the same resort and we define these as frequent loyal customers (FLCs)

Only looking at key factors in their decision-making, the friendliness of staff is more important in this segment than the average (35.8% to 28.5%) as are player clubs (35.2% to 27.0%), whilst 12% cite luck as key when choosing a resort. Resort location was slightly less important for FLCs at 49.1% to 53.8% average.

For FLCs, price was less a key concern than the average (36.5% to 43.3%).

Curiously, FLCs are less likely than average to be members of a players club, but 27.8% have a host compared to 17.4% on average. Total Rewards was the most widely held card.

67% of FLCs were from the USA (excl. Nevada and California) and 10.2% from Canada.

FLCs are likely to spend more on the visits, with 22.5% of respondents having a budget of over $5,000 compared to 15.8% of those respondents. 94.6% plan to return to Las Vegas within 12 months.

In concluding our customer analysis, we note that 26% of visitors are fairly, but not totally loyal, and that 65% are active in choosing different resorts each visit.

Strategy in Action

So how do the operators, with a similar range of limited marketing options affect strategic advantage?

They all have players clubs, hosts, offer a wide range of facilities and advertise in key markets. They offer a similar broad range of facilities, dining and entertainment options, some of which are used as key marketing attributes. All the major resorts profess to be customer service market leaders.

Where the resorts differ is in how they approach the customer value proposition; are these operators offering an Inside-Out or an Outside-In strategy and moreover, are these effective in achieving loyalty?

Resorts Adopting the Outside-In Approach

To develop a successful Outside-In approach, resorts must have the ability to capture customer data and be able to make decisions based on their market, and be able to develop customer value and profitability through loyalty. We note two prime examples of this approach in Las Vegas operators.

The foremost example of Outside-In adoption in Las Vegas is Caesars, who built their success on the ability to capture customer data from Total Rewards users and develop an offering for their customers with an aim of increasing visitation.

For a sustained period it looked that this strategy was successful, but in the extreme competitive environment of recent years, when faced by competitors creating additional high-end (and superior) room inventory, developing new leisure facilities, replicating Total Rewards by developing their own players clubs (albeit with less functionality, but this is of no concern to the customer) and price reductions across the city, this strategy alone needs revisiting.

Similarly, Wynn Resorts have taken a similar view. Whilst it is unlikely Mr. Wynn himself visits and experiences the competition within Las Vegas, it is clear that his team do. With the benefit of an integrated room card and players club, the customer can be (and is) tracked in the Wynn properties with a comprehensive dataset obtained.

Wynn's value proposition is to be the leading luxury provider, so within a limited pre-defined market, they can harness customer expectation and develop capabilities to meet this.

Resorts Adopting the Inside-Out Approach

Within MGM's portfolio, we can see all strategies evident, from the Bellagio advocating Product Leadership, Aria focusing on Customer Intimacy (within an identified segment) and several resorts showing Operational Excellence, which is reflected in price and position, based on the management strategically developing strategies for each resort.

The other resorts that do not operate on a portfolio basis adopt a particular strategy.

Newer resorts, such as The Venetian/Palazzo and The Cosmopolitan have sought to develop the best product for their markets and have attracted both praise and a strong position in their market segment.

The legacy resorts have had a challenge to successfully rebrand and find a segment to attract. Frequently there is a default position of developing a cost-leadership strategy, where price rather than attributes play a dominant role. However, this has become a zero-sum-gain as when rooms sell below cost, both the proposition and the bottom line are diminished.

Those resorts that have had the ability to rebrand and successfully identify market segments have performed well. An example is the Hard Rock Hotel which developed a customer intimacy strategy, where although there are "better" or cheaper alternatives, there is alignment from customer to brand offering the customer values and service customization.

Las Vegas Operators' Strategies for Competitive Advantage

Las Vegas has expectation inflation, with 64% of respondents believing service should be first class irrespective of budget and a similar number deeming that facilities in Las Vegas should be market leading. We also note that only 39% of those respondents have had experiences that matched their expectations.

