

## **How much is Your Casino Investing in Players?** ***Another Step toward the Optimal Offer™ Strategy*** Christy Joiner-Congleton and Eve Horne

This white paper is the first in a series. In this first installment, the Actual Cost of a \$5 Free-Play Incentive, as it relates to how much 'Required Theoretical Investment' a player has to play to earn that incentive is evaluated at all properties in one local market. Also evaluated are the implications of this cost when adding Free-Play incentives and multiplicative point promotions relative to overall reinvestment strategies.

### Introduction

Casinos spend time and effort determining the best way to market themselves, beat their competition, and reward players for their loyalty. Unfortunately, there are no fool proof formulas or textbook strategies for developing the perfect marketing mix for a casino. More often than not, progress tends to come down to trial and error. Luckily, casinos can arm themselves with a wealth of knowledge, techniques and partners that can make this daunting task easier and more manageable, removing some of the error from the marketing process, or making their trials productive.

The following is a small portion of data collected in a recent study of Southern California casinos, but the math behind the data can be applied to any casino with a player's club. The portion presented here looks at the reinvestment in players who participate in the casinos rewards program. The following shows, assuming a Hold Percentage (also referred to as House Advantage) of 5%, how much 'Required Theoretical Investment' (R-Theo) a player must spend to accumulate a \$5 Free-Play incentive. This is important because with all the "points" and COIN-IN conversions, it is easy to lose track of what the customer is actually spending. If a customer's average wallet is assumed to be \$100, some of these casinos are offering rewards that may not stimulate more play, and may even cannibalize the player's wallet. The information collected also helps explain how some promotions significantly reduce the amount of R-Theo a player has to spend before receiving the next incentive. Lastly, it calculates what the base reinvestment is and what solutions or opportunities there are to adjust reinvestment in favor of the casino. There are various pros and cons for the use of incentives. A casino is ultimately a business and as such is always trying to maximize profits. In context, this means that if a casino is giving out these offers, it should be offering them with a complete understanding of profitability per player. This is the first step to achieving the Optimal Offer™.

### The Study

The goal of this study is to obtain a better understanding of casino marketing in various casinos, particularly as it relates to loyalty club programs and the marketing of incentives to members through those programs. By undertaking this study, Stics® continues its search for the best tools possible to understand the Optimal Offer given to a player. Approaching the club program from a customer's perspective, this study attempts to use these clubs as a window into the casinos marketing department to learn the types of decisions they make and how well they are using these programs to benefit the casino. Eight Southern California casinos that target the San Diego market were visited. This view is limited but exhaustive in the local market and therefore insightful in many ways. Of the insights uncovered, one was how much R-Theo a customer had to play to receive a \$5 Free-Play incentive. This is an excellent starting point for a series on players' clubs programs, because it is a common practice amongst casinos to allow players to earn and redeem points, making it possible for players to achieve rewards, and to apply that insight to other casinos.

Each of the eight casinos explained in some form how their point system worked. Two casinos offered points based on Theoretical win (T-Win), a form of time based rewards and the other six print very clear definitions of what each point is worth. Those same six casinos also offer a Free-Play incentive and explain to customers exactly how many points it takes to earn that incentive. The use by these six casinos of clear and similar definitions makes for a more straightforward comparison of the results. Moreover, the definition of these two variables leads us to a simple calculation. By assuming a value for Hold Percentage (Hold), the required theoretical investment amount a player has to spend to receive these incentives can be determined. Assuming the same Hold for each of the casinos allows us to evaluate the six casinos equally. But, for more accurate results a casino can plug their own Hold and point values into the formula to determine what their players' required theoretical investment is. Players may spend more or less to receive these awards, but the aggregate will equal the Required Theoretical Investment.

