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Asian Player Loyalty

By **David Schugar with Dustin Ford** *Mon, Oct 01, 2012*



Balancing operator and junket representative interests in North America



Virtually every casino operation in North America is looking to turn around its financial fortunes. Large caps, small caps, Las Vegas Strip mega-properties, and virtually every one of the multitudes of Native American casinos throughout the U.S. and Canada have all looked East in one way or another.

Some, like Steve Wynn and Sheldon Adelson, have gone to the source and invested directly in Asia. Others have gone to developing home-grown, dedicated Asian player development teams in their own locales. After all, nothing is better than harvesting the proverbial “low-hanging fruit” of a culture whose heritage celebrates the propensity to gamble

Isn't the Asian market a necessary ingredient in any strategic plan to improve margins, grow market share and bring more to one's bottom line?

Meanwhile, casino gaming continues to expand across the globe with very little indication of slowing down. From the rapid growth of the markets in Macau to the casino operations developing in Indochina, the Latin Americas and Europe, it is clear that casino gaming is taking an ever-stronger foothold in developed and developing countries alike. With this expansion, there is much to be said about the variations found in these casino gaming markets, especially the effective marketing techniques that take into account unique challenges to the Asian market

The business models in Asia cast many similarities and differences compared to their counterparts in North America, and the experience of casino operations in places like Savannakhet, Laos, on the borders of Thailand, and Keb, Cambodia, on the border with Ha Tien, Vietnam, can yield tips for successful operations.

Rolling Chip Programs

Rolling chip programs continue to be the primary method for high-end table game play in Asia, providing as much as 70 percent of the gaming revenue in Macau and more than half of the gaming revenue in Laos and Cambodia. Rolling chip programs involve using two sets of chips: a non-negotiable chip used by the player to place a wager and a negotiable chip that is used by the casino operator to pay the wager.

This dual-chip method allows casino operators to better track the theoretical value, or rolling turnover, of a player's wagering volume. Non-negotiable chips cannot be cashed out and must be wagered, which is essentially a method for ensuring that a player will wager at least the amount of their buy-in.

As winning wagers with non-negotiable chips are paid with negotiable chips, non-negotiable chips continue to be wagered until they are converted or lost. The player then either cashes out the negotiable

chips or uses them to purchase additional non-negotiable chips for continued play. Hence the term “rolling,” as players play through non-negotiable chips to acquire negotiable chips, and so on.

The Sahara Hotel in Las Vegas instituted a rolling chip program in the early 1990s. The policy was to provide \$1,100 in non-negotiable chips for every \$1,000 of cash buy-in. Table-game managers were accustomed to comping known players up front, and rating players for comp evaluation at the end of their stay, but this was an entirely new proposition.

The program was introduced as a customized tour and travel program for small groups of the casino’s Asian clientele. Managers quickly realized these players would not continue to play without the incentive of 11-for-10 buy-ins. What operations assumed was a one-time, up-front cost was not the understanding of the player.

Many operators truly did not understand the consequences of offering incentives based upon rolling chip programs because they were accustomed to basing their assumptions on historical hold and not the theoretical hold that rolling chips are predicated upon. It didn’t take long to re-think the math when the hold inevitably took a dive.

But that was more than 20 years ago, and today, the competition in Asia to increase the marketability of rolling chip programs requires that casino properties offer the player a percentage or commission, typically between 1 percent and 2 percent, based upon the turnover of the non-negotiable chips purchased, which are ultimately lost or “turned over” by the player. This helps to offset the fact that the player cannot cash out the initial chip purchase by effectively requiring them to wager, at the very least, the total amount of their buy-in.

As the commission percentage awarded through these rolling chip programs is set by the casino property, it can become a valuable tool in attracting high-end players to the tables. In Macau, the commission percentage offered at any given casino is prohibited by law to exceed 1.2 percent, a range typical of commercial casinos existing in developed gaming markets in Asia. However, properties in Indochina routinely offer 1.7 percent to 1.8 percent with the occasional 2 percent in commission on negotiable chips in their rolling chip programs for cash players.

