



# The Culture of Innovation

by Andrew Cardno

Effective leadership at your gaming establishment is a catalyst for innovation and underpins future revenue growth. There are many pieces required to bringing about innovation, not the least of which is the organization's culture.

Finding opportunities is a combination of creative thinking, culture, and guts. It takes guts to say, "I know we have always done things this way, but how about we try this?" This kind of thought process, when embodied by you and your leadership team, can promote a culture change whereby creative thinking and the challenging of norms is rewarded and eventually embedded in your company culture. It takes creative thinking to find innovative ideas and a clear vision to see how you may be able to implement them. Your culture will need to be one that embraces change if these innovative ideas are to be implemented.

The following examines how you can foster a culture of innovation and what this means across the myriad of interconnected business units that comprise your gaming operations.

### The Risk of Inaction: Changing the Question

When ideas are presented a question that follows is often: "Why should we do this?" As an alternative to this paradigm, ask the question: "Why not?" This change in paradigm embraces innovation and learning.

Consider the goal of growing your business by 5% in a calendar year. The initiatives to grow business take time and when you implement them, impacts how much success is required if they are to be effective in making you reach your goal. To illustrate the math to calculate your annualized percentage growth resulting from innovation changes that are required to make your annual goal consider the following two scenarios: If the change is implemented for the entire year your innovation only needs to deliver a 5% incremental result to make your yearly number, however if the change is implemented in December your innovation will need to deliver 60% return on investment to make your yearly growth numbers. These examples illustrate how inaction creates a barrier to success in making financial targets.

### The Evolving Gaming Market

The gaming market has matured and now you may be in one of the markets where you look around at a group of competitors trying to take your customer's wallet. In trying to obtain consumers, your competitors are driving forces in

changing your gaming landscape. Consider the following three shifts in your market:

**Diversification:** Your customers have choices in how they want to be entertained – they might choose between attending a show on your property or attending an ice hockey game. Look around and you will see that the entertainment options that your customers have has grown substantially in both sophistication and availability.

**A total package:** In the gaming industry, there are now many markets where the gaming components of the offering are smaller than the accommodation; customers now expect you to be providing competitive products.

**Young people:** Your slot machines have underpinned your gaming revenue for decades. The high yield of these games makes alternate offerings hard to justify. Should you introduce video game style gambling games that have may have only 50% of the revenue of slot machines to your gaming floor? In answering this, you may wish to further consider the way in which you are measuring incremental revenue from new segments of customers attracted to this new kind of gaming product.

### Strategic and Tactical Opportunities

Innovation in your business should be divided into two broad categories. Your first category is strategic initiatives, such as building a new hotel, adding on an entertainment complex, or expanding the gaming floor. Your second category consists of smaller, faster initiatives that can be executed in a few days or weeks – these include gaming floor optimizations, marketing experiments, or partnerships with online marketing firms to drive visitation.

Strategic initiatives offer the largest rewards and the biggest payoffs. Indian gaming has seen huge strategic initiatives that have oftentimes resulted in world class resorts that dramatically increase the scope and geographic capture range of the facility. With diversification of gaming into associated entertainment revenue streams, your strategic initiatives are an essential program that enables you to compete in an evolving marketplace.

Your tactical initiatives are very different in nature and they involve constant challenges including reviewing marketing programs, optimizing the product mix, and looking for smaller incremental value creators. The risk profile of tactical initiatives is much lower and if done properly you can reduce

the risk to almost zero. Oftentimes your greatest challenge is how to maintain the focus on tactical initiatives while undertaking large scale strategic initiatives. To understand the kinds of tactical initiative, consider two critically important tactical programs, your test and control program, and your gaming floor optimization.

### The Test and Control Program

From marketing, to game mix, to food and beverage service strategies – you can employ test and control methods to try different ways of changing your operations to improve profitability. The math behind test and control is a gamblers dream. Let's conduct a hypothetical test on \$200,000 of monthly net revenue. This could be a new marketing initiative, conversion kits for a bank of games, or a strategy to improve the number of beverage servers in a particular part of the casino. Let's further suppose that our goal is to find a way to increase our net revenues by 5 percent. If your test is successful, your new program will drive an incremental 5 percent x \$200,000 = \$10,000 per month. Over the course of a year, the new program will yield an incremental \$120,000 of net revenue. On the other hand, if your test is failing, you can stop the program and only suffer the loss for the first month. In many cases, you are able to set up an experience where only half the net revenue received the test program, so in fact the total loss for the failed program is 5 percent x \$100,000 = \$5,000. If it fails, you lose \$5,000. If it succeeds you expand your program and are gaining \$10,000 a month. Those are fantastic odds, so take them.

### The Gaming Floor Optimization Program

Once an initiative is underway, you need to constantly monitor it to determine if you can fine tune the results. This fine tuning of the decision making adds to the gambler's dream of test and control – it is like counting cards in blackjack. Consider the example of altering your gaming floor using some game conversions. As the game conversions are happening, the following three-step process shows how to combine the game revenue and market basket analysis to give a clear set of actions to take during an active management process that accompanies the change.

**Step 1: Monitor.** This is an art. Watch for changes for over-flow, yield management, and overall revenue distribution.

**Step 2: Market Basket Analysis.** Determine the market basket of players on the gaming machines, and use this to monitor the impact across the floor.

**Step 3: Testing Change.** During the change period, monitoring change is essential. Determine if the change is generating net incremental revenue. If your change is not working, you can oftentimes back out, regaining lost

ground. This places you in a similar mathematical advantage to the changes associated with marketing test and control.

### The Culture of Innovation

Your gaming workforce is a combination of logistical services and management leadership. Looking first at your logistical workforce – this team extends from dealers, to slot techs, to cleaners, to the valet. Your workforce are the ones who have the majority of contact with your customers and how your workforce interacts with customers in many ways defines your business. While your teams are central to the success of your programs, as you think about your strategic and tactical opportunities, it is critical that you focus on the culture of your organization and realize that you are the key to your culture. Lead by example and the organization will follow. ♣

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