

1 CHAIRPERSON JAMES: Doctor Loveman.

2 DR. LOVEMAN: Thank you, Madam Chairwoman, members of
3 the Commission. I must say that as I prepared for this testimony
4 I wasn't aware of the degree of self-discipline that would be
5 required speaking second here on the panel but I'll forge ahead
6 nonetheless. My goal this morning, among other things is to try
7 to shed a little light on something that I think has been a bit
8 opaque in the discussion and that is the goal of advertising and
9 marketing in the casino industry and how it is in a very literal
10 and practical sense we go about conducting advertising and
11 marketing. I'm responsible for all the operations, marketing
12 information systems and other operational activities at Harrah's
13 which is now a \$2.4 billion company with 19 casinos.

14 My job is to try to make this company grow and to
15 improve the wealth of its shareholders. The way that I intend to
16 do that is to increase the loyalty of our customers and let me
17 tell you why that is very much in my interest and at the same
18 time I think in the interest of the agenda you pursue on this
19 Commission. What is very poorly understood about casino business
20 is that today a Harrah's customer, someone who has chosen to come
21 and patronize one of our casinos, gives us only 36 cents of their
22 total gaming budget. Now, that doesn't count the many customers
23 who don't come to see us at all.

24 If you were to be in my job, interested in pursuing
25 the growth of your business, you would quickly come to the
26 conclusion that I've come to and that is that the fastest way to
27 improve the performance of the business is not to go and recruit
28 new customers, it turns out we have plenty of customers, nor it

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1 is necessary for me to go and ask any person engaged in gaming to
2 increase their commitment to that activity. The easiest way for
3 me to succeed in my business is to get customers with existing
4 gaming budgets to give a little bit more to Harrah's.

5 So to illustrate this arithmetically in a very simple
6 example, if I were to improve from 36 percent to 37 percent, the
7 percentage of revenues that we receive from existing gamers
8 without those gamers ever putting another dollar into that
9 activity, my business would generate an additional \$40 million in
10 revenue and my shareholders would enjoy a one and a half dollar
11 appreciation on the value of their shares.

12 It's in my interest, it's in our industry's interest
13 to pursue the loyalty of its customers. Now you heard my
14 predecessor remark on how it is that companies advertise and the
15 use of tools in marketing. I'd ask you to contrast the
16 objectives I just outlined from those that many companies would
17 pursue in advertising and marketing such and increasing the
18 penetration of usage in consumer products companies or asking
19 customers who have an existing budget for a product category to
20 increase that budget. These are two dimensions to typical
21 advertising and marketing strategies that play a very small role
22 in what it is that I do and I believe what it is most casinos
23 should do.

24 My attention is focused on building customer loyalty
25 and we try to do that in three ways. We try to build a brand so
26 that when a customer thinks of Harrah's, they think of something
27 with which they identify in the same way that customers identify
28 with automobile brands, with fragrances, with banks, with sports

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1 teams and other things with which they feel a certain degree of
2 kinship or loyalty.

3 The second thing we try to do is to deliver a level
4 of service when customers are with us that inspires them to think
5 of us as their preferred provider. And the third thing we do and
6 the focus of most of the remainder of my remarks is we use a
7 data- base to try to customize the relationship we offer to one
8 of our customers in such a way that that experience is more
9 valuable to them at Harrah's than it would be elsewhere.

10 Now, let me be specific about what it is we try to do
11 with data bases. We run a program that many of you have heard of
12 called "Total Gold." "Total Gold" is a patented technology but
13 it is at its essence a loyalty vehicle. It is patterned in many
14 respects off of the American Airlines advantage program,
15 Marriott's loyalty programs, Hallmark's loyalty programs,
16 American Express' membership rewards and other programs you're
17 familiar with that provide an inducement to customers to bring
18 existing levels of business to one provider. The way that this
19 system works is as follows, and let me describe briefly what it
20 is we're capable of doing and then address what it is we can't
21 do.

