Seven Keys to Casino Success

As several regional jurisdictions ponder the legalization or liberalization of casino gaming within their borders, Andrew Klebanow identifies the critical factors that will determine whether upcoming casino projects hit the bull’s eye.

The success of Singapore’s recently established casino industry, along with the unprecedented growth in gaming revenues in Macau, has attracted the interest of governments throughout Asia. Several are considering instituting new policies that will permit the expansion of casino gaming in their countries in the form of so-called integrated resorts, as a means to boost economic and tourism growth and generate tax revenues.

The examples of Macau and Singapore, together with those of other Asian countries that did not manage to enjoy quite as much success with their casino initiatives, have helped identify seven factors that are critical to the success of any new gaming venue in the region.

1. Pick a Convenient Location
Casino venues must be convenient to get to. They must be relatively close to major population centers, transportation hubs and border crossings.

Macau’s location at the tip of the Pearl River Estuary has served it well.
River estuary has served it well. Macau is within a one-hour ferry ride from Hong Kong and Shenzhen and a two-hour bus ride from Guangzhou, a city of 19 million people. Likewise, Singapore’s casinos are located in the heart of that city, convenient not only to the local population but to Malays living across the Johor Strait. In contrast, the only casino in South Korea where residents are allowed to gamble is a four-hour drive from Seoul, forcing players to endure an unpleasant and at times dangerous commute for the privilege of gambling in a legal venue. While the casino is busy, its location will limit its ability to maximize its potential.

A government mandate that forces a casino to be developed in a remote location, whether intended to protect its citizenry from the temptation of gambling or to encourage economic development in a particularly depressed region, severely limits the gaming venue’s ability to maximize its economic impact. The reality is that all casino markets, be they Las Vegas, Atlantic City, Macau or Singapore, are first and foremost regional destinations, dependent on fairly frequent levels of visitation from markets that find those casinos convenient to get to. The further a casino venue is from regional population centers and the harder it is for gamers to get to that venue, the less chance it has of achieving its full economic potential.

2. Transportation Infrastructure

In addition to a location that is convenient for both local and tourist visitors, casino venues also need to be serviced by sound, integrated transportation networks. This has been demonstrated in successful jurisdictions throughout the world. The success of Las Vegas depends in large part on an airport capable of delivering over 20 million visitors a year, along with a regional highway network connecting the city to the population centers of Southern California and Arizona.

The casinos at Singapore’s integrated resorts were able to grow tourism by double digits after they opened with the help of a modern international airport located within a 20-minute drive from the city’s center. In addition, the city-state’s rail and bus system can quickly and efficiently transport visitors and residents to both resorts. Those mass transit systems continue to evolve, with a new MRT (Mass Rapid Transit, Singapore’s underground railway system) station opening directly beneath the Marina Bay Sands project just ahead of Chinese New Year 2012.

Ferrying them in—a Turbojet destined for Macau leaves the Hong Kong terminal.

Conversely, gaming venues that are difficult to reach, whether by road, rail or air, can never attract a broad base of tourists. Capacity-constrained airports and inadequate modes of surface transport will doom even the grandest of casino developments.

3. Convenient Border Crossing and Entry Visa Process

Once they get to the border entry points, visitors need to be able to cross over to their destination quickly and efficiently. The border crossing from Zhuhai to Macau is one of the busiest in the world and is capable of processing tens of thousands of people a day—yet still, it is near capacity and expansion works are in progress. Singapore’s entry points are models of efficiency and hospitality. In contrast, one need only enter the United States through the International Arrivals Terminal at the Los Angeles International Airport, where visitors and citizens alike are treated with suspicion and malevolence, to appreciate how efficiently and well-managed border crossings like those in Singapore or Macau can contribute to tourism growth and an overall sense of hospitality.

Working in concert with efficient border crossings are sane and reasonable policies regarding visas. Tourists who are eager to spend their money in casinos, hotels,
4. Reasonable Gaming Tax Rate

Few people outside of the gaming industry have a true appreciation of gaming taxes. There is generally a mistaken belief that taxes are paid from net income. Rather, they are paid from top-line gaming revenue before operating expenses are deducted. Also, unlike taxes on cigarettes, liquor or gasoline, gaming taxes are paid by the operator—not the consumer.

