

Managing Customer Profitability at MGM Grand Hotel

Case Analysis – MKT7505 Marketing Strategy – Alpa Gupta

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Executive Summary

Managing and collecting customer profitability for the gaming customers has been executed successfully by MGM Grand Hotel management. In determining which future capital expenditures can provide the maximum profits, customer profitability from the entertainment and food & beverage segments need to be collected and managed. Investing in being able to correlate which entertainment activities have the maximum impact on increasing customer profitability will enhance the customer experience, increase the customer base and increase revenues at MGM Grand Hotel.

Situation Analysis

Company Background

Founded in 1970, the original MGM Grand Hotel grew into the MGM Mirage which consisted of casino hotels New York –New York, Mirage Resorts, Bellagio, Treasure Island and the Mandalay Resort group by 2005¹. The non gaming entertainment and facilities within MGM Mirage consisted of high end entertainment, concert and sporting events, Cirque Du Soleil shows, Studio 54 nightclub reservation , lion habitat, luxury two story sky lofts, mansion at MGM Grand.

Accomplishment Gap

Focusing on the MGM Grand hotel within MGM Mirage, the revenue stream for this hotel mostly came from lodging, table games, Food and beverages. The earnings before interest and taxes depreciation and amortization was highest for hotel lodging, which was approximately more than 40% of the total EBITDA¹. The high revenue stream from hotel lodging and non-gaming entertainment led senior management of MGM Grand hotel to contemplate whether it was possible to analyze and collect the customer profitability from just the non-gaming entertainment business. The business could then be segmented in terms of non-gaming customers. Once that data was analyzed, it could be utilized to make future decisions towards increasing revenue and profit streams.

Enablers

The basic components of customer profitability were the gaming revenues, the hotel, food and beverage and entertainment profits and the offered comps. The existing infrastructure that MGM Grand hotel had

¹ Referencing “Slots, Tables and all that Jazz: Managing customer profitability at the MGM Grand Hotel

to collect customer profitability in the gaming section could be leveraged to help distinguish profitability between the non gaming and gaming revenue. In terms of gaming revenue it was able to correlate up to 75% of the revenue to specific customer segments based on their expected gambling amount per trip or theoretical win. Assuming a gambler used the available Players club card the hotel could trace around 65% of all slot revenues to specific customers. From the data provided by the players club, floor personal and the data collection infrastructure the MGM Information technology group was able to calculate customer profitability by taking into account the customer gaming revenue stream (theoretical win) against costs such as operations, marketing, personnel, equipment maintenance and real estate.

Complication

Around 60% of MGM Grand's revenues and 50% of its profits came from non-gaming profits. However the data is incomplete, the expenditures from the customer's side for non-gaming profits are visible in the hotel's database only if the customer decides to charge against the lodging room. Due to this limitation it is estimated that only 60% of the food/beverage and entertainment that a customer spends on non-gaming activities is included in MGM Grand's non gaming revenue calculations. The methodology to calculate the non gaming expenses, revenue and hence profits had severe limitations which prevented the senior management from having visibility into non gaming customer profitability.

Analysis

The [SCEQ framework issue tree](#) in the appendix has been created and applied to this case. Details on the analysis are below:

Improved Technology infrastructure to collect non gaming customer profitability data:

The Players club card can be improved to include non gaming transactions in addition to the gaming transactions. The non gaming transactions could also have similar rewards or points systems. Another idea could be that on check-in into the MGM Grand Hotel, the customers would have the option to have a different non gaming "activity club card". To provide an incentive to the customers to utilize this card towards nongaming transactions could be to offer discounts if the card was used towards entertainment, foods & beverages. The card could also carry a reward systems based on points collection. Similar concept could be that MGM Grand provides its own credit card based on credit history to customers to utilize on food & beverages and entertainment and hence track the expenses. A

different concept would be for the customer themselves to provide the information on their costs and spending during their trip. Most families travel on a budget and keep track of their costs, so they could provide this information to MGM Grand and in return receive certain comps. The technology is available and can be applied to MGM Grand technology infrastructure to collect data in terms just expenses and profits for customers from non – gaming activities.

Application of the data towards increasing non gaming customer base

Assuming the non gaming customer profitability information is available, this information can then be applied in creating customer segments and accurately targeting those segments. It would be a more focused marketing strategy in terms of the families for the gamers and the customer base who spends more on entertainment than gaming in Vegas.

Application of the data towards increasing gaming customer base

With this information the gaming customer base can also be improved if accurate correlations can be created between entertainment facilities and habits of gamers. For example, gamers with families may have a preference when it comes choosing lodging to chose the one with the maximum entertainment options and restaurants versus gaming options.

Utilizing the knowledge of the non gaming customer base as a differentiation advantage

Competition on the Vegas strip is intense for gaming and non gaming activities. Customer service, comps rewards, total customer experience can be differentiating advantages for the respective hotels. Having access to data collected by the non gaming technology infrastructure MGM Grand hotel can better customize the customer experience at their hotel.

Application of the data towards future growth investment decisions

The goal of attaining and managing customer profitability at MGM Grand is to increase overall growth and revenue opportunities in the future. Increased data on customers of all customer segments can enhance the customer experience hence increase the customer base and improve customer retention. Based on this data, net present valuation models can be accurately created in estimating which capital expenditures will provide the maximum profits.