



## The Complexity of Bonus Point Multiplier Promotions

by Andrew Klebanow

**B**onus point multipliers have long been used as a marketing tool in casinos. The practice dates back to the earliest days of player tracking systems. For many of the earliest systems, point multipliers were in fact, the only bonus module available. Today, all casino management systems offer some form of point multiplier promotion in addition to far more sophisticated bonusing modules, such as free play, electronic coupons, random free play jackpots as well as large progressives linked to every machine in the casino.

Despite the advent of these more sophisticated bonusing modules, casinos still embrace point multipliers as a marketing tool. They are perceived as a relatively low cost and easy promotion to implement. The recent downturn in the U.S. economy has forced casino marketers to find more ways to stimulate play and move customers from competitors' casinos without giving the house away. As such, point multipliers are now being used with far greater frequency because of the need to market more aggressively. One need only scan the print ads from the recent President's Day weekend to appreciate this. In Southern Nevada, one casino offered 5x bonus points over the holiday; another offered 7x points while a third heralded 2x points all day on President's Day. This begs the question, if bonus point promotions were so salient to gamers, why would anyone go to a casino that offered 2x points when another one down the road offered 7x points?

Casinos that employ bonus point multiplier promotions make a number of assumptions regarding bonus point costs, the customers they hope to attract and the goals that they hope to achieve. The first is that customers know the value of bonus points for all competitors in the marketplace. The second assumption is that customers perceive bonus points as a valuable commodity and will shift their gaming activity from one casino to another in order to take advantage of the better offer. The third assumption is that bonus point

multipliers will generate incremental gaming revenue from existing customers and not merely move their play from one day to another. The fourth, and most dangerous assumption, is that bonus points are a low-cost marketing tool. In fact, bonus point promotions are in essence, a cash rebate program and there are very real costs associated with them. Without accurate forecasting, bonus point multiplier promotions can be very expensive with little incremental revenue associated with them. Moreover, in casinos that offer video poker games with generous pay tables, bonus point promotions can and do attract professional gamblers who will use such promotions to make a profit from the casino.

### All Bonus Points are Not Equal

The most elementary problem with bonus point promotions is that all bonus points are not equal. One casino in the market may require \$10 in coin handle to generate 1 bonus point and offer \$1 in cash back for 100 bonus points. Another casino may require \$7.50 in coin handle for a bonus point and

**Table 1. Standard Club Rebate Rate**

	Penny Reels	Dollar Reels	Standard Video Poker	Low Hold Video Poker
Hold %	8.0%	5.0%	3.0%	1.5%
Base benefit	\$1 handle = 1 point			
Base benefit	500 points = \$1 cash			
Theo Win per \$100	\$8.00	\$5.00	\$3.00	\$1.50
Handle	\$1,250.00	\$2,000.00	\$3,333.33	\$6,666.67
Rebate \$	\$2.50	\$4.00	\$6.67	\$13.33
Rebate Rate*	2.50%	4.00%	6.67%	13.33%
Casino Net	\$97.50	\$96.00	\$93.33	\$86.67

\*Rebate Rate assumes player coming to the game with \$100 and losing the entire amount.  
 Additional Assumptions: Optimum strategy is employed when applicable and max bet is always played.  
 Example: Penny Reels \$100 / 8% hold = \$1,250 in average slot handle, \$1,250 in handle / 500 points = \$2.50 rebate, \$2.50 / \$100 slot win = 2.5%

**Table 2. 3x Bonus Point Rebate**

	Penny Reels	Dollar Reels	Standard Video Poker	Low Hold Video Poker
Hold %	8.0%	5.0%	3.0%	1.5%
Bonus benefit	\$1 handle = 3 point			
Bonus benefit	500 points = \$1 cash			
Theo Win per \$100	\$8.00	\$5.00	\$3.00	\$1.50
Handle	\$1,250.00	\$2,000.00	\$3,333.33	\$6,666.67
Rebate \$	\$7.50	\$12.00	\$20.00	\$40.00
Bonus Rebate Rate*	7.50%	12.00%	20.00%	40.00%
Casino Net	\$92.50	\$88.00	\$80.00	\$60.00

\*Rebate Rate assumes player coming to the game with \$100 and losing the entire amount.  
 Additional Assumptions: Optimum strategy is employed when applicable and max bet is always played.  
 Example: Penny Reels \$100 / 8% hold = \$1,250 in average slot handle, \$1,250 in handle / (500/3) points = \$7.50 rebate, \$7.50 / \$100 slot win = 7.5%

offer \$1 in cash back for 200 points. A third casino may program their machines to accrue bonus points at different rates, based on the denomination and the hold percentage of the game.