### The Calculations

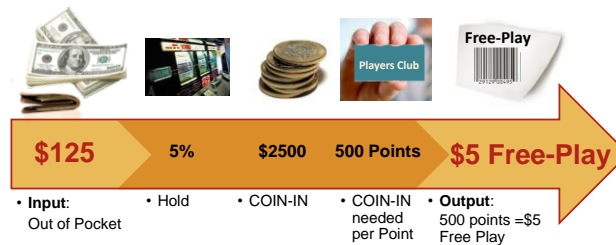
$(\text{Points for } \$5 \text{ Redemption} \times \text{COIN-IN Per Point}) \times \text{Hold \%} = \text{Required Theoretical Investment}$

Understanding the Base Reinvestment Rates requires some quick definitions:

- **Points for \$5 Redemption:** How many points does the club state are needed for the Free-Play or Cash Back redemption?
- **Dollars of COIN-IN Per Point:** How much COIN-IN is needed for 1 point
  - Although a brochure may read \$1 = 1 point, the \$1 is actually COIN-IN. COIN-IN represents the total dollar amount of all wagers placed. Not necessarily the amount of dollars spent or lost.
- **Hold Percentage:** To calculate the estimated COIN-IN the dollars spent are divided by Hold.
  - “For example, consider the player who inserts a \$20-bill into a slot machine, with a 5% house advantage, and plays until he has no credits remaining. On average, this player will generate \$400 in coin-in, or wager, before losing the entire \$20 (i.e.,  $\$20/0.05 = \$400$ ).”<sup>1</sup>
- **R-Theo:** The dollar amount is an inverse of t-win, removing player “luck” from the equation. Players may spend more or less to receive these awards, but the aggregate will equal the theoretical investment amount.
  - Conversely the R-Theo can be calculated by multiplying COIN-IN by the Hold.
- **Base Reinvestment Rates:** \$5 Free-Play Incentive divided by R-Theo.

Figure 1.

### HOW TO CALCULATE \$5 FREE-PLAY AWARD



### The Results

Table 1.

### BASE REINVESTMENT RESULTS PER CASINO

	Casino 1	Casino 2	Casino 3	Casino 4	Casino 5	Casino 6
<b>COIN-IN per Point</b>	\$0.5*	\$4	\$6.67*	\$4	\$5	\$1
<b>Points for \$5 Incentive</b>	5000	250	500	1000	500	5000
<b>COIN-IN \$5 Incentive</b>	\$2500	\$1000	\$3335	\$4000	\$2500	\$5000
<b>R-Theo Investment **</b>	\$125	\$50	\$166.67	\$200	\$125	\$250
<b>Base Reinvestment Rate***</b>	4%	10%	3%	2.5%	4%	2%

\*0.5 COIN- IN Per Point: 2Points=\$1 COIN-IN , and 6.67 COIN-IN Per Point: 1.5 Points=\$10 COIN-IN \*\*R-Theo Investment: Assuming a Hold 5% \*\*\* Base Reinvestment Rates based upon Net Theoretical Investment and \$5 Free-Play

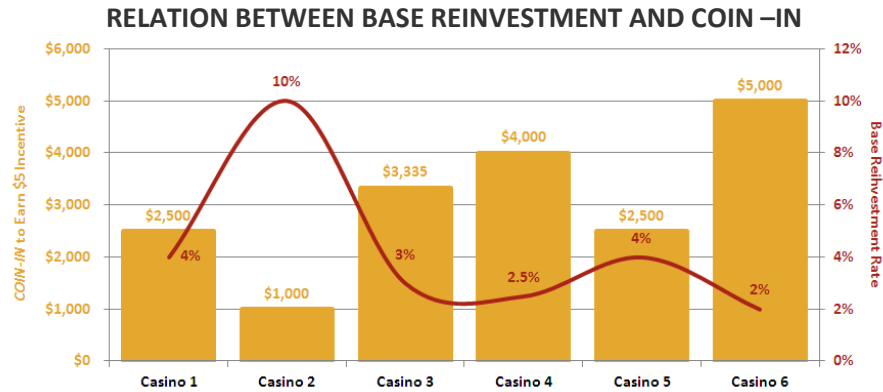
<sup>1</sup> Lucas, Anthony and Jim Kilby. Principles of Casino Marketing. Escondido: Okie International Inc, 2008

# How much is Your Casino Investing in Players?

*Another Step toward the Optimal Offer™ Strategy*

Christy Joiner-Congleton and Eve Horne

Figure 2.



