

# **Customer Loyalty in the Online Gambling Industry: Are Problem Gamblers Loyal Customers?**

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## **ABSTRACT**

*Are problem gamblers loyal customers? In this research, we investigate the relationship between an online gambler's problem gambling classification and customer loyalty. We argue that an online gambler's problem gambling classification is not a good predictor of customer loyalty. Our proposed theoretical model integrates loyalty with a consumer's pathological gambling classification along with enjoyment, satisfaction and commitment. The expected diminished role of loyalty in regards to those classified as a problem gambler challenges the traditional view of thinking that loyalty is necessary to ensure valuable ongoing customer relationships. Implications for theory and practice are discussed.*

## **KEYWORDS**

Loyalty, online gambling, pathological gambling, enjoyment

## **INTRODUCTION**

Millions of people worldwide gamble online, some legally and some illegally as in the United States. In the U.S., residents gamble online every day without the protection of reliable regulatory structures that ensure age and identity verification, the integrity and fairness of the games, or that responsible gambling features are included on the online gambling website (Stewart, 2006). Over the last decade, the online gambling industry has grown rapidly due to advances in personal computing and the remarkable penetration of high-speed Internet. Internet gambling is available to consumers 365 days a year 24 x 7. The first Internet gambling sites opened in 1995 and in 2011, there were an estimated 2400 sites operated by 650 different companies (MacKay, 2011). Recent estimates put the online gambling industry at a \$12 billion per-year industry, which suggests that online gambling is a significant growing industry which should not be ignored (Landes, 2007). However, little research exists that examines the determinants of loyalty in the online gambling industry. In this research we examine how an individual's problem gambling classification and other factors influence online gambling customer loyalty. We propose that loyalty is not a significant factor for those consumers identified as problem gamblers.

The relationship between loyalty and a consumer's corresponding website usage is well documented in the e-commerce literature. From an economic standpoint, creating and sustaining customer loyalty has been shown to provide many economic advantages. Truly loyal customers significantly impact both profitability and growth (Reichheld, 2003). In a highly cited study, Reichheld and Schefter (2000) suggested that increasing the percentage of loyal customers by as little as 5% can increase profitability as much as 30% to 85%, depending on the industry involved and could be even higher on the Internet. Attracting new customers online is an expensive process which suggests that creating a loyal customer

base would be critical to an online gambling site's survival. Attracting new customers cost online firms at least 20% to 40% more than the traditional environment (Reichheld and Schefter, 2000). The fear in the online environment is that the inherent low switching costs enable competing online firms to be just a click away. Thus, loyalty creation has traditionally been viewed as key in creating stickiness to an e-commerce site and reoccurring economic benefits.

In the online gambling arena, consumer loyalty and patron tracking schemes potentially mean that every element of a person's gambling can be monitored and used to develop customer loyalty (Broda, LaPlante, Nelson, LaBrie, Bosworth and Shaffer, 2008; Haefeli, Lischer and Schwarz, 2011; Nelson, LaPlante, Peller, Schumann, LaBrie, and Shaffer, 2008). However, our research questions the role and importance of loyalty creation for the online gambling industry. The effectiveness and necessity of loyalty generating factors are suggested to be dependent on the online gambler's gambling classification. We hypothesize that loyalty may not be required to predict an online gamblers future actions. This research is one of the first to examine the personal and individual antecedents of online gambling loyalty. The results could provide early insight into online gambling loyalty and provide practical insight for firms interested in targeting their online loyalty generating actions to create a loyal online gambling customer base. Drawing on theories in e-commerce loyalty, this research develops a conceptual model for evaluating the importance of loyalty in the online gambling industry.

The purpose of this exploratory study is to develop and empirically test a theoretical model of the determinants of loyalty to an online gambling provider. The proposed theoretical model integrates enjoyment, commitment and loyalty. In our research, we will incorporate the personal gambling involvement of the individual, where gambling involvement represents the online gamblers pathological gambling habits, to investigate what role an online gamblers pathological classification plays in loyalty to an online gambling website. The usage statistics and apparent growth of the online gambling industry suggests that consumers are continuing to engage in online gambling at an increasing rate. However, are all types of online gamblers loyal to online gambling websites?

