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Measuring the Effectiveness of Race and Sports Book Complimentary Awards Program

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by

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Chapter 1

Introduction

Race and sports betting is often considered minor business in the gaming industry. In 2013, pari-mutuel and sports betting accounted for approximately 1.7 percent of total gaming revenue generated in Nevada (Nevada State Gaming Control Board, 2013). Because of its small revenue share, race and sports betting is often neglected by gaming researchers. On the other hand, sports betting in the United States is regulated by the Professional and Amateur Sports Protection Act (PASPA). PASPA bans sports betting in most states. Only four states are exempt from PASPA, Nevada being one (American Gaming Association, 2012a). When Oregon and Montana are exempt from PASPA, their state law actually prohibit sports betting. However, PASPA has not stopped American's passion for betting on sporting events. According to the American Gaming Association (2012b), the FBI estimates that approximately $2.5 billion was illegally wagered on the 2012 NCAA Division I men's college basketball tournament. A few states have realized that these betting activities could create a large amount of tax revenue. Since New Jersey's voters approved legalizing sports gambling in 2011, there has been much debate on whether other states should legalize sports betting (Newark, 2014). The growing potential of the race and sports betting industry is huge and this topic deserves more attention.

Casino marketing is a relatively new topic in comparison to other hospitality industry research. For decades, casino operators have offered complimentary awards such as a free hotel room and dining service. Before the 1980s, most casino marketers did not use any scientific approach to issue complimentary services (Sorroche, 1988). A few casino experts discovered a way to issue complimentaries based on the casino's theoretical win percentage (Sorroche, 1988). Since then, casinos have found some scientific approaches to issue complimentary awards to

players. Since different casinos have different target customers, it is impossible to decide on a universal complimentary rate for all casinos. Casino managers will have to find the rate that can bring in the most betting action possible for their property. This paper will build on existing casino marketing research on promotional allowances. Furthermore, this paper will help managers of race and sports betting businesses to evaluate the effectiveness of their promotional activities.

Purpose

The purpose of this paper is to develop a proper way to measure the effectiveness of complimentary award programs in race and sports books. Like most businesses, casinos seek to increase business volume by offering promotions. According to existing research on casino marketing, promotion activities are often measured by the change in business volume (Lucas & Kilby, 2008). Casino operators should be careful because an increase in business volume does not always equal an increase in profit. To create a positive effect on profit, a promotion must at least create enough gross revenue to offset its cost. Some casino executives believe that marketing activities are the key to success. They consider activity more valuable than results. In fact, marketing activities do not always create a positive effect on cash flows. This paper includes two objectives. First, this paper will present current marketing approaches on race and sports betting in Las Vegas. Second, this paper will provide suggestion and recommendation to bookmakers in regarding to marketing strategies.

Justification

Like mentioned in the previous section, there has been little research into race and sports marketing strategies. Existing casino marketing research is mostly related to slot machines or table games promotional activities. Findings from those studies may or may not be applied in

the case of race and sports book. In comparison to table games and slot, race and sports betting is a relatively new area for casino research. With several states planning to legalize sports betting, the growth potential of sports betting is big and this area certainly deserves more attention. This paper will provide a better insight into race and sports marketing strategy.

Limitation

There are several limitations in this paper. First, race and sports betting marketing strategies may vary in different locations depending on local government regulation. This paper is written based on Nevada Gaming Regulations. The Nevada Gaming Regulation has several unique characteristics that are different than other gaming destination (Cabot, 2013). For instance, Nevada race books are not allowed to offer cash rebates on horse racing betting (Nevada Legislature, 2013). Second, data collection will be another major challenge for managers trying to implement these recommendations. Many race and sports book managers have forgone the opportunities to track their customers' betting. It is impossible to perform an accurate analysis without a detailed sample.

Race and sports betting definitions

Hit frequency - A percentage of winning games compared to all possible game outcomes (Wilson, 2010). This value can be calculated by dividing the number of games that return some payment to the bettor by the total number of possible game outcomes available.

Future event betting - Future event betting, such as World Series Champions and Professional Football Champions, usually involves more than two teams (Homer & Dionne, 1985). Depends on the league's structure, future betting on sports event can be available throughout the season.

In-running/live betting - Sports books may offer live betting on several major events. In live betting, bettors can bet on the event during the event (Homer & Dionne, 1985). Bookmakers will create a betting line based on the current situation of that event.

Juice - A term representing the differences between theoretical odds and the actual odds offered (Homer & Dionne, 1985). Assuming the book offers -105 on a bet that has 2 for 1 theoretical odds, the book is enjoying a 5 cent juice on that bet.

Money -line betting - Different than point-spread betting, final result will not be adjusted by any spread. In other words, it is a bet for the team just to win that game. When teams do not always have an equal chance of winning, bookmakers transfer the odds of the game into a money-line (Homer & Dionne, 1985). In Las Vegas, sports betting odds are in a 3 digit number with a plus or minus sign. Plus odds indicate the amount you will win for every $100 wagered. Minus odds indicate the amount you need to wager in order to win $100. For example: the display board shows a baseball game with the New York Yankees on -130 and Boston Red Sox on +120. To bet on Yankees, bettors will win $100 for every $130 they wager. On the other side, Bettors will win $120 for every $100 they wagered.

Non pari-mutuel betting - A betting system that bets are not pool together. The prices paid on winning ticket are set by the management (Homer & Dionne, 1985). Most sport betting are based on non pari-mutuel betting system. Betting payouts may be influenced by the amount of money wagered on that betting side. However, odds will stay as when the ticket was written.

Parlay - Parlay is a betting method when bettors combines multiple bets on one ticket (Homer & Dionne, 1985). In order to win, bettors will have to win all bets on the parlay ticket. Parlay ticket payouts are determined by multiplying odds listed in that parlay ticket.

Teams	Odds offered by book (% of money return to bettors)	Breakeven odds
3	6 for 1 (75%)	8 for 1
4	11 for 1 (68.8%)	16 for 1
5	22 for 1 (68.8%)	32 for 1
6	40 for 1 (62.5%)	64 for 1
7	70 for 1 (54.7%)	128 for 1
8	150 for 1 (58.6%)	256 for 1
9	300 for 1 (58.6%)	512 for 1
10	600 for 1 (58.6%)	1024 for 1

Figure 1. **Figure 1 shows comparisons between parlay odds offered by sport books and theoretical odds. Breakeven odds represent the payout for a bettor to breakeven. For example: In a 3 teams parlay, assuming all bets on that ticket have a 50% of chance to win. The theoretical odds is the cube of 1/2, which is 1/8. In other words, bettors are supposed to hit once every 8 times (Homer & Dionne, 1985). Therefore, bettors suppose to receive a 8 for 1 payout. Instead of offering 8 for 1, bookmakers only offer 6 for 1 for a 3 team parlay. For every 8 dollars bet, 6 dollars will return to bettors (75% of money will return to bettors). Adapted from "Homer's las vegas sports & race betting guide," by J. S. Homer and R. Dionne. (1985). Las Vegas, NV, Homer Gaming Publications.**

Pari-mutuel betting - A betting system where bets are pooled together and winners share the total amount bet minus a percentage for the management (Maywood Park Racetrack, 2013). Pari-mutuel betting is commonly used in horse racing betting. In pari-mutuel betting, prices paid on winning tickets are inversely proportional to the amount of money bet on that horse (Homer & Dionne, 1985).

Point spread betting - In point spread betting, the final result of game will be adjusted by a number, which is called the point spread of the game. At the end of the game, the score of the favorite team will be subtracted by the point spread given. The adjusted score will serve as the final score for point spread betting (Homer & Dionne, 1985).

