



Examining the Value of Free Play

by Andrew Klebanow

The use of free play to stimulate demand and foster loyalty has increased dramatically over the past three years. Fueled by advances in technology, newer slot machines, more robust casino management systems and customer acceptance, free play has emerged as a formidable marketing tool for most casinos.

Free play is an umbrella term to describe non-negotiable slot credits that can be used by players for wagers on slot machines. While free play cannot normally be redeemed for cash, any winnings generated by those wagers can be redeemed or wagered again. Free play has essentially replaced cash in all but the largest prizes awarded to customers including bonus point redemptions, direct mail redemptions and a myriad of other demand stimulation programs such as bounce back offers, celebration jackpots and hot player awards. Some casinos even offer free play as a replacement for large scale cash premiums. Customer acceptance also appears high as even the least technologically adept players have figured out the procedure to convert bonus points or direct mail coupons into free play.

The rapid escalation of free play usage has, however, had a number of unintended consequences, including the artificial inflation of players' theoretical win (the benchmark for determining player reinvestment) and an actual reduction in customer spending levels.

A Brief History

Before examining free play it is important to understand the evolution of player reward programs and how these systems evolved. The earliest player reward programs were developed as modules that sat on top of slot accounting systems. The earliest slot management systems were introduced in the early 1980s as the popularity of slot machine gaming grew. These systems linked all of the machines on the floor to a central computer and allowed the casino's accounting department to monitor revenues and to help slot operations better serve their customers by monitoring their machines' functions such as empty hoppers and jackpots.

With the ability to track coin handle and payouts, system operators were then able to add player reward programs to their slot accounting systems. These systems featured reader boxes, similar to what can be found on machines today, and the ability to track individual gamers' wagering activities. The earliest systems awarded bonus points and allowed casinos to use basic formulas that served as guidelines for the issuance of complimentaries.

To encourage customers to use their cards, casinos often allowed patrons to redeem their bonus points for merchandise. Some casinos issued catalogues featuring electronics,

housewares, logowear and other consumer goods. Other casinos maintained an inventory of these products on property to facilitate redemptions. However, the cost of constantly updating these catalogues and maintaining inventories of merchandise proved both expensive and problematic. Also, casino operators had no chance of "winning back" merchandise. It simply walked out the door with the customer. A common refrain often spoken by slot managers was, "You can't put a toaster in a slot machine."

The natural progression in the evolution of player reward programs was to allow customers to redeem their bonus points for cash. Casinos always had a ready inventory of cash on hand and giving cash afforded casino operators the chance of winning it back should customers opt to wager their cash rebates.

By the mid-1990s a large percentage of casinos offered cash back as the primary benefit of their player reward programs. The problem was that bonus points redeemed for cash back became a very real and very significant expense on the profit and loss statement. As casino managers struggled to manage marketing costs, they sought to understand what percent of the cash back that they gave to customers actually were wagered back into slot machines. They employed spotters to follow customers (this unscientific analysis revealed that 35%-70% of cash back walked out the door with customers). Database managers examined bonus point redemptions by month to learn when bonus points were redeemed (they tended to spike just prior to the holidays as customers used them to buy holiday gifts or in the spring when snowbirds headed home).

Casino managers wanted a better method of rewarding customers where they stood a better chance of winning their money back. It was not long before casino operators began asking system developers for the ability to award non-negotiable slot credits in lieu of cash.

There were a number of technological hurdles to overcome before non-negotiable slot credits could be issued through the casino management system onto slot machines. Slot manufacturers had to establish protocols so that casino management systems could communicate with individual machines. Regulators were very wary of any system that communicated with slot machine win meters and they had to have complete assurance in the integrity of the system. Methodologies had to be developed so that customers could self-redeem bonus points and coupons.

By the mid 1990s system operators had developed technologies to award non-negotiable slot credits and secured those methodologies with patents. In 1995, United Coin Machine Co., a division of Alliance Gaming Corporation, gave customers the ability to convert bonus points into game

credits on machines they manufactured. This was followed by CDS's Personal Banker and Acres Gaming various bonusing modules. Once slot accounting system protocols were adopted and more modern SAS compliant games were introduced, it became possible to offer free play in lieu of cash. Of course, casinos had to upgrade their slot floors with new products and more modern casino management systems and this took time and capital. Today, most casinos have enough modern machines to allow them to offer free play and all its derivatives in lieu of cash.

