



DENNIS CAMPBELL

F. ASÍS MARTÍNEZ-JEREZ

MARC J. EPSTEIN

Slots, Tables, and All That Jazz: Managing Customer Profitability at the MGM Grand Hotel¹

Introduction

The eyes of John Shigley, Executive Vice President (EVP) and Chief Financial Officer (CFO) at the MGM Grand Hotel in Las Vegas, were wandering about the room—from the psychedelic plasma screens dotting the wall to the giant rotating orb-like structure atop the bar, which cast the room in different shades and colors as it spun. Tracy Bailey, Mike Gatten and Steve Zanella—VP casino marketing, Assistant VP slot marketing and VP slots respectively—reclined in their sleek bar stools in the informal continuation of the meeting they had just finished with Gamal Aziz, MGM Grand's President and Chief Operating Officer (COO). During that meeting they had concluded that the big question which needed to be answered was how the non-gaming leisure and entertainment business, long considered in Vegas to be secondary to gaming, could be exploited independently and profitably. Shigley wondered what the MGM Grand would need to do to be able to grasp the opportunities.

The Centrifuge Bar at the MGM Grand certainly was a vivid example of the changes that Vegas had experienced in the last few decades. Not long before, this had been another red-carpeted circular slot room, its only major attraction being a small stage for typical Vegas lounge acts. No more. Just paces away from the legendary Studio 54 nightclub reconstruction, the Centrifuge was now a techno-thumping upscale bar and lounge, selling bottles of premium liquors for \$200-\$300, and beers for prices that would have made old-time gamblers, accustomed to the ten-cent drinks and the one-dollar buffet, start packing for home.² The wait staff moved effortlessly around the Centrifuge with the confidence of Manhattan maître d's.

7 PM. The overhead lights were suddenly switched off, replaced by spotlights shining onto the tabletops and bars. The music began pounding, and before Shigley could even meet the glances of the rest of the group, the wait staff, all of whom were accomplished dancers, climbed onto the tabletops,

¹ The statistical and financial information concerning MGM Grand utilized in this case study is for illustrative purposes only and does not accurately reflect MGM Grand's actual results. Actual information not included in the case is confidential. Certain information concerning MGM Grand may be obtained from public filings of its parent company, MGM MIRAGE.

² A review of the Centrifuge can be found at <http://www.vegas.com/nightlife/bars/centrifuge.html>, accessed August 18, 2005.

Professors Denis Campbell, F. Asis Martinez Jerez and Rice University Professor Marc J. Epstein and Research Associate Joshua Bellin prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

Copyright © 2006 President and Fellows of Harvard College. To order copies or request permission to reproduce materials, call 1-800-545-7685, write Harvard Business School Publishing, Boston, MA 02163, or go to <http://www.hbsp.harvard.edu>. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Harvard Business School.

onto the bars, and began performing their choreographed routines. As they watched the dance, MGM's managers couldn't help but wonder whether the bar was a business in itself, or whether it was an amenity to promote the real business of the company: gambling.

Trends in Las Vegas Resorts

On May 15 2005, Las Vegas celebrated its 100th birthday. Originally little more than a railroad town on a line linking Salt Lake City with southern California, Vegas had only 5,165 residents by 1930. Even by then, the small town could boast visitors throughout the year thanks to Nevada's legalization of gambling, established in 1911, and its liberal divorce statutes. After World War II, following an influx of new residents, the lavish resort hotels and gambling casinos moved in, and tourism soon became the largest employer in the region. Famous performances, boxing matches, and the "Welcome to Fabulous Las Vegas" sign soon followed. The 1940s and 50s witnessed mob figures such as "Bugsy" Siegel founding and managing properties like his famous Flamingo, which sought to cater to the Hollywood elite;³ subsequent decades saw financiers such as Del Webb and Howard Hughes as well as major corporations rushing to build and purchase new properties, attracting wealthy and profitable gamblers. As mob influence waned, "gambling" was transformed into "gaming"—that is, a legitimate business enterprise. By the 1970s, large properties such as the luxurious Caesars Palace, which opened with 680 luxury suites,⁴ and the Las Vegas Hilton, which originally opened as The International, were owned by publicly traded companies.

The tendency towards larger-is-better began in earnest in the 1970s with the Circus Circus, the first large casino to actively court a wider demographic. While the casino was originally built to attract high rollers to its gaudy circus tents, where, it was claimed, adults could act like children⁵, its relative unpopularity among the high-end clientele encouraged its transformation into an inclusive family-friendly environment. Free entertainment, low price hotel rooms, and buffets at rock-bottom prices did indeed draw a crowd. Contrary to the accepted wisdom on the Strip at the time, attracting low-end gamblers, even at the expense of operating food, beverage, and other non-gaming activities at a loss, still proved highly profitable.⁶

Such innovations now seemed routine in the new "Mega-Resorts", where free Strip-side spectacles such as the Mirage's erupting volcano and Treasure Island's daily pirate ship fight were landmark attractions drawing Strip-walkers one step closer to the Casino doors. With hotel rooms in the thousands, numerous food and beverage outlets, attractions such as amusement parks, spectacles, enormous landmarks, and even multipurpose arenas for concerts and sporting matches⁷, themed Mega-Resorts began making their mark on the Strip ever since Steven Wynn, often considered an industry visionary, opened the highly-profitable 3,039-room Mirage in 1989. Since then, the Strip had been transformed with the construction of the Excalibur, the new MGM Grand, Treasure Island, New York-New York, Luxor, and Mandalay Bay, among others, each sporting its own mix of non-gaming attractions and entertainment venues.

³ Pete Earley, *Super Casino: Inside the "New" Las Vegas* (2000) pp. 44–45.

⁴ Earley, p. 56.

⁵ Earley, p. 61.

⁶ Earley, pp. 81–91.

⁷ Jim Kilby and Jim Fox, *Casino Operations Management*, 1998, pp. 9–10.

While luring patrons into the gambling halls had always been the aim of non-gaming attractions, Mega-Resorts have had the paradoxical effect of transforming these non-gaming elements of high-end entertainment into major draws and profit centers in themselves, increasingly attracting vacationers more interested in enjoying these attractions than dropping money in the casinos (see **Exhibit 1**). In the words of a top casino executive:

People used to come to Las Vegas strictly to gamble. . . . The average gambler used to spend four hours per day playing in a casino, but now that same gambler plays only two hours per day because there is so much more to see and do on the strip. We have to give them something to do inside our resorts other than gambling to keep their attention. If we don't, they will go somewhere else.⁸

Greater emphasis was increasingly being placed on the non-gaming elements of these Mega-Resorts. Contrary to the gaudy entertainment themes of the Circus Circus era, more recent developments such as Steve Wynn's newest venture, the Wynn Las Vegas, were by comparison far more exclusive, luxury-oriented, and committed to providing high-end entertainment and upscale attractions.⁹

The MGM Grand Hotel

The original MGM Grand Hotel in Las Vegas was built in the 1970s by famed Las Vegas property investor Kirk Kerkorian, who had acquired a stake in the MGM film studio. He sold the hotel, as well as its sister property the MGM Grand Hotel—Reno, to Bally Manufacturing in 1986. He nonetheless retained the rights to the MGM Grand name, even as the MGM Grand Hotel became Bally's Las Vegas.¹⁰

In 1986, Kerkorian returned to the Las Vegas property scene in founding MGM Grand, Inc., unveiling the *new* MGM Grand Hotel in 1993. In 1997 the company began growing its presence on the strip through joint ventures, mergers, and acquisitions which added landmark casinos to the company's portfolio such as the New York-New York—opened as a joint venture—and then ultimately extending the reach of the group from Detroit, to Atlantic City, and even to South Africa. In 2000, MGM Grand bought rival Mirage Resorts for \$6.4 billion. The company changed its name to MGM MIRAGE, and now had many of the top-end Vegas properties, such as the luxurious Bellagio, the tropical-themed Mirage, and Treasure Island, under its umbrella. The purchase of the Mandalay Resort Group in 2005 for \$7.9 billion created the largest gaming company in the world.¹¹ Despite uniting all these properties under the same corporate group, each casino retained its own personality and was managed independently of other MGM MIRAGE holdings. (See **Exhibit 2** for MGM MIRAGE's organizational chart.)

Before the company's explosive growth at the end of the 1990's, the *new* MGM Grand Hotel had been the centerpiece of Kerkorian's Las Vegas Empire. Built at the famous intersection of Las Vegas Boulevard and Tropicana Avenue (not the site of the old MGM Grand, which remained Bally's), the \$1.1 billion Wizard-of-Oz--themed Disneyland-like complex, later to become known as the "City of Entertainment," included a 33-acre theme park, its own 17,000-seat Grand Garden Arena, and, with

⁸ Quoted in Earley, p. 176.

⁹ "The Revenge of Steve Wynn," *BusinessWeek Online*, April 26, 2005.

¹⁰ Hoover's Online.

¹¹ Hoover's Online.

over 5,000 rooms, the largest hotel in the world at the time. A financial success from the beginning, the hotel took in \$742 million in revenues in its first year of operation.