Teaser - Teaser is also a parlay bet. In a teaser, bettors must bet on the point spread. Instead of betting on the regular point spread offered, bettors can move the point spread by certain amount of point to create more advantage (Homer & Dionne, 1985). In return, bettors' odds will decrease according to the amount of points they have moved. Teaser payouts follow a fixed payout chart. However, payout may vary from casino to casino.

Theoretical win - Theoretical win represent the mathematical advantage of a casino game. Casino games are designed to give the casino advantage over players. Therefore, the theoretical win percentage should be positive. Theoretical win does not always equal a player's actual loss (Lucas & Kilby, 2008). However, the two amount should be close in a long run.

Summary

The purpose of this paper is to develop a way to measure the effectiveness of race and sports books' promotion strategy. Race and sports book operation is rarely analyzed by casino researchers. However, with the possibility of legalizing sport betting in several states, the growing potential of race and sports betting is big and this area should deserve more attention. Information presented in this paper are based on the Las Vegas race and sports betting market. However, the method presented can be applied to other locations. This paper aims to help bookmakers in making the right decision in offering complimentaries.

Chapter 2

Literature Review

Introduction

Most race and sports books refer to lines provided by sports betting consultants, betting lines are mostly the same (Homer & Dionne, 1985). Each race and sports books are providing a similar if not identical product. For this reason, Las Vegas race and sports book are competing in a very competitive market. Complimentaries are offered to create a product difference against competitors (Marfels, 2010). Complimentaries are usually offered by the casino players club. The purpose of casino players clubs is to create a long term relationship with customers. Complimentaries are offered based on a player's life time value to the casino, such as amount spent. Players clubs issue players complimentaries and hope to develop a long term relationship with them. The purpose of this paper is to develop an effective way to evaluate complimentary policy. The literature review will start with a relationship marketing section. Following a relationship marketing section, different methods of measuring casino promotion effectiveness will be covered. Literatures on other area that are related to casino marketing, such as gambling behavior, will also be reviewed. Finally, a section explaining race and sport betting structure will be included.

Relationship Marketing

Marketing is the process of communicating and delivering offers that have value for customers, clients, partners, and society (American Marketing Association, 2013). Traditionally, marketing activities are developed to push products through distribution channels and pull consumers to the point of sale (Buttle, 1996). Relationship marketing is built upon this view but focuses more on developing a long term relationship with customers. According to Buttle (1996),

traditional marketing focuses on creating new customers. Traditional marketing is often transaction-orientated, focusing on the sale value and profit margin earned from a single sale. In contest to traditional marketing, relationship marketing focuses on the revenue and contributions earned from a long-term relationship with customers. There has been a growing awareness on relationship marketing. Relationship marketing is based on two economic arguments. First, it is more expensive to recruit new customers than retain existing customers (Buttle, 1996). Second, the longer the relationship between company and customer the more profit that customer will bring in (Buttle, 1996). The lifetime value of a customer can be calculated by the following factors: cost of winning the customer, cost of retaining the customer, gross margin earned from the sale, probabilities that customer will re-purchase, required rate of return for the company, and number of purchases made by the customer (Buttle, 1996). Relationship marketing is not only limited to relationship between firms and external consumers, but also concentrates on company's relationship with intermediary and employees. Relationship marketing performance can be measured by share of customer, a reference to the percentage of a customer's lifetime purchases.

The hospitality industry mainly concentrates on the economics of long-term customer relationship (Buttle, 1996). The value of repeat customers is not only recognized for that customers' purchase but also his or her recommendation to other prospective customers. Customer satisfaction is the key to success in relationship marketing, especially in the hospitality industry. One of the major challenges in hospitality relationship marketing is to ensure product consistency. The hospitality product is highly personalized with satisfaction being judged on individual experience. According to Buttle (1996), the ability to understand and anticipate customers' needs is more important than operational knowledge. In the hospitality industry,

many believe that it is necessary to be a front line employee for years in order to understand customers' needs and expectations (Buttle, 1996). This has led to a slow development of relationship marketing in the hospitality industry.

Customer orientation and adaptability have been commonly used as predictors of service performance (Prentice & King, 2011). According to the article, service performance is concerned with customer perception of service quality. Customer orientation includes any actions taken to assist customers. According to Prentice and King, such actions may include making purchasing decisions, assessing customer needs, offering products which address such needs, providing adequate product and service description, and avoiding deceptive or manipulative tactics or high pressure selling. On the other hand, adaptability represents sales people's ability to alter their behaviors based on a customer's need. Previous studies found that customer orientation is proved to be positively related with customer satisfaction. However, no direct relationship was found between adaptability and customer satisfaction.

Prentice and King (2011) found that both customer orientation and adaptability have a significant relationship with service performance in the high-end casino market. Prentice and King made three hypotheses in their research. Hypothesis 1 assumed that customer orientation is positively related to the service performance of casino frontline employees in the high-end market. Hypothesis 2 assumed that adaptability is positively related to the service performance of casino frontline employees in the high-end market. Finally, hypothesis 3 assumed that adaptability is a better predictor of the service performance of casino frontline employees at the high-end market than customer orientation. A survey was developed to measure frontline employee's level of customer orientation, adaptability, and performance. The survey was conducted at the VIP area in a casino located in Australia. A multiple regression model was used

to test the hypotheses. All 3 hypotheses were supported. The results showed that adaptability made a stronger contribution to service performance than customer orientation in the high-end client market.

Commitment-Trust Theory of Relationship Marketing

Morgan and Hunt (1994) conducted a study to explore the nature of relationship marketing. The authors theorized that successful relationship marketing requires commitment and trust. Commitment and trust are the keys to successful relationship marketing because they encourage businesses to cooperate with exchange partners, resist to attractive short-term alternatives and focus on long-term benefits, and stay with existing partners. In their article, Morgan and Hunt developed the key mediating variable (KMV) model of relationship marketing.

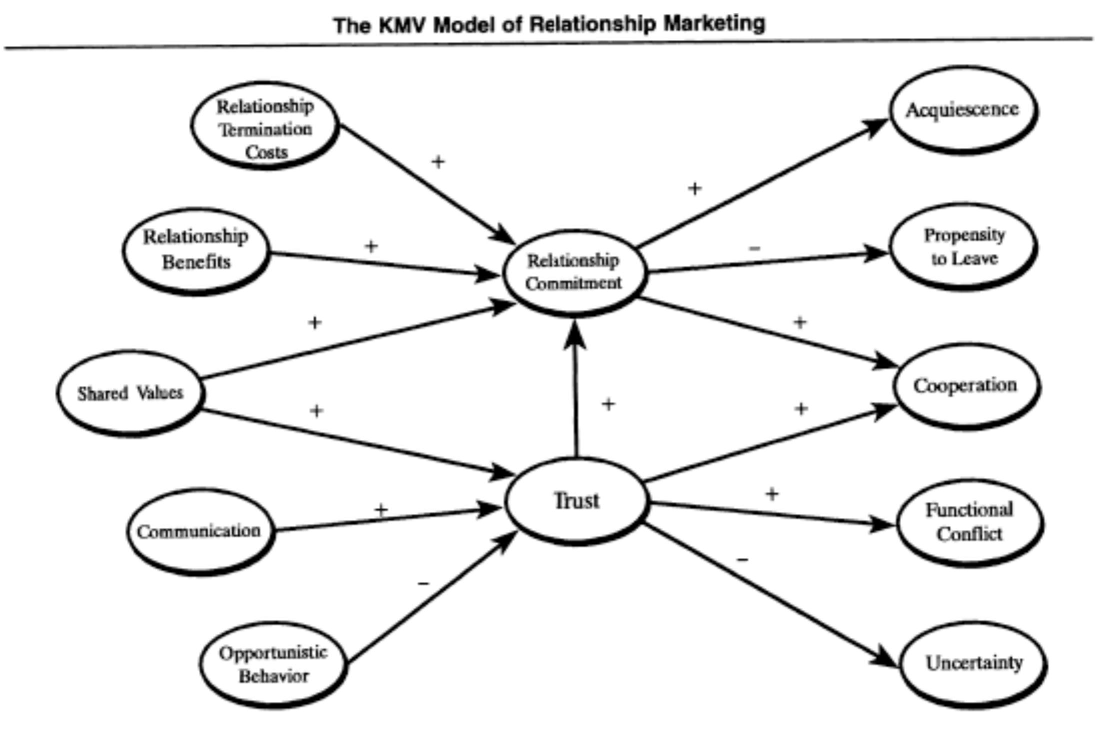

Figure 2. The key mediating variable model shows relationships between different components in the Commitment-Trust Theory. In the model, two authors use an arrow to indicate the relationship between cause and effect. The plus or minus sign indicates a positive or negative relationship. For example:

