

## *Numbers Game*

# Taking Retailers' Cues, Harrah's Taps Into Science of Gambling

**Others Focus on High Rollers While Casino Giant Prefers Telemarketing, Databases From East Chicago to Caesars**

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EAST CHICAGO, Ind. -- Every morning, casino host Mark Salvador runs through a computer-generated list of gamblers from around the country looking for people who might be willing to bet more at the Harrah's casino here on the shores of Lake Michigan.

On a recent list was a 34-year-old man who hadn't been to a Harrah's Entertainment Inc. casino since November 2003. Before then, according to the data, he had made trips to the Rio in Las Vegas, as well as casinos in Tunica, Miss., and East Chicago. "This is a customer who can only play when his wife is on vacation or when he's on a trip," says Mr. Salvador, who planned to call the man and invite him to upcoming events at several Harrah's casinos.

The casino business for years has tried to lure wealthy tourists and persnickety baccarat players to Las Vegas with the offer of swank hotel rooms and lavish entertainment. Harrah's has turned itself into one of the biggest operators in the industry with an entirely different approach: Borrowing tricks from big retailers, the entertainment giant has amassed a staggering array of data about its customers. With the help of math and statistics graduates, it now uses numbers to make decisions that in other parts of the casino world have traditionally come from the gut.

Mr. Salvador's telemarketing, for example, is partly designed to move regular gamblers around Harrah's nationwide network of casinos. The company made \$1 billion in revenue last year -- one quarter of its total -- from such "cross market" players, up from about \$200,000 a decade earlier. Harrah's can also trace 75.6% of its gambling revenue back to specific customers.

Behind Harrah's strategy is Chief Executive Gary Loveman, a Massachusetts Institute of Technology-trained economist and former Harvard Business School professor. Mr. Loveman's unusual approach to the gaming business extends to his living arrangements. Unlike the casino barons of yesterday, he doesn't even live in Las Vegas, preferring to commute from his family's home in Cambridge, Mass.

Harrah's ability to move its customers around the map is central to its biggest bet so far: agreeing in July to buy Caesars Entertainment Inc. for \$5.28 billion, plus the assumption of \$3.97 billion in debt. The move will complete Harrah's national network with about 50 casinos and hubs in Las Vegas, Atlantic City and New Orleans.

The company plans to dangle Caesars' iconic casinos, such as Caesars Palace and the Paris, before its 25 million gamblers in the heartland and try running those establishments with the same efficiency that made Harrah's a success in places like Shreveport, La., and East Chicago. The East Chicago property is a typical Harrah's casino, appealing to an elderly population of largely working-class patrons who arrive by bus and car. Harrah's has used the profitable casino as a laboratory for customer-tracking innovations but recently agreed to sell it to meet Indiana regulations in the wake of the deal to acquire Caesars. It is now rolling out many of East Chicago's innovations across the country.

Harrah's style sets it apart from other big gambling operators. Over the past decade, casino moguls such as Steve Wynn and Kirk Kerkorian built glamorous resorts in Las Vegas that depend on tourists -- especially high rollers who make big bets. Harrah's thinks those consumers aren't as profitable as regular gamblers because it costs more to lure them to the casino.

Mr. Kerkorian, who controls the giant MGM Mirage, shored up his empire in June by agreeing to buy Mandalay Resort Group, creating what some in Las Vegas are calling "Kerkorian City," a cluster of megacasinos at the southern end of the Las Vegas Strip.

Mr. Loveman is happy to leave high-stakes gambling to his rivals. The high-roller business "is just this constant distraction for management," he says. "They get obsessed with it."

Mr. Loveman will soon be forced to decide what to do with the high-roller business at Caesars Palace and Paris. Given the huge price tag for Caesars as well as the accompanying foray into the fancy end of the casino business, the Caesars purchase is one of Harrah's riskiest moves yet. To be successful, Harrah's must trim down the high-end expenses without angering too many loyal customers, while introducing its own gambler-culling technologies.

Privately, some of Harrah's rivals admire its obsession with technology and try aping elements of its strategy. "The player tracking they do is just more effective than what's done by any other competitors in the casino industry," says Mark Greenberg, portfolio manager of the AIM Leisure Fund in Denver, who invests in a variety of hotel and gambling stocks, including Harrah's.