Once J. Terrence Lanni became CEO of the company in 1995 (he later became Chairman and CEO of MGM MIRAGE), the hotel began to upgrade its facilities and generally increased and consolidated its focus on high-end entertainment. The amusement park, for instance, closed in 1999. Now, in addition to hosting major concerts and sporting events at the Grand Garden Arena, the MGM Grand housed fashionable bars, the Studio 54 nightclub reconstruction, a lion habitat, luxury two-story Skylofts, and The Mansion at the MGM Grand, which was an ultra-exclusive set of 29 private Tuscan-themed villas that, even if one was willing to pay their nightly rate of over \$5,000, were only available to a very exclusive group of customers. In a city where hotels and resorts seemed to come and go with rapid frequency, the MGM Grand never stopped renewing itself to maintain its freshness. Perhaps the most impressive new addition to the hotel's array of entertainment was the Cirque Du Soleil's widely-acclaimed show *KÁ*, which premiered in February 2005 at the MGM Grand in a nearly 2000-seat state-of-the-art performance space, the *KÁ* Theater, for which MGM invested approximately \$165 million. On its opening, Gamal Aziz, the COO of the resort, remarked that "The arrival of *KÁ* is the crown jewel in the renaissance of MGM Grand. Throughout our reinvention, we have strived for the best in dining, entertainment and service. With the unveiling of *KÁ*, MGM Grand is taken to a new level."¹²

MGM Strategy

The era of inexpensive lodging and entertainment for everybody was gone by the time the new MGM Grand was built in 1993. Complimentary gifts and subsidies offered by the Casino—"comps" as they were called—were still offered at the MGM Grand, but were only available to gamblers whose gaming behavior justified the cost of the reward. Otherwise, the customer was charged full price for food, drink, lodging, and entertainment. Nevertheless, amenities still existed to lure gamblers; for example, the original amusement park was built to attract families with the expectation that the heads of the family unit would gamble during their family vacation.

Over time, as MGM Grand added facilities and upgraded existing ones with a relentless emphasis on high quality, it raised its prices on entertainment and lodging. Room prices in 2005 ranged from \$79 to \$399 for the different types of standard rooms, and the luxurious Skylofts typically fetched over \$1,000 a night. Restaurant bills often included several-hundred-dollar bottles of wine and shows like *KÁ* typically commanded ticket prices upwards of \$99. The contribution of these lines of business also increased representing more than 60% of the revenues and profits—a sharp contrast with the 25% contribution they represented in the very first years of the resort (see **Exhibit 3**).

The organization of the MGM Grand reflected the importance that operations were believed to have on the success of the business. Aside from key corporate functions such as finance, legal, and HR, the main responsibilities were assigned around products, and included both operations and marketing (see **Exhibit 4** for the property's organizational chart). For instance, Steve Zanella, VP of Slots, emphasized that his job was twofold:

The slot business is different from the tables. Our customer has an idiosyncrasy very unlike that of a blackjack player. We do not have to worry about croupiers and pit bosses, but efficiently servicing the slot machines and minimizing their down time poses its own

¹² Cirque Du Soleil, Press Release, September 15, 2005, Online, <http://www.cirquedusoleil.com/CirqueDuSoleil/en/pressroom/prinfo/news/news82.htm>, accessed October 14, 2005.

challenges. Moreover, operations and marketing are intrinsically connected in our business. When we design a machine or plan the floor layout around games, themes and denominations, we cater to our different customer segments and try to facilitate our operating processes.

Managing Customers

As a customer-oriented organization, the MGM Grand placed a great emphasis on managing the profitability of its customers, specifically, its gamblers. This implied differentiating customer treatment as a function of the segment profitability. Three elements were pivotal in this strategy: the casino hosts, the Players Club card, and the promotions.

Customer Segments

The MGM Grand differentiated fourteen segments of customers; the main criterion used to identify these segments was the amount of money they could be expected to put into play in the casino. There were two main groups of segments: those above the “Comp line”—those deserving of “comps”—and those below it. A “comp” could range anywhere from complimentary dining at a restaurant or admission to an entertainment venue to free lodging in the Mansion at the MGM Grand. The amount and value of comps awarded to any given customer typically depended on the amount of money the customer played in the casino.

Customers above the “comp line” could be further classified into three general categories. First, there were the so-called “whales,” well-known wealthy patrons capable of spending tens of thousands, sometimes millions, of dollars in the casino on a single visit. There were typically few whales, and those that existed were generally known by top MGM executives. Second, were the high rollers, who, although not on the level of whales, were still visible and often high-stakes casino players. Third, far less visible but still deserving of comps, were the many loyal but lower-level gamblers (see **Exhibit 5**).

Managing Customers’ Experience: The Role of Hosts

Armed with accurate real-time data and an acute intuition for such things, Mary knew that the inauspicious-looking man at the slot machine was the highest spender in the room. After politely introducing herself as a casino host, she asked the customer where he was staying. He told her, and she promptly upgraded his accommodation. “If there’s anything else I can do for you,” she told him while handing him her card, “don’t hesitate to let me know.” The man walked away with a huge grin, unable to believe his own luck. Mary was one of 20 “Casino Hosts” at the MGM Grand Hotel who devoted their efforts to making gamers feel special, targeting individual customers with alluring comps. The MGM Grand relied heavily on these hosts in order to initiate and manage customer relationships while simultaneously ensuring profitability.

Hosts engaged with all segments of customers who qualified for complimentaries, although depending on his or her preferences or contacts, a host could specialize in certain customer segments. Whales were typically also known and handled personally by top MGM Grand executives in an almost purely relationship-based approach—in addition to the meticulous attention given to them by casino hosts. John Shigley, for example, recalled personally wining, dining, and golfing with these VIPs on numerous occasions, including on trips overseas to play eighteen holes with several of them. Complimentary transportation to the casino from the whale’s home, wherever that may have been, was not unknown, and once at the casino, the whale was afforded exclusive treatment, which

included personal attention, complimentary show tickets, and food and drink. Perhaps most importantly, it included lodging in the luxurious and ultra-exclusive Mansion at the MGM Grand, a privilege that money alone typically could not buy. Lodging was, in fact, one of the primary means of segmenting the top tier of gambling clientele.

Although not on the level of whales, conspicuously deep-pocketed casino players—High Rollers—were managed by highly-personable casino hosts on a somewhat more impromptu basis. Using a combination of subjective observation, real-time concrete data (see below), and customer profitability reports, hosts such as Earl, a shrewd and enthusiastic manager with a keen eye for profitable customers, were able to “red flag” gamblers and determine their theoretical losses.

Hosts enjoyed almost absolute freedom to decide how to better enhance their customers’ experience. They sent automated letters—usually around 2,200 a month—to customers after their trips, personally called customers when they had not visited the resort during an abnormally long period of time, and emailed or called their customers to make them aware of an upcoming event that matched their known preferences.

Hosts ultimately had decision rights on the comps. Typically, a host would be willing to comp guests up to 35% of their theoretical win—the amount that he or she expected the casino to win from them¹³—and acted according to a “Decision Matrix” which provided guidelines for comping tied to customer return trips, and new and reactivated customers (see **Exhibit 5**). Hosts were therefore able to pro-actively offer comps such as lodging in luxurious two-story Skylofts, and also, as the point of reference for customer requests and inquiries, hosts were well-placed to make reactive decisions as well. In both their pro-active and reactive decision-making, hosts helped attract players and sustained customer loyalty while also ensuring profitability.

For the less visible but still affluent and gaming-oriented customers, discounts and comps were automatically offered through the Players Club: a card-based rewards scheme that was available to all customers.

Managing Customers’ Loyalty: The Players Club Card

The inconspicuous customer at the slot machine had his Players Club card to thank for Mary’s attention: she was able to observe his gaming behavior on her office computer in real time so long as he used the card. Even aside from Mary upgrading his accommodation, the card was providing him with benefits, which was the reason he used it when gambling at the MGM Grand. Available to all customers, the card was not a payment instrument, debit or credit, but a gaming loyalty card. It was inserted into slot machines in addition to the required currency, and similarly was presented at table games in addition to the money being wagered; the more the cardholder wagered on slots and tables, the more “points” he or she would automatically accumulate on the card. Points could then be redeemed for comps, which could typically include an abatement of the customer’s hotel and entertainment costs, coupons for a free meal at a restaurant, or tickets for a show.

The Players Club card was a key element in MGM’s strategy, allowing the resort to build customer loyalty while at the same time managing the profitability of the less-conspicuous gamers. Similar to other loyalty cards such as those at hotels, airlines or retailers, the Players Club card was used to reward loyal customers and collect information about their gaming behavior. The card extended beyond just the MGM Grand Hotel; points could be accumulated and redeemed at seven

¹³ See International Gaming Institute, *The Gaming Industry: Introductions and Perspectives*, University of Nevada, Las Vegas, 1996, pp. 135–136.

premiere MGM MIRAGE properties: the MGM Grand Hotel, the Bellagio, the Mirage, Treasure Island, and New York New York, as well as the Beau Rivage in Biloxi, Mississippi, and the MGM Grand Detroit. In all, points could be redeemed in these resorts at one hundred restaurants, ten shows, seven spas and salons, and accommodations in all of the resort hotels.

The card only recorded gaming transactions; points did not accumulate from non-gaming expenditures such as at the hotel or restaurant. The card had no tiers such as platinum or gold; it worked the same for all customers, providing points towards comps in proportion to the amount played in the casino.