22 What we can do is encourage a customer to apply for
23 membership in this program. Upon doing so, they fill out a brief
24 questionnaire that lists their name, address, telephone number.
25 That data is inputted into our system and is then connected via
26 the use of the card that my predecessor showed you when they are
27 involved in gaming activities, whether that be at a slot machine
28 or at a table game.

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1 The result of this is the creation of what we call a
2 panel data set that includes information listed by customer
3 including mailing addresses, telephone numbers and what we know
4 of their recent gaming activity. And when I say what we know of
5 their gaming activity, that means when did they visit us, where
6 did they visit us, what type of gaming activity were they engaged
7 in and what, in broad terms, was the result of that experience.

8 Now, notice the majority of our customers' gaming
9 activity is not recognized by us because it does not take place
10 at our facility. Sixty-four percent on average of a Harrah's
11 customer's gaming activity takes place elsewhere. So what I've
12 just described for you is not by any means a complete record of
13 any customer's gaming activity across casinos, it's simply what
14 we know about what they do with us.

15 Now, we take that data and we try to use that data to
16 speak to individuals in a way that is more effective than if we
17 were to speak to them in some sort of broadcast message. So for
18 example, if we know that a customer resides several hours away
19 from one of our casinos, we might offer them the opportunity to
20 stay at our hotel. If that customer lives in close proximity to
21 our casino, we would imagine that offer would be less valuable.
22 So we use the information available to us in this data set to
23 provide an offer to customers that we hope distinguishes us from
24 our competitors. To the degree we learn more about our
25 customers, we offer them propositions that are more appealing to
26 them than our competitors do, they move of their business from
27 our competitors to us.

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1 When you look in this database I've described as the
2 "Total Gold" database, you would today find a database with
3 roughly seven million records. This includes individuals who
4 have at any time applied for membership in this program. If you
5 were to look at the portion of it of greatest interest to us, you
6 would find slightly more than two million records that are
7 active, whereby active meaning a customer who has seen us in the
8 last 12 months.

9 Now, at the risk of being repetitive, only two out of
10 seven of the customers who have signed up for this program have
11 been to see us once in the last 12 months. Further, roughly half
12 of the two million customers we've described to be active in our
13 database have been to see us only once. So of the two million
14 active customers, a million of them have been to see us precisely
15 once. So there remains then a million customers who have been to
16 see us more than once. Across this set of data on average these
17 customers generate just in excess of \$100.00 of revenue for us
18 per visit.

19 They come to see us on average just under four times
20 a year, generating roughly \$400.00 of revenue for us as a result
21 of their business, recognizing again that the statistics I just
22 quoted you on average represent roughly a third of these
23 customers' total casino gaming expenditures and as we know many
24 of these customers are involved in other kinds of gaming
25 activities and, hence, what we observe is likely to be a much
26 smaller portion of their total gaming expenditure.

27 I was asked to comment briefly on what we spend to
28 market and advertise to our customers and I suspect that what I'm

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1 about to describe to you may come as a surprise. In the past
2 year Harrah's, a company I described to you a moment ago as being
3 a \$2.4 billion enterprise, spent around \$11 million promoting the
4 programs I've just described to you. Now, for those of you who
5 don't think terribly quickly in scientific notation, let's think
6 about what that means. That's about half of one percent of our
7 revenues.

8 Now, I'd ask you to contrast that with other
9 companies you think of as being active marketers. Coca Cola,
10 Nike, American Express, Proctor and Gamble, any company that is
11 recognized as a leading advertiser of consumer products or
12 services would typically in a year spend somewhere between 10 and
13 20 percent of revenues on advertising. So when we think about
14 casino companies, even large ones like mine, in some sort of
15 ordinal hierarchy of advertising intensity we come very, very low
16 down the list across any sort of inter-industry comparison.

