Understanding Comping Strategies

by Andrew Klebanow

The practice of issuing complimentary dining privileges to customers, commonly referred to as comps, is one of the most common marketing practices in the casino industry. It is also a marketing tool that is unique to casinos. What other industry issues comps to reward their customers? Hotels might include complimentary breakfasts for their guests, and all-inclusive resorts provide meals as part of their vacation offerings, but those costs are sunk into the price of their lodging packages. Only in casinos do operators issue comps as a tool to reward players, and only in casinos do customers expect comps as perks for their play.

Comps have an interesting history and they have evolved into an important marketing strategy. Comps emerged from the marketing practices of the pioneers of the casino industry. Taking care of casino customers by buying them a meal was a fundamental business strategy, dating back to the days when casino gambling was only available in Nevada. The earliest operators adhered to a fundamental rule that "if you played here, you ate here, and the meal was on the house."

Until the 1970s, the issuance of restaurant comps was one of the responsibilities of table game hosts. Using what today would be considered rudimentary forms of player tracking, they monitored players' betting patterns, and offered comps at their discretion. Comps did not become institutionalized as an expected reward until the development of player reward programs that electronically tracked players' gaming activity, coupled with the growing popularity of slot machines. By the early 1980s, slot machine revenues exceeded table game revenues, and casino operators recognized that slot players were pretty important to the success of their business. Only then did casinos develop formulas to determine the dollar value of comps that customers were entitled to, and methodologies to issue them.

The Era of Non-Disclosure

Early versions of casino management systems, forerunners to what are available today, allowed players to accrue points, which could be redeemed for merchandise or cash in what is often referred to as a publicly disclosed bucket, and comps that accrued in a second bucket whose value was not disclosed to players. A number of formulas were developed to accrue comp dollars, often based on the theoretical hold of the machines players played, recency of visitation, and wagering volume. Many casinos employed some form of comp logic where comps expired or whose value was reduced over time. What all these systems had in common was the value of those comps were not disclosed to players. They could only be issued at the discretion of management, thus the term, 'discretionary comps.' A prevailing attitude was that why tell customers they could get a comp if you did not have to.

Another reason that casinos did not reveal the value of players' comp dollar balances was because of generally accepted accounting principles. As long as comps were not disclosed to players, casinos did not have to record those comps as a liability on their balance sheets. Points, because they are disclosed to players as they earn them, appear as a liability. Comps do not. Only after a comp is issued is it recorded as an expense on the income statement, and this rule holds true today.

As more players discovered the benefits of player reward programs, it did not take long for many players to realize that they could go to the players club and ask for a comp. Savvy players also developed negotiating techniques in order to maximize the value of the comps they could get. For example, a player might approach a slot club representative and demand a comp for four people to the steakhouse. The players club representative would look up their account and offer two meals to the buffet, with the player settling on four meals in the coffee shop. Often a supervisor would be brought in to mediate this process. This back and forth negotiating tactic became very common, and remains in practice today.

The problem with this system, aside from the fact that it placed an undue burden on players club staff, is that it only benefited those players who asked for a comp. It failed to reward those players who did not know that they were entitled to a comp, or those players who were uncomfortable asking for a comp.

Full Disclosure

By the 1990s, as the number of casinos that served local populations increased, and as the industry became more competitive, some casino operators developed a different comping strategy, referred to as full-disclosure. Rather than keep comp dollar balances a secret, they chose to disclose comp dollar balances to players. These values were displayed whenever a player inserted their rewards card into a slot machine. In addition, casino operators developed interfaces with their restaurant point-of-sale systems. Armed with the knowledge of how many comp dollars he/she had, a player only had to go to a restaurant outlet, present their membership card and identification, and the restaurant cashier would use those comp dollars to settle a customer's check.

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This egalitarian approach offered a number of benefits. It empowered players who previously did not know they were entitled to comps with the ability to spend their comp dollars as they chose, and without having to ask anyone. Players could also accrue comp dollars over a long period of time, and redeem them for a special occasion dinner. This benefited high-frequency players that had moderately low average daily theoretical loss levels. Nevertheless, even high-limit players who had always received comps from their hosts saw the benefits of full-disclosure since they too could save up comp dollars to pay for a special event, such as a party in the casino's banquet facility.

The advantage to casino operators that employed a full-disclosure strategy is that it gave them a competitive advantage over those operators that employed a non-disclosure strategy. It also increased sales volume in the casino's restaurants. Electronic interfaces between the casino management system and restaurant point-of-sale systems also eliminated paper comps and streamlined accounting. It also allowed them to reduce staffing at the rewards center.

The downside is that operators tended to see an increase in comp redemptions. They also had the obligation to record comp dollars earned on their balance sheets. The latter problem tended not to be as great an issue as feared since the majority of comps earned were normally redeemed within two months. While some players banked their comps, most simply spent them as they earned them.

Another alternative to a full-disclosure comping strategy is a program where players earn points and choose how they would like to redeem them, either for cash/free play, or comps. The problem with this alternative single bucket approach is that there will always be players who will want a discretionary comp, and will pester hosts and player reward program personnel for those comps, or worse, take their business elsewhere.

Choosing the Right Comping Strategy

Choosing the appropriate comping strategy requires a considerable amount of research, and it is a decision that should not be taken lightly. Once a full-disclosure comping strategy is implemented, it cannot be easily taken away. Players like the ability to self-comp, and they resent it when a casino attempts to return to a non-disclosure policy.

Before embarking on a change in comp strategy, a casino operator must first review what all of their competitors are doing, and determine if an alternative strategy will be to their advantage. The operator must forecast any expected increase in comp expense and weigh that against higher levels of customer loyalty, increased market share, and gaming revenue. Ultimately, each casino must determine what is best for their customers and weigh that against what is best for their business. ♣

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