In addition to earning points for comps, for every point a customer accumulated he or she also received a “Holiday Gift Shoppe Point.” These points accumulated from January to November, and could be redeemed in person during the first week of December for a wide variety of gifts including jewelry, electronics, and even cars. Gift Shoppe points could only be redeemed in person during that specific week, and, if they were not redeemed for gifts, they did not carry over to the next year. Nonetheless, the amount of points some customers accumulated in a year could be legendary: one especially prolific gambler actually drove away with a much-coveted early Christmas present—a brand new Ferrari.

But comps and gifts were not the only incentive. MGM customers also knew that they would get more personalized treatment if their gaming log showed that they were attractive and loyal customers. Indeed, real-time data on customers who were logged in with their card allowed hosts to pro-actively court customer relationships on the casino floor, as the slot machine player learned firsthand to his delight.

A login-based website, www.playersclub.com, allowed players to access their personal club account. From the website they could view the amount of points and Gift Shoppe Points they had accumulated, as well as the possible rewards and gifts for which they might redeem them. Card holders could also see specific promotions which were available to them.

Luring Customers to Las Vegas: Promotions and Branches

Even after customers left the MGM Grand, they would still receive promotions and mailings aimed at drawing them back to the resort on top of the personalized calls or letters they might receive from the hosts. Several different divisions at the MGM Grand Hotel were responsible for marketing including casino marketing and slot marketing—which were responsible for the database centered promotions and game-related marketing actions—and also the marketing and sales office which promoted both the hotel and the entertainment productions.

Events at the MGM Grand could be related to gaming, such as poker championships, or related to entertainment—concerts, for instance. If the Rolling Stones were to come to the Grand Garden Arena, the marketing and sales office would design the optimal advertising campaign—usually direct mailings, followed by telemarketing, followed by e-mails—while casino and slot marketing would purchase a block of tickets to offer to their customers. Promotions were highly segmented with regards to their target groups, and were normally individualized based on prior gaming or event-attendance behavior (see **Exhibit 6** for an example of an MGM mailing).

Telemarketing was also performed by different groups. Jacquie Bailey, in addition to her marketing responsibilities at the MGM Grand Resorts level, supervised the activity of three telemarketers, who, while recognizing their responsibilities under various federal and state laws, implemented campaigns mainly aimed at reactivating customers who had not visited the property

recently. Also, in addition to the MGM Grand hotel reservations office, the VIP services group of casino marketing dealt with incoming customer requests—for groups or individuals—who requested special arrangements or simply needed hotel accommodations. The VIP services office had full control over The Mansion at the MGM Grand, the Skylofts and a set of hotel rooms that were blocked exclusively for casino players.¹⁴

In addition to the marketing done by the property itself, the marketing network of MGM MIRAGE group extended nationally and all over the world. The national marketing operations included numerous branches, which reported to Robert Moon, who also was in charge of international marketing for the MGM MIRAGE properties (**Exhibit 2**). A typical branch had eight to nine staff members, and had revenue targets for all the MGM MIRAGE properties the offices served. International marketing operations included around a half dozen branches. The typical international branch had six to seven hosts, and served the higher end MGM MIRAGE resorts. Additionally, almost thirty independent agents, most working exclusively on commission, dealt with geographic areas not necessarily covered by the national and international branches.

Customer Profitability

Customer profitability was a constant concern of the MGM Grand, as demonstrated by the attention to detail with which customer relations were handled—whether for whales, high-rollers, or even low level gamblers. In fact, the MGM Grand could track 75% of its gaming revenues to specific customers. MGM executives commonly referred to customers by their expected amount gambled per trip, a figure which served as the basic unit of customer profitability, and which acted as the basis for most comping decisions. For example, a host might offer a Skyloft to a “\$30,000 per-trip customer.” For decision making, the current trip of a customer as well as his or her observed behavior over the last 5 trips were the metrics more commonly used by MGM managers.

The basic components of profitability were the gaming revenues, the hotel, food, beverage, and entertainment profits, and the comps that had been offered.

Gaming Profits

Gaming was considered to be the primary business of the MGM Grand; profits in this sector came primarily from slot machines¹⁵ and table games. The profitability of a gaming customer was calculated based on the casino’s so-called “theoretical win” from the customer—the amount of revenues the MGM Grand would theoretically make based on the amount the customer bet—not the “actual win.” MGM did not want to penalize a customer for being lucky.¹⁶

Gaming revenues were recorded and computed differently at slot machines and table games. For slots, electronic gambling machines of various high and low denominations, the play of a customer using a Players Club card could be recorded in great detail. By multiplying the total amount the customer had put into the machine by the theoretical hold percentage of the specified machine, the

¹⁴ In busy periods, the allocation of these suites and rooms was decided at “Suite Meetings,” which typically included key personnel from each department. In less busy periods individual departments, and sometime even hosts, had the discretion to allocate the suites.

¹⁵ Slot machines also included electronic games such as video poker.

¹⁶ The casino did, on occasion, consider its “actual win,” usually in cases where a customer had unpredictably lost large sums while gaming. “Actual win,” however is only as accurate as visual observation or use of a customer’s Player Card permits.

casino's "theoretical win" from the customer could be computed. This detailed information allowed MGM to trace around 65% of all its slot revenues to individual customers who used the card.

Table games, unlike slot machines, relied on human dealers for their operation. They included games such as blackjack, roulette, baccarat and craps; different table games had different sources of revenue, whether from rakes¹⁷ or the varying levels of house advantage. The calculation of theoretical win for table games was also based on information recorded onto the computer system by floormen¹⁸ through rating slips, which, although not as detailed (or necessarily accurate due to its reliance on human judgment to assess amount bet, time played and game speed), nonetheless contained vital information. For a player's gaming to be recorded, he or she needed to ask the floorman to be rated (or the floorman had to identify the customer from prior visits), and the floorman would then manually record the name and card number of the player to begin gathering the necessary information on the customer's play (see a rating slip in **Exhibit 7**). The theoretical win for table games was calculated as follows: Average bet x Hours played x Hands per hour x House advantage on the game - assuming the average skill of a knowledgeable player. MGM was able to trace around 85% of all its table revenues to individual Players Club customers.

Thanks to the Players Club card and the floor personnel, all this relevant information was gathered into the MGM information systems. For the purpose it was intended to serve, the information was generally reliable, comprehensive, and covered the last ten years of operations and more than 8 million customers. In this calculation of customer profitability, costs, such as that of operations and marketing personnel, equipment maintenance and real estate, were not assigned to the customer (see **Exhibit 8** for an example of a customer record).

Non-Gaming Profits

Around 60% of the MGM Grand's revenues and 50% of its profits came from restaurants, hotels, spas, and many one time and recurring shows including the Cirque Du Soleil production. However, the information on non-gaming expenditures by MGM customers was less exhaustive than the gaming information, its quality was less consistent, and its database contained information since only the beginning of 2003. The main source of data was the hotel folio—the set of services that were settled at hotel checkout. Lodging information was therefore automatically entered into the database, but in the case of food, beverages, shows, or other services, the folio only included those expenditures that the customer had decided to charge to the room (see **Exhibit 9** for a sample of observations from the database). Because of these limitations, only 60% of the food, beverage, and entertainment revenues were captured by this database, which, like the gaming database, was based on revenue: no costs of the services provided were assigned to the customer.

Comps

Comps were also an important component of a casino customer's profitability: because they were used to reward the gaming behavior of customers, comps were considered to be an expense that these customers generated.

¹⁷ Rake refers to the percentage taken by the house in games such as poker where the casino does not put its money into play.

¹⁸ Game supervisors.

Like a customer's play, comps were tracked in the Players Club database. The way they were recorded into the system differed depending on the nature of the comp. Generally, it was possible to distinguish three types of comps:

1. **Casino Rates:** It was common to give customers who were expected to gamble on the MGM premises discounted accommodation rates, known as casino rates. These rates were simply collected from the customer and recorded in the hotel folio. No cost was entered in the Players Club database.
2. **Soft costs in the form of complimentary services:** For more attractive customers, MGM could completely waive the room rate. Complimentaries in the form of room, food, beverage, entertainment or any other service provided by the hotel were charged to the customer's Players Club account, and also remained as revenue in the corresponding hotel account at full rate.
3. **Outside expenditures:** Any other complimentary service that implied a payment to an outside provider (for instance, reimbursements for plane tickets) appeared as an expense in the Players Club database for its full amount.

