Diversify Into European Markets to Enhance Revenue: A Strategy Proposed for the Las Vegas Strip and Atlantic City[1]

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Abstract

In recent years, the casino industry in some European countries has experienced remarkable growth in gaming revenues. This study examines the growth momentum of casino gaming in Europe and its implications for casinos on the Las Vegas Strip and in Atlantic City. Five factors that make European markets attractive for U. S. casinos were considered: the fast growth of the European slot market; unfavorable tax structures and high legal barriers to entry into the European casino industry; the growth of leisure time; low spending on marketing by European casinos; and the use of European slot players to balance table games favored by Asian players.

Based on these factors, this paper addressed the feasibility of Las Vegas Strip and Atlantic City casinos tapping European markets for more slot players. The study suggests that diversifying into European markets could help the two U. S. destinations in two ways—by enhancing the volume and improving the stability of their gaming revenues.

Keywords: European slot market; gaming revenue

Introduction

In recent years, the trend of slower growth in gaming revenues in the two traditional U.S. gaming markets, the Las Vegas Strip and Atlantic City, is noticeable. Table 1 presents the total gaming revenues and slot revenues of the Strip and Atlantic City in 1991, 1995 and 2000 and their respective average annual growth rates during the period of 1991-2000 and two sub-periods, 1991-1995 and 1995-2000. In the early 1990s, gaming revenue grew at an average annual rate of 7.7 percent on the Strip. The growth rate, however, dropped to 5.9 percent during the period 1995-2000. Simpson (2001) reports that in fiscal year 2001, the Strip recorded only a 2.8 percent increase in gaming revenue from the previous year. Atlantic City has been experiencing even weaker growth in gaming revenue since 1995. As Table 1 indicates, from 1995 to 2000, Atlantic City's gaming revenue grew at an annual rate of 2.3 percent, less than half of the 5.8 percent growth rate it achieved in the early 1990s. For the entire period 1991-2000, the Strip, with gaming revenue growing at an annual rate of 6.7 percent, outperformed Atlantic City, whose annual growth rate was only 3.9 percent.

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Table 1. Gaming Revenues and Growth on the Strip and in Atlantic City

Gaming Revenue ($Billion)

Year	Las Vegas Strip		Atlantic City	
	Total Gaming Rev.	Slot Rev. (As % of Total Gaming Rev.)	Total Gaming Rev.	Slot Rev. (as % of Total Gaming Rev.)
1991	2.62	1.22 (46%)	2.99	1.85 (62%)
1995	3.52	1.72 (49%)	3.74	2.57 (69%)
2000	4.68	2.28 (49%)	4.22	3.08 (73%)

Average Annual Growth

	Las Vegas Strip		Atlantic City	
Period	Total Gaming Rev.	Slot Rev.	Total Gaming Rev.	Slot Rev.
1991-1995	7.7%	9.0%	5.8%	8.6%
1995-2000	5.9%	5.8%	2.3%	3.9%
1991-2000	6.7%	7.2%	3.9%	5.8%

Source: Nevada Gaming Control Board (1992-2000) and State of New Jersey Casino Control Commission (1991-2000)

Note: Average annual growth rate is the geometric mean rate calculation based on the equation: Ending year revenue = Beginning year revenue x (1+X)n, where n is the number of years during the period and X is the estimated average annual growth rate.

As shown in Table 1, slot revenues in both destinations outgrew total gaming revenues for the entire period 1991-2000, implying that slot revenues were increasing faster than other types of casino games. In 2000, slot revenue increased to about 49 percent of total gaming revenue, up from 46 percent in 1991 on the Strip. In Atlantic City, slot revenue's weight rose to 73 percent of total gaming revenue in 2000, from 62 percent in 1991. Slots have been major contributors to the gaming revenue growth in both destinations, especially in Atlantic City. Slot revenues in the two destinations, however, have also slowed down significantly since 1995. On the Strip, the annual slot growth rate of 5.8 percent in the late 1990s was about 3 points below the 9.0 percent achieved in the early 1990s. In Atlantic City, annual slot growth in the late 1990s dropped to 3.9 percent from 8.6 percent in the early 1990s. Evidently, the slowdown of slot revenue growth is more severe in Atlantic City.

