HARVARD | BUSINESS | SCHOOL

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Harrah's Entertainment Inc.

The results are impressive enough that other casino companies are copying some of Harrah's more discernible methods. Wall Street analysts are also beginning to see Harrah's—long a dowdy also-ran in the flashy casino business—as gaining an edge on its rivals. Harrah's stock price has risen quickly in recent weeks as investors have received news of the marketing results. And the company's earnings have more than doubled in the past year.

— *Wall Street Journal*, May 4, 2000[1]

Philip G. Satre, Chairman and Chief Executive Officer of Harrah's Entertainment Inc., read with satisfaction the *Wall Street Journal* article about Harrah's. The story discussed the company's marketing success in targeting low rollers, the 100% growth in stock price and profits in the year to December 1999, and the revenue growth of 50% which significantly outpaced the industry (see **Exhibit 1**).

The $100 million investment in information technology seemed to be paying off.

But that day Satre was more interested in the marketing activities that had contributed to these results (see **Exhibits 2a –2f**). He asked Gary Loveman, then Chief Operating Officer, and his team of "propeller heads" two questions. He wanted to know "how much" these marketing efforts had contributed to Harrah's overall performance, and if these marketing results were a one-shot event or could be achieved year after year, especially as the competition introduced similar programs.

Gambling in the United States

The United States had a long and complicated relationship with gambling. Early religious settlers felt that it was immoral. Yet the limited entertainment options of the frontier meant that gaming parlors co-existed, often uneasily, with churches.

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[1] Christina Binkley, "Lucky Numbers: Casino Chain Mines Data on Its Gamblers, And Strikes Pay Dirt --- `Secret Recipe' Lets Harrah's Target Its Low-Rollers At the Individual Level --- A Free-Meal `Intervention'," *The Wall Street Journal*, May 4, 2000.

Dean's Research Fellow Patricia Martone Carrolo and Professor Rajiv Lal prepared this case. We would also like to thank Professors Walter Salmon and Alvin Silk for their contributions to this effort. 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. Certain names and financial data have been disguised.

During the 1950s, Benjamin "Bugsy" Siegel, a known gangster, saw an opportunity to elude California's strict ban on gambling and also quench its citizens' thirst for gaming. Siegel traveled to Nevada, since the state had tolerated gambling in the 1930s during the construction of the Hoover Dam, and built a luxury Caribbean-style hotel and casino called the Flamingo in Las Vegas. To attract gamblers, Las Vegas began offering inexpensive hotel rooms, food, free drinks, and well-known entertainers. Performers such as Frank Sinatra and Elvis Presley played to full houses there.

In 1978 casinos spread to Atlantic City and then to states like Colorado, Louisiana, and South Dakota. The early 1980s saw casino resorts become more popular for guests and businesses alike, and casino growth was poised to increase dramatically by decade's end. Casino gambling was approved in Iowa, Illinois, Mississippi, Missouri, and on many Native American reservations. In 1989 Iowa became the first state to allow gambling on riverboat casinos.

Also in the late 1980s, Stephen Wynn almost single-handedly changed Las Vegas by taking gambling to the next level when he built the Mirage resort. The casino resort had a shark tank, a wild animal haven, and an artificial erupting volcano. Others soon followed suit. Old casinos such as the Sands, the Hacienda, and the New Frontier were demolished. New casinos like the Luxor—a glass version of the Great Pyramid with copies of Egyptian monuments and statues of the pharaohs—were built to attract tourists looking for entertainment.

Although many new casinos were introduced in various cities in the early to late 1990s, by 1999, Nevada and Atlantic City still claimed over 40% of the $31 billion in total gambling revenue in the United States (see **Exhibit 3**).

Las Vegas, the largest U.S. gaming market, was a unique destination city and, during the late 1990s, became a mecca for national conventions and "must-see" mega resorts. Vacationers could easily spend a week visiting all of the major casinos and other attractions in Las Vegas, or simply sit poolside, go to a show or shop, and enjoy fine dining. Wynn's $1.6 billion Bellagio Hotel, inspired by Italy's Lake Como region, opened in October 1998 with an 8.5-acre lake and 1,400 fountains.[2] According to data compiled by the Las Vegas Convention and Visitors Authority (LVCVA), the average Las Vegas visitor in 2000 was expected to spend $1,329 during a 3.7 day stay—50 percent on gambling, 20.6 percent on lodging, and the remainder on meals, shopping, transportation, shows and sightseeing.

Unlike Las Vegas, Atlantic City was more of a "day tripper's" destination. Approximately 30% of its visitors arrived by charter bus and generally stayed for less than a day. The winter cold made the Boardwalk less appealing to tour group business.[3] In 1999, there were 12 hotel/casinos, of which 10 were located on or near the famous Atlantic City Boardwalk. Only one new casino had been built in Atlantic City since 1987: the Taj Mahal, opened in 1990.[4]

The geographic expansion of legalized and state supervised gambling broadened the industry's customer base. People who had never seen the bright lights of Las Vegas nor strolled the Boardwalk in Atlantic City were being lured to riverboats in states like Iowa and Louisiana, land-based casinos in Detroit and New Orleans, and casinos on Native American land in various states. By 1999,

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[2] Tom Graves, "Standard & Poor's Industry Surveys—Lodging and Gaming," August 17, 2000.

[3] Brian Maher and Jennifer Smith, "Credit Lyonnais Securities (USA) Inc.—Gaming Industry Highlights," March 6, 2001.

[4] Tom Graves, "Standard & Poor's Industry Surveys—Lodging and Gaming," August 17, 2000.

riverboat-type casinos were operating in six states, and Native American-owned facilities were in business in over 12 states.[5]

Company Background

The man who industrialized gambling, William Fisk Harrah—26-year-old charmer, pathological car lover, and bingo entrepreneur—arrived in Reno, Nevada in May 1937 and commenced his casino operations.[6] In 1939, Harrah opened a bingo parlor in the two-block gambling heart of Reno, Nevada, which had legalized gambling eight years earlier. In 1942, Harrah opened a casino, equipping it with blackjack, a dice table, and 20 slot machines.[7] In 1946, the company, by now called Harrah's, expanded and added roulette to the card and dice tables and began serving liquor. The spotless, glass-fronted, plush carpeted casino was a sharp contrast to the rough frontier-type betting parlors of the time.

In 1955, Harrah bought a dingy casino on the southern shore of Lake Tahoe, and four years later, he relocated the casino across the highway to create the world's largest single structure devoted to gambling. The new casino had a 10-acre parking lot and an 850-seat theater-restaurant that drew star entertainers. Next, Harrah constructed the highest building in Reno—a 24-story hotel across the street from his casino, and then, in 1973, he opened an 18-story hotel in Lake Tahoe. Every room came with a view of the lake and a marble-finished bathroom.

By 2000, Harrah's Entertainment, Inc. was well-known in the gaming industry and operated casinos in more markets than any other casino company. Harrah's had 21 casinos in 17 different cities, including operations in all five major traditional casino markets (Las Vegas, Lake Tahoe, Laughlin, Reno, and Atlantic City). The company also owned or operated casinos in Joliet and Metropolis, Illinois; East Chicago, Indiana; Vicksburg and Tunica, Mississippi; Shreveport, Lake Charles, and New Orleans, Louisiana; and Kansas City and St. Louis, Missouri. In addition, Harrah's managed a number of Native American casinos located in Arizona, North Carolina, and Kansas.[8] In summary, Harrah's operated land-based, dockside, riverboat, and Indian casino facilities in all of the traditional and most of the new U.S. casino entertainment jurisdictions (see **Graphic A**).

