



RULES OF THE GAME

# Games a'Changin'

Macau's casinos are not permitted to offer live sports betting, which has proved very popular in the US.

Macau's transition to a mass-market destination will take more than development of non-gaming attractions. It will require a change in the city's gaming offerings too.

By **Rui Pinto Proença**



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**B**y the time this article goes to print Macau will probably be coming off its 23rd consecutive month of year-on-year gaming revenue decline. If this indeed happens for a 24th month, the second anniversary marking the start of Macau's misfortunes is likely to be well publicized and will no doubt provide some very catchy titles for media around the globe. But for all of us living and working in the SAR, it will be just another day at the office. No surprises, no questions asked. You see, during these last two years, so much ink has been spilled over the downturn topic, so many discussions have been had, in boardrooms, at dinner tables and over drinks after work, that many of us have grown uninterested. Indifferent. And slowly, one by one, we have joined the ranks of the new normal.

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The last game of chance to be added to Macau's permitted list was the Asian version of Two Up, a popular game among Australian soldiers in the First World War.

The new normal is indeed a comfortable, cozy place to be. It moderates expectations, it justifies underachievement and, even better, it provides all answers to all problems. This is it. There is nothing more. Just relax and enjoy the perks of fatalism. According to the new normal, Macau gaming revenue will never again be in the worlds' headlines for the best of reasons, those days are long gone. At best it will bottom-out sometime this year, we hope. The causes have been found and we are not to blame. We are just the victims of a lost bullet in Beijing's fight against corruption. If we lay low, click our heels three times and say to ourselves "Macau is a world-class tourism destination," the storm will pass, the individual visitor scheme will be expanded, and we will be able to go about our lives. And, hey, we are still making four times more revenue than Vegas, right?

I am a firm believer in the benefits that come with the change of Macau's paradigm from a VIP gaming haven to a mass-focused entertainment destination. When that shift is completed, I am confident that Macau will be a better place to live, visit and do business in. There will be less volatility, less exposure to criminal activities and a more diversified client base that will hopefully encompass individuals and families from all across Asia. The transition, however, is anything but normal and it will not be accomplished with a wait-and-see attitude. On the contrary, it's a long-term vision needing a major effort from both government and businesses alike. It will take better infrastructure, catchier destination marketing campaigns, specialized training, better quality of service, affordable flights from farther locations and jaw-dropping entertainment attractions. When all of these are in place more visitors will come, they will bring their families, stay longer and therefore spend more and they may even want to return. At that moment, Macau will see its tourism revenues go up, in a healthy, sustainable manner, and we will laugh at the days when we used to track gaming revenues like the be all and end all of the Macau economy. But will we really?

According to the Five-Year Development Plan released by the Macau government late last month, the SAR's goal is to increase overall revenues from the concessionaires' non-gaming sales to 9% of gross gaming revenues by 2020 (from a reported 6.6% in 2014). That only represents an annual growth objective of 0.4% vis-a-vis gaming revenue. Experts say that the non-gaming segment is a crowd puller but overall, a margin drag. And, if we are to rely on the Macau Government's figures it is also not a very strong revenue generator. At least not in Macau, at least not in the coming five years.

Whether or not you agree with their approach, it is noticeable that both the public and the private sector have been actively striving to put in place the fundamentals of a mass-market entertainment destination. The question remains however, as to what Macau is doing to make sure that the new tourists it expects to attract will be spending enough money during their visit. How, if not through non-gaming sales, is Macau planning to return to a path of growth rooted in the mass-market? What is the macro strategy that will see the five very large properties expected to come online in the near future become sustainable, employment generating business ventures? Is Macau losing sight of its core business while focusing on building around it? In a nutshell, is Macau making sure that its gaming offering will appeal to tomorrow's mass consumer?

In truth, the game here is changing, even while the ones you play are still the same. If you take a moment to look at the gaming offering in the world around us, you will soon realize that a lot has happened in the past few years. From Fantasy League to camel races in Alice Springs, you may now place bets on pretty much anything, at anytime, from any possible device with internet access. All of this while SLOT, the local monopoly sports betting operator, is only allowed to offer the exact same products it was authorized to launch more than 15 years ago – bets on football and basketball. To bet on

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In failing to embrace on-premise mobile gaming, Macau has fallen behind foreign jurisdictions.

these, a punter has to leave the gaming floor and get to one of the few SLOT stands scattered through town or strategically placed in a dark corner of one of SJM's properties. That is because, in contrast to what happens in Vegas, Macau Gaming Law mandates that sports betting may not be operated within the casino's premises (paragraph 6, article 3 of Law 16/2001).

More than that, casino concessionaires are prevented, under their respective concession contracts (paragraph 2, clause 1), from operating pari-mutuel wagers, including wagers on horse and greyhound races, interactive games, as well as (with some exceptions) lotteries, raffles and the like. And that's no fun, is it? Unfortunately these are only some of the many regulatory limitations to gaming in Macau.

While other jurisdictions are adding skill-based games to their casino floors in order to attract video-game savvy millennials, Macau is stuck with the classic, and not always consensual, definition of game of chance. You would have to go all the way back to 2010 to find the latest addition to the published list of approved games here. The lucky newcomer was "Dragon Phoenix," the Asian version of two up, a centuries old game of chance very popular with WWI Australian soldiers.

The issue is not only about what you can play, but also about how you are allowed to play it. Social gaming, in-room gaming and on-premise mobile betting are currently nowhere to be seen in Macau. The harsh reality is that, with the exception of electronic table-games, Macau is no longer paving the way. Its gambling offering will quickly fall behind the times and its casino floors are simply no fun. You just have to walk onto one to realize it. Yes, there are cultural differences at play, but isn't part of the plan to appeal to other Asian markets? Aren't Asian millennials as fun-seeking and tech-savvy as their counterparts in the West? Yes, maybe the house take in these games are not as high as good old baccarat. But does that young Asian middle-class visitor, drawn in to see an expensive world-class show,

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want to sit at that crowded table? Isn't this the kind of tourist Macau would like to see more often? And if so, then don't we have to make sure he or she is having a good time both on and off the gaming floor.

While Macau gets cosy in the trappings of the new normal, its regional competitors have already identified the opportunity. They are not, for the most part, legally bound to a compartmentalized approach to gaming and to decade old monopolies, and they will be quick to capitalize on this. As you may have already realized, part of the issue lies with laws and regulations that have lost touch with present times. Yet Macau's legislative and executive powers are not the only ones to blame. In a sophisticated jurisdiction it is as much the responsibility of the regulator to review proposals to change the rules as it is the responsibility of the operators to put them forward. After all, as with many other aspects of this industry, the issue at hand requires an open, forward thinking dialogue between business and government.

This discussion should happen sooner rather than later. Because the game is changing. And Macau had better change with it. *iag*