

# Macau's great gamble

Across the Far East casinos are coming in from the cold as gaming becomes a truly global mainstream leisure activity. Singapore has lifted its decades-old ban, South Korea's casino industry is expanding rapidly and both Taiwan and Japan are considering legalisation.

Macau is the glittering jewel in Asia's gaming crown. The Chinese owned peninsula has now overtaken the Las Vegas Strip to become the world's largest gaming market with revenues of US\$7 billion, and is expected to be worth up to US\$13 billion by 2010.<sup>1</sup>

## Mass market thrust

Macau's meteoric growth has so far been driven by high-rolling VIP gamblers. However the thrust of future investment will be the construction of a 'mass market' for gaming, in which the casino experience will be a central attraction within integrated resorts at a major global tourist destination.

Operators aim to draw the majority of these new customers from the emerging middle class in Mainland China,<sup>2</sup> for whom Macau is the only Chinese territory where gambling is legal. An easing of travel restrictions has opened the door to Macau for millions of Mainland Chinese.

However, at the heart of this mass market strategy lies a great gamble. Operators are building the new facilities, but will the Chinese arrive in sufficient numbers and spend enough money to justify investment on such a scale?

What kind of experiences will attract mass market visitors and what will persuade them to stay longer? Will they respond in a similar way to Las Vegas customers, or are cultural differences fundamentally important?

## Fresh light

When it comes to the attitudes and intentions of mass market Chinese customers, Macau's casino operators have so far remained largely in the dark.

Deloitte is now able to throw fresh light on these questions with the results of its unique survey of potential casino visitors from Mainland China – as far as we are aware the only research carried out so far into the attitudes of the Chinese mass market.<sup>3</sup>

## Stratospheric growth

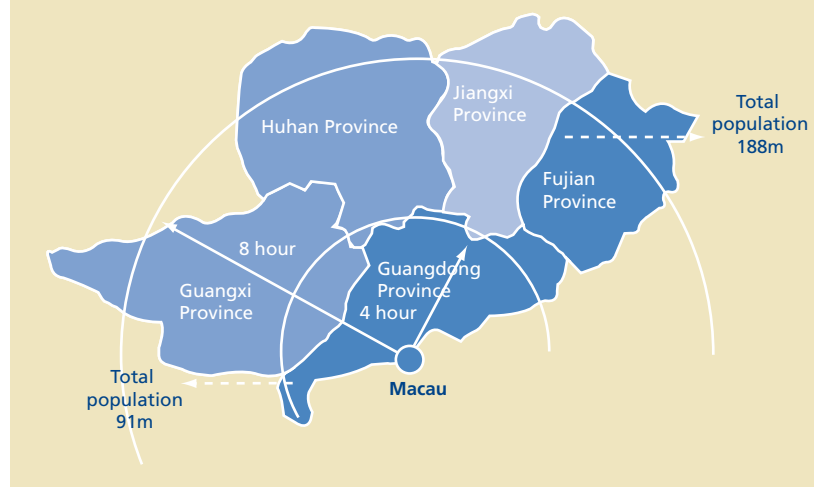
The potential growth in future demand is nothing short of stratospheric. Macau's key catchment area is southern China, incorporating some of the country's most

affluent provinces, with over 90 million people living within a four hour drive of the gaming tables.

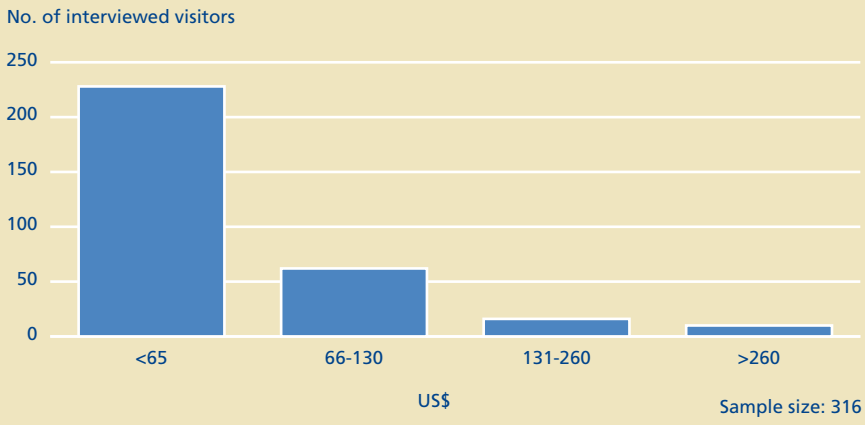
While many inhabitants of the southern mainland remain poor, the Chinese love of gambling, a rapidly growing middle class and improving road infrastructure should result in a steadily increasing target audience. (see Chart 1 below)