The required theoretical investment and implied reinvestment rates vary widely within this exhaustive local market area sample. Understanding the amount a player is actually spending impacts every area of the casino. For instance, are the theoretical investments by players covering additional comps, like buffets, cigarettes, and drinks? Does it cover labor cost? More importantly, does it cover all the sunk costs associated with running a casino? These are questions that could have different answers at each individual casino. Still there are other implications of these results that go beyond the internal issues, such as: does this information create an external competitive advantage? The R-Theo results are surprising for many reasons, but the most obvious is that if customers are responding to the value of an offer and choosing to gamble where offers are most valuable to them, then they would run to Casino 2, spending significantly less, and avoid Casinos 6 & 4. Since all of these casinos have high guest volumes, and are within an hour's drive of each other this cannot be the case. Yet, the possibility that customers are aware of this variation on some level cannot be discounted. Casino 2 may attract more of a certain type of gambler than Casino 6, or Casino 6 may have developed a clearer brand and may attract customers in other ways. By comparing this data to gaming revenues and other variables at these properties, it is possible to get a much clearer picture for a particular property.

Table 2.

### COMPARISON OF CASINO 1 AND CASINO 5

	Casino 1	Casino 5	What are Players Perceptions?
<b>COIN-IN per Point</b>	\$ 0.5*	\$5	<i>What's my dollar worth?</i>
<b>Points for \$5 Incentive</b>	5000	500	<i>How many Points do I need to earn \$5?</i>
<b>COIN-IN for \$5 Incentive</b>	\$2500	\$2500	<u>The bottom line:</u> <i>COIN-IN and R-Theo are the same.</i>
<b>R-Theo Investment</b>	\$125	\$125	<b>Which is a better deal?</b>
<b>Base Reinvestment Rate</b>	4%	4%	<i>Both Casino's have the same customer value.</i>

On the other hand, it must be acknowledged that the way in which the club promotions are presented could have a significant effect on customer loyalty. For example, by just looking at the points, a customer earns the most points for their dollar at Casino 3, and it takes only 500 points to earn \$5 redemption. Are customers responding to the appearance of a good deal? To visualize this, Casino 1 and Casino 5 can be compared side by side. Casinos 1 and 5 both have the same base reinvestment percentage and their R-Theo is the same. However, in the eyes of a customer: Is



# How much is Your Casino Investing in Players?

## Another Step toward the Optimal Offer™ Strategy

Christy Joiner-Congleton and Eve Horne

Casino 1 a better deal because a player gets 2 points for every \$1, or is Casino 5 a better deal because a player only needs 500 points to earn \$5? To a customer these questions may hold value, although the reality is that both casinos have the same value (financially) to the customer.

To a casino, what is more alarming is that these results do not account for or include Free-Play given at sign up or any multiplicative point promotions that might be awarded. Although how Free-Play is converted to COIN-IN varies widely over the industry, Free-Play is not “Free”. Whether initial Free-Play is counted toward COIN-IN or not, any win accumulated as that Free-Play is reinvested by the player will accrue as COIN-IN. Since the actual cost of Free-Play to a casino fluctuates, in the following it is assumed that Free-Play and multiplicative point promotions are worth the amount stated in the promotion.