## **ONLINE GAMBLING**

Online gambling (also known as internet gambling, virtual gambling, and e-gambling) is considered to be the act of using a personal computer or mobile device to connect to a website offering gambling opportunities (e.g., blackjack, poker, slot machines, craps, bingo) and placing a wager using real money. The increasing number of people who use the Internet and the growing consumer confidence in conducting online financial transactions has led to a greater number of people willing to engage in Internet gambling. Recent surveys of the general U.S. adult population show online gambling rates between 3-4 % (Wood and Williams, 2007). The worldwide expansion of gambling has led to concern that ready availability and accessibility contributes to a greater incidence of problem gambling within communities (Wood and Williams, 2011). Such findings suggest the importance of research into understanding online gambling behavior. These statistics all suggest that online gambling is growing in size and has opportunities for continued growth; however it can be tremendously difficult to obtain accurate statistics about online gamblers due to the nature of the Internet itself and the fact that many participants are located in jurisdictions where online gambling is prohibited.

Given the nature of online gambling as a largely unregulated industry, fair play practices are difficult to monitor and authenticating the fairness of gambling outcomes is a challenge. For example S é vigny, Cloutier, Pelletier and Ladouceur (2005) found online gambling sites provided inflated odds of winning on their play-for-free sites fostering the illusion of the ease of winning. This ‘bait and switch’ technique encourages transition to pay-to-play sites that have poorer return to player rates resulting in losses to players. Other sites ignore responsible gaming guidelines. For example, Smeaton and Griffiths (2004) examined 30 UK gambling websites and found that more than half did not verify the age of consumers, and almost all sites (29/30) did not have a self-limiting option, or references to gamblers help services (26/30).

Concern exists over the safety of online gambling operations. The Internet has allowed the gaming industry to set up websites in unregulated or poorly regulated jurisdictions (Parke and Griffiths, 2004), circumventing any restrictions and controls (Eadington, 2004). Currently, the legality of online gambling in the United States is under question, even when there is legalized gambling in every US state except Utah and Hawaii. Online gaming continued to grow in the United States until October 2006, when the Unlawful Internet Gambling Enforcement Act (UIGEA) was passed as an addition to the Security and Accountability for Every Port Act of 2006. The act effectively made it illegal for any financial transaction provider to transfer funds to online gambling sites (Smith, Hodgins and Williams, 2007). Although this act did not make the specific act of betting illegal for the consumer, the increased difficulty of financial transactions, and increasing uncertainty over the legality of online gaming in the average consumer's eyes had a negative effect and caused some foreign operators to exit the U.S. market (Rose, 2010). At the time, the U.S. online gaming industry was estimated to produce roughly 6 billion dollars in revenue per year, while the commercial casino industry generated 32 billion dollars in revenue (American Gaming Association, 2007). Politically, there is interest in online gambling since it is considered everything from a source of tax revenue to the scourge of society (Bernhard & Abarbanel, 2011). The adoption of online gaming in new jurisdictions tends to be touted by proponents as a voluntary source of tax revenue (Legislative Analyst's Office, 2010).

Online gambling research has tended to focus on attempting to explain the motives and demographics behind online gambling. The primary reasons given for people engaging in Internet gambling include: a) the relative convenience, comfort, and ease of Internet gambling; b) an aversion to the atmosphere and clientele of land-based venues; c) a preference for the pace and nature of online game-play; and d) the potential for higher wins and lower overall expenditures when gambling online (Wood, Williams, Lawton, 2007). Wood and Williams (2007) add that some people may gravitate toward Internet gambling due to their perceptions that online venues offer better payout rates. Understanding why people gamble may help explain the role of loyalty in the online gambling industry. Griffiths and Barnes (2008) found the main reasons for gambling online were: ease of access (84%), flexibility of use (75%), 24-hour availability (66%), because friends do (67%), large variety of gambling choice (57%), successful advertising (40%), anonymity (25%), the opportunity to play ‘demo’ (free play demonstration) games (21%), and because family members did (14%). Other studies have suggested that the main reason for gambling online is convenience (Williams and Wood, 2007). Anonymity, privacy, accessibility and ease of electronic transfer of funds contribute to the popularity of online gambling

(Griffiths et al., 2006), and some studies have considered whether the Internet promotes disinhibitory behavior and decisions (Griffiths et al., 2006; Suler, 2004), or impulsive tendencies (Mottram and Fleming, 2009). In a recent study, participants were motivated to gamble online by the greater opportunity to gamble associated with the internet, convenience, value for money, the greater variety of games, and anonymity (McCormack and Griffiths, 2012). Results also indicated that the participants' perception was that online gambling was more addictive than offline gambling (McCormack and Griffiths, 2012). However, no research at this time has considered how an individual's gambling tendencies impacts one's loyalty to an online gambling site.

