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Creating the Right Player Reinvestment Strategy

As gaming markets mature and revenue growth slows, casinos struggle to find ways to remain competitive, grow market share and gaming revenue. Inevitably, casino operators are forced to increase the amount of marketing dollars that they spend in various forms of player reinvestment. As spending increases, marketing leadership is faced with answering such questions as: “what is the casino’s player reinvestment rate?” and “how much is the casino spending to reward and retain gaming customers?”

Unfortunately, these are not easy questions to answer. First, player reinvestment is an ill-defined term. Not all casinos define player reinvestment in the same way. Some use it as a catchall phrase to describe all marketing expenditures while others use the term only to describe comps issued through the property’s casino management system, bonus points redeemed for cash and redeemed mail offers. Others attempt to better define the term to describe all of those expenses that are expended to foster loyalty and encourage repeat visitation.

In this article player reinvestment is defined as all market-

ing expenses that are used to foster loyalty and encourage repeat visitation among rated/carded casino patrons. It includes points redeemed for cash back, system generated comps (hotel, food, entertainment and other services), bonus points redeemed for cash back or free slot play, special events including premium player parties, prizes, awards and promotional merchandise that are given to slot club members and all mail offers that are redeemed, including cash coupons, free room offers and show tickets. It does not include other marketing expenses like fees paid to bus operators, cash to bus patrons, prospect mailers, postage expense, labor or advertising.

What is Player Reinvestment Rate?

The player reinvestment rate is a simple fraction with total player reinvestment expenses as the numerator and some form of revenue as the denominator. The resulting ratio is the player reinvestment rate. The problem once again is that there is no industry standard that defines what the denominator is comprised of. Some casinos use total gaming revenue; others use carded (tracked) win. Still others look at the theoretical win that various segments of the database can generate and use that as the denominator and measure it against the amount of money they spend on each player segment.

Once the numerator and denominator are defined, casinos can then calculate their player reinvestment rate. The problem that then arises is to define what the optimal rate of player reinvestment is. Because there is no industry standard that defines what is in the numerator, what is in the denominator, and what the optimal rate should be, every casino’s player reinvestment rate can be different. So, the question remains, how much is enough?

Player Reinvestment Strategy

Just as a casino comes to grip with trying to figure out its player reinvestment rate, someone in senior leadership will pose the question, “what is our property’s player reinvestment strategy?” In reality, most casinos do not have such a strategy. What they have is an evolutionary process that ultimately leads to a de facto strategy. The process starts with the design of the casino’s player rewards program. Casino managers start by defining how slot club points will accrue and what the value of those points will be. In most cases, they look at their competition and see what they are giving back to customers in cash back and comps as a percentage of handle. Or they may just replicate the slot club math that existed at a property that they worked at in the past.

Once the casino player rewards program is established, managers start to examine the contributions that various segments of the database contribute to slot win. Invariably, casino managers discover one of the hidden truths of all casinos: 80% of gaming revenue comes from 20% of the database.

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Armed with this knowledge, casino managers begin to increase the benefits that these premium tiers receive, most often to the detriment of less profitable (but still valuable) player segments. Eventually, the de facto player reinvestment strategy becomes apparent: the casino's player reinvestment strategy is to maintain loyalty among its most valuable gaming customers while neglecting new or emerging player segments.

Player Reinvestment Versus Player Development

Player development is the process of identifying new players and developing them into loyal and profitable customers. To do this, casinos often develop host programs to take care of their best customers. Casinos also often hire hosts from competitors' properties with the expectation that those hosts will bring along a database of premium customers. While there are legal and ethical issues that go along with this kind of behavior, the fact remains that these tactics rarely work in developing loyal and profitable players. Invariably, the players who are attracted to new properties by their hosts move to a new property because their benefits are greater. The end results are marginally profitable customers.

