Trends of Japan’s Giant Leisure Industry: Pachinko

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Abstract

Japanese law does not treat Pachinko as a form of gambling but rather as a leisure activity. Even though it is classified as a leisure activity, regulators still see a risk that Pachinko may stir up one’s gambling spirit. Pachinko parlors are facing a reduction in number of visitors. Pachinko is becoming a popular investment for chain operators through domestic and foreign capital.

Keywords: Japan, Pachinko, Asian gaming

The number of people who have visited a Pachinko parlor at least once in 1996 was 44 million. That number declined to 18 million in 2002. Nevertheless, the total revenue of the entire industry was estimated at 2 trillion yen (about $16.7 billion at the exchange rate of $1=120 yen).

The Pachinko industry does not use the term “Gross Gaming Revenue” like the U.S. gaming industry nor has it such a notion. In reality the industry itself does not know the accurate revenue number. In order to make the comparison of the two industries more meaningful, the total revenue for the Pachinko industry should be estimated based on the basic research results of the service industry provided by the national government once every five years.

The total amount of tax paid by the industry is also unknown even by the industry’s associations. However, the industry’s economic contribution is said to be huge. It has 340,000 employees and pays a total salary of 1.2 trillion yen ($10 billion dollars), which is about the same amount of money that the U.S. gaming industry pays for its employees.

As of 2002, there were 16,504 Pachinko parlors throughout the country, and the number of Pachinko machines and Pachinko Slot machines totaled 4.83 million. This number should be surprising when compared to the 600,000 slot machines in the U.S., which has a population twice the size of Japan.

In Japan, the law prohibits commercial gambling. Nonetheless, the Japanese government permits Pachinko. This is because they see Pachinko as a form of leisure and not a gamble, even though it may potentially stir up one’s gambling spirit. Therefore, Pachinko or Pachinko Slot machines that strongly stimulate one’s gambling spirit are prohibited.

The regulations define those “gambling machines” that strongly stimulate one’s gambling spirit as those:
1. that a player can or cannot win Pachinko balls or Pachinko slot tokens easily regardless of player skill, and
2. that have a remarkable potential of not reflecting player skill to the results of the game, or
3. that chance or the intention of a person or people except for a player determines the result of the game.

In short, while casino-style gaming requires the result of the game to be determined by chance, Pachinko requires officially one’s skill as the main influence. The machine
that has no room for a player to exercise skill to influence the result of the game is treated as the type that stirs up gambling spirit remarkably. Regulators conclude that Pachinko is an amusement, not a gamble due to the personal skill intervention acting as the main influence of the game’s result. Coupled with the fact that winners formally obtain gifts as a prize that can be used for everyday life, it can be concluded that Pachinko is not a “gamble”. Operation of Pachinko parlors therefore, is permitted in Japan.

The average amount of cash that lucky winners can obtain at the end of their day is roughly 100,000 yen ($833) at most. Winners must exchange their winnings, Pachinko balls, to gifts first. Then, they can sell the gifts, for example gold plates, to a gift exchange shop for cash. If a player wins more than 100,000 yen from only one machine, that machine can be treated as a gambling machine.

While many casinos in the U. S. have a common goal of satisfying tourists’ desire for gambling, Pachinko parlors cater to locals. Casino-style gambling is a “destination leisure” while Pachinko is a “neighborhood leisure.” A Pachinko parlor is a place where a businessperson can take time off to relax. It is a place where a housewife spends time between her housework to get rid of her stress, or a place where retired people enjoy time without their spouse for a while.

Although the housing situation in Japan has been improved, Japanese houses are still smaller than those in the U. S. Sometimes it may be difficult to find personal space to be mentally alone without any disturbance. While sitting in front of a Pachinko machine and chasing after Pachinko balls, people can be released from fears and worries of everyday life and become selfless. It is believed that Pachinko satisfies people’s everyday needs for spiritual healing, and a parlor may be said to be a convenient store for one’s mental health. Perceptions of Pachinko as satisfaction for mental and spiritual needs help to promote the operation of Pachinko parlors in neighborhoods throughout Japan.

Until about a decade ago, the size of Pachinko parlors was not big, and a chain operation system was not in progress. As competition became fierce, however, the number of huge parlors increased, and their locations were no longer in the center of a town but moved to the suburbs. Companies with big capital started to operate multiple properties. Thus, the trend for intensive operation of parlors by big companies has become notable. Under these situations, companies with capital power start to hold a dominant position in the market. In fact, there are a few companies that have started to issue debenture bonds. (In Japan, no Pachinko parlors have ever gone public. The securities exchange seems to prefer it this way.)

Forecasting from this trend, it is not unrealistic that foreign public companies may enter into the Pachinko industry by merger & acquisition (M & A) with their abundant capital and cheaper capital costs. Although the market faces a tendency to shrink its size, those foreign entrants will be able to plan a sufficient strategy for growth as a part of their global business portfolio. In doing so they may be cannibalizing the existing competitors’ market share in this country.

Foreign capital may be able to change the Pachinko industry dramatically, and we might soon be able to witness a new era to come.