Given that the theoretical house advantage on baccarat is as low as 1.05 percent, pricing a sustainable commission system requires a casino property to carefully account for a reduced house margin on table game play. While a higher commission has the potential to attract more high-end players, a commission that is set too high can drastically reduce table game revenue to an untenably low margin.

Compounding the equation is the fact that commissions are paid on the wagers irrespective of the win/loss. The volatility to which experienced operators are accustomed can be exacerbated when simply breaking even.

The effect of the rolling commission fees added to the expense of comps can essentially bring the real player acquisition costs to levels upwards of 60 percent or more of table game revenues. Cash flow management can take on a new meaning for operators who find themselves on the downside of the pendulum.

Many casinos in Indochina have tried to buck the system by establishing monopolies, or with impressive physical plant accrements. The most famous of these is Naga World in Phnom Penh, Cambodia.

After the government revoked the licenses of the multitude of small slot parlors that had begun to proliferate in Cambodia, the owners of the impressive, by Indochina standards, Naga World felt they could eliminate their junket operators and handle the hosting of high-end play with their in-house employees. In response, the junket operators found new homes at the other smaller and less attractive casinos on the borders of Thailand and Vietnam.

These casinos, while not as opulent as Naga World, offered comparable rolling commission rates and were actually closer to the players. But it only took a few months for Naga World to realize that without the special relationship of the junket operator to the player they were at a disadvantage to casinos offering aging, inferior physical plants. Once they reinstated their junket operator programs, their high-end business returned. Players demonstrated that Naga World’s comps and rolling commissions alone were not enough to attract them. The players followed their junket reps.

Credit and the Junket Operator

Unlike modern American casino properties that have shifted to providing a complete range of services in-house, Asian properties are heavily reliant on junket operators to supply high-end players to the casino. This trend has, in part, developed because of the lack of legal, consistent and reliable methods of enforcing credit agreements available to Asian operators.

As such, Asian operators have increasingly turned to junket operators that issue credit independently to patrons, thereby mitigating the risk to the operator of issuing credit to patrons directly. The development has led to players who display a high degree of loyalty to a particular junket operator but not necessarily to any particular casino operator.

In addition, the junket operator issues credit to the player and maintains the authority to collect upon credit issued. Sometimes, this credit has been extended to the junket operator en masse and the junket operators dole it out as they see fit among their players. The junket operator may charge interest to the

player, and has the ability to navigate the collection process with far more nimbleness than licensed operators. The casino in turn pays the junket operator the rolling commission fees, and it is the junket operator who pays the fees to the player, less a small handling charge, often as little as 0.1 percent.

Essentially, because the junket operator negotiates everything on behalf of the players, the players' relationships are far more intimate with the junket operator than the casino operator that provides the lodging and gaming services.

Marketing Challenges in Asia

In light of the popularity of rolling chip programs and the prominent role of junket operators, marketing to Asian players is drastically different than current proven methods used in North America. These dynamics, coupled with some countries having legal prohibitions on allowing local citizens to participate in gambling, increased privacy expectations, and general logistical issues, have led to marketing methods that are unique to the Asian market.

In North America, player marketing is typically offered through mailings to customers who have established a player account at the property. While this has proven successful in the domestic market, direct-mail marketing in Asia has proven impractical for a number of reasons. First, as a practical matter, many Asian countries do not have postal systems that can match the complexity and reliability of systems found elsewhere throughout the world. Second, the traditional Asian gambler has a much greater expectation of privacy and anonymity. This leads to fewer players who are willing to provide the necessary personal information that is vital to mail marketing programs.

Finally and as noted above, many Asian countries have passed laws that prevent local residents from gambling at casinos. In Vietnam, for example, several casino resorts have been licensed but may only allow foreign patrons to gamble. Singapore residents must pay a sizable fee, not required for tourists, to enter a local casino. Marketing techniques, therefore, must focus on destination gamblers, as the law prevents the cultivation of a strong local patron base. The natural response is the development of the junket operator phenomenon that utilizes networks of the newly affluent in societies that are still cognizant and respectful of the old money powerbrokers.

