

How to Factor in Free Play to Your Overall Player Reinvestment

Michael Minniear, Raving Partner, Data Analytics

Wednesday, January 29

2:00 pm – 2:45 pm

Raving
NEXT

Four Key Areas of Free Play

- **What it costs**
- **How to factor it in reinvestment**
- **How much to give**
- **How to maximize it**

... wow that's a lot, come to the workshop to talk more in depth!

Costing Free Play

- It's a lot like cash, but not quite ... it must be bet, but once it's converted to cash, machines lose track.
- How much can we estimate we'll win back? How much do we estimate players keep in actual cash?
- Used free play will increase a player's theo win, but how much? Should we reduce theo?
- It also affects the player's actual win, so how do we get a player's actual revenue?
- What about opportunity cost?

Costing Free Play

- Free Play is not free.
- In aggregate we will get *at least* the slot hold % back in win, because it must be bet.
- BUT I propose we get more than that back by the nature of players, quick loss, jackpots, etc. and it can be estimated mathematically ... hold on to your seats (or take a nap).
- It does affect player value and there are multiple ways to handle it.

Because slot machines track ALL the win created by free play, please know if you want to get the actual net win, it is accurate to subtract free play from casino actual win (your financials are right, it's called contra-revenue).

Estimating Actual Costs

The World's Worst Casino Promo!

Free Play Only Day This Saturday at Myx Casino!

**For one day only, we're not accepting cash!!
We're giving out a total of \$1,000,000 in Free Play to guests as they come in
to play on our slots!**

Myx Casino (Slot Floor Hold = 10%, Cash Hold = 25%)

What It Costs

The World's Worst Casino Promo – COST

- **When you come in on Sunday, how much money walked out the door yesterday?**
- **What's the TRUE cost of \$1,000,000 of Free Play to the casino?**
- **Is it \$1,000,000? \$0? Assume 10% hold, is it \$900,000? Somewhere in between?**

How do casino guests treat their own cash?

Cash Hold %

There are two “holds” in slots, the house advantage and the cash hold %

- House advantage is the amount held on total *bet*:

$$\text{Win} = \text{Bet} * \text{House Advantage Hold\%}$$

OR

$$\text{House Advantage Hold\%} = \text{Win/Bet (usually between 5-15\%)}$$

- Cash hold% is the amount held of *total cash buy-in or drop (in Table Games its called Drop)*:

$$\text{Cash Hold \%} = \text{Win/Cash Drop (usually between 20-40\%)}$$

Cash Hold % – Why It's Cool

- It reflects the total amount of win based on the starting cash value players put into the games
- It's consistent and predictable
- Remember, most players lose it all, a few break even, even fewer win large sums, but they converge on a cash drop % that can be used to forecast win
- Free Play is a lot like cash! Except ...
- You have to bet it once, but after its bet, it's reasonable to expect that we will see a number similar to the cash hold % in win, and empirical analysis verifies this

What It Costs – Out the Door

The World's Worst Casino Promo – COST

- Starting Free Play value = **\$1,000,000**
- All Free Play must be bet once, so at 10% house advantage:
 - We Get Back: $\$1,000,000 * 0.1 = \$100,000$*
 - Player Gets in Cash: $\$1,000,000 - (\$1,000,000 * 0.1) = \$900,000$*
- Of that \$900,000, expect players to leave ~25% in the games:
 - We Get Back: $\$900,000 * 25\% = \$225,000$*
 - Player Walks out the Door: $\$900,000 - \$225,000 = \$675,000$*
- Total casino win then is: **\$325,000**
- Which means the rest walks out the door: **\$675,000**

What It Costs – Out the Door

Sunday's Nightmare Financial Forecast (Free Play Only Promo)

Casino Win:	\$325,000
-Free Play Cost:	-\$1,000,000

Casino Net Win: -\$675,000

~67% For Myx Casino (Slot floor hold = 10%, Cash Hold = 25%)

What Does It Mean for Reinvestment?

If you choose to reduce player worth to accommodate Free Play, I'd consider one of two methods:

- Reduce overall win by total Free Play used to get net win (contra-revenue) for worth calculations (but do not include Free Play in reinvestment %)
- Reduce worth by 33% (Myx casino) of the Free Play used to account for estimated added revenue and use 67% of the Free Play Used as Cost (divide actual cost by reduced worth to get reinvestment % estimate)

How It Can Affect Promotional Spend

**If Myx Casino is planning a promotion:
Budget = \$10,000
Gifting event or Bonus Free Play Event?**

- **Option #1 – Rice Cooker Gifting Event**
- **Option #2 – Free Play Bonus Event**

Let's look at expected performance ...

How it Can Affect Promotional Spend

Rice Cooker

- Budget \$10,000
- Rice Cookers cost **\$10,000** (\$10 each)
- Buy 1,000
- Incremental Revenue: \$50,000

Bonus Free Play

- Budget \$10,000
- *Free Play Given: **\$15,000***
- *Win back \$5000 (33%), Give Out \$10,000 (67%)*
- Incremental Revenue: \$50,000

How it Can Affect Promotional Spend

Normal Wednesday

Revenue:	\$100,000
Promo Expense:	\$0
<hr/>	
Profit:	\$100,000

Rice Cooker

Revenue:	\$100,000
Add'l Rev:	\$50,000
<hr/>	
Total Revenue:	\$150,000
Promo Expense:	\$10,000
<hr/>	
Profit:	\$140,000
<i>Net Incremental:</i>	<i>\$40,000</i>

Bonus Free Play

Revenue:	\$100,000
Add'l Rev:	\$50,000
Free Play Won:	\$5,000
<hr/>	
Total Revenue:	\$155,000
Promo Expense:	\$15,000
<hr/>	
Profit:	\$140,000
<i>Net Incremental:</i>	<i>\$40,000</i>

So How Much Is Optimum?

- It depends ...
- Do test and control groups
- What are your competitors doing (competitive shopping)
- Are bonus programs driving incremental?
- Focus groups (by tier level)
- Do in-depth redemption studies to see what amounts are resonating based on competitive areas, distance to casino, worth level, etc.
- Whatever drives maximum profit
- Can you give too much? What about opportunity cost?

So to Maximize

- **Remember to use the anti Robin Hood policy – Take from the poor, give to the rich! Watch overinvesting in the low-end gaming with shotgun programs.**
- **Always bonus before entitlement if it can be helped.**
- **Be aggressive to earn second and third trips, but use BONUS ideas to the core offering.**
- **Teach your customers how to use it!**
- **If you're slammed on weekends, encourage Free Play midweek to free up games for real cash.**
- **Consider developing exclusions lists to rid yourself of Free Play abusers.**