

# Loyalty Rewards — Benign Business Practice, or a Potentially Harmful Inducement? The Case of Electronic Gaming Machines

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**Abstract:** Loyalty programs act as a form of inducement and are common marketing practice in many industries. Casinos in Nevada and registered clubs (and some pubs) in New South Wales (NSW) offer loyalty reward programs to encourage customers to keep spending. The research question explored in this paper is: Do gaming operators in Nevada and NSW utilize player loyalty rewards as an inducement for increased gambling expenditure? Thirty-eight semi-structured interviews were conducted during May-July 2005 in Nevada and intermittently during 2005 and 2006 in NSW. Some additional interviews were conducted during 2013. Quotes from the seventeen respondents specifically referring to loyalty rewards are referred to in this paper. Results highlight the popularity of loyalty rewards, which in turn encourage repeat patronage. Whilst the link between loyalty reward programmes and problem gambling is inconclusive, it is important for gaming operators to use player tracking data to help ameliorate problem gambling, rather than using the data to exploit known problem gamblers.

**Key words:** electronic gaming machines (EGMs); marketing inducements, player loyalty schemes **JEL code:** M310

# **1. Introduction**

Gambling is big business in every country where it is legally sanctioned. Arguably, Australia has one of the highest gambling turnovers per population in the world. With an adult population (18 years and over) of only 17 million, total gambling turnover for Australia during 2009-2010 was \$160.5 billion. Electronic gaming machines (EGMs) account for by far the highest proportion of gambling turnover at more than \$133.5 billion (Queensland Treasure and Trade 2013). New South Wales (NSW), Australia's largest State (per head of population and level of disposable income), turned over almost \$58.5 billion during 2009-2010 — more than double that of the next highest State (Victoria). EGMS are legally available to consumers in NSW through The Star casino, registered clubs, and pubs (the colloquial term given to hotels). NSW has 1,693 pubs with 23,364 EGMS and 1,222 registered clubs with 70,725 EGMs (Treloar, 2013). NSW has only one casino, with 1,500 EGMs, making a total of 95,589 EGMs in NSW. Table 1 provides a snapshot of gambling statistics for Australia. The slight disparity between the figures provided in Table 1 and those listed above can be attributed to the slightly different time period.

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	Table 1 A	Australian Statistics at a Glance 2008-09				
	Turnover <sup>1</sup> \$million	Spendpercapita <sup>1</sup> \$	Totalspend <sup>1</sup> \$million	Taxxollected <sup>1</sup> \$million		
Wagering <sup>2</sup>	21,809.234	170.11	2,827.826	405.835		
Gaming machines <sup>3</sup>	114,118.843	629.75	10,468.352	3,076.746		
Lotteries <sup>4</sup>	4,741.375	120.07	1,995.991	1,292.887		
Casinos <sup>5</sup>	19,466.628	208.32	3,462.952	435.031		
Other <sup>6</sup>	1,047.473	17.09	284.043	1.964		
Total	161,183.554	1,145.34	19,039.165	5,212.463		

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Note: <sup>1</sup>Office of Economic and Statistical Research (2011) *Australian Gambling Statistics 2008-09* (27th ed.). Refer to Appendix for explanatory notes. All figures relate to the 2008-09 period. Please note that due to rounding totals may not equal the sum of individual values.

<sup>2</sup> Includes racing and sports betting.

<sup>3</sup> Does not include gaming machines in casinos. Figures provided for tax collected (real government revenues) on gaming machines include government revenues collected for Kenoin NSW, VicandQld.

<sup>4</sup> Includes lottery, lotto, Tattslotto and instant lottery and pools. Figures provide for tax collected on lottery products include government revenues collected for KenoinSA and the ACT.

<sup>5</sup> Includes wagers on table games, gaming machines and keno systems. Caution should be taken in interpreting casino turnover as this represents "handle" (rather than true turnover).

<sup>6</sup> Includes minor gaming, interactive gaming and keno for turnover and expenditure statistics only. In the taxation category government revenues derived from keno are distributed between lotteries and gaming machines.