communication cause trust and there is a positive relationship between two. Adapted from "The Commitment-Trust Theory of Relationship Marketing," by R. M. Morgan and S. D. Hunt. (1994). *Journal of Marketing,* 58 (3), 20-3.

In the KMV model, Morgan and Hunt (1994) hypothesized that relationship commitment and trust are mediating variables between five antecedents and five outcomes. Those antecedents are relationship termination costs, relationship benefits, shared values, communication, and opportunistic behavior. All antecedents except opportunistic behavior are positively related to relationship commitment and trust. On the other side, relationship commitment and trust have five outcomes, which included acquiescence, propensity to leave, cooperation, functional conflict, and decision-making uncertainty. The KMV model is tested with a national sample of independent automobile tire retailers (Morgan & Hunt). To explore issues related to manufacturer and dealer relationship, interviews were conducted with officers of tire retailers. Based on those interviews, a questionnaire was developed to collect data. The 13 hypothesized relationships in the KMV model were tested. The result supported all hypothesized relationships except the one between relationship benefits and relationship commitment. In the final section of their article, the authors stated that businesses can attend to relationships by 1) providing resources, opportunities, and benefits; 2) maintaining high standards of corporate values and allying itself with partners sharing similar values; 3) communicating valuable information, such as expectations, market intelligence, and evaluations of performance; 4) avoiding taking advantage of exchange partners (Morgan & Hunt, 1994). In addition, Morgan and Hunt concluded that the commitment-trust theory can be grouped into relational exchanges involving suppliers, lateral organizations, customers, employees or business units.

Casino complimentary award program

Most casinos offer players clubs. The idea of casino players clubs is similar to those of airline frequent flyer programs and grocery discount cards. The purpose of loyalty programs is to build relationship with customers. According to Szczepańska and Gawron (2011), loyalty programs should encourage repurchase behavior, increase customer's relative attachment to the company, increase interaction and improve dialogue with existing customers, improve customer intelligence, and improve long-term cooperation capabilities of an enterprise. By building a relationship with customers, business will be able to increase business volume, reduce operation costs of dealing with customers, and maximize that value of customer perception (Szczepańska & Gawron). There has been a significant increase in use the of loyalty program. This increase in can be explained by the wide variety of goods offered to customers. The wide variety of goods usually weakens customers' willingness to stay with one brand. The same case applies in the casino industry. For markets such as the Las Vegas Strip, competition is strong because customers enjoy a wide variety of service in a small area. Due to a limited number of competitors, a loyalty program is not necessary for casinos located in new gaming jurisdictions (Lucas & Kilby, 2008). Casino marketers should keep in mind that the goal of casino marketing is to increase business volume. To do this, it is important not to pay too much for these revenues.

Customer loyalty is an abstract term. In general, loyalty can be defined as a constant and positive attitude to an object (Szczepańska & Gawron, 2011). Loyalty programs increase customers' value perception of the business in two. The first way is to award customers with virtual points for their repeat purchase. In this stage, the virtual points act as a psychological incentive that drives customers to repurchase with the same business. The second way is to allow customers to redeem those virtual points for complimentary goods or special offers. By

giving free rewards and special offers to loyal customer, it shows the business's appreciation and personal recognition of its customers, hence the customers' value perception increase. On top of these concepts, most casinos slot clubs also use a tiered level system. Players are assigned a tier level based on the amount spent. Player with a higher level will enjoy more benefits. Benefits may include higher betting limits, access to VIP areas, and increased complimentary rate (Lucas & Kilby, 2008). In addition to that, the tier level also represents the social status of that player. By earning a high tier level, players are establishing a high roller image. Studies on human happiness have shown that people are happier when they are richer than their peers (Crouch, 2013). The tier structure fulfills the human need for achievement (Lucas & Kilby, 2008). With a high tier level earned, higher rollers are less likely to switch to another brand because they will have to rebuild their social image.

Measuring Casino Marketing

The effectiveness of a marketing event can be measured by different factors. In terms of financial effect, the effectiveness of a marketing event can be measured by the change on gross revenue, net revenue, and profit (Repetti, 2013). Other factors, such as a customer's visiting frequency, can also be a measurement of casino marketing activity (Jang & Lee, 2014). One of the major challenges in casino marketing is tracking transactions (Lucas & Bowen, 2002). When complimentary awards are offered based on the amount wagered, an accurate number is required to make the right decision. Unfortunately, a lot of gaming transactions are not recorded (Lucas & Kilby, 2008). Many race and sports books do not track their customers' betting transactions. Complimentary awards offered to casino players are sometimes based on the estimated average bet amount, which may be significantly different than the actual bet amount, especially in table games. Due to this, it is often hard to provide an accurate analysis of results. The effectiveness

of a marketing campaign is often justified by the overall financial performance of the casino, when the marketing campaign may or may not have any contributions on it (Lucas & Bowen, 2002).

In the last few years, some casinos have considered decreasing promotional allowances. In 2010, the Las Vegas Sand Corp decided to eliminate free rooms and other complimentary awards for the average gambler (Stutz, 2011). By eliminating those complimentary expenses, the Sands hoped to increase sales revenue and profit. A few months after this decision, the owner of the Venetian and Palazzo in Las Vegas reported a 47% decline in casino revenue (Benston, 2011). Atlantic City casinos also had an overall decrease in promotional allowances from 2010 to 2011 (Repetti, 2013). The article stated that there was a decrease in revenue in the same period. However, there was no proof on the relationship between the decrease in revenue and the elimination of complimentary goods.

Repetti (2013) aimed to find out if promotional allowances actually increase revenue and profits for Atlantic City casinos. Three hypotheses were made in this study: 1) An increase in total promotional allowances will increase total gross revenue. 2) An increase in total promotional allowances will increase net revenue. 3) An increase in total promotional allowances will significantly affect gross operating profit. Data was collected from the State of New Jersey's Gaming Enforcement website. Data from first quarter 2002 to first quarter 2012 was used in this research. Ordinary least squares regression was used to analyze three different models each with a different dependent variable. Promotional allowances was the independent variable. Dependent variables included gross revenue, net revenue, and gross operating profit. Results showed that all three hypotheses were supported. For every $1 increase in promotional allowances, there was an increase of $4.53 in gross revenue, $3.53 in net revenue, and $1.29 in

gross operating profit (Repetti, 2013). Based on these findings, Atlantic City casinos were keeping 36.5% of the additional revenue they earned (Repetti, 2013).

