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An Exploratory Study of Casino Customer Loyalty Programs

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ABSTRACT

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This study summarizes academic theories and industry applications related to customer loyalty programs, drawing on literature pertaining to reciprocity and resource theory, attitudinal loyalty, tiered loyalty programs, and reward type and timing. Specifically, this study attempts to understand aspects that have been proven successful in order to design more effective customer loyalty programs. This literature synthesis provides important professional implications for casino executives in effectively designing customer loyalty programs.

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Part One

Introduction

Amidst an economy in recession, casino operators have been forced to abandon the build it and they will come strategy. Instead, gaming executives have had to slash spending and focus on doing more with less, as well as becoming more customer-centric. In an effort to attract business, more and more casinos in the gaming industry have started to heavily invest in customer loyalty programs in an effort to create, strengthen, and personalize long-term relationships with players to keep them coming back and spending more (Palmer & Mahoney, 2005).

MGM Resorts International is a prime example of a casino company that has been forced to re-evaluate and adjust its customer loyalty program to focus more on the creation of loyal relationships. On January 11, 2011, MGM Resorts International unveiled a new and improved customer loyalty program they name M life Players Club (mlife.com, 2011). According to that website the new program boasts benefits and rewards that go beyond what is ordinarily offered, providing players with exclusive access to all 15 of the company's properties.

The M life program consists of four tier levels (an aspect the previous loyalty program lacked). The higher tier players are able to achieve points and accumulate benefits fastest. Room discounts and priority access to dining and entertainment are just a few of the perks. Players can earn unique M life moments which may include VIP seating at shows and concerts, private chef dinners, swimming in the shark reef, choreographing the Bellagio fountains and backstage tours-- just to name a few of the

M Life options. Players receive comps in two ways: through personalized offers based on previous purchases and through a menu of options from which players can select what they want (mlife.com, 2011).

According to Bill Hornbuckle, Chief Marketing Officer of MGM Resorts International, “Loyalty programs that work involve emotion” (Benston, 2011, para. 6). The company hopes to retain customers by providing highly personalized rewards as opposed to previous mass mailing offers in which a slot playing grandma might receive an offer to a UFC fight. In addition, players are able to comp themselves with Express Comps (a portion of the new program) as well as track rewards and accumulated points with access to their online account or at property kiosks. The M life Players Club will also start tracking and rewarding customers for non-gaming spending later this year, an aspect that competitor Caesars Entertainment has already incorporated into its Total Rewards loyalty program (totalrewards.com, 2011).

While casino executives have gone all in on customer loyalty programs as the solution to increasing customer loyalty, some research disagrees on this approach. Dowling and Uncles (1997) argue that in many cases it is difficult for a firm’s customer loyalty program to obtain a competitive advantage and that most firms decide to implement a loyalty program primarily because competitors have introduced similar programs. Reinartz and Kumar (2002) found the relationship between loyalty and profitability to be much weaker than advocates of loyalty programs proclaim and argue that companies must measure the relationship between loyalty and profitability in order to determine which customers to invest in and which to disregard. Magi (2003) asserts that the effects of a customer loyalty program may be cancelled out due to membership in multiple loyalty programs.

Purpose

The purpose of this paper is to identify and examine aspects of customer loyalty programs that have been proven effective in an attempt to assist casino companies in designing loyalty programs that can create a competitive advantage.

Statement of problem.

Casinos have long been dependent upon comps to woo players. However, a free drink or hotel stay is no longer enough to attract and retain customers in this dire economy. In an attempt to create and foster long-term relationships with players, casinos have been heavily investing in customer loyalty programs and almost every casino company in Las Vegas offers one, yet the effectiveness of these customer loyalty programs has been questionable (Dowling & Uncles, 1997; Magi, 2003; Reinartz & Kumar, 2002).

Justifications

The effectiveness of customer loyalty programs is a topic that is both useful and of high current interest in the hospitality industry. Now, more than ever, casino players have a large supply and availability of gaming prospects due to an increasing number of casinos and online gambling outlets and players seem to be taking advantage of this by belonging to multiple casino loyalty programs (Palmer & Mahoney, 2005). The research compiled in this paper can assist firms in the gaming industry to design more valuable customer loyalty programs. Understanding which aspects are more effective will allow casino companies to better allocate their limited resources and maximize the return on their loyalty program (Palmer & Mahoney, 2005). By providing customers with what they want and eliminating costly aspects of the programs that customers do not want, both the casino company and its customers benefit.

Constraints

The majority of research completed on customer loyalty programs focuses on the loyalty program of one organization--without regard to competition, the market environment, or the firm's position in the market. Therefore, it is uncertain how these competitive forces influence the effectiveness of the loyalty program (Lui & Yang, 2009). Immense competition among rival firms exists in the hospitality industry. Casino companies must consider the effect of rival firms' customer loyalty programs on their own when designing an effective program.