Non-Gaming Profit Centers

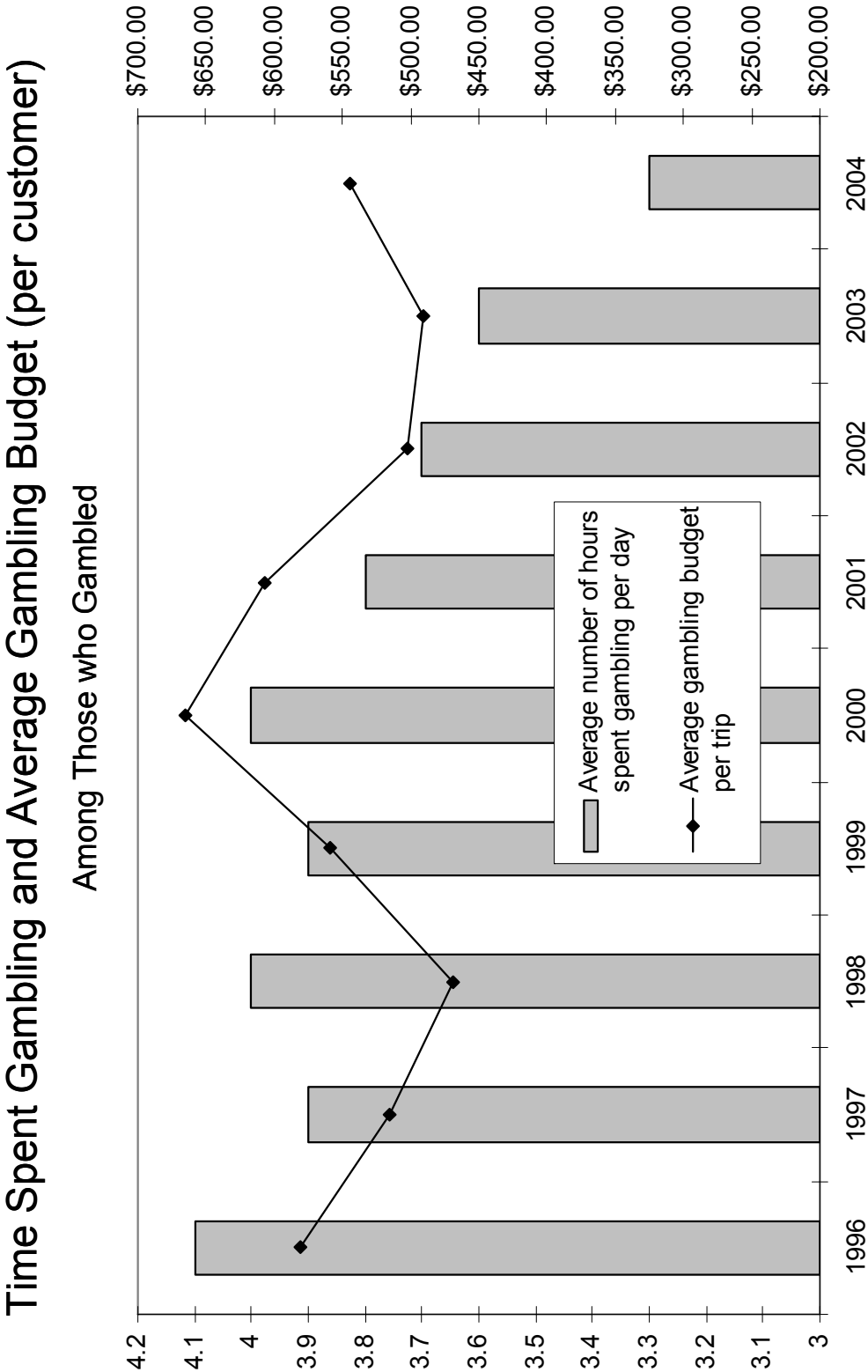
Customer profitability was not the only dimension of profitability which MGM managers measured. In addition to the division profitability, MGM closely tracked the profitability of its events and each of its non-gaming venues such as restaurants, spas, bars, and nightclubs (see each of **Exhibits 10, 11a** and **11b** for representative examples).

The impact these profit centers (events and non-gaming venues) had on gaming profitability was carefully monitored. In the profitability analysis of events there was always an indication of what ancillary gaming profits were generated, and by which types of customers. With regards to the restaurants and other non-gaming venues, Jeff Knesh, Executive Director-Financial Planning, remarked, "We will take into account our gaming customers' preferences, but we are not going to accept sustained losses from a restaurant. It has to be profitable by itself. If it's not, we will find other profitable ways to satisfy our customers." Accordingly, in calculating the profitability of these venues, the amounts comped to players were included as full revenues.

A Brave New Las Vegas?

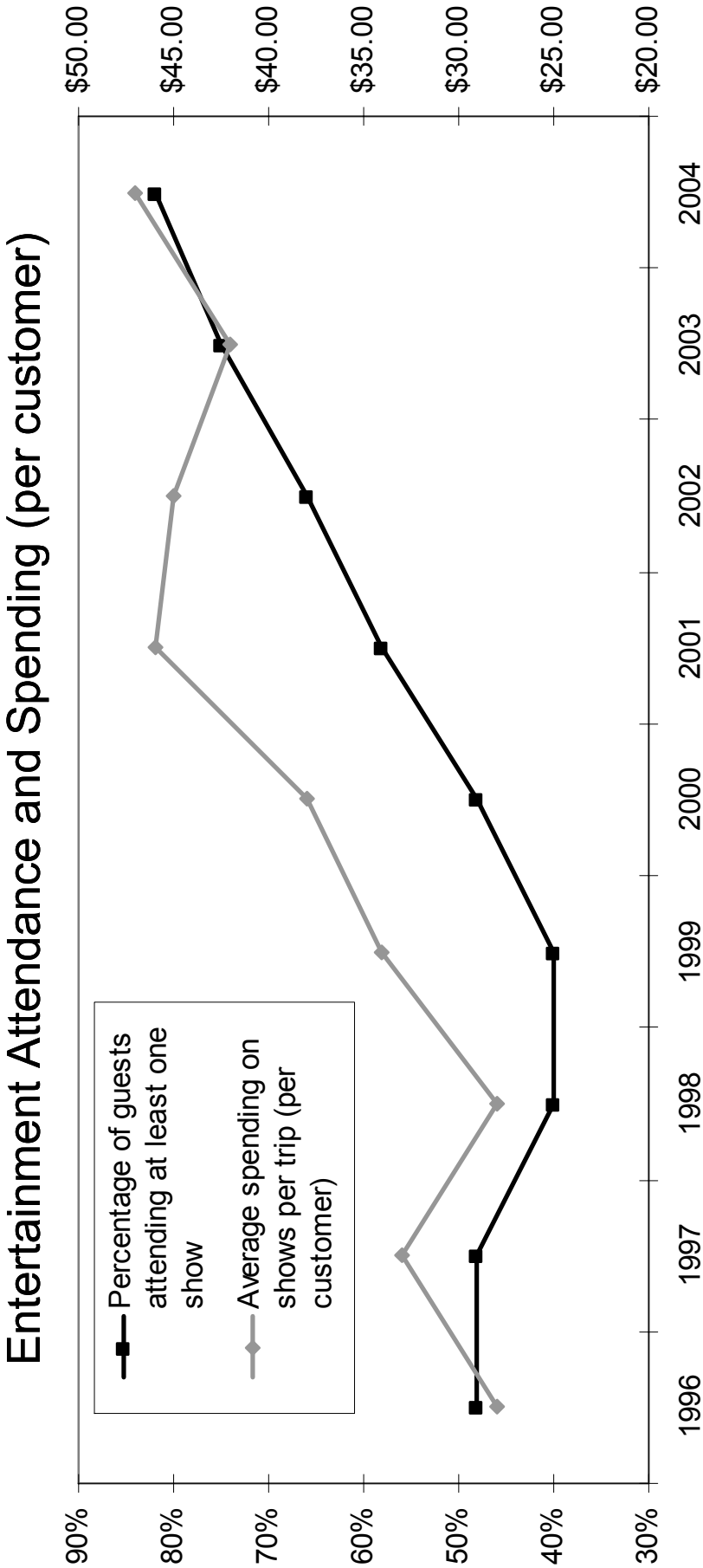
As John Shigley listened to the techno beats at the Centrifuge, he reflected on the discussions during the meeting with MGM Grand's President and COO Gamal Aziz: while non-gaming activities at the MGM Grand were highly profitable enterprises, their customers were not fully understood. How could the non-gaming customer profitability be better captured? Shigley realized that if they wanted to use their understanding of customers in order to improve overall profits, they would need to know how much of the profitability in the non-gaming sectors was driven by gamblers and by their families, and how much of it was driven by the non-gaming customer segment. Could the techniques of rewarding gaming customers, so successfully used to grow Las Vegas and MGM Grand to its current record levels of revenue and profit, now be applied to the non-gaming customers to support continued growth? Could improved tracking and rewarding of non-gaming customers be implemented without negatively impacting profitability?