Caesars Entertainment

Total Rewards allowed Caesars to gain a competitive advantage on its rival operators for many years, but this is rapidly eroding due to availability of other CRM software and the emergence of other players clubs, such as M life. Caesars calculate the customer's Average Daily Worth (ADW) and based on this initial criteria, to determine if the customer is a low, high or ultra-high value player. Analysis is done on age, location and on inclining or declining spending patterns, with a focused investment based on these patterns to increase ADW by adding incremental spend. 80% of play is tracked.

In recent years, Caesars has sought to maximize the information within the database, with such a focus on adding additional revenues, there was evidence that service proposition to the high-rolling gaming demographic suffered, with much of this custom migrating. Moves to expand Total Rewards outside of gaming and into retail partnerships may be an interesting corporate strategy, but may offer limited value, in particular to younger demographics who are not incentivized by incremental discounting.

Acknowledging the rise of non-gaming visitors to Las Vegas, Caesars has focused on attracting this segment. Total Experiences, a group planning service was established and significant resources have been directed to Project Linq, an open-air pedestrian area in the center of the Strip. As location is important to many visitors, this should not just drive revenue, but re-orientate footfall from competing attractions on the Strip.

With capex cycles typically longer than other resorts and the development boom increasing quality inventory in the city this may pose a structural problem for the operator.

Caesars has sought to take advantage of portfolio commonalities as a way of gaining competing advantage and increase cross selling. This form of loyalty is transactional, where benefits can be obtained by aggregating operational elements, such as the Buffet of Buffets (a 24 hour buffet pass for $45), All Stage Pass (tickets to 20+ shows for $99) and All Night Pass (7 nightclubs for $45).

Caesars focus on their branded offering, seeking to align particular brands with market segments, including The Pussycat Dolls, Planet Hollywood and celebrity chefs, including Gordon Ramsey and Guy Savoy. As owners of the WSOP brand, Caesars has access to an important market segment and when online gaming is legalized, there will be an ideal opportunity to align Total Rewards points with online play as well as the traditional land based gaming.

Caesars also believe that loyalty can be achieved through the individually focused benefits and status that can be earned from the Total Rewards program. Caesars use their size, scope and scale to offer a broad, yet focused, strategy based on aspiration and accessibility with benefits and experience based rewards.

MGM Resorts

The MGM portfolio of resorts is run independently with some resorts clearly operating in segments and others more generic.

M life has sought to improve customer transactional loyalty by integrating customer spend and cross-promotion. For a short period, a focus was to divert customers to Aria, but evidence was that whilst they liked elements of the City Center offering, existing customers reverted to their previous preferences, which (notably the Mirage and MGM) have functional loyalty.

A feature of MGM's Las Vegas offering is that the resorts are competing against other properties within the group; the target demographic is similar for Aria, MGM and Mandalay Bay and The Luxor, Mirage and MGM are in a similar space, as are Circus Circus and Excalibur.

As an operator, there is no holistic bid for competitive advantage in a single segment, rather through a diverse offering MGM can target every element of the market, whilst maintaining a room offering that retails above cost.

Las Vegas Sands

LVS has achieved competitive advantage in two ways. Firstly, by seeking a non-conventional business model in conception, where gaming was not the intended primary driver and the lodging offering was superior in terms of size and amenity than the pre-existing market which was ideal for corporate and convention travelers. It was brand and theme focused, with a strategy encouraging older leisure visitors for a recreational, retail and leisure experience. In this sense, The Venetian was the first fully integrated purpose built Las Vegas resort.

Secondly, the pioneering drive into Asia has served the LVS' Las Vegas resorts well, as this has provided it with access to the highly lucrative Asian market, similar to Boyd's Hawaiian strategy. The Asian hosts have been integrated into their overall gaming service and LVS brings customers from Singapore and Macau to the USA, where there is a preferable tax environment for gaming. 60% of all LVS' gaming revenue is from table games and is dominated by baccarat revenues, the game of preference for many Asian players.

While LVS dominates this Asian market, they will have a discernible competitive advantage over their Las Vegas rivals as they have emotional loyalty (a perception of luck) with the industry's most profitable customers, which is difficult to achieve.

Wynn Resorts

Wynn Resorts are committed to excellence as their key metric and they believe that understanding their customers allows them to provide the highest standards of service and facilities.