Lucas and Bowen (2002) conducted a research on measuring the effectiveness of casino promotions activities. The research purpose was to determine the impact of casino promotions on slot machine volume. The article mentioned that existing studies on promotion effectiveness are mostly focused on retail goods. There is a lack of research on promotion effectiveness in the leisure service area. Lucas and Bowen aimed to analyze casino promotion activities such as contests, sweepstake drawings, or special shows. The article mentioned that activities such as contests and sweepstake drawings could better satisfy hedonic bettors. There were two hypotheses in this study: 1) There is a positive relationship between promotion activities frequency and business volume. 2) The amount of cash award will produce a positive effect on slot volume. Data used in this study was retrieved from the internal records and systems of a hotel casino located in Las Vegas. Data collected was from the first six months of 1998. A multiple linear regression analysis was used to measure the relationship between slot volume and four other independent variables, which included promotion periods, total amount of prize money, daily redemption of direct mail offers, and number of slot tournaments. Results showed that hypothesis 1 was not supported. The regression analysis failed to produce a significant and positive relationship between promotion activities frequency and slot volume. On the other side, the results showed a significant and positive relationship between total amount of prize money and slot volume. The article mentioned that the significant relationship between prize money and slot volume was economically insufficient. To create profit from a promotion event, the prize money has to generate enough revenue to cover its face value and additional promotional costs. Research results showed that for every extra dollar of prize money invested, slot handle

increased by $15.56. After deducting promotional costs, the casino ended up making $0.64 in incremental slot revenue for every dollar invested in cash prize (Lucas & Bowen). The $0.64 increase in slot revenue was practically insufficient. According to the article, there is a possibility that a lower casino advantage game could have generated greater business volumes than this event.

Existing studies on casino complimentary based promotions are focused on the revenue performance for the rewarding casino itself (Jang & Lee, 2014). Some researchers notice that casino complimentary promotions may create a cross-dependent effect in demand among multiple casinos in a market. This phenomenon is referred to as the spillover effect. The spillover effect represents the neighbor effect when one business venue indirectly affect the performance of another (Suh & Lucas, 2011). Existing research often showed a positive relationship between promotional allowances and casino business volume. Obviously, complimentary awards can increase gambler's action. However, the gambler may still switch to another casino when there is a better promotion offer.

Considering a cross-dependent effect among different casinos, the complimentary offer may not only benefit the rewarding casino but also neighbor casinos (Jang & Lee, 2014). The authors theorized that complimentaries will increase the utility of customers by discounting the price of the trip. Monthly Data from 11 casinos in Atlantic City between 2008 to 2010 were included. Data was analyzed with a spatial panel Durbin model. Wager, the independent variable, was used to measure the demand of gaming. The effectiveness of four different complimentary categories was also tested. The result showed a spillover effect exists in the Atlantic City casino market. The authors found that every 1% increase in the neighboring casinos' average demand would result in a 0.162% increase in the own casino's demand (Jang &

Lee). The study found that the variables for room, food, and beverage complimentaries (RFB) had the largest coefficient. For every 1% increase in RFB expenditures, the gaming demand was increased by 0.22% (Jang & Lee). However, the result showed a negative coefficient on neighbors' RFB expenditure. To put it differently, RFB complimentaries was not bringing new demand into the market. This study found that transportation complimentaries created larger spillover effect than direct effect on its own casino. That means transportation complimentaries was benefiting the marketing as a whole. Finally, cash gifts and gaming credit did generate a significant direct effect on gaming demand. However, the net effect on revenue is questionable.

Gambling motivation and gambling involvement

Most of the gambling behavior research has focused on problem gambling (Clarke & Clarkson, 2008). Marketers may have neglected the fact that those gambling motivation can also create gambling involvement for regular customers. Motivation is arguably a key determinate of gambling involvement (Chantal, Vallerand, & Vallières, 1995). Motivation is defined as both internal and/or external force that lead to the persistence of a behavior. By indentifying the cause of gambling behavior, casino marketers may find out what incentives can generate more gambling action.

Chantal et al. (1995) viewed gambling as a motivational consequence. In their article, they identified three types of intrinsic motivations and three types of extrinsic motivations of gambling behavior. Intrinsic motivations involved one's need to feel self determined and competent. The first intrinsic motivation was to experience stimulation, which was exemplified by gamblers who gamble for fun and excitement. In addition, the intrinsic motivation to know represents the gambler's want to learn, explore, or try to understand something new. Finally, the intrinsic motivation to accomplish was exemplified by gamblers who find satisfaction in

surpassing themselves in betting activities. In extrinsic motivation, the gambling behavior was carried out for the purpose of achieving something else (Chantal et al.). External regulation represents that gamblers were gambling for rewards, such as winning money (Clarke & Clarkson, 2008). Introjected regulations represents that gamblers were gambling to relax, release tension, or escape problems. Finally, identified regulation represent that gamblers are gambling for internal values, such as social recognition.

According to Chantal et al. (1995), self-determination has been used to predict a specific pattern of consequences (Chantal et al.). Existing gambling behavior studies demonstrated that specific types of motivation lead to some gambling psychological variables, such as self-attribution for wins, perceived chances of winning, and intention to continue gambling. Chantal et al. hypothesized that gamblers who exhibited a high self-determined motivational profile (SDMP) will report a higher degree of gambling involvement. The researchers believed that gamblers who had a high SDMP gamble to find excitement, an opportunity to acquire knowledge, and sense of accomplishment. In contrast, gamblers with a low SDMP gamble because of external rewards, such as money and social approval. In this study, a questionnaire was used to measure gamblers' motivation and involvement. The research samples consisted of 245 French Canadian gamblers with a mean age of 28.3 years old (Chantal et al.). The hypothesis was supported by the result. The results showed that the high self-determined participants were more involved in gambling than the low self-determined participants. This study also indicated that gamblers with a high SDMP gamble because it provided excitement, a sense of accomplishment, and an opportunity to acquire knowledge.

Defining customer demographic is an important of marketing process. Horse racing betting is often considered an activity for older adults (Liebman, 2010). Furthermore, studies also

found that men are more involved in horse racing betting than women (Pulli, 2005). Clarke and Clarkson (2008) conducted a research on older adult gambling behavior. Clarke and Clarkson adopted the Motivational Theory of Gambling developed by Chantal et al. (1995). The article divided motivation into intrinsic motivation and extrinsic motivation with the same sub-groups as in Chantal et al. (1995). Five hypotheses were made in this study. First, this study hypothesized that men are more likely to participate in skill-based games, such as track betting, than women, when women are more likely to participate in chance-based games, such as bingo. Second, this study hypothesized that men gamble because of intrinsic motivation to accomplish things and intrinsic motivation to know, when women gamble because of extrinsic motivation of external regulation and introjected regulation. Third, this study hypothesized that men whose favorite games are perceived as skilled will have stronger intrinsic than extrinsic motivation, when women whose favorite games are perceived as chance will have stronger extrinsic motivation than intrinsic motivation. Fourth, this study hypothesized that older adults will have stronger external rewards and amotivation than the extrinsic motivation of identified regulation. Finally, this study hypothesized that regular gamblers will have a higher expenditure rate and stronger motivation toward stimulation and identified regulation, and weaker motivation toward external regulation than non-regular gamblers (Clarke & Clarkson). A questionnaire was used to collect data in the city of Hamilton, New Zealand. Participants were all 65 years or older. Results partially supported the first hypothesis. The second and third hypotheses were not supported. Results showed no significant differences in men and women's mean score on any of the motivational variables. The fourth hypothesis was proved. The fifth hypothesis was partially supported. According to the results, regular gamblers have a higher spending in a single session than non-regular gamblers. However, there were no significant differences between two groups'

average score on identified regulation or external regulation. In addition to these, this study have also found that lottery were the most popular forms of gambling among the sample group.

