

Club Gaming in New South Wales, Australia: The Transition to Industry Maturity

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Abstract

The New South Wales club gaming industry has existed for forty years since the introduction of slot machines in 1956 and has witnessed the impact of changing legal, competitive, social, economic, and technological factors on its competitiveness. Using Michael Porter's framework of competitive forces (1980), this paper analyzes the industry's life cycle in terms of entry barriers, industry rivals, customer markets, and substitute products. This analysis provides evidence that the industry has evolved from an emergent industry to one which is now approaching maturity. Industry cooperation, strategic management, and a refocusing of marketing efforts are suggested as suitable responses by club management to the intensifying competitive forces accompanying industry maturity.

Introduction

The primary focus of this paper is to analyze the evolution of the slot machine gaming industry in registered clubs in New South Wales (NSW), Australia, tracing its development through the life cycle stages from inception to maturity. Since slot machines, or poker machines as they are called in Australia, were legalized some 40 years ago, changing legal, competitive, social, economic, and technological factors have resulted in the transition of NSW club gaming from an emergent industry to one which is now approaching maturity. Using Michael Porter's framework of competitive forces (1980), this evolution is analyzed in terms of changing entry barriers, industry rivals, customer markets, and substitute products to identify key developments in the industry and future challenges for club management. While it is beyond the scope of this paper to offer prescriptive recommendations for adaptation to these challenges, awareness of changing sources of competition is a first step towards an appropriate response by individual clubs to industry maturity. Figure 1 shows the location of NSW within Australia.

Figure 1
Map of Australia



Porter's Framework of Competitive Forces

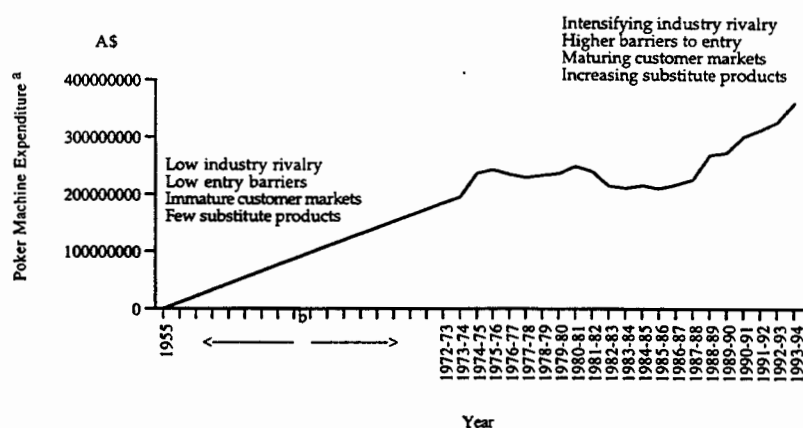
The life cycle concept has been a watershed for understanding the evolution of products, organizations and industries. While there are numerous multistage life cycle models with a diversity of

characteristics to explain product, organizational, and industry development, a review of nine of these models (Quinn and Cameron, 1983) noted several similarities. In all models, the stages are predictably sequential, occur as a hierarchical progression which is not easily reversed, and involve a broad range of organizational activities and structures. For example, following the life cycle progression from inception through growth, maturity, and decline or rejuvenation, an industry might experience broad changes in overall growth rates, product diversification, management challenges, organizational strategies, product differentiation, and competitive strengths.

However, as Porter (1980:30) points out, what is important is not these trends in themselves but rather the effects they have on the sources of competition for organizations within that industry. That is, industry evolution is important for the strategic management of organizations because it brings with it changes in key competitive forces. Recognizing these forces provides the basis for strategic management by highlighting internal strengths and weaknesses and external opportunities and threats, by clarifying areas where strategic change will pay off the most, and by identifying areas for diversification.

Porter (1980) provides a framework of five forces which collectively determine the state of competition in an industry. According to this model, the relative influence of entry barriers, rivalry determinants, suppliers, customers, and substitute products can range from intense in industries where no company earns spectacular returns on investment, to mild where high returns are possible. That is, the collective strength of these competitive forces determines the ultimate profit potential of firms within the industry. For firms to reach this potential, understanding these environmental factors is imperative, as is appropriately adapting to their changing influences throughout the evolution of the industry. Thus, according to Porter's theory, the relative strengths of industry rivalry, potential entrants, customer markets, and substitute products would be expected to intensify as the NSW club gaming industry progresses through its life cycle, as illustrated in Figure 2. This proposition will be discussed by identifying key changes in the competitive strengths of these forces which evidence the NSW club gaming industry's transition from an emergent to a maturing industry over the last forty years.

Figure. 2 Expected Changes in Competitive Forces During the Lifecycle of the NSW Poker Machine Gaming Industry



a Real poker machine expenditure has been sourced from the Tasmanian Gaming Commission (1995:217) and refers to the net amount spent by people who play poker machines or, alternatively, the gross profit earned by poker machine operators, adjusted for inflation. The Commission has calculated poker machine expenditure by multiplying poker machine turnover by the legal retention rate of 15%. With many clubs providing a return to players greater than 85%, gross profit here is somewhat overestimated.

b Real poker machine expenditure unknown from 1956-1971. The line graph for these years represents average expenditure over this time period.

Brief History of the NSW Club Industry

The Registered Clubs Association of NSW (RCA) defines clubs as “groups of people sharing a common interest who have bonded together to pursue or promote that interest” (1994:3). The majority of NSW clubs are founded on members’ sporting interests or returned service affiliation, although, ethnic, religious, workers, social, and community clubs are also common. For registration, the main requirements under the Corporations Law (NSW) and the Registered Clubs Act (NSW) are that a club must be incorporated, be conducted in good faith, and occupy bona fide premises for the purposes of the club which are financed by club funds.