The Harrah's in East Chicago, a blue collar Indiana town crunched between Chicago and Gary, Ind., can be found on a four-deck riverboat docked on the

shore of Lake Michigan. It sits next to one of the steel mills for which the region is famous. Harrah's recently agreed to sell the property to investment fund Colony Capital LLC as part of the Caesars deal, in accordance with an Indiana law limiting how many casinos an operator can own. East Chicago's middle-American patrons and central location have made it a choice place for Harrah's to test new programs such as computer systems to track, in real time, how much gamblers are winning or losing, and ways to send hostesses to intervene with technical help or goodies.

In September, Maribel Peña, a Harrah's dispatcher aboard the East Chicago casino, sat in a small room furnished with metal desks and boxes of Mardi Gras beads. From this control booth, she electronically monitored every slot machine upstairs. If a gambler uses a "Total Rewards" frequent-gambler card, the slot machine begins to record his every move. If a machine malfunctions or a gambler hits a jackpot, Ms. Peña grabs a walkie-talkie and dispatches an attendant to check it out. The job can keep as many as four dispatchers busy.

### **'Party Pit'**

Based on the data churned out by this system, Harrah's redid the layout of the East Chicago casino's slot machines, using lessons learned from drugstore chains such as Walgreens and CVS. For example, the casino moved popular slots such as Wheel of Fortune to hard-to-reach areas, betting customers would seek them out just as they find the pharmacist in the rear of a store. That created more space in well-trafficked areas for other games.

To generate excitement, Harrah's placed a "party pit" with blackjack and roulette games in a central location and staffed it with dealers trained to break into song. Around the pit, the casino replaced nickel slots with \$5 Double Diamond and Hot Pepper games previously cloistered on an upper deck for high rollers, hoping low rollers would turn from the tables and take a flier on their way out. "This is the candy bars by the cash register," says David Patent, vice president of casino operations.

The theory worked. The average amount spent on a single bet on these machines soared to \$10, compared with \$2 in the casino overall, because new gamblers were drawn to high-denomination slots. Overall, the casino's profit margins rose to 15% in the third quarter, compared with 12% in the busy first quarter when that casino usually expects to earn its highest margins, Mr. Patent says.

That suggests more people are losing more money. To keep them from noticing, Harrah's has been researching ways to make people feel lucky even as they lose.

In one effort rolled out first in East Chicago this fall, Harrah's dispatches "luck ambassadors" to give nominal gifts to big losers -- people who are losing more than expected as tracked by the boat's central computer system and Harrah's loyalty cards. Harrah's has learned that gamblers are more likely to play longer and make a return trip if they receive a small goody.

Richard Pearlman recently lost about \$100 at video poker. As he was licking his wounds, Brenda Freeman Winfield, a Harrah's luck ambassador, sidled up to his Deuces Wild machine. Mr. Pearlman told her he was feeling "terrible."

"This will change your luck," she said, handing him a \$5 cash voucher. Mr. Pearlman, an 81-year-old resident of Buffalo Grove, Ill., brightened immediately. He winked and asked her to throw in "a blonde and two redheads" as he signed the voucher and turned back to the machine.

A successful intervention, says David Norton, a Harrah's senior vice president of marketing, will leave a customer saying: "OK, so I lost my \$75, but I got two-for-one" tickets to a Harrah's show.

Recently, a joint promotion with toymaker Hasbro Inc., maker of the game Monopoly, had the casino buzzing. Patrons stopped at a lobby desk to pick up a Monopoly game and register for a Harrah's drawing to win prizes including cash and trips to other casinos. Gamblers, Harrah's has found, love drawings, which offer a whole new range of ways to get lucky. Harrah's loves drawings, too, because they keep patrons in casinos longer while they wait to hear the results.

A few steps from Mr. Pearlman sat Shirley Cotton, a 63-year-old former U.S. Postal Service employee draped with Harrah's Mardi Gras beads. With her bare feet planted on the seat of a nearby slot machine, Ms. Cotton said she had run out of money and was waiting to see if she had won any of Harrah's cash giveaways. "That's why I'm here," she said.

