

Slots are to Las Vegas as Baccarat is to Macau: A Game Analysis

- Arthur S.W. Wong –

王世伟

A Paper Presented to

The 15th International Conference on Gambling and Risk Taking



澳門理工學院博彩教學暨研究中心
IPM - Centro Pedagógico e Científico na Área do Jogo
MPI - Gaming Teaching and Research Centre

Caesars Palace, Las Vegas, Nevada, U.S.A

May 28th, 2013

Slots are to Las Vegas as Baccarat is to Macau: A Game Analysis

Money is *reeling in* the casinos in Las Vegas, while chips are *rolling in* the casinos in Macau. These two different phrases exactly symbolize the ways how these two different gaming jurisdictions make their prosperity.

There are several reels in the slot machines and as they are spun thousands and millions of times...money reels in, it creates the profit for the casinos in Las Vegas.

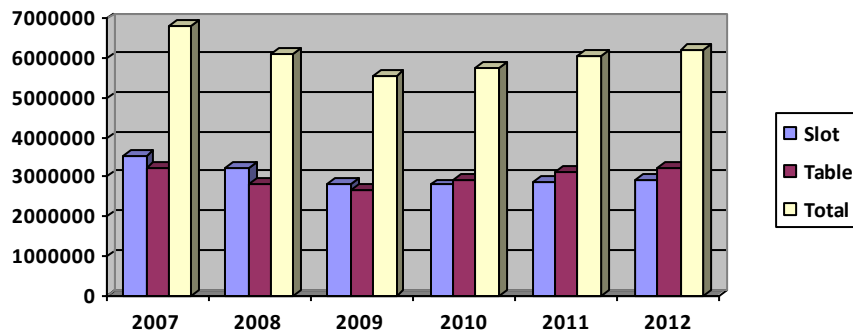
Baccarat players wager dead chips in the VIP rooms rolling thousands and millions of times...money rolls in, it creates the profit for the casinos in Macau.

Las Vegas has spent over a hundred years to establish its brand as the paradise of entertainment. In addition to gambling, Las Vegas has gained a reputation as a vacationland of the world. People flock into the city not only for gambling, but also indulging in peculiar and fantastic enjoyments: dramatic architecture, resplendent luxury hotels, fine cuisines from all over the world, high-end retail and shopping establishment, bizarre stage shows and various plaza and art performances. However, for casino gambling in the U.S., about 70 percent of the casino revenues came from slot machines. Slots constituted about 50 percent of the revenue in Las Vegas Strip, illustrated in Table 1:

Table 1

Total gaming revenue of Las Vegas Strip

(Million US dollars)



Source: University of Nevada, Las Vegas

It splits almost half-half between tables and slots in Las Vegas. Before 2010, its slots revenues had always been higher than its table games. According to an annual AGA survey, the slot machine consistently is named the public's most favorite casino game.

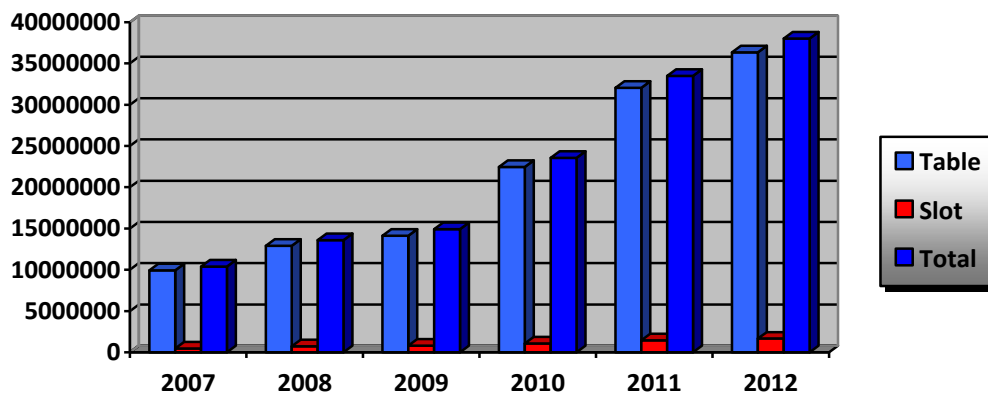
Macau, the only legalized city for gambling in China, has been turning into the world capital of gambling. Since 2007, Macau's gaming revenue has surpassed Las Vegas Strip. Its gaming market has found the industry's spotlight when major gaming companies reported unprecedented

profits and staggering growth in casino revenue. Nevertheless, one stunning fact is that Baccarat is the undisputed king of any other games in Macau, illustrated in table 2