According to the most recent industry statistics, there are currently 1,551 registered clubs in NSW, generating an annual turnover of approximately 12 billion Australian dollars (A\$) and with a collective membership of around 2.5 million. Furthermore, NSW clubs contribute over A\$350 million in state taxes, A\$300 million of which comes from the revenue raised by nearly 60,000 poker machines. In addition to taxation revenue, around 50 percent of NSW poker machine revenue provides community support for charities, sport, the aged and handicapped and

club projects for its members (RCA, 1994:5). Additional revenue accrues from other types of club gaming, such as keno, TAB, bingo, and raffles but is a mere fraction of that raised by poker machines.

Clubs have existed in NSW since the early colonies, when they were modeled on British gentlemen's clubs and catered exclusively to the elite. While the NSW Liquor Act licensed 85 clubs for trading in 1905, it was not until the end of WWII and the return of ex-service personnel that clubs began to gain a wider acceptance in the community. Indeed, in only the last fifty years, the number of NSW registered clubs has grown from 85 to over 1,500 (RCA, 1994:3—5). This phenomenal growth can be attributed to many changes in competitive forces influencing the industry in the postwar years.

During the first half of this century, pubs were virtually the sole public establishments catering to the social consumption of alcohol. However, by the end of WWII, the lack of service and the "6 o'clock swill" in NSW pubs, combined with the shortage of beer and a resulting black market, had tried the patience of ordinary social drinkers (Caldwell, 1972:69). Exploited by hoteliers and breweries, the demand for better leisure establishments increased, particularly as disposable incomes and consumer spending boomed with dramatic improvements in economic conditions. Amendments to the NSW Liquor Act in 1946 allowed the authorization of another 265 clubs, giving the people of NSW leisure establishments that better met their needs. No longer were clubs privileged domains for "gentlemen," but returned soldiers, sporting, and other groups also founded and patronized clubs.

By 1958, with further amendments to the NSW Liquor Act, the number of NSW registered clubs had grown to 1,050. Clubs were now recognized as the focal point for a variety of entertainment, sporting, and social activities. Furthermore, because clubs were considered private rather than public organizations, they retained the important privilege of being able to serve liquor outside hotel trading hours—after 6 p.m. and on Sundays. It is not surprising then that NSW residents became members and supporters of registered clubs.

The competitive edge gained by clubs in the service of alcohol, however, pales compared to the advantages enjoyed from their exclusive right to operate poker machines. While poker machines were not legalized in clubs until 1956, various types of machine had been used in clubs, probably since about the 1900s (Caldwell, 1972:95). In the first half of this century, the government's attitude to poker machines was one of ambivalence, with intermittent steps taken to eliminate them. However, in the early 1950s, the clubs themselves lobbied for the legalization of poker machines, offering an annual tax on each machine and arguing financial hardship and loss of jobs if they were to be removed. Despite continued objection by church groups and the hotel industry, the State Government legalized poker machines in NSW clubs in August 1956, with the Premier noting that to prohibit poker machines would jeopardize the existence of many clubs and the employment they provided (cited in Caldwell, 1972:100).

The legalization of poker machines gave NSW clubs a monopoly on gaming machines for many years, with on-course bookmakers and state-run lotteries the only other forms of legal gambling anywhere in Australia until 1976. Table 1 identifies key milestones in the development of the Australian gaming industry, which currently encompasses poker and electronic gaming machines, lotteries, Tattsлото, Lotto, instant lottery, pools, bingo and minor gaming, and casino gaming. Table 1 indicates that the last twenty years have witnessed the proliferation of

additional forms of gambling, eroding the market share of club poker machine gaming and curtailing growth in club poker machine revenue. The nature and implications of such rapid change in the competitive environment for club gaming is discussed in more detail below.

Table 1. Milestones in the Development of the Australian Gaming Industry

Year	Introduction of ...
1897	Tattersall's State Lottery in Tasmania
1920	Queensland State Lottery (Golden Casket)
1931	NSW State Lottery
1933	Western Australian State Lottery
1954	Tattersall's Lottery in Victoria
1956	Poker machines in NSW clubs
1966	South Australian State Lottery
1972	Lotto in Victoria
1973	Lotto in South Australia, Wrest Point Casino in Tasmania
1974	Soccer Pools in Victoria
1975	Soccer Pools in NSW, Queensland & Tasmania
1976	Poker Machines in ACT clubs, Lotto in ACT
1978	Lotto in Western Australia & Northern Territory, Instant Lottery in South Australia, Soccer Pools in Northern Territory
1979	Lotto in NSW, Instant Lottery in Northern Territory, Soccer Pools in ACT, Darwin Casino in Northern Territory
1980	Soccer Pools in South Australia
1981	Lotto in Queensland, Instant Lottery in Victoria, Tasmania, ACT
1982	Instant Lottery in NSW & Western Australia
1984	Gaming machines in NSW hotels, Instant Lottery in Queensland, Soccer Pools in Western Australia
1985	Jupiters Casino in Queensland, Adelaide Casino in South Australia, Burswood Casino in Western Australia
1986	Video gaming machines in Tasmanian casinos
1987	Gaming machines in ACT hotels
1990	Poker machines in Northern Territory
1991	Poker machines in Queensland, Keno in NSW
1992	Poker machines in Victoria, Casino Canberra in ACT, Keno in South Australia
1993	Keno in Victoria
1994	Poker machines in South Australia, Melbourne's Crown Casino in Victoria with 1,300 poker machines, increasing to 2,500 by 1996
1995	Brisbane Casino in Queensland, Sydney Harbour Casino opened in September, with 1,480 poker machines

This brief history of the NSW club industry and its phenomenal growth reflect numerous changes in its external environment which have helped to determine the development and current status of the industry. In particular, the reliance of the NSW club industry on poker machines for about 70 percent of its revenue (Department of Gaming and Racing, 1995:4) implies that competitive forces influencing club gaming have probably been the most influential in shaping the industry. Changes in these competitive forces will now be reviewed in terms of Porter's model (1980), with attention to entry barriers, industry competition, customer markets, and substitute products.