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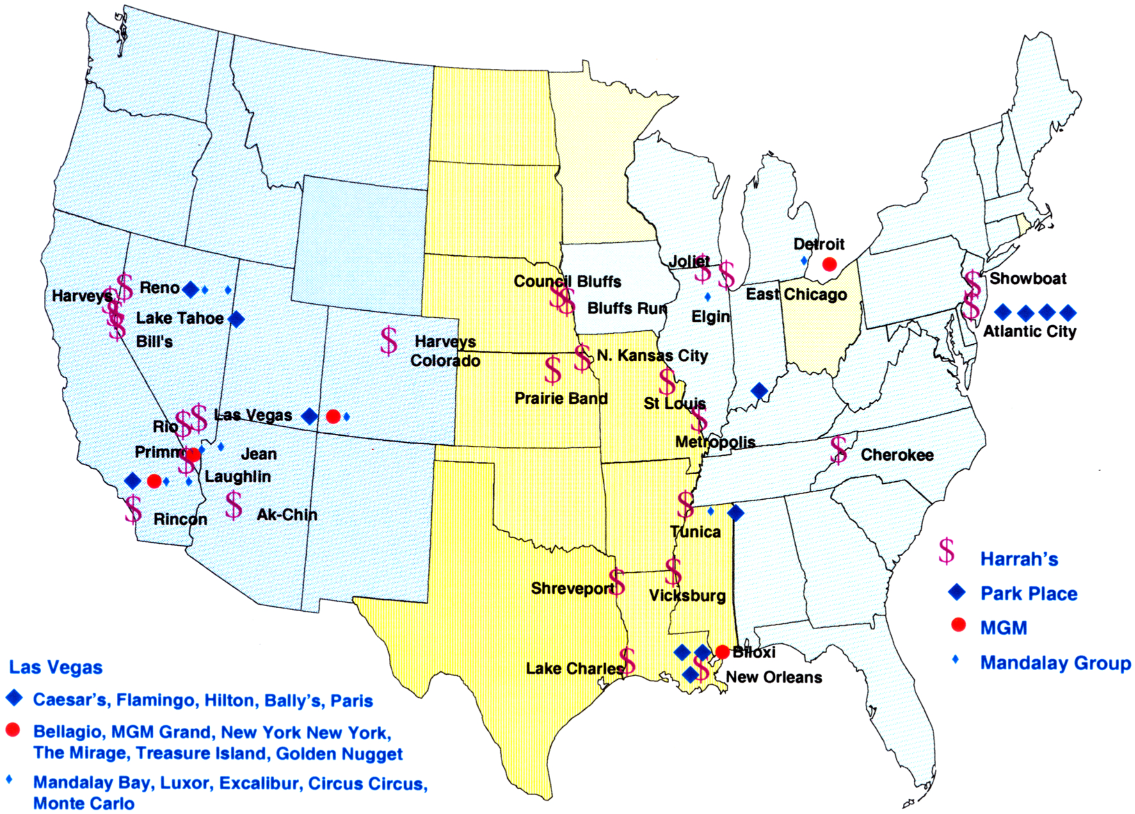
[5] Ibid.

[6] Leon Mandel, *William Fisk Harrah, The Life and Times of a Gambling Magnate,* Garden City, NY: Doubleday & Co., 1982, p. 1.

[7] Harrah's Entertainment Inc.

[8] Jason Ader, Mark Falcone, and Eric Hausler, "Outside the Box: Exploring Important Investor Issues—Harrah's Entertainment, Inc.—Reaping the Benefits of Total Rewards," Bear Stearns Equity Research, November 10, 2000.

Graphic A: Harrah's Operations, early 2000[9]



Source: Harrah's

Early Strategy

Satre, who joined Harrah's in 1980 as Vice President, General Counsel, and Secretary before becoming CEO in 1984, reflected on his first moves:

> Initially I focused on people more than anything else and I thought that was a sustainable competitive position at that time. The strategy seemed to be working in the early 1990s as Harrah's led the way to take advantage of legalized gambling in many states beyond Nevada and New Jersey. These new markets provided Harrah's with explosive growth and a highly profitable business.
>
> I also started a program to communicate with customers who won over a certain amount in our jackpots. I asked them which other casinos they had visited and planned to visit. I was amazed at the amount of cross-market visitation from these customers and yet we received only a small fraction of their gaming dollars when they visited Las Vegas and Atlantic City. At the same time, we were developing rewards programs based on tracking cards (akin to

[9] Rio and Showboat were Harrah's properties.

> frequent shopper cards) at each of our different properties. The rewards took totally different forms at each property because each property was pretty autonomous.

Satre frequently talked with John Boushy, then the head of marketing/IT, about how much better it would be if customers could use the same loyalty card at every Harrah's location. That way Harrah's would know more about customer play at each property. Harrah's first investment toward this goal was the Winner's Information Network, a national database. The plan was to follow up with both a common card and common analytical tools for making decisions that were based on the data from tracking customers' play.

Customer Loyalty as a Core Competency

By the mid 1990s, competitors had entered the new markets with better and flashier properties. The Mirage in Las Vegas had set a new standard and began to spawn imitators. With no new jurisdictions planning to legalize gambling, Harrah's was facing the formidable task of growing the business in a limited market. Satre realized that the people strategy was not sufficient to grow patronage and play at existing casinos:

> I remember reading *The Discipline of Market Leaders*, which I shared with the management of the company. The book's fundamental thrust was that you could become a leader based on one of three competencies: innovations of product, cost structure, or relationships/customer intimacy.
>
> We saw MGM and Mirage trying to innovate—creating highly themed environments that had lots of new experiences for their customers. Whether it was the theme park at the MGM or the dolphin tank and the tigers at Mirage. . . . In the early '90s, these companies were put up on a mantel as the companies to show where the industry was headed. Anyone who came to Las Vegas would say, "you guys [Harrah's] are living in the past." I told them that this would be great if you were starting from scratch, but if you were a 50-year-old company, the capital costs of making "must-see" properties would be enormous.
>
> While there was great temptation to go down that path because it was exciting to try to design and build, we ultimately decided against it: customer loyalty was really our competency and we decided that we could become an industry leader based on that skill.

But by early 1998, the company's performance was not meeting Satre's expectations. He realized that Harrah's did not have the marketing horsepower to implement the strategy across all properties in a consistent manner. The company had excellent technology and great operations but not effective marketing. He expressed his concerns to Sergio Zyman, then Chief Marketing Officer at the Coca-Cola Company and a noted authority on consumer marketing whom he knew through the Coca-Cola/Harrah's strategic alliance. Satre recalled:

> I went to see Sergio to get references for people that I might hire into a marketing job. He was a quick study, and said, "You are heading in the wrong direction. You don't need a marketing executive. How is your marketing executive going to implement in a company that has a history of autonomous operations and marketing is so tied to your operations strategy? You need a COO who is a marketer—who can implement your marketing, but make sure it goes through all the properties, and that there is no hiccup or interruption between the corporate strategy and what is implemented at the property level.

A New Approach

Satre turned to Gary Loveman to fill this void. At the time Loveman was on the HBS faculty in the service management area and had worked with Harrah's as a consultant for five years. Satre felt that Loveman would help the company move "from an operations-driven company that viewed each property as a 'standalone business,' to a marketing-driven company with a focus on our target customers and what it took to build their loyalty to the Harrah's brand." The board supported Satre's recommendation to hire Loveman as Harrah's COO. He joined Harrah's in 1998 bringing his atypical range of experience. Loveman described his challenge at Harrah's in the following way:

> In 1998, we were sitting on all this transactional data but not using it effectively. The statistic that jumped out and bit me was that for customers who visited Harrah's once a year or more, we got 36 cents out of their gaming dollar. Hence, they were visiting our competitors and showing remarkably little loyalty to Harrah's. That was the principal anomaly around which we organized everything else, and since then it has been an all-inclusive effort to envelop customers with reasons to be loyal.
>
> The Total Gold program, launched in Fall 1997, was intended to increase customer loyalty in a variety of ways, and it was supported by a lot of other marketing interventions that all had the same mission. They all intended, for example, to attract a 60-year-old lady from Memphis, Tennessee on a Friday night, as she and her husband were thinking about where to go in Tunica, Mississippi where Harrah's is one of 11 casino alternatives. We wanted people to think "Harrah's, Harrah's, Harrah's" in the same way that they went to the same hairdresser, cobbler and auto mechanic. All of our tools were a means to that end.

To achieve this goal, Loveman launched three major initiatives: changing the organization structure, building the Harrah's brand, delivering extraordinary service, and exploiting relationship marketing opportunities.

A New Organization Structure

His first priority was to build a new organizational structure. Harrah's division presidents and their subordinates in brand operations, information technology, and marketing services, started reporting to Loveman instead of to the CEO (see **Exhibit 4**). This emphasized that customers belonged to Harrah's and not simply to one of its casinos. Loveman explained:

> Changing the organizational structure was a major accomplishment in light of the fact that historically, as with all our competitors today, each property was like a fiefdom, managed by feudal lords with occasional interruptions from the king or the queen who passed through town. Each property had its own P&L and its own resource stream, and the notion that you would take a customer and encourage them to do their gaming at other properties was not common practice. It required a lot of leadership from my boss and the people who ran these businesses to adopt this strategy and encourage customers to spend their money at Harrah's locations broadly rather than simply at their property.

Brand and Service

Next, because Harrah's had little meaningful brand differentiation in the casino industry, Loveman set out to develop a brand that had a gaming orientation and was centered on what the research told them was the most profound emotion of gaming—the feelings of anticipation and exuberance. He explained:

> People go to a casino because it makes them feel "exuberantly alive." That is what they are buying. They don't believe that they are going to win on average, but when they win, they have a ball. With every bet, gamblers anticipate the possibility of winning. Many described the adrenaline rush, the high, the pounding of their hearts and the tingling in their bodies that they feel when they were gambling. With every bet, they hoped to be able to sustain the level of fantasy that gambling provided. One gambler stated: "When you look up and you see that it's a hit and that you're going to get paid off, it's a tingling from my toes on up to the top of my head that comes into my body. That's what makes me want to put more money into the machines."