Given the significant growth of the online gambling industry and its potential societal impact it is encouraging to see studies examining online gambling. However, while previous research has contributed to our understanding of the demographics and motivations behind online gambling, our understanding of the role that loyalty plays in the online gambling industry remains limited. Thus, while the motivations and demographics behind online gambling have been well investigated, ample opportunity exists for investigating how loyalty contributes to the online gambling market. Our primary research objective is to combine the key psychological and behavioral constructs identified in prior e-commerce loyalty literature and propose an integrated model to understand the role of online gambling customer loyalty. This study is largely exploratory in nature and seeks to establish a framework for future and more comprehensive studies.

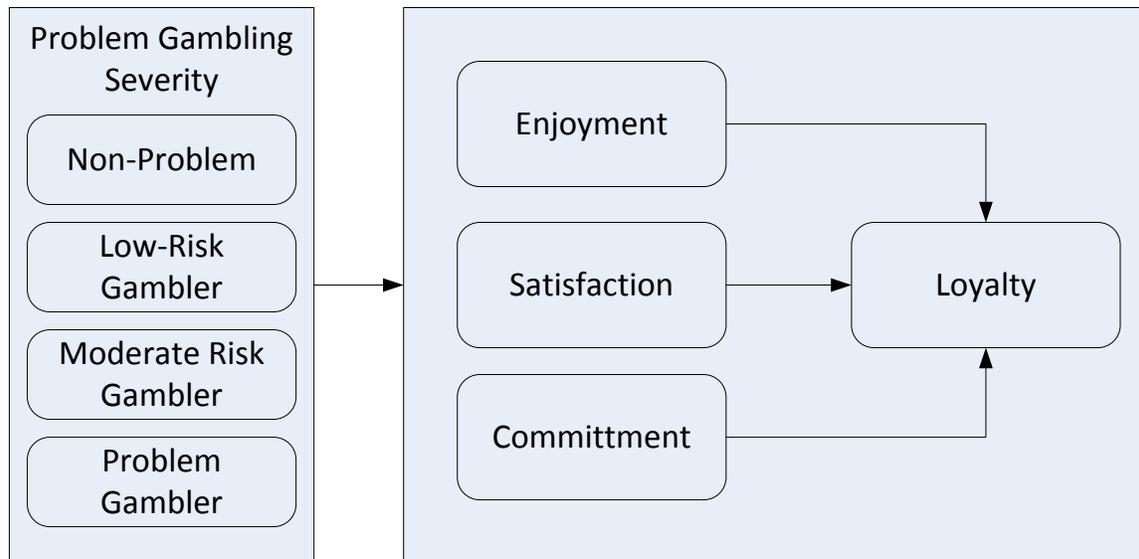
## **RESEARCH MODEL**

Our proposed research model (Figure 1) provides an early structure for understanding the factors behind online gambling actions. Drawing on prior e-commerce, loyalty and pathological gambling empirical findings, we propose a conceptual model to capture online gambling loyalty. In our proposed model we suggest that one's online gambling loyalty is a function of the online gambler's commitment and enjoyment that is based on one's pathological gambling classification. For each of the below hypothesis, we intend to classify the participants based on their level of gambling involvement and investigate each of the proposed factors with online gambling intention.

