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Player Incentives: Don't Give Away the House

Almost all segments of the leisure and hospitality industries utilize loyalty programs. Airlines, hotels, rental car companies and even restaurants employ methodologies to induce repeat visitation, foster loyalty and build long term relationships with their more frequent and most profitable customers. The airline industry first instituted these programs in the early 1980's and was followed by hotel and rental car companies. Today, a wide variety of retail industries employ some form of reward programs. They have all come to understand the value of incentives rewarding frequent users of their products and services. While there are no hard and fast rules regarding the percentage of customer reinvestment, it is generally assumed that these industries return between 2% and 15% of the theoretical revenue derived from their loyal customers in the form of various incentives.

Reinvestment Rate

The casino industry also employs sophisticated player reward programs and a variety of inducements to foster loyalty. The most obvious rewards are bonus points redeemable for cash back allowances, system-generated comps and cash offers issued through direct mail. It also includes discretionary meal comps issued outside of the casino management system, complimentary rooms, merchandise, special events such as themed parties and player dinners, 2X and 3X cash back offers to high frequency players, tiered clubs, invitations to events outside of the property and promotions that target those players who are members of the player rewards program. In exchange for these inducements casinos hope to increase the frequency of visits and the theoretical win from their better customers. The ratio between these costs and the theoretical revenue derived from these customers is referred to as a reinvestment percentage (i.e. an amount from a target customer's win that the casino is willing to reinvest in order to secure the customer's loyalty and spur increased visitation).

In establishing player reward programs, casino marketers go through a process that defines the amount of money they intend to return to players. At first casinos place conservative values on the amount of money they intend to return. Bonus points redeemable for cash back, system generated comps and direct mail offers each range from 2%-4% of theoretical win for a total reinvestment rate of 6%-12%.

As gaming markets mature, gaming growth slows and competition increases, casinos vie for increased market

share by gradually increasing the incentives and rewards they issue to their more frequent players. In mature markets, competitors gradually increase their reinvestment rates to levels that defy logic and reason. In mature markets it is not unusual to see casinos return in excess of 40% of theoretical win back to their more frequent players. In such highly competitive markets, casinos frequently react to competitors' offers by further increasing their reinvestment rates. Customers in turn, only visit those casinos that give them the most for their gaming dollars. Casinos can do nothing but continue to increase the size of their offers and wind up ravaging their markets. This is referred to as locust marketing.

Locust marketing is the systematic devaluation of gaming markets through ever increasing offers to a finite group of gaming customers. As marketing costs continue to spiral upward, cash flow, EBIDA and net income gradually flatten, then decline. Casino customers begin to view casinos within a market as fungible products, identical in all manner and form. They visit the property that has the most compelling offer and gives them the most for their gaming dollar. Their loyalty diminishes as they divide their gaming activities to those properties that give them the most incentives. As soon as one casino scales back their overall reinvestment rate, customers immediately shift their loyalties to other properties with more generous offers.

The Cause

Locust marketing is caused by a variety of factors. It starts by the pressure placed upon casino marketers to increase gaming revenue. Without a clearly differentiated gaming-entertainment experience (comprised of the casino, slots products, restaurants and other amenities) casino marketers resort to a variety of offers in order to steal market share. Undisciplined marketers focus only on those tactics that increase top-line revenue without paying attention to the long term effects such tactics have on the gaming market. The end results are ever increasing marketing costs with fewer dollars left for subsequent capital improvements. Eventually, the market is ravaged and the casino has little or no money left to improve their facilities.

Locust marketing is also caused by the leaders of the gaming organization. By failing to create an environment in which people desire to go to because it is an exciting and entertaining place, operators rely on marketers to stimulate demand. In other words, in the absence of product

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marketing, marketers are forced to implement demand marketing programs in order to induce visitation.

The Cure

What is the cure for locust marketing? The answer is simple. By constantly upgrading and improving the physical aspects of their gaming operation, the gaming operation can continue to differentiate itself from its competitors, give customers reasons to visit (other than marketing offers) so that customers receive a higher degree of entertainment value. Gary Border, president of Marketing Results states, "make people come back because they like you; because they like your casino and they like your food."

Steve Wynn once illustrated this point in a speech to hospitality professionals, shortly after the opening of the Mirage Hotel and Casino. He began his speech by reciting the children's tale, "The Three Little Pigs." Rather than stop

after a few lines, he continued reading until he recited the entire story. At the conclusion of the story, he described the fundamental business strategy of the Mirage. By building a house out of bricks, in his case a well designed hotel-casino, quality restaurant operations, beautiful interiors, lush landscaping, convenient parking and a host of amenities, one can defend his house from anything man or nature can throw at it. The same holds true for any Indian casino operating in a competitive environment. By constantly reinvesting in the casino property, adding new slot equipment, building new restaurants, refurbishing existing facilities and adding amenities, a Native American casino can defend itself from the man-made peril of locust marketing. ♣

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