General background information

The Professional and Amateur Sports Protection Act prohibits betting on sporting events except four states - Nevada, Oregon, Delaware, and Montana (American Gaming Association, 2012a). Within these four states, sports betting only exists in Nevada and Delaware. Betting on individual sporting events is prohibited by Montana State Law (Humphrey, 2014). Oregon has abandoned sport lotteries to barter for the right to host NCAA National Championship games (Gimba, 2013). Delaware launched sports wagering in 2009, but the state can only offer parlay betting on professional league football (American Gaming Association, 2012b). Nevada is the only state that can offer single-game sports betting with a wide variety of leagues (American Gaming Association, 2012b). As of 2013, there are 186 sports betting locations available in Nevada (Schwartz, 2014). With a long history of legal sports betting, Nevada is the best case for sports betting research.

For decades, Las Vegas has been the hub of sports betting in the United States. However, Nevada was not the place where sports betting began. Before Las Vegas became the center of the sports betting world, a company started by Leo Hirschfield created the standard of modern sports betting (Martin, 2004). That company was named Athletic Publications. Hirschfield's company was based in Minneapolis, MN. Athletic Publications distributed sports betting lines over the country. In 1960, the company disbanded as a result of a law banning distribution and discussion of gambling across state lines. Follow with the shutdown of Athletic Publications, Las Vegas became the sports betting hotspot for Americans. When sports betting first opened in Las Vegas, sports books were not attached to casinos because most of them offered casino games.

In addition to that, casino owners refused to offer sports betting because of the high tax rate imposed on sports bets. In 1974, Congress decided to lower the tax rate and casino executives began to see the potential profitability to open a sports book.

Sports betting

In the case of sports betting, bookmakers charge all bettors an extra percentage to make a bet (Homer & Dionne, 1985). Assuming a game where both teams has an equal chance to win, the odds for a 10-cent line is -105 for both side. In other words, if both sides has an equal amount of money wagered, the book will make 10 cent for every dollar wagered. When the 10 cent line represents the amount of extra money charged, it does not represent the profit percentage. According to Homer and Dionne (1985), the bookmakers' profit percentage can be calculated by:

$$1\text{-}\left(\frac{1}{\frac{Price\ of\ the\ favorite}{1+Price\ of\ the\ favorite}+\frac{100}{1+Price\ of\ the\ dog}}\right) = Bookmakers'\ profit\ percentage$$

Since teams do not always have equal chance to win, bookmakers will adjust actual odds and point spreads based on factors such as previous performance and injuries. In sports betting, the stronger team that is more likely to win the game is referred as the favorite side (Homer & Dionne, 1985). On the other hand, the team that is less likely to win is referred as the underdog. In that case, people who bet on the favorite side will have to bet more to win the same amount. The purpose is to draw equal amount of money on both sides. Bookmakers would like to have equal amount of money on both sides so they can make the 10% guaranteed win. When the bookmaker decreases the payout on the favorite side, the overall profit percentage decreases because the amount of money returned to the bettors increases. To stand for this reason, bookmakers will increase the theoretical win percentage when there is a heavy favorite. Figure 3

shows that the bookmaker's profit percentage decrease when the odds on the game move (Homer & Dionne, 1985).

Odds on game	**Bookmaker's Profit (%)**	**Odds on game**	**Bookmaker's Profit (%)**
-105 (-105)	2.4%	-140 (+130)	1.8%
-110 (even)	2.4%	-145 (+135)	1.8%
-115 (+105)	2.3%	-150 (+140)	1.7%
-120 (+110)	2.2%	-155 (+145)	1.6%
-125 (+115)	2.1%	-160 (+150)	1.6%
-130 (+120)	2.0%	-165 (+155)	1.5%
-135 (+125)	1.9%	-170 (+160)	1.4%

Figure 3. **Figure 3 shows that when both sides share equally theoretical win percentage (on a 10-cent line), the bookmaker's profit decrease. Profit percentage here represent the profit amount before subtracting operation expenses, such as labor cost. Bookmaker's profit percentage decrease because the percentage of money return to bettors increase. Numbers are adopted from Homer and Dionne's book (1985). Adapted from "Homer's las vegas sports & race betting guide," by J. S. Homer and R. Dionne. (1985). Las Vegas, NV, Homer Gaming Publications.**

When bettors need to bet more to win the same amount of money, the percentage of money returned to bettors increases, hence the bookmaker's profit percentage decreases (Homer & Dionne, 1985). To resolve this issue, bookmakers will increase the percentage charged to maintain their profit. In Las Vegas, bookmakers usually move to a 15-cent line when the money-line favorite reaches -200. Money-line betting is the basic of sports betting. However, it has a major issue. On some high odds, bettors will only bet on the underdog because the favorite

side's payout is too low. To stand for this reason, bookmakers create the point-spread betting system. In point-spread betting, a spread is given to adjust the odds on both sides so that both sides have an equal chance to win. In comparison to money-line betting, point-spread betting is more likely to balance out the action on both sides.

Besides making straight bets, bettors can also combine multiple bets in one ticket to receive a higher payout. These are called parlay bets. House rules on parlay bets vary between books. However, the basic is the same. Payout is calculated by multiplying all odds on that ticket (Homer & Dionne, 1985). If a parlay ticket contains only point-spread bets, sport books will offer a fixed payout. Fixed payout rate may vary from book to book, but the amount is close. Parlay bets generate a higher profit than straight money-line betting. For money-line betting, as shown in Figure 3, bookmakers' profit ranges from 2.4% to 1.4% (based on a 10-cent line). According to Figure 1, parlay bets generate profit ranges from 25% to 41.4%. While the bookmakers' profit percentage may vary depending on house rules, parlay bets generally provide a higher profit margin than straight bet. Even though parlay bets generate a higher percentage of bookmaker profit, bookmakers are hesitated to offer high limits on parlay bets because of the risk. Despite the high bookmaker profit percentage, parlay tickets still offer a relatively high payout. One big parlay winner may create a huge deficit to the book.

Las Vegas sport books also offer betting on future events, such as World Series Champions and Professional Football Champions. Future betting usually involves more than two teams. However, the concept of future betting is the same as money-line and point-spread betting. Assuming a future betting pool with 3 teams that have equal chance to win, each team should win one game for every three games played (Homer & Dionne, 1985). To put it differently, if the bettor is betting on the same outcome, that bettor will collect 1 out of 3 times

he or she bets. Therefore, for that bettor to breakeven, the odds have to be +200 or 3 for 1. Again, bookmakers will charge an extra percentage. If a bookmaker decides to use a 15-cent line, the odds of each team will be +195. The 15-cent line is only an example to demonstrate the concept of future line making. One can rarely find a 3-way betting pool using a 15-cent line. To maintain a reasonable bookmaker profit margin, bookmakers usually charge a higher percentage on future betting.

Race Betting

In Las Vegas, race books serve as an agent to collect bets for horse tracks located in other states. In order to obtain the right to collect bets for horse tracks, race books have to pay race tracks a signal fee to be an authorized off-track betting station (Homer & Dionne, 1985). The average signal fee is approximately 4% of each dollar bet (Cabot, 2013). All official off-track betting station will receive a handle as a return. Handle varies from track to track, but the average is about 19.5% of each dollar bet (Cabot, 2013). In other words, race books are expected to make approximately 16 cents per every dollar wagered in pari-mutuel horse racing. Signal fee and handle rate may vary from year to year, especially for big tracks. All Nevada horse racing television signal and betting service are provided by the Las Vegas Dissemination Company (LVDC). LVDC is the only licensed full-service provider for pari-mutuel wagering and race track simulcasting in Nevada. All bets collected by off-track betting stations will contribute to the main betting pool. After the winner is decided, pool money will be distributed according to number of bets made on the winner. There is no fixed payout in pari-mutuel betting because the prize is based on the amount of bets placed on the winner (Maywood Park, 2013). Most race tracks display their payout based on a $2 bet (Homer & Dionne, 1985). For example, the official result shows the payout is $10. That means for every $2 wagered, bettors will collect

$10. From a casino operators' view, the glamour of pari-mutuel betting is because of its guarantee in return. Different than non-pari-mutuel betting, book operators do not have in any risk because they will receive a handle percentage. From bettors' view, pari-mutuel betting offer them a chance to bet on some favorable odds. Most tracks do not accept bets until the morning that the race is scheduled to run. Only a few major tracks offer advance wagering.

