BAD BEAT

WILL TABLE-GAME DISCOUNTING BE THE DOWNFALL OF THE CASINO INDUSTRY?

By Roger Gros

Everybody loves a winner, and Don Johnson seems to be a favorite of all casino gamblers. Although he built a very successful horse-race handicapping business and managed Philadelphia Park racetrack for a time, Johnson's fame has risen from his proficiency in playing blackjack at Atlantic City casinos.

Over the past year, Johnson has won $4 million from Caesars Atlantic City, more than $5 million from the Borgata. But his biggest "score" to date—and the one that attracted most of the media attention—was a $5.8 million win at Atlantic City's Tropicana in April. While Johnson admits to some losing sessions, his success, he says, is due to one key concession from the casinos where he plays: a discount on his losses.

Johnson's consistent wins made some suspect that he may have been cheating or manipulating the cards, but others knew better. He was merely taking advantage of a situation that the casinos themselves agreed to. Johnson understands numbers and proposed set game rules, betting spreads and limits, and discounts on losses, which he says was crucial.

DISCOUNTING HISTORY

Table game discounts are hardly a new development in the gaming industry. They've been going on for at least 30 years. Jim Kilby, a casino consultant, former executive and author of *Casino Operations Management*, the "Bible" of any gaming operation, is critical of how casinos offer these discounts and claims to have been there at the beginning of the trend.

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—**Jim Kilby,** Casino Consultant

the Trop (Las Vegas) in the early '80s," he says.

According to Kilby, the competition for high rollers was reaching a peak at that time.

"We had a group of high-rolling gamblers who would come in and play for 50 or 60 hours each trip," he explains. "They'd lose around $1 million and take months to pay it off. So our casino and others made a deal with them. If they paid off their markers before they left, they'd give them a 5 percent or 10 percent discount."

While it seemed like a rational offer at the time, Kilby said discounting began to spread like wildfire.

"It began to spread as executives moved around," he says. "If a baccarat pit manager wanted to move down the street, that casino would want him to bring players with him, so they would agree to deepen the discounts. It became a vicious circle. It's insidious."

The problem, says Kilby, is that the discounting isn't as simple as it appears.

"It looks like the discount only costs you 10 percent," he says, "but it's usually more costly. We discovered that for the average discount player, we just broke even. And that was without the expenses of actually operating the marketing department."

Tropicana Atlantic City

Kilby shudders when he hears an executive talk about how his casino "beat" a particular player, explaining that there is no such thing.

"I hate that term 'beat' because you do not keep what losing players lose; you only keep the difference between what losing players lose and what winning players win," he explains. "So they ask me, 'If a player loses $500,000 and we refund $100,000, haven't we just won $400,000?' No, because you're going to have another player or another group of players that comes in and wins, and you won't get that $100,000 you discounted to the first player back from them."

MAKING THE CHOICE

Casinos have to evaluate their risk when competing for the big players. Max Rubin, a former casino executive and author of *Comp City: A Guide to Free Casino Vacations*, believes discounting has a place in the industry, but executives have to evaluate it very carefully.

"Today's casino operators are very savvy," he says. "They understand the business, particularly the big companies like MGM, Caesars and the Sands. They know what they're doing and who they can offer those discounts to and who they can't. There is a professional here and there who will slip through the cracks, but by and large it makes the casino money. And those companies get enough business so they can overcome the deep discounts and the wins that some players make. But you don't see a Gaughan or any mid-tier operators in Vegas getting into that game because they understand that they don't understand it. That's really a crucial point to grasp."

Kilby believes the small margins make it a loser for every casino but the largest corporations.

"The good thing about premium play is that there is a high profit margin," he says. "The bad thing about premium play is the extreme volatility. When we invented the discount, we kept the bad—the volatility—but we've done away with the good—the profits."

Rubin says the big companies can still make profits even with a narrow margin.

"Unquestionably it is a small-margin business, always has been," he says. "But it's a small margin on a huge amount of money, so they can still make a lot of money."

But the smaller casinos had better beware, he says.

"If you're a single, stand-alone property and you don't have an appetite for volatility, it might not be the way to go," he says. "The Tropicana (Atlantic City), probably given the nature of where they stood with the markets and ownership, probably should not embrace these players as much as a Wynn Resorts would or one of the other big companies."

The bad economy probably influences the decision these days, says Rubin.

"Casinos get so desperate to get a big win given the erosion of profits, they are gambling," he explains. "And that's the trap that some of these smaller and stand-alone casinos get caught in. This often offsets all of the other business you take in. For example, it's highly probable that Don Johnson was betting more on one hand than all the other players in the casino were betting at the same time. It's impossible to offset. And they just ran unlucky. Had they had a war chest like an MGM would have, they could have withstood those kinds of hits. But I don't think its good business for a small casino to take the chance they'll take a hit like that."

All casinos have owners, whether they are individuals, boards of directors or Indian tribes. Rubin says the decision to pursue this action should take place at that level.

Resorts Atlantic City

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—Aaron Gomes, Vice President of Casino Operations, Resorts Atlantic City

Kilby says craps is even worse.