Harrah's research showed casino entertainment provides consumers a momentary escape from the problems and pressures of their daily lives. Gaming customers share the "exuberantly alive" feeling that risk-taking affords the likes of mountain climbers and skydivers, though casinos provide a far safer playing field. "So we focused all of our advertising around the feeling of exuberance," explained a Harrah's manager. Since Loveman's arrival, Harrah's spent $15-20 million per year in advertising to communicate the feeling of anticipation to the general audience.

Improving service was also important to the brand image. Harrah's was known for having the "friendliest employees." However, Loveman believed that the service was good but not distinguished. He recognized the need for better service on his very first night on the casino floor.

> I stopped and asked a gentleman who was playing a slot machine, "How are you doing tonight, sir?" and he said "Shitty." It dawned on me that my parents had not taken me through the "How are you – shitty" dialogue. I did not know what to say. The same experience was repeated more than once that night and I found myself not wanting to ask that question any more. But that is the world my employees live in every day. Providing service in this environment is tricky because most guests end up losing while playing in a casino. We had not trained our people to deal with these kinds of situations. We wanted to deliver a world class service experience that would transcend this issue.

Finally, Harrah's put in place a variety of interventions at the employee level —service process design, reward and recognition, measurement of executives—in as pervasive a fashion as possible to make service demonstrably better. Harrah's thereafter won the award for "best service" from *Casino Player*, the magazine of choice in the casino industry, for three years in a row.

Customer Relationship Management

The third and the most important initiative was to implement marketing tools and programs across all Harrah's properties. Loveman disbanded the existing marketing function and rebuilt it with people who preferred slide rules to mock-ups. Richard Mirman, a former University of Chicago math whiz, left Booz Allen & Hamilton to join the new team as Senior Vice President of Relationship Marketing. Under Mirman marketing became a very quantitative undertaking. Loveman explained:

> Customer Relationship Management (CRM) at Harrah's consists of two elements: Database Marketing (DBM) and the Total Gold program. The Total Gold program motivates customers to consolidate their play, and the data collected through the program allows us to execute direct marketing strategies that increase the efficiency and effectiveness of our marketing dollars.

The big innovation by Mirman and his group of "propeller heads" (David Norton, vice president of Loyalty Marketing and Dave Kowal, vice president of Loyalty Capabilities and Revenue Management) was development of quantitative models to accurately *predict* "customer worth"—the theoretical amount the house expects to win, over the long term, from a customer based on his level of play (see **Table A**). Historically, the casino industry had determined customers worth based only on observed play. Our ability to accurately predict play enabled us to begin building relationships with customers based on their future worth, rather than on their past behavior.

Table A: Theoretical Win

Theoretical Win from a Customer per day = A * B * N * H

A= the house advantage on a game (e.g., 6% hold on slot machines)[10]

B= the average bet (e.g., $ 1)

N= the number of bets per hour (a good slot machine player can pull the lever almost 15 times per minute)

H= the number of hours played per day.

Source: Harrah's

While it was simpler to make this prediction for a slot machine player, it was significantly more complicated for table game play. The transactional data collected ever since the launch of the Total Gold card in 1997 was used to build these models and forecast customer worth. Mirman called it Harrah's secret recipe.

Database Marketing (DBM):

DBM changed the way Harrah's invested in its customers. Consider the case of Ms. Maranees, reported in the *Wall Street Journal* article, who received invitations to two tournaments, along with vouchers for $200, all courtesy of Harrah's Entertainment Inc. According to Loveman:

> These decisions were made using the decision science tools to predict customer worth rather than relying on observed worth from her first visit to the casino. While she would be considered a lousy customer based on her short visit to Harrah's, with the help of the information generated from one visit and one visit alone, Harrah's concluded otherwise by submitting her profile to the database. She was probably a great customer, but a great customer of Harrah's competitors. It makes sense to invest in converting her to a Harrah's customer. In the past, she would not have shown up on the radar screen.

Proactive Marketing: Opportunity-based Customer Segmentation—As soon as players used their Total Gold cards, Harrah's began to track their play preferences, betting patterns, where they liked to eat in the casino and whether they stayed the night, how often they visited, how much and how long they played. Combined with the basic information contained on the application card, which included birth date and home address, Harrah's could begin to develop a sophisticated customer profile.

[10] The hold referred to the theoretical amounts a particular machine retains for the house over an extended period. In this case, the machine would theoretically return to the player $94 for every $100 played. Persistent players would eventually lose all their money.

Harrah's estimated that 26% of players provided 82% of revenues, with avid players spending approximately $2,000 annually.[11] These "avid experienced players" that tended to play in multiple markets became Harrah's target customers.

Using this detailed information for every customer, Harrah's predicted potential customer playing behavior at Harrah's properties. Harrah's compared observed to predicted behavior and identified opportunity segments based on a disparity between predicted and observed values. As shown in **Graphic B**, there were three key opportunity segments for Harrah's as well as a segment where re-investment could be rationalized. Harrah's used customized marketing to achieve specific objectives such as driving incremental frequency, budget, or both. (See **Exhibit 5** for an overview of the potential messages and types of offers that Harrah's sent to customers. **Exhibit 6** provides a typical letter to a customer.)

Marketing Experiments—Harrah's quantitative approach also made it possible to conduct "marketing experiments" and track customers over time. This helped Harrah's discover the right marketing instrument, for the right behavior modification, for the right customer. As an example, Harrah's chose two similar groups of frequent slot players from Jackson, Mississippi. Members of the control group were offered a typical casino-marketing package worth $125 – a free room, two steak meals and $30 of free chips at the casino. Members of the test group were offered $60 in chips. The more modest offer generated far more gambling, suggesting that Harrah's had been wasting money giving customers free rooms.[12] Harrah's tracked the gambling behavior of the customers in the test and control group over the next several months to conclude that the "less attractive" promotion was indeed more profitable. Using such techniques, Harrah's eradicated the practice of "same day cash" at most of its properties—the process by which casinos returned a portion of a customer's bet each day with the hope that the customer would play it. Loveman explained:

> As we were looking for incremental business, we thought that giving people things today had no effect on their decisions when they were ready to go gambling again. We used the test and control methodology to gradually ramp back "same day cash" from 5% to zero. We saved half of it and gave back the rest to customers as incentives for the next visit. My operators were convinced that they would have screaming customers. By tracking customers over time, we could show the operators that they could eliminate "same day cash" without adversely affecting their business. Today, "same day cash" does not exist anywhere except to a very modest degree at Harrah's Nevada destination properties. Our industry has it everywhere and they advertise against us. The piece that is critical for us is to get our internal folks to recognize that we need to do things that drive incremental revenues.

Harrah's believed it had developed a customer centric approach to direct marketing. There were three key phases to a customer relationship. The first phase, "new business," was focused exclusively on customers new to the brand or to the property. Harrah's goal with its new business program was to encourage customers to take a second and third trip. The second phase, "loyalty," was focused on customers known for at least six months or three trips. Harrah's goal with its loyalty program was to extend continuously the relationship. The final phase, "retention," was focused on customers who had broken their historical visitation pattern. Harrah's goal with its retention program was to reinvigorate customers who had demonstrated signs of attrition. By using IT and decision science tools, Harrah's developed a variety of direct marketing programs to establish relationships with new

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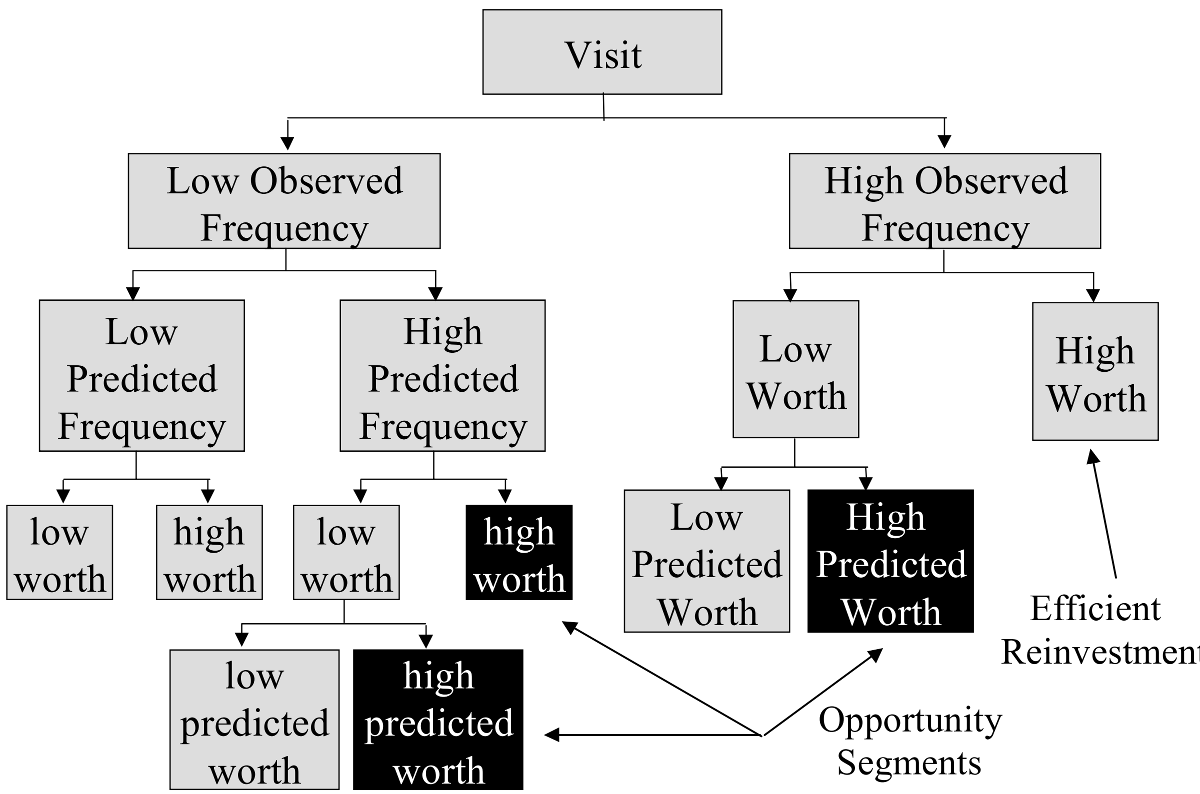
[11] Jason Ader, Mark Falcone, and Eric Hausler, "Outside the Box: Exploring Important Investor Issues—Harrah's Entertainment, Inc.—Reaping the Benefits of Total Rewards," Bear Stearns Equity Research, November 10, 2000, p. 5.

