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TABLE TALK: Yielding to new ideas

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Table game yield management allows the pit to meet customer needs while maximizing net-per-user-profit.

Years ago when I was visiting a local casino property, I observed that every open blackjack table was full to capacity, while a large number of tables remained unopened. I asked the GM why he didn't open more tables or raise the limits. His reply was curt: "we're going to get all their money anyway, so it doesn't matter."

Though I didn't fully understand it at the time, I now know that I was observing poor "yield management." The GM's reply showed a classic misunderstanding of how profit is earned. If there is more demand than supply, then prices should go up and more supply channels should be created. The more you sell and the more you charge, the more you get. There is no such thing as getting it all.

"Table game yield management" (TGYM) is an evolving model of table game operations that uses ideas that have been around for some time in the hotel, airline and rental car industries. The challenges are the same: fixed resources and dynamic demand. As demand changes, there is an optimal delivery path that at once meets the needs of the consumer while maximizing net-per-user-profit.

For casino table games, TGYM reduces pit profitability to three variables: the mix of games the casino has available to offer, the games that are open and the betting limits for each game. Of course table game managers have many other issues to consider that also affect profitability. These include rule modification, number of betting spots per table, shuffle procedure, fill frequency and others. Though these fall under yield management in a broader sense, TGYM is focused on answering exactly three questions. What mix of table games should be in the casino? Should the casino open or close a table? Should the casino raise or lower the table minimum for a game?

To understand how answering these questions affects profitability, the first step is to recognize that each

player has a preferred game that will maximize the net theoretical trip profit for that player. This profit takes into consideration the player's theoretical, but it also accounts for per-player expenses, which include taxes, staffing and operational costs. Yield management is not focused on hourly profit, or profit per 100 hands, or game pace, or maximizing drop, hold or win. It represents the conditions that maximize net-profit for a given player, playing one specific game, over one complete trip. The unit is "one complete trip" because different playing conditions directly affect game choice, playing time, buy-in, wager size and overhead costs.

For example, a $50 blackjack player may generate the greatest expected net-profit when playing at a double deck table with two other players and a $25 table minimum. That same player may generate significantly less net-profit if playing at a shoe game with five other players and a $10 table minimum. The situation may be exactly the opposite for a $10 player. If a casino has a lot of $50 blackjack players expected on a Friday night, the spread should not drive them to shoe games at full tables. There should be an ample supply of $25 and $50 minimum tables so they can find a game with at most two other players. If a lot of $10 players are expected to show up, spread enough to get an average of about five players per table. The goal is to give each player the game he wants at the location he wants at the best price the casino can charge.

The pathway to start using TGYM ideas is straight-forward. Casinos already gather huge amounts of information about their players. Data such as game played, buy-in, average bet, number of players at the table, win, game pace and playing time are already kept. Operational and staffing costs are also known. This data can be analyzed for those conditions that maximize the net-per-trip-profit for that player. Based on this, recommendations for staffing and spread can be made in advance of a shift and resources can be allocated. To the extent that the recommendations don't match what's happening on the floor at a particular instant, changes can be made to bring the spread in line with the current mix of players and available staffing. Of course, special events and customers with special requests can also impact these decisions.

But TGYM goes further than simply optimizing the spread. By reviewing past data, patterns become evident. There may be consistent trends of under-spread or over-spreads by certain managers or shifts. Using TGYM, the actual spread for each shift can be compared to the optimal spread for that shift giving a tangible metric for measuring pit performance. Those mangers that underperform can be coached directly. Those who demonstrate a strong understanding of TGYM principles can become mentors.

Think of it like a batting average. The goal is to hit the most efficient spread given current staffing and available tables. Gone is the arcane concept of "hold," and in its place "efficient resource management" is the strike zone. Table games management is becoming baseball management as depicted in the recent movie Moneyball. There is no doubt that relying on data and analytics is the future.

The main obstacle to TGYM is that it's not easy to do well. First, casinos will either have to do the data gathering on their own or have access to a large data base of research others have done. For smaller casinos, there is neither the time nor opportunity to do independent TGYM analysis, while access to outside database services may not be cost effective. Second, the math is tough-knowing how to translate data to recommendations can be a daunting task. However, by understanding the operational principles of TGYM, decent improvements in yield can still be achieved. A good starting point is education. A Google search of "Table Games Yield Management" (in quotes) will give a handful of excellent articles and resources.

Given the practical challenges that casinos face, it's reasonable to expect the market to quickly fill the growing need for TGYM products. This is not the case. As of this writing, there does not appear to be a

rush by qualified companies to create TGYM applications. Tangam Systems is the only company I know of that has a fully functioning product in the market.

There is tremendous room in the market for many more such products. Forward looking companies with data management tools should take note. There is no doubt that TGYM systems are the future of table games management.