Table 2

Total gaming revenue of Macau

(Million US dollars)



Source: Gaming inspection and coordination bureau Macao SAR

Table games always dominate more than 95% in Macau.

Slots in Las Vegas, USA:

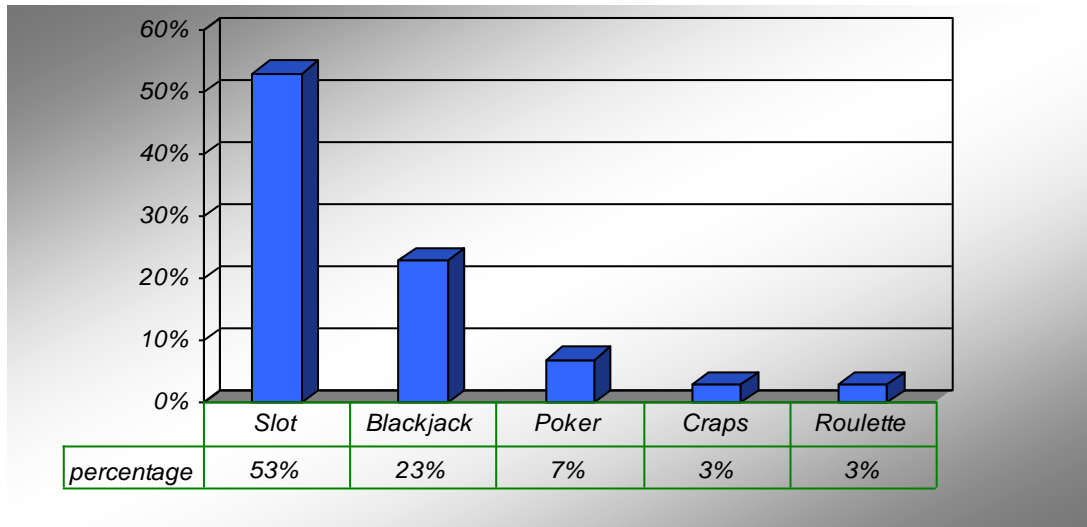
Since Charles Fey built the first slot machine in San Francisco, it soon spread all around the world. After many years' of renovations and improvements, slot machines have lured and attracted thousands and millions of players around the world, especially in the USA. Modern computer technology has resulted in many variations on the slot machine concept and its evolution will continue.

Slot machines are the most popular gambling method in casinos which constituted about 70 percent of the average casino's income in Las Vegas before 2010. Americans tend to trust the payout percentage that the casino executives set in the machine and they always keep on watching the result because the casino senior management would not like to see its patrons walking into its opponents because of the lower payout percentage.

When being asked about their favorite casino game, more than half (53%) of surveyed casino-goers said that electronic gaming machines, including slot machines and video poker, were their favorites. Blackjack is the next most popular game, cited by nearly one-quarter (23%) of respondents. Poker came in third with 7%, indicating it as their favorite (*AGA Survey of casino entertainment 2012*). From the above survey we can understand one scenario: Baccarat, the most popular table game in Macau, yield less than 3 percent of the popularity in the US and is not even on the list. See table 3

Table 3

Top Five Favorite Casino Games (USA)



Source: VP communications, Inc. and Peter D. Hart

Why do Americans prefer slot play as the main form of gambling?