All players have the choice of whether or not they wish to join a casino's loyalty program. This may lead to self-selection bias as those who opt in to a firm's loyalty program are more likely to be repeat customers or intend to spend a large amount of money at that casino. Correspondingly, players' decisions not to join a casino's loyalty program create a lack of information on a control group needed to compare loyalty between program members and non-members. By simply comparing member to non-members, the effects of the program would be overestimated since non-members would be more infrequent customers leading back to the self-selection bias (Hendler & Latour, 2008).

Due to limited research specific to casino customer loyalty programs, another constraint may be using articles on loyalty programs in other fields to illustrate. While many loyalty programs have similar structures and aspects regardless of industry, there are industry- and market-specific differences that must be taken into account. What has been proven successful in an airline loyalty program may not hold true in a hotel or casino loyalty program. In addition, motivations for belonging to loyalty programs may differ across industries. Some people may not want to join a casino loyalty program because of the negative connotation it may convey to non-gamers.

It is not possible in this study to survey loyalty program members to determine what they think about loyalty programs and it is not possible to access records of the results of specific programs due to financial constraints. Lastly, it is a self-imposed constraint that the researcher is employed by a mega resort in the gaming industry that relies heavily upon its customer loyalty program. This may cause a constraint from the "can't see the forest for the trees" perspective.

Glossary

In this section, terms which are peculiar to the subject of the study will be defined.

Loyalty Programs: "Long-term-oriented programs that allows consumers to accumulate some form of program currency, which can be redeemed later for free rewards" (Lui & Yang, 2009, p.94).

Loyalty: "A deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior“ (Oliver, 1999, as cited in Hendler & Latour, 2008, p.119).

Share of Wallet: “expenditure at a specific store as a fraction of total category expenditures” (Babakus & Yavas, 2008, p. 974)

Part Two

Literature Review

Introduction

Part Two summarizes relevant literature in an attempt to better understand customer loyalty programs and aspects of these programs that can assist casinos in creating and fostering long-term profitable relationships with customers. The literature review is divided into four sections. The first section provides a general overview of customer loyalty programs including the history, proliferation, dimensions, and goals of customer loyalty programs. The second section explores potential problems with customer loyalty programs and the lack of empirical research on loyalty programs. The third section briefly describes casino customer loyalty programs and how the use of these programs has evolved within the industry. Lastly, aspects of customer loyalty programs that have been studied and proven effective will be examined in the fourth section of the literature review.

Overview of Customer Loyalty Programs

History.

Customer loyalty programs were first developed by the airline industry in the early 1980s (Palmer & Mahoney, 2005). American Airlines was the first airline to utilize a customer loyalty program and launched its AAdvantage program in 1981with the goal of increasing repeat purchases (McCall & Voorhees, 2010). Since this introduction, customer loyalty programs have shown tremendous growth in many industries, including the tourism and hospitality industries (Palmer & Mahoney, 2005).

Proliferation of customer loyalty programs.

According to Ferguson and Hlavinka (2007), from 2000 to 2006, total customer loyalty program enrollments in the US increased 35.5% to 1.5 billion. The average US household belongs to 12 loyalty programs; of those 12 programs, 4.7 yield active participation (Ferguson & Hlavinka, 2007). Proliferation of customer loyalty programs in a particular industry is primarily due to the "follow the leader" approach, defined by Palmer and Mahoney (2005) as "competitive reaction to the introduction of a loyalty program by an industry innovator" (p. 272). Within weeks of American Airlines' AAdvantage frequent flier program launch, competitive airlines began offering similar programs (Dowling & Uncles, 1997).

Proliferation of customer loyalty programs in a specific industry also reflects a changing market usually characterized by increased competition and consumers who are more demanding and knowledgeable (Liu & Yang, 2009). Liu and Yang (2009) argue this shift causes a "development toward relationship marketing and customer relationship management in marketing and thinking practice" (p. 93). Firms are now focused on developing long-term relationships with customers instead of single transaction relationships.

Dimensions of customer loyalty programs.

The majority of customer loyalty programs reward repeat purchases, often referred to as behavioral loyalty. For that reason, the effectiveness of loyalty programs is frequently determined by repeat patronage only; however, repeat purchases do not necessarily signify true loyalty to a brand or firm (Baloglu, 2002).

Baloglu (2002) states there are two dimensions of customer loyalty: behavioral loyalty and attitudinal loyalty. Behavioral loyalty can be measured by repeated patronage, while attitudinal loyalty can be measured by customer commitment to a brand or company. Both aspects must be analyzed to determine the effectiveness of customer loyalty programs and the nature of the customers' loyalty.

Goals of customer loyalty programs.

