

MANAGING *GUANXI* IN THE CHINESE VIP MARKET

By Desmond Lam



The size of Macau's VIP gaming market has expanded at a phenomenal rate (an average of about 30 percent per year) since gaming was liberalized in 2002. Gross revenue in this market, which comes mainly from baccarat, was about \$7 billion in 2007, compared to \$2.8 billion in 2003 (all dollar figures U.S.). In Q2 2008, VIP gaming constituted almost 70 percent of Macau's total casino gaming revenue. In 2003, it was 77 percent. It was lowest in 2005, when it constituted slightly less than 63 percent. The strength of this market segment has proven resilient; but this is a highly competitive environment and often unprofitable as a result.

By comparison, Macau's slots market has quite a different dynamic. In Q2 2008, the slots market provided about 5 percent of total casino gaming revenue. There are about 13,000 slot machines in Macau, and average daily win per slot is less than \$150. The average daily win per (VIP and mass market) table was close to \$8,800 during the same period. There are currently about 4,300 tables in Macau; about a fifth of them are VIP tables.

In recent years, risk-taking Chinese VIP players have flooded the market. Determined, and often superstitious, these highly sought-after players patronize the couple hundred VIP rooms in Macau with the aim of winning the house. Reports show that these visitors are generally not interested in anything Macau has to offer other than gaming. These are the hardcore gamblers. The influx of large number of Chinese VIP players who have chosen Macau over elsewhere can be credited to the thousands of junket representatives who work to fill VIP rooms with players. Macau's VIP gaming market operates on three levels: the casino concessionaire; VIP room operators (who are also called VIP room promoters, contractors or lessees); and junket representatives (who are called junket operators or *da ma zai*). The traditional 40/40/20 model for revenue splitting (40 percent to the government, 40 percent to the VIP room operator, and 20 percent to the concessionaire) is now threatened. Due to intense competition, concessionaires are getting much smaller slices of the revenue pie while intermediaries are successfully reaping a larger slice.

A typical junket representative is profit-oriented and leverages *guanxi* to entice Chinese mainland players to come to Macau. Creating, maintaining and leveraging *guanxi* is an essential part of the job of junket representatives and VIP room operators. *Guanxi* is often translated as "personal network," "connections" or even "special

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relationship." In typical context, however, *guanxi* goes beyond the development of connections. It is created by and maintained in many aspects of an individual's life by doing favors or making the right introductions or providing services above and beyond. In a business context, *guanxi* refers to the Chinese system of doing business on the basis of personal relationships. One can "have" *guanxi* with somebody or, as an important person, can be said to have a great deal of *guanxi*. It is increasingly recognized as a critical element of doing business in China. The unique development on Macau's VIP rooms is partly due to the strong emphasis of *guanxi* in Chinese society. *Guanxi* remains an important element in initiating and maintaining a vibrant VIP gaming market from licensees and channel intermediaries to Chinese VIP players.

The need to provide services to Chinese VIP players to get them to play—or roll over their play—means that a complete set of comps is usually prepared. Depending on the client, junket representatives are prepared to pay for everything from transportation, accommodation and meals to post-gaming entertainment. Good and genuine *guanxi* with Chinese VIP players helps keep them loyal in the long run and allows the representatives (and the VIP room operators) to survive in a highly competitive market. The evolution of Macau's VIP room contractual system into its current form reflects the mechanism of *guanxi*. In fact, this practice is pivotal to ensuring the VIP room's continued survival and is likely to remain so in the foreseeable future.

It is noteworthy from a cultural and historical perspective to know that years of Confucianism's influence in China provide the basic foundation for the development of *guanxi*. The teachings of Confucius comprised four key principles: the hierarchical relationship among people, the family as a basic unit, *Jen*, and an emphasis on education. All of these principles have direct or indirect influences on Chinese *guanxi*, but particular is the concept of hierarchical relationships. In a relationship-centered world, social relations hold great significance in a person's daily life. The Chinese have a strong tendency to divide people into categories and treat them differently. Outsiders (*wai ren*) will not be treated as kindly as insiders (*zi ji ren*). Thus, a person's relative position within his or her social circle determines the level of *guanxi* that he or she receives or will hold.