1. Slot machines give the public a sense of constant entertainment and sensory reactions, with lights, sounds and feel.
2. Slot machines are frequently checked and licensed by the related authorities giving the sense of fairness and security.
3. Slot machines are simple to use. The AGA survey showed that 25% of respondents liked playing slot machines more than table games because they were not “going to be embarrassed” because they are less complicated and have fewer rules (*American Gaming Association 2010*).
4. Slot machines entice continued play through Free Spins and Jackpots. About 3% of the surveyors said they had a dream of winning the Jackpot, according to the survey of American Gaming Association.
5. Slot machines involve less investment from both the casino and the player, with some slot machines starts at one penny.
6. Slot machines give the sense of personal space and less pressure, than being involved in a game with others. In a survey done by *American Gaming Association 2010*, 24% expressed, "there is less pressure and I can play at my own pace".

7. American slot players can easily refer to the RTP percentage from the chart printed on “Casino Player” magazine. Furthermore, the annual “loosest” slots awards became the badge of honor in the related industry. See table 4

Table 4

13th Annual Guide to the Best Slot Paybacks in the Nation

Nevada:

5¢	25¢	\$1	\$5	Overall
Mesquite 93.81	Boulder Strip 96.32	North Las Vegas 96.49	Laughlin 96.31	Reno 94.96
Boulder Strip 93.50	North Las Vegas 96.24	Boulder Strip 96.17	Balance of County 96.25	Boulder Strip 94.95
North Las Vegas 93.15	Balance of County 95.08	Reno 95.84	Reno 96.01	Balance of County 94.91

<http://www.casinocenter.com/loosest-slots/>

Slot play in Macau, China:

1. Most Chinese players have the belief that slot play is a big rip-off because slots in Macau have traditionally been associated with either very low pay-outs or scams. Chinese gamblers were heavily burnt by slot machines and that is why they created a nickname for the machines: “tigers”, because they devoured endlessly without paying out reasonably. Would the slot players trust the management or authorities of the casinos? Definitely not. Nevertheless some slot managers believed that slots will overcome the table games in the future, but it won’t happen within this century!

2. Basically, professionals of the Macau gaming industry would confirm that the RTP (Return To Player) of slot machines in Macau is around 80-95%. It’s at best merely an understanding between the industry and the regulator and is not technically enforceable. The casino executives could set the hold percentage freely as they wish. (Interviews held with some slot managers of Macau local casinos).

3. The previous poor status of the slot machine: Macau casinos used to put their slot machines in the dim narrow corridors or unnoticeable corners so that these machines wouldn’t disturb the operation of any other table games. Slots are just merely part of the casino decorations.

Baccarat game in Macau, China:

Baccarat, a classic and very simple card game, which overwhelmingly spread through Macau to mainland China, makes its unshakable dominant position in the gaming business in Macau. The game itself is just as simple as flipping a coin, which can incredibly make Chinese players cheering and moaning interchangeably.

According to the statistics, the allocation of net profit of the gaming industry in Macau is as follows: 40% contributed to the Macau SAR government, 40% paid to the intermediaries or the junket agents and the remaining 20% obtained by the casinos owners. Dramatically, 70% of the

government taxes gained from the gaming industry actually contributed by the junket agents. See table 5

Table 5
Gaming Revenue Percentage of VIP Rooms in Macau

(Unit: MOP Million)

Year	Gross revenue	VIP room revenue	Percent changed
2007	83, 022	55, 762	67. 18%
2008	108, 772	73, 772	67. 82%
2009	119, 369	79, 834	66. 88%
2010	188, 343	135, 648	72. 02%
2011	267, 867	196, 126	73. 21%
2012	304, 139	210, 850	69. 32%

Source: Gaming inspection and coordination bureau Macao SAR

**Except Baccarat game, there is no other game played in most VIP rooms in Macau.*

Why do Chinese prefer Baccarat play as the main form of gambling?

1. It is so popular among Chinese players because of its fair house edge. Baccarat tables are launched into the gaming floors, and are also fully occupied in the VIP rooms. Players can wager minimum amount and the action of card-squeezing would stimulate players with the feeling of huge excitement.

2. The baccarat tables in the main gaming floor are usually full of players from various betting levels; Chinese people are used to be filled inside narrow space because of its astronomical population. So whenever a baccarat table shows a winning streak, Chinese players would elbow their way into the crowds.

