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Race Track Industry Program

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RACINO DEMOGRAPHICS

Sponsor:
Panel Session: SOSH Architects

Speakers:
Stephen J. Szapor, Jr., Chief Operating Officer; The Innovation Group
Maria Evans, Manager, Consumer Insights; Harrah's Entertainment, Inc.

MR. STEVE BARHAM: This panel is regarding racino demographics. The leadoff speaker is going to be Steven Szapor and then he will introduce the next speaker. Steven is the chief operating officer of Innovation Group which is the gaming content partner that we have for this Symposium. I think they've done a great job, regardless of the hurricane that hit one of the cities of one of their main offices. So we thank them a lot.

So with that, Steven?

MR. STEPHEN J. SZAPOR, Jr.: Thank you, Steve. Good morning everyone. As he mentioned, I am chief operating officer of Innovation Group and Managing Director of our affiliated company, Innovation Marketing. And Innovation Marketing provides a variety of marketing, advertising, database marketing services to racinos, Native American facilities and casinos around the country.

One of the things we do at Innovation Group and Innovation Marketing is an extensive amount of primary market research. This year, the past year we've done over a hundred focus groups for our gaming and racino customers around the country.

We also do extensive surveys, and so we think we learn a lot about customers. We try to focus in on what their preferences, likes and dislikes are, and try and help our clients translate that into meaningful actions both in terms of marketing and in development schemes.

One of the things we did last year was the Innovation Group and Innovation Marketing partnered up with Yesawich, Pepperdine, Brown and Russell to conduct a portrait of American gamblers. It was a 2,500 sample survey of gaming customers all over the country. And we asked them specifically their preferences, their intentions to gamble, their likes and dislikes; and the sample size was large enough that it allowed us to really segment the business into frequent customers, that allowed us to segment it geographically, and also allowed us to segment it between those people who go to racinos and those people who go to Native American facilities and destination casinos.

I want to talk a little bit this morning about what is the demographic and profile and preferences of someone who goes to a racino and how they might differ from people who go to destination casinos.

First of all, and this based upon our nationwide sample, people who go to racinos tend to be skewed a little bit more towards women; that is pretty consistent, as we know with gamers across the country.

There seems to be a high percentage of minority with 38 percent of those customers represented by minorities, 22 percent being African-American. Interestingly, 57 percent of the folks who go there are under 39 years old, which skews a lot younger than the average gamer.

As we know, most of the destination casinos see a big percentage of their customers are those aging baby boomers; tend to be a little bit more single, 72 percent of them, and with household incomes lower than the average gamer. In fact 50 percent of them earn less than $50,000 a year.

When we compare that to slot players in general, we see that the gender, as I mentioned, is generally the same, significantly more minorities on the VLT racino customer, age younger; marital status single, and again lower income.

And obviously when we look at the differences and try to explain why the disparity, a couple things obviously point out. One is location considerations. We know that a lot of the racinos are in dispersed geographic locations, and I think most of them are in single facility orientation versus a cluster of facilities.

We know through a lot of our research and data that a cluster of casinos creates a destination perception among customers, and obviously a destination perception attracts a wider variety of audiences.

Another important attribute is the facility attributes themselves. I think the size and scope of racinos in general compared to destination casinos is much different. There tends to be an absence of significant amenities and things of that nature, and a lot of it has to do with the tax structures in some of these locations in terms of what operators can build and what they can offer to compete.

And lastly I think the absence of table games. Obviously table games — the demographic of a person who plays table games tends to be little different; a little bit higher income, a little bit older.

How do these VLT customers behave? During the last 12 months — and again, keep this in mind, this survey was done at the end of 2004 — but the average number of trips was 6.6, and 69 percent of them plan to gamble more in 2005 than they did in 2004.

In terms of their budget, the median budget was $100, and I think we define what that budget was. We asked them sort of, define the amount you are willing to put at risk on a given trip. And interestingly, they tend to spend a lot of money on food and beverage.

In terms of what do they want in their experience? The five most important attributes that they mentioned consistently were friendly employees, safety, satisfaction with the service, and again, hotel room rates. So you can see four out of the top five attributes had to do with the experience and the perception of the experience once they were in the facility. Service and safety.