Today customers can self redeem bonus points for free slot play; they can redeem direct mail offers at their favorite slot machine without having to first visit the slot club booth. Casinos can issue free play coupons to bus patrons or simply award free play credits to individual accounts. There are now computerized processes that automatically award bounce back offers to customer accounts to stimulate repeat visits. This in turn allows casino operators to reduce mail costs and streamline accounting.

Value of Free Play

Unlike cash, where a certain percentage of money walks with customers, all free play must be wagered. Free play guarantees that no cash will walk out of the casino without giving the casino operator a fair shot at winning it back. The solution that casino operators had long sought is now a common day reality.

The first problem with this is that, as free play is wagered, a portion of it is tracked as coin handle by the casino management system. On most casino management systems free play is awarded to a separate meter. However, as the free play is wagered, all winnings appear on the cash paid meter. Subsequent wagers from the cash paid meter are treated like cash. If a customer redeems \$100 in bonus points for free play and the casino's hold percentage is 8%, then theoretically, \$92 will be paid to the cash paid meter. If the customer continues to play out his winnings, his theoretical win will rise by that amount. It must also be noted that not all casino management systems award free play to a separate meter. Some simply recognize it the same as cash.

The same thing happens when a casino awards free play through direct mail. Suppose a customer has an average daily theoretical win (ADT) of \$100. Casino marketing decides to award that customer five coupons in a month, each valued at 20% of the customer's ADT. The customer visits the casino on four occasions and each time redeems his offer, plays out his winnings and then spends his usual budget of \$100. The next month, casino marketing repeats the offer but this time, the value of each coupon is \$24 $[(\$100 + (20 \times 92\%)) \times 20\%]$. Left unchecked, the customer's ADT continues to inflate each month and the value of subsequent offers increases without any additional spending by the customer. This is illustrated in Table 1.

This problem is exacerbated when additional free play offers are thrown in, particularly with low margin segments like

Table 1. The Effect of Free Play on ADT

ADT	\$100
Mail offer as a % of ADT	20%
Value of mail offer	\$ 20
Casino hold %	8%
Free play's net contribution to ADT	\$ 18
Nex month's ADT	\$118
Next month's coupon*	\$ 24

*rounded to nearest dollar

bus customers. Increasingly, casinos with bus marketing programs are replacing cash paid to bus patrons with free play. If a bus customer has a fixed gaming budget of \$75 and the casino gives each bus customer \$30 in free play, then after several visits, the bus customer's ADT is calculated at \$102.60 $[(\$75 + (\$30) \times 92\%)]$. If the casino has a direct mail program then the bus customer receives additional offers in the mail, further inflating their ADT.

Time and Money

In addition to over-rewarding players, free play has the ability to actually reduce the amount of money a casino can make from a customer. Two factors help to explain this: time and money. Regular customers visit a casino not only with a fixed budget but a fixed amount of time. After all, people have to go home, sleep, and go to work. For the vast majority of gamers, gaming value is achieved when the last dollar of their gaming budget is extinguished at the precise moment that they get tired and want to go home.

Suppose a customer budgets \$100 and four hours of time to play in a casino. What free play in all its forms (bonus point play, direct mail coupons, etc.) does is stake the customer's first hour of play. If the customer achieves his four hours of budgeted play time without spending his \$100 budget, the casino makes less money.

What Do You Do?

Free play remains a valuable and effective tool in the marketing arsenal. Done properly, it replaces printed coupons and expensive direct mail pieces, reduces labor costs and eliminates long queues at the reward center. However, it is incumbent on database marketing personnel to adjust the value of free play offers to more accurately reflect the true value of customers who they are rewarding. Free play is also not free. It is a very real expense and a primary component of the player reinvestment matrix.

For casino operators who have long dreamed of a more effective means of fostering loyalty than dispensing cash, it is wise to remember the old proverb, 'Be careful what you wish for.' ♣

Andrew Klebanow is Principal of Gaming Market Advisors. He can be reached by calling (702) 547-2225 or email andrew@gamingmarketadvisors.com.