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But Did the Casino Make Any Money?

At a recent presentation of casino performance before the tribal council, the casino manager distributed handouts illustrating gaming activity. "Handle is up," he proclaimed as the council members examined bar charts showing year over year handle growth. "Business is growing. The casino is experiencing consistent increases in handle from prior years. We're driving revenue."

The casino's marketing director then walked the council through an analysis of recently completed direct mail campaigns, special events and promotions. For each of these campaigns the marketing director presented a profit and loss statement showing the profit made. "Our direct mail program has been very successful. Marketing has been able to drill down into the database and mine very profitable customers. Our theoretical win continues to improve and for each direct mail campaign, we have been able to generate on average, theoretical win in excess of 75% of expenses. Our marketing is working."

After patiently listening to each portion of the presentation and reviewing all of the printed material, one council member inquired, "If business is growing, why is net profit from gaming operations flat from the prior year period? How come the casino is not earning more money?" The casino manager, prepared for this inquiry, pointed out that that increased competition forced the property to boost marketing expenses in order to maintain market share. "Those marketing expenses chipped away at net profit."

The council member did not yield to this argument. He asked again, "But if handle is up and you theoretically won 75% more money, then should this not have translated to more gaming win?" The casino manager shifted his defense to the increased cost of health benefits but could not answer the fundamental question, "why was net operating profit flat?"

Understanding Handle

As most everyone in gaming operations knows, slot handle is the gross number of dollars wagered through all of the electronic gaming devices on a casino floor. It is not a measure of money inserted into the machines but the total volume of game credits (in all denominations) wagered. It is a measure of gross business volume.

At one time, handle was a critical measure of business activity. Handle, multiplied by the average hold percentage of all of the machines on the gaming floor, would yield a fairly accurate estimate of the slot win for the casino. However, a number of technological advances have skewed handle as an accurate measurement tool.

The advent of so-called video multiplier games has caused a dramatic increase in handle. Game designers, in a very successful attempt to meet players' primary demand for "more time on device" have made tremendous strides in improving both the entertainment value of slot machine play and extending the average time that players stay at a particular game before their gaming budget is extinguished. These games are, by design, less volatile. Players may wager 45 coins per spin but always seem to get some coins back which they can then wager over again. Players wind up losing the same amount of money but receive a far greater degree of entertainment value. In other words, slot handle is increased but unless players reach into their pockets and insert more money into the bill validator, slot win remains essentially the same. Players in turn, will feel good about their casino visit and be more inclined to return.

Another innovation is the use of direct mail offers to stimulate return visits to the casino. The vast majority of these mail offers use cash cheques, redeemable at the casino's slot club or cashier's cage, as the incentive to return. Presumably, this cash is then inserted into the casino's slot machines, thus generating increased slot handle. Casino marketers are aware of the fact that they can artificially inflate handle merely by increasing the number of cash offers to their database, though few would knowingly do so to artificially increase handle. They also know that cash offers are a marketing expense and will ultimately have an effect on the property's profit and loss statement.

Most recently, designers of casino management systems have introduced methods to award players free slot credits electronically into individual player accounts. A player need only insert his/her slot club card into a machine, enter a PIN and receive free slot play in the form of credits awarded to the meter. Other manufacturers have created bar-coded coupons that players can insert into the bill validator in order to receive their promotional slot credits. Every time these credits are wagered, it is recorded on the machine's handle meter. Thus handle is increased, not by money coming out of the players' pockets but through the casino's promotional efforts. Somewhere in accounting, those promotional credits are recorded as a marketing expense. Handle is increased but there is also an increase in marketing expense.

Theoretical Win and Actual Win

Theoretical win is an invaluable tool for casino marketers. Powerful software programs monitor each player's time on device, the number of dollars wagered and the hold percentage of the various machines that individual customers

Some casinos are also plagued with problems within

For all casinos, cash is derived from the actual amount of money won from gaming operations. ♣

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