3. VIP rooms are usually outsourced or co-sourced to individual enterprises with self-finance system. The VIP room contractors stick seriously on its junket agents to bring in stable customers. Those premium players and high-rollers can receive imperial treatment and enjoyment.

Baccarat game has 91.1% occupation amongst all the other casino games, illustrated in table 6 below:

Table 6

Gaming Revenue of Baccarat game and Slots in Macau (2012)

(Unit: MOP Million)

Gross revenues (2012)	VIP Baccarat	Gaming floor Baccarat	Total Baccarat	Slot Machines
304,139	210,850	66,251	277,101	13,244
Percentage	69.32%	21.78%	91.10%	4.35%

Source: Gaming inspection and coordination bureau Macao SAR

Baccarat game in Las Vegas, USA:

1. The game of Baccarat always brings the feeling of a certain prestige and elegance to the players. It usually involves high rollers or whales with huge sum of wagers. You seldom see any Baccarat tables on the main gaming floors and most Americans have no idea where they are located. It is the fact that such game involves the element of “collectivism” which is not so appropriate among Americans who showed very low scores of the preference of the collectivism. As I have been to Las Vegas 6 times (from 1993 – 2003), I could hardly find any Baccarat tables on the main gaming floor in Las Vegas.

2. Frankly speaking, the management of some American casinos knows the measure of volatility clearly. A couple of short visits by high rollers wagering at the maximum usually have not enough decisions to bring the relative standard deviation going to zero. So, the management wouldn't choose to stick seriously on the high volatility of baccarat game, which is hard to predict, and would affect strongly on the quarterly revenue.

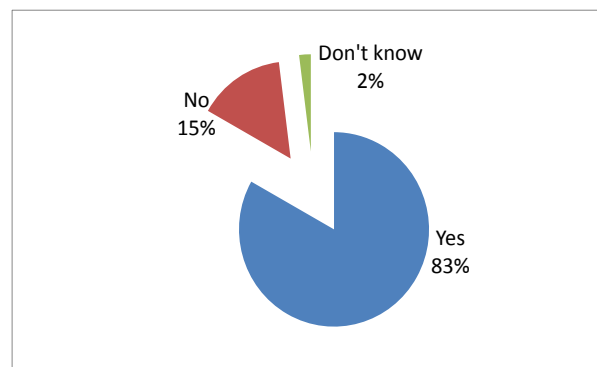
3. From statistical calculation, Baccarat's winning ratio is: (banker 50.68% to players 49.32%). Its chance of winning or losing is almost half-half wagering on either side. According to the survey of “uncertainty avoidance index” which shows that Americans have higher degree, so the management of the casinos would by nature take proper measures to avoid the uncertainty of the game. If those high-rollers or whales played once or twice a month or even a season with several winning streaks, some small or even medium-sized casinos couldn't have such affordability.

4. Casino executives run their business revenue report precisely on quarterly basis. For example: Mr. Gary Loveman Harrah's president and CEO recognized that Wall Street tended to punish bad luck on the tables to a greater extent than it rewarded good luck, so the company's stock price would drop more dramatically on a poor quarterly result than it would benefit from a quarter impacted by good luck and strong hold percentages on table games. (*Andrew MacDonald and Bill Eadington, 2007*). Thus they are not courageous to be a player in the high-end Baccarat market to take such risk.

The cultural difference and the behavior of the players:

Culture is fundamental to the emergence of gambling practices within societies (*Kerry G.E. Chambers, 2011*). The general mindset of American players tend to assume that gambling is a recreational sport. They would like to visit Las Vegas with family and set aside some percent of their travelling expenses to spend in the casino regardless of winning or losing. They just pursue a kind of entertainment. According to the American Gaming Association, it shows the fact that 83 percent of people surveyed said they set a budget when they go casino gambling, as illustrated in Table 7

Table 7 Percentage of budget setting of American players



Source: VP communications, Inc. and Peter D. Hart

Setting budget is significant to responsible gaming. 83 percent of American casino visitors take this to heart and set a budget before a casino gambling trip, it reflected exactly on their higher uncertainly avoidance index than Chinese.