Entry Barriers to Club Gaming

Entry barriers largely determine the number of potential entrants to an industry and thus the eventual competition posed by intra-industry rivals. Porter (1980:7—17) identifies six factors which can prevent or encourage entry to an industry by new organizations: economies of scale, product differentiation, capital requirements, cost disadvantages independent of size (such as experience, expertise, proprietary technology, favorable locations, etc.), access to distribution channels, and government policy. In an emerging industry, entry barriers are low, encouraging many new entrants and rapid industry growth.

Once poker machines were legalized in NSW clubs in 1956, and with amendments to government legislation in the following three years allowing the registration of additional clubs, conditions were ripe for the entry of a multitude of new competitors to the NSW club industry. Indeed, 700 additional clubs were registered in NSW between 1955 and 1958, an industry growth rate of 200 percent

(RCA, 1994:3). Following Porter's (1980) model, these new entrants were encouraged by the small number and size of existing clubs, low customer loyalty with club membership then encompassing only a small proportion of the population, the opportunity for raising capital requirements from membership fees and poker machine revenue, little experience or expertise in the existing industry, and numerous locations with unmet demand for club facilities and services.

The phenomenal increase in the number of NSW clubs leveled off after 1958. Since then, the average annual growth rate has been around 1.4 percent, compared to about 50 percent in the years immediately following the introduction of poker machines. Indeed, the number of registered clubs in NSW has actually declined in recent years, with some smaller clubs finding it increasingly difficult to survive (RCA, 1990; 1994).

To analyze the growth of the NSW club gaming industry, the number of poker machines and their annual turnover can be examined. In 1993, the number of poker machines in NSW clubs totaled 58,734 (RCA, 1994:5), a tenfold increase on the 5,596 machines licensed in 1957 (Caldwell, 1972:145). Unfortunately, official detailed statistics on Australian gambling turnover have only been collected since 1972. While these identify a growth in real poker machine turnover from A\$1419.5 million in 1972—73 to A\$3495.8 million in 1993—94, they also indicate that expenditure on poker machines as a percentage of total NSW gaming expenditure has declined from 91.3 percent in 1974—75 to 83.9 percent in 1993—94 (Tasmanian Gaming Commission, 1995:142; 215).

Thus, potential entrants to the NSW club gaming industry are currently facing declining market share in terms of gaming expenditure on poker machines, as

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well as numerous higher entry barriers than those faced by their counterparts forty years ago. These include strong customer loyalty to existing clubs with a collective membership of 2.5 million; the need for high capital investment, with many larger clubs having over A\$1 billion in assets providing high quality facilities and services for often tens of thousands of members; considerable experience and expertise amongst existing industry players; and more stringent government legislation regarding new developments and licensing requirements. These higher barriers to entry provide one indication of the increasing maturity of the industry.

Intensifying Industry Competition

In addition to higher entry barriers, competition among existing players in the NSW club gaming industry has intensified. Porter (1980:18—21) maintains that intense rivalry occurs in industries where competitors are numerous or are roughly equal in size and power, industry growth is slow, the product lacks differentiation or switching costs, fixed costs are high or the product is perishable, products are produced in large amounts at a time, exit barriers are high, and rivals have diverse strategies, origins, and personalities.

Many of these characteristics are evident in the NSW club industry. For example, over the last forty years the industry has grown from one with few competitors to many, with no single club currently having dominant market share. Within their geographic markets, price competition, new product introductions, and advertising campaigns are used in attempts to jockey for a favorable position. With little product differentiation possible in the poker machines themselves, clubs must attempt to increase player participation by purchasing the latest types of machines, by increasing players' percentage returns from the machines, by holding frequent and innovative poker machine promotions, and by improving the physical environment in which the machines are played. Clearly, the poker machine product is also a perishable one, with the time they are idle being nonrecoverable. Thus, many clubs subsidize their food and beverage prices with poker machine revenues to increase membership, visitation, and machine play. Percentage returns to players are often set at 90 percent to 95 percent, even though legislation requires only 85 percent. Ongoing machine replacement programs are common to keep up with latest trends. Frequent renovations seek to improve the physical environment in gaming rooms.

Exit barriers from the industry are also high, particularly as NSW clubs tend to purchase rather than lease the machines, and operate in purpose-built facilities. Indeed it is more common for an ailing club to amalgamate with a stronger rival rather than face closure. This is evidence of increasing industry concentration, which is common in maturing industries.

Finally, the diverse origins, objectives, and memberships of clubs means that they may have vastly different ideas about how to compete and often fail to avoid direct competition in their attempts to meet members' needs and their financial objectives. For example, in geographic markets where numerous clubs compete, most engage in similar marketing ploys, such as reduced membership fees, lucky badge draws, \$2 lunches, happy hours, and numerous other promotions. Thus, intense industry rivalry means that price cutting, continual improvements in physical

facilities, and advertising slugs are the rule rather than the exception and provide further indications of the industry's increasing maturity.