Source: Australasian Gaming Council: A Database on Australia's Gambling Industry 2011/12 http://www.austgamingcouncil.org.au/

Gambling in the U.S.A. is also big business in those States where it is legally sanctioned. Visitations to casinos in the U.S.A by U.S. citizens increased from approximately 53 million to 73 million over 2000-2005 (McGowan & Brown, 2009). The U.S. population in 2010 was 308,745,538, of which 23.7% was under the age of 18 (United States Census Bureau, 2013), making of total of 301,428,269 adults. It should be noted however that whereas the legal age for gambling in Australia is 18, in many States in the U.S.A. it is 21.

# 2. Problem Gambling

Increased gambling participation has led to heightened concerns by many in society for the potential problems associated with "excessive" EGM play. The "Pathways Model" developed by Blaszczynski and Nower (2002) identifies three types of problem gambling profiles — (a) behaviourally conditioned problem gamblers, (b) emotionally vulnerable problem gamblers and (c) antisocial, impulsivist problem gamblers. According to the Pathways Model categorization, "the first group [a] lacks psychiatric pathology but fails prey to a highly addictive schedule of behavioural reinforcements. The second group [b] is biologically and emotionally vulnerable, characterized by high levels of depression and/or anxiety, while the third group [c], also possessing these vulnerabilities, is decidedly impulsive, antisocial and typically dually addicted" (Blaszczynski & Nower, 2002, p. 491). Table 2 provides a brief summary of the main features of the Pathways Model identifying pathways leading to problem and pathological gambling.

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Table 2 Groups/Pathways and Pathway Influencers			
Pathway Group/Factors	Pathway 1 (Group a-behaviourally conditioned problem gamblers)	Pathway 2 (Group b-emotionally vulnerable problem gamblers)	Pathway 3 (Group c-antisocial, impulsivist problem gamblers)
Ecological Factors	Yes	Yes	Yes
Classical and Operant Conditioning	Yes	Yes	Yes
Habituation	Yes	Yes	Yes
Chasing	Yes	Yes	Yes
Emotional Vulnerability	Yes	Yes	Yes
Biological Vulnerability	No	Yes	Yes
Impulsive Traits	No	No	Yes
Recommended Treatment	Counselling and minimal intervention programmes	May require medication to balance their neurochemistry	May require medication to balance their neurochemistry

#### Table 2 Groups/Pathways and Pathway Influencers

Source: Adapted from Blaszczynski and Nower (2002)

# **3.** Customer Inducements

Tangible cues become an important part of the overall service experience. Customers evaluate such factors as the physical layout of the premises, quality and comfort of seating and other furniture, lighting and music, dress standard of employees, quality of the food and beverages and promotional materials (Lovelock et al., 2004).

Author observations in an in-situ field study in 2005 were captured through the use of NVivo memos. An excerpt describes the researcher's impression of one of the luxury casinos on the Las Vegas Strip:

Wynn had just been opened a few weeks prior to this interview. Its decor is sumptuous — top label retail shops, a number of 5 star restaurants, fine art throughout the casino, impressive gardens and a small lake, and extravagant yet tasteful decor. The gaming and other staff wore "tasteful" uniforms, with none of the short dresses, low necklines and high heels associated with many of the other casinos. Wynn also has a helipad and separate entrances for its exclusive bedroom suites in order to offer discretion and anonymity for those guests so requiring it. It is the latest casino developed by Steve Wynn. His other casino, Bellagio, is also opulent.

This memo extract illustrates the link to "Inducements". Patrons may be enticed to stay and gamble longer in premises that: (1) have alluring staff, (2) offer complimentary beverages and/or subsidized accommodation packages and/or (3) have luxurious surroundings. This may be in addition to product design inducements (mesmerizing sounds and lights) and/or EGM floor design layout. (It is quite difficult to find one's way out of the slot machine area of many casinos in Nevada — author observation).