The quality of room product continues to be a competitive advantage and their room renovation program is more frequent than any other Las Vegas operator, which is why Wynn commands a price premium on room rates.

It is unlikely that the levels of service are indeed a differentiator (as all the similar focused operators have similarly high standards) but the personification of brand Wynn is unique and non-replicable. Whereas Wynn previously used art to create a unique perception, The Wynn is an embodiment of global excellence in a hotel resort. It has aligned with super luxury brands such as Ferrari, who have a showroom in the resort, but also seeking to target the older US gaming demographic who align with the nostalgia of the Sinatra era.

Wynn studies customer data to determine trends and continually uses this data to improve their offering. They use the business information to target their marketing, if not in the form of free rooms as seen in Caesars but by issuing invitations and offering unique experiences to customers.

In terms of capturing loyalty, the view was that loyalty was transactional, bought by segment and in value through comps. However, research suggests that Wynn actually has functional loyalty from its customers, but even then, The Wynn has to be as competitive as even loyal satisfied customers migrate.

The Independent Resorts

The independent resorts have limited methods to obtain sustainable competitive advantage for the entire market, but within segments and sub-segments, effective campaigns can be seen.

In early 2011, the large resorts were fearful of the effect that the Cosmopolitan was going to have on their business. It was smart, different, had a strong management team and fresh ideas. By 2012 the fears had been unrealized.

The Cosmopolitan's differentiation strategy was to be a non-casino casino, which was aspirational, sleek and alternative, resonating with customers on an emotional level. The set out to create new luxury, compared to the likes of the Venetian and Wynn, with cool art and fresh retail offerings.

Whilst Cosmopolitan has been successful in branding and positioning, it has done so in a space where the customers are not traditional gamblers and are therefore not profitable. It is in direct competition with the MGM portfolio, who have the advantage of an established database and players club and to a limited extent Wynn Encore.

TI is one of the older properties and its main differentiator today is price, as compared to its neighbors on the North Strip it is significantly cheaper. For a time it was family friendly with a traditional pirate theme, then a raunchy pirate theme as it skewed towards the nightclub crowd but this was not successful for a sustainable period.

Hard Rock Hotel has successfully exploited a brand to create an alternative offering. The Rehab pool party has developed notoriety even in the somewhat permissive environment of Las Vegas and HRH continues to develop this unorthodox and wild narrative. This is to be further developed with a tequila shot on arrival and Bloody Mary on departure, which will attract a particular segment that other resorts probably do not seek to attract. The culture and paradigm created by the fusion of brand and operation may prove this strategy effective and whilst those partaking in the experience consent and contribute, this may prove a competitive strategy that is both sustainable and achievable.

The Tropicana has undergone a substantial makeover to a bright, creatively styled resort with a country club atmosphere. However, the target market segment of mid-priced traveler and smaller conventions has substantial competition and even with a comparatively priced product, there may not enough to differentiate the offering from the rest of the market.

The Downtown resorts have the slight advantage that they are operating in a smaller sub-market, with The Plaza and Golden Nugget in competition as the premier resorts Downtown. In terms of location, they are at a disadvantage to strip resorts for the high rollers, but there is plenty of alternative business.

The Palms is dual segmented, offering looser slots than the strip resorts (which is a competitive advantage for the local players) and aligned branding with MTV. For a period the Palms Resort was the 'hip' place, however that has been superseded by the Cosmopolitan and Hard Rock, who have targeted and captured the Palms' clients with a newer offering.

Las Vegas is a uniquely competitive market place, with operators using many tools to try and capture market share and repeat custom.

<u>Developing Competitive Advantage</u>

Las Vegas is a unique destination. It is highly competitive and can be a highly profitable business environment with successful operators sharing the revenue increases from $2bn in 1984 to over $14bn today.

In our research we analyzed customer decision-making and it is evident that the four key influences in decision making affecting a weighting of over 70% in the key and important factors were, resort location, bedroom quality, resort appearance and friendliness of staff.

Based on our research we reach four conclusions for operators:

<u>Focus</u>

A multi-segment focus is no longer sustainable and a clear plan for holistic differentiation based on market segmentation must be adopted.