Hosts are most often used to take care of existing premium players. They write discretionary comps, invite customers to special events and tend to their players' needs. However, hosts are rarely used to actually walk the floor, identify new premium players and develop them into loyal customers. Most new customers simply walk in the door, enroll in the slot club and play at exorbitantly high levels until the property's rewards program categorizes them and starts to send them additional offers. However, if the de facto player reinvestment strategy is to focus only on the top 20% of existing players, these new players remain neglected for months until their continued gaming activity moves them into the premium segment.

Tracked Win as a Measure of Player Reinvestment

So how does a casino determine if the amount of money it is spending on player development and player reinvestment is the right amount? The first step is to look at overall participation in the casino's player rewards program. The easiest measure is to examine the percentage of casino revenue that is derived from customers who use their slot club cards and allow their play to be tracked. This is often referred to as carded or tracked win. Tracked win is the percent of gaming win that is derived from customers who use their slot club cards.

Tracked win varies from casino to casino and can range from a low of 20% to a high of 85%. Several factors influence the rate of participation in a casino's player rewards program. The most important factor is the suite of benefits that players receive if they allow the casino to track their play. Casinos that offer players more benefits tend to have higher participation rates. Again, while each casino must establish its own goals, there is a growing body of evidence that indicates a direct correlation between track win and sound player reinvestment rates and supports the following guidelines:

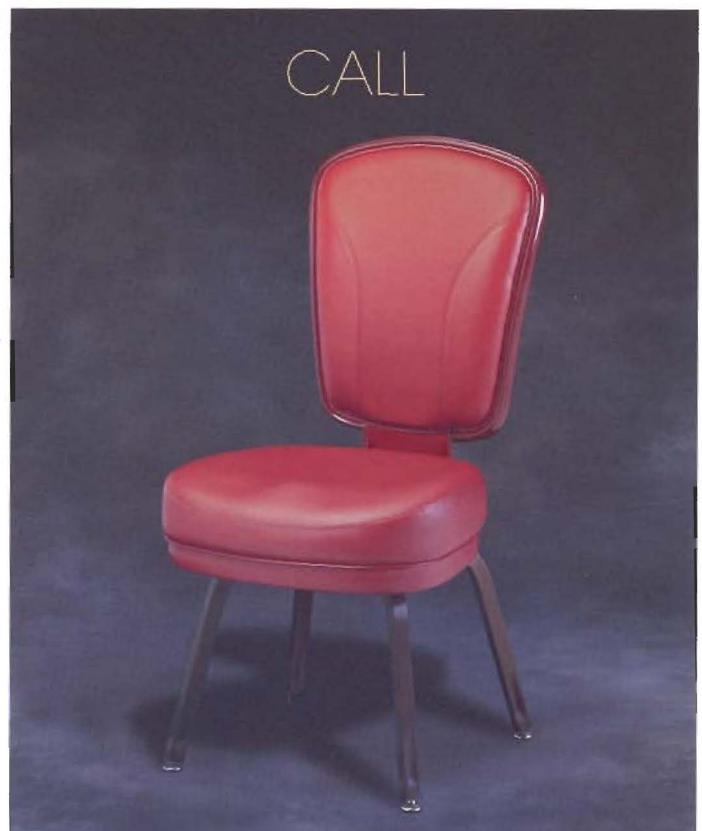
- If 55%-75% of gaming revenue can be attributed to

tracked win, the casino is probably spending the right amount on player reinvestment.

- If over 80% of gaming revenue can be attributed to tracked win, the casino is spending too much on player reinvestment.
- If 40% of gaming revenue can be attributed to tracked win, the casino does not have a player reinvestment strategy; it has a slot club.
- If less than 25% of gaming revenue can be attributed to tracked win, the casino not only does not have a player reinvestment strategy, it has a dysfunctional slot club.

So before a casino can take on the heady task of calculating its player reinvestment rate or defining its player reinvestment strategy, it must first get its player rewards program right. Once a casino has a healthy and active player rewards program that is constantly recruiting new players, developing them and fostering loyalty, it can then focus on developing a sound and profitable player reinvestment strategy and achieve the right player reinvestment rate. ♣

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