Maturing Customer Markets

In addition to entry barriers and intra-industry rivalry, Porter (1980) identifies customers as a third competitive force with which industries must contend. As an industry matures, customer markets become more powerful, thus eroding the competitive strength of firms within the industry.

Cook and Yale (1994) use diffusion theory to explain the spread and acceptance of gaming in the U.S. They cite five characteristics of products and services which determine the pace at which individuals will adopt a new concept and the rate at which an idea will diffuse throughout a society.

These factors are relative advantage, compatibility, complexity, trialability, and observability. In the U.S., the spread of gaming locations during the 1990s has increased the accessibility and relative advantage of gaming compared to other

leisure activities. This has increased gaming's compatibility with most Americans' lifestyles and reduced the perception of its remoteness and complexity due to the ability to try or observe others participating (Cook and Yale 1995:16).

A similar pattern can be observed in NSW since the legalization of poker machines and the diffusion of electronic and other forms of gaming throughout society. The proliferation of easily accessible clubs where poker machines can be tried and observed, new technologies which have reduced the complexity of the games, and the introduction and acceptance of additional forms of gaming have changed the public attitude toward gaming to one of general acceptance and resulted in a more mature customer market.

Furthermore, there is some evidence that Australians, as a society, have a greater propensity to gamble than members of comparable societies. Indeed, Australians are often referred to as a "nation of gamblers," with many historians attributing the Australian passion for gambling to our early convict history (Cumes, 1979; O'Hara, 1988). However, despite its long-standing popularity, gambling has met with varying degrees of opposition ever since colonization. Throughout the 1800s, considerable disquiet was expressed about gambling by the writers of that period (Caldwell, 1985:18). For example, a *Sydney Morning Herald* editorial on 5 February 1880 maintained that "with the exception perhaps of drunkenness, gambling—especially on horse-racing—is the greatest curse under which Australia suffers" (cited in Inglis, 1985:6).

The most vocal and long-standing opposition to gambling in Australia has come from various church groups. For example, numerous publications of the *Australian Christian World* in the late 1800s referred to gambling as "the national

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vice." While the Catholic Church saw no moral danger in gambling (Inglis, 1985:12), the Protestant Churches were vehemently opposed to it on the grounds that gambling countered the Protestant work ethic and was basically covetous. Their objections to gambling were perhaps most strongly voiced in the years preceding and following the legalization of poker machines in NSW clubs, claiming the machines would increase the opportunity to gamble, preyed on the weak, presented grave economic dangers for the families of those who fell victim to them, and would lead to the legalization of other forms of gambling and further declines in public morality (Caldwell, 1972:100).

Up until 1956, gambling in NSW was restricted largely to on-course betting, illegal poker machines in a relatively small number of clubs and hotels, State lotteries, and various unregulated and usually private games of chance. Thus, for the vast majority of people, most forms of gambling were largely inaccessible, carried some degree of social stigma, and were restricted mainly to criminal and wealthy sectors of society. The legalization of poker machines in NSW clubs and the huge growth in the number of clubs and machines suddenly made gambling accessible to all and removed much of the stigma attached to it.

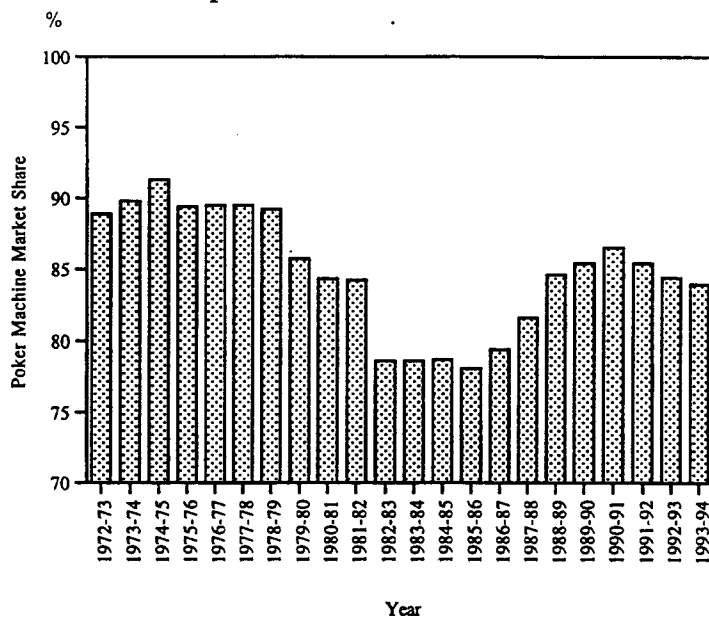
Furthermore, because poker machines are available in every sizeable town in NSW, are easy to play, can be readily tried and observed, and are a socially acceptable form of leisure activity, their diffusion throughout NSW society has been rapid. The average player is now more experienced, discerning, and better traveled than ever before. He or she is aware of the latest developments in poker machine design and technology, has expectations about percentage payouts, can shop around for superior physical facilities in which to play the machines, and is experienced in a variety of electronic gaming machines offered by hotels and casinos. Meanwhile, providers of poker machines can do little to maintain customer loyalty to the particular machines in their establishments. Little product differentiation between the price or other features of the machines is possible, all clubs have access to all brands of machines, and there are minimal switching costs for players choosing alternative venues. All of these factors point to the growing power of customer markets relative to suppliers of poker machine facilities and reflect the growing maturation of the industry.