### **Problem Gambling Severity**

Many people gamble from time to time in their lives without any problems. However, about 3% of the general populations in the United States and Western Europe meet criteria for problem gambling, and around a third of whom also meet criteria for the more severe 'pathological' gambling' (Stucki and Rihs-Middel, 2007). Gambling disorders are broadly defined as persistent and recurrent gambling that disrupts personal, family or vocational functioning (American Psychiatric Association, 2000). Gambling disorders result in many personal, social, and economic costs including: impairment or loss of relationships, stress-related medical problems, elevated risk of suicide, criminal offences and financial difficulties (Hodgins, Stea, and Grant, 2011). Many problem gamblers are unwilling to access treatment, often because of stigma, embarrassment or a desire to handle their problems on their own (Suurvali, Hodgins, Toneatto, and Cunningham, 2012). Given the psychological impact of an individual's online problem gambling classification, the factors behind one's intent to gamble online may differ. As a result, this paper will investigate

and highlight the loyalty differences among online gambler problem gambling classifications.



**Figure 1: Online Gambling Loyalty Model**

Recent research suggests that problem gambling rates among those who have gambled on the internet are much higher than those who do not gamble on the internet, suggesting that the medium of the internet may facilitate problem gambling among gamblers who are more vulnerable or susceptible (Griffiths and Barnes, 2008; Griffiths, Wardle, Orford, Sproston, Erens, 2009; Wood and Williams, 2007). For example, using a self-selected sample of 1,920 American, Canadian, and international Internet gamblers, Woods and Williams (2007) found that, compared with offline gamblers, Internet gamblers were more likely to have a higher score on the Canadian Problem Gambling Index (CPGI). In their study, 20.1 percent of Internet gamblers were classified as problem gamblers. In comparison, males are generally more likely to show excessive gambling than females (Welte, Barnes, Wiczorek, Cunningham-Williams, Cottler, Compton, and Spitznagel, 1998). In another study of internet gambling behavior (n=563; 23% problem gamblers), McBride and Derevensky (2009) found that compared to social gamblers, problem gamblers were significantly more likely to spend more time gambling per session, gamble alone, gamble from school, gamble with a cell phone, gamble with more money, gamble online while consuming alcohol or illicit drugs, and lose more money gambling online.

In this study we will administer the Problem Gambling Severity Index (PGSI) of the Canadian Problem Gambling Index (CPGI) (Ferris and Wynne, 2001). The PGSI is a nine-point self-reported scale used to assess problem gambling status. The online gambler's PGSI classification is expected to play a key role in examining the role of consumer loyalty and online gambling behaviors.

**Loyalty**

As introduced earlier consumer loyalty is traditionally viewed to provide many economic advantages from repeated consumer activity. Loyalty can be defined from both behavioral

and attitudinal perspectives. Behaviorally, loyalty consists of repeated purchases of a brand (Rust and Kannan, 2003), whereas attitudinally loyalty includes a degree of dispositional commitment in terms of some unique value associated with the brand (Chaudhuri and Holbrook, 2001). Any measurement of loyalty must incorporate both the attitudinal and behavioral dimensions of loyalty (Srinivasan, Anderson, and Ponnnavolu; 2002). Dholakia and Baggozi (2001) contend that the decision to return to the same website is equivalent to the decision to buy the same brand. Following these suggestions we define online gambling loyalty as a customer's favorable attitude and unique value received from an online gambling website resulting in repeated gambling behavior on that particular website.

Loyal customers provide many benefits to a seller. Loyal customers are more inclined to recommend a seller, which increases the customer base at no additional advertising expense (Reichheld and Schefter, 2000). Given the intangible nature of the Internet, word of mouth is a powerful medium as it carries the endorsement from a friend used to reduce Internet transaction uncertainty. In the online gambling environment, some studies have found that online gaming sites continue to offer or promote opportunities to gamble even as a person is attempting to leave the site and discontinue gambling (Griffiths and Parke, 2002; Griffiths, 2003). Thus, repeated interaction between consumers and online gambling providers is identified by the seller to be critical to continued economic success.