The general mindsets of most Chinese or Asian players who visit the casinos in Macau would consider that they gamble for the excitement, the risk-taking, either “you (means the house side) die or I die!” They would come with certain amount of money to “invest” in the casino, aiming definitely to win some money when they go back home. Chinese show very low score of “uncertainty avoidance index”. Naturally they would like to take risks and usually they just pursue a kind of the final winnings behind any gambling games in casinos.

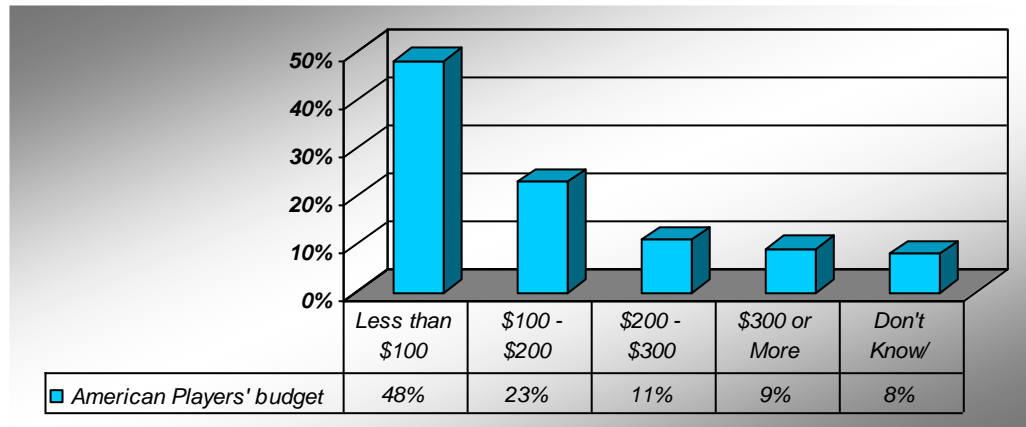
However, if Chinese players eventually lost in the battlefield, they would incredibly compare with their fellow gamblers to see who lost more. It’s because the person who lost most is the real high-roller. That’s the typical Chinese “face-saving” philosophy.

From the end of 2009 to the present, there were numerous cases which should draw the attention of the related authorities both in Macau and mainland China. In the coastal provinces of China, like Guangdong, Zhejiang, some entrepreneurs with cash flow problems because of the impact of the global economy recession. Those involved entrepreneurs decided to take risks in Macau casinos by playing high stakes of Baccarat games. (Interviews were done with some junket agents). Consequently, based on such cases, it can be considered that whenever Chinese

businessmen have some financial problems, they like to even think that casino is a place where they can “borrow” money. Many of them generally become problematic /pathological gamblers.

There are cultural differences and behavior towards the activity of gambling. Most Western players really consider that staying in the casino is for pure fun, is an entertainment, a relaxation, not an activity of high risk-taking. Do the Americans set a budget when they go casino gambling? See table 8

Table 8: American casino goers’ budget setting



Source: VP communications, Inc. and Peter D. Hart

Gambling budgets set by American casino visitors are as vary, but almost half (48%) of those questioned set a budget of less than \$100 when they go to a casino. Almost one-quarter (23%) set a budget between \$100 and \$200, while only 9% budget more than \$300.

There is no related data about Chinese visitors to Macau casinos. However, given the cultural view of gambling in China and the fact that Junket agents take initiative to loan money to premium players at VIP rooms in casinos, budget setting may not been seen a priority to Chinese gamblers.

The level of customer service between Las Vegas and Macau differs as well. Las Vegas emphasizes strongly on the building of personal relationships with all their guests. Advanced technology has been used to store guests’ information into membership cards. However, face-to-face “personal touch factors” are sometimes neglected. In Macau, the same guest can enjoy warm-hearted personal treatment, and no need to worry about their personal information being released out.

Above are the differences between casino players in the USA and Macau. Now it is time for these two gambling capitals to find a way to ensure their sustainable development.