Increasing Substitute Products

Perhaps the greatest changes in competitive forces influencing the NSW club gaming industry in the last few decades have resulted from increasing substitute products for poker machines. The introduction of electronic gaming machines in a growing number of casinos, hotels, and interstate clubs has led to the gradual erosion of the NSW clubs' monopoly on electronic gaming. In addition, various forms of non-machine gaming have become more diverse and accessible, meaning that the Australian public now has a far wider choice in spending its gaming dollars. Indeed, as shown in Figure 3, expenditure on NSW poker machines has fluctuated from around 90 percent of the NSW gaming market during the 1970s, to a low of about 79 percent, when Lotto, Instant Lottery and hotel electronic gaming machines were introduced in the 1980s, and then to around 84 percent in the 1990s (Tasmanian Gaming Commission, 1995:142).

The monopoly on electronic gaming machines in Australia enjoyed by NSW clubs for twenty years ended in 1976 with the introduction of poker machines in clubs in the Australian Capital Territory. Following this, real poker machine turnover declined in NSW clubs from A\$1,867.4 million in 1975—76 to A\$1,762.2 million in 1977—78 (Tasmanian Gaming Commission, 1995:215). Whether this decline in turnover resulted directly from the new competition cannot be accurately ascertained. However, given the geographic proximity of NSW and the ACT, and noting the continual decline of real poker machine turnover in NSW until 1980—81 while turnover in the ACT more than doubled, it appears that interstate poker machine expenditure declined. In addition, the introduction of Lotto and Soccer Pools in NSW may have contributed to the decline in real NSW poker machine turnover between 1976 and 1980. Indeed, when Soccer Pools were introduced in 1975—76, they picked up a 2.7 percent share of the NSW gaming market while poker machines lost a 1.9 percent share. Similarly, the introduction of Lotto in 1979—80 attracted a 5.0 percent share of NSW gaming expenditure but was accompanied by a loss of a 3.5 percent share by poker machines (Tasmanian Gaming Commission, 1995:142).

Figure 3. NSW Poker Machine Expenditure as a Percentage of All NSW Gaming Expenditure 1972—73 to 1993—94

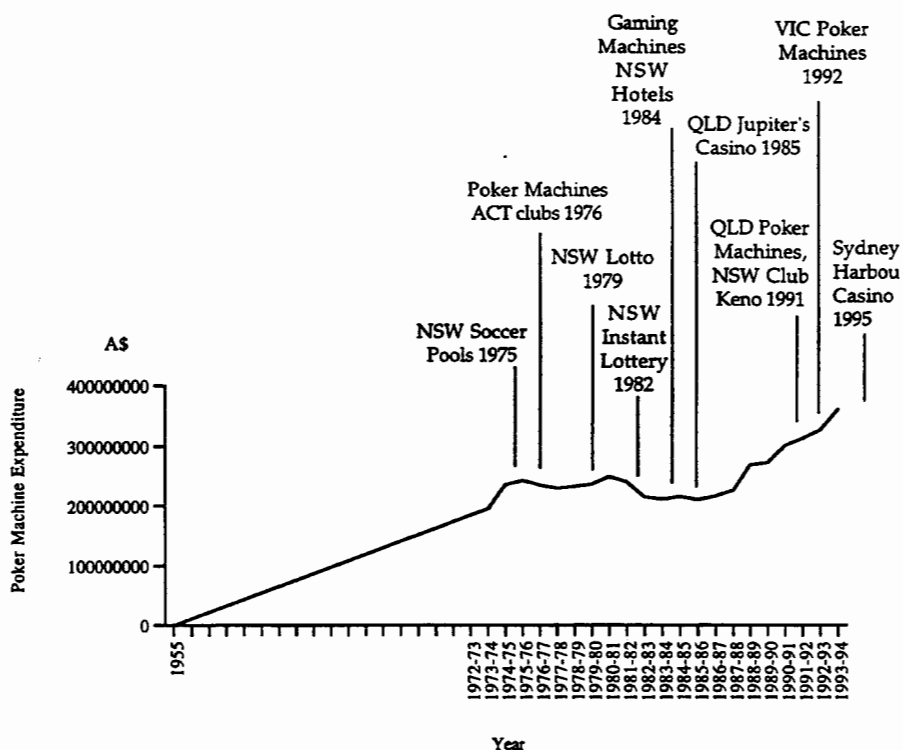


Source: The Tasmanian Gaming Commission, 1995:142.

Throughout the 1980s, further substitute gaming products became available with apparent effects on NSW poker machine revenue and market share. For example, the introduction of Instant Lotteries in NSW in 1982 was followed by a steady yearly decline in real poker machine revenue from A\$1,913.7 million in

1980—81 to A\$1,622.8 million by 1983—84 (Tasmanian Gaming Commission, 1995:215). Furthermore, the gain in market share by Instant Lotteries of 5 percent to 6 percent for the first five years of operation was matched by a comparable decline in poker machine market share during this time (Tasmanian Gaming Commission, 1995:142). Similarly, after gaming machines were introduced in NSW hotels in 1984 and Jupiters Casino opened on the Gold Coast in Queensland, real NSW poker machine revenues again declined in 1985—86 to A\$1,616.4 million (Tasmanian Gaming Commission, 1995:215). The real NSW poker machine revenues from 1972—73 to 1993—94 are shown in Figure 4, where the previously mentioned fluctuations are apparent.