The two traditional gaming destinations have been facing challenging market conditions since 1995 because U. S. gaming markets are either saturated or fast approaching saturation (Ader, Falcone and Steinberg, 1999). The current sluggish U.S. economy is likely to put further pressure on gaming revenue and make growth even more difficult for the two destinations (Gu, 2001). To cope with the unfavorable market environment and offset the negative impact of a slow U. S. economy on gaming revenue, casinos on the Las Vegas Strip and in Atlantic City may tap overseas markets, especially those experiencing fast growth in recent years, to increase gaming revenue.

Diversification into different markets in the world can help not only increase gaming revenue but also stabilize operation results. Analyzing the impact of the 1997 Asian financial crisis on the gaming revenue of the Strip, Gu (1998) points out that diversification across continents should be an important strategy for Strip casinos to cope with the market downturn associated with the financial crisis. Van Horne (2001) contends that the economic cycles of different countries are not completely synchronized. A weak economy in one country may be offset by a strong economy in another. Diversifying into different countries may reduce the risk of a company and stabilize its operational and financial results.

European markets, many of which have experienced remarkable gaming revenue growth due to fast increasing slot revenues in recent years, are worth exploring for U.S. casinos interested in pursuing global diversification. This paper examines some European markets as possible revenue enhancers for the Strip and Atlantic City. In particular, the paper proposes that casinos in the two U. S. traditional gaming destinations should tap European markets for more slot players to increase gaming revenues and stabilize operation results. The analysis of and insight into European markets provided in this study may be useful for U. S. casino operators in formulating their global market strategies.

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Growth Momentum in European Markets

The most recent issue of European Casino Report (2000) reports gaming revenues or handles of 15 European countries in 1998 and 1997. According to the Report, 1998 saw substantial gaming revenue growth over 1997 in many jurisdictions in Europe, with some, such as France, Holland, Poland, Portugal and Switzerland, witnessing double-digit growth. In particular, slot revenue contributed significantly to the overall growth. As the report shows, substantially increased slot revenues overcame weak table game performance in Germany, Greece, Hungry, Spain and Italy.

The statistics on European casinos in 1999 or later are not available from International Gaming & Wagering Business since its 2001 issue of European Casino Report had not been published at the time of this writing. Table 2 compares the 1997 and 1999 casino results of eight European countries whose total gaming revenue and slot revenue statistics were both available. While the 1997 data were derived from the 2000 issue of European Casino Report, the 1999 European casino statistics were obtained from E-gamingPro.com (E-gaming, 2002), which provides updated casino results of some European countries. The total gaming revenues and slot revenues of the Strip and Atlantic City are also presented in the table for comparison. As shown in Table 2, all European countries, except Austria and Hungary, exceeded the Strip and Atlantic City in total gaming revenue growth. All countries, except Austria, had their slot revenue growth rates far exceeding those of the Strip and Atlantic City. Seven European countries, namely, France, Germany, Greece, Holland, Hungary, Portugal and Spain, saw their slot revenues growing between 19 percent and 62.1 percent from 1997 to 1999, in contrast with the Strip's 14.3 percent and Atlantic City's 10.9 percent growth during the same period. The slot revenue as a percentage of total gaming revenue in 1999 is presented in the last column of the table. Five of the 8 European countries had slot revenues at 60 percent or more of total gaming revenues, indicating popularity of slots in those countries. In particular, the significant growth in total gaming revenues of France and Portugal was largely attributable to a sharp increase in slot revenues.

Table 2. Gaming Revenue Growth of the Strip, Atlantic City and Some European Countries (1997-1999)

	1997 Total Gaming Revenue $Million	1999 Total Gaming Revenue $Million	Growth Rate	1997 Slot Revenue $Million	1999 Slot Revenue $Million	Growth Rate	1999 Slot Rev. %
LV Strip	3,650	4,128	13.1%	1,764	2,018	14.3%	49
Atlantic City	3,888	4,204	8.1%	2,702	2,996	10.9%	71
Austria	219	234	6.8%	128	140	9.4%	60
France	1,387	1,676	20.8%	1,215	1,489	22.6%	89
Germany	844	1,005	19.1%	476	636	33.6%	63
Greece	318	385	21.1%	76	123	62.1%	32
Holland	337	390	15.7%	147	175	19.0%	45
Hungary	34	31	-8.8%	22	28	27.3%	90
Portugal	178	227	27.5%	118	163	38.1%	72
Spain	233	292	25.4%	48	68	42.5%	23