We also took a look at those things that were not very important to them, and I think you have to keep in mind that this is a frequency-driven market, usually done by local customers, and so things like golf course, adult review shows, child care facilities, boxing and valet parking really ranked at the low end of the totem pole in terms of the what they're looking for in their experience and what is important to them in determining which facility they go to.

So as you move through some of your development considerations we often get our customers to focus on some of these issues, depending upon their location.

What comps or offers are most important to them? Obviously the top ones are free hotel room or discounted hotel room, and I think we see this not only in the racino environment but all over the country. Even local gamers who go often are still looking for a hotel room as an opportunity to really create a getaway, an overnight destination, not just a local day trip.

The least important for these customers in terms of comps or giveaways were direct contact by casino host. I think that given the advent of players' clubs and players being able to navigate and orientate their way around getting discounts and knowing how that works, the importance of a casino host to them is diminished.

And I think food and beverage offers surprisingly were a little less effective than the hotel rate or hotel offers.

In terms of, what else do VLT players do in their free time? The most popular activity for them was shopping at a mall or going to a movie, the least popular was golf, only 21 percent of them have played in the past year. And I think again that's consistent with what we see in gamers in general, other than the higher end segment of the customers, that golf is not that important.

Most frequently they like to spend time with their family and work around the house, and less frequency is gambling online or going to a spa. Again going to a spa is very different from what we're seeing in most of our other research of gamers around the country. We're seeing a big increase and a big orientation towards a spa visit as part of an overall gaming experience, at least for the overall gaming segment. But for this segment it was not as important.

What should we remember or take away from this? I think it's that while the people who go to racinos tend to be younger and less affluent than traditional gamers, they're still a strong market, and marketing to them can yield very good results.

Service is very important to them, and I think a lot of that has to do with the fact that a lot of these are loyal, frequent customers who come very often and expect a good service experience. They are frequency-driven.

We're seeing typically the 80-20 rule, where 20 percent of those customers are driving 80 percent of the revenues at a facility. And they're look for recognition, interestingly. Again, I think that has to do with the local frequency visitation scenario.

I think taking away from what I'm talking about this morning, this information is for the industry as a whole. Each market's customer demographics, preferences and habits will differ based upon things like the presence and absence of competition, the location and access, and obviously the facility scope, size, quality and amenities.

So this information was meant to be a broad overview of the industry as a whole, but obviously in your individual market you'll have to take these other things into consideration.

At this point I'll turn it over, and I think we're going to wait for questions until the end.

MS. MARIA EVANS: Hi; my name is Maria Evans, I am the manager for marketing research at Harrah's Entertainment in Las Vegas, and I'm just going to supplement some of the information that Steve already provided. And you'll see that a lot of it will be redundant, but we'll just go over that.

Just to go over briefly Harrah's Entertainment, with the acquisition of Caesars Entertainment we are now the largest gaming company in the world. This is just a terrible eye chart, but this will just give you an indication of where we are located domestically; and we do have some international properties.

Of note, we will have Harrah's Chester, which will be opening next year, which will be our harness racing facility, and we do currently have Council Bluffs, which will be rebranded to Horseshoe in Iowa, which formerly had dog racing.

About our department and about what we do: In the Consumer Insights Department we conduct primary research across all facets of the operations from hotel, gaming, food and beverage, our player card program, pretty much across the board.

We conduct an average of about 75 primary research projects a year, and we use all types of methodologies. One-on-one interviews is still our most common and most predominant form. We are getting now more often into Internet and less so into mail, and we're using several types of analyses; discrete choice, turf segmentation, etcetera.

So jumping right into comparison of racino visitors and non-visitors. In talking about the methodology a little bit, we will refer to this on subsequent slides, I'll be talking about non-gamers, so respondents who indicated that they did not visit a gaming facility in the past 12 months.

The label of visited or visitors will be those who have visited a racino, and which we defined as any type of track which had slots and/or table games, and non-visitors which will include gamers, but they did not game at a racino.