Figure 4. Introduction of Major Substitute Products During the Lifecycle of the NSW Poker Machine Gaming Industry



Thus, the decade 1975—85 witnessed the proliferation of gaming options in NSW to encompass Soccer Pools, Lotto, Instant Lottery and electronic gaming machines in hotels, to accompany existing State Lotteries and club poker machines. In addition, ACT poker machines and Jupiters Casino became available only a few kilometers across the state borders. It appears that all of these new forms of gaming had an impact on the poker machine revenue and market share enjoyed by the NSW clubs. However, what is also apparent is that these new forms of gambling have enjoyed a “honeymoon” period, where real revenues and market shares were highest in the first few years after introduction. Following the mid-1980s, some of the previously lost market share was recovered by poker machines, while real revenue has steadily increased.

In the 1990s, a new wave of gaming options occurred. Poker machines were introduced into Queensland and Victoria, casinos opened in Canberra and Melbourne, and ClubKeno commenced in NSW clubs.

Interestingly, the State Government of Victoria (1994:92) has reported only a marginal impact to date on the turnover of the NSW southern border clubs from the introduction of poker machines in Victoria. Their report noted that the large NSW border clubs offer far greater and better quality entertainment and sporting facilities and have the resources to offer transport and other subsidies to attract Victorian visitors across the border. In addition, they reported that the NSW clubs had increased their marketing efforts to meet the competition. However, poker machines have been available in Victoria for a little over 3 years, with the total number of machines less than 16,000 (at November 1994). Nevertheless, the *Review of Electronic Gaming Machines in Victoria* has forecast that the mature market level of electronic gaming machines by the end of the decade will be between 43,000 and 45,000 machines in Victoria, increasing to 50,000 by 2005 (State Government of Victoria, 1995:6). Furthermore, the *Review* has recommended that the current limit of 105 machines per venue be lifted in clubs so that free market forces result in optimum efficiency in the industry (State Government of Victoria, 1994:9). Thus, it seems reasonable to assume that the Victorian club industry will be able to match the services, facilities, and resources of the larger NSW clubs in the near future and will be in a far stronger position to keep Victorian poker machine revenue within the state.

In Queensland, the latest statistics identify just over 15,000 machines located at 1,000 sites, the majority of which are clubs (Department of Family Services and Aboriginal and Islander Affairs, 1995:25). Furthermore, most of the machines are concentrated in the southeastern corner of the state and so compete for the population base previously served by numerous large NSW clubs near the northern border. Indeed, two of the top six NSW clubs, based on annual liquor fees, are located on the northern border (RCA, 1994:68). While no comprehensive research has been conducted into the impact of Queensland poker machines on interstate tourism, limited empirical evidence indicates that NSW poker machine revenue has been adversely affected. For example, in a study of the financial effects on the Twin Towns Services Club (the second top club in NSW based on annual liquor fees) following the introduction of poker machines into Queensland, Alcock reports that only 26 percent of pre-gaming machine visitors from six Queensland clubs in a 250 km radius of Twin Towns still visited Twin Towns club and that the average visitation declined from 2.5 visits to 0.5 visits per year (1992:19). Furthermore, while Twin Towns enjoyed a 1.6 percent increase in machine profit in the three months prior to the introduction of the machines into Queensland compared to the same period in the previous year, the six months following witnessed a decline of 11.8 percent (Alcock, 1992:16—17). Furthermore, the club suffered an overall decline in revenue of A\$1.2 million in the financial year following the introduction of Queensland poker machines (Twin Town Services Club Annual Report, 1993).

The impact on the NSW club gaming industry of the increasing number of casinos in Australia is difficult to quantify. With a continuing increase in real NSW poker machine turnover this decade, it seems that any impact so far has been absorbed, although NSW poker machine market share declined by 0.6 percent following the opening of Jupiters Casino on the Gold Coast in 1985. However,

again a "honeymoon period" is apparent, with the effect on clubs "limited to curiosity . . . within twelve months all (NSW northern border) clubs were operating normally again" (Alcock, 1992:3). Additionally, a major threat to poker machine gaming in NSW clubs may be felt in September 1995 with the opening of the Sydney Harbour Casino in Sydney. Clearly, casinos provide yet another substitute product for poker machine gaming, with many providing poker machines as well as gaming tables. The RCA has been extremely vocal in its opposition to poker machines in the proposed Sydney casino and has won an assurance from the NSW Chief Secretary that the government will ensure a "level playing field" for casino and club gaming devices, which will prevent the casino from offering different gaming devices, bet limits, and prize limits to those offered by the clubs (RCA, 1994:4—5). Furthermore, the RCA has also negotiated a safety net scheme for clubs whereby those within a 10 km radius of the casino can be exempt from poker machine duty or have payment deferred, if they can prove financial hardship (Liquor Administration Board, 1994).

As well as cooperation at the industry level, groups of clubs in certain geographic locations have begun to work together to promote clubs and tourism in various regions.

The impact of the Sydney casino on surrounding clubs will not be known for some time. In Melbourne, poker machine revenue declined in a few nearby clubs immediately following the opening of the Crown Casino,

which attracts some 25,000 people per day (Carnie, 1994). However, once the novelty of the casino wears off, some club managers felt that revenues would recover. Indeed, one unexpected aid to Melbourne clubs has been the queues outside the casino on weekends. Faced with the prospect of waiting in cold evening conditions for up to two hours, many potential casino patrons opt for the clubs (Cartwright, 1994:8). It will probably be many years before the true long-term impacts on the clubs of the Melbourne and Sydney casinos are felt. Nevertheless, with both casinos located in the heart of their respective cities, it is clear that their primary markets are residents rather than tourists. It is difficult to know whether casino revenue will come from their existing gambling expenditure or other sources, such as their household budget or savings.

