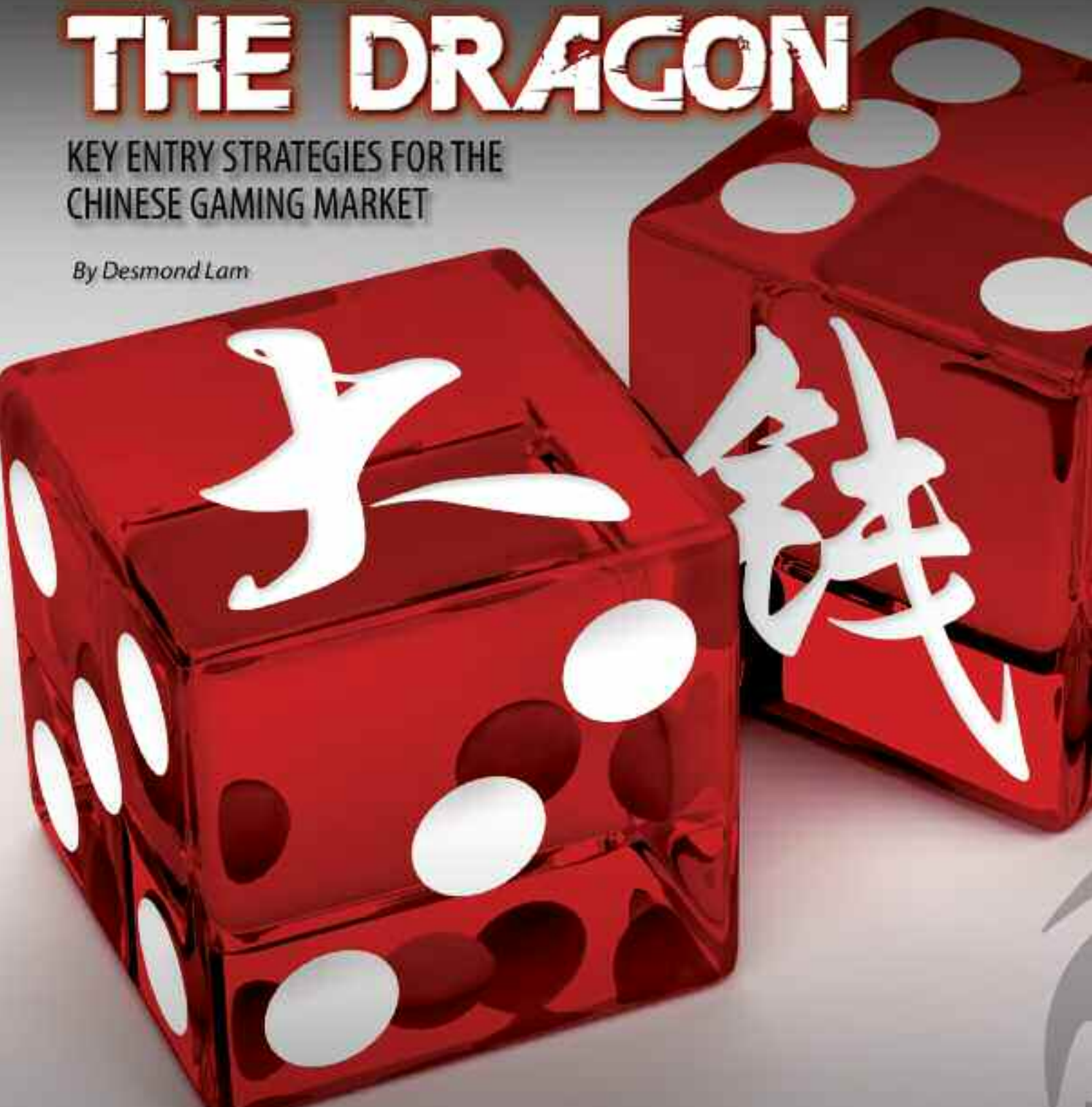


FEATURE

ENTER THE DRAGON

KEY ENTRY STRATEGIES FOR THE
CHINESE GAMING MARKET

By Desmond Lam





Recession? What recession? Macau's first quarter gross casino gaming revenue for 2009 has everyone wondering if the global recession has come and gone. At \$3.25 billion (U.S.), gross revenue for Q1 2009 is 8 percent higher than the fourth quarter of 2008. It is also higher than every quarterly revenue figure in 2007. After four quarters of consecutive drop in casino gaming revenue, Q1 2009 has given some industry executives hope that the worst is over. Combined with the upcoming opening of City of Dreams and promises of support from provincial governments, there is cautious optimism in the industry. With gross casino gaming revenue of more than \$13 billion in 2008, Macau is already the biggest gaming city in the world, and there are more great things to come. We are all waiting for the Cotai Strip to take off in Macau, fulfilling its potential to become a Las Vegas-style entertainment city. And with the recent liberalization of casino gaming in Taiwan's outlying islands, which are about 500 miles from Macau, East Asia is the market to watch for many global gaming businesses.

When looking to capitalize on the growth of the Chinese casino gaming market, particularly Macau and Taiwan, companies need to consider several key strategic issues. The experiences of the Western casino operators and other gaming-related businesses that jumped onto Macau's speeding bandwagon back in 2002-03 can teach some valuable lessons to the companies that are just now exploring the market. These lessons include the value of a thorough understanding of the Chinese culture, including individual gamblers, local communities, the government and society as a whole. They also include the value of constantly examining your business' capabilities and limitations. From a marketing strategy perspective, management can undertake an analysis with a simple GAPS framework. GAPS (Gamblers, Arena, Partners and Self) calls for an understanding of gamblers' values, culture, beliefs, motivations and behavior; the marketplace, including macro-environments like demographics, infrastructure and the economy as well as the competition; partners, including channel members, the government, non-government organizations, and associations that one can potentially form an alliance with; and the company's capabilities, limitations, culture and strategic direction.