Exhibit 1a Gambling Behavior of Las Vegas Visitors



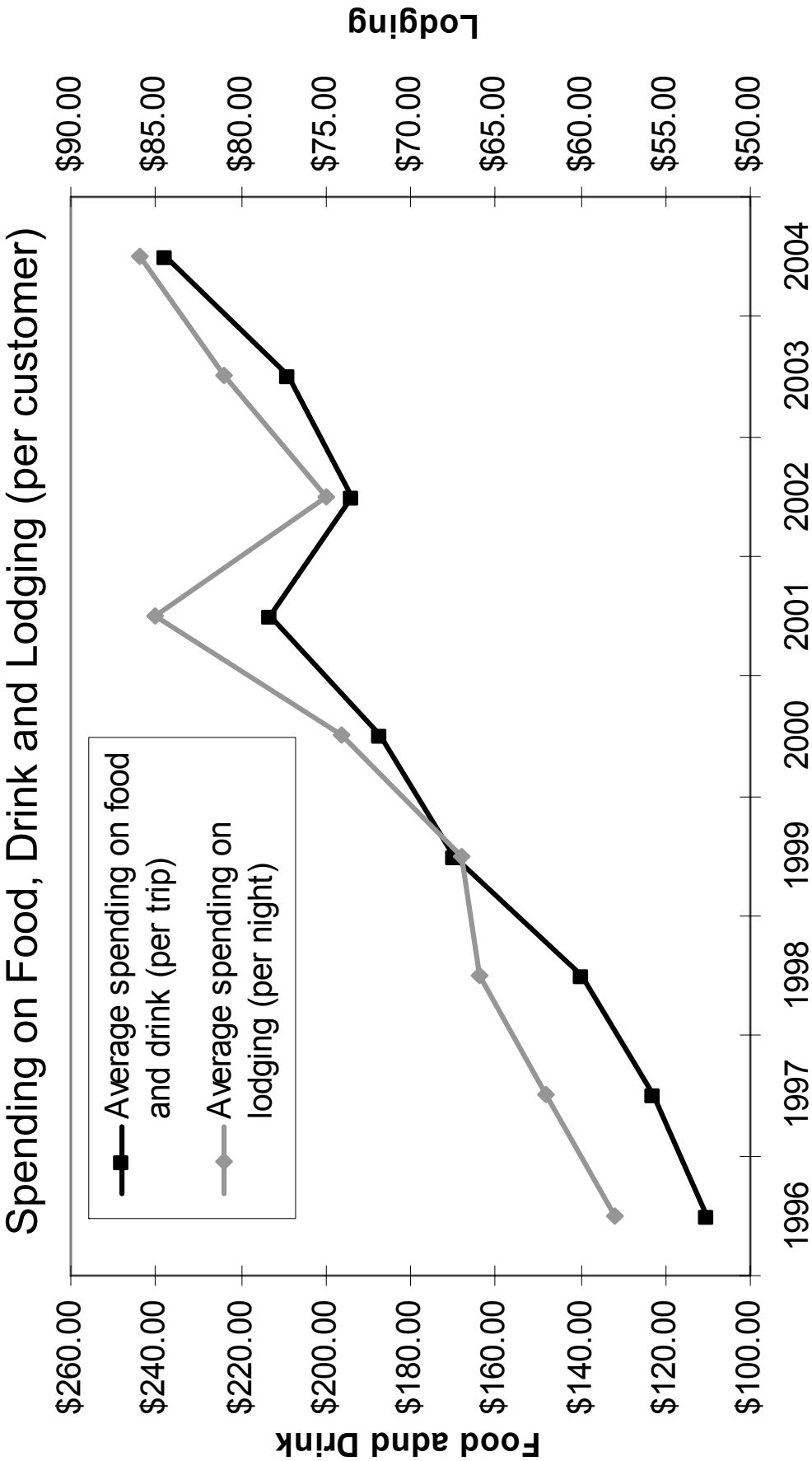
Source: Created by casewriter from LVCVA (Las Vegas Convention and Visitor Authority) data.

Exhibit 1b Gambling Behavior of Las Vegas Visitors



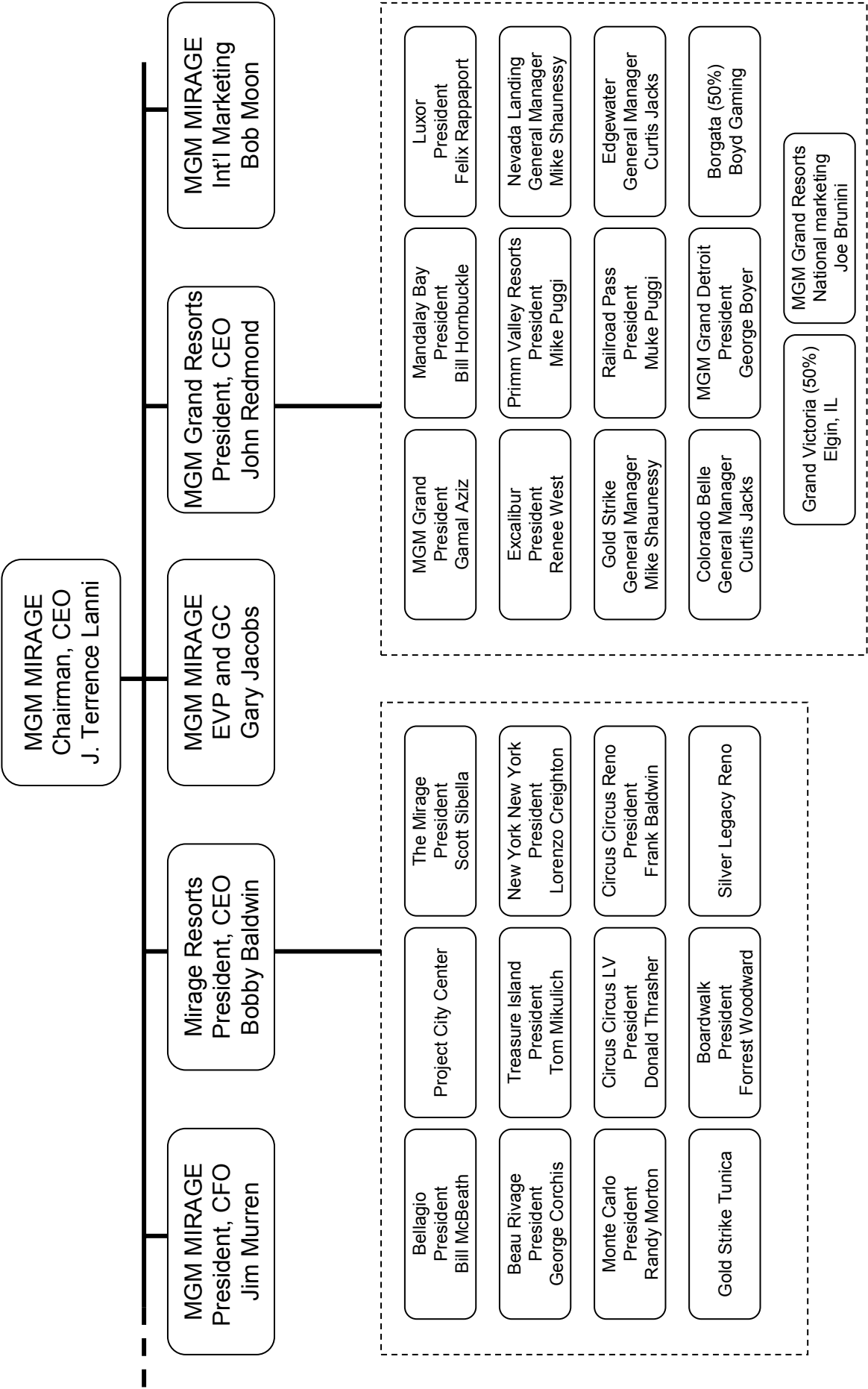
Source: Created by casewriter from LVCVA data.

Exhibit 1c Food and Drink Behavior of Las Vegas Visitors



Source: Created by casewriter from LVCVA data.

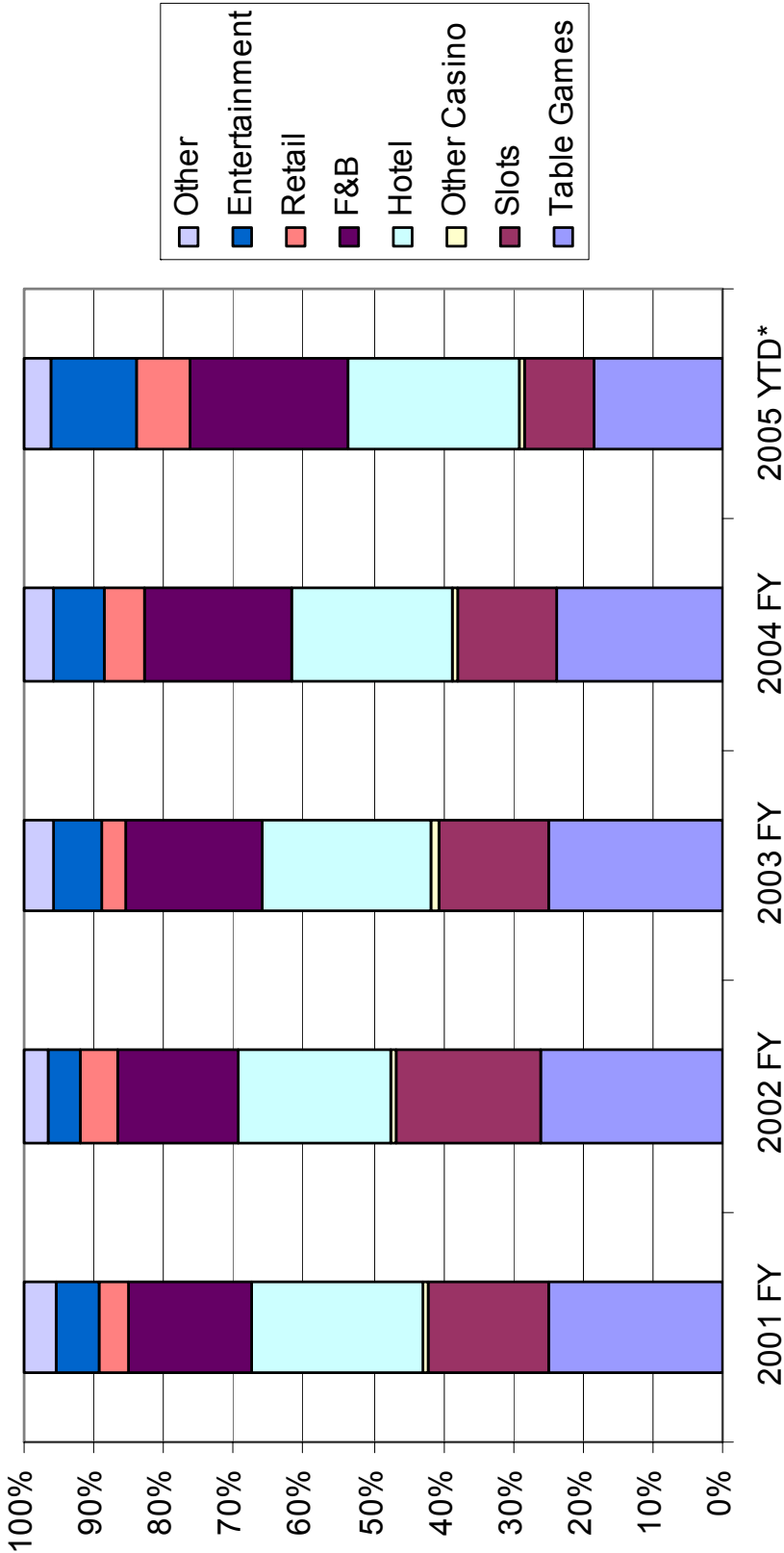
Exhibit 2 MGM Mirage Resorts Organization