The latest substitute gaming product developed is home gambling, using interactive television and personal computers. Future demand for home gambling using these technologies is likely to be substantial, with gaming, cable television, and personal computers currently three of the world's fastest growing industries. Home gambling on offshore casino games, including slot machines, blackjack, and lotteries, has just become available in Australia via the Internet, of which there are an estimated one million users in Australia (Lecky, 1995:3). Furthermore, it is estimated that by the end of this year, about 30 percent of all Australian homes will have a personal computer, of which 20 percent will have CD-ROM drives (Packer, 1995:33). By June 1996, pay TV will allow Australians to play casino games, buy lottery tickets, and place bets with the TAB while watching horse, harness, and dog races at home. Indeed, a report to a Federal Government committee, the Broadband Services Expert Group, estimates that home gambling and betting will have an annual turnover of some A\$36 billion by 2009 (cited in

Murphy, 1995:76). If predictions hold true, the real winners in Australian home gambling will be the state governments, racing clubs, the TAB, media magnates, and the telephone companies, while clubs and pubs dependent on gambling will be amongst the losers. The challenge to existing gaming establishments may be to participate in the broadband networks to increase participants and prize money in games such as keno and bingo, and to provide cable gambling stations for patrons to access (Murphy, 1995:76). However, while the new technologies may initially draw more patrons to gaming establishments, in the longer term, when pay TV and personal computers become more affordable, home gambling will provide a more convenient substitute to visiting a club to play the machines. Clubs may well need to promote the social, rather than monetary, aspects of gaming to maintain their patronage.

Along with the technological advances allowing home gambling, the ultimate form of interactive technology, virtual reality, may also present challenges for existing gambling establishments in the future. Virtual reality will make it possible to experience a night at the casino or a ride on the Melbourne Cup winner without stepping outside. Currently, the new wave of entertainment and leisure options which will be unleashed by virtual reality is hindered by the costs involved, but cheaper technology is already being developed (Gigante, 1994).

The NSW Club Gaming Industry Surviving Maturity

The preceding analysis of competitive forces indicates that the NSW club gaming industry has many of the characteristics of a maturing industry as identified by Porter (1980:238—240). These include slowing growth resulting in more competition for market share; increased reliance on experienced, repeat buyers; greater emphasis on cost and service to remain competitive; overcapacity of supply compared to demand; limited possibilities for new product introductions; and declining industry profit margins. The changes apparent in an industry's transition to maturity represent changes in its basic structure and in the competitive forces to which individual firms in the industry must respond. From the preceding analysis, it is speculated that a number of factors have a key role to play in the future competitive strength of the NSW club gaming industry. These will be discussed under the headings of industry cooperation, strategic management, and marketing.

Cooperation as a Competitive Strength

Much of the competitive strength of the NSW registered clubs industry to date has rested on the activities and collective bargaining power of the industry association, the Registered Clubs Association of NSW. This was formed in 1920 and has a current membership of more than 90 percent of NSW clubs (RCA, 1994:5). The Association is very active in providing industrial assistance, administrative advice, education, and training for its members, as well as enhancing industry communications through regular meetings, conferences, and publications. Past industry submissions and lobbying to government by the Association have been instrumental in amendments to legislation, such as the legalization of poker ma-

chines, the allowance of temporary members, larger denomination poker machines, the introduction of ClubKeno, and conditions pertaining to gaming in the Sydney casino, to name just a few (RCA, 1994:3—4). The current consideration by the NSW state government to allow extended gaming facilities in hotels presents an additional challenge for the RCA. Clearly, the future competitiveness of the NSW club gaming industry will depend greatly on the actions of the RCA Gaming Sub-Committee, established in 1991 to formulate Association policy and submissions on a range of gaming matters (RCA, 1994:4). These might include investigating the possibilities of embracing new gaming technologies, developing new or improved gaming products, and refocusing the marketing of club gaming to remain competitive in the fluctuating environment.

As well as cooperation at the industry level, groups of clubs in certain geographic locations have begun to work together to promote clubs and tourism in various regions. Faced with the threat of losing interstate tourist trade when poker machines were introduced into Queensland and Victoria in 1991 and 1992 respectively, NSW clubs on the northern and southern borders embarked on some cooperative marketing campaigns. For example, the four largest clubs in Echuca-Moama, on the NSW-Victorian border, launched a \$250,000 advertising campaign on Melbourne television to attract tourists to the "Monte Carlo of the Murray," offering some 600 poker machines between them (Dette, 1993). Similarly, television campaigns in southeast Queensland when poker machines were going on-line in the area reminded viewers that the Tweed clubs in northern NSW had much more to offer than just poker machines. At the same time, Tweed clubs, local tourist bodies, the Tweed Shire Council, and the two local Chambers of Commerce also joined forces in a new tourism campaign for the area (Andrews, 1992). Prior to 1991, the Tweed clubs were a major drawcard for the area, with "clubs and entertainment" cited by 10.2 percent of visitors in the *Tweed Visitors' Survey* (O'Connell et al, 1991) as the main drawcard which attracted them to the Tweed, while 56.7 percent of all visitors stated they would visit the Tweed clubs during their trip. While the success of such cooperative regional campaigns is difficult to assess, reasonably steady domestic and rising international tourist numbers in the NSW upper north coast region over the last five years (Bureau of Tourism Research, 1995:8) suggest that such campaigns may have helped to maintain the area's competitive position.