Conclusion

Three suggestions, I would like to present to the authorities, lawmakers and professionals of both gaming jurisdictions to take into consideration:

1. There must be some kind of reasons for the formation of the success of each side. Therefore, keep on doing more and even better of this natural formation. In other words, Las Vegas should further its strength on slots business and ignore its weakness on table games, especially Baccarat game. On the other hand, Macau should keep on enhancing Baccarat game especially the VIP system with potential premium players to reassure its sustainable prosperity.

2. To create a kind of new transformational product in which combines the strength of each side, so merging together to form some types of new games which could be naturally accepted by both sides. At present, there are some electronic table games installed in the main gaming floors in the newly-built casinos in Cotai strip; with live performance of about 6 dealers on the main stage, one stadium-style ETG installation is linking about two to three hundred terminals. they have attracted many recreational players with lower minimum bets.

3. To draw each other's advantages in order to enhance one's status:

Las Vegas:

Should casino management have new focus on promoting its table games especially on baccarat games for its lowest house edge to the American players? Is it worth considering expanding the range of baccarat games in the main gaming floor?

VIP rooms are just like active human cells operating inside the main body of the casino. Is it possible to divide some parts of the casino gaming floor for the use of VIP rooms (not just roped-off area) so as to attract the eyeballs of the high-rollers, take the practical experience from Macau to outsource these rooms to the private companies so it would guarantee the licensees' and other related stakeholders' benefit?

Each VIP room then should recruit active junket agents and sales representatives who possess Asian or Chinese background to invite Chinese high-rollers from various districts in China to experience the American style of VIP room gambling and serve them closely, providing transportation, accommodation, gaming, credit and various entertainments.

The culture difference between Eastern and Western should also be taken into special consideration. Chinese guests would not like to have any of their personal status leaked out. Through the focusing of Chinese market, it will gradually bring the interests of American players' participation of the baccarat games.

Las Vegas casinos already had the experience to reward cash directly to its valuable players. However, in the long run, is it able to maintain or spread to a large scale? On the other hand, it

should be noted that Macau VIP mode can't be imitated because of the cultural difference between these two jurisdictions.

Macau:

As noticed above that there is still great potential in the slots market segment in Macau and ideal space to expand. However, the most vital thing is that gaming industry developed too fast and its regulation is out-of-date. The authorities and law makers of Macau should examine the existing gaming laws and update them in time. New updated regulations should be legislated in reference to those advanced countries so as to meet the global standards.

As for the management of the casino, especially those foreign enterprises may carry forward their valuable homeland experience to enhance the position of slots in order to eliminate Macau local and traditional negative impact. The related gaming department of Macau government ought to review, amend and strengthen the supervision of slots "RTP" rate, make it open, transparent and stable.

The casino management should start urging the slots manufacturers to add more Chinese elements into the machines and advocate the slots and video games vigorously to the Chinese players. It is a long term task to eliminate the negative impact of slot machines. Relocating of the slot machines ought to be taken in to consideration even including the VIP rooms.

Reference:

American Gaming Association "2011 State of State" the AGA survey of casino entertainment

Geert Hofstede's theory of cultural dimensions

*Cooper, Marc (December 2005). "How slot machines give gamblers the business". The Atlantic Monthly Group.
<http://www.theatlantic.com/doc/200512/slot-machines>.*

Andrew MacDonald and William R. Eadington "Knowledge Should Defeat Fear" – Understanding the high stakes game of Baccarat - Part II.

Wuyi Wang and William R. Eadington "VIP-room Contractual System of Macau's Traditional Casino Industry

Luciana Leitão The number of licensed VIP gambling junket operators continues to rise, provoking calls for greater transparency

<http://brokopp.casinocitytimes.com/article/survey-says-players-and-casinos-love-slots-58609>

http://www.americangaming.org/files/aga/uploads/docs/sos/aga_sos_2012_web.pdf

<http://www.casinator.com/casino-games/high-stakes-baccarat.php>

<http://www.urbino.net/digital-books.cfm?dID=22&p=2>

<http://www.casinocenter.com/loosest-slots/>