



## Dispelling the Myths of Cash Back

The player rewards program or slot club is the cornerstone of any effective casino marketing plan. Too often these programs are created by mimicking what the competition is already doing or by examining what casinos in other markets do with their clubs. Often these programs use “cash back” as the primary incentive to get players to use their cards. Cash back in this scenario refers solely to the redemption of bonus points for cash. This article examines cash back as a marketing tool and some of the myths that surround it.

### The History of Cash Back

Slot clubs began to appear in the mid-1980's as part of early automated slot accounting systems. The primary purpose of these first-generation systems was to measure the performance of gaming devices. Player tracking was an additional benefit to these accounting systems.

Early slot clubs allowed customers to earn bonus points. In addition, a second “bucket” accrued comp dollars which allowed casino managers to make informed comping decisions. The challenge was to find a proper inducement for players to use their slot club cards. In many of these early clubs, points were redeemable for merchandise in the casino's gift shop or from a limited inventory of logo wear stocked at the slot club booth. Casino managers soon realized that there were costs associated with maintaining an inventory of merchandise. Some casinos developed relationships with local merchants or catalogue companies and allowed customers to purchase merchandise with their slot club points. However, these casinos soon realized that there were very real and hard costs associated with these types of programs and there was no way to recoup them in the casino.

Casino managers sought to find the right incentives to get players to use their cards. Soon programs that allowed customers to redeem points for cash began to appear and quickly became the predominant method to induce customers to use their slot club cards. Cash back did not require casinos to maintain inventories of logo wear or merchandise. All it required was cash and all casinos maintained an inventory of cash. Furthermore, there was always the chance that customers would play out their cash back balances in the casino's slot machines.

Most casinos that adopted cash back programs continued to keep the value of players' comp buckets hidden from customers' eyes and required customers to visit the slot club booth and request a comp. Their fundamental fear was that, if one told customers the value of their comp dollar bucket, they would actually redeem those comp dollars in the casino's restaurants. Furthermore, it took the comping decision authority away from the casino manager and put it into the players' hands.

### The Myths

Cash back is now the predominant form of player rewards in casinos. Casinos like cash back for a number of reasons, both real and perceived. As such, there are certain myths surrounding cash back – some which are true and others which are not.

#### *Cash Back Rewards the Casinos Best Customers*

Cash back does not necessarily reward the casino's most profitable customers. Rather cash back rewards those customers with the greatest coin handle. These are not necessarily the casino's best customers. Most often these customers are video poker players who play those machines with the lowest hold percentage. The customers with the highest handle are those who play the \$1 and \$5 games equipped with the casino's loosest pay tables. When their play is combined with a generous cash back allowance, these players often make a consistent profit off the casino. These are not the casino's ideal customers.

#### *Customers Choose a Casino Because of Cash Back*

In market research studies, customers often cite cash back as a benefit. They also cite liberal comps, generous mail offers and free gifts as benefits. In other words, no customer will tell you that they do not want something extra. These are casino customers after all, and casino customers want everything they can get from the casino.

In both quantitative and qualitative studies, when customers are asked the reasons they choose one casino over another, they most often cite convenient location, a feeling of luck/winning, cleanliness and friendliness of employees. Customers rarely cite cash back as a primary reason for choosing one casino over another.

#### *Cash Back Offers Significant Rewards*

For the vast majority of players, the amount of money that can be redeemed for cash back is miniscule compared to the amount of money lost in the endeavor. To the vast majority of customers, cash back is perceived as nothing more than an insignificant token of appreciation. Rather, these customers use their cards to earn comps and to qualify for mail offers.

#### *The Cash Goes Back in the Machine*

There is a very limited body of evidence that attempts to demonstrate that customers play out the cash they get from cash back programs. These studies tend to be observational in nature and do not examine a large

enough sample size to make valid conclusions. A casino that has cash back would be better served to chart out the amount of cash that is redeemed on a monthly basis and see if those rates spike during certain months. Does cash back rise in November and December during the holiday shopping season or at the conclusion of the vacation season? If so, that money is walking out the door.

**You Can Always Change the Program**

Once a casino starts to offer cash back as an incentive, it quickly becomes an entitlement for loyal play. In other words, once offered cash back is very difficult to take away, particularly in those casinos that operate in competitive environments. It is also a formidable challenge to convert an existing cash back program to one that offers non-negotiable slot play.

So when should a casino use cash back? In those casinos that have limited restaurant offerings, no entertainment and only rudimentary direct mail programs, cash back is a viable player reward. Cash back is fairly easy to administer and does not

require the casino to maintain an inventory. However, for every dollar given away in the form of cash back, it reduces the amount the casino can give away in the form of comps or direct mail offers.

When should a casino forego offering cash back as an incentive to get customers to use their cards? The answer is simple: when it does not have to. If a casino has a variety of quality dining options where customers can redeem their comp dollars for meals and a well thought out direct mail program that rewards its players with frequent and varied rewards, then there is no reason to offer cash back. Also, if the casino has a location advantage over the competition, if its facility is superior to the competition or if it has no competition, the cash back may be an unnecessary marketing expense.

Ultimately, each casino must design a player rewards program that best meets the needs of the business and its customers. In some instances cash back may be appropriate; in others it may not. ♣

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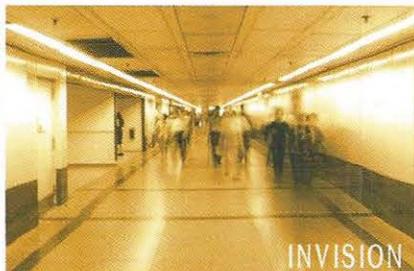
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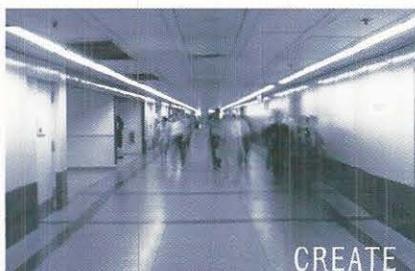
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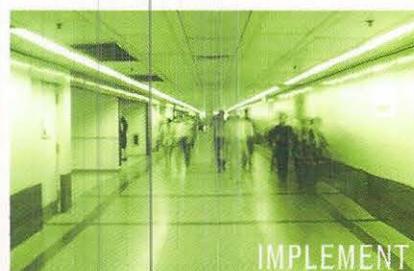
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