17 We use these data to customize offers to our
18 customers, as I indicated. Those customers may receive offers
19 that include events or tournaments that the casino is running.
20 It may include hotel or food and beverage offers. At Harrah's we
21 pay a great deal of attention asking our customers who have
22 visited us in one location, for example Atlantic City, to come
23 and see us when they're in Las Vegas. Now, again, a piece of
24 evidence on this that you may find surprising, there is a
25 tremendous volume of customer traffic from Atlantic City and
26 other U.S. points of origination to Las Vegas already.

27 We estimate that number to be in excess of \$200
28 million. Today Harrah's receives far less than 20 percent of

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1 that. That's revenue generated by our own customers, people we
2 know from another destination. There's a great deal of revenue
3 available to us simply by getting customers who know us in one
4 place to get to know us elsewhere without ever influencing at the
5 margin their expenditure on gaming.

6 And if you're a marketer, you know that getting
7 customers to switch is a far more efficient, less costly form of
8 marketing than trying to initiate trial or to initiate an
9 enhanced budgetary expenditure on the part of the customer. The
10 tools we're developing make us better marketers and I'd be
11 embarrassed professionally to stand before you and say that I
12 would like to be anything less than a better marketer. A better
13 marketer means we don't mail to people who don't respond to
14 things that we've offered them in the past.

15 Being a better marketer means we avoid sending out
16 programs that have low response rates and answer being judged is
17 invaluable to our customers. We try to avoid sending things that
18 are low value added to customers we care about or things that
19 turn out to be an annoyance. I consider all of these things to
20 be perfectly prudent responsible activities on the part of an
21 industry that is marketing to a customer base that the vast
22 majority of whom are making entire responsible decisions about
23 how to allocate their time and resources.

24 Now, what is it we don't know in these databases.
25 There are a lot of things we do not know. We do not know
26 anything about the overall expenditure of a customer on gaming
27 activities. We know only what we see in our own buildings. We
28 know nothing about the socioeconomic circumstances of a customer.

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1 We do not combine our databases with any sorts of banking records
2 except in the very few instances where customers have applied for
3 credit. In my business that's 50,000 individuals out of a 2
4 million person data base comprising less than two percent of our
5 annual revenues.

6 We do not go out actively and solicit databases that
7 would give us any indication as to the behavioral or economic
8 circumstances of the individual, nor do we collect in this
9 database any set of variables that could be construed as
10 diagnostic indicators or predictors of a person's personal
11 circumstances.

12 As a result operationally and scientifically one
13 could simply not use these data to make any sort of efficacious
14 prediction as to the circumstances of a customer with respect to
15 gaming behavior. And indeed, I'd ask you to consider that we are
16 entered into a very careful relationship with our customers. We
17 ask them to allow us to know something about them and in return
18 we promise that we'll make valuable use of that information,
19 responsible and trustworthy use of that information.

20 If we were ever to suggest to our customers for a
21 moment that our use of that information was unnecessarily
22 invasive, manipulative or in some way counterproductive to their
23 welfare, I can assure you that our very clever and rational
24 customers would very quickly stop providing us that information.
25 So it is entirely in our interest to make careful use of it.

26 I can assure all of you today that everyone who works
27 for me is entirely committed to going home at the end of their
28 shifts each and every day comfortable that we have done nothing

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1 to exacerbate any sort of personal destructive circumstances in
2 the lives of our customers. All of us wish to go home proud that
3 we have done everything possible to address any problems with
4 disorderly or pathological gaming that may take place in our
5 environments.

6 To do so, we have pioneered efforts in fighting
7 under-age gaming, something called Project 21, you've heard about
8 already. We've pioneered efforts with respect to unattended
9 children in casinos. We are in full support of disassociated
10 persons policies being promulgated in jurisdictions like Missouri
11 and elsewhere. We fully support consumer education and all
12 relevant treatment mechanisms and certainly we support all
13 activities that make our employees better informed both about
14 their own gaming behavior and also about the gaming behavior of
15 our customers.

16 Thanks very much.

17 CHAIRPERSON JAMES: Thank you.

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