Deloitte's analysis indicates that the number of people who can afford a trip to Macau's casinos could grow around 55% by 2010. The Macau Government itself is forecasting 42 million visitors by the end of the decade, compared to 22 million in 2006.<sup>4</sup>

Chart 1 – Catchment areas within 4 to 8 hours drive



**Chart 2 – Average bet per hand of survey respondents**



How many of these visitors will pour into the new casinos? Does the Chinese mass market show sufficient interest in gaming to justify the lofty ambitions of Macau’s foreign investors?

**Untapped market**

Our survey reveals that two thirds of Chinese respondents have not previously gambled in a casino. However, over 40% of this huge untapped market is interested in doing so in the future.

Large-scale demand clearly exists in volume terms, but once through the casino door, how much are these mass market customers prepared to spend?

The data suggests that over three-quarters of Chinese mass market visitors are likely to spend under US\$65 (RMB 500) per hand on average, with only a small proportion betting over US\$260 (RMB 2,000) per hand. To put this into context many of Macau’s VIP gaming tables currently impose a minimum bet of US\$1,300 (RMB 10,000) per hand. (see Chart 2 above)

Our analysis of survey responses suggests a probable average casino win for mass market players of between US\$90-150 per person, versus an estimated Las Vegas (Clark County) average win of US\$275 across the whole market<sup>5</sup>. Although this seems relatively modest, the huge potential volume of players should ensure that the mass market becomes an extremely important source of revenue for Macau.

Chinese gamblers may spend less than their US counterparts, but the data suggests they are prepared to wager a higher percentage of their income and gamble more intensively.

**Absolute beginners**

So how can operators turn this vast pool of potential demand into a steady stream of actual visitors?

Despite the widespread enjoyment of gambling amongst the Mainland Chinese, lack of casino gaming knowledge appears to be a key impediment for many potential punters. About 40% of the respondents with previous gambling experience and about 90% without previous gambling experience, show an interest in learning how to play casino games. Interestingly, demand for Baccarat training, which is one of the easiest games, ranked first after Black-jack for both experienced and novice players.

Increasing the accessibility of games and provision of training are likely to attract novice gamblers. Operators may wish to consider the

inclusion of ‘beginners’ zones’, recently successful in attracting inexperienced customers in European markets.

**Slots for success**

The survey shows that inexperienced mass market customers show a particular interest in slot machines, which traditionally have had a low acceptance rate in Asian gaming markets.

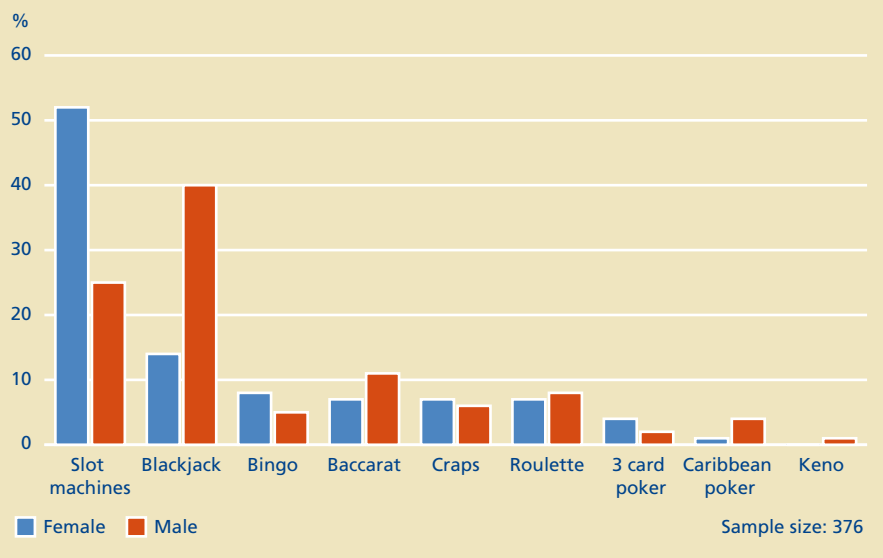
The new electronic terminals used by the fast-growing Chinese lottery are increasingly widespread in Mainland China, and are likely to encourage the attraction of slot machines in casinos.