A firm's decision to employ customer loyalty programs may be due to a variety of factors, including competitive pressure as mentioned above. A discussion of goals firms desire to achieve from customer loyalty programs follows.

Palmer and Mahoney (2005) note that firms utilize customer loyalty programs to increase revenues, profit and market share, identify customers who are profitable and attempt to increase their usage and/or market share, as well as, identify new markets and build these markets using information gathered from members of the customer loyalty program. Dowling and Uncles (1997) agree goals of customer loyalty programs are to maintain sales levels, margins, and profits providing a "defensive outcome" to protect the existing customer base.

Another goal of customer loyalty programs is to increase customer loyalty. Palmer and Mahoney (2005) define loyal customers as "customers who a) maintained a relationship with an organization over a period of time and b) purchased products/services at regular intervals" (p. 273). Dowling and Uncles (1997) agree increasing customer loyalty is a goal, in addition to increasing the potential value of existing customers.

An additional goal of customer loyalty programs can be to induce cross-product buying by existing customers. A successful customer loyalty program will enhance the product/service value proposition and broaden the availability of the product/service (Dowling & Uncles, 1997). Lastly, Nunes and Dreze (2006) argue goals of customer loyalty programs also include retaining customers, increasing customer spending, and gaining customer insights.

Problems with Customer Loyalty Programs

Empirical research.

Few empirical studies have been published that explore the relationship between casino loyalty programs and financial performance. It is difficult to conduct such studies due to lack of control group. Hendler and Latour (2005) argue, “If we chose to simply compare members to non-members, we would overestimate the effects of the program because non-members would probably be mostly non-frequent users of the brand” (p. 108). Furthermore, casinos would be unwilling to turn customers down from becoming members of their loyalty programs for the sole purpose of a study to be conducted.

In addition, self-selection bias occurs because customers opt-in to the majority of customer loyalty programs. Dowling and Uncles (1997) state this “self-selected group is unlikely to be representative of all a company’s (potential) customers” (p. 75). Moreover, most empirical studies lack market environment consideration, as most studies focus on one loyalty program in isolation and ignore the effects of competitive forces (Liu & Yang, 2005).

Practical application.

It is both costly and operationally difficult to provide differentiated and customized service to loyal customers. Customer loyalty programs may become expensive liabilities because programs can easily be copied by competitors and the “economic benefits offered to customers translate into alternative forms of discounting” which is a form of a price war (Hendler & Latour, 2005, p. 107). Lucas, Kilby, and Santos (2002) argue the escalation of acquisition costs for high rollers in casino loyalty programs have eroded profit margins to the extent of making some customers unprofitable and even in some cases created a players’ advantage.

Additionally, Palmer and Mahoney (2005) argue people often belong to multiple loyalty programs within the same industry, especially in the casino industry due to the low switching costs associated with casino loyalty programs, the increasing number of gaming opportunities available, and the increased marketing efforts of casinos aimed at attracting new players. Almost all casinos now offer some type of customer loyalty program. Dowling and Uncles (1997) discuss the notion of polygamous loyalty, being a member of more than one loyalty scheme, and the effect it has on true loyalty to a brand or company. People buy different brands for variety, for different occasions, or because one brand was on sale or out of stock. However, Liu and Yang (2009) insist that “multiple (loyalty) programs can effectively coexist even under a high level of market saturation” in some situations (p. 93).

Casino Customer Loyalty Programs

Casinos have always employed hosts to take care of high rollers, also referred to as premium players, to create personal relationships by providing complimentary rewards such as meals, private jets, extravagant suites, and exclusive cruises. Recently, casinos have begun expanding into megaresort hotels, especially in Las Vegas, causing a demand for more technologically sophisticated casino customer loyalty programs, also known as slot clubs.

Hendler and Latour (2005) define casino slot clubs:

> Casino slot clubs are the entities in the casinos that operationalize the collection of customer data and the delivery of loyalty program benefits for slot customers. Some of the common benefits offered by such clubs are room discounts or complimentary stays, complimentary food and beverage, participation in parties usually called special events, free flight tickets, gifts, cash back, and promotional offers aimed to stimulate repeat purchases and increase play. (p. 106)

Casino slot clubs have the ability to track every penny spent by a player, providing the player remembers to use his or her slot club card. Player-tracking allows casinos to better customize offers and benefits provided to players Slot clubs have evolved to track not only slot play, but also table game play and most recently, non-gaming expenditures at the casino property (Hendler & Latour, 2005).

Aspects of Customer Loyalty Programs

Reciprocity theory.

