

Harrah's Entertainment Inc.

I. Executive Overview

Harrah's Entertainment is a leader in the gaming industry with casinos all over the United States. Harrah's main source of competitive advantage against other industry giants such as Mirage Resorts, Circus Enterprises, and Trump Resorts, has been utilization of superior customer service to garner unprecedented levels of customer loyalty. The customer service core competency that Harrah's specializes in has doubled net income for the company over the last year. This report will detail the issues associated with maintaining customer service and coordinating this service between the many separate properties owned by Harrah's Entertainment, in order to maintain rapid growth in revenues.

II. Critical Issue

The critical issue for Harrah's Entertainment, as isolated by this report, is the issue of using information technology to coordinate marketing efforts between the many sites that the company owns. In the gaming industry, a large portion of revenues are generated by a small portion of the customers. In particular, Harrah's estimated that 26% of player provided 82% of their revenues. For this reason, it is essential that Harrah's at least maintain and ideally, increase customer loyalty to keep avid gamers at their casinos. Due to Harrah's geographic diversity, the company must encourage customers to not only return to a single site, but must convince consumers to visit Harrah's wherever they go. How can Harrah's effectively use their Total Rewards program to obtain new customers, retain current customers, and increase the value created by existing customers?

III. Analysis

A. Financial Analysis

As indicated by Harrah's consolidated income statements (**Exhibit 1**), Harrah's entertainment increased its revenues 87%, from 1.6 billion in 1997 to 3 billion in 2000. Figures from Merrill Lynch and Gaming Commissions (**Exhibit 3**) show that the gaming industry revenues as a whole only grew 26% during the same time period, showing that Harrah's growth was nearly 4 times as fast as the gaming industry's growth. Over 82% of Harrah's revenue is from casino operations, and the fact that this number remained constant from 1997 to 1999, proves that the growth of the company is strongly influenced by the growth in casino operations, and not as influenced by revenues in the food and beverage, or hotel rooms area (**Exhibit 1**).

Many independent variables may have aided in Harrah's success, but a major player in the growth of Harrah's from 1997 to 1999 was the Total Rewards program. This program allowed Harrah's Entertainment to more efficiently use the casino promotional allowances to maximize customer retention, new business creation, and prevention of

customer attrition. This is evidenced by a key statistic derived from Harrah's income statement (**Exhibit 1**). From 1997 to 1998, at the onset of Harrah's Total Rewards program, the company increased its promotional allowances 25%. Since at the beginning of the program, the marketers were obtaining experimental data to understand how to bring customer's back, this period shows an abysmal 3% increase in profits with the 25% increase in promotional allowances. However, between 1998 and 1999, Harrah's increased its promotional allowances by 55%, this time yielding a 105% increase in profits. This statistics shows that the customer knowledge gained from customer tracking via the database marketing (DBM) system increased marketing efficiency by more than factor of 16!

B. Total Rewards Analysis

i. New Business Program

The New Business program was designed by Harrah's to get new customers that signed up for the Total Rewards program, to return to Harrah's sites. Before July of 1999, approximately 40% of new Total Rewards members returned to Harrah's within 3 months of their program enrollment (**Exhibit 2b**). As marketing effectiveness increased, between July 1999 and January 2000, approximately 50% of the new customers returned to Harrah's. Additionally, every month between August 1999 and January 2000, revenues from returning customers surpassed the projected revenues for those customers, showing that the New Business area of the Total Reward Program had exceeded expectations.

ii. Loyalty Program

The two pronged loyalty program aimed to 1) increase the playing frequency of players that had low frequency and high projected value and 2) increase the amount of money received from players that spent their gaming dollar elsewhere. The first prong of the loyalty program yielded 233% increase in the average number of guests returning to the casino, after receiving a promotional offer between the first and second halves of 1999 (**Exhibit 2c**). This increase corresponded to approximately a 6-fold increase in revenues from customer's receiving the offer.

IV. Recommendation

The results speak for themselves. Harrah's Entertainment has been very successful in its implementation of the Total Rewards program with the help of database marketing (DBM) procedures. It is this report's recommendation that Harrah's entertainment increase investment in DBM and continue to use it as a tool to create new business via

- Increasing cross-market sales and loyalty
- Programs to convert customers from other gaming venues
- Continual cross-market integration of DBM

i. Increasing cross-market sales and loyalty

Most of the information discussed in this report outlines the performance of Harrah's based on visits from local customers at the venues that the customers often play at. There is very little evidence to indicate that these customer's spend the majority of their gaming dollar at Harrah's sites when they travel. This report's recommendation is to increase the probability that customer's will play at Harrah's sites when they travel.

Cross-market sales can be encouraged by offering trips to other Harrah's sites as prizes in the Total Rewards program. This will give customer's the opportunity to use the points they earn at their local sites to travel, and generate revenues for Harrah's when they travel. Additionally, as an incentive for consumers to travel, and play at Harrah's when they travel, the Total Rewards program can offer double, or even triple points for all games played at Harrah's sites that aren't local to the specific customer.

ii. Programs to convert customers from other gaming venues

A weakness that has been isolated in the Total Rewards program is the lack of effort given to getting new customers. The new business program focuses on getting *first* time customers to *return* to Harrah's, but not on *getting the first time customers* in the first place. Additionally, customer retention only rose from 40% to 50% via the New Business program discussed above. This report recommends a strengthening and an increase in scope of this program.

Conversion of customer's that play at other venues is critical to creating a new customer base for Harrah's. Possible mechanisms for increasing efficiency in this area are offering players are different casinos, an opportunity to convert points they've earned in *other* loyalty programs, over to Harrah's Total Rewards points after a period of time of playing at Harrah's. This gives customers an incentive to switch, because they'll receive credit for the membership rewards they've earned at their previous casino. This wouldn't be a negative cash flow for Harrah's because the bonuses would only be released over time, after the converted players had generate revenues for Harrah's anyway. Additionally, Harrah's can offer large bonuses for frequent players by offering "signing bonus" type deals to encourage player conversion. It is essential that Harrah's not only continue to get business from their current customer base, but actively seek out new customers as well.

iii. Continual cross-market integration of DBM

Finally, it is crucial for Harrah's to fully utilize database marketing systems at each and every single one of their sites, to maximize cross-market revenues and to continually keep track of which customers play where. This data mining and information gathering and analysis are critical to the success of Harrah's as competition becomes stiffer. The patent that Harrah's has on DBM will allow it to successfully keep an edge on their competitive via a tool vital to every business, knowledge.