Nevada gaming regulation on pari-mutuel rebates

Before 1996, Nevada race and sports books were allowed to offer cash rebate on off-track pari-mutuel wager (Cantor Gaming, 2013). In pari-mutuel rebate, race books offer bettors a part of the original betting amount as a rebate. A few states, California in particular, were opposed to pari-mutuel rebates in Nevada. Those states believed that rebates on pari-mutuel in Nevada were driving customers from their own state. After debating for months, NRS 464.075 was imposed to prohibit all off-track pari-mutuel rebates (Cabot, 2013).

Since NRS 464.075 was imposed, Nevada's racing handle has decreased by 37% (Cantor Gaming, 2013). Cantor Gaming stated that NRS 464.075 limited Nevada race book's competitiveness and therefore it should be revised. In 2013, Cantor Gaming submitted a comment to Nevada Gaming Board and requested to revise NRS 464.075. Shortly after the comment was received, Senate Bill 425 was introduced and approved by the Senate (Nevada Legislative, 2013a). Senate Bill 425 was trying to repeal the existing prohibition of off-track betting rebates in Nevada. This has triggered a debate between major race book operators in Las Vegas. While Cantor Gaming expressed its interest in pari-mutuel rebate, the majority of Las Vegas race book operators were opposed to this idea (Cabot, 2013). Book operators submitted their comments individually to the Nevada Gaming Commission. First, the majority group doubted if the numbers presented in Cantor's proposal were achievable. According to Cantor

Gaming's proposal, the proposed rebate rate was 8%. Like mentioned in the previous section, authorized off-track betting stations were expected to make a 16% handle (Homer & Dionne, 1985). After deducting expenses, the majority strongly doubts that if the 8% rate is reasonable (Cabot, 2013). Some race book operators were also concerned that track operators would increase signal fee. Operators understood that rebates will attract more high-end bettors, however, when high-end bettors are drew away from tracks, track operators would increase signal fee to make up the lost revenue. As mentioned in previous section, the average signal fee for Nevada race book was approximately 4% (Cabot, 2013). Avello (2013) pointed out that race books that are offering rebates, commonly known as "Discount Houses", are paying a rate high as 10%. Finally, the rebate system would require new betting systems and equipment (Cabot, 2013). Unlike Cantor Gaming, most race books are not equipped with the latest equipment. For books that could not afford to upgrade their wagering system, they would not enjoy the benefit from Senate Bill 425. In conclusion, rebates might possibly draw new customers but the risk associated with it is high.

Summary

Relationship marketing is one of the major focuses in hospitality industry (Buttle, 1996). Traditional marketing activities focus on the sales value and profit earned from a single sale, while relationship marketing focuses on the lifetime value of a customer. Relationship marketing is based on two economic arguments. First, it is more expensive to recruit new customers than retain existing customers. Second, the longer the relationship between company and customer the more profitable that customer will be. Customer orientation and adaptability have been used as predictors of customer satisfaction in the leisure service industry (Prentice & King, 2011). Prentice and King found that both customer orientation and adaptability have a

significant relationship with customer satisfaction in high-end casino markets, but adaptability made a stronger contribution to customer satisfaction than customer orientation.

Morgan and Hunt (1994) theorized that successful relationship marketing requires relationship commitment and trust. Based on their study, the researchers developed the Commitment-Trust Theory. A key mediate variable model is used to present the relationship between different variables in the Commitment-Trust Theory. In the KMV model, relationship commitment and trust are mediating variables between the five antecedents and five outcomes. The five antecedents were relationship termination costs, relationship benefits, shared values, communication, and opportunistic behavior. The five outcomes were acquiescence, propensity to leave, cooperation, functional conflict, and decision-making uncertainty. The researchers also suggested that relationship can be enhanced by 1) providing resources, opportunities, and benefits; 2) maintaining high standards of corporate values and allying itself with partners sharing similar values; 3) communicating valuable information, such as expectations, market intelligence, and evaluations of performance; 4) avoiding taking advantage of exchange partners.

The goal of casino players club is to build relationship. The idea of casino players clubs are similar to those airline frequent flyer programs. From offering customers complimentaries, casinos hope to build a relationship with customers. According to Szczepańska and Gawron (2011), loyalty programs should encourage repurchase behavior, increase customer's relative attachment to company, increase interaction and improve dialogue with existing customers, improve customer intelligence, and improve long-term cooperation capabilities of an enterprise. Loyalty programs increase customers' value perception of the business by awarding customers with virtual points and allowing customers to redeem those points for complimentary goods or

special discount. Casinos loyalty programs also use a tiered level system to fulfill humans' need for achievement (Lucas & Kilby, 2008).

To find a proper way to manage casino marketing activities, casino managers need to know how to evaluate those marketing activities. Most casino marketing events were evaluated by the casino's business volume at the same period (Lucas & Kilby, 2008). Existing literature showed a significant relationship between promotion expenses and casinos business volume (Lucas & Bowen, 2002 ; Repetti, 2013). Repetti found that for every $1 increase in promotional allowances, there was a increase of $4.53 in gross revenue, $3.53 in net revenue, and $1.29 in gross profit for Atlantic City casinos. In another study, Lucas and Bowen found a significant and positive relationship between tournament prize and slot revenue. However, the significant relationship was economically insufficient. The researchers pointed out that the casino could have earne the same amount by offering a low casino advantage game. Finally, Jang and Lee (2014) examined the effects of complimentary promotion on casino demand. Jang and Lee found that complimentary travel was benefiting the Atlantic City casinos market as a whole. However, the net effect on revenue is questionable.

The purpose of casino marketing is to increase casino business volume. In other words, casino managers want their customers to spend more money on gambling. Motivation is arguably a key determinate of gambling involvement (Clarke & Clarkson, 2008). Chantal, Vallerand, and Vallières (1995) viewed gambling as a motivational consequence. According to their study, people with a high self-determined motivational profile were more involved in gambling than those with low self-determined motivational profile (Chantal et al.). The authors found that gamblers with a high self-determined motivational profile gamble because it provided

excitement, a sense of accomplishment, and an opportunity to acquire knowledge. In addition to these, regular gamblers have a higher spending than non-regular gamblers

To determine an appropriate marketing budget, casino managers need to know how much they can afford to spend. It is necessary for a manager to understand how that casino game operates. Sports betting in the United States is regulated by the Professional and Amateur Sports Protection Act. Nevada is the only state that is allowed to offer single-game sports betting (American Gaming Association, 2012b). Bookmakers' profit percentage on point-spread and money-line betting is approximately 2% (Homer & Dionne, 1985). According to the same book, parlay tickets provide a much higher profit percentage, which ranges from 25% to 41%. In addition, Las Vegas race books make 16% in pari-mutuel horse racing (Cabot, 2013). Race and sports bookmakers consider the value of race betting higher than sports betting because of the guaranteed handle percentage (Homer & Dionne, 1985). To assign an appropriate complimentary rate, bookmakers have to consider the percentage of bookmaker profit (Cabot, 2013).

Chapter 3

Suggestions and Recommendations

Introduction

The purpose of this paper is to develop a way to measure the effectiveness of complimentary programs in race and sports betting. Existing literature shows that casino marketing promotions can be measured in multiple ways, with revenue performance being one of them (Lucas & Bowen, 2002; Repetti, 2013). To maximize profitability, managers should evaluate business performance periodically. A valid and reliable evaluation requires a detailed data set. After acquiring necessary data, managers need to learn how to analyze that data. This

section will provide recommendations on race and sports book revenue analysis, bet tracking, and evaluations of complimentary offers.