Source: MGM Grand Hotel.

Exhibit 3a MGM Grand Hotel Revenue by Sector

Revenue by Sector 2001-2005



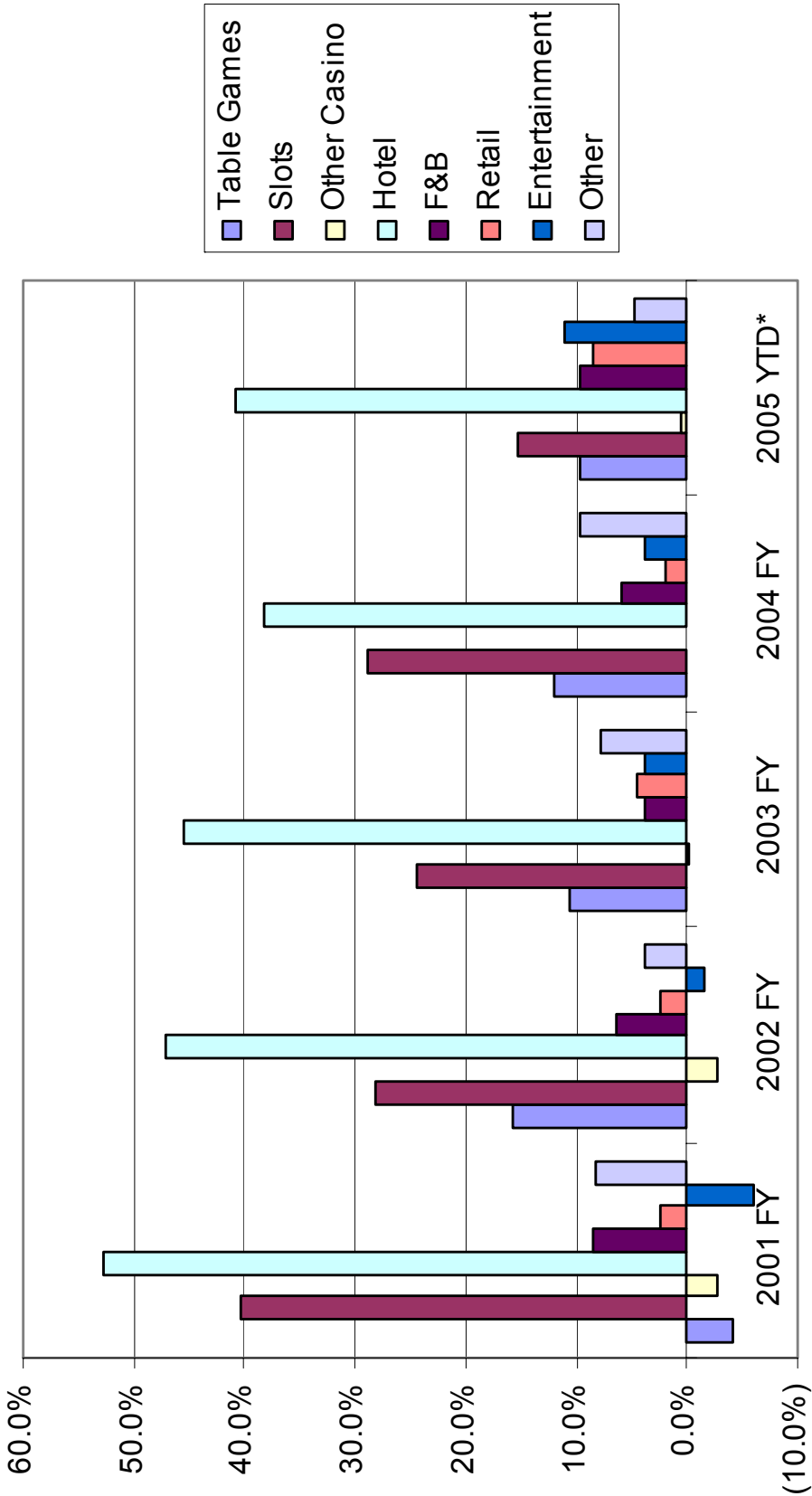
Source: MGM Grand Hotel.

Note: Data has been disguised.

Figures represent full-year results except for 2005 which are year-to-date through July.

Exhibit 3b MGM Grand Hotel EBITDA by Sector

EBITDA by Sector 2001-2005

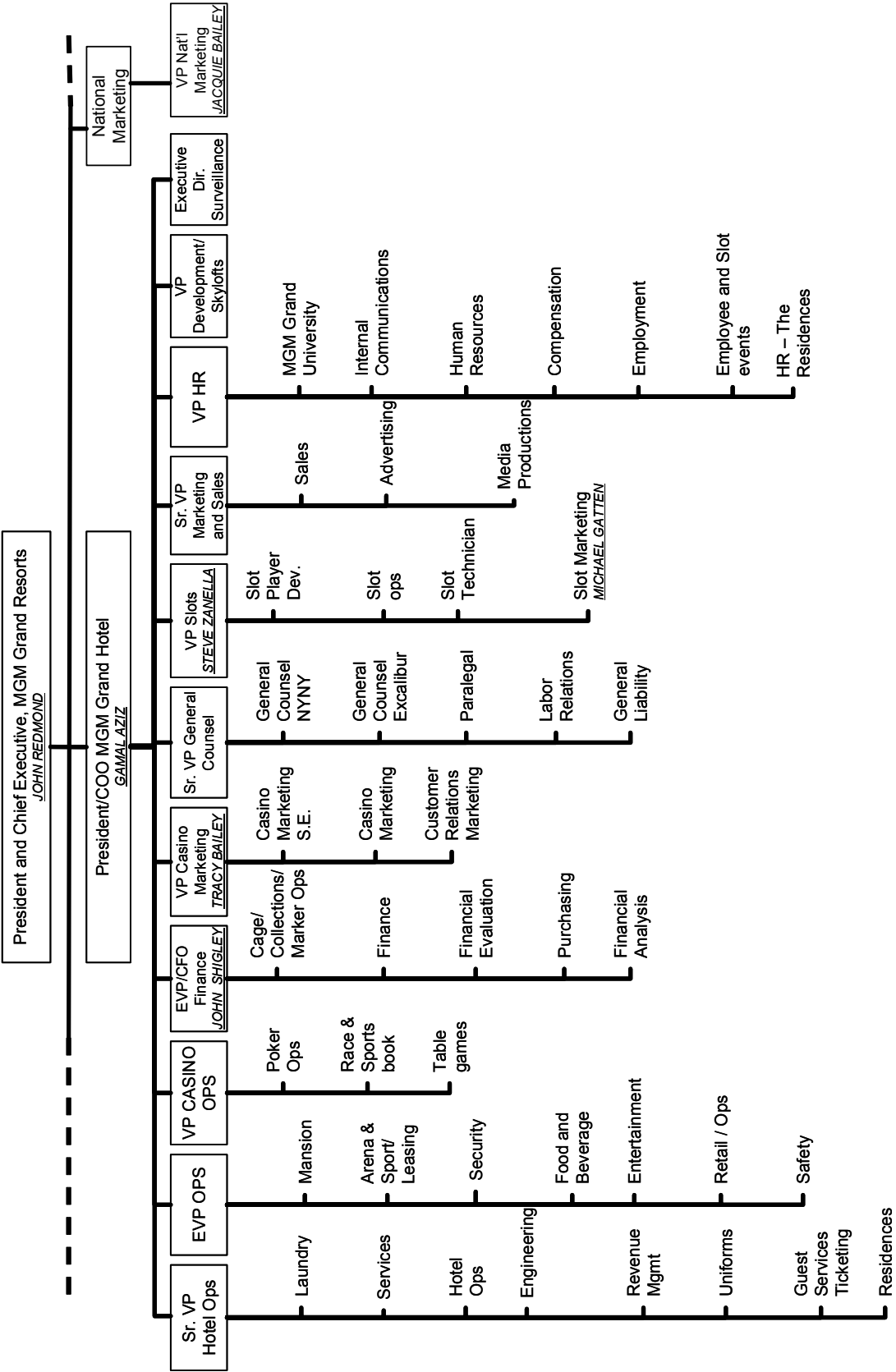


Source: MGM Grand Hotel.