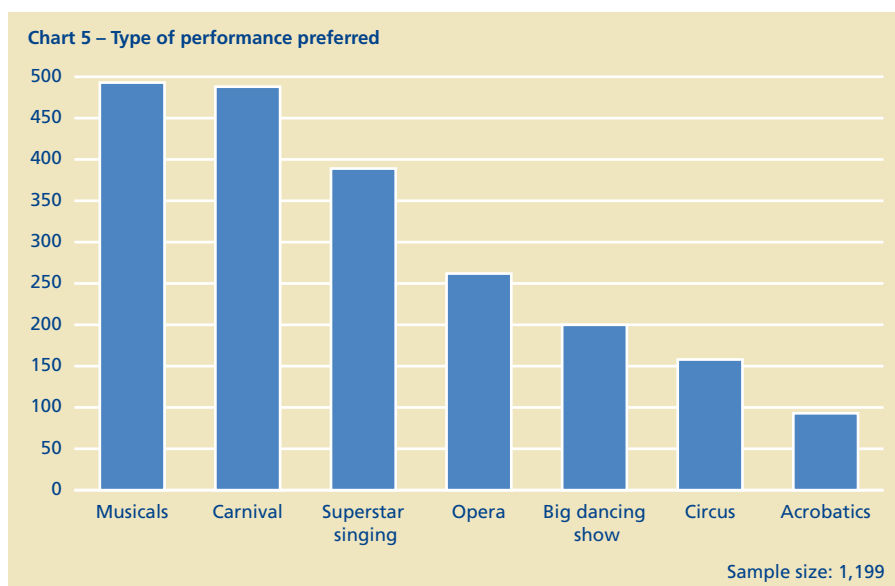
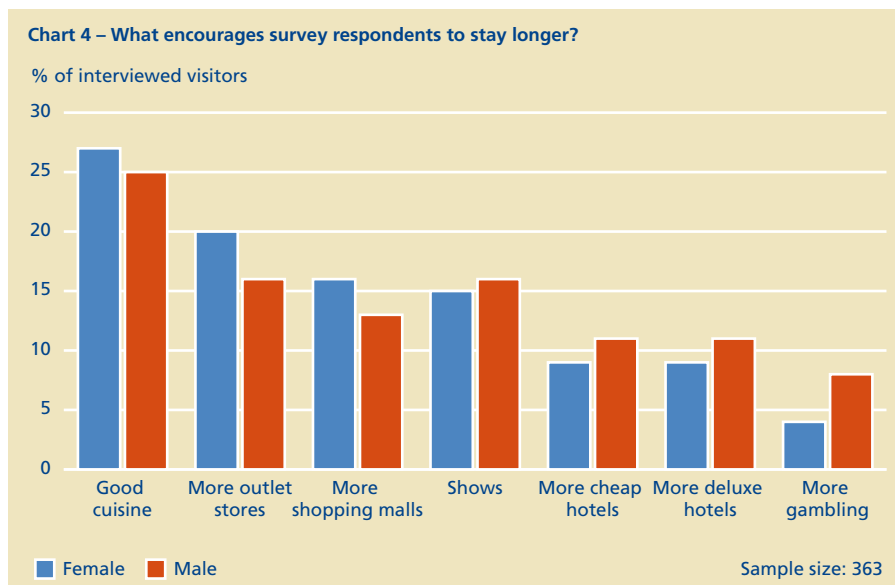
Greater provision of slots appears to be a key factor likely to win over inexperienced gamblers, particularly women. While Baccarat is currently the overwhelming favourite game in Macau, Blackjack is the clear favourite casino game amongst men in our survey. (see Chart 3 below)