[12] Binkley, op cit..

customers, strengthen relationships with loyal customers, and reinvigorate relationships with customers who had shown signs of attrition.

Graphic B: Opportunity-based Customer Segmentation



Source: Harrah's

Results from Data Base Marketing—Loveman and his team focused on results from the following programs:

- New Business Program

The New Business Program was designed to improve the effectiveness at converting new Total Gold members into loyal customers. The program used predicted customer worth (theoretical wins) to make more effective investment decisions at the customer level—thus allowing the particular offer to be more competitive with what the customer was currently receiving from their existing scenario of choice. This resulted in a more effective and more profitable new business program. **Exhibit 2b** illustrates the impact of such a program at a property.

- Loyalty Program—Frequency Upside

This program was designed to identify customers that, Harrah's predicted, were only giving Harrah's a small share of their total spending in a particular market. Harrah's capabilities enabled property marketers to develop programs that offered incentives for these customers to visit Harrah's properties more frequently—i.e., switch a trip from a competitor to Harrah's. **Exhibit 2c** tracks the behavior of a pool of 953 customers before and after the offer was sent in June. Harrah's calculated the profitability of these programs by comparing the incremental theoretical wins to the incremental cost of the program.

- Loyalty Program—Budget Upside

Harrah's also identified customers with budget upside—customers who were only giving a small share of their gaming budget to Harrah's on each trip. In most cases, a customer's allocation of budget was directly related to the order in which they visited casinos on a particular trip—the first stop received the largest share, the second received the second largest and so on. Therefore, the objective of this program was to encourage the customer to visit Harrah's first and thereby capture the majority of the single casino trips. **Exhibit 2d** tracks a group of customers with an upside budget potential. Harrah's was less sure if this program was working.

- Retention Program

The objective of Harrah's Retention Program was to reinvigorate customers who had broken their historical visitation pattern or had demonstrated other signs of attrition. Harrah's tested a variety of offers with customer segments to determine how much to reinvest in retaining loyal guests. The report shown in **Exhibit 2e** summarizes the visitation patterns for a group of customers whose patronage was declining in the second half of 1998. These customers had significantly reduced their aggregate frequency to Harrah's casinos. Based on their historical pattern of behavior, Harrah's had expected to see them in December but hadn't. The effects of the program are evident from tracking the behavior of 8,000 customers who received a direct mail offer in January 1999.

Having worked on the system for more than two years, Mirman and his team recognized that the full potential of these ideas would be realized only if these capabilities could be used at the local property level. Therefore, they made significant efforts in educating the local property managers and their marketing teams about the potential and effective use of these Data Base Marketing capabilities. Mirman and his group had to contend with the fact that marketing efforts at a property were ultimately the responsibility of the property manager and decided on how the Data Base Marketing efforts were integrated with their knowledge of the local market.

Mirman and his team accomplished these goals using a technology platform that was designed to track and manage transactions in casinos. However, it was generally acknowledged that execution of marketing programs based on the most current customer information was possible but required further investments.

The Total Rewards Program

The Total Gold program was designed to facilitate and encourage the cross-market visitation patterns of Harrah's customers. Through market research, Harrah's realized that a significant share of business was lost when Harrah's loyal customers visited destination markets like Las Vegas, but did not stay or play at a Harrah's during their visit. Harrah's estimated that more than a $100 million of lost revenue was generated by Harrah's customers in Las Vegas alone. The Total Program was intended to capture this lost business by making it easier for customers to earn and redeem rewards seamlessly at any of Harrah's properties across the country.

To execute Total Gold, Harrah's designed a completely integrated information technology network that linked all their properties together. The network enabled customer level information, like customer gaming theoretical value, to be shared in real time across the various casinos. This technology was then patented so as to bar Harrah's competitors from replicating what Phil Satre believed to be the company's future.

As a result of Total Gold, cross-market revenues (i.e., revenue generated from a customer in a market other than the one they signed up for) have grown significantly – from 13% in 1997 to 23% in 2000. At the Harrah's Las Vegas property alone, cross-market revenue now generates nearly 50% of the property's total revenue. Mirman says, ``our cross-marketing effort is what enables our Las Vegas property to compete against properties like the Belaggio and the Venetian (multi-billion dollar properties that are right next door to Harrah's Las Vegas). Mirage Resorts spent $1.8 billion to develop Bellagio to attract customers, we developed a distribution strategy that invites customers to our properties. A subtle but powerful difference."

In July 1999, Mirman and his team revamped the program and called it Total Rewards. The motivation behind the change was the realization that even in local markets, Harrah's was only capturing a small share of the customer's gaming budget. The intention was to develop Total Gold into more of a loyalty program that would complement the direct mail strategy described earlier. Mirman added,

> Total Gold was a revolutionary technological innovation, but it lacked a number of the marketing fundamentals necessary to make it a true loyalty program. A loyalty program gives customers the incentive to establish a set of goals and then provides them with a very clear criteria for how to achieve them. Airlines have done a very good job at giving customers the incentive to aspire to earn free travel. Frequent flyer members have been trained to consolidate their travel on a particular airline until they have flown 25,000 miles and earn a free ticket. We wanted our customers to think about earning a complimentary steak dinner or a membership to our tiered card program.

The program is designed to encourage customer loyalty or consolidation of play both within a particular trip and across multiple trips or over the course of a calendar year. To promote the consolidation of play over the course of a trip, The Total Reward program provides a Reward Menu that translates reward credits to the various complimentary offerings. This menu enables customers to understand exactly what compliments are available and exactly what level of play is necessary to earn them. For the annual incentives to drive more frequency, Harrah's added two additional tier levels to the program. Total Rewards became a tiered customer loyalty program, consisting of Total Gold (no minimum customer worth), Total Platinum (theoretical customer worth $1,500 annually), and Total Diamond (theoretical customer worth $5,000 annually). The two programs, represented by different colored plastic cards, have accumulating benefits that are highly valued by the customers. The criteria to earn a membership into the program is based on a customer's annual accumulation of reward credits.

According to Mirman, there was also an emotional component to the Total Rewards program. "We want customers to think . . . I want to go to Harrah's because they know me and they reward me like they know me, and if I went somewhere else they would not."[13] Even though Harrah's knew everything about the customers' gaming behavior, customers were not concerned about privacy issues because they perceived the rewards and mail offers to be valuable to their specific needs. The company awarded three billion points during its first year of Total Rewards and had 16 million

[13] Richard H. Levey, "Destination anywhere. Harrah's Entertainment Inc.'s Marketing Strategy," *Direct*, 1999.

members in late 1999. Total Rewards seemed to be having an impact on play consolidation based on the theoretical worths described in **Exhibit 2f**, for a sample of 100 customers.

Signing up Customers

To encourage sign-ups and play, Harrah's held give-away events for all cardholders at each property. Harrah's gave away houses, cars, million dollar prizes, trips (to great vacation destinations), jewelry, and the like. All one had to do to participate was to enroll in the Total Reward program and play. Customers knew that all these goodies came from the play being recorded.