Note: Data has been disguised.

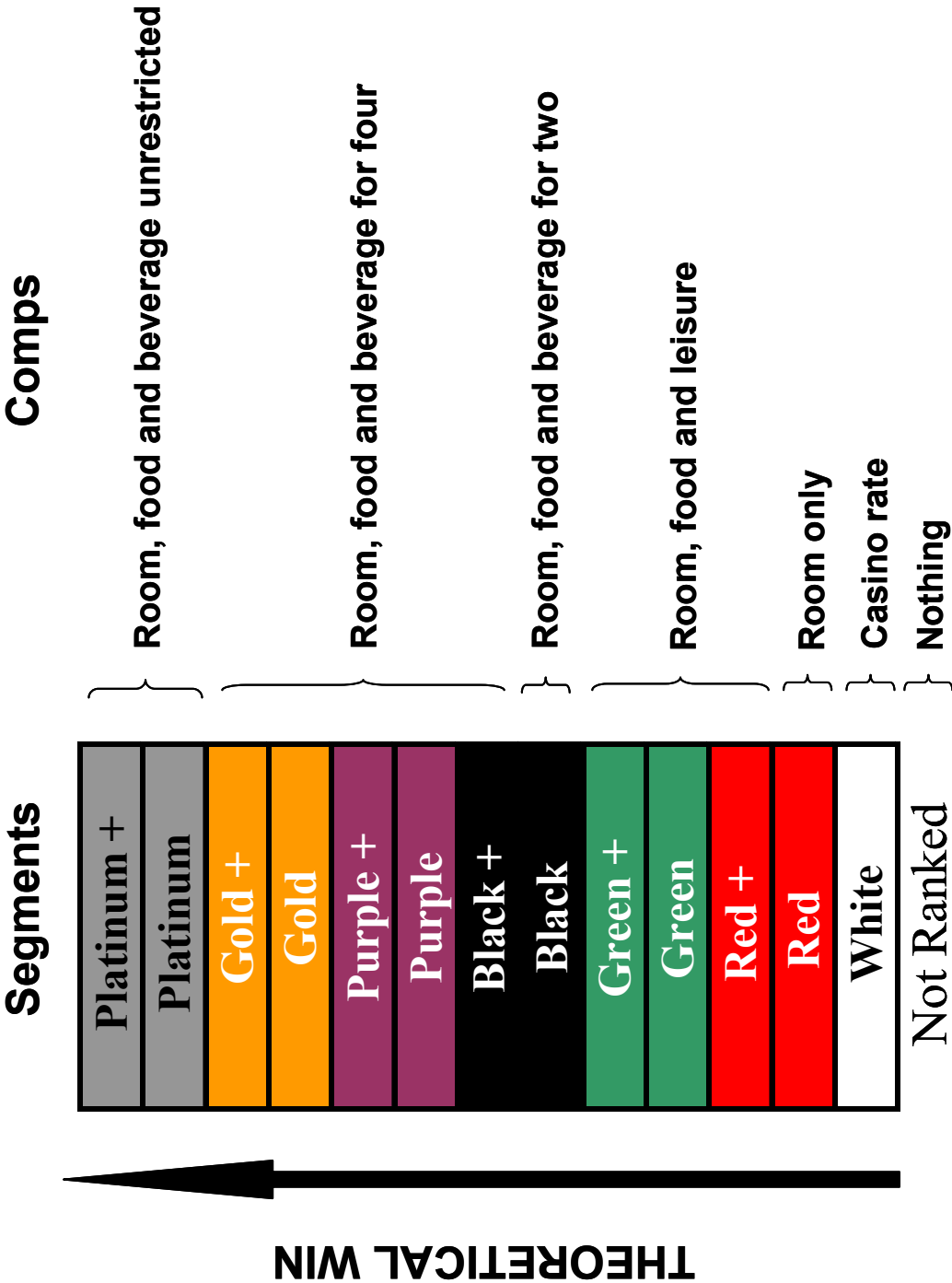
Figures represent full-year results except for 2005 which are year-to-date through July.

Exhibit 4 MGM Grand Hotel Organizational Chart



Source: MGM Grand Hotel.

Exhibit 5 Customer Segmentation at MGM Grand



Source: MGM Grand Hotel; casewriter analysis.

106-029

Slots, Tables, and All That Jazz: Managing Customer Profitability at the MGM Grand Hotel

Exhibit 7 Player Rating Card at the MGM Grand

PLAYER RATING SLIP					
Slip #		Date / /		Audit by	
Customer #		Birthdate / /			
Name: Last		First		Middle	
Marker Limit		FM		Available	
Marker Requested					
				Buy-in	
				Money Plays	
				Checks	
				Marker(s)	
Pit	Game	Table	Average Bet		Total In
Skill Level S M H			Start Time A/P		Walk
Game Speed S M F			End Time A/P		Estimated Win
Supervisor Name / Number				Estimated (Loss) ()	
Input by		Comments			
GRAVEYARD SHIFT					

MG-CA003 (1/05)

Source: MGM Grand Hotel.

Exhibit 8 Example of Available Players Club Data

Players Club ID	Property ID	Trip Start Date	Trip End Date	Table Theoretical Win	Slot Theoretical Win	Slot Actual Win	Table Actual Win	Comps --- Room	Comps --- F&B	Comps - Show	Comps - Other	Birthday
1	6	25-Jan-02	25-Jan-02	\$0.00	\$14.00	\$65.50	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	4-Dec-50
1	3	14-Jan-04	16-Jan-04	\$0.00	\$145.95	\$409.25	\$0.00	\$0.00	\$43.84	\$0.00	\$0.00	4-Dec-50
1	4	15-Jan-04	16-Jan-04	\$3.16	\$49.02	(\$309.00)	\$40.00	\$0.00	\$4.33	\$0.00	\$0.00	4-Dec-50
2	2	26-Sep-02	29-Sep-02	\$0.00	\$17.02	(\$511.50)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	24-Dec-38
2	3	29-Sep-02	29-Sep-02	\$0.00	\$8.81	\$15.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	24-Dec-38
2	2	5-Sep-03	5-Sep-03	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	24-Dec-38
2	3	5-Sep-03	5-Sep-03	\$0.00	\$87.40	\$179.75	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	24-Dec-38
3	8	16-Nov-02	17-Nov-02	\$0.00	\$149.39	\$422.10	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	22-Feb-70
3	8	1-Sep-03	1-Sep-03	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	22-Feb-70
3	4	1-Sep-03	1-Sep-03	\$0.00	\$14.04	\$30.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	22-Feb-70
4	3	25-Oct-02	25-Oct-02	\$80.80	\$0.00	\$0.00	(\$3,000.00)	\$0.00	\$0.00	\$0.00	\$0.00	3-Mar-43
4	3	2-Dec-02	2-Dec-02	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	3-Mar-43
4	1	2-Dec-02	2-Dec-02	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	3-Mar-43
5	1	20-Jul-02	27-Jul-02	\$0.00	\$31.71	\$113.75	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	31-May-36
5	3	27-Jul-02	27-Jul-02	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	31-May-36
.
.
99999	2	7-Jun-02	11-Jun-02	\$93.50	\$1,247.41	\$1,521.00	\$1,100.00	\$258.00	\$87.28	\$0.00	\$0.00	20-May-46
99999	4	18-Apr-03	19-Apr-03	\$70.80	\$232.11	\$150.00	(\$325.00)	\$0.00	\$0.00	\$0.00	\$0.00	20-May-46
99999	4	5-Jul-03	7-Jul-03	\$68.79	\$316.37	(\$225.00)	\$200.00	\$0.00	\$0.00	\$0.00	\$0.00	20-May-46
99999	4	7-Feb-04	8-Feb-04	\$18.56	\$179.41	\$130.00	\$100.00	\$0.00	\$0.00	\$0.00	\$0.00	20-May-46
99999	3	8-Feb-04	8-Feb-04	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	20-May-46
99999	2	8-Feb-04	8-Feb-04	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	20-May-46
99999	4	10-Jul-04	11-Jul-04	\$166.06	\$22.83	\$130.00	(\$125.00)	\$0.00	\$0.00	\$0.00	\$0.00	20-May-46
99999	2	13-Dec-04	13-Dec-04	\$24.06	\$0.00	\$0.00	\$200.00	\$0.00	\$0.00	\$0.00	\$0.00	20-May-46

Source: MGM Grand Hotel.