Sun Tzu's *The Art of War* has never been surpassed in comprehensiveness or depth of understanding of the Chinese world. One of Sun Tzu's philosophies focuses on the defensive concept of how insiders should treat outsiders. This concept of insiders versus outsiders is important within *guanxi*. *The Art of War* had such a profound impact that Chinese culture began looking at outsiders from a defensive posture. And to maintain a strong defense against such outsiders, Sun Tzu postulated that it is vital to keep good internal communications among insiders, a key variable in the concept of *guanxi*. Sun Tzu regarded disrupting an opponent's internal communications as an important strategy on the battlefield; thus is *guanxi* destruction a very viable competitive business strategy in modern China.

Expatriate casino executives (including Chinese executives in Hong Kong and Macau) have much to learn from their mainland Chinese counterparts in initiating and maintaining a sustainable *guanxi* network. Studies have shown that mainland Chinese managers use insiders to build and expand their *guanxi* networks in China. To maintain these relationships, they stress the mutually beneficial possibilities that can result from these relationships. Expatriate managers who go to mainland China to work also use business networking and benefits to build *guanxi*; but because they lack the insider network and start from a position of lower *guanxi* they must instead rely more on conventional business networking and promotion. Many expatriates believe that providing a great deal of favors will result in *guanxi*. The results are loose *guanxi* relationships

that are built on a weak foundation of expected reciprocity.

A good *guanxi* relationship should be built on trust and bonding developed over time. The important aspect of *guanxi* is to identify and separate an outsider from an insider. Insiders are those one trusts. Insiders need more respect. Outsiders are people who deserve less trust and information. In a way, *guanxi* provides the essential rules of protecting relationships and critical information. Hence, good *guanxi* is difficult to obtain and takes a long time to develop. Not every junket representative or operator has the skills to develop strong, insider-based *guanxi*. Similarly, not every operator or promoter has the skills to cultivate loyal individuals to represent them in a junket operation. But once it happens, it lasts for a long time. In many ways, good *guanxi* ensures stability and helps avoid chaos in the VIP gaming market. Thus, the ability to initiate and sustain *guanxi* networks on all levels within this market is critical for any success.

It is important for casino executives working in the Chinese market to remember the following:

- *Guanxi* is more than connections. It is not superficial. It is used as a mechanism through which to achieve long-term personal and business objectives.
- *Guanxi* is more profound than just a simple relationship. It involves faithfulness, trust, bonding and empathy. To be effective and stable, it requires some elements of emotional bonding on a personal level—bonding that will stand the test of time.
- *Guanxi* that is built with a weak foundation (e.g., through financial favors and benefits rather than bonding and trust) can fail. It may easily fall apart no matter how well-connected an executive is within the network.
- *Guanxi* is transferable from one insider to another. If Insider A has good *guanxi* with Insider B, and Insider B has good *guanxi* with Insider C, then Insider C will be more willing to let Insider A into his or her *guanxi* network.
- *Guanxi* is tied to reciprocity. Genuine favors to build bonding are remembered, appreciated and returned. Use favors to create genuine bonding and do not expect any favors in return. The Chinese like to interact with others who have genuine feelings and are interested in forming a long-term relationship—you *qing you yi*, or friends who have feelings and a sense of righteousness.
- Build *guanxi* by joining the insiders, and not just through "business networking." Start with small steps. Pick an insider to start with. He or she has the cultural knowledge and understands the mainland Chinese people, and can help you open the door to other deep-rooted *guanxi* networks in China.
- *Guanxi* takes time to build. Be patient. Lay a strong foundation for your VIP gaming business, which is supported by good, long-lasting and genuine *guanxi*.



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