The importance of understanding the history and evolution of Las Vegas cannot be understated as the experience has moved full circle. We note the early operators developed resorts from an Inside-Out perspective catering for different defined segments, such as Dalitz's Desert Inn, Binion's Horseshoe and Sarno's Circus Circus spectacle.

These resorts were successful because the operators developed for customers that they knew (we recognize it was Bennett, rather than Sarno who successfully repositioned Circus Circus, few would accept that Bennett could have conceived the concept.). Ultimately when this was lost (such as when Howard Hughes was the main acquirer) the resorts' quickly lost alignment with customers and declined.

When The Mirage opened and the modern integrated Las Vegas Strip resort was dominant, for the first time international gamblers and families shared amenities under the same roof. Operators used external design (Pyramids and Eiffel Towers) and themes to differentiate their product.

Three key events took place between 1998 and 1999 that changed the way that Las Vegas operated. These were the opening of the Bellagio - a "mega-resort" targeted exclusively for high-end gamers, The Venetian opened, where gaming was only one of several key revenue drivers and Gary Loveman joined Harrah's bringing a "structured" approach to marketing the product by using data to segment and focus on customer equity.

The outcome of the 2000s was rapid development, but many of the successful resorts during this period focused on identifying their customer and developing a specialized segmented offering (such as the Palms) and those that reverted to differentiation by theme alone, such as the Aladdin, failed.

With the information obtained throughout this research we identify five strategies that Las Vegas operators must recognize and understand:

- Dalitz-Wynn
- Sarno-Boyd
- Binion-Rust
- Outside-In/Blattberg

•Bennett-Kerkorian(Inside-Out)
(See Figure 5)

Based on the intense competition and nature of the product, a standalone price leadership approach is not viable in Las Vegas as it is in other products. Resorts that have taken this approach require reorientation or they will face closure.

Delivery

Resorts do not exist in a vacuum; if a resort's value proposition diminishes, customers will migrate.

Some loyalty exists with frequent customers as they have experienced different resorts and made a decision based on alignment, which could be based on a number of factors from price to bars.

Customers in Las Vegas have a perception of their own value, sometimes overinflating their worth, sometimes not. This manifests itself in expectation of a particular level of service or "comp", which if it falls short, will leave the customer disenchanted.

The Caesars and MGM model of transparent "comps" based on spend has its advantages, but as some operators believe that all players can be "bought", the actual delivery of the product and customer experience must not disappoint and by judging on the findings (56% had only had their expectations met sometimes) there is certainly scope for improvement.

Hashimoto is incorrect that service is the only differentiator, but of the four key influences, it is the easiest and least expensive to improve.

Innovate

The prizes for innovation are great. Whether innovation is a loyalty scheme, a dancing fountain or a presence in Macau, to be the first at something gives the operator a period of competitive advantage.

Whilst counterintuitive to those schooled on probability and careful decision-making, the successes of Loveman, Wynn and Adelson were based on taking a gamble and innovating.

Currently the smaller niche resorts have focused on innovation in developing their segmented strategies to compete against the larger groups, seen in the Cosmopolitan, Tropicana and Hard Rock. This is currently offering them a series of short-term competitive advantages within particular segments.

Being the first has allowed LVS to take the initiative and dominate the Asian market.

Across operators there needs to be a refocus on creating and trialing innovative projects and strategies, particularly within the larger corporate gaming companies as the prizes for innovation are worth the risk.

Export:

Conceptual Las Vegas is bigger than actual Las Vegas.

PwC reports global gaming revenues are expected to increase by 25% in the next 5 years. Based on one operator's assessment that, "gamers practice online and play for real in Vegas" Las Vegas' casino operators are in a unique position to export and exploit their intellectual property and proven strategies.

As we note from the Harrah's/Caesars growth, when there is a relationship between customer and a local presence, the customer is more likely to spend in a particular resort. Las Vegas operators need to develop online hosts to develop alignment with international customers who play the free and real online platforms. The online platform can be accessed 365 days per year and allow customer-operator interaction not just when directly interfacing in Las Vegas.