With the increasing popularity of online gambling, many land-based businesses offering EGM services are increasingly seeking to increase patronage and arrest declining gaming revenue (since the beginning of this century, the majority of revenue for Las Vegas casinos has shifted from gaming, to "rooms, food, drinks, and other non-gaming activities" (McGowan & Brown, 2009, p. 366)). For example, McGowan and Brown (2009) refer to the use of "comps" (complimentary services) offered by U.S. casinos, such as the provision of free drinks and, with increasing expenditure by patrons, free meals. Very valued customers are offered free show tickets and free rooms. Sydney's only casino, The Star, has a loyalty scheme which is available to all customers — "Absolute Rewards". Whilst there is no joining fee, rewards are contingent upon the accumulation of points, which in turn are related to the amount of money spent in the casino. With 300 points, customers are eligible for free parking. Increased loyalty points will provide entry to the Sovereign Room (members' room) and provide discounts for

rooms and restaurants. Points can also be redeemed at table games and EGMs (The Star, personal communication 2013). Although many registered NSW clubs and some pubs offer loyalty rewards, legislation does not allow them to offer gaming promotion prizes in monetary form or through credits for EGMs (Youseff, 2013). The Star also provides a bus service to and from the casino. This has been criticized by some as encouraging increased EGM participation, for example:

Star City has its own bus company — 20-30 mini buses. They run regular routes to Asian neighbourhoods — Epping, Chatswood and Eastwood — the bread and butter players. This is a 24 hour bus service (NSW 5 and NSW 15, Consultants)

Accordingly, the research question for this paper is: Do gaming operators in Nevada and NSW utilize player loyalty rewards as an inducement for increased gambling expenditure?

## 4. Inducements and Structural Features of EGMs

A prolific researcher on marketing inducements and structural features of EGMs appears to be Griffiths (for example, 1993 and 1999), who suggests that biological and psychological EGM player characteristics may combine with the structural features of the machine itself (Griffiths, 1993) — thus relating to the classical and operant conditioning effects in the Pathways Model. However, Griffiths (1993) argues that it is the structural characteristics that act as an inducement for excessive play, independent of biological and psychological factors. Structural inducements identified by Griffiths (1993) include:

• **Pay-out Interval and Event Frequency.** (both these inducements are very high in EGMs, thus encouraging continuous play). According to Griffiths (1999), "the faster the event frequency, the more likely it is that the activity will cause gambling problems" (p. 269).

• **Multiplier Potential.** This occurs in "progressive slots", or as they are known as in NSW, "linked progressives". These are popular in NSW and Nevada. "Linked slot machines all share the same progressive meter. As a coin is inserted into a single machine, the progressive meter on all the machines increases" (Kilby et al., 2005, p. 116).

• Bettor Involvement and Skill. This relates to the illusion of control (part of classical and operant conditioning in the Pathways Model) — exacerbated by structural characteristics such as "nudge", "hold" and "gamble' buttons. Griffiths (1993) refers to this as "idiot skill" (p. 110). EGMs also feature a "double-up" button — "double up and other 'win' events give you the option to gamble your winnings. The machine manufacturers understand that many gamblers are willing to take this risk, however, unless you're prepared to lose your winnings, don't choose to double up" (http://www.gambleaware.vic.gov.au/know-odds/how-gambling-works).

• Win Probability. Griffiths (1993) does not see this as being a primary inducement. Rather, research suggests other reasons for playing such as "fun, boredom, social influences, atmosphere, escapism, and excitement" (p. 111).

• Amount of Money Lost in any given time period (Griffiths, 1999, p. 270). This has implications for "chasing" behaviour (identified in the Pathways Model, pathway 1).

• Suspension of Judgement. Cashless symbols such as tokens, chips and cards (e.g., TITO), lead players to believe that they are not really playing with their own money, which leads to possible increased expenditure. Low coin denominations can also give the feeling that they are not really spending "that much" — i.e., "there is little to lose on each gamble" (Griffiths, 1993, p. 115). Griffiths recommends players closely monitor their actual spending per session — "the total amount of money spent and lost during gambling" (1993, p. 115), rather than per game.