Source: Holland Casino Annual Report (1991-2000), the Netherlands; Inspecao-Geral de Jogos (1991-2000), Portugal; Ministere de l'Interieur, France (1991-1999), and http://www.e-gamingPro.com

Three European markets, France, Holland and Portugal, whose gaming revenue data from1991 through 2000 were available when this study was conducted, deserve further examination. The three markets may be good candidates for U.S. casino operators to explore for market diversification in Europe. Table 3 demonstrates the total gaming revenues, slot revenues, slot revenue as a percentage of total revenue and average annual growth rates of the three European markets from 1991 through 2000. All three markets experienced double-digit annual growth in total gaming revenues since 1991, with France as the most prominent at an average annual rate of 19.6 percent, followed by Portugal's 11.5 percent and Holland's 11.1 percent. The slot revenues of the three markets all outgrew their table revenues during the period, with France's slot growth ranking at the top, 29.1 percent annually, followed by Portugal's 17.9 percent and Holland's 13.5 percent. The weights of slot revenues in total gaming revenues in the three European markets have been increasing steadily since 1991. In 2000, slot revenues in France, Portugal and Holland reached 90 percent, 76 percent and 46 percent of total gaming revenues, respectively.

The annual growth rates of gaming revenue on the Strip and in Atlantic City during the period 1991-2000, at 6.7 percent and 3.9 percent, respectively (see Table 1), were by no means comparable to those achieved by the three European markets. The two U. S. markets' annual slot revenue growth rates during the period, at 7.2 percent on the Strip and 5.8 percent in Atlantic City, were far inferior to those of their European rivals.

As demonstrated in Tables 2 & 3, slot revenues grew faster than total gaming revenues in most of the European markets and are steadily gaining their weight in total gaming revenue. The gaming growth in many European markets is largely propelled by slot growth. A question can be raised here. What does the fast slot growth in Europe, especially in France, Holland and Portugal, mean to the Las Vegas Strip and Atlantic City?

Table 3. Gaming Revenue Growth in Three European Countries in the 1990s

Year	France			Holland			Portugal		
	Gaming Rev. ($Mil)	Slot Rev. ($Mil)	Slot Rev. %	Gaming Rev. ($Mil)	Slot Rev. ($Mil)	Slot Rev. %	Gaming Rev. ($Mil)	Slot Rev. ($Mil)	Slot Rev. %
1991	427	194	45	192	72	38	134	57	42
1992	574	353	61	231	88	38	159	77	49
1993	706	508	72	262	101	40	139	72	52
1994	908	733	78	267	107	40	146	76	53
1995	1,218	1,011	83	327	137	42	167	101	60
1996	1,399	1,200	86	348	148	43	184	116	63
1997	1,387	1,215	88	337	147	43	178	118	66
1998	1,597	1,404	88	367	161	44	202	140	69
1999	1,676	1,489	88	390	175	45	227	163	72
2,000	1,959	1,764	90	448	205	46	273	207	76
Average Annual Growth	19.6%	29.1%		11.1%	13.5%		11.5%	17.9%	

Source: Holland Casino Annual Report (1991-2000), the Netherlands; Inspecao-Geral de Jogos (1991-2000), Portugal; Ministere de l'Interieur, France (1991-1999) and Galvin, B. H. (2001), Bel Avenir (Bright Future), International Gaming & Wagering Business, *22(4), 15-42.*

Note: 1. Average annual growth rate is the geometric mean rate calculation based on the equation: Ending year revenue = Beginning year revenue x $(1+X)^n$, where n is the number of years during the period and X is the estimated average annual growth rate. 2. Gaming revenues were converted to US$ based on the average exchange rates of each year.

European slot markets are smaller than those of the Strip and Atlantic City. Based on the 365-day average exchange rates between the U.S. dollar and the currencies of France, Holland and Portugal, the combined slots revenue of the three markets in 2000 was equivalent to $1.88 billion, less than the Strip's $2.28 billion and Atlantic City's $3.08 billion. What is attractive for the U. S. gaming industry, however, is European slot markets' tremendous growth momentum. Their fast slot revenue growth manifests Europeans' strong propensity for games of chance, especially slot games. The remarkable growth potential of European slot markets will enable U. S. casino operators to draw more visitors from Europe, particularly at a time when U. S. gaming markets are facing adverse market conditions in the wake of the September 11, 2001 terrorist attacks on New York City's World Trade Center twin towers, and during the subsequent economic recession.