Reciprocity theory states “when customers perceive that they have been helped, they tend to feel indebted and may feel compelled to provide retribution (in the form of) praise, devotion, personal information and repeat purchases” (Gouldner, 1960, as cited in Morais, Dorsch, & Backman, 2004, p. 237). The findings in the Morais et al. (2004) study of a nature-based tourism provider were consistent with the reciprocity notion: if customers perceived the company was making an investment in them, they in turn made a similar investment in the company, and those investments led to loyalty. These findings led the authors to suggest that loyalty programs should promote mutual investments of special resources with the most valuable customers (Morais et al., 2004).

Resource theory.

There are six classes of resources: love, status, information, money, goods and services. Each resource can be classified by tangibility and particularism. Love and status are highly intangible and particularistic, information and status are the most intangible, goods are the most tangible, love is the most particularistic, and money is the least particularistic (Morais et al., 2004).

According to resource theory:

> When individuals receive a specific type of resource, they tend to want to give an identical type of resource in return, and when individuals invest intangible and particularistic resources in each other, they tend to be more

> satisfied with the relationship, tend to continue the relationship for a longer period, and tend to establish more intimate relationships. (Morais et al, 2004, p.241).

The findings in the Morais et al. (2004) study of a nature-based tourism provider were consistent with resource theory: investments in love, status and information were more closely associated with loyalty than investments of money. These findings led the authors to suggest that loyalty programs should invest in intangible and particularistic resources in their most valuable customers instead of tangible and non-particularistic investments like money or free or discounted goods and services. Resource theory is very appropriate for tourism, travel and hospitality industries since close interactions between customers and front line staff occur regularly (Morais et al., 2004).

Attitudinal loyalty.

According to Baloglu (2002), “Customer loyalty is a multi-dimensional concept involving both behavioral elements (repeat purchases) and attitudinal elements (commitment)” (p. 49). There are four loyalty levels based on the two dimensions of attitude and behavior: true loyalty, latent loyalty, spurious loyalty, and low loyalty. True loyalty is characterized by strong attitudinal attachment and high repeat patronage; latent loyalty is characterized by low patronage levels, but strong attitudinal commitment; spurious loyalty is characterized by frequent purchases but no emotional attachment to the brand; and low loyalty is characterized by low levels of both repeat patronage and attitudinal loyalty. Truly loyal customers almost always patronize a particular brand and are least vulnerable to competitive offerings (Baloglu, 2002).

Baloglu (2002) conducted a study on slot club loyalty by using members of a publically traded gaming company headquartered in Las Vegas which operates several casinos that mainly target local customers. The author's study identified three of the four loyalty groups present in the slot club: truly loyal customers, spuriously loyal customers and low loyal customers.

Baloglu's (2002) study found truly loyal customers (compared to other two groups):

- had more trust and emotional commitment to the casino,
- had a high level of behavioral loyalty to the casino,
- averaged more hours per visit in the casino during each visit,
- perceived switching costs to be significantly higher,
- less likely to search for an alternative casino,
- had a more positive relative experience and a greater overall relative image of the casino,
- more likely to spread positive word of mouth,
- more likely to cooperate with casino,
- spent more money on casino's ancillary products and services, and
- patronized casino because they want to be there.

Spuriously loyal customers, on the other hand, had neutral levels of trust and emotional commitment, patronized the casino because of some constraint, and were vulnerable to competitive offers. However, spuriously loyal customers also showed a high level of behavioral loyalty to the casino similar to truly loyal customers. The study also found that spuriously loyal customers made up the largest segment of the slot club's total membership (44%), which could be damaging to the casino if these players were ever lost to competition. Therefore, it is important for casinos to develop attitudinal loyalty in an effort to make spuriously loyal customers become truly loyal customers (Baloglu, 2002).

According to Baloglu (2002), a firm can create attitudinal loyalty by delivering consistent, friendly, personalized service, building social relationships at employee levels, keeping promises made in promotional material, taking care of player requests, building high switching costs, enhancing customer experience, creating a positive image of the casino, and by outperforming competitors. Hu, Huang, and Chen (2010) agree that the satisfaction a customer has with the service provided by the firm does positively affect customer loyalty.

Baloglu (2002) also argues firms should make a distinction between behavioral and attitudinal loyalty in order to target specific loyalty segments. Most slot clubs reward behavioral loyalty, but the author insists casinos should reward attitudinal loyalty by seeking to reward truly loyal customers.

Mattila (2006) provides a similar argument in favor of attitudinal loyalty: true loyalty is derived from affective commitment, the customer's emotional attachment to the service provider, not just calculative commitment, the customer's sense of being locked into the service provider due to switching costs. The author states the "source of loyalty is an emotional bond that cannot be bought by points or free stays" (Mattila, 2006, p. 179). The author's findings suggest that customers with high affective commitment showed increased loyalty, increased positive word of mouth, and increased share of wallet.