Exhibit 9 Example of Available Hotel Folio Data

Customer ID	Players Club ID	Arrival Date	Departure Date	Total Hotel Charges	Charges -- Room	Charges -- Other	Charges -- F&B	Charges -- Entertainment	Charges -- Retail
72	843	11-Aug-02	14-Aug-02	\$65.34	\$0.00	\$65.34	\$0.00	\$0.00	\$0.00
392		11-Mar-02	15-Mar-02	\$1,259.09	\$1,042.04	\$31.73	\$32.07	\$153.25	\$0.00
548	436	12-Jun-02	16-Jun-02	\$435.76	\$435.76	\$0.00	\$0.00	\$0.00	\$0.00
579	968	19-Jul-02	23-Jul-02	\$472.70	\$0.00	\$469.70	\$3.00	\$0.00	\$0.00
579	968	22-Sep-03	23-Sep-03	\$41.64	\$0.00	\$36.64	\$5.00	\$0.00	\$0.00
3226		26-Nov-02	30-Nov-02	\$435.78	\$435.76	\$0.02	\$0.00	\$0.00	\$0.00
6012	567	29-Aug-02	1-Sep-02	\$747.07	\$512.31	\$7.00	\$227.76	\$0.00	\$0.00
6012	567	15-May-03	17-May-03	\$439.82	\$239.68	\$44.98	\$136.16	\$0.00	\$19.00
7234		11-Mar-02	14-Mar-02	\$281.22	\$281.22	\$0.00	\$0.00	\$0.00	\$0.00
7692	909	13-Apr-02	14-Apr-02	\$185.24	\$185.24	\$0.00	\$0.00	\$0.00	\$0.00
7692	909	7-Jun-02	9-Jun-02	\$506.69	\$479.48	\$0.00	\$27.21	\$0.00	\$0.00
7692	909	28-Jun-02	30-Jun-02	\$469.44	\$435.88	\$0.00	\$33.56	\$0.00	\$0.00
7692	909	13-Sep-02	15-Sep-02	\$153.48	\$152.48	\$1.00	\$0.00	\$0.00	\$0.00
7692	909	22-Nov-02	24-Nov-02	\$108.94	\$0.00	\$108.94	\$0.00	\$0.00	\$0.00
7692	909	7-Mar-03	9-Mar-03	\$108.03	\$0.00	\$108.03	\$0.00	\$0.00	\$0.00
7692	909	27-Mar-03	28-Mar-03	\$65.34	\$65.34	\$0.00	\$0.00	\$0.00	\$0.00
.
.
.
8793		21-Oct-02	24-Oct-02	\$277.95	\$277.95	\$0.00	\$0.00	\$0.00	\$0.00
9172	3419	15-Feb-02	17-Feb-02	\$80.00	\$0.00	\$80.00	\$0.00	\$0.00	\$0.00
9172	3419	11-Sep-03	15-Sep-03	\$3.00	\$0.00	\$0.00	\$3.00	\$0.00	\$0.00
9172	3419	12-Sep-03	15-Sep-03	\$25.00	\$0.00	\$25.00	\$0.00	\$0.00	\$0.00
9336		13-Oct-02	14-Oct-02	\$87.14	\$87.14	\$0.00	\$0.00	\$0.00	\$0.00
9729		23-Oct-02	25-Oct-02	\$197.02	\$130.68	\$66.34	\$0.00	\$0.00	\$0.00

Source: MGM Grand Hotel.

Exhibit 10 Income Statement for Restaurant Flamenco (pseudonym) at the MGM Grand

	Actual Dec-04	% of Rev.
<u>Revenue</u>		
<u>Food</u>		
Cash	7,200,000	58.8%
Complimentary	1,500,000	12.2%
Total Food	8,700,000	71.0%
<u>Beverage</u>		
Cash	2,800,000	22.9%
Complimentary	750,000	6.1%
Total Beverage	3,550,000	29.0%
Total Revenue	12,250,000	100.0%
<u>Cost of Sales</u>		
Food	2,275,000	26.1%
Beverage	675,000	19.0%
Total Cost of Sales	2,950,000	24.1%
Gross Profit on Sales	9,300,000	75.9%
Total Payroll	4,500,000	36.7%
<u>Complimentary Expense</u>		
Room	8,000	0.1%
Food & Beverage	95,000	0.8%
Other	1,000	0.0%
Total Complimentary Expense	104,000	0.8%
<u>Other Expenses</u>		
Credit Card Commissions	235,000	1.9%
Linen & Laundry	89,000	0.7%
Outside Services	675,000	5.5%
Supplies	245,000	2.0%
Other Expenses	145,000	1.2%
Total Other Expenses	1,389,000	11.3%
Total Operating Expenses	5,993,000	48.9%
Operating Income/(Loss)	3,307,000	27.0%
Full-Time Equivalents	72.5	
Number of Covers	120,050	
Revenue per Cover	102.04	
Net Income per Cover	27.55	

Source: MGM Grand Hotel.

Note: Data has been disguised.

Exhibit 11a MGM Grand Event Analysis: Rock Concert

	EVENT ACTUAL	ANALYSIS PER PLAYER EVENT ACTUAL
<u>SUMMARY OF CUSTOMER ACTIVITY</u>		
Number of Customers in Attendance	650	
Number of Customers With Play	635	
Estimated Marker Drop	12,000,000	18,462
Estimated Cash Drop	1,300,000	2,000
Estimated Total Drop	13,300,000	20,462
Estimated Table Game Theoretical Win	2,660,000	4,092
Estimated Slot Theoretical Win	1,000,000	1,538
Total Theoretical Win	3,660,000	5,631
Estimated Table Game Win	1,995,000	3,069
Estimated Slot Win	1,200,000	1,846
Total Estimated Casino Win	\$ 3,195,000	\$ 4,915
<u>ESTIMATED EXPENSES</u>		
Complimentary Rooms	\$ 350,000	538
Complimentary Food & Beverage	275,000	423
Complimentary Airfare	50,000	77
Complimentary Other	145,000	223
Subtotal Complimentaries	820,000	1,262
Comp Tickets Posted to Customers	150,000	231
Estimated Cost of Event	20,000	31
Estimated Grand Garden Cost	(150,000)	(231)
Player's Club Cashback	50,000	77
Provision for Bad Debt	125,000	192
Allowance I / Allowance II	75,000	115
Gaming Taxes	224,625	346
Total Estimated Expenses	1,314,625	2,023
Casino Profit/(Loss)	\$ 1,880,375	\$ 2,893
Casino Net Margin	59%	

Source: MGM Grand Hotel.

Note: Data has been disguised.

Exhibit 11b MGM Grand Event Analysis: Holiday Party

	ANALYSIS PER PLAYER					
	EVENT ACTUAL	EVENT PRO FORMA	EVENT PRIOR YEAR	EVENT COMBINED	EVENT PRO FORMA	EVENT PRIOR YEAR
<u>SUMMARY OF CUSTOMER ACTIVITY</u>						
Number of Customers in Attendance	600	500	575			
Number of Customers With Play	590		560			
Estimated Marker Drop	29,500,000	27,000,000	26,500,000	50,000	54,000	46,087
Estimated Cash Drop	4,000,000	3,000,000	3,600,000	6,780	6,000	6,261
Estimated Total Drop	33,500,000	30,000,000	30,100,000	56,780	50,847	51,017
Estimated Table Game Theoretical Win	6,500,000	6,000,000	6,100,000	10,833	12,000	10,609
Estimated Slot Theoretical Win	1,250,000	1,100,000	1,100,000	2,083	2,200	1,913
Total Theoretical Win	7,750,000	7,100,000	7,200,000	12,917	11,833	12,000
Estimated Table Game Hold %	35%	20%	24%	34.6%	23.6%	0.0%
Estimated Table Game Win	11,800,000	6,000,000	6,200,000	19,667	12,000	10,783
Estimated Slot Win	1,400,000	1,100,000	1,300,000	2,333	2,200	2,261
Total Estimated Casino Win	\$ 13,200,000	\$ 7,100,000	\$ 7,500,000	\$ 22,000	\$ 11,833	\$ 12,500
<u>ESTIMATED EXPENSES</u>						
Complimentary Rooms	\$ 800,000	750,000	850,000	1,333	1,500	1,478
Complimentary Food & Beverage	550,000	650,000	700,000	917	1,300	1,217
Complimentary Airfare	125,000	100,000	100,000	208	200	174
Complimentary Other	250,000	400,000	400,000	417	800	696
Subtotal Complimentaries	1,725,000	1,900,000	2,050,000	2,875	3,800	3,565
Estimated Cost of Event - Schedule A	1,000,000	1,100,000	1,300,000	1,667	2,200	2,261
Estimated I/A Commissions	60,000	45,000	50,000	100	75	83
Player's Club Cashback	110,000	102,513	115,000	183	205	200
Provision for Bad Debt	750,000	405,000	525,000	1,250	810	913
Allowance I / Allowance II	550,000	594,628	675,000	917	1,189	1,174
Gaming Taxes	892,500	457,528	472,500	1,488	915	822
Total Estimated Expenses	5,087,500	4,604,669	5,187,500	8,479	9,194	9,018
Casino Profit/(Loss)	\$ 8,112,500	\$ 2,495,331	\$ 2,312,500	\$ 13,521	\$ 4,991	\$ 4,022
Casino Net Margin	61%	35%	31%			

Source: MGM Grand Hotel.

Note: Data has been disguised.