Inordinately high tax rates limit casino developers’ profits, and hence their ability to construct non-gaming amenities. Casinos in the United States offer a number of examples. In the state of Nevada, where gaming taxes are 6.75% of gaming revenues, casino operators have been able to construct a wealth of non-gaming amenities such as hotels, restaurants, convention centers and shopping malls. A low gaming tax rate helped transform Las Vegas from a small city in the desert into an international destination with over 150,000 hotel rooms, millions of square feet of meeting space and a resident population of 2 million. In the state of New York, where taxes at racetrack casinos exceed 60% of gaming revenues, no such non-gaming development has taken place. Those casinos are nothing more than warehouses with slot machines. Faced with such a high tax rate, casino operators simply cannot risk the capital to invest in non-gaming amenities. One racetrack casino in the state of Rhode Island, where the gaming tax hovers at 60% of revenue, risked a major capital investment in non-gaming amenities and was forced into bankruptcy. Rhode Island’s state government, with its myopic focus on gaming taxes, continues to maintain this high tax rate and, with new competitors opening in adjacent states, will soon see its prized source of tax revenue wither away.

Gaming operators also need stable tax environments where the tax rate does not increase whenever government needs more money. Again, the United States offers an example. In the state of Illinois, legislators eager to reduce their budget deficit arbitrarily increased gaming taxes on its casinos. Illinois taxes gaming revenues on a graduated basis and increased the marginal tax rate on the highest bracket of revenues from 50% to 75%. The results were immediate and catastrophic. Marketing expenditures were reduced; capital investment ceased; gaming revenues declined and employees were laid off. Only after witnessing the impact of their actions did Illinois legislators reverse their decision.

5. Sound Regulatory Environment

While it may seem counter-intuitive, gaming companies desire and often demand a sound, stable and effective regulatory authority. The reasons for this are simple. For a casino operator with multiple operations, an infraction of gaming regulations in one jurisdiction can impact the gaming license in another jurisdiction. Multinational corporations will not enter markets where gaming regulations are loose or where there is a culture of complacency and cronynism. They will also not enter markets where government is both regulator and operator.

6. Establish Clear Economic Goals

What does government hope to achieve with casino-resort development? Is it primarily tax revenue, job creation, tourism,
economic development or even all of the above? Before policy makers issue requests for proposals that demand billions of dollars in minimum capital investment and millions of dollars in licensing application fees, they must first establish clear and realistic economic goals; the operative term being "realistic." To do this they must first determine their market’s gaming revenue potential. Then they must determine the number of non-gaming amenities that the market can support given its location, transportation infrastructure and proximity to regional population centers. Only then can they begin to define their overall economic goals.

7. Let Citizens Gamble

Gaming policy makers often view casinos solely as tools for tourism growth and limit or prohibit their citizens from enjoying gaming entertainment in a safe, comfortable and well-regulated environment. They seek to protect their citizens from the temptation of casino gambling. The reality is that people throughout the world enjoy wagering and they are going to do so, whether or not it is permitted by law. When a government prohibits its citizens from entering casinos, it forces those citizens to patronize unlicensed, unregulated, illegal gaming venues. Furthermore, a policy barring locals from entering casinos and restricting access to foreign patrons limits the economic potential of those casinos.

Las Vegas grew to be the entertainment destination it is today not by banning US citizens or local residents from wagering, but by providing a safe, attractive and exciting venue for those citizens. Had public policy only allowed foreign visitors to wager, Las Vegas would have never grown beyond a small town in the middle of the Mojave Desert. Singapore chose an alternative approach, limiting residents’ access to its casinos by charging a $1100 (US$811) entrance fee. While some may view the fee as nothing more than a 100% tax on the first $100 of wagers which fails to discourage problem gamblers from visiting, no one can doubt the overall success of the Singapore model.

Some gaming policy makers believe they can replicate the Las Vegas and Singapore casino development model while completely barring access to its citizens. They are mistaken. In order to maximize the economic benefits generated by gaming venues within their jurisdictions, government must allow access to their citizens.

There are numerous examples of gaming developments in Asia that never reached their true potential because of a flawed paternalistic policy, the most notable example being South Korea, where 16 of the country’s 17 casinos are off limits to locals. These foreigner-only casinos provide a modest number of jobs, induced a relatively small amount of capital investment and enriched a few operators, but they failed to replicate the Singapore, Las Vegas and Macau models. Rest assured, the citizens of Seoul and Busan are gambling today, just not at state-sanctioned venues.

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