The evident popularity of slots appears to justify current projections for the escalation of machines in Macau from around 5,000 in 2006 to a possible 18,000 by the end of the decade.<sup>6</sup>

Overall, Chinese men show more interest than women in gambling. However, Chinese men tend to be more concerned with ethical, family and legal issues associated with gambling than Chinese women, suggesting that many will need reassurance that Macau’s reputation as a vice den and centre of criminal activity is a thing of the past.

**Chart 3 – Stated favourite games of surveyed mass market players**





### Food for thought

Of course, gaming is only part of the picture. Courting the Chinese mass market also means getting the overall product mix right to provide a genuinely holistic leisure experience.

This is the key to driving extended stays and repeat visits, and has been critical to the success of Las Vegas casino resorts where up to half of revenues can be generated by ancillary, non-gaming services.

Most of the new casinos under construction in Macau are large-scale integrated resorts. While some are focusing on the traditional Las Vegas offerings of lavish theme hotels, glitzy shows and spectacular fountains, others are yet to decide what facilities or activities to offer.

Deloitte's survey reveals that the way to the heart of the Chinese mass market is through its stomach, with the largest percentages of both men and women selecting restaurants as the most important facility influencing their decision to visit Macau. (see Chart 4 above)

### Retail therapy

Shopping is rated as a major priority especially by women, many of whom seek retail outlets for both super-premium brands and the everyday items which carry import taxes in Mainland China.

Health and wellness products have a very strong appeal for both sexes with men apparently happy to skip the shopping for an invigorating sauna or relaxing massage. The survey also shows that women are just

as likely to enjoy a round of arcade games as men.

### Carnival atmosphere

The majority of survey respondents are willing to stay in Macau for one or two days and gamble in a casino for up to five hours. A major challenge for operators is to convert a significant proportion of these short-stay day trippers into longer stay visitors.

The anticipated growth in visitors arriving by air from other major cities in China will also swell demand for a wide range of leisure experiences.

Again our survey underlines the importance of gourmet cuisine as the overriding factor likely to encourage a longer duration visit to Macau amongst both sexes, followed by luxury and discount shopping facilities, amongst women in particular.

Entertainment will be a crucial part of the Macau mix. The survey suggests that Chinese tastes are more similar to those of the Las Vegas audience than many have previously assumed.

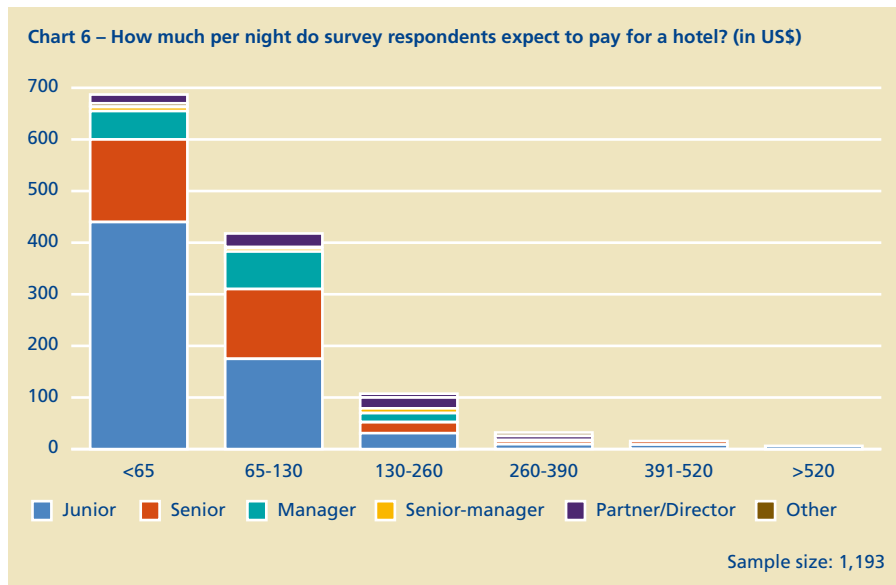
Importing the Las Vegas experience into Macau is likely to be a recipe for success. However, an understanding of where Chinese tastes do appear to differ could be an important extra ingredient.