Table 3. **CHANGES IN REINVESTMENT RATES**

Action	Type of Reinvestment	Casino 1	Reinvestment Rate
Original	Original Investment	<b>\$125</b>	<u>Base Reinvestment Rate</u>
\$5 (Free-Play) Incentive	Base Reinvestment Rate	<b>4%</b>	$\$5 \text{ (Free-Play)} / \$125 \text{ R-Theo} = 4\%$
Add \$10 (Free-Play) to Original	Adjusted R-Theo Discretionary Reinvestment Rate	<b>\$115</b> <b>13%</b>	<u>Discretionary Reinvestment Rate =</u> $\$15 \text{ (Free-Play)} / \$115 \text{ Adjusted R-Theo} = 13\%$
Add 2x Multiplicative Pt Promotion to Original	Adjusted R-Theo Discretionary Reinvestment Rate	<b>\$62.50</b> <b>8%</b>	<u>Discretionary Reinvestment Rate =</u> $\$5 \text{ (Free-Play)} / \$62.50 \text{ Adjusted R-Theo} = 8\%$
Add Both \$10 (Free-Play) and 2x Pt to Original	Adjusted R-Theo Discretionary Reinvestment Rate	<b>\$57.50</b> <b>26%</b>	<u>Discretionary Reinvestment Rate =</u> $\$15 \text{ (Free-Play)} / \$57.50 \text{ Adjusted R-Theo} = 26\%$

Free-Play given at sign up will reduce the required theoretical investment by the Free-Play amount.<sup>2</sup> Similarly, multiplicative point promotions will reduce the R-Theo investment by the multiple.<sup>3</sup> The implication of this is that a casino can easily cannibalize a player’s bank roll/wallet by offering too many marketing promotions to the same individuals. If a casino offers both Free-Play and Multiplicative points, R-Theo is reduced first by the Free-Play then by the point multiplier.<sup>4</sup> The Actual R-Theo a player has to spend to accumulate a \$5 Free-Play will continue to get reduced by the introduction of more promotions.

<sup>2</sup> (R-Theo – Free-Play = Adjusted R-Theo); For example, if the R-Theo = \$125 (the mode amount), but the casino had given a \$10 Free-Play voucher at sign up, the Adjusted R-Theo investment would equal \$125 - \$10 = \$115.

<sup>3</sup> (R-Theo /Point Multiplier = Adjusted R-Theo), ‘Double Points’ promotion will reduce R-Theo by half, and a ‘Triple points’ promotion will reduce the amount to a third. For example, if the R-Theo = \$125, but the casino has a ‘Double Points’ promotion, the Adjusted R-Theo would equal \$125/2 = \$62.5.

<sup>4</sup> ((R-Theo – Free-Play)/Point Multiplier = Adjusted R-Theo). Therefore, in a scenario where a \$10 Free-Play is given and a Double points promotion is applied to R-Theo, R-Theo is reduced from \$125 to  $(\$125 - 10) / 2 = \$57.50$ .



# How much is Your Casino Investing in Players?

## Another Step toward the Optimal Offer™ Strategy

Christy Joiner-Congleton and Eve Horne

Every time Required Theoretical Investment changes, the reinvestment rate will also change, as shown in Table 3. In the original example the Base Reinvestment Rate is based upon the Net Theoretical Investment, and a \$5 Free-Play reward. If the original R-Theo is \$125, then the Base Reinvestment Rate is 4%. However, by adding additional promotions you subtract from the R-Theo Denominator, creating a lower theoretical investment for a customer and a higher reinvestment rate for the casino. Multiplicative points may not have a dollar value, but still reduce the R-Theo. Double points increase by 2x original reinvestment in the long run. Combining discretionary programs like Free-Play and multiplicative points can quickly increase the reinvestment rate, in the example leaping from 4% to 26% reinvestment.

The previous examples, give a sense of how players can respond differently to the same program and how discretionary reinvestment can vary wildly based on promotions. This study raises questions about the Theoretical Investment a players makes, but also brings up questions about how a casino can effectively use this information for marketing purposes. What else could account for the variations in data? By identifying the other factors relating to how a player responds to the structure of a player card program, by applying more data, and by utilizing predictive analytics to better understand behaviors, the Optimal Offer structure can inevitably be found. Understanding the implications created by the R-Theo concept grounds the development of the Optimal Offer. Knowing this data, more insight is possible into how a casino is investing in their players, and in some cases overinvesting. Comparing Casino 2 and Casino 6, the two outliers in the data, next to each other, it is easy to see the pros and cons of each of these program’s structures.

