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Customer reinvestment analysis in the gaming industry

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Abstract

Purpose – Over the past several years, the term “Player Reinvestment” been used more frequently when describing the money and effort casinos expend in retaining profitable gaming customers. Most often, player reinvestment refers to the suite of benefits and offers that casinos give to various segments of their databases. The purpose of this paper is to examine the concept of player reinvestment.

Design/methodology/approach – The paper draws on the author’s experience in the gaming industry as well as studies that have been done by his organization, Gaming Market Advisors.

Findings – This paper provides definitions for the components that make up player reinvestment, and how casinos measure those costs and the benefits that these investments contribute to their revenue streams. Further, the paper shows the range of expenditures that casinos in the US gaming market expend on fostering customer loyalty.

Practical implications – This paper is written by a gaming industry executive for gaming industry managers. It contains conceptual as well as specific information on how to manage a player reinvestment program.

Originality/value – The player clubs in casinos have to be looked at as an investment to bring existing players back to the casino. This paper explains the concept of player reinvestment, an emerging practice in casino management.

Keywords Casinos, Marketing, Customer loyalty, United States of America

Paper type Technical paper

Introduction

Marketing professionals have long recognized the importance of fostering loyalty among past and current customers through database marketing. Retailers and supermarket chains have long embraced loyalty programs in order to reward loyal customers through targeted offers. Airline frequent flyer and hotel loyalty programs have become the foundation of marketing strategies for airline and lodging companies. Yet, no segment of the hospitality industry devotes more effort and allocates a greater portion of their marketing dollars to customer loyalty programs than the gaming segment.

This paper examines customer reinvestment strategies in the gaming industry, the tactics that gaming operators employ to foster loyalty, the measurement tools they utilize to track the success of their programs and recent trends that track the ever-increasing amounts of marketing dollars that casinos are willing to reinvest in their customers.

What is player reinvestment?

The practice of rewarding customers in the gaming industry is referred to as “player reinvestment.” Player reinvestment is comprised of all marketing expenses that are used to foster loyalty and encourage repeat visitation among members of a casino’s loyalty program. In practice, patrons are encouraged to join a particular casino’s rewards program, often called a “slot club,” through a convenient and highly visible



rewards center, advertising, in-house signage, collateral material, and personal selling. Once enrolled, customers are issued magnetically encoded cards that they insert into slot machines or present to dealers when wagering at table games. Gaming activity is then tracked through the casino's information system.

Over the span of several visits, the casino management system develops a profile of each player by analyzing the kinds of table games and slot machines the customer likes to play, the size of their wagers, the speed with which they wager and the time they spend at each gaming device or table game. The system can then predict, based on each customer's past behavior and the games that they typically play, how much the casino can potentially or theoretically earn from that customer each time that person visits the casino. Armed with that information, a casino operator then designs strategies to foster loyalty encourage repeat visitation.

Casinos offer basic benefits to casino customers in order to encourage them to join their reward programs. The primary benefit is most often referred to as bonus points. Bonus points are similar to frequent flier miles and are usually earned based on the gross amount of wagers that the player makes at a slot machine or table game. Bonus points can be redeemed for cash, complimentary dining privileges or a combination of both. The casino may choose to disclose to customers the value of its bonus points and what they can be redeemed for or they may choose not to disclose such information.

In addition, casinos often mail a variety of other offers to various segments of their databases. These offers change from month to month and are most often comprised of coupons that can be redeemed for cash, free slot play, free table game wagers, discounted or free lodging, and discounted or free show tickets to headline acts.

Casinos also conduct a variety of contests and promotions. The vast majority of these promotions are open only to members of the casino's player rewards program. Drawing tickets are earned based on gaming volume and are followed by a ceremony in which prizes are awarded. Casinos have recently employed methodologies that have replaced paper drawing tickets and drawing drums with systems that electronically award players drawing tickets based on their gaming activity. Drawings are then conducted electronically and displayed on the casino's closed circuit television system.

The total cost of programs designed to reward members of the casino's player rewards program is referred to as player reinvestment.