In another study conducted in the credit card industry, high switching costs did not matter to customers with high attitudinal loyalty, but attractiveness of the loyalty program increased share of wallet even at high attitudinal loyalty. However, for customers with low attitudinal loyalty, perceived switching costs were shown to be highly effective in driving share of wallet only when combined with an attractive loyalty program (Wirtz, Mattila, & Lwin, 2007). Therefore, it is important to distinguish between behavioral and attitudinal loyal customers in order to target each customer segment differently.

Human qualities / emotional bonds.

Hendler and Latour (2008) conducted a study of both locals and tourists belonging to a Las Vegas megaresort's loyalty program using the ZMET method. The ZMET method was chosen because "purchase motives in gaming are hedonic, highly emotional, and perhaps even irrational" (Hendler & Latour, 2008, p. 106). With the ZMET approach, the interviewer "uses participants' chosen images to probe for their metaphorical thinking about a particular issue, (which) reflects the neuroscience premise that all thoughts are image-based" (Hendler & Latour, 2008, p. 109).

Results of the study showed customers viewed the slot program as commonplace in sharp contrast to how the customers viewed the resort's service and atmosphere as luxurious and upscale. In addition, interactions with the slot club staff and policies reflected negatively on the customers' perceptions of the overall experience at the resort (Hendler & Latour, 2008).

Tourists emphasize the experience when deciding where to play, thus the casino must establish meaningful relationships and build on emotional connections with tourists. "Human qualities such as care and creativity, as well as the ideas of luxury and relaxation" must be employed, along with a warm, welcoming, and caring staff to carry out these ideas (Hendler & Latour, 2008, p. 117).

Loyalty programs must also be flexible; casinos should empower slot club representatives to be able to respond and cater to customer needs without approval from a host or supervisor. Hendler and Latour (2008) suggest giving autonomy to slot club representatives in order for them to provide benefits and comps to players in accordance with the players' level, ability to transfer the relationship between different slot club representatives, including hosts, and automating routine transactions with kiosks.

Lastly, based on tourists' responses in this study, loyalty programs must reflect attributes presented by the casino, in this case, "fantasy, luxury, elegance, sophistication, friendliness, and comfort" (Hendler & Latour, 2008, p. 118). The authors suggest portraying these attributes in marketing efforts such as design of tournaments, invitations, and offers thru tangible elements such as décor of slot club areas.

As for locals, similarly, the loyalty program did not reflect attributes presented by the casino. Locals look for the value of the benefit package when deciding where to play. Many locals have strong emotional bonds with a casino and locals desire control.

Hendler and Latour (2008) suggest implementing a more transparent reward system in place to appeal to the local segment.

Tiered loyalty programs.

There has been a great deal of research published in favor of tiered loyalty programs. Palmer and Mahoney (2005) state “tiered players’ club programs provide incentives for players’ club members to increase their gaming in order to get promoted to the next tier or to maintain their current level since they are re-evaluated on an annual basis” (p. 286). The authors go on to assert tiered loyalty programs “allow casinos to focus marketing and staff resources on servicing higher revenue customers as opposed to spreading their resources across the entire program” (p. 286). This concept is based on Pareto’s 80/20 rule that a large share of a firm’s revenue will come from a small proportion of the firm’s customers. Tiered loyalty programs allow the firm to provide differentiated rewards for each tier and it is important that the “best” customers are getting the “best” incentives (McCall & Voorhees, 2010).

Furthermore, Kopalle, Neslin, Sun, Sun, and Swaminathan (2007) found tiers create a point pressure effect on purchases by both price-conscious and service-oriented consumers. Dreze and Nunes (2009) found that a three tier program developed higher satisfaction for members than did a two tier program because the third tier increased feelings of status for elite members and gave a clearer understanding of relative position for lower tier customers. In addition, the authors found increasing the number of elites in the top tier dilutes perceptions of status, while adding a subordinate tier enhances status. Tiers below the second tier do not affect those at the top but can make those in the tier immediately above feel more elite (Dreze & Nunes, 2009). Lastly, tiered customer loyalty programs provide customers in a particular tier with a sense of identity and fit with both the firm and other like customers, which can lead to improved commitment to the loyalty program and firm (McCall & Voorhees, 2010).

Reward timing.

Rewards can either be immediate or delayed and there is some debate over which reward timing is most effective. Immediate rewards are “psychological, namely, a feeling of participation, the anticipation of future rewards, and a sense of belonging” (Hu et al., 2010, p. 129). Hu et al. (2010) argue immediate rewards are more effective than delayed rewards in building a loyalty program’s value and immediate rewards are more effective when customers are dissatisfied with their experience.

Leenheer and Bijmolt (2008) argue “delayed rewards in a loyalty program have a significant impact on customer loyalty, whereas one-shot promotional features do not” (as cited in Liu & Yang, 2009, p. 94). Hu et al. (2010) believe delayed rewards work better than immediate rewards only if customers are satisfied with their experience.