Table 4.

### PLAYERS’ CLUB BASE REINVESTMENT STRATEGIES

	<i>Casino 2</i>	<i>Casino 6</i>	<i>Pros and Cons</i>
<b>COIN-IN per Point</b>	\$4	\$1	Casino 2: <ul style="list-style-type: none"> <li>• Best value to the customer.</li> <li>• Best appearance of value to a customer</li> <li>• Less margin to add Discretionary Reinvestment</li> </ul> Casino 6: <ul style="list-style-type: none"> <li>• Lowest appearance of value to a customer</li> <li>• Lowest Base Reinvestment Rate</li> <li>• Room to add Discretionary Reinvestment</li> </ul>
<b>Points for \$5 Incentive</b>	250	5000	
<b>COIN-IN for \$5 Incentive</b>	\$1000	\$5000	
<b>R-Theo Investment</b>	\$50	\$250	
<b>Base Reinvestment Rate</b>	10%	2%	

In the study, Casino 2 provides the best value to the customer, and Casino 6 provides the lowest Base Reinvestment Rates. Either of these strategies could make for good casino marketing. Casino 2 could generate a large customer base (and more data), while Casino 6 has larger reserves for discretionary reinvestment. Casino 2 has less margin with which to engage in discretionary reinvestment, but may do less discretionary marketing. As seen in table 3, discretionary reinvestments can increase cost and reduce R-Theo rapidly, even for a casino with a 2% base reinvestment rate. For this reason, both casinos would benefit from Stics’ predictive analytics services which optimize marketing programs and identify the most valuable players to whom to offer discretionary reinvestment, and which to optimize base reinvestment strategy. A comprehensive predictive approach can maximize EBITA and reduce the total reinvestment to a casino at the same time.





# How much is Your Casino Investing in Players?

*Another Step toward the Optimal Offer™ Strategy*

Christy Joiner-Congleton and Eve Horne

## Summary

Understanding how much a customer spends and how promotions can negatively affect the amount of player spending is important to every casino. To understand this effectively, a casino must understand how much each customer is worth. The data standardizes hold and aggregates over players to eliminate luck as a factor. This generalization is the first step to understanding how much to incentivize a player, what constitutes the Optimal Offer™, and how to give it to the player. Of course, the last thing a casino wants to do is cannibalize their players' wallets, creating a situation where the casino is paying players to be at their property. Every casino will have different results, but they should match up with the casinos marketing strategies. Moreover, understanding how promotions significantly reduce the amount of required theoretical investment a player has to spend before receiving the next incentive can help create financially superior marketing strategies. Lastly, understanding how promotions effect reinvestment can help a casino recognize the most opportune areas in which to apply discretionary reinvestment.

## Solutions

Although there is no formula or textbook strategy for developing the perfect marketing mix, Stics® can help create personalized strategies to get a casino nearer that ideal marketing plan. Regardless of the various investment avenues, each casino is investing in its players and intends to invest optimally. Free-Play is NOT Free! It is just hard to understand its effect on profitability. One tool to make progress managing Free-Play is Stics® Predictive Analytics, which can identify to whom to offer Free-Play and how much to offer them. Knowing this information can lower total marketing reinvestment costs, without changing your current players club reward system; and can help get your most profitable players to your casino. Stics helps tailor your Free-Play offers to an amount or percentage of reinvestment that is affordable and intended.

Stics offers a variety of products which can address marketing questions like this one and others. Our models are continually refined to keep up with changing attitudes and realities of players, promotions and the economy.

## Know Your Gamblers

---

**www.Stics.com**

**Know Your Gamblers**

10650 Treena Street, Suite 303 San Diego, CA 92131 858.547.8427

---