3D software can render entire resorts to a virtual platform, enabling an online gambler to be able to walk down a virtual strip, accessing the operators' intellectual property, but moreover allowing them to play an operator's tables or slots, see the Bellagio fountains or watch a live-stream of Celine Dion, creating a true 24 hours a day, 7 days a week gaming and social media platform available on PC, tablet of phone.

The failure to embrace and exploit global markets accessible through the internet, even outside of the US jurisdictions, is a clear omission by the key operators who are Las Vegas casino centric.

Conclusions

We set out to understand how Las Vegas operators achieve competitive advantage, with loyalty as the key metric. We sought to identify why customers make their decisions in selecting Las Vegas resorts and how Las Vegas operators target those customers, with the hypothesis that the operators cannot achieve loyalty in this competitive space.

We conclude that emotional loyalty is unachievable, but forms of conditional transactional and functional loyalty can be gained within particular segments. The challenge for operators is to understand their customers enough to align the correct strategy and achieve loyalty.

About the Author

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This paper was published July 2012 as the nineteenth in the UNLV Center for Gaming Research's Occasional Paper Series, accessible online at http://gaming.unlv.edu.

Figures

Figure 1: Outside-In vs. Inside-Out Strategies (Day & Moorman)

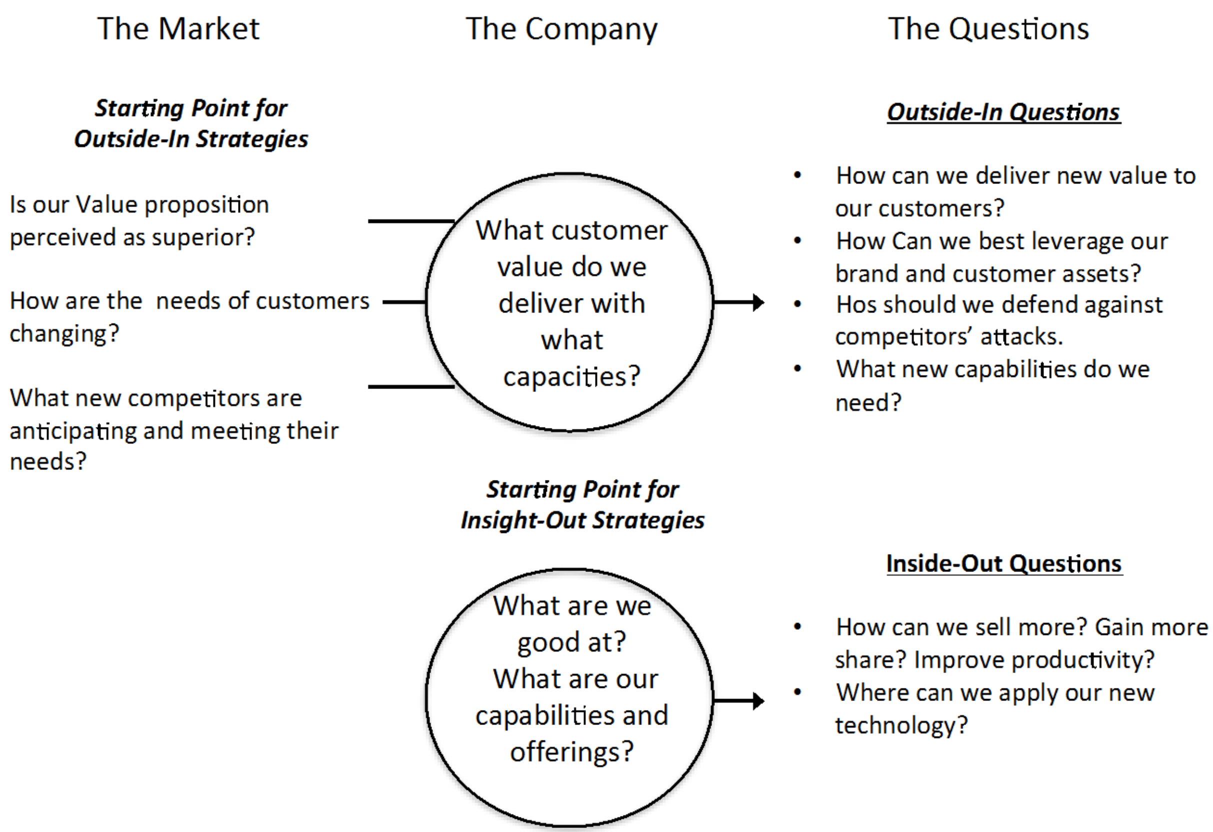
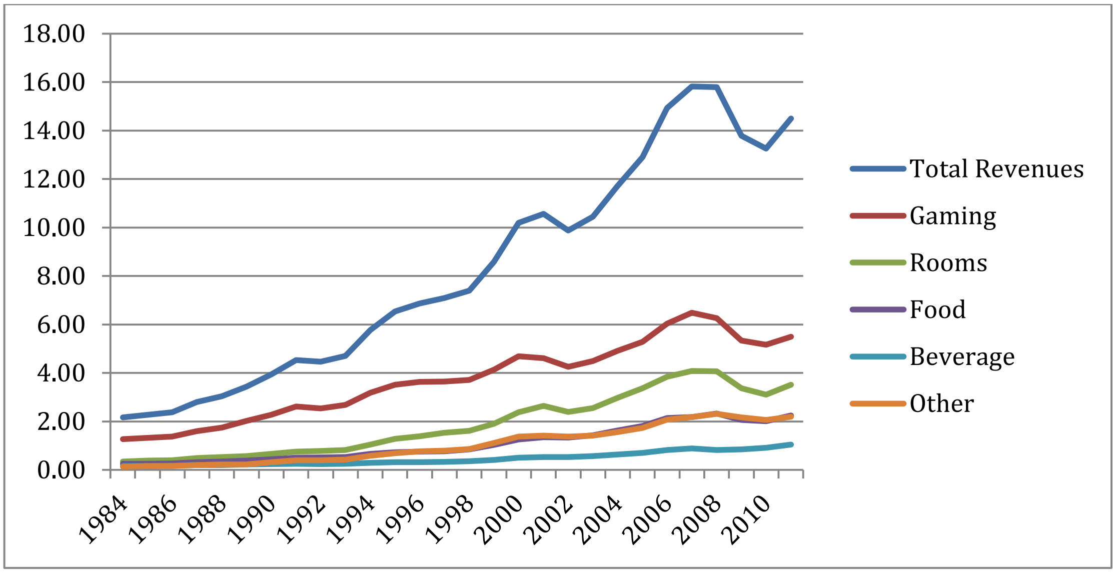
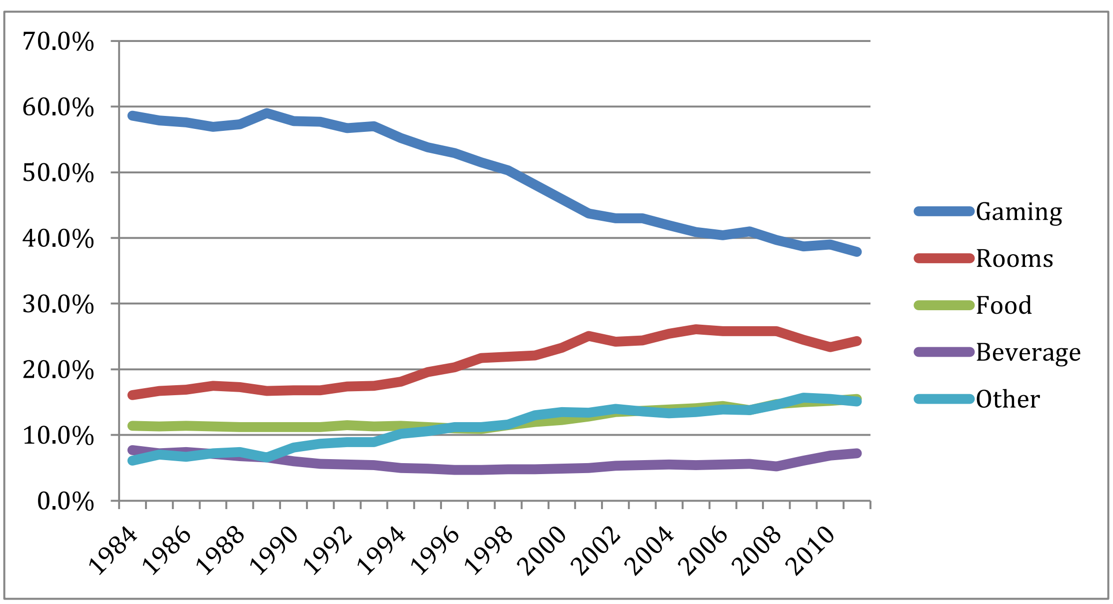