• The Psychology of the "Near Miss" and "Symbol Ratio Proportions". "Near miss" is now banned in NSW. All symbols are randomly determined by a computer in Nevada and NSW. In a later study, Parke and Griffiths (2006) explain that "symbol ratio proportions' now have virtually no impact on the maintenance of fruit machine gambling" (p. 163).

• Light, Colour and Sound effects. These are related to perceptions of fun, excitement and the promise of big winnings associated with casinos and with the EGMs themselves (Griffiths, 1993, p. 111). "Music, lights and noise" are also possible inducements (Griffiths, 1993, p. 112).

• **The Psychology of Naming**. The first slot — the "Liberty Bell" conjures up feelings of patriotism. "Magic Millions", "Piggy Bank", "Fortune Trail" indicate winning lots of money from the EGM. Names such as "Wheel of Fortune", "I Dream of Jeannie", "The Flintstones", etc., offer a sense of familiarity and may encourage increased play (see for example Zangench et al., 2008).

Other promotional factors such as "the external features of the machines (i.e., how they look and sound), the perceived entertainment value, payback percentage, and the dollar amount of the jackpots and smaller payouts" can also act as inducements (Zangench et al., 2008, p. 138). Griffiths (1993) identifies historical marketing inducements utilized by the UK fruit machine industry, including practices designed to get around regulations by claiming machines were not gambling devices. The industry exploited the regulatory loophole by incorporating features such as the use of a "skill" button (thereby implying the machines were not "games of chance") and through the delaying of jackpot payouts. Whilst the jackpot figure was displayed on the screen, the player was not able to receive this until after the next play. The industry argued that if players know beforehand how much they are going to win and when they are going to win it, it is not gambling. In the Australian market, Hing et al. (1998) identify inducements used by NSW clubs, such as "ongoing machine replacement programmes, increased player returns, frequent machine promotions and improved areas. Many [clubs] subsidize food, beverage and entertainment prices to increase patronage and machine play" (p. 266).

## 5. Method

Thirty-eight semi-structured interviews were conducted during May-July 2005 in Nevada and intermittently during 2005 and 2006 in NSW. Some additional interviews were conducted during 2013. 17 respondents from the original total of 38 are referred to in this paper. Table 3 lists details of the respondents according to their location (NSW or Nevada) and their role within the industry.

Respondent	A: Location	B: Industry role	
1	Nevada	Casinos	
2	NSW	Pubs	
3	Nevada	Suppliers	
4	NSW	Suppliers	
5	NSW	Consultants	
6	NSW	Clubs	
7	NSW	Regulators	
8	Nevada	Casinos	
9	Nevada	Casinos	

Table 3	Node	Classifications
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(Table 3 to be continued)

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(Table 3 continued)		
10	Nevada	Casinos
11	Nevada	Casinos
12	NSW	Regulators
13	Nevada	Casinos
14	Nevada	Suppliers
15	NSW	Consultants
16	NSW	Pubs
17	NSW	Pubs

NB: Suppliers = EGM Manufacturers

Respondents are referred to according to their number, location and type (role) of industry (as identified in Table 3) throughout this paper.

Data gathering began early in the research process. Whilst an early literature search revealed an abundance of extant academic literature focused on EGMs from diverse academic disciplines (such as psychology, economics and hospitality) with particular focus on problem gambling, none was identified that was (a) marketing focused and (b) from the management (as opposed to the consumer) perspective. This, together with the author's knowledge of the EGM industry in NSW, resulted in nine topic areas being chosen to guide the face-to-face interviews in NSW and in Nevada (Table 4). Although the intent was to gain insights into how socially responsible the respondents considered the EGM industry to be, none of these topic areas explicitly addressed corporate social responsibility (CSR). Rather, it was felt that, by asking direct questions of the respondents such as "how socially responsible do you consider your organization to be?" social desirability bias (Furnham, 1986) would result. The nine topic areas were designed to encourage open-ended responses and included economic, legal, social and marketing factors.