Collaborate with Stakeholders

How to effectively collaborate with stakeholders is perhaps the most important lesson to be learned when entering the Chinese market. Collaboration can strengthen one's business proposition and is an almost essential component of doing business in Asia. Successful casinos in Macau have learned the benefits of collaborating at many different levels and with many different organizations, including the Macau government, the Gaming Control Bureau and the local community. Collaborating with these organizations is a quick way to learn what they like and do not like, what they want to achieve and the way they hope to achieve it. The Venetian Macao, for example, has partnered with the University of Macau to establish the Adelson Advanced Education Centre and works closely with its professors, a mutually beneficial relationship in that the school enjoys higher enrollment and the casino enjoys a deep pool of qualified prospective employees. Another example can be found in the fiercely competitive, commission-driven junket market in Macau's VIP gaming sector. Early last year, facing dwindling profits across all casino operators, operators collaborated to standardize a junket commission rate. Remember, the pie is big and expanding and there is enough for everyone in this arena. Co-opetition is the key to a sustainable Chinese gaming industry.

Adapt to Survive

Since 2003, casinos in Macau have been forced to learn the hard way—by trial and error. The adaptation process takes time but is crucial to business success. Like collaboration, adaptation comes in many forms and at many levels. From slots to table games, manufacturers have learned to tailor their products to fit the cultural and behavioral characteristics of their Chinese gamblers. For example, the original slot machines that appeared in the Sands Macao had English instructions. That feature has since been changed to suit the local market. Casinos in Macau have adapted not only to their gamblers but also to the demands of the Macau government and the local community. And while we now have past examples like these to learn from, the ability to adapt fast to a changing environment remains important. Macau is changing and so are the gamblers who play there. Increasingly, Macau is attracting leisure (rather than hardcore) and non-Chinese gamblers. There is still much to learn and explore with regard to gamblers' interests and how they react to different



types of games as well as to casino designs. In addition, the attitudes of the local community, labor forces and the government will continue to evolve. Gaming businesses need to accept that. Rapid adaptation is the key to survival.

Manage Manpower

An expanded casino gaming industry in East Asia means that more qualified gaming executives will be needed in the future. The problem with a fast-growing gaming market is that it is hard to find experienced and qualified front-line employees who know the games, speak the language, understand their customers and appreciate that good service is a top priority. The past has demonstrated that government policies and the availability of manpower go hand-in-hand in Macau. In an environment with a limited labor force, good quality, management-caliber staff is hard to find. And while employees can be trained quickly, their willingness to provide good service to perceived “rude, loud and ill-mannered” Chinese customers may not be so quick to come by. As more Chinese join the industry, Western gaming businesses operating in East Asia need to lead and motivate these newcomers—and this leadership has to take into account the unique cultural differences between Chinese employees and their Western counterparts, especially the Chinese’s collectivistic nature and emphasis on “saving face.”

Differentiate by Branding

Branding is a key component of any successful business, and Western casinos operating in East Asia are no exception. It is a myth that all Chinese people prefer Western brands over local brands and would flock to an American casino simply because it is American. Like any consumers, Chinese gamblers prefer good products over bad ones. It does not matter if the products are Chinese or American. Good branding, therefore, plays an important role in conveying the casino product’s quality. The Venetian Macao, for example, has used a substantial amount of resources to build its brand in Asia. This branding helps the Venetian gain a unique reputation among Chinese gamblers as “Asia’s Las Vegas,” which differentiates the casino from its competitors. Likewise, any gaming business that enters the Chinese market must allocate resources to build a strong brand. In an increasingly difficult and competitive marketplace, branding holds the key to sustainable profitability.

Corporate Social Responsibility

Corporate social responsibility addresses the responsibilities of gaming businesses to society. In a collectivistic Chinese society, individuals work for group achievement, not for themselves. A collectivistic culture favors group rewards, as opposed to individual rewards. Gaming businesses, therefore, would be wise to consider themselves as part of the society and contribute selflessly to enhance the welfare of members within that society. For example, about 4 percent of Macau’s local residents are potential pathological or problem gamblers. The liberalization of casino gaming has made local residents and the government more aware of, and concerned about, problem gambling and the harm it can bring to the society as a whole. Frequent media coverage of gambling-related crimes within Macau and in neighboring Chinese cities like Hong Kong and Guangzhou adds to the perception that an expanded gaming environment results in more harm than benefit. Therefore, the community expects every gaming company operating in the collectivistic marketplace to fulfill certain social obligations—namely, helping make China a better place to live. Gaming businesses must consider the impacts of their gaming operations on all stakeholders, including their gamblers, partners, employees, investors and community. Strategies must be in place to genuinely address issues like responsible gaming, workplace welfare for employees, and enhanced standards of living for local residents.



DESMOND LAM



Desmond Lam is a visiting Senior Research Fellow at the School of Marketing/Ehrenberg-Bass Institute for Marketing Science, University of South Australia. He was formerly an Assistant Professor of marketing at the University of Macau. He can be reached at desmondL@hotmail.com.