Figure 2: Las Vegas Strip Revenues 1984-2011 ($bn)



Source: Nevada Gaming Commission and State Gaming Control Board

Figure 3: Distribution of Revenues 1984-2011 on the Las Vegas Strip (%)



Source: Nevada Gaming Commission and State Gaming Control Board

Figure 4: The Drivers of Customer Decision Making

	Key aspect	Important	Taken into consideration	Not relevant
A particular restaurant	2.10%	8.59%	37.98%	51.34%
Attractiveness of dealers/cocktail waitresses	1.72%	10.34%	25.48%	62.45%
Bars	5.39%	22.93%	36.80%	34.87%
Bedroom quality	41.83%	43.16%	13.69%	1.33%
Brand of hotel	14.31%	27.86%	35.88%	21.95%
Choice of games	18.32%	32.25%	26.15%	23.28%
Convention Facilities	1.35%	2.32%	5.98%	90.35%
Friendliness of staff	28.49%	42.07%	21.41%	8.03%
Golf or sporting amenities	0.57%	3.26%	12.07%	84.10%
Linkage with other group resorts	8.83%	18.43%	27.06%	45.68%
Loyalty/Players Club Points	27.01%	28.74%	22.22%	22.03%
Luck	6.87%	18.89%	20.80%	53.44%
Nightclubs	6.72%	8.64%	17.47%	67.18%
Odds on table games	12.43%	23.71%	27.34%	36.52%
Poker Room	7.13%	13.68%	18.69%	60.50%
Range of dining options	11.88%	43.30%	29.50%	15.33%
Resort Appearance	34.67%	44.25%	17.43%	3.64%
Resort Location	53.82%	35.50%	8.97%	1.72%
Retail Options	2.30%	10.75%	33.59%	53.36%
Shows	4.05%	15.25%	35.33%	45.37%
Size of permissible bet (Maximum and minimum)	5.95%	14.01%	21.69%	58.35%
Star Rating	17.05%	33.33%	33.91%	15.71%
Swimming Pool	19.62%	27.69%	25.38%	27.31%
Theme	5.19%	19.81%	37.12%	37.88%

Figure 5: Summary Outline of Strategies

Strategy	Features Of Strategy	Market Segment	Key Customer Decision Making Influences (Survey Defined)
Dalitz-Wynn	Market leading product for high-end customer base. The operator must know the customer and deliver on highest standards.	High-End Gaming Customer	1. Bedroom Quality 2. Resort Appearance 3. Star Rating 4. Location 5. Player Club
Sarno-Boyd	Be different. Seek to develop what is not in the market already and bringing in non-traditional customers.	Non-Traditional Customers	1. Location 2. Bedroom Quality 3. Resort Appearance 4. Friendliness of staff 5. Swimming pool
Binion-Rust	Looking at customer lifetime value (customer equity) seeking loyalty through retention	Frequent Gaming Customers	1. Players Club 2. Bedroom Quality 3. Resort Appearance 4. Friendliness of Staff 5. Choice of Games
Outside-In/Blattberg	Understanding and satisfying customer needs. Delivering new value, leverage brands and assets, reinventing for competitive advantage.	Existing Las Vegas Customers	1. Location 2. Players Club 3. Bedroom Quality 4. Resort Appearance 5. Friendliness of Staff.
Bennett-Kerkorian (Inside-Out+)	Focusing on internal expertise and identifying segments.	All Customers, Self-Segmenting	N/A

Note: Bill Bennett was the owner/manager of Circus Circus and Mandalay Resort Groups between 1974-1995. He developed resorts for specified segments, in particular grind players and families.

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