Topic Number	Topic Area Used to Guide Interview
1	Reputation — do you have strategies to try and ensure an optimal reputation? If so, what are they?
2	Supply Chain — does your venue have a choice of all EGM manufacturers, or do you have an exclusive agreement with one or more manufacturers, or conversely, do you find that some manufacturers are not prepared to supply you with their machines (because of the venue's small size for example)
3	Do you purchase new or second-hand EGMs, or a combination of both? If second-hand machines are purchased, what is the reason for this? (e.g., customer preference)
4	Financial considerations — are you able to offer incentives (within the legislative constraints — if any?) to attract people into the venue (such as the calibre of entertainment)?
5	Social considerations — what policies do you have in place to minimize the risk of problem gambling?
6	What percentage of revenue comes from EGMs vis a vis table games? [U.S. CASINOS ONLY]
7	Allocation of promotion budget — e.g., media, mail-outs, sales promotion, etc.
8	What change in revenue has there been since the blanket ban on the advertising of EGMs in 2001? [NSW ONLY]
9	Target Market?

Table 4 Interview Topic Areas

Data were categorized through various stages using the qualitative computer-assisted software programme NVivo. Hand written responses from the 38 interviews were entered into Word and saved as "documents". (Due to confidentiality reasons, respondents declined to be tape recorded). Themes/ideas gleaned from these documents were codified, with new themes/ideas coded under new nodes. Data that were easily codified into categories contained in the interview guide were put into Tree nodes — data that did not fit into these pre-determined categories were put into Free nodes until such time as a sufficient number of data within these Free nodes led to

identification of additional themes, in which case a new Tree node was created. Nodes were created as a result of categorizing existing and emergent themes. This iterative process assisted with analysis.

## 6. Results

Much of the literature points to the use of numerous inducements (or incentives) by the EGM industry to encourage increased levels of play. Against this background, interviewee responses will be examined.

## 6.1 Nevada

Several Nevada respondents referred to customer relations and inducements, in addition to regulatory requirements. Respondents talked about adhering to the regulations, with the industry being

Highly regulated and watched in terms of how we do business; there are high standards of compliance; we don't do business with people that aren't legitimate licensees (Nevada 14, Supplier; Nevada 3, Supplier)

However, in terms of their venue offering incentives to gamble, they stated that there are no regulatory constraints as to what they can give a player:

The Government in Nevada is much more concerned about validity procedures and processes, than they are about the amount of money spent by casinos for prizes and other incentives (Nevada 10, Casino).

The Nevada gaming authority is very open-minded. There is no pre-approval process. It's a hands-off approach — as long as it doesn't appear to be too extreme (Nevada 1, Casino).

## Most venues therefore offer a number of incentives for slots:

We pay extra cash; give free slot credits; provide frequent customer rewards with free slot play; give cash back; offer monthly rewards programs (Nevada 11, Casino).

We give cash back (a form of rebate) for their play, regardless if they win or lose (we typically give back about 33% of their play) (Nevada 9, Casino).

There are mail-outs for \$100 free credits, events for the 50-60 best players where they can win a car. We have offered promotional credits as high as \$5,000 (Nevada 8, Casino).

We offer cash, rooms, food incentives; player re-investment strategies — part is loyalty; part is quasi reward — past behaviour and incentives for future expenditure (Nevada 1, Casino).

If we can't comp a room [i.e., offer a complimentary room], we can offer special rates — discounts can be very deep (30% lower than publicly available rates depending on the gambler), or a free upgrade. We don't have any cash back program, but we have promotional chips (customers send a coupon and get  $4\times$ \$20 promotion chips which look very different to normal chips, but have the same value for customers) (Nevada 13, Casino).

We offer player events to drive people to the property that will either entice an incremental trip (i.e., visit), or a longer stay (such as a vacation). We try to do things no-one else will do, so we can have a unique offer (Nevada 9, Casino).

#### One EGM manufacturer stated that

1 cent slots are an enticement for players. They provide a longer play time (Nevada 14, Supplier).

Clearly, loyalty programs act as a form of inducement and are common marketing practice. As with NSW Clubs, casinos in Nevada offer loyalty reward programs to encourage the customer to keep coming back and spending. In addition to offering rewards to their customers,

Loyalty programs allow tracking of the kind of services that our customer finds preferable (Nevada 10, Casino).