Competition

Harrah's competed with numerous casinos and casino hotels of varying quality and size. Park Place Entertainment Corporation, with revenues of $2.5 billion, was the industry leader in 1998. A spin-off of Hilton Hotels, it owned 18 casinos and 23,000 hotel rooms, including Paris Las Vegas, Caesars, the Flamingo, Bally Entertainment Casinos, and Hilton Casinos. Park Place's gambling operations included resorts in Las Vegas, Atlantic City, New Orleans, and Biloxi, Mississippi, as well as Australia and Canada. The company seeks to maintain geographic diversity to reduce regional risk and provide more stable income streams. It strives to cluster properties in key locations to control operating expenses, reduce overhead and enhance revenue through cross-marketing. Acquisitions are an integral part of the company's overall strategy and a diverse customer base is served through a variety of properties such as Caesars for the high end market to the Flamingo for the value segment.

With $1.52 billion in revenues, Mirage Resorts mainly operated casinos in Las Vegas, but the company also had operations and tropical theme parks in Mississippi, New Jersey, and Argentina. Some of its better-known properties were the Mirage, Treasure Island, the Golden Nugget, and the Bellagio. Mirage is the leader in the Las Vegas strip gaming market targeting the upper-middle and premium segments of the market. It controlled approximately 60% of the high-roller market. Its strategy has been to develop high profile "must see" attractions. "We don't think of Mirage Resorts in terms of concrete and marble, games and shows, payrolls and budgets. We strive to create great resorts, each accommodating guests with a distinctive signature of charisma and style." [14] Mirage invests handsomely in its properties because "the presentation assumes that our guests appreciate and warrant fine quality, authenticity, and moments of unexpected, yet delightful grandeur." [15]

In 1998, Circus Enterprises, Inc. had revenues of $1.47 billion and owned about 10 casino resorts, including Circus Circus, the Edgewater, Excalibur, and Luxor. The company had casinos in Nevada, Mississippi, and Illinois. The strategy of the company is well stated in its 1999 annual report. "In Las Vegas, we are designing, piece by piece, spectacle by spectacle, the most ambitious, fully integrated gaming resort complex in the world—a fantasy of castles, glass pyramids, golden skyscrapers and more. One day we will own or control close to 20,000 hotel rooms along a single, continuous mile in the world's leading entertainment destination."[16] The most recent project, Mandalay Bay, was inaugurated on March 2, 1999. The property's attractions include, an 11-acre tropical lagoon featuring a sand-and-surf beach, a three-quarter-mile lazy river ride, a 30,000-square-foot spa and other entertainment attractions.

[14] Mirage Resorts annual report, 1998.

[15] Mirage Resorts annual report, 1999.

[16] Circus Circus annual report, 1999.

Trump Hotels & Casino Resorts, Inc. was also among the leaders in the gambling industry with several casinos such as Trump Plaza, Taj Mahal and Trump Marina, all in Atlantic City, and a riverboat casino on Lake Michigan. Owned by Donald Trump, the casinos had revenues of about $1.4 billion. With no growth in revenues, and $133 million loss on top of the losses in the previous two years, 1999 was not a good year for the company. Donald Trump, chairman, took on the additional responsibility of Acting President and CEO. His stated goal for the company was "to increase profitability by targeting better margin business coupled with a relentless pursuit of cost controls and efficient operations without diminishing the Trump experience our valued customers expect when they visit our properties."[17] The company had a major presence in Atlantic City. With the largest poker room in Atlantic City, the Taj Mahal is a "must-see" property in the Trump portfolio. The Trump Plaza targets the lucrative high-end drive-in slot customer and The Trump Marina is geared towards younger affluent customers but does not exclude its traditional base, middle and upper-middle market segments.

As part of its integrated marketing strategy, the Trump card was an important tool in its portfolio. Gamers were encouraged to register and use their cards at slot machines and table games to earn rewards based on their level of play. The computer systems kept records of cardholders playing preferences, frequency and denomination of play and the amount of gaming revenues produced. The management at the casino provided complimentary benefits to patrons with a demonstrated propensity to wager. A gamer's propensity to wager was determined by their gaming behavior at casinos in Atlantic City. It was important that a patron's gaming activity, net of rewards, was profitable to the casinos. The information collected though the Trump card was also used in sending direct mail offers to customers expected to provide revenues based on their past behavior and were offered more attentive service on the casino floor. [18]

Finally, on the East Coast, Harrah's competed with the largest Native American casino. The Foxwoods Resort and Casino, run by the Mashantucket Pequot tribe in Connecticut, grossed about $1 billion a year. Harrah's faced only local competition in many of the remaining markets.

The Gamble

As Satre stared out the window at the new construction that was taking place at the hotel next door, he tapped his fingers on the dense exhibits and thought about the term "Pavlovian marketing," once used by Mirman to describe these efforts. He hoped the reinvigoration campaign begun with Loveman's hiring would work, because Harrah's needed customer loyalty to stave off the onslaught of entertainment options from the competition. "The farther we get ahead and the more tests we run," Loveman had argued, "the more we learn. The more we understand our customers, the more substantial are the switching costs that we put into place, and the farther ahead we are of our competitors' efforts. That is why we are running as fast as we can."

[17] Trump Hotel and Casino annual report, 1999.

[18] Paragraph excerpted from Trump Hotel and Casino's annual report, 1999.

Exhibit 1 Consolidated Statements of Income (in thousands, except per share amounts)

	Year Ended December 31		
	1999	1998	1997
Revenues			
Casino*	$2,424,237	$1,660,313	$1,338,003
Food and beverage	425,808	231,568	196,765
Rooms	253,629	153,538	128,354
Management fees	75,890	64,753	24,566
Other	131,403	78,320	78,954
Less: Casino promotional allowances	(286,539)	(184,477)	(147,432)
Total revenues	$3,024,428	$2,004,015	$1,619,210
Operating expenses			
Direct			
Casino	$1,254,557	$ 868,622	$ 685,942
Food and beverage	218,580	116,641	103,604
Rooms	66,818	41,871	39,719
Depreciation of buildings, riverboats and equipment	188,199	130,128	103,670
Development costs	6,538	8,989	10,524
Write-downs, reserves and recoveries	2,235	7,474	13,806
Project opening costs	2,276	8,103	17,631
Other	690,404	467,999	383,791
Total operating expenses	$2,429,607	$1,649,827	$1,358,687
Operating profit	594,821	354,188	260,523
Net income	$ 208,470	$ 102,024	$ 99,388

Source: Harrah's Entertainment Inc.

*A breakdown of Casino revenues by regions is as follows:

Western region— $730.1 million, Central region—$970.9 million and Eastern region—$723.3 million.

Exhibit 2a Glossary of Terms in Exhibits 2b – 2f

# of Guests - The number of guests in a particular month. The largest quantity typically indicates selection month.

Hotel %- % of guests who stayed in the hotel.

Red %- % of guests redeeming ANY offer in a month.

# of Trips - trips (can be multiple consecutive days) captured on the Casino Management System. The Harrah's loyalty card had to be used to capture this information.

# of Days -The number of individual days a customer visited Harrah's during a month.

Theo(theoretical) Win - On average what we would expect the profitability of the customers to be based on their play in the **month**.

Observed Win – actual profitability for the casino for the **month**.

Complimentary (Comp) Amount Comp dollars provided to customers in the month (and does not include cost of the offer redeemed).

Complimentary (Comp) % - Comp dollar amount as a percentage of theoretical win.

Source: Harrah's Entertainment Inc.

Exhibit 2b New Business Program Analysis

Sign-up Month	New Customers		1 Month After Signup		2 Months After Signup		3 Months After Signup	
	Customers	Theoretical	Customers	Theoretical	Customers	Theoretical	Customers	Theoretical
1-Apr-99	1022	$31,992	125	$10,857	103	$10,478	85	$10,093
1-May-99	837	44,673	133	10,772	134	15,799	102	10,950
1-Jun-99	825	46,291	135	13,231	128	10,941	91	12,823
1-Jul-99	808	45,725	162	24,712	137	23,229	109	26,629
1-Aug-99	742	43,423	164	17,494	103	11,122	97	11,817
1-Sep-99	760	42,257	141	20,102	118	15,744	104	18,995
1-Oct-99	990	54,935	178	26,086	151	24,168	148	16,080
1-Nov-99	1064	63,687	225	28,657	182	23,824	142	21,988
1-Dec-99	772	41,494	143	15,906	149	16,517	94	13,229
1-Jan-00	986	$46,502	206	$20,041	193	$22,123	92	$12,476

	Customers			
	1st Month	2nd Month	3rd Month	1st-3rd
1-Apr-99	12%	10%	8%	31%
1-May-99	16	16	12	44
1-Jun-99	16	16	11	43
1-Jul-99	20	17	13	50
1-Aug-99	22	14	13	49
1-Sep-99	19	16	14	48
1-Oct-99	18	15	15	48
1-Nov-99	21	17	13	52
1-Dec-99	19	19	12	50
1-Jan-00	21%	20%	9%	50%

	Revenues			
	1st Month	2nd Month	3rd Month	1st-3rd
1-Apr-99	34%	33%	32%	98%
1-May-99	24	35	25	84
1-Jun-99	29	24	28	80
1-Jul-99	54	51	58	163
1-Aug-99	40	26	27	93
1-Sep-99	48	37	45	130
1-Oct-99	47	44	29	121
1-Nov-99	45	37	35	117
1-Dec-99	38	40	32	110
1-Dec-99	43%	48%	27%	118%

Source: Harrah's Entertainment Inc.