Casino executives in North America are accustomed to junket operators negotiating a player's comp levels up front, and it's not unusual for a junket operator to handle the customer's transportation and reservations. But once the player hits the casino floor, the casino assumes the role of host and manages player expectations.

Not so in Indochina. From the dominant Naga World in Phnom Penh to the smaller operators like Ha Tien Vegas at the southeast corner of Cambodia far from the capital, the junket operator has a hands-on presence on the casino floor, in his own private gaming salons, facilitating the purchase of, and transactions associated with, the non-negotiable and negotiable chips of the rolling chip programs.

Certainly, North American operators are accustomed to junkets and independent casino reps, but not to this degree. American casinos will pay reps with the understanding they will respect the rep's relationship to the player, but in Asia the relationship is far stronger, and the casino really cannot steal a player without incurring risk and liability, particularly when credit is involved. These negotiations are seldom handled on a case-by-case basis but are instead reached as a matter of casino policy. Essentially, the junket operators act as the go-between between all high rollers and the casino operator.

A practical example of this business model is Tango LLC, one of Southeast Asia's most respected junket operators. Tango has a complete staff housed and accommodated at the Savan Vegas Hotel & Casino in Savannakhet, Laos. The company's staff wears their own uniforms and have offices literally steps away from the tables to assist in the administration of the rolling chip programs they supervise and represent. Players often have the Tango staff handle their needs from dining to spa treatments.

This relationship takes on such a proportion that Savan Vegas doesn't even have an executive host on hand to take on a player development role in generating repeat business. Instead, Savan Vegas management relies entirely on its junket operators like Tango LLC to bring in its high-roller play.

Tango even participates in marketing the main gaming floor by operating the tour and travel bus programs that bring the vast majority of the casino's patrons from Thailand. Tango's operation of the casino's karaoke room and hair salon accentuate its relationship to both male and female players.

According to Dean Macomber, president of Macomber International, Inc., "The ability for an operator to communicate directly with players can be difficult given that many Asian players, especially in China, have developed strong one-on-one relationships with VIP room and junket operators over time. In the process, the VIP room and junket operators have a history of helping the players overcome the many challenges they can face when taking a gaming trip, such as exit and entry visa restrictions, cash movement, travel arrangements and language/cultural issues. While there are exceptions, in Macau, for example, operators have only been successful in generating not much more than 20 percent of their total high-end play from marketing to players directly. Indeed, some Macau casino operators rely completely on third parties to market to and service their premium players."

Overcoming the Challenges

Despite the challenges mentioned above, the current Asian model for cultivating high-end players through rolling chip programs offers opportunities for domestic operators willing to immerse themselves in the Asian gaming culture. These include an increased attention to personal service and atmosphere, differences in labor practices, and regulatory considerations to grow innovative operational models.

As a result of the logistical marketing challenges discussed above, gaming operators have increased focus on personal service and creating a gaming atmosphere that will develop players into loyal patrons. This is achieved, in part, by operators empowering their staff members to create personal relationships with players in a more casual, humanistic gaming environment.

“Even though vast new wealth is being created each day in Asia, and those affected become worldly, the majority of Asian players still have a strong preference for an experience that includes their local cuisine, language, customs and detailed cultural touches,” notes Macomber. “These aspects of the total gaming experience are not impossible, but difficult to replicate from afar and by the ignorant. Therefore, it is important to understand the idiosyncrasies of the specific Asian player that you are trying to attract by immersing yourself in the Asian gaming environment.”

The differences in the Asian gaming market have resulted in an Asian player that has a very different set of expectations when approaching a casino property. The wise operator needs to know that the Asian market is as delicate as it is lucrative. Romancing the player with sustainable margins is no easy task.

To properly cater to this growing market segment, U.S. casino properties must truly understand the foreign player’s experiences and needs. In addition, those U.S. companies that are seeking to expand into the outlying Asian gaming market, be they operators, suppliers, or associated businesses, must have a keen understanding of the unique aspects of the Asian landscape to properly integrate into the market

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