Researching customer databases and offering inducements was also referred to:

We conduct a lot of in-depth analysis to see which slots are most profitable and which ones are the most appealing to customers, across all jurisdictions (Nevada 1, Casino).

Many of the super casinos in Nevada employ attractive females in eye-catching costumes (low neck-lines, short skirts, stilettos) who walk around the gaming tables and gaming machine areas offering free drinks to patrons. This is clearly designed to act as an inducement for the patron to either gamble, or, if already doing so, to spend a longer time in the venue.

## 6.2 NSW

Far greater regulatory restrictions exist in NSW in terms of openly offering incentives such as cash-backs, etc.

There are restraints on gaming machines inducements. A venue cannot:

- Offer or supply any free or discounted liquor as an inducement to play, or to play frequently, approved gaming machines in the hotel or clubs
- Offer free credits to players, or as an inducement to persons to become players, of approved gaming machines in the hotel or club by means of letter box flyers, shopper dockets or any other similar means
- Offer or provide, as an inducement to play approved gaming machines in the hotel or club, any prize or free give-away that is indecent or offensive (NSW 7, Regulator)
- Venues can however attract patronage of the venues by lawful means such as trade promotion lotteries or minimal cost games of chance, offers of discounted beverages or food, and the provision of free entertainment (NSW 7, Regulator)

A number of NSW pubs respondents mentioned they used to give away prizes such as cars until it was banned under the NSW Gaming Machines Act 2001. Since then, the majority of NSW respondents referred to offering a high "return to player" (RTP) rate, an attractive "service-scape" and extra facilities as typical inducements:

We provide good RTP, good food, entertainment and physical environment (such as a waterfall and fish pond in the foyer, etc. — particularly appealing to our Chinese clientele) (NSW 16, Pubs).

State-linked EGMs can go much higher than stand-alone machines. People playing EGMs can win up to \$10,000. EGMs are tied up with small players waiting for the jackpot to go off, putting in 5 cents at a time (NSW 16, Pubs).

It's good for business when customers win — Word of Mouth — we can't advertise any other way (NSW 16, Pubs).

We offer little incentives like snacks and food to gamers, and then through the public bar. It's important to keep people happy. Greet them by name. Offer them something other places don't (NSW 16, Pubs).

In terms of giving away money (linked jackpots), that's the only legal way of doing it. If we offer free coffee, etc., it has to be offered to all patrons, not just EGM players — that's the law (NSW 2, Pubs).

The quality of our venues has increased over the past few years—there has been a large amount of expenditure to increase the standard of our hotels (NSW 2, Pubs).

When we have other things happening in our hotels (such as entertainment), there is an increase in floor traffic. Consequently people are exposed to more areas of the venue. Therefore there is a better chance of people staying, having a meal, playing EGMs (NSW 2, Pubs).

Our club has good décor, safety and security, and the best and latest machines (NSW 6, Clubs).

Loyalty programs are not as frequent in pubs as they are in clubs:

Hotels can have loyalty schemes, but it has to be available to all patrons (legislation). We haven't used loyalty programs since 2001 (NSW 2, Pubs).

Author note: the 2001 NSW Gaming Machine Act came into effect in 2001.

Loyalty programs are more popular in clubs than pubs. Clubs have an existing database — pubs don't (NSW 4, Consultant).

The club does not have, and has never had, any player loyalty programmes relating to EGMs (NSW 6, Clubs).

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Loyalty programmes are allowed, but there are restrictions (as incorporated in the legislation). Loyalty programmes are becoming more sophisticated and expanding outside the venue (NSW 12, Regulator).