Reward type.

A customer loyalty program can offer a variety of rewards, including luxury or necessity rewards. A luxury reward is preferred when effort requirement is high because “higher effort reduces the guilt that is often associated with choosing luxury over necessity,” whereas, a less aspirational necessity reward is preferred when effort requirement is low (Kivetz & Simonson, 2002, p. 155). In addition, satisfied customers are happy to wait for higher-valued, delayed rewards as opposed to getting more lower-valued immediate rewards, while dissatisfied customers prefer immediate direct rewards to delayed direct rewards of higher values (Keh & Leh, 2006).

Consumers need to feel both fit with the loyalty program and that they have earned their rewards. When a reward threshold is too low, the attractiveness of that reward is lessened. Instead, the "perception of exclusivity of acquired status is likely to drive future loyalty" (McCall & Voorhees, 2010, p.37).

Rewards can also be brand congruent or incongruent. It is believed that brand congruent rewards are more effective than incongruent rewards, though this effect is moderated by factors such as consumer involvement and promotional reaction (Kivetz, 2005, as cited in Liu & Yang, 2009, p. 96). Dowling and Uncles (1997) argue "loyalty programs which directly support the value proposition and positioning of the target product better fit the goals of loyalty marketing" (p. 81).

Rewards can also take the form of cash or free products. Kim, Shi, and Srinivasan (2001) found offering cash is more effective if there are few price-sensitive, heavy buyers; while offering free products is more effective when the heavy buyer group is large and not very price-sensitive. Also, free rewards offered by firms charging higher prices are more valued by consumers (Kopalle & Neslin, 2003).

Conclusion to Literature Review

While research on the effectiveness of customer loyalty programs has been controversial, the literature review revealed numerous aspects that could have a significant effect on the value of such programs. The research compiled can assist firms in the gaming industry to design more valuable customer loyalty programs.

Understanding which aspects are more effective will allow casino companies to better allocate their limited resources and maximize their return on their loyalty program (Palmer & Mahoney, 2005). Casino companies should consider reciprocity and resource theory, rewarding attitudinal loyalty, human qualities and emotional bonds, tier levels and reward timing and type when designing and implementing customer loyalty programs.

Part Three

Introduction

Part Three draws upon the findings in the literature review to provide recommendations that will assist casino executives in designing loyalty programs that have the ability to create a competitive advantage and foster long-term, loyal relationships with customers. Understanding which aspects of customer loyalty programs are more effective will allow casino companies to be better able to allocate limited resources and maximize the return on their loyalty program (Palmer & Mahoney, 2005).

Designing an Effective Customer Loyalty Program

This section provides recommendations on how to design effective casino customer loyalty programs. This information is beneficial to casino executives, academia and to executives in other industries seeking to create more value for their loyalty program.

Reciprocity theory.

According to reciprocity theory, if customers perceived the company was making an investment in them, they in turn made a similar investment in the company and those investments led to loyalty. Therefore, customer loyalty programs should promote mutual investments of special resources with the most valuable customers (Morais, Dorsch, & Backman, 2004). Casino companies need to make certain that their customers perceive the company is making an investment in them to make them feel special and want to make a similar investment with the casino company. The casino company should make customers of all levels feel this way and place an increased emphasis on their most valuable customers. Since a small proportion of the casino's customers create a large portion of its revenues, casinos can afford to make larger investments in its most valuable customers (McCall & Voorhees, 2010).

Resource theory.

Resource theory states, "when individuals invest intangible and particularistic resources in each other, they tend to be more satisfied with the relationship, tend to continue the relationship for a longer period, and tend to establish more intimate relationships" (Morais et al., 2004, p. 241). Consistent with resource theory, a study by Morais, et al. (2004) found that investments in love, status and information were more closely associated with loyalty than investments of money. Therefore, loyalty programs should invest intangible and particularistic resources in their most valuable customers instead of tangible and non-particularistic investments like money or free or discounted goods and services.

Casino companies have long been dependent on giving free drinks, food, play, and hotel stays to keep loyalty program customers satisfied; however, resource theory argues that free comps may not be enough to keep customers satisfied for the long-term and may actually be depriving the casino from creating more intimate relationships with customers. Free or discounted goods and services can still be utilized to reward casino customers; however, casino companies must starting looking at rewarding their most valuable customers with more intangible and particularistic investments like love, status and information.

Attitudinal loyalty.

There are two dimensions of customer loyalty: behavioral and attitudinal loyalty. The majority of customer loyalty programs reward behavioral loyalty; however, repeat purchases do not necessarily signify true loyalty to a brand or firm. It is important that casino companies analyze both aspects of customer loyalty to determine the nature of their customers' loyalty and the effectiveness of their customer loyalty program (Baloglu, 2002).