When casino operators offer bonus point multiplier promotions they make the assumption that players have done the math and know the cash rebate rate for each casino in the marketplace. In reality, the vast majority do not. While some players know that one casino offers \$5 in

cash back for 200 points and another gives \$5 for 250 points, most do not extend the math and calculate how many dollars wagered earns one bonus point. Those that do are often the savviest of players who not only know the cash rebate rate for every casino in the market but the effect that point multipliers have on the hold percentage of the video poker games that they play. They are in fact, the casino's least profitable customers.

The postulation that customers perceive bonus points as a valuable commodity and will shift their play from one casino to another is also flawed. It assumes that casinos, like sugar or flour, are commodity products that are indistinguishable except on price. If this were true, then the casino with the highest cash rebate rate would have the lion's share of business. In reality, casinos are highly differentiated, each one offering a different array of features. Some offer far more attractive environments, superior air handling, better restaurants, more attentive service and better location. Those casinos with inferior products and services can only compete on price. Thus, for most players, in order to shift loyalty, a casino that offers point multipliers must also offer an environment that matches or exceeds the one that they play at most often.

Casino operators often assume that point multipliers will induce incremental visits from players and that those players will increase their monthly gaming budgets because of point multipliers. What happens more often though is that players will shift their gaming activity from days when they normally play to those that offer point multipliers. Granted, a casino that offers point multipliers on graveyard shifts or midweek days might use the promotion to fill the casino during slow periods but the vast majority of point multiplier promotions are offered during peak demand periods, such as holidays, when there is little reason to promote the business.

### Bonus Points Are Not Cheap

The most dangerous assumption a casino marketer can make regarding bonus point promotions is that they are a low cost method of stimulating business. They are not and, like all

**Table 3. 3x Bonus Points with 20% Expanded Budget Rebate Rate**

	Penny Reels	Dollar Reels	Standard Video Poker	Low Hold Video Poker
Hold %	8.0%	5.0%	3.0%	1.5%
Base benefit	\$1 handle = 1 point			
Base benefit	500 points = \$1 cash			
Theo Win per \$120	\$9.60	\$6.00	\$3.60	\$1.80
Handle	\$1,500.00	\$2,400.00	\$4,000.00	\$8,000.00
Rebate \$	\$9.00	\$14.40	\$24.00	\$48.00
Rebate Rate*	7.50%	12.00%	20.00%	40.00%
Casino Net	\$111.00	\$105.60	\$96.00	\$72.00

*\*Rebate Rate assumes player coming to the game with \$120 and losing the entire amount. Additional Assumptions: Optimum strategy is employed when applicable and max bet is always played. Example: Penny Reels \$120 / 8% hold = \$1,500 in average slot handle. \$1,500 in handle / (500/3) points = \$9.00 rebate. \$9.00 / \$120 slot win = 7.5%*

demand stimulation programs, this kind of promotion requires that marketing personnel first do the math to measure the impact that point multipliers will have on profitability.

Table 1 shows the effect that a typical bonus point accrual rate and redemption schedule can have on various game types. In this scenario, \$1 wagered earns one bonus point and 500 bonus points are redeemable for \$1 in cash back. On a machine that holds 8%, the rebate rate is 2.5%. In other words, for every \$100 won by the casino, it rebates \$2.50 back to the customer in the form of bonus points. On a video poker game that hold 1.5%, the rebate rate is 13.3%. Assuming that a player sits down and plays until they extinguish a \$100 budget, the casino will net \$97.50 on the 8% hold machine and \$86.67 on the 1.5% hold video poker machine.

Table 2 shows the effect when a 3x bonus points are offered. The casino will rebate \$7.50 dollars on the 8% hold machine to yield \$92.50 in net slot win. However, it will rebate \$40 back to the player on the video poker game and yield only \$60 in net gaming win.

Now assume that a 3x point multiplier promotion will stimulate players to increase their gaming budget by 20%. In this scenario, players will spend \$120 instead of \$100. The results of this are detailed in Table 3. While a gamer on an 8% hold game will increase the casino's net win to \$111, the video poker player will reduce the casino's net win to \$72. In other words, by increasing their gaming budget, video poker players would theoretically lose less than if their budget remained the same.

Just because a point multiplier promotion is easy to set up and promote, it does not mean that it is effective at growing net gaming revenue. Like any promotion, point multiplier promotions require thoughtful analysis prior to implementation. Failure to do so can result in unexpected and often disappointing results. ♣

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