Given the strong concern about inducements possibly causing problem gambling through classical and operant conditioning, habituation and chasing, entrapment theory (Ariyabuddhiphongs & Phengphol, 2008) is also relevant. Entrapment can relate to a deliberate strategy on behalf of the organization to entice customers and then "entrap" them, whether through the promise of greater rewards commensurate with time spent in the activity, or through structural factors such as the layout ("services cape") of the facility and/or of the machine itself. It can also relate to "sunk costs", whereby customers can become entrapped in the gambling activity when they spend more time and money in order to try and recuperate some, all, or exceed, monies already "invested" in the activity (i.e., chasing). Garland (1990) refers to the effect of sunk costs in terms of increasing commitment to the activity as "throwing good money after bad" (p. 728) (also referred to in the economics literature as "exit barriers"). The "responsibility effect" is examined by Schulz-Hardt et al. (2009) in relation to "escalating commitment and entrapment", whereby people spend more time and money on an activity even if they know it will result in negative outcomes (p. 175). A study by Ariyabuddhiphongs and Phengphol (2008) examined the relationship between gambler's fallacy (the belief that numbers do not appear randomly, i.e., that a "good streak" must follow a "bad streak"), entrapment (escalating commitment, or "throwing good money after bad") and near miss (when gamblers numbers are very close to the winning numbers) among Thai lottery players. Results found the strongest support for near miss, with gambler's fallacy and entrapment acting in concert with near miss "to strongly influence lottery gambling" (p. 303). Accordingly, the following quotes will highlight issues of inducement, sunk costs and entrapment.

To ensure the physical layout of EGMs and names of venues does not encourage greater gambling, a NSW Regulator stated:

There is a legislated floor space ratio for gaming machines, to address the issue of gaming dens. This must satisfy the venue's "primary purpose". A "primary purpose" must not be to offer gaming (e.g., with pubs and clubs a primary purpose might be to offer a place where people can have a drink, have something to eat, listen to live music, etc.). Our Department carries out inspections of all pubs and clubs in NSW, but with such a high number of venues, we also rely on information from the public if a venue's "primary purpose" is seen to be a gaming den. Even the name of the venue cannot reflect gaming. For example, a pub or club located in the western suburbs of Sydney called "the Vegas of the West" would be banned (NSW 12, Regulator).

Part of the change of law was to do with "Primary Purpose", for example it is now not legal for a hotel to focus solely on gaming machines, such as Charlie Chans (NSW 5, Consultant).

It should be noted that, in spite of the above stated restrictions relating to names, one can observe a plethora of pubs in Sydney (NSW) with lighted signs stating "VIP Lounge", which has become virtually synonymous with "EGM/Pokie lounge".

## 7. Discussion

On the supply side, inducements for continuous (or increased levels of) EGM play (i.e., customer productivity) are essential for maintaining or increasing company profits (Cummings, 2012). Encouraging "expedited (continuous) play" provides a "casino advantage or a house edge" (Cummings, 2012, p. 65). Structural characteristics of EGMs act as inducements and include "hardware and software (e.g., auditory and visual effects, as well as games with bonus rewards)" (Cummings, 2012, p. 66). In addition, "advanced player-tracking and

player-rating systems" allow EGM operators to identify their "best" customers and reward them accordingly, thereby increasing inducements to gamble (Cummings, 2012, p. 66). Of particular concern to consumers at risk is, in an effort to increase "productivity" by eliminating time-wasting activities, Australian EGM operators have adopted coinless machines (such as TITO — ticket-in, ticket-out technology), reporting "tremendous play levels when relying on electronic player club cards that serve as in-house cards" (Cummings, 2012, p. 75). Cummings (2012) includes a quote from the Australian software developer, Olympic Video Gaming Company national sales manager, in 1997:

Technology breakthroughs such as where credits go straight back into the gaming machines where the player collects them for the new game have helped the industry move forward. We can reward the player at the time of their excitement — not afterwards. If players collect their winnings as credits, they'll play the games more (p. 75).

Some respondents however questioned the ethics behind player tracking technology:

Gaming marketing, such as player tracking — slot machine players — is it obsessive, or greedy? (NSW 15 and NSW 17, Consultants).

In addition to encouraging continuous play, the increasing levels of excitement feed into the Pathways Model through both classical and operant conditioning, potentially leading to problem and pathological gambling (Blaszczynski & Nower, 2002). This is clearly at odds with socially responsible practices.

