

# Casino junkets: part art, part science, part voodoo

With Macau no longer able to rely on its traditional junket model, operators should consider exploring some new options in regards to their VIP offerings

By **Steve Karoul**



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**C**ASINO junkets are a very interesting subject. Casino junkets, junket reps and independent reps who organize individual “splinter junkets” exist all around the world today. Splinter junkets or “splinters” is a slang casino term for individual players as opposed to a large group of players.

There are approximately 2,500 to 3,000 legitimate licensed casino operations located around the world. Not all but many of these casinos either have a junket program in one form or another or engage junket reps or independent reps to bring qualified players to their casinos. Junket programs and rep commission programs vary drastically depending upon which part of the world the casino is located in. For example, almost all casinos in Asia use the Non-Negotiable Chip Rolling Program where commissions are