CHAIRPERSON JAMES: Doctor Loveman.

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

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

If you were to be in my job, interested in pursuing the growth of your business, you would quickly come to the conclusion that I've come to and that is that the fastest way to improve the performance of the business is not to go and recruit new customers, it turns out we have plenty of customers, nor it
is necessary for me to go and ask any person engaged in gaming to increase their commitment to that activity. The easiest way for me to succeed in my business is to get customers with existing gaming budgets to give a little bit more to Harrah's.

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

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

My attention is focused on building customer loyalty and we try to do that in three ways. We try to build a brand so that when a customer thinks of Harrah's, they think of something with which they identify in the same way that customers identify with automobile brands, with fragrances, with banks, with sports
teams and other things with which they feel a certain degree of
kinship or loyalty.

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

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

What we can do is encourage a customer to apply for
membership in this program. Upon doing so, they fill out a brief
questionnaire that lists their name, address, telephone number.
That data is inputted into our system and is then connected via
the use of the card that my predecessor showed you when they are
involved in gaming activities, whether that be at a slot machine
or at a table game.
The result of this is the creation of what we call a panel data set that includes information listed by customer including mailing addresses, telephone numbers and what we know of their recent gaming activity. And when I say what we know of their gaming activity, that means when did they visit us, where did they visit us, what type of gaming activity were they engaged in and what, in broad terms, was the result of that experience.

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

Now, we take that data and we try to use that data to speak to individuals in a way that is more effective than if we were to speak to them in some sort of broadcast message. So for example, if we know that a customer resides several hours away from one of our casinos, we might offer them the opportunity to stay at our hotel. If that customer lives in close proximity to our casino, we would imagine that offer would be less valuable. So we use the information available to us in this data set to provide an offer to customers that we hope distinguishes us from our competitors. To the degree we learn more about our customers, we offer them propositions that are more appealing to them than our competitors do, they move of their business from our competitors to us.
When you look in this database I've described as the "Total Gold" database, you would today find a database with roughly seven million records. This includes individuals who have at any time applied for membership in this program. If you were to look at the portion of it of greatest interest to us, you would find slightly more than two million records that are active, whereby active meaning a customer who has seen us in the last 12 months.

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

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

I was asked to comment briefly on what we spend to market and advertise to our customers and I suspect that what I'm
about to describe to you may come as a surprise. In the past year Harrah's, a company I described to you a moment ago as being a $2.4 billion enterprise, spent around $11 million promoting the programs I've just described to you. Now, for those of you who don't think terribly quickly in scientific notation, let's think about what that means. That's about half of one percent of our revenues.

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

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

We estimate that number to be in excess of $200 million. Today Harrah's receives far less than 20 percent of
that. That's revenue generated by our own customers, people we
know from another destination. There's a great deal of revenue
available to us simply be getting customers who know us in one
place to get to know us elsewhere without ever influencing at the
margin their expenditure on gaming.

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

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

Now, what is it we don't know in these databases.
There are a lot of things we do not know. We do not know
anything about the overall expenditure of a customer on gaming
activities. We know only what we see in our own buildings. We
know nothing about the socioeconomic circumstances of a customer.
We do not combine our databases with any sorts of banking records except in the very few instances where customers have applied for credit. In my business that's 50,000 individuals out of a 23 million person data base comprising less than two percent of our annual revenues.

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

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

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

I can assure all of you today that everyone who works for me is entirely committed to going home at the end of their shifts each and every day comfortable that we have done nothing
to exacerbate any sort of personal destructive circumstances in the lives of our customers. All of us wish to go home proud that we have done everything possible to address any problems with disorderly or pathological gaming that may take place in our environments.

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

Thanks very much.

CHAIRPERSON JAMES: Thank you.