Opportunities for U. S. Casinos

The legal and structural features of the European casino industry may imply good opportunities for U. S. casinos to explore European markets. In comparison with their U. S. counterparts, European casinos typically face tighter government control, more regulations and higher taxes. They usually operate in monopolistic environments. Although the casino industry is experiencing strong demand in many European countries, high legal barriers and monopoly may have constrained a parallel growth in gaming supply. Furthermore, higher gaming taxes make developing new casinos there less attractive. High legal barriers and heavy taxes are likely to hinder the European casino industry from fast expanding, thus creating opportunities for U. S. casinos to penetrate into the European market and lure more players from across the Atlantic.

Ader, et al. (1999) describe the casino industry in Europe as dominated by small venues tightly regulated by the state with restrictions on marketing, accessibility and competition. Veer (1998) points out that the European gaming market is a multitude of gaming monopolies guarded by the state. According to Thompson (1998), many European casinos are typically government-owned, low-volume establishments with access restricted. The government plays a major role in the gaming industry either as an owner, or as an owner of the properties where the casinos are located.

Specifically, in Holland, the Gaming Act of the Netherlands allows the government to issue only one license, which was obtained by Holland Casino, creating a complete monopolistic environment (Cabot, Thompson, Tottenham, & Braunlich, 1999). In France, while a nationwide gaming monopoly, such as the Holland's, is absent, other barriers to entry exist. Casinos are limited to resort areas and in cities with populations in excess of 500,000 (Ader, et al., 1999). Portugal requires that a casino must agree to fulfill all tourism promotion obligations as set out in the law and 60% of company capital must be direct Portuguese ownership (Cabot, et al., 1999).

Bos (1996) notes that gaming tax rates in Europe, in comparison with those of the U. S., are prohibitively high. According to the European Casino Report (2000), gaming tax rates in Germany range from 80 percent to 92 percent of gross gaming revenue. In France, after a deduction of 25 percent of gross win, progressive taxes ranging from 10 percent to 80 percent of the win will be levied. Gaming taxes in Portugal are 50 percent of gaming revenue for large casinos and 35 percent for small casinos. Holland collects relatively less from casinos, 33 percent on table game win and 17.5 percent on slot revenue. In contrast, Strip casinos pay 7.5 percent of gross gaming revenue for gaming taxes and licenses while the same payments for casinos in Atlantic City are about 9.5 percent of gaming revenue (Cabot, et al., 1999). Higher gaming taxes in Europe could be a strong disincentive for the casino industry to increase gaming supply.

The strong demand for slot games and limited gaming supply may be the causes of extremely high daily win per slot observed in some European markets. In 2000, on a daily basis, a slot machine won an average of $298 in France (Galvin, 2001) and $337 in Holland (Holland Casino, 2001), substantially higher than the Strip's $106 (Nevada Gaming Revenue Report, 2000) and Atlantic City's $233 (Casino Journal, 2000 & 2001). The abundant gaming supply in Atlantic City and Las Vegas can easily satisfy Europeans' strong demand for slots.

Time Factor

The campaign for fewer working hours and a longer weekend in Europe is gaining momentum. Increased leisure time for Europeans implies a better chance for U.S. casinos to win over more European players. According to BetterTIMES (2000), Holland has the shortest average work hours per week of any industrialized nation. Consensus was reached among government, business, and labor on work time reduction in 1982. The first step was a general reduction to 38 hours (often taken as one additional day off per month). The working week has since been reduced to 36 hours for half of the workforce. Other European countries, such as Austria, France, Germany, Italy, Spain, Portugal, Belgium, Finland and Demark, are also moving toward a shorter working week and a longer weekend. In particular, France instituted a 35-hour working week by law in 2000 (Hayden, 2000), making a weekend trip to Atlantic City more feasible for French players. Europe's trend toward longer leisure time provides U. S. casinos with a good opportunity to lure players from there.