"Forget about discounts on dice," he says. "The fluctuations are too great."

Rodio found that out the hard way when a second player beat the Tropicana for $5 million at the craps table.

"We allowed a player to bet $10,000 on the line at craps," he says. "It doesn't sound like a lot, but when you throw in five-times odds; he's buying all the numbers and prop bets; he's got $180,000 on the table for every roll. If he holds the dice for 15 minutes he can win hundreds of thousands of dollars. That said, over time, it's going to swing back."

Rubin agrees about the math.

"The math will catch up," he says. "It always catches up. But if the math is in the player's favor, then you have to expect that it will catch up big time."

If you're going to offer a discounting program, you have to set reasonable parameters. Gomes says Resorts has done just that.

"We do have a discount policy, but it's a quarterly program with at least three trips during that period," he explains.

The long time period and a requirement for time played will avoid the problems encountered by creating short "trips," says Gomes.

"If you have a customer who comes in one day and loses $200,000 with a 20 percent discount, and then comes in the next day and wins $200,000, he's even gaming-wise, but he's up 40 grand! How does that makes sense?" he asks.

Kilby says the numbers will tell the story.

"Casinos have requirements on how long a customer has to play, but then have a provision for a quick loss, which is silly," he says. "Mr. Johnson in Atlantic City would be done after losing five hands, so how does that work? You have to develop an objective system.

"It cannot be based about how much a player loses. It has to be based on how many hands he plays and the volatility of his betting. And then of course you have your administrative costs."

Rubin says that it takes more than just a computer program to determine if a casino should accept action from a particular player.

"If you know your players, you'll know that some will just play as long as possible until they've lost their money," he explains. "That's just who they are. You have to know your players, and that's why you rely on your director of player development when you decide whether or not to take this action. Blackjack isn't simply about the math; it's about the people and their behavior. If you have a brand new player coming in requesting these things, the alarms should go off. But if you have a player who has a record of playing in different places with a long track record of being a profitable guest, the math won't help. You do it. That's a good decision."

"From an operator's standpoint, there are other implications to whether you should take the bet simply because you have the edge," he says. "Some of those implications are what does it do to your quarterly earnings, what does it do to the longevity of your management team or CEO. In Indian Country, you have to answer to a tribe that may not want to embrace this volatility. An MGM, on the other hand, isn't going to worry about a player that beats them for $5 million or more. They know they'll get it back."

And there are other reasons that would preclude taking the action that have nothing to do with volatility.

"It takes all the energy out of your company," says Rubin. "If you start focusing on this player or this small group of players, everything else becomes secondary. You lose focus on the larger pool of players who are really providing the foundation for your organization. Most casinos are much better served not trying to get this business, not trying to play the game. They'd be much better served trying to get the $5,000, $10,000 or $25,000 credit-line players in action rather than pursue this often unrealistic group, where the margins are much slimmer. Those smaller players won't affect your bottom line as much, and won't threaten your career longevity either."

Aaron Gomes, the vice president of casino operations at Resorts Atlantic City, turned down Johnson when he proposed a similar deal to the one accepted by the Tropicana.

"It wasn't a smart offer, and common sense told us that it wouldn't work for us," he says.

Tony Rodio, the recently appointed president of the Tropicana in Atlantic City, says his casino's goal is simply to increase business.

"Our strategy is to offer higher limits," he told *Global Gaming Business*. "And the more you allow them to bet, the more they can win. When you allow a player to bet $100,000 a spot on blackjack, they can win quickly. For the first eight or nine months of the program, the Tropicana played lucky. Just my luck, when I arrive it swings back the other way."

SETTING LIMITS

A report in *Blackjack Insider* said that Johnson's deal was hard to beat. In addition to his 20 percent discount, he set the rules of the game—a hand-shuffled six-deck show, standing on soft 17, splitting up to four times were just some of the rules—and the betting limits. He reportedly had the option to bet $15,000 on three spots, $25,000 on two or $100,000 on one spot.

Kilby says that was just playing into his hands.

"The casino was just encouraging more volatility," he says. "This player knew that he'd much rather bet $100,000 on one hand than smaller amounts on two or three hands."

It's the deal that makes discounting so bad, says Kilby, not the rules of the game.

"If a player can make a discounting deal with a casino and really understand how it works, he can lower the house edge on any game," he says. "There's one dice player in Las Vegas who shops deals that turn the game in his favor. The last one I looked at, he had a positive expectation of about $20,000 an hour."

Johnson's deal required him to buy in for $1 million and he'd get the 20 percent discount after he lost $500,000. But Johnson said he'd never lose the million.

"If you got to minus-five hands, you would stop and take your 20 percent discount," he told *Blackjack Insider*. "You'd only owe them $400,000."

It's that discount that caused Resorts to refuse his play on his terms.

"When you think about discounts, a 20 percent discount is really a 40 percent discount," says Gomes. "We'll assume that there is no edge, since the numbers are so small, so the player will win half the time and lose half the time. You'd be crazy to give them a 20 percent discount because you don't get a discount when you lose! So there's their 40 percent discount. And when you add show-up money, match play, airfare, comps, they player has the edge. It's nuts!"