Summary of findings from the literature review

The goal of casino players clubs is to build customer loyalty. Traditionally, marketing activities focus on the sale value earned from a single sale. In contrast to traditional marketing, relationship marketing focuses on the lifetime value of a customer (Buttle, 1996). Casinos offer incentives, such as complimentary dining, hoping to develop a long term relationship with customers. Relationship commitment and trust is the key to success in relationship marketing (Morgan & Hunt, 1994). Morgan and Hunt listed a few precursors of relationship commitment and trust, such as termination costs and shared values. However, their article did not show any evidence that complimentary offers can build relationship. On the other hand, Buttle stated that customer satisfaction is a key to success in relationship marketing. Prentice and King (2011) found that customer orientation and adaptability have a significant relationship with customer satisfaction in high-end casino markets. In addition to relationship marketing studies, studies on gambling behavior also found that monetary rewards is not the only key motivators to gambling involvement (Clarke & Clarkson, 2008). The same article also found that horse racing bettors are motivated by their needs on accomplishments rather than the monetary rewards. In order to increase business volume, casinos should offer incentives that best fit their customer's interest. According to relevant literature, complimentary awards are not the only way to attract customers. Now, the question is: Should casinos invest their marketing budget on promotional allowances or should they invest in other areas, such as service quality and product development?

Existing studies showed a significant relationship between casinos' promotional activities and business volume (Repetti, 2013). However, Lucas and Bowen (2002) pointed out that

marketing activities can be economically insufficient. Business volume does not always positively relate to profit performance. Marketing events are often evaluated by the overall success of business performance, which may not be attributed to the marketing event itself (Lucas & Kilby, 2008). Managers should not forget the purpose of casino marketing is to increase business volume. In order to increase business volume, casino managers should be careful not to spend too much for those revenue. Complimentaries are offered to create a product differentiation in a highly competitive market, such as Las Vegas (Marfels, 2010). Complimentary awards may not be an effective marketing approach in new gaming jurisdictions with a low level of competition (Lucas & Kilby, 2008). Some casino executives believe that marketing activities are mandatory. To put it differently, they believe that activities are considered more valuable than results. Therefore, to design a suitable promotion campaign, a detailed and careful analysis is needed.

To determine an appropriate marketing budget, managers need to know how much they can afford to offer. In Las Vegas sports betting, the average profit percentage of a straight bet can range from 1.4% to 2.4% (Homer & Dionne, 1985). According to the same book, parlay tickets can generate a higher profit, with a profit percentage between 25% to 41%. On the other hand, race books receive a guaranteed handle from horse racing tracks for bets received. Race books are expected to make approximately 16 % in pari-mutuel horse racing (Homer & Dionne, 1985).

Race and sports marketing approach

In 2013, sports betting generated approximately twice the amount of race betting in Nevada (Nevada Gaming Control board, 2013). Many would think that race and sports book operators should focus on complimenting sports bettors because they are the major source of

revenue. Interestingly, the current trend is the opposite. Most Nevada race and sports books focus on complimenting race bettors (Sieroty, 2012). From the operators' view, the glamour of pari-mutuel betting is its guaranteed handle. The 16% guaranteed handle is very good considering books only receive approximately 2% in single-game sports betting. In regards to the complimentary percentage, the average complimentary rate on race betting is around 3% (Sieroty, 2012). According to the same article, the rate of sports betting is less than 1%. According to Avello (2013), the book can afford to give promotional allowances up to 4% for each dollar wagered. Complimentary beverages is the only form of complimentaries that most players will receive. Therefore, considering the slim complimentary rate on sports betting, only bettors who spend a large amount are eligible to receive complimentaries other than free drinks. Unlike the table games and slot departments, marketing events, such as tournaments and sweepstakes drawing, are not common in race and sports book. One of the reasons is because those events cannot generate enough revenue to offset cost.

Some book operators offer complimentaries by a customary percentage. Those operators believe that sports betting are mostly similar with identical different. Therefore, what applies on other books should be suitable for themselves. That is not always true. First of all, different casinos have different target customers. The target market of a five star resort will have a different expectation than a three star resort. Therefore, a different complimentary policy should be designed based on customers' expectation. Second, betting trends are not the same for every book. When different bets provide different rates of bookmaker profit, bookmakers should define the complimentary rate that is the best fit for their product mix. Finally, the cost of complimentaries also varies depending on the operation situation. Generally, books that are connected to the hotel will receive an internal discount on complimentaries expenses, such as

beverage. A sport book franchisee, such as Cantor Gaming, does not enjoy discount like this. In conclusion, it is impossible to define a universal complimentary rate that is suitable for all sports book.

Revenue and risk management

Due to a strong seasonal characteristic in race and sports betting, it is recommended that management review their promotional allowances expense periodically. As shown in presented studies, promotional allowances can be measured against the revenue generated (Lucas & Bowen, 2002; Repetti, 2013). Promotions should at least generate enough revenue to cover its costs. To maximize business performance, it is not only important to define an appropriate complimentary policy but also execute the policy correctly. To avoid wrongful use of complimentaries, management should communicate with staff and make sure they apply the complimentary policy correctly.

Race and sports book managers should also understand the importance of customer satisfaction. Customer satisfaction is the key to success in relationship marketing (Buttle, 1996). Customers are assumed to act in their best interest. Through offering complimentaries, casino are providing customers a better value on betting. Casino players are well educated to complimentary promotions nowadays. Customers will not hesitant to ask for complimentaries they think they deserve. However, customers do not understand that there is cost to maintain behind those complimentary goods and services. Conflicts may occur when there is a discrepancy between a customer's expectation and the actual complimentary offered. To maintain a high service quality, it is understandable to make some exceptions. However, those transactions should be recorded and evaluated against the lifetime value of that customer. Due to this, bet tracking is extremely important in being able to evaluate casino marketing activities.

Like mentioned in the previous section, complimentary awards are not the only factor that can attract players to race and sports books. For non pari-mutuel betting, players may also take advantage of betting lines. Sports betting is arguably a game of skill (COVERS, 2012). The house advantage may vary depending on information available and player's wagering volatility. Other factors, such as game rules, will also affect the overall house advantage (Lucas & Kilby, 2008). Advantage sports bettors refer to those who have inside information that may help them to predict the outcome of the game. Advantage bettors will seek the rules that can favor them the most. To avoid getting hit by these bettors, risk management should issue appropriate betting limit and define appropriate betting lines. Many book managers, especially for those who work in a satellite book, are hesitant to take large bets. Those managers believe that large bets are risky and therefore they should be avoided. Many businesses opportunities are lost because of that. Large bets are certainly risky but it may also mean potential business opportunities. Some casinos are willing to accept large bet to develop a more diverse high-end customer portfolio. For books that are connected to the casino, book managers should consider the value of customers to the whole casino and resort. Book players may re-invest their winnings from sports betting to other departments. That may result in an overall increase in resort revenue. In regard to betting line movement, most Las Vegas sports books follow betting lines provided by consulting companies. Most sports books like to have the same lines to minimize the risk of unbalanced action and layoff bets. Some managers mistakenly believe that it is a must to follow the majority line, which is not always true. Managers should keep in mind that the goal of adjusting lines is to attract an equal amount of wagering on each side. Instead of following the major trend, managers should adjust lines according to the wagering situation.