Based on the two dimensions of customer loyalty, there are four levels of loyalty: true loyalty, latent loyalty, spurious loyalty, and low loyalty. Truly loyal customers almost always patronize a particular brand and are least vulnerable to competitive offerings. A study on a Las Vegas casino slot club found truly loyal customers had more trust and emotional commitment to the casino, had a high level of behavioral loyalty to the casino, were less likely to search for an alternative casino, had a more positive relative experience and a greater overall relative image of the casino, were more likely to spread positive word of mouth, were more likely to cooperate with the casino, and spent more money on the casino's ancillary products and services than customers of different loyalty levels (Baloglu, 2002).

Casino companies should strive to create truly loyal customers. Therefore, it is important for firms to make the distinction between behavioral and attitudinal loyalty in order to target specific loyalty segments. While most casino firms reward behavioral loyalty, Baloglu (2002) argues casinos should reward attitudinal loyalty by seeking to reward truly loyal customers. The author goes on to argue it is important for casinos to develop attitudinal loyalty in an effort to convert spuriously loyal customers to truly loyal customers.

Casino companies can create attitudinal loyalty by delivering consistent, friendly, personalized service, building social relationships at employee levels, keeping promises made in promotional material, taking care of player requests, building high switching costs, enhancing customer experience, and creating a positive image of the casino by outperforming competitors (Baloglu, 2002). The attractiveness of the customer loyalty program can increase share of wallet even with customers who have high attitudinal loyalty (Wirtz, Mattila, & Lwin, 2007). In order to provide the customer service necessary to create attitudinal loyalty casino employees must be educated, trained, and empowered on how to handle loyalty program customers and their requests.

Human qualities / emotional bonds.

Casino loyalty programs must reflect attributes presented by the casino itself. For example, if a casino is perceived by customers to be upscale and luxurious, the casino's customer loyalty program must also be perceived by customers as being upscale and luxurious. In addition, casino companies must establish meaningful relationships and build on emotional connections with customers. This can be created by providing care, creativity, luxury, and relaxation with a warm, welcoming, and caring staff. Furthermore, by portraying these attributes in marketing efforts such as design of tournaments and special events, invitations and offers and thru tangible elements such as décor of slot club areas and slot club representatives (Hendler & Latour, 2005). For example, a casino host or slot club representative could call higher value players to invite them to a special event or tournament instead of just sending out a mass mailing. This creates a more personalized touch and may entice more players to attend the event and spend more.

Moreover, casino loyalty programs should be flexible. Casinos can empower slot club representatives to be able to respond and cater to customer needs without approval from a host or supervisor. Allow slot club representatives to provide benefits and comps according to the players' tier level and allow for the ability to transfer the relationship between different slot club representatives including hosts so customers can receive assistance as quickly as possible. Kiosks can also be employed to automate routine transactions (Hendler & Latour, 2005). Furthermore, periods of inactivity should be monitored and hosts or slot club representatives should call higher tier players to inquire about the inactivity, check if everything is ok with the player and invite the player to return to the property to play by providing a special offer. Again, this creates a personal touch that makes the player feel a stronger emotional bond with the casino.

Additionally, casino customer loyalty programs should be more transparent. Players desire control and implementing a more transparent reward system will appeal to players. Casino companies should let players know how many points they have accrued and how many points each comp would cost them, that way players are able to allocate their points for the comps they desire.

Tiered loyalty programs.

Much research has been published in favor of tiered loyalty programs (Dreze & Nunes, 2009; Kopalle, Neslin, Sun, Sun, & Swaminathan, 2007; McCall & Voorhees, 2010; Palmer & Mahoney, 2005). Tiers allow casinos to focus on servicing higher revenue customers instead of spreading resources out across the entire loyalty program (Palmer & Mahoney, 2005). Tiers help the casino to provide differentiated rewards for each tier as well as provide customers in a particular tier with a sense of fit and identity with both the firm and other like customers (McCall & Voorhees, 2010).

Tiers increase feelings of status for elite members and give clearer understanding of relative position for lower tier customers. Casino companies should keep the number of elites in the top tier small and increase the number of subordinate tiers in order to increase perceptions of status (Dreze & Nunes, 2009). Additionally, casino companies should not be happy with the status quo when too many customers reach the highest tier. Another higher tier (with yet better benefits) should be created so as to keep the number of customers in the highest tier low and coveted by the customers. Furthermore, casino companies should make top tier players feel privileged and special by really wowing them and rewarding them with exceptional opportunities not given to customers in a lower tier. Casino customers in the highest tier love to brag about all their benefits and the fact they are in the highest tier.

Reward type.