Increased leisure time makes European visitors more valuable for U. S. casinos. Longer vacations and weekends enable European players to stay longer and spend more in U. S. casinos, contributing more to revenues and profits. U. S. casinos, particularly those in Atlantic City, should seize the opportunity and lose no time to attract more European visitors.

Diversify to Stabilize Revenue

For casinos on the Strip and in Atlantic City, the benefits of targeting European markets for more slot players are not limited to higher revenue volume. Market diversification can also help improve the stability of gaming revenue. In the past, casinos on the Strip and in Atlantic City have made tremendous efforts to lure Asian high rollers, mostly baccarat players. While Asian baccarat players contribute significantly to gaming revenues on the Strip and in Atlantic City, their big wins often upset the house, causing a big dent in a casino's revenue and profits. Several casino companies in Las Vegas recently reported unexpected weak quarterly earnings. The poor results were partly caused by "bad luck" or "poor hold" (Strow, 2001; Berns, 2001).

The highly volatile baccarat game is often cited as a major source of the "bad luck." Commenting on the impact of baccarat on a casino company's operation results, Binkley (2001) acknowledged that a single baccarat player can turn a casino's sorry fiscal quarter into a celebration in a matter of hours. But when luck turns against the house, losses can be felt on Wall Street. Unlike baccarat, slots are less volatile and hence less likely to upset the house in a big way. Attracting more European slot players to increase slot volume can help stabilize casino companies' revenues and profits, thus causing fewer shocks on Wall Street.

Table 4 provides some descriptive statistics of the win percentage, or win %, of each of four major games, baccarat, blackjack, $1 slot and $0.25 slot, of the Strip. Win percentage is a ratio of the house win to the total amount wagered. According to Nevada Gaming Revenue Report (January-December 2000), the four games' wins totaled about 68 percent of the gaming revenue of the Strip in 2000. The descriptive statistics were derived from the monthly win percentages of the four games from January 1991 through December 2000, as provided by Nevada Gaming Revenue Report (January 1991-December 2000). In the table, the mean win % of Baccarat, 16.3 percent, is the highest. Baccarat's standard deviation and range, however, were also the highest, at 5.2 percent and 34.5 percent, respectively. The minimum and maximum of the win percentages of baccarat show that in the most "lucky" month during the period, casinos on the Strip won 36 percent of the money wagered by baccarat players, whereas in the most "unlucky" month, casinos won only 1.5 percent of the baccarat wager. The aggregate statistics of the Strip have already reflected the effect of diversification across casinos on the Strip. For an individual casino on the Strip, the volatility of baccarat win % should be much greater. Big negative win % of a month or a quarter is common for individual casinos. On the other hand, the mean, standard deviation and range of the win % of another table game, blackjack, are all lower than baccarat's.

In Table 4, the two slot games have much lower win percentages but also substantially lower volatility as shown by their much smaller standard deviations and ranges in contrast to those of the two table games. The $1 slot has the lowest mean "win %", 4.9 percent, associated with the lowest standard deviation, 0.3 percent, and range, 2.0 percent. Coefficient of variation is a ratio of standard deviation to mean or a relative measure of dispersion. As shown in the table, baccarat has the largest coefficient of variation, 0.32, followed by blackjack's 0.10 and $0.25 slot's 0.08. The coefficient of variation of $1 slot, 0.06, is the smallest. On a relative basis, the volatility of baccarat is more than five times greater than that of $1 slot on the Strip. Casinos on the Strip and in

Table 4. Game Win % Statistics of Four Games on The Las Vegas Strip

	Baccarat	Blackjack	$1 Slot	$0.25 Slot
Mean	16.3%	13.1%	4.9%	6.4%
Standard Dev.	5.2%	1.3%	0.3%	0.5%
Range	34.5%	7.5%	2.0%	2.5%
Minimum	1.5%	9.5%	3.7%	5.1%
Maximum	36.0%	17.0%	5.7%	7.6%
Coefficient of Variation	0.32	0.10	0.06	0.08

Atlantic City typically cater to Asian high rollers who commonly play baccarat. Bringing in more slot players from Europe can counteract the impact of the highly volatile baccarat game on gaming revenue. More slot intake will not only increase the volume of gaming revenue but also help stabilize the revenue. Tapping European markets for more slot players should be an important component of the global market strategy for U. S. casinos, especially those on the Las Vegas Strip and in Atlantic City.