The survey suggests that musicals and superstar concerts are most likely to attract Chinese mass market visitors, known for their passionate love of singing. The survey also indicated that between US\$13-65 (RMB 100-500) appears to be the accepted price range for shows. Over 85% of total respondents would pay US\$65 (RMB 500) or less for a performance ticket. The vibrant, colourful and frenetic atmosphere of the carnival also has an extremely strong appeal to mainland tourists. (see Chart 5 above)

However, the large-scale dance and circus-style extravaganzas such as Cirque Du Soleil, popular in western gaming resorts, do not appear to have the same resonance with Chinese visitors.

### Affordable luxury

Looking at the hotel performance figures we can see how Macau is following the trend of other Chinese cities, with average room rates rising sharply. According to the HotelBenchmark™ Survey by Deloitte, average room rates in Macau have risen 66.8% since 2002, reaching US\$100 for the



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first time in 2006. And in 2007 the trend looks set to continue; an average room rate of US\$104 for the first quarter of the year, including a lucrative Chinese New Year period in February, has seen revenue per available room (revPAR) rise to US\$78 – an incredible 74.3% increase from 2002.

Hotel supply is forecast to grow from 9,200 rooms in 2005 to around 50,000 by 2010<sup>7</sup>, with strong investment planned in upscale accommodation. This appears to be matched by a high level of demand, with almost six out of ten of those surveyed by Deloitte expressing a preference for staying in four or five star hotels. (see Chart 6 above)

In order to build mass market penetration hoteliers may need to offer affordable luxury products, with first class services at budget prices. The potential price barrier of US\$130 (RMB 1,000) may inhibit revenue growth at the top end of the hotel market for the foreseeable future.

**New challenges**

Provided Macau’s casino operators can get the product mix right, both at the gaming tables and in the wider resort, the future of mass market expansion looks promising.

Yet if this exponential growth does materialise it may throw up a new set of logistical challenges for Macau, already the most densely populated territory in the world. How will a tiny strip of land barely 27 kilometres square cope with up to 42 million visitors from the Mainland?

Can Macau develop the infrastructure needed to ferry such volumes of people around? Will it have sufficient property to accommodate the workers needed, let alone house the facilities themselves?

These questions are likely to feature highly in the next phase of Macau’s ground-breaking transformation into China’s first mass market gaming resort. ●

**Alan MacCharles**  
 Director, Deloitte China  
 Tel: +86 21 6141 1658  
 Email: amaccharles@deloitte.com.cn

**Simon Oaten**  
 Assistant Director, Deloitte UK  
 Tel: +44 20 7007 7647  
 Email: soaten@deloitte.co.uk

1. CIMB group
2. In this article, China / Chinese refers to Mainland China and Hong Kong (trends are the same with the removal of Hong Kong respondents). Mainland China / Mainland Chinese refers to the Mainland of China excluding Hong Kong, Macau and Taiwan.
3. The survey was conducted during March 2007 through the Deloitte internal website across its offices in 10 cities in China. The survey had 1,207 responses, but was broken into logic trees resulting in lower response rates for specific questions. Deloitte is made up of professionals who typically command higher income and spending power than the Chinese average. Professional services ‘personalities’ are not typically associated with gambling and, hence, the sample may under-represent the propensity to gamble. However this sample is believed to be broadly representative of the target middle class, “mass market” gamer whom the Macau resorts seek to attract.
4. Direcção de Inspeção e Coordenação de Jogos, Macau
5. LVCVA and Nevada Gaming Board 2006
6. CIMB group
7. Macau Government