When the effort requirement of the loyalty program is high, luxury rewards are preferred; however, when the effort requirement is low necessity rewards are preferred

(Kivetz & Simonson, 2002). Furthermore, satisfied customers are happy to wait for higher-valued, delayed rewards as opposed to getting more lower-valued, immediate rewards while dissatisfied customers prefer immediate, direct rewards to delayed, direct rewards of higher values (Keh & Leh, 2006). Casino companies should reward higher tiered, more valuable customers with luxury rewards as their effort requirement to maintain their level of play is much higher than those players in a subordinate tier. Casinos should also consider offering immediate, direct rewards to displeased customers to try and appease them and delayed rewards to satisfied customers since they are willing to wait for higher-valued, delayed rewards.

Customers need to feel both fit with the loyalty program and that they have earned their rewards. When a reward threshold is too low, the attractiveness of that reward is lessened (McCall & Voorhees, 2010). Rewards should also be brand congruent (Kivetz, 2005) and support the value proposition and positioning of the casino (Dowling & Uncles, 1997). Casino companies should consider cross-promoting sister property casinos if possible. This supports the value proposition of the entire company, not just one casino property. If a customer is going to play at another property, make sure it is another property of the same company.

Lastly, casino companies should make sure customers are receiving personalized rewards that mirror their interests. A 90 year old slot playing grandma most likely does not want free tickets to a UFC fight. Casino companies need to focus on customer likes, interests, and previous purchases to be able to offer more personalized rewards. This will make customers feel like the casino really cares about them and what they prefer.

Conclusions

The literature review revealed numerous aspects that could have a significant effect on the value of casino customer loyalty programs. The research compiled in the paper can assist firms in the gaming industry to design customer loyalty programs that can provide the firm with a competitive advantage. This research specifically relates to the hospitality and gaming industry, but can also be universally utilized in many industries.

One of the keys to successfully implementing the newly designed customer loyalty program is getting employees of all levels in the company highly involved in the new program. Employees need to be educated and trained on the new aspects of the loyalty program. It is very important for line level employees to realize just how much the level of customer service provided effects customer satisfaction since line level employees come in the most contact with customers.

In addition, upper management must endorse and support the new loyalty program and make certain that their endorsement is visible to lower level employees. Management can also create excitement over the new program by handing out promotional material on the loyalty program and quizzing employees on the new aspects. Employees can be rewarded for passing the quizzes. This will motivate employees to learn about the new program because they will want to win prizes; the more appealing the prizes, the more effort employees will put into learning about the new loyalty program.

Management must also emphasize to all employees how to provide excellent customer service in accordance with the loyalty program aspects to increase customer satisfaction. The casino can design a perfect loyalty program, but without a highly trained staff to implement the program it will fail. Employees need to understand the different tier levels and how higher level tier players are more valuable to the firm. Employees must concentrate on providing excellent customer service to all with an extreme focus on wowing the top level tier players.

Moreover, the casino company must also get customers involved in the new loyalty program as well. Promotional material needs to be sent out educating customers on the new program and how it will be more beneficial to them. The material must also encourage customers to achieve higher tier levels to receive more perks and benefits.

An excellent example of a casino improving its loyalty program and wowing it top tier players is a mid-west Tribal casino. The casino had a four tier customer loyalty program, but upon evaluation found that there were too many players in the top tier which was causing the elite status perception to decrease. Therefore, the casino created yet a higher tier referred to as “above and beyond” and called this tier Infinity.

Only a select number of top players were allowed to be part of the new Infinity tier. Even though the casino had a high end steakhouse on premises, it rented out the best steakhouse in the city for a private party just for these top tier customers and their guests. All customers were picked up by limos and taken to and from the steakhouse. Customers had unlimited access to everything on the menu, including expensive wines. At the end of dinner, each customer was given an iPad2 as a gift and the customers' guests were given an expensive camcorder.

The customers felt they were treated like Kings – above and beyond their expectations. They made many comments about how the casino didn't let cutting costs get in the way by having them dine on the casino's premises, but rented out the best steakhouse in the city. That meant a lot to them, as did the nice gifts. Many, many customers in lower tiers heard about the private party and treatment and have picked up play significantly to qualify for the top tier (E. Crofts, personal communication, July 25, 2011).

This Tribal casino example considers all aspects mentioned in this paper as ways to improve upon an existing customer loyalty program. Casino companies should consider reciprocity and resource theory, rewarding attitudinal loyalty, human qualities and emotional bonds, tier levels and reward timing and type when designing and implementing customer loyalty programs. Understanding which aspects of loyalty programs are more effective assists casinos in better allocating limited resources, creating and fostering long-term loyal relationships with customers, and potentially creating a competitive advantage over rival firms. Casino executives will be better equipped to design enhanced customer loyalty programs with aid of this paper.

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