



# Loyalty Costs

Andrew Klebanow explains how to calculate the player reinvestment rate

segments of its database. Then, as discretionary comp costs and mail redemption costs rise, casino leadership begins to ask, "So what is our player reinvestment rate?"

While there is general agreement that the money spent on fostering loyalty and encouraging repeat visitation forms the bulk of player reinvestment costs, casino operators differ on the specific expenses that make up player reinvestment. Some financial officers lump all of the costs associated with casino marketing and advertising to form what they think is player reinvestment while others limit it to just those costs associated with the administration of the player rewards program. Others take a more analytical approach and attempt to identify only those costs that are directly associated with player reinvestment.

## How to Calculate the Player Reinvestment Rate

The terms "player reinvestment" and "player reinvestment rate" are often used to describe the costs associated with the suite of benefits that casinos bestow on their players. However, despite the frequency with which these terms are used, there is no industry-wide definition that describes the specific components that make up player reinvestment. To better understand how the industry defines player reinvestment, a survey was conducted among United States casino operators operating in a number of jurisdictions including Indian casinos, riverboat/barge casinos and Nevada casinos.

A key finding of the research was that in the evolution of most casinos, understanding what a property's player reinvestment rate is does not become an important issue until two seminal events occur: 1) the casino institutes a host program and 2) it begins to mail out cash and free play offers to various

management system, primarily for meals at the casino's restaurants. Also included are discretionary comps that are issued by casino hosts for additional meals, hotel rooms, airfare, limousine service and other premium services. Other comps that fall into player reinvestment are complimentary room offers and show tickets issued to players through direct mail offers or other marketing campaign vehicles.

Those comps that are excluded are beverage comps that are distributed to all gamers, regardless if they are members of the rewards program, employee and manager meal comps and any other comp that is not associated with tracked gaming activity.

- (2) **Points Redeemed For Cash or Non-Negotiable Slot Credits.** Almost every player rewards program issues points to players using their reward program cards. Those points are usually redeemed for same-day cash back, non-negotiable wagering credits, comp meals, catalogue merchandise and/or other premiums. The dollar cost of points redeemed is the second component of player reinvestment. It does not include points earned or accrued; only those that are redeemed.
- (3) **Free Play and Non-Negotiable Play Redeemed.** The advent of more sophisticated casino management systems now allows for the issuance of "free slot play." As an example, a player who generates 100 points in a given day may receive a bounce-back offer redeemable for \$20 in free play if he/she return within 72 hours. These awards are credited directly to a player's account

## What is Player Reinvestment?

Player reinvestment is comprised of all marketing expenses that are used to foster loyalty and encourage repeat visitation among rated/carded casino patrons. The player reinvestment rate is a simple fraction with total player reinvestment expenses in the numerator and carded/tracked win (win that is attributed to players who use their player reward cards) as the denominator. The resulting ratio is the player reinvestment rate. The numerator in this ratio is comprised of the following components.

- (1) **Comps.** Comps issued to customers make up the lion's share of player reinvestment expenses. However, not all comps are associated with player reinvestment. Those that are include system generated comps that are issued through the property's casino

and can be redeemed by the player directly at a gaming device. Since this kind of premium is predicated on carded gaming activity, it is a form of player reinvestment.

Casinos also send table game players coupons redeemable for non-negotiable gaming chips. The value of these offers is predicated on a player's theoretical win and serves both as an incentive to visit and a reward for past visitation and is thus a form of player reinvestment.

- (4) **Direct Mail Offers Redeemed.** Mail that is sent to various segments of the casino's database in which some kind of premium is offered is generally considered a form of player reinvestment. However, only the direct costs associated with the redemption of these offers is a component of player reinvestment. The costs of printing and mailing these offers to the database are not part of the player reinvestment matrix but simply a form of casino marketing. The logic behind this is simple: why charge the costs of say, a 10,000 piece mailing to those people who actually redeemed their offers? Thus, printing and mailing costs are excluded from the player reinvestment analysis.

- (5) **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 exorbitant costs for meals charged by the Food and Beverage Department to the Marketing Department, the various gifts and cash drawings that are often part of these events as well as the incremental labour costs generated by the Security Department and Engineering Department that are necessary to stage these events.
- (6) **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 other



giveaways that are made available to members of the casino's database. Most often, participation in these promotions requires players to use their rewards cards, either to gain entry or to earn drawing tickets. Also, additional entries are given to players who earn more points. Those promotions that are predicated on some form of gaming activity are considered a form of player reinvestment.

- (7) **Food Discounts to Carded Players.** Often Casino Marketing will give food discounts to players who present their rewards card to restaurant cashiers. The difference between the retail price of those meals and the discount price is a form of player reinvestment. A casino may also offer a promotion in which players must earn a minimal number of bonus points in order to get a free buffet. Once again, the costs of those free meals are considered player reinvestment.

### Tracking Player Reinvestment

The total of these various player reinvestment costs makes up the numerator while the denominator is carded/tracked win. With this data it is then a fairly easy exercise to track a casino's player reinvestment rate on a monthly basis. This is

### Player Reinvestment Analysis

		% of Carded Win
Total Gaming Revenue	\$6,500,000	
Carded/Tracked Win	\$4,030,000	
Total Comps	\$180,000	4.5%
Bonus Ponto Redeemed	\$66,300	1.6%
Free Play Redeemed	\$225,500	5.6%
Other Mail Offers Redeemed	\$210,000	5.2%
Special Events	\$45,000	1.1%
Promotions	\$75,000	1.9%
Food Discounts to Players	\$22,000	0.5%
Amount of Player Reinvestment	\$823,800	
<b>Player Reinvestment Rate</b>		<b>20.4%</b>

Source: Gaming Market Advisors

illustrated in accompanying table.

### Experimentation to Find the Right Reinvestment Rate

Once the data has been collected and a snapshot taken of the player reinvestment rate, the astute operator can then adjust his marketing campaigns to yield better results. For example, by adjusting the amount of mail offers sent and/or their values, it would be logical to see a change in the amount of mail offers redeemed as well as changes in carded win. By monitoring these changes and tracking their results over time, it is possible to determine the optimal amount of to spend on each marketing program to maximize return.

### The Right Reinvestment Rate

Once an ongoing player reinvestment analysis is in place, the question that is often asked is, "what is the right player reinvestment rate?" The answer is, "it depends." In highly competitive and mature markets player reinvestment rates can rise to 30% while in monopoly environments they rarely reach 20%. Casinos that spend above 35% risk entering a danger zone where they are simply buying loyalty. Ultimately, each casino operator must determine their own optimal player reinvestment rate. Further, by monitoring spending levels for each component of player reinvestment on a monthly basis, each property can find its own marketing sweet spot, which is the right spending level for each component of player reinvestment. ♠

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