Components of player reinvestment

Not all casino marketing expenses are forms of player reinvestment. Advertising production and placement are excluded, as are the costs associated with public relations. Certain marketing expenses such as payroll, direct mail production and postage and promotional expenses that do not require membership in the rewards program likewise are excluded. Only those expenses that are used to foster loyalty and induce repeat visitation among members of a casino's player rewards program qualify as player reinvestment.

Player reinvestment expenses are comprised of the following components.

Points redeemed for cash or non-negotiable slot credits

Same day cash back. The majority of casinos allow patrons to redeem their slot club points for same-day cash back. It is a primary form of player reinvestment, particularly for those properties that have limited non-gaming amenities.

Non-negotiable slot credits. Non-negotiable slot credits are now replacing same-day cash back at casinos throughout the USA. These are bonus points that players can redeem at slot machines for game credits. They are normally accounted for in a “contra” account and the value of those slot credits are often discounted by the slot hold percentage of the casino in order to somewhat reduce the liability on a casino’s financial statements. As an example, if a casino’s aggregate slot hold is 6 percent, it may book \$100 in non-negotiable slot credits as \$94.

Comps

Casino complimentaries or “comps” make up the lion’s share of player reinvestment expenses and are awarded to players from a variety of sources within the casino.

System generated meal comps. System generated comps are those comps that are issued by the property’s casino management system in which individual player accounts are debited. Like bonus points, players earn comps based on their gaming volume. Players can then request a comp from a casino representative or obtain one from a kiosk. Only those comps that are redeemed fall into player reinvestment.

Hotel comps. Hotel comps are primarily comprised of direct mail offers for free rooms that are redeemed. They also include any discretionary comps for hotel stays that are issued by authorized casino personnel.

Discretionary comps. Discretionary comps are issued by casino personnel for those customers whom the host/executive deems worthy. These comps are not debited from a player’s account. They are often issued to table game players with large losses or for slot players who hit a large jackpot. Discretionary comps are also issued to players who request them and whose gaming activity warrants their issuance.

Entertainment comps. Entertainment comps are comprised of show tickets that are redeemed by players or comps issued by hosts/executives for premium players.

Free play offers

Free play offers are non-negotiable slot credits that are periodically awarded to players’ accounts. They are often used as an inducement to return (bounce back offers) or to celebrate a certain event such as a birthday. Free play may also be distributed to players as part of a property wide promotion.

Direct mail

All mail that is sent to various segments of the casino’s database in which some kind of incentive is offered is a form of player reinvestment. These costs are comprised of all offers that are redeemed by patrons.

Cash mailers. Cash mailers are the most common form of mail-driven player reinvestment. This expense is comprised of those cash coupons that are actually redeemed.

Food, show tickets, and hotel offers. In addition to cash, players receive meal vouchers, show tickets or free room nights. Those offers that are redeemed make up another component of player reinvestment.

Other mailers. Casinos have long used certain events such as customer birthdays and anniversaries as a means of rewarding customers. Birthday and anniversary cards are often accompanied with a coupon for a free meal, cash, or other premium. Casinos also send letters announcing that they have credited players’

accounts with free slot play. The value of those offers is predicated on a customer's overall gaming value.

Special events

Casinos conduct special events such as player appreciation dinners, receptions, and other private parties for their premium players. All costs associated with this loyalty program are part of the player reinvestment matrix. They include the costs of food, beverage, gifts, and cash drawings that are often part of events designed to foster loyalty among premium player segments.

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Promotions

The category "Casino Promotions" is an ill-defined term. It is often used as a blanket term to describe a wide range of marketing activities. In this context, promotions are the various drawings for cash, motor vehicles, and other prizes; merchandise giveaways, random "hot player" promotions, scratch cards, card swipe promotions and free merchandise that are made available to members of the casino database. Often, an individual's chances to win such awards improve with increased gaming activity recorded on their rewards card. Most often, participation in promotions requires players to use their rewards card to gain entry into these promotions. Also, additional entries are given to players who earn more bonus points. Since promotions are normally predicated on some form of gaming activity, they are considered a form of player reinvestment.

Bussing costs predicated on play

Those premiums (cash, meals, etc.) that are given to bus customers that are based solely on tracked gaming activity are a form of player reinvestment. As an example, in Colorado bus customers who record \$100 in coin handle on their reward cards are reimbursed for their bus fare. However, fees paid to bus operators or premiums issued to bus patrons as they arrive on property are normal marketing expenses and are not a form of player reinvestment. Only those premiums that are predicated on gaming activity are considered a form of player reinvestment.