Marketing the Two Destinations in Europe

European casinos make few promotions and advertisements (Thompson, 1998). This may facilitate U. S. casinos' diversification into Europe via marketing and promotion. According to the European Casino Report (2000), while casino advertisements are prohibited in some European countries, such as Austria, most European countries permit casino marketing and promotion. In Portugal and Spain, advertising gambling activities is not permitted, but casinos may promote shows, restaurants and complimentary services.

Operating in less competitive environments, European casinos generally spend less on marketing and promotion. In 1998, the marketing and promotion cost of Holland Casino was 12.8 percent of gaming revenue (Holland Casino, 1998) while the same expenditure for Group Partouche, France's largest casino operator, was merely 2.5 percent of gaming revenue (Group Partouche, 1998). Casinos in Las Vegas and Atlantic City spend much more on marketing and promotion than their counterparts in Europe. In 1998, marketing and promotion cost was 22.3 percent of gaming revenue for Strip casinos (Nevada State Gaming Control Board, 1998). For casinos in Atlantic City, promotion allowance alone was 13.8 percent of gaming revenue in 1998 (New Jersey Casino Control Commission, 1998). Casino operators on the Strip and in Atlantic City are well versed in marketing and promotion. Carefully planned marketing campaigns to target European markets could increase visitations by Europeans substantially.

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In recent years, Las Vegas casinos have made tremendous efforts to court high rollers from Asia. They have established marketing offices in many Asian cities and marketing officials have traveled frequently to Asian countries to promote their casinos. As Strow (2002) reported, China is becoming a new focus of the Las Vegas casino industry. Marketing offices have been opened in Chinese cities and casino executives have made trips to China to pitch their casinos to high-end players. The Asian high-roller market is important for U. S. casinos because of its contribution to revenue from table games, baccarat in particular. The slot-oriented European market, however, bears equal importance because of its growth momentum and its implication for stabilizing gaming revenue. Therefore, U. S. casinos should target a broader international market when promoting themselves. Stepping up marketing efforts aimed at large numbers of European slot players will not only bring in more gaming revenue but also help stabilize gaming revenue.

To promote Las Vegas and Atlantic City in Europe, casinos should focus on their non-gaming services, since some European countries prohibit gaming advertisements. Compared with European casinos, U. S. casinos are advantageously positioned in terms of non-gaming features. With their elegant rooms, stylish restaurants, fascinating shows and enchanting shops, the 24-hour, glamorous mega-casino resorts on the Strip and in Atlantic City are far more attractive than small European casinos, which, in most cases, are not open 24 hours. Comparing Las Vegas casinos to those in Europe, Thompson (1998) points out that Las Vegas casinos are large, ostentatiously colorful, and exciting, whereas European casinos are moderate in size and drab in appearance. Casinos on the Strip and in Atlantic City can offer players more exciting experiences in sightseeing, dining, shopping and entertainment than their European competitors. They should emphasize those unique non-gaming features when promoting themselves in Europe.

Conclusion

The growth of gaming revenues in the two U. S. traditional gaming markets, the Las Vegas Strip and Atlantic City, has slowed down noticeably in recent years. In contrast, some European markets, such as France, Holland and Portugal, have seen fast and steady growth in gaming revenues, especially slot revenues, since the early 1990s. The September 11, 2001 terrorist attacks in New York and the current economic recession are likely to put further pressure on the U. S. casino industry. To prevent further slowdown in revenue growth, the Strip and Atlantic City may take advantage of the slot growth momentum in Europe.

Europe's limited gaming supply, which is mainly due to legal and structural features of the European casino industry, may not be able to meet the fast growing demand for gaming in Europe, thus providing good opportunities for U. S. casinos to diversify into European markets. The trend for a longer weekend in Europe should further facilitate Europeans' visits to Las Vegas and Atlantic City and make these visitors more valuable players for U. S. casinos. To promote the two U. S. gaming destinations in Europe, U. S. casinos should emphasize their unique non-gaming services that are not available in European casinos. Tapping European markets for more slot players will not only increase gaming revenues for casinos on the Strip and in Atlantic City, but also help stabilize their operation results. For casino operators in the two U. S. destinations, diversification into European markets should be an important component of their global market strategies.

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