So in the first slide we know that gamblers in general are more likely to be female, as Steve had mentioned. As far as median age, we know that gamers pretty much across the board tend to be older than their non-gaming counterparts, however, in our survey we found out that racino visitors tend to skew older than those gamblers who do not visit racinos, with a median age of 46 and racino visitors reporting a median age of 52.

Gamblers, both racino visitors and those who visit non-racino facilities are more affluent than their non-gaming counterparts. But of the two groups of gamblers it's those who did not visit a racino in the past 12 months reporting the highest with a median income of $60,000.

And as far as employment, we're showing that racino visitors are more likely to be employed either part time or retired. That would go hand in hand with their higher age skew as well.

And as far as gaming behavior, we are showing that those customers who visit racinos tend to be more slot-oriented; and I think a lot of that, as Steve had mentioned, really has to do with the fact that table games are limited in those facilities.

That concludes my presentation, and now I can open the floor for questions for both Stephen and myself?

MR. DANIEL C. TUFANO: Yes, my name's Dan Tufano, I'm from a horse racing commission. My question is something that was omitted in most of your presentation is the locale of the racinos if we are looking at existing facilities that were built for something other than what they're now being utilized for; and I'm wondering, has there been any further study as to those demographics when faced with your fan settings as opposed to a more rural or suburban setting, something that gives you an additional layer of fan?

MR. SZAPOR: In our report we did not have the ability to do that and segment that way. I think I did mention in my presentation that one of the reasons I think we see a difference between the VLT racino gambler and gambler in general across the is some of these dispersed geographic locations that some of these facilities have.

I think you mentioned that some of these tracks have been put in places that weren't necessarily thought about to have VLT gaming operations in the past, and even the location and the fact that they are not part of a cluster tends to attract a different segment than a location where there is a variety of facilities, and it creates more of a destination location and people go there for other reasons.

I don't know if that answers your question.

MR. TUFANO: Well, I'll offer a follow-up. What does that then tell me, the racing operator, about the demographics that you face then in either sustaining or increasing their fan base in their graphic database?

MR. SZAPOR: Well, I think the opportunity for those operators to still attract a very good, viable clientele is just don't necessarily go after the same broad segments that you would if you were creating a destination resort or a destination casino location where you had other facilities there.

Don't go after the same amenities that you might put in your place, that someone might put in Las Vegas or Biloxi Gulf Coast or things of that nature; focus in on options and amenities and operations that will be conducive to the type of customer that you realistically can attract to those locations.

MS. EVANS: In speaking for the operators, I know that for Louisiana Downs, which we acquired a couple of years ago, their primary strategy is really for the local market in Shreveport, rather than going out to the key feeder market which would be Dallas and East Texas.

So they tend to really centralize their strategy and bring in their true fan base with limiting what goes out beyond, I would say, a hundred miles of the facility.

A VOICE: I've heard different theories on how to get the racetrack bettor, the pari-mutuel bettor into the racino, VLTs and table games. And I think we've heard that that doesn't happen, I mean, we heard the racetrack guy will not go into the casino.

What we did hear today from somebody that the table game player will probably bet on the horse tracks but the VLT player will not bet on the horse tracks.

So if what I've just said is true, is there a marketing thing that — Harrah's is the best marketer, I'll grant you that. How do you start interspersing these different groups to crosspollinating the product?

MS. EVANS: What Harrah's is really trying to do is use our player card program as the vehicle for that. We are at first — you know, changing behavior is very difficult, and really at this point right now is we're trying to create baby steps, in that we are simply trying to increase their use of the player card by simply swiping before they make a bet.

And in that case, we get more information about them to then market other locations. We have this huge breadth of distribution now. So in trying to bring over the bettor to the traditional gaming side for table games and slots, we are trying to leverage compliance and use of total boards, players cards, sign-ups using it when they get in, using it when they make a bet or they can get free programs if they were to swipe their player card, for example, are some of the initiatives that we've done.

And then from there using our distribution across the country to increase and get them to travel to our other locations and play elsewhere.

A VOICE: Well independent operators could do the same thing but on a mini scale?

MS. EVANS: Absolutely.