Marketing for Competitive Advantage

Perhaps the greatest competitive strength of the NSW club gaming industry, compared to its competitors, lies in the fact that clubs are community-based organizations. Thus, their future competitiveness may well rely on their ability to position themselves as socially responsible, nonprofit, and charity-oriented organizations and to capitalize on their close relationship with their customers and the common interests they share. By emphasizing community-based values and benefits, clubs have the opportunity to solidify their relationships with their core member markets. That is, marketing strategies based on maintaining customer loyalty through more personalized products and services and appeals to shared values may well motivate continued club patronage in preference to the impersonal offerings of other gaming establishments. Indeed, in recent telephone interviews with a

small number of Sydney club managers prior to the opening of the Sydney Harbour Casino in September 1995 (Hing and Breen, 1996), many commented that the clubs will need to become better attuned to their local member and community needs and promote personal service to their members, in order to lessen the impact of the casino. Membership data and patron tracking systems can be used to establish reward systems for member loyalty and patronage.

In addition to improved target marketing, NSW clubs may also benefit from closer attention to the product mix offered. With the clubs relying on poker machines for about 70 percent of their revenue, increased product diversification would appear an appropriate defensive strategy to follow. Many of the larger and more progressive clubs have expanded into motels, conference centers, resorts, and even theme parks, thus lessening their dependence on a product facing increased substitution while also increasing the mix of facilities and services for members and visitors. Other clubs may need to follow suit to maintain their competitive edge. Furthermore, increased diversification of the revenue base may also allow clubs to price the machines more competitively to maximize machine play and expenditure. Indeed, the Swan Report (1992), in an investigation of the likely effects of the Sydney casino on the registered club and hotel industries, noted that the price of gambling was a very significant, if little recognized, factor influencing where and on what games people gamble and that consumers respond reasonably predictably to gambling prices.

A preferred strategy may well be to focus on differentiating the club product from those of hotels, casinos, and home gambling by building on the community nature of the club product and the common interests of club members.

Strategic Management for Competitive Advantage

Porter (1980:241) points out that the rapid growth of an emergent industry often masks strategic errors, allowing most, if not all, companies in the industry to survive. However, "strategic sloppiness" is generally exposed by industry maturity. For example, the closures and amalgamations of some smaller clubs, particularly bowling clubs, reflect their inability to sustain competitive advantage as the club industry has matured. Their overall strategy is proving defective, in that they are no longer offering products and services which are cheaper, a better quality, or different from those of competitors.

Porter (1980:241) maintains that industry maturity may force companies to confront, often for the first time, the need to choose among the three generic strategies of cost leadership, differentiation, and focus. For cost leadership to be an effective strategy, a great deal of managerial attention to cost control, efficient-scale facilities, cost minimization in service, advertising, raw materials, and the like, is necessary, if unaffordable price-wars are to be avoided. However, with a major responsibility of the clubs being to provide facilities and services to their

members, it is difficult to envisage success accruing from the increased standardization and streamlining of services needed if cost leadership is to be achieved.

Alternatively, some clubs may more successfully differentiate their product in terms of facilities and services provided, image, decor, ambience, or service style. For example, some of the newer clubs, such as Twin Towns Banora Point Sporting Club, have an external appearance more akin to a resort operation, with landscaped grounds, swimming pools and the like, while the internal design hides poker machines well away from the foyer which resembles those typical of four and five star hotels. The largest club in NSW, Penrith Rugby League Club, offers an unrivaled range of facilities, including 800 poker machines, tennis courts, a golf driving range, cable skiing, water slides, a miniature railway, and over 200 motel and hotel rooms. In addition, planned extensions include a virtual reality simulator complex (Martin, 1996:28).

Focusing on a particular market niche is a further alternative and has been successfully implemented by some of the most exclusive businessmen's clubs in Sydney. Similarly, with Sydney experiencing increased numbers of immigrants from Asian countries, some clubs in communities with high Asian populations have successfully increased their appeal to these markets through targeting their promotions accordingly. However, with many of the state's clubs being located in small regional towns, there are limited opportunities for targeting narrow segments of the community. A preferred strategy may well be to focus on differentiating the club product from those of hotels, casinos, and home gambling by building on the community nature of the club product and the common interests of club members.

Thus, transition to industry maturity requires club management to take a strategic view of the business and will necessitate an emphasis on management education, rather than the operational training that now dominates the club industry. One initiative that is attracting increasing numbers of participants is a Bachelor of Business in Club Management, offered by Southern Cross University to club managers and employees and jointly developed by the university, the Club Managers Association of Australia, the NSW Registered Clubs Association, and the Department of Technical and Further Education. While the course is only in its fourth year, with about 150 students, evaluations have revealed that the course has been successful in improving a number of workplace management practices in the club industry (Breen and Edwards-Williams, 1995). This is a positive first step towards the more professional management needed to prosper in an increasingly competitive environment.

Conclusion

In summary, a review of the life cycle of the NSW club gaming industry, in terms of the changing competitive forces of potential entrants, industry rivals, customer markets, and substitute products, provides evidence that the industry has evolved from an emergent to a maturing industry. As the industry continues to mature, club management needs to adapt to these intensifying competitive forces if club gaming is to maintain its level of appeal and profitability. Possible responses to this challenge include a continued high level of industry cooperation, a

more strategic approach to management, and a refocusing of the club industry's marketing appeal to the community. Like all products, gaming does have a saturation point, beyond which new products tend to cannibalize existing products. While the overall gambling industry in Australia is still experiencing steady growth, the NSW registered clubs industry needs to ensure that growth in new gaming products is not at the expense of club poker machine revenues.

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