Player reinvestment analysis

An examination of player reinvestment is in reality a two-part analysis. The first gauge is to calculate the percent of revenue that is derived from people who use their reward cards while wagering. This is often referred to as carded or tracked win. Carded win varies greatly by property and jurisdiction. Casinos that operate in monopoly environments or lack meaningful non-gaming amenities tend to have low-carded win rates, often in the range of 20-30 percent. In more competitive markets, carded win rates rise to 40-60 percent. The most successful gaming companies enjoy carded win rates above 75 percent. In other words, 75 percent of all gaming revenue is carded win, derived from customers who willingly allow their gaming activities to be tracked because the suite of benefits is so great as to overcome superstition ("the machines pay out less when I have my card inserted") or paranoia ("I don't like it when they watch how much gamble; they may tell the government").

The second measure is calculating and monitoring the player reinvestment rate. The player reinvestment rate is a simple fraction with player reinvestment expenses in

the numerator and carded win in the denominator. By monitoring the player reinvestment rate over a period of time, casino leadership can adjust the variable player reinvestment expenses (comps, free play, and promotions) in order to optimize gaming revenue. Table I illustrates such an analysis.

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The state of player reinvestment in today's economy

Surveys were conducted in 2005 in a number of regional markets throughout the USA in order to better understand how player reinvestment rates vary from market to market. Markets that were examined included the casinos on the Las Vegas Strip, which primarily target out of town customers, Indian casinos in Southern California; Laughlin, NV; Blackhawk, CO; and the Mississippi/Louisiana market. Several of those markets were examined again during the latter part of 2008 and early 2009.

The 2005 survey revealed that, on average, casinos maintained player reinvestment rates in the 18-28 percent range. By 2009, player reinvestment rates had risen dramatically as casinos in a number of jurisdictions struggled to maintain revenue levels in a rapidly declining economy. By 2009, player reinvestment rates had risen to 25-43 percent.

	September (\$)	Percentage of carded win
Carded slot win	34,000,000	85.0
Carded bingo win	1,000,000	2.5
Carded table win	5,000,000	12.5
Total carded win	40,000,000	100
<i>Comps</i>		
Slot comps	1,000,000	2.5
Table comps	300,000	0.8
Bingo comps	50,000	0.1
Entertainment comps	300,000	0.8
Marketing comps	750,000	1.9
Rewards center comps	1,200,000	3.0
Total comps	3,600,000	9.0
<i>Promotions</i>		
Promotions	150,000	0.4
Table games promotion	15,000	0.0
Bingo promotion	50,000	0.1
Special events	50,000	0.1
Marketing promotions	25,000	0.1
Total promotions	290,000	0.7
<i>Redemptions and player incentives</i>		
Bonus points redeemed	1,250,000	3.1
Free play redeemed	100,000	0.3
Mail offers redeemed	2,000,000	5.0
Food and beverage discounts redeemed	55,000	0.1
Player incentives	50,000	0.1
Total other	3,455,000	8.6
Grand total	7,345,000	18.4
Player reinvestment rate	18.4%	

Table I.
Sample player
reinvestment analysis

Source: Gaming Market Advisors

In the most extreme example, one casino was returning 43 percent of every dollar it won back to customers in the form of player reinvestment. It should be noted that, from that money the casino won from its loyal customers, it must then pay gaming taxes operating expenses and debt service in addition to the player reinvestment cost.

As casinos struggle to maintain revenues in an extremely difficult economy, the natural tendency is to increase marketing expense, targeting those people who have demonstrated themselves to be avid and enthusiastic players. The question that must be asked is, at what point is the casino spending too much money on player reinvestment? Where in 2005, the optimal player reinvestment rate may have been 20 percent, in 2009 that rate has risen to 30 percent. When a casino rises above 35 percent, it is essentially buying revenue but not profitability. Even in the most difficult economic times, casino professionals must employ a certain amount of marketing discipline, monitor player reinvestment, and maintain an optimal player reinvestment rate.

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