MR.ERIC M. SHARBAUGH: Eric Sharbaugh. Earlier a gentleman had said that there was very little crossover between gaming and racetrack people as far as gambling goes. But he also said that when they didn't have live racing the gaming revenue went down, and it seems there's a dichotomy there. If they're not crossing over, why would live racing enhance the gaming revenue?

MR. SZAPOR: Again, this would just be speculation on my part. But I think what we've seen is when you have live racing you do attract a little bit more of a different customer than when you just have simulcasting; there's more bodies in the door and some of that is going to filter over.

I'd be interested to see how much of an increase there was on live racing days versus the others at that particular location, but a lot of times live racing too also has events going on with special races and things of that nature; it just tends to draw bigger crowds and there's naturally some crossover.

MS. EVANS: I'd certainly have to agree with live racing available and Louisiana Downs being open also on simulcast days there is also that sense of energy and excitement that just comes inherently when live racing is available.

Again, we do tend to bring in a better player when live racing is available, and so they will sometimes come in with groups who will also be better players on these traditional games as well.

MR. SZAPOR: Yes?

A VOICE: Just a comment from that on the live racing. We did some research that related to, and it was video poker at Fairgrounds that we own when that occurred.

And what we found out was when we had live racing and a number of people that came it was still a social experience when all was said and done. A number of people that came for racing were not so interested in racing, took a break and went to the machines.

The horseplayers were still the horseplayers but the people that came with them spent a little bit more of their time doing both activities. And I can tell you just anecdotally it was something. I say we take like our office player for a luncheon event, three or four of the people were horse people, they played the horses; the other five people that came with us watched two races and then they said they were going to wander over to the video poker machines.

So it's bodies that are coming in. When there's not live racing and simulcasting for the most part you're really getting horseplayers, and when you have live racing you're getting more social people who are availing themselves of other activities; it's a fascinating experience.

A VOICE: Is there a nuance of difference or any perceived difference between a greyhound customer as compared to the horse customer, and how all that works? Or are there any studies on that, or are they one and the same?

MR. SZAPOR: Not that we're aware of', we haven't done anything in terms of that.

MS. EVANS: We've not commissioned any.

MR. SZAPOR: Yes, sir?

MR. THOMAS J. O'CONNOR: Tom O'Connor. A question for you. Is there a list of things that you wouldn't do for a new racino?

MR. SZAPOR: You mean in terms of amenities or market?

MR. O'CONNOR: Amenities.

MR. SZAPOR: I think in terms of the amenities, we focus on those attributes that showed up on our research as being in the bottom of the list in terms of what really motivates people to go there, and that would be a golf course, child care facilities, things of that nature.

And I can share with you that list in more detail, but those type of things are just not important to the folks that are going there.

MS. EVANS: As far as the work that Harrah's has done, we really tend to think of it as really building our facilities for a more localized market; so sure, we can build a four or five star hotel, but we really need to understand the kind of player and the length of stay that that customer would be at any given time.

It would be great to have a celebrity chef, but that probably works a little bit better in our Las Vegas and destination area markets. So perhaps a regional or a locally known chain of restaurants would probably resonate better in that facility.

Food is very important to the gamers, and more so for locals we feel like — because for locals, sometimes they will just go out to our facilities particularly for a meal and gaming is treated as an aside.

And the other amenities such as the spas and the salons and the other things that some of these destination markets have really put emphasis on is something that we tend to treat as much more of a tertiary for our racing operators.

MR. TIM SCOTT: Tim Scott, Churchill Downs. Maybe I'm missing the point really quickly at the very beginning, but I think you all were talking about the differences between destination casino folks and people who go to racinos. Will you talk a little bit about some of the key kind of demographic and maybe attitudinal differences between horseplayers and racino games?

I think that's one of the biggest challenges that we have, and maybe we already understand our horseplayers, but it would be interesting to see the big difference from your perspective.

MR. SZAPOR: Yeah, and I think the information that I went through comparing the demographic or the people who go to a racino to gamble versus those who go to a destination casino, the data on what drives or what motivates the horse bettor versus the racino player is something that we don't have great information on at this point in time.

MS. EVANS: The same is true for Harrah's. We've had very little information on our bettors' data. A lot of that is really because there was so little to collect in the beginning and we're just trying to grow to understand that now.

