

MANAGING ILLS IN MACAU'S VIP AND MASS GAMING MARKET

By Desmond Lam



There seems to be only one trend in Macau's gaming market—up! Macau's gross casino gaming revenue reached a whopping U.S. \$15 billion in 2009 and is set to achieve yet another year of extraordinary growth in 2010. (That is, provided no other drastic policies are put in place to deliberately slow growth down.) Macau's VIP baccarat revenue has remained strong at 67 percent of gross casino gaming revenue. There are now at least 22 game types in Macau's casinos, with more than 4,700 gaming tables and 14,300 slots, a ratio of 1:3. Let me remind everyone that the latter, closely associated to mass (leisure) gaming, still pales in comparison to the roughly 1:20 table-to-slot ratio in Las Vegas.

While these are all promising signs for Macau's gaming industry, I feel that imminent danger lies ahead. Are we going the wrong way? The failure to control the explosive (and erratic) growth of Macau's VIP gaming segment spells danger for everyone. And it may lead to more rounds of visa restrictions and other regulatory controls in the near future.

While casino operators rejoice and take pride in their ever-increasing gaming revenue, my worry is that we are simply prolonging the pain. The "unstoppable" growth of Macau's VIP gaming segment, despite the financial crisis, is a major obstacle hampering the development of a more diverse and sustainable economy. The negative image and issues associated with VIP gaming will inevitably continue to haunt, if not taint, Macau's international reputation.

When Macau liberalized its gaming industry in 2002, most people expected that the mass gaming market would expand rapidly and that Macau would become somewhat like Las Vegas. But for that to happen, mass gaming would have to overtake VIP gaming, and the openness of mass gaming differs significantly from the behind-closed-doors style of VIP gaming in Macau. With secrets locked behind closed doors and lenient regulatory supervision, there is potential for serious problems. Not only is problem gambling harder to monitor, but gambling-related crimes are also harder to keep tabs on. The heavy reliance on junkets to

promote and draw players into gaming rooms is another major issue. It eats into operators' margins and is often perceived to be associated to illegal triad activities.

Some industry observers now feel that there is a need to clean up (or even eliminate) Macau's VIP gaming segment via greater regulatory control, following Singapore's example. More specifically, a more cautious selection of VIP players and channel members (i.e., junkets) who bring in these whales is needed. Others believe the Macau government may need to deliberately "de-market" its VIP segment in order to force the casino concessionaires to redirect their efforts and resources toward achieving the vision (which the Chinese central government shares) of making Macau an international leisure and entertainment city that all Macanese and Chinese people can be proud of, with a diversified range of resources like history, culture, shopping, entertainment (including mass gaming), food and beverage, MICE, and sightseeing. In corporate Macau and socialistic China, businesses cannot simply care only about themselves and the profits that they can make. They have social responsibilities and must meet the needs and wants of their Chinese stakeholders. Casino operators in Macau are expected to give up more in order to ensure their own sustainability.

There is currently no official figure on the number of VIP versus mass-market players coming to Macau. But we are probably looking at a couple of thousands of VIP players generating 67 percent of gross gaming revenue (mainly from baccarat) and many times more mass-market players contributing the remaining 33 percent. While around 22 million visitors entered Macau in 2009, past surveys have revealed that approximately 55 percent of all visitors claimed they never gambled in Macau's casinos. That means that around 12 million gambling visits provided a bulk of that 33 percent of revenue. Another report suggests that more than 70 percent of Macau's VIP players are from mainland China.

While a large "non-transparent" VIP gaming segment has tarnished the image of Macau, the escalated development of a bigger mass gaming market can create many social problems. For example, the rate of increase in problem gambling prevalence among the local population since gaming was liberalized is a concern for some local politicians.

A 2003 survey revealed that around 4.3 percent of 15 to 64-year-olds in Macau are probable problem or pathological gamblers. Research has also found that croupiers experience greater problem gambling rates than the general population. Internationally, several studies found that a single problem gambler can potentially affect from three to 14 other people. Taking all of this into account, we can estimate that problem gambling can potentially affect at least 20 percent (and easily more) of Macau's population today. Adding to that, a more recent survey actually found an increase in probable problem and pathological gambling prevalence rate, from 4.3 percent in 2003 to 6.1 percent in 2007. This is a 40 percent increase during four years of rapid, unchecked development!

Still, local Macanese constitute only a small proportion of the gross casino gaming revenue. A 2002-2003 survey of local residents found more than 20 percent gambled in local casinos. The average money gambled per month per respondent was around U.S. \$87, or slightly more than U.S. \$1,000 per year. That

would put the estimated gaming expenditure of local residents around U.S. \$67 million in 2002-2003, only a comparatively small (although significant) percentage of Macau's annual gross casino gaming revenue.

What is more worrisome is the level of problem gambling among mainland Chinese visitors to Macau. There is currently no study to measure the impact of an expanded gaming market on gamblers from overseas. This is an element that is important to Macau's gaming industry, as it affects Macau's relationship with its neighbors, in particular, mainland China, Hong Kong and Taiwan. It also influences decisions on visa control and, hence, adds to the overall economic costs of Macau's gaming liberalization.

Anyone who suggests a more drastic change in government policies to advocate mass gaming, while reducing the share of VIP market (some believe there is no other way), needs to consider the social impact of such a change. The former appears to be more in line with

the government's vision of making Macau a leisure and entertainment city—a city that is suited for all types of visitors, not just hardcore gamblers. Inevitably, to support such an initiative, a strong industry-wide responsible gaming program must be put in place by the Macau government and all the casino operators.

There is one thing for sure: Moving forward, Macau needs a stricter regulatory control system to be in place for both gaming segments. The recent call for an industry-wide table number cap is just one of many controls that could be put in place. By itself, it seems unlikely to have any significant impact on gross gaming revenue (especially in VIP game play) in the short term. However, any future measures will certainly be geared toward encouraging less VIP game play and a bigger mass gaming market—and will lead to a greater regulatory control (in different ways) over both segments. It may also lead to the creation of a stronger gaming middle ground, i.e., low-end VIP or high-end mass gaming markets.

More importantly, any new measures must include a more careful selection of players brought into Macau and the installment of players' protection programs. During this process, Macau will most likely register a slower growth in gross casino gaming revenue due to a reduced VIP segment as a result of a tightened player and trade member selection process. This will, however, create a stronger and more sustainable gaming industry—one that matches the interests of all stakeholders, not just the casino operators or junket promoters and representatives.

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