Note: The first two columns report the number of new customers signed up in a particular month and the predicted worth of these customers. Offers, of varying type and value, were sent to each new customer that played at Harrah's, and were redeemable one month, two months and three months after their first visit. The following columns report the number of customers who came back to Harrah's in the subsequent months and predicted worth of these customers. For example, in April 1999, 1,022 new customers came to Harrah's. In May, 125 customers of these 1022 customers returned to Harrah's and their predicted worth was $10,857 compared to $31,992, the predicted worth of the 1022 customers who signed up in April. Similarly, 103 of the customers who signed up in April returned in June, and 85 returned in July, with no demonstrable change in predicted worth for the pool. Each month brought a new vintage of customers signing up.

Exhibit 2c Loyalty Program (Frequency Upside)—Offer Behavior Change by Offer and Month

Offer	Report Period	# of Guests	Hotel %	Red %	# of Trips	Trips per Guest	# of Days	Days per Trip	Hours	Hours per Day	Theo Win	Observed Win	Comp Amt.	Comp %	Avg. Theo win per Trip	Avg. Theo win per Day	Avg. Theo win per Hour
PRE	Jan-99	21*	24%	5%	20	1.0	34	1.7	109	3.2	$7,770	$12,745	$1,361	18%	$389	$229	$71
	Feb-99	28	18	11	28	1.0	50	1.8	166	3.3	11,957	15,436	2,434	20	427	239	72
	Mar-99	30	17	10	28	0.9	41	1.5	148	3.6	6,596	(1,432)	799	12	236	161	45
	Apr-99	40	23	18	40	1.0	61	1.5	173	2.8	5,051	6,100	845	17	126	83	29
	May-99	36	14	8	36	1.0	64	1.8	218	3.4	9,000	5,838	1,585	18	250	141	41
	Jun-99	**953**	**29**	**22**	**978**	**1.0**	**1,709**	**1.7**	**6,496**	**3.8**	**267,907**	**270,836**	**42,514**	**16**	**274**	**157**	**41**
POST	Jul-99	133*	25	31	153	1.2	252	1.6	987	3.9	74,275	95,263	12,558	17	485	295	75
	Aug-99	146	26	44	172	1.2	286	1.7	870	3.0	43,240	51,900	8,987	21	251	151	50
	Sep-99	166	40	58	188	1.1	362	1.9	1,270	3.5	70,824	94,739	16,110	23	377	196	56
	Oct-99	152	42	53	178	1.2	319	1.8	1,286	4.0	58,354	87,082	12,300	21	328	183	45
	Nov-99	102	52	55	111	1.1	198	1.8	761	3.8	29,095	50,920	7,151	25	262	147	38
	Dec-99	83	42	41	98	1.2	167	1.7	554	3.3	23,187	38,983	4,304	19	237	139	42
Total		1,890	31%	32%	2,030	1.1	3,543	1.7	13,037	3.7	$607,256	$728,410	$110,948	18%	$299	$171	$47

*To be read as, of the 953 customers who received an offer in June, 21 customers had patronized the casino in January and 133 customers patronized the casino in July.

Note: Harrah's identified a list of potentially loyal customers who could increase the number of trips that they made to Harrah's. An offer was sent to a total of 953 customers in June, redeemable in July, August, and September. Each offer consisted of three individual offers—one for each month, at an average incremental cost to Harrah's of $40 per each redeemed offer. The type and level of offer was similar in value and type to what the customer had historically received. The offer was different for customers of different perceived worth to Harrah's but was predominately cash and food based. **Exhibit 2c** tracks the behavior of this pool of 953 customers before and after the offer was sent in June. While, on average, only 30 of these 953 customers were visiting Harrah's between January and May, the number jumped to an average of 150 per month during the subsequent months. The theoretical win from these customers also increased accompanied with the increase in offer redemptions. Harrah's calculated the profitability of these programs by comparing the incremental theoretical wins to the incremental cost of the program.

Source: Harrah's Entertainment Inc.

Exhibit 2d Loyalty Program (Budget Upside)—Offer Behavior Change by Offer and Month

Report Period	# of Guests	Hotel %	Red %	# of Trips	Trips per Guest	Days	Days per Trip	Hours	Hours per Day	Theo Win	Observed W/(L)	Comp. Amt.	Comp %	Avg. Trip	Avg. Day	Avg. Hour
Jun-99	235	0%	37%	368	1.6	401	1.1	767	1.9	$13,544	$18,011	$88	1%	$37	$34	$18
Jul-99	241	0	33	374	1.6	405	1.1	878	2.2	16,931	15,699	182	1	45	42	19
Aug-99	284	0	26	427	1.5	474	1.1	1,015	2.1	18,710	22,042	233	1	44	39	18
Sep-99	302	0	26	528	1.7	611	1.2	1,247	2.0	23,520	20,004	603	3	45	38	19
Oct-99	578	0	40	1,028	1.8	1,135	1.1	2,109	1.9	28,905	31,918	534	2	28	25	14
Nov-99	267	0	50	577	2.2	649	1.1	1,193	1.8	23,646	39,205	318	1	41	36	20
Dec-99	291	0	75	721	2.5	830	1.2	1,528	1.8	32,105	63,248	668	2	45	39	21
Jan-00	250	0	62	583	2.3	686	1.2	1,228	1.8	27,370	30,952	617	2	60	40	22
Feb-00	247	0	63	581	2.4	679	1.2	1,237	1.8	36,885	39,060	1,550	4	63	54	30
Mar-00	288	0	67	717	2.5	852	1.2	1,529	1.8	43,318	59,028	1,927	4	60	51	28

Note: **Exhibit 2d** tracks a group of customers with an upside budget potential. In October, 578 customers were selected and mailed offers that were redeemable in November, December, and January. In January, these customers were evaluated again as high budget upside and sent additional offers intended to capture a larger share of budget in February and March. Each offer consisted of one coupon per month.

The offers provided an unconditional cash incentive for visiting and a larger play-based incentive to increase play. For example, a customer would receive $5 for visiting and $20 for playing to a $200 level of theoretical wins, $30 for playing to a $300 level, and so forth. The value of the unconditional offer was typically less than they had previously received via direct mail; however, the conditional part was significantly greater—resulting in a direct mail piece that was only slightly more costly to Harrah's, about $15 compared to $10 in the past.

Source: Harrah's Entertainment Inc.

Exhibit 2e Retention Program—Offer Behavior Change by Offer and Month

Offer	Report Period	# of Guests	Hotel %	Red %	# of Trips	Trips per Guest	# of Days	Days per Trip	Hours	Hours per Day	Theo Win	Observed W/(L)	Comp Amt.	Comp %	Avg. Theo win per Trip	Avg. win per Day	Avg. win per Hour
	Jul-98	5,980	0%	14%	8,695	1.5	11,079	1.3	27,882	2.5	$1,603,196	$1,691,024	$312,370	19%	$184	$145	$57
	Aug-98	5,041	0	13	7,284	1.4	9,330	1.3	22,962	2.5	1,325,049	1,366,126	209,748	16	182	142	58
	Sept-98	3,098	0	17	4,369	1.4	5,416	1.2	12,791	2.4	705,836	1,008,256	106,832	15	162	130	55
	Oct-98	1,444	1	21	2,272	1.6	2,661	1.2	6,303	2.4	354,198	483,471	55,006	16	156	133	56
	Nov-98	326	2	16	478	1.5	553	1.2	1,213	2.2	63,140	94,869	9,242	15	132	114	52
	Dec-98	10	10	0	14	1.4	16	1.1	25	1.6	1,293	1,729	54	4	92	81	51
	Jan-99	362	4	14	366	1.0	441	1.2	1,086	2.5	60,999	68,786	9,089	15	167	138	58
	Feb-99	3,578	0	22	4,140	1.2	5,325	1.3	12,676	2.4	661,868	803,336	105,703	16	160	124	53
	Mar-99	4,592	0	24	5,659	1.2	7,114	1.3	16,967	2.4	900,992	1,048,778	130,620	14	159	127	53
	Apr-99	4,052	0	22	5,166	1.3	6,597	1.3	16,488	2.5	911,712	1,040,968	123,737	14	176	138	55
	May-99	3,576	0	22	4,637	1.3	5,850	1.3	15,134	2.6	810,873	967,491	114,451	14	175	139	54
	Jun-99	3,325	0	23	4,492	1.4	5,710	1.3	14,113	2.5	806,390	863,057	108,807	13	180	141	57
	Jul-99	3,934	0	21	5,606	1.4	7,074	1.3	18,357	2.6	1,160,901	1,099,528	179,247	15	207	164	63
	Aug-99	3,769	0	20	5,277	1.4	6,827	1.3	17,713	2.6	1,047,831	1,293,718	169,202	16	199	153	59
	Sep-99	3,197	1	20	4,476	1.4	5,737	1.3	15,139	2.6	922,912	1,031,069	124,268	13	206	161	61
	Oct-99	2,882	1	22	3,982	1.4	5,057	1.3	13,743	2.7	760,428	918,241	105,493	14	191	150	65
	Nov-99	2,589	1	21	3,455	1.3	4,397	1.3	11,750	2.7	635,578	815,021	91,749	14	184	145	54
	Dec-99	2,151	1	21	2,834	1.3	3,597	1.3	10,144	2.8	595,359	562,899	71,643	12	210	168	59
Total		53,906	0%	20%	73,202	1.4	92,781	1.3	234,484	2.5	$13,328,555	$15,163,367	$2,027,261	15%	$182	$144	$57

Source: Harrah's Entertainment Inc.