Although many of the Las Vegas casinos target high-rollers with "a variety of comps to ensure they will remain loyal to that casino" (average gamblers receive only free drinks), Harrah's Total Rewards loyalty programme provides comps to all gamblers, not only the high rollers (McGowan & Brown, 2009, p. 365). Like Sydney's The Star casino, the more money spend by the gambler, the higher the number of loyalty points accrued, in turn leading to greater complimentary services. As with other industries utilizing loyalty reward systems, the gaming industry seeks to increase relationships with their consumers (gamblers) in order to foster brand loyalty, leading to customer retention (Palmer & Mahoney, 2005). However, the study by Palmer and Mahoney (2005) found negligible correlation "between perceived quality of the players' club programmes and behavioural loyalty" (p. 285). Therefore, it would appear that the answer to the research question "Do casinos, registered clubs and pubs utilize player loyalty rewards as an inducement for increased gambling expenditure?" is yes, undoubtedly, but so do a host of other industries that use customer loyalty reward programmes to encourage increased expenditure and long-term retention with the company. Is there any evidence of player reward schemes in the gambling industry leading to increased levels of problem gambling? Results are mixed. Several studies express concern that reinforcement schedules (such as player rewards) increase the likelihood of problem gambling (Sarich & Charker, 2008; Williams, West & Simpson, 2012). Other studies however see loyalty rewards as a viable part of marketing strategy options available to casino operators (Koo, Lee & Ahn, 2012). Whilst loyalty reward programmes may be exploitative, authors such as Schellinck and Schrans (2011) consider that player tracking data (such as through customer loyalty programmes) can be used in a positive sense "to identify and subsequently help at-risk and/or problem gamblers" (p. 51). As Griffiths and Parke (2013) warn however, whilst loyalty schemes rewards may increase customer satisfaction, "more unscrupulous operators will be able to entice known problem gamblers back onto their premises with tailored freebies" (p. 315). On balance it is pertinent to consider that, given the percentage of problem gamblers using reward or loyalty cards in NSW Clubs is approximately 14% which is consistent with the percentage of problem gamblers across the Australian general population of regular gamblers (15%), "it is not possible to conclude that use of cards contributes to or ameliorates the incidence of problem gambling" (Nisbet, 2005, p. 57). The literature suggests that it is the structural features of EGMs that have been clearly linked to problem gambling (see for example Griffiths, 1993 and 1999), rather than player loyalty schemes.

#### 8. Conclusions and Implications

Loyalty programmes are widely adopted in Nevada casinos to encourage increased gambling participation. Whilst strict regulatory constraints exist in NSW resulting in pub operators generally not using them, many NSW registered clubs operators, particularly the larger ones, do tend to utilize player loyalty programs. In addition to loyalty reward schemes, another approach by gaming operators concerns the layout of the gaming floor, which can act as a form of inducement, or entrapment. Gaming marketing managers therefore need to ensure that players are not entrapped in any way. Large casinos have vast numbers of strategically placed EGMs, which can make it difficult for customers to find their way out. In terms of being socially responsible, while it is perfectly acceptable for marketing managers to offer a pleasant environment on their gaming floor, it is important not to encourage an impulsive or compulsive response or to be seen in any way to be entrapping the player, either through the "services cape", or through the use of loyalty reward inducements.

To conclude, Hancock, Schellinck and Schrans (2008) emphasize the importance of "product safety, host responsibility and player protections, as part of industry or provider ... CSR [corporate social responsibility]" (p. 66). Therefore, it is recommended that EGM manufacturers and operators be proactive by ensuring EGMs are "safe" (by not deliberatively enticing or seducing players to spend more money and time than intended) and taking responsibility by providing player protection systems such as player card tracking expenditure (already mandated in NSW clubs), length of time spent playing, etc. This information will allow EGM players to monitor their time and expenditure and help operators to identify at risk and problem gamblers. However, potentially unethical marketing strategies, such as tracking player expenditure and targeting players with incentives to gamble more, should be addressed and, where found to be exploitative, eliminated (Hing & Mackellar, 2004). This reinforces the importance of operators operating in the spirit of the law (the moral aspect), rather than just the letter of the law (the legal aspect).

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