However, the role of loyalty based on an individual gambling severity classification has been questioned. If you follow that loyalty is defined through repeated transactions, the value of loyalty may change based on gambling severity classification. In the online gambling area, Phillips and Ogeil (2011) found that problem gamblers reported frequenting a specific gambling venue more often ( $N = 2.78$ ) per month than at risk ( $N = 1.88$ ) and non-problem gamblers ( $N = 1.22$ ). Additionally, Phillips and Ogeil (2011) found that problem gamblers also reported frequenting other gambling venues more often ( $N = 1.19$ ) than at risk ( $N = 1.00$ ) or non-problem gamblers ( $N = 0.51$ ). Interestingly, previous research suggests that problem gamblers are more mobile, frequenting more venues (Phillips and Ogeil, 2011), and engaging in a wider range of gambling activities both online and offline (LaPlante, Afifi, and Shaffer, 2013, LaPlante, Nelson, LaBrie and Shaffer, 2011; Welte, Barnes, Tidwell and Hoffman, 2009). A greater involvement in gambling suggests that these individuals may be harder to track or control (Shaffer and Martin, 2011) as they may be more likely to move from provider to provider. Thus, loyalty may not provide the expected economic benefits based on the consumers gambling severity classification.

### **Enjoyment**

The concept of enjoyment has been cited throughout consumer behavior research. Earlier research has demonstrated that enjoyment is important in offline traditional commerce environments, and can be expected it can be equally important in the online gambling environment (Griffiths, 2001; Griffiths and Parke, 2003; 2007). Hirschman and Holbrook (1983) introduced the Hedonic Consumption concept which designates "those facets of consumer behavior that relate to the multisensory, fantasy and emotive aspects of one's experience with products" (pg. 34) to explain enjoyment's role in the consumer experience. Information systems research has suggested that intrinsic enjoyment associated with website usage can positively impact a consumer's web usage over time (Novak, Hoffman,

and Yung, 2000). Koufaris (2002) applied the model of flow and found that the emotional reaction to a website (intrinsic enjoyment) influenced the intention to return. Online gamblers are emotionally driven because online gambling experiences are directed to achieve fantasies, feelings, and fun. A recent American Gaming Association (2006) study found that a main reason people gave for gambling online was for the fun/excitement/entertainment (24%) and an enjoyment of the anonymity and privacy (6%). Specifically for youth and young adults aged 12 to 24, “boredom and “for excitement” were the most common reasons cited for this age group (Derevensky, Gupta, and McBride, 2006). Griffiths and Parke (2003, 2007) identified social facilitation as a potentially important factor in the maintenance of gambling behavior, although it has been the focus of very few empirical studies. Thus, service enjoyment is suggested to influence the online gamblers experience.

***Hypothesis 1:*** *Enjoyment is positively associated with a consumers’ loyalty towards online gambling providers.*

### **Satisfaction**

Customer satisfaction is often viewed to be determined by the disconfirmation process (comparison with an actual level and reference level) in research and managerial practice. Using the disconfirmation approach, customer satisfaction has been measured by different standards: actual level of performance versus either a norm or ideal (Tse and Wilton, 1988), or versus performance expectations (Oliver, 1980) or a gap model of perceived service quality as a difference score to represent a discrepancy construct (Parasuraman, Zeithaml, and Berry, 1994). While the disconfirmation approach is the predominant form of satisfaction measurement, research has shown the performance–expectations construct to be unnecessary to measure satisfaction. Objective measures of the customer's perceptions of the actual service levels (for example perceived wait times measured in minutes) appear to be sufficient (Cadotte, Woodruff, and Jenkins (1987). Thus, it is not the disconfirmation of expectations, but rather the ability to meet customers' needs that should have more influence on satisfaction ratings.

***Hypothesis 2:*** *Satisfaction is positively associated with a consumers’ loyalty towards online gambling providers.*

### **Commitment**

Commitment is recognized as an essential ingredient for successful long-term relationships. Commitment has been defined as an exchange partner believing that an ongoing relationship is worth working on to ensure that it endures indefinitely (Morgan and Hung (1994). At the most advanced phase of buyer-seller interdependence, the exchange partners achieve a level of satisfaction from the exchange process that virtually precludes other exchange partners, even though these other partners could provide similar benefits (Dwyer, Schurr and Oh, 1987). At this level of achievement, the participants do not cease considering alternatives but maintain an awareness of potential alternatives. Interactions between consumers and e-commerce providers are built around episodic experiences (Chesbrough and Spohrer (2006) which ultimately affect consumer commitment to the e-commerce provider (Dai and Salam, 2010). Garbarino and Johnson (1999) suggest that the development of long-term exchange relationships with consumers provides service providers with a loyal and committed customer base which generates

dependable long-term revenue streams. Therefore, we believe commitment will impact the loyalty towards an online gambling provider.