Note: The report shown in **Exhibit 2e** summarizes the visitation patterns for a group of customers whose patronage was declining in the second half of 1998. These customers had significantly reduced their aggregate frequency to Harrah's casinos. Based on their historical pattern of behavior, Harrah's had expected to see them in December but hadn't.

In order to reinvigorate relationships with these customers, Harrah's sent a direct mail offer to approximately 8,000 customers in January of 1999 that was redeemable in February, March and April. One cash coupon was sent per month, with the amount varying by customer worth. If these customers returned to Harrah's, they were put into the loyalty-marketing program and managed according to their upside potential. The program seemed to be working even though the cost of the offer had gone up from $30 to $40.

Exhibit 2f Consolidation of Play (Theoretical win) by Customer

Customer IDs	Q1	Q2	Q3	Q4	1998	Q1	Q2	Q3	Q4	1999	Attrition	New	Change
1	$800	$700	$300	$--	$1,800	$800	$900	$900	$200	$2,800	0	0	$1,000
2	--	--	--	--	--	120	--	80	--	200	0	1	--
3	--	60	--	60	120	80	60	--	50	190	0	0	70
4	--	--	--	--	--	--	--	80	--	80	0	1	--
5	--	60	40	60	160	--	--	--	--	--	1	0	--
6	--	60	120	220	400	150	70	80	--	300	0	0	(100)
7	--	40	--	--	40	40	--	50	70	160	0	0	120
8	80	80	--	--	160	60	60	80	80	280	0	0	120
9	--	1,200	2,000	500	3,700	--	2,500	1,500	4,000	8,000	0	0	4,300
10	--	60	--	--	60	20	50	20	50	140	0	0	80
11	80	--	40	80	200	120	80	220	--	420	0	0	220
12	--	40	40	40	120	50	50	50	50	200	0	0	80
13	--	--	--	--	--	--	--	--	150	150	0	1	--
14	800	1,500	1,200	800	4,300	1,100	1,500	1,200	1,400	5,200	0	0	900
15	7,000	2,500	--	--	9,500	5,000	6,000	--	480	11,480	0	0	1,980
16	--	--	--	--	--	--	60	70	70	200	0	1	--
17	--	--	--	--	--	--	40	40	--	80	0	1	--
18	300	400	500	500	1,700	900	900	700	400	2,900	0	0	1,200
19	40	40	--	--	80	50	50	--	--	100	0	0	20
20	50	--	--	50	100	40	40	40	--	120	0	0	20
21	--	30	30	--	60	40	30	30		100	0	0	40
22	400	600	--	--	1,000	--	--	280	--	280	0	0	(720)
23	--	1,000	--	--	1,000	--	600	280	--	880	0	0	(120)
24	50	--	--	--	50	100	--	--	150	250	0	0	200
25	2,000	2,000	2,200	1,500	7,700	2,100	2,200	3,000	1,500	8,800	0	0	1,100
26	--	--	--	--	--	60	--	--	--	60	0	1	--
27	30	--	30	50	110	--	--	--	--	--	1	0	--
28	40	40	50	--	130	--	--	--	--	--	1	0	--
29	40	40	--	--	80	20	40	--	40	100	0	0	20
30	--	--	60	60	120	--	--	--	--	--	1	0	--
31	100	--	80	--	180	--	40	80	90	210	0	0	30
32	--	60	30	--	90	40	--	50	40	130	0	0	40
33	30	--	--	100	130	60	50	50	--	160	0	0	30
34	--	--	4,000	2,000	6,000	3,500	--	1,000	--	4,500	0	0	(1,500)
35	50	70	--	200	320	--	--	--	--	--	1	0	--
36	--	--	200	--	200	--	--	600	--	600	0	0	400
37	60	--	40	--	100	40	40	60	80	220	0	0	120
38	--	--	200	--	200	--	240	100	90	430	0	0	230
39	50	--	60	--	110	--	260	--	--	260	0	0	150

Customer IDs	Q1	Q2	Q3	Q4	1998	Q1	Q2	Q3	Q4	1999	Attrition	New	Change
40	--	--	--	40	40	60	60	40	--	160	0	0	120
41	120	--	--	--	120	--	--	--	--	--	1	0	--
42	--	--	200	--	200	150	100	80	--	330	0	0	130
43	40	40	60	--	140	--	--	70	60	130	0	0	(10)
44	--	--	--	--	--	70	60	80	60	270	0	1	--
45	400	400	400	500	1,700	800	800	700	500	2,800	0	0	1,100
46	--	40	--	40	80	--	60	70	--	130	0	0	50
47	--	50	--	--	50	40	--	40	260	340	0	0	290
48	--	--	--	--	--	--	--	--	120	120	0	1	--
49	--	--	70	--	70	--	140	70	60	270	0	0	200
50	--	--	--	--	--	--	3,000	1,500	70	4,570	0	1	--
51	40	40	--	--	80	70	70	50	--	190	0	0	110
52	60	120	--	--	180	--	150	--	80	230	0	0	50
53	120	60	--	60	240	--	--	--	--	--	1	0	--
54	40	--	30	--	70	40	50	50	40	180	0	0	110
55	40	60	--	--	100	50	60	90	50	250	0	0	150
56	--	--	60	--	60	--	50	--	70	120	0	0	60
57	50	--	--	100	150	40	60	70	70	240	0	0	90
58	60	40	--	--	100	80	--	--	50	130	0	0	30
59	--	--	--	70	70	60	--	--	--	60	0	0	(10)
60	70	--	--	--	70	60	50	--	70	180	0	0	110
61	40	40		30	110	50	30	50	50	180	0	0	70
62	50	50	--	--	100	880	500	400	600	2,380	0	0	2,280
63	20	--	--	60	80	40	50	50	70	210	0	0	130
64	30	--	40	--	70	--	--	--	--	--	1	0	--
65	--	--	--	--	--	--	200	200	200	600	0	1	--
66	60	120	200	--	380	70	80	50	100	300	0	0	(80)
67	60	--	120	--	180	220	60	--	220	500	0	0	320
68	150	--	--	80	230	100	140	200	80	520	0	0	290
69	20	--	60	--	80	50	--	80	--	130	0	0	50
70	--	120	--	80	200	200	--	220	--	420	0	0	220
71	40	--	40	40	120	80	50	--	150	280	0	0	160
72	--	40	60	--	100	30	40	50	50	170	0	0	70
73	--	70	--	30	100	--	80	--	--	80	0	0	(20)
74	--	--	--	--	--	150	--	150	--	300	0	1	--
75	60	40	--	50	150	60	100	60	80	300	0	0	150
76	800	400	700	800	2,700	700	800	300	--	1,800	0	0	(900)
77	40	50	100	--	190	--	--	--	--	--	1	0	--
78	--	--	--	--	--	80	--	70	--	150	0	1	--
79	400	--	--	--	400	--	480	--	180	660	0	0	260
80	400	400	--	600	1,400	220	1,500	1,400	--	3,120	0	0	1,720

Customer IDs	Q1	Q2	Q3	Q4	1998	Q1	Q2	Q3	Q4	1999	Attrition	New	Change
81	400	--	--	--	400	--	--	--	300	300	0	0	(100)
82	--	--	--	--	--	80	80	80	70	310	0	1	--
83	--	--	--	--	--	80	--	50	--	130	0	1	--
84	--	--	600	--	600	--	520	--	--	520	0	0	(80)
85	--	40	--	40	80	--	--	320	--	320	0	0	240
86	--	--	200	--	200	--	--	--	--	--	1	0	--
87	400	500	--	600	1,500	500	700	600	600	2,400	0	0	900
88	70	200	400	--	670	--	--	500	--	500	0	0	(170)
89	--	3,300	2,200	--	5,500	1,500	1,400	1,500	2,000	6,400	0	0	900
90	400	--	400	--	800	--	--	--	780	780	0	0	(20)
91	60	--	--	30	90	50	50	--	--	100	0	0	10
92	--	--	--	1,000	1,000	320	260	--	--	580	0	0	(420)
93	1,000	--	400	--	1,400	--	--	1,100	--	1,100	0	0	(300)
94	--	600	400	--	1,000	--	--	--	--	--	1	0	--
95	--	--	200	--	200	100	260	--	80	440	0	0	240
96	--	--	50	--	50	40	50	--	60	150	0	0	100
97	--	--	--	1,000	1,000	--	--	--	--	--	1	0	--
98	40	20	30	--	90	40	--	--	120	160	0	0	70
99	--	200	600	--	800	200	--	1,100	--	1,300	0	0	500
100	50	--	--	60	110	--	200	--	--	200	0	0	90
Average	176	176	190	115	656	219	282	221	165	885			
Actives	52	47	45	36	86	60	61	61	52	88			
Max	7,000	3,300	4,000	2,000	9,500	5,000	6,000	3,000	4,000	11,480			
Min	--	--	--	--	--	--	--	--	--	--			
Total	17,630	17,620	18,840	11,530	65,620	21,850	28,200	22,080	16,340	88,470			

Source: Harrah's Entertainment Inc.