Ms. Cotton was waiting for the 10 p.m. drawing, even though it meant making the 20-mile drive home in her 1978 Cadillac with no headlights. Over two days of waiting to hear her name called for the series of contests she had entered, Ms. Cotton said she lost \$98 on the slot machines. Ms. Cotton said she lives on \$967 a month in government disability payments.

Harrah's says it doesn't know its customers' incomes. It says it deliberately doesn't try to find out for fear of being accused of preying on people who can't afford to gamble.

Harrah's patrons can apply for a Total Rewards loyalty card and receive points toward anything from a hotel stay to catalog gifts; the more they gamble, the better the perks become. Each cardholder is assigned a "customer value" based on the theoretical revenue they will generate. Customers with higher values get

quicker responses from Harrah's phone systems. When a gambler dials Harrah's toll-free reservation line, the computer bounces the number off its database and places the caller in the appropriate service queue.

The operator who picks up the phone is trained not to let on that the caller has been recognized. "That would be too creepy," says Rich Mirman, Harrah's senior vice president in charge of development, and a trained mathematician and economist.

### **Through the Nose**

Unlike rivals such as MGM Mirage, Harrah's tries hard to keep less profitable nongambling customers out of its hotels by calculating their customer value and making them pay through the nose. In October, a room at the aging Harrah's Las Vegas was quoted to a caller at a nightly rate of \$199, only \$14 cheaper than a super-luxury room at Bellagio.

A frequent gambler could be charged anything from nothing to \$199 at the Harrah's casino, the company says. The price is based on a complex mathematical formula that takes into account how long the customer typically stays and what games he or she plays, among other details.

In one of Harrah's biggest changes, the company has reconfigured the duties of its VIP hosts, who take care of the company's biggest gamblers, previously one of the most old-fashioned jobs in the business.

In his gray-walled cubicle in East Chicago, Mr. Salvador's job is more of a telemarketer than a traditional casino VIP host. Instead of spending time on the golf course or the casino floor, as hosts do elsewhere, Harrah's hosts must phone at least 240 customers each month. The old hosts "were spending all their time on the loyal customers," says Mr. Norton, who worked at American Express before joining Harrah's. "We wanted them to stimulate sales."

Closely tracked call lists divide gambling prospects into behavior groups: such as "upsides," who have the potential to double their gambling with Harrah's; "past dues," who haven't visited a Harrah's casino in a while; and "new to me" gamblers who will get a cold call.

Unhappy with their new duties, about a quarter of Harrah's hosts left after the company implemented the system about a year ago, the company says. But telemarketing is fueling Harrah's VIP business, which is growing by about 20% a year, Mr. Norton says. Next year, Harrah's plans to give its hosts hand-held computers to log every interaction they have with a customer, even a chat on the casino floor.

That information will come in handy as Harrah's begins to move its customers around its soon-to-be expanded network. With new resorts in Las Vegas -- increasing its holdings there to six from two -- Harrah's is planning to expand its cross-marketing. Customers who graduate from regional casinos to one of Harrah's hubs tend to stay longer and spend more. Even a small number of extra trips will add significantly to Harrah's sales.

Caesars Palace, in particular, will be dangled in front of Harrah's gamblers all over the country. With its regular Celine Dion and Elton John shows, celebrity-chef restaurants and even a topless swimming pool, Caesars Palace is a prime reason Harrah's decided to buy the casino's parent company.

Plasma screens all over East Chicago shout "Visit Las Vegas!" Harrah's Rincon casino near San Diego, which is owned by a California Indian tribe and managed by Harrah's, has been advertising "hot deals" in Las Vegas in a monthly electronic newsletter. A big indoor video display suggests: "Play here, stay there."

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## Winning Numbers

Profitability of some major casinos

CASINO	OWNED BY	2004 CASH FLOW PER DAY PER UNIT*
Bellagio	MGM Mirage	\$142
Venetian	Sands	114
MGM Grand	MGM Mirage	88
Rio	Harrah's	87
Mandalay Bay	Mandalay Resort Group	86
Harrah's-Las Vegas	Harrah's	78
The Mirage	MGM Mirage	77
New York New York	MGM Mirage	75
Caesars Palace	Caesars Entertainment	73
Paris	Caesars Entertainment	72

\*A unit is either a slot machine, table-game position or hotel room. Cash flow is earnings before interest, taxes, depreciation and amortization.

Source: Merrill Lynch

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