***Hypothesis 3:** Commitment is positively associated with a consumers' loyalty towards online gambling providers.*

## **METHOD**

Following the guidelines of Moore and Benbasat (1991) and Straub and Carlson (1989), we plan to develop our survey instrument. For item creation, principle construct measurement items will be adapted and modified from existing measures to fit the context of this research (Table 1). Online gambling message boards will be used to target potential participants, since the message board participants will have online gambling experience. Although our sample is expected to be large and diverse, the sample is also self-selected to a degree. Thus, it is not possible to ensure that it will be representative of the broader population of Internet gamblers. During the survey participants will be required to complete a profile questionnaire in order to control for the users web experience, prior knowledge or use of online gambling. Participants will be given a definition of gambling ("Gambling is any activity that you play in which you are putting money, or something of monetary value, at risk since winning and/or losing is based on chance"), to keep in mind when responding to the instrument. As an incentive for participation, each participant will be entered into a lottery for a small cash prize. We expect that the use of a lottery drawing as a prize for a study focused on online gambling and targeted to online gamblers should result in a strong response rate.

The survey will be conducted through a web-interface design and all data will be collected online. In this study we will administer the Problem Gambling Severity Index (PGSI) of the Canadian Problem Gambling Index (CPGI) (Ferris and Wynne, 2001). The PGSI is a nine-point self-reported scale used to assess problem gambling status. Scores on the PGSI range from '0' to '27', and are used to classify participants into: 0 = non-problem or non-gambler, 1–2 = low risk gambler; 3–7 = moderate risk gambler; and 8+ = problem gambler. It is a reliable scale with a Cronbach's alpha of 0.84, and a test-retest reliability of 0.78 (Wynne, 2002). The online gambler's PGSI classification is expected to play a key role in determining the role of loyalty in the online gambling arena.

## **RESEARCH IMPLICATIONS**

The anticipated findings of this research will provide valuable insights for both academics and practitioners. The notion that problem gamblers are loyal to online gambling websites is expected to be refuted. These findings could have a significant impact for practitioners. Gambling websites today must promote and make available materials and services to help problem gamblers. Practitioners must develop a system or procedure to ensure that customers identified as problem gamblers are given problem gambling materials. If customers/problem gamblers are not loyal to a specific gambling website, they may not receive the needed problem gambling materials. A system that can share a problem gamblers identity to ensure that materials are provided is highly recommended, since we cannot assume actions taken from a single gambling website will be received.

Additionally for practitioners, our anticipated findings may suggest that loyalty in the traditional desired sense may not play the same role across all problem gambling

classifications. Achieving loyal customers may be valuable for sites that have a market of non-problem gamblers. However, for sites with a large number of problem gamblers, actions taken to obtain loyal customers may not provide the desired return on investment. Practitioners may be encouraged to target non-problem gamblers with loyalty programs, since those customers will be more likely to be influenced by customer loyalty programs. For practitioners the potential findings may signal the demographic to target. If problem gamblers are less loyal, gambling websites should take the following two actions: 1) target the non-problem gambling demographic, 2) if problem gamblers are identified, take actions to address a consumers problem gambling actions. Thus, actions to develop loyalty may be based more on individual characteristics than previously suggested.

### **LIMITATIONS & FUTURE RESEARCH DIRECTIONS**

In any research project, choices made by the researchers will create limitations in interpreting the results. Any limitations encountered will be addressed to guard against their impact. The most serious limitation to this study is the potentially non-representative nature of the sample. Since the sample will be self-selected, it is not possible to gauge the extent to which the sample reflects the broad population of Internet gamblers. Our findings are also expected to be at the very least biased toward English-speaking participants. The incorporation of a cultural aspect to the impact of loyalty in online gambling is highly encouraged as a future research direction. These limitations notwithstanding, we believe that the study has provided meaningful insights into the role that a gamblers problem gambling classification plays with loyalty in the online gambling industry.

### **CONCLUSION**

The role of loyalty in the online gambling environment along with the individual's problem gambling classification provides a fruitful avenue for challenging the well documented importance of loyalty in the e-commerce environment. Online gambling is a growing area of e-commerce that as described may dispute the traditional role of loyalty in online environments and consumer usage.

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