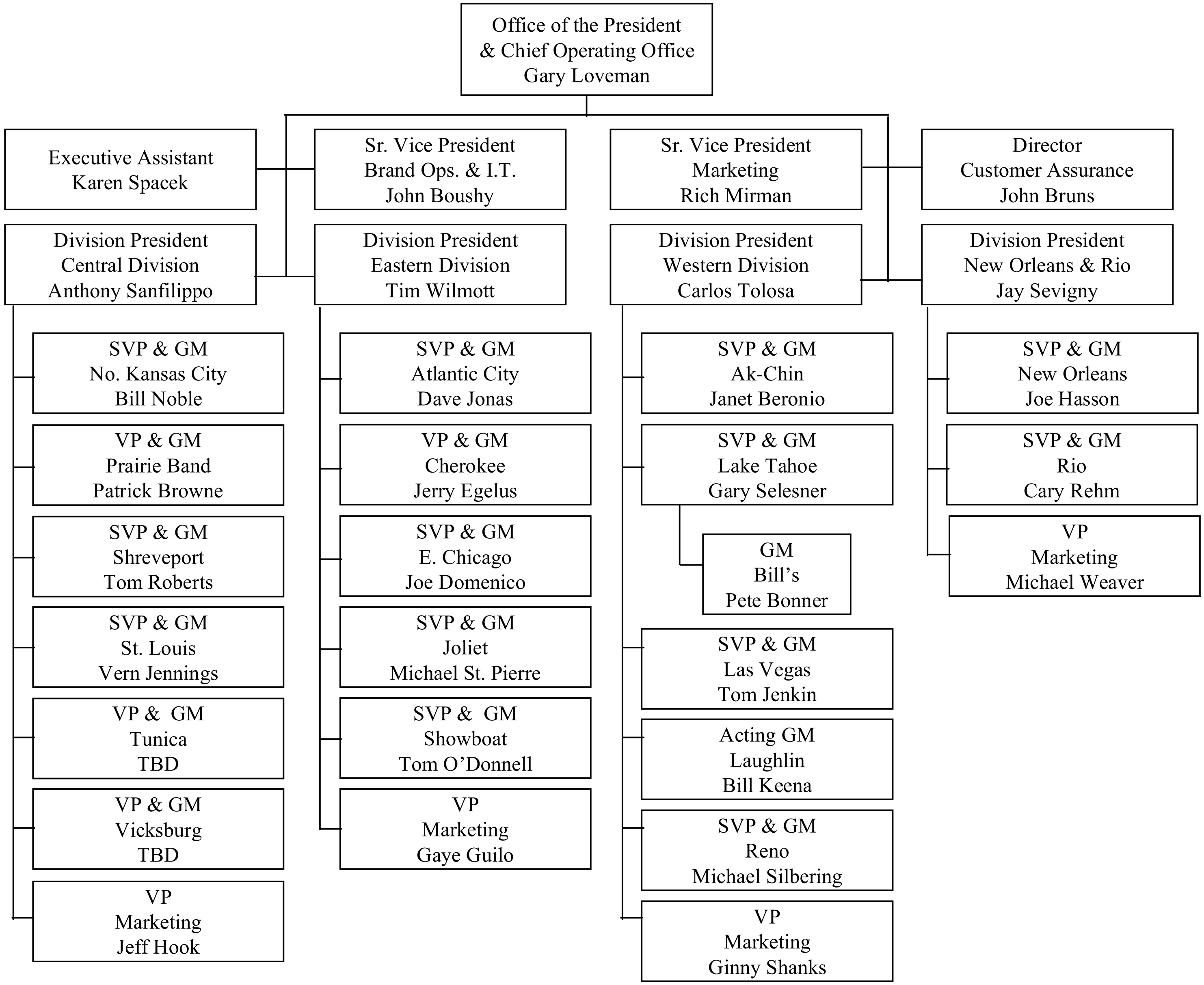
Exhibit 3 Total Gaming Revenue in the United States, 1995-1999 ($ in millions)

	1995	1996	1997	1998	1999
Traditional					
Total Nevada	$ 7,366.4	$ 7,420.2	$ 7,802.7	$ 8,064.1	$ 9,020.5
Las Vegas Strip	3,607.4	3,579.6	3,809.4	3,812.4	4,488.5
Atlantic City	3,747.6	3,814.6	3,905.8	4,032.2	4,164.2
Total	$11,113.9	$11,234.8	$11,708.5	$12,096.3	$13,184.7
Riverboats	$ 4,732.0	$ 5,549.2	$ 6,437.9	$ 7,299.6	$ 8,332.2
Native American	$ 4,175.9	$ 4,731.3	$ 5,779.3	$ 7,890.9	$ 8,426.3
Other	$ 430.3	$ 639.0	$ 772.9	$ 873.9	$ 1,199.8
Total United States	$20,452.1	$22,154.4	$24,698.6	$28,160.7	$31,143.0

Source: Gaming Commissions and Merrill Lynch estimates.

Note: Other includes Colorado, Delaware, Detroit, and South Dakota.

Exhibit 4 Harrah's Entertainment, Inc. Operations



Source: Harrah's Entertainment Inc.

Exhibit 5 Segment Communication Program

Segment Number	Segment Description	Reinvestment	Hotel Coupon	Goal of Contract	Redemption Window	Letter Tone	Letter Messages
1	Local, lodger		no, maybe too high worth only	probably don't mail			note: do not want locals in hotel as there is no incremental value generated
2	Local, nonlodger		no	probably don't mail			note: do not want locals in hotel as there is no incremental value generated
3	New, lodger	normal to high	yes	get back for second trip	longer	introductory	welcome, explain Total Rewards
4	New, nonlodger	highest	yes	get back for a second trip as a lodger	longer	introductory	welcome, explain Total Rewards, want in the hotel, explain why our hotel is the best
5	Existing, 1 trip in last 12 months, lodger	normal	yes	thanks	longer	friendly	thanks, make sure you stay with us on your next trip
6	Existing, 1 trip in last 12 months, nonlodger	higher	yes	thanks	longer	friendly	thanks, want in the hotel, reinforce the hotel as the place to stay
7	Existing, 2+ trips in last 12 months, lodger	normal	yes	thanks	longer	appreciative	thank our best guests
8	Existing, 2+ trips in last 12 months, nonlodger	higher	yes	thanks	longer	appreciative	Thank our best guests, want in the hotel (these guests likely to stay with competitors or be day trip guests)

Source: Harrah's Entertainment Inc.

Exhibit 6 Sample Letter to Loyal Customers (Low Actual and High Predicted Frequency)

Dear Steve,

All of us want you to know how much we appreciate your recent Harrah's visit. It's always gratifying when good, loyal customers like you keep coming back. But the bottom line is, WE WANT YOU TO BRING ALL YOUR PLAY TO HARRAH'S. That way, you'll earn even bigger rewards, more often . . . just by playing at Harrah's. To thank you again for your recent play we've enclosed these valuable rewards. Why settle for less anywhere else?

It may be cold outside, but the action and winning are hotter than ever inside. But don't take our word for it. [Ask Veronica Hale of Goldsby, Oklahoma. She just won $42,468 playing Harrah's one dollar Red, White and Blue slot machine.] At Harrah's you're always a winner when you use your Total [Gold] card. The more you use it, the more you can count on receiving exclusive discounts, comps for meals and hotel stays, even CASH REWARDS near the middle of each month. Right now, you can count on enjoying special happenings like these:

Offer:

Offer:

Remember, nobody rewards loyal players better or bigger than Harrah's. So doesn't it just make good sense to bring even more of your play to Harrah's? After all, the more you play using your Harrah's card, the more it pays. And the sooner you can move up to Harrah's next level of exclusive rewards and recognition. Make the most of your play. Come back to Harrah's now!

Best of Luck Always,

Name
Vice President and General Manager

P.S.: With all that Harrah's has to offer, just imagine how much greater your rewards could be if you only play Harrah's.

Source: Harrah's Entertainment Inc.