Again, we are trying to build compliance with the player club programs so we can get a better understanding of who bettors are; and I think in a couple of years once we have Louisiana Downs and Chester fully online we'll have a better indication of what bettors look like in relation to their casino player counterparts.

Yes, in the back?

MR. H. JAMES DECKER: Henry Decker. If I understood, your numbers right there seem to be a typical significant division between your two numbers on racino attendees.

Would you care to comment or clarify that a little bit? One of you had an older group and the other one indicated that it was a younger group, and it appeared to be statistically significant.

MR. SZAPOR: I think if you looked at our information it was very consistent with the exception of that pattern. And it could have been in the sample size, it could have been in a variety of — was one of the things I have on my list to sit down afterwards and discuss that sample size and approach and see if there was something in there.

But that was the one thing that was not consistent with the two studies.

MS. EVANS: Our survey was conducted nationally; however, it was conducted through the mail, and I'm not sure what Stephen's methodology was. But if it was, say conducted online, that tends to be younger, depending on the media.

MR. SZAPOR: Ours was a telephone survey.

MS. EVANS: And we use a sample, a panel study which means they are respondents, consumers who voluntarily agreed that they will participate in a series of research.

So again, I don't know if it's really respondent-driven or just a weird disparity in the data. But we'll certainly review the differences and look at that.

MR. SZAPOR: Any other questions? Yes, sir?

A VOICE: I assume people that are coming from racinos are coming from customers right now. My question is: What problems are these people having? I mean, research to determine what problems they're having in casinos so the racinos will advertise as opposed to what they — like — tell me what they like; friendly service and you're going to get people in, you know, we smile a lot.

But the question is: Have you done research on what problems could be — I know they've moved, that's a problem? But are there other problems?

MS. EVANS: I know for Harrah's in Shreveport, we own the Horseshoe, which is a riverboat. Well, in theory it's a boat. And Louisiana Downs is land-based, and so we really try to leverage that aspect. This is land-based, and so you don't have those types of problems that a riverboat would have.

However, some of you, most of you would know that Louisiana Downs is also challenged with not having table games, and at the end of this year we'll no longer have video poker, so it's got a bunch of other caveats as to why it's not as successful as we would have liked.

So one of the things we did certainly try to highlight and blow up were, "If you weren't a riverboat-type then come to Louisiana Downs, because we're land-based, we've got a great parking lot and you can walk, etcetera." So that's one of the things that we did.

We know that in executing our Harrah's Chester in Pennsylvania, our analysts have projected anywhere from a 20 to 25 percent rate of cannibalism and steal from our Atlantic City customers. So we have to sort of try to blunt some of those in effect.

We know that with Chester being closer than Atlantic City to some customers we will lose some amount of our share to Chester Downs. So that's some of the things that we're encountering.

MR. SZAPOR: I think my response would be: This information that we provided is not generic but it's based upon a nationwide sample, and each individual market has its own dynamics, and in whatever situation you're going to have to be you're going to have to look at the competitive environment, you're going to have to look at access, you're going to have to look at scope of facilities and other competing venues and things of that nature to really focus in on what the message should be for that individual location or destination.

MS. EVANS: Yes?

A VOICE: We heard from an earlier presentation that the product in a racino is different; and if you go to Las Vegas, every machine's the same. Essentially you go to a casino, the same.

But you go to a racino, you don't know what you're going to get in the racino part of it. Does that present any problems, or how do you educate? You know, you may go to this racino and get a VLT, go to this one and get a different machine.

How do you educate the guy; is that any problem, or do you think about that?

MR. SZAPOR: I think it's location by location; jurisdiction, I guess you can say. But from a consumer's perspective the difference between those type of machines really is a blur. We're not hearing, except in certain situations, a backlash or anything of that nature against the type of machines offered there. What we're hearing more is, amenity-wise, in terms of, it doesn't have the array of restaurants and entertainment and hotel rooms and all that kind of stuff that a destination casino has. But in terms of the difference between the game product — and there are some great examples out there in Louisiana and elsewhere — other than the absence of table games, it doesn't seem to be an issue.

Any other questions? Thank you.

MS. EVANS: Thank you very much.

(Applause)