Race and sports book managers would like to have players who only bet on risk free products, such as pari-mutuel horse racing. However, the truth is not always that ideal. According to Cantor Gaming (2013), racing handle has dropped 37% from its peak in 2003. On the other hand, high profit margin bets, such as parlay betting, are mainly for leisure customers. Because most high-end bettors in sports betting are advantage players, they understand that parlay betting is strongly favored for the house. For this reason, big bets are rarely made on parlays. However, parlays have a growth potential. In sports betting, typical bettors, such as tourists, usually consider payout ratio more valuable than hit frequency. For books that are connected to a hotel that mainly serves tourists, they should utilize this to their advantage. Bookmakers should offer a greater variety of parlay options. They may impose a higher handle on those parlays because players may not aware of the hold percentage. In conclusion, book managers should design betting products that can best suit the needs of customers.

Bet tracking

Unlike tables games, sports betting can be tracked accurately. However, many sports books have forgone the opportunity to track their customers' betting action because they don't think sports betting is worth tracking. First, the complimentary rate on sports betting is low. Some managers think that no one will ever qualify for complimentaries in sports betting. Second, most sports bettors are spending a low amount of money. Managers believe that those actions are not worth recording. It is always recommended to record all transactions. Book writers should always ask for players cards for all betting purposes. Most electronic betting systems keep track of basic information such as lifetime wagering amount, winning percentage, and lifetime win/loss statement. The betting record will allow managers to keep track of each players' current status so they can make a prompt decision on issuing bet limits and offering

complimentaries. Bet tracking is not only important for risk management purposes, but also customer service quality improvement.

Evaluation of complimentary policy

As mentioned in the previous sections, it is impossible to find a universal complimentary rate for all sports books. Therefore, it is necessary for race and sports book managers to know how to evaluate their own complimentary policy. Based on the result, race and sports books should take action accordingly. This evaluation design is based on Repetti's study (2013). The purpose of this evaluation is to find out if promotional allowances actually increase revenue and profits for race and sports books. To ensure a reliable and valid result, it is recommended to use daily data. A linear regression should be used to analyze three different dependent variables. Promotional allowances will be the independent variable in all analyzes. The independent variable will be measured against total amount wagered, total amount of bookmaker's profit, and gross operation profit. The goal is to find out if the independent variable, promotional allowances, has a significant and positive relationship with those dependent variables. It is recommended to review these data periodically, so managers can take prompt action if anything goes wrong. There are also a few important things to note when interpreting results.

Assuming a well-designed complimentary policy, the results should show a positive and significant relationship in all three models. Promotional allowances should be positively related to total amount wagered. When customers increase wagering, complimentary expenses increase because customers earn more compliementaries. The same explanation can apply to bookmakers' profit and gross operation profit. If there is one or more negative relationship models presented, managers should look into the data and find the cause. A negative relationship between promotional allowances and business volume have different causes, such as

issuing complimentaries incorrectly. However, managers should be aware that in a few circumstances, a negative relationship may not be caused by the complimentary policy itself. Since books do not always get equal amount of wagering on both sides, there may not always be a positive relationship between handle and total amount wagered. For instance, a large winning ticket may create a deficit on the book for that day, regardless of how perfect the complimentary policy is. In this case, the problem is on risk management but not complimentary policy. The same situation may occur to gross operating profit. An overall decrease in profit may be caused by factors other than complimentary expenses, such as labor cost. Book managers should be careful to analyze these results in an appropriate way.

Limitation

To perform an analysis on race and sports betting, data access will be one of the major challenges. As mentioned in the previous section, many race and sports book have forgone the opportunity to record transactions. In other words, they have not established a customer's database. It is time-consuming to collect primary data that can provide reliable and valid results. It is hard to draw a conclusion with one or two years of data because most major race and sports events happen only once a year. These facts only limit the ability for books that have not established a data set. For race and sports books that have a detailed data set, they should still be able to apply this evaluation to their business.

Future research directions

Since New Jersey's voters approved legalizing sports gambling in 2011, many states have considered legalizing sports betting (Newark, 2014). Many may question if this move will create a negative effect on Las Vegas' sports betting revenue. For race betting, a few book operators, such as Cantor Gaming, believe that the state regulation is limiting the marketing

competitiveness of Las Vegas books against other states. It is arguably true (Cabot, 2013). In fact, many books forgo the opportunity to offer cash rebate in pari-mutuel wagering since Senate Bill 425 was approved (Nevada Legislature (a), 2013). Referring to comments made by John Avello (2013), the director of race and sports book at Wynn Las Vegas, it is a risky decision to offer cash rebate because it will increase operation expense by so much with an unknown return. The key argument here is if offering cash rebates generates enough revenue to offset its costs.

On the other side, Clarke and Clarkson (2008) found that monetary rewards may not be the key motivators in games of skill. Their study showed that for games that are perceived as skilled, players are motivated by factors such as fun and excitement, opportunity to learn, and surpassing themselves in betting. In fact, Clarke and Clarkson (2008) were conducting their study at a race track. If their findings can apply to the Las Vegas race and sports book marketing, book managers will have a much clear direction on whether they should offer cash rebate. Consumer behavior study can be conducted to find out if customers are expecting monetary incentives.

Summary of key findings

In conclusion, the purpose of loyalty programs is to build relationships with customers. It is proven that the longer the relationship between company and customers the more profit that customer will bring in (Buttle, 1996). In other words, the goal of casino loyalty programs is to increase business volume. Complimentaries is a common marketing approach in the casino industry. Complimentaries are offered by casinos to create a product differentiation (Marfels, 2010). By awarding customers complimentaries, casinos hope to increase their customers' value of perception (Szczepańska & Gawron, 2011). The effectiveness of a marketing event can be measured in different ways. One of the most common method is to measure it by revenue

performance during the same period (Lucas & Bowen, 2002; Repetti, 2013). However, casinos managers should be careful that revenue performance is not always the indicator of success. To ensure a profit margin, a marketing event should at least generate enough revenue to offset its cost.

Existing literatures show that relationship commitment and trust is the key factor to success in relationship marketing. Morgan and Hunt (1994) have found several precursors of relationship commitment and trust. However, their article did not show that complimentary incentives is directly related to relationship building. Other gambling behavior studies also found that people are gambling for factors such as fun and excitement (Clarke & Clarkson, 2008). If complimentary incentives cannot directly increase business volume, book managers should invest those budget on other factors that generate revenue.

An evaluation model is developed based on Repetti's study (2013). This model aims to measure the financial effect of complimentaries offered by the change on gross revenue, net revenue, and profit. Linear regression can be used to analyze the relationship between promotional allowances and the 3 dependent factors. In general, promotional allowances should be positively related to revenue performance. However, managers should be careful that there may be a few exceptions. For instance, a decline in overall handle may be caused by an unbalanced betting trend, which is not related to the complimentary policy itself. Finally, managers should also make sure that the complimentary policy is implied correctly. To achieve this goal, managers should communicate with frontline employees frequently.

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Author's CV

Pak Kwan Szeto

Education

University of Nevada, Las Vegas

- Graduate College: Hotel Administration (GPA 3.4) Aug 2011- Dec 2014
- Bachelor of Science in Gaming Management (GPA 3.4) Jan 2008- Dec 2010

Relevant Experiences

Race & Sports Book Admin Operator (Wynn Las Vegas) Nov 2012- Dec 2014

- Monitor betting system (Knowledge on CBS)
- Handle phone wagering
- Provide customer service

Race & Sports Book Supervisor (Cantor Gaming) Aug 2011- Nov 2012

- Process account deposit and withdrawal
- Maintain wagering operation
- Provide customer service
- Provide support on mobile gaming device

Race & Sports Book Ticket Writer (Paris Las Vegas) Dec 2009- April 2011

- Cash handling
- Provide customer service

Marketing & Sales Internship (Luxor Las Vegas) Sep 2010- Dec 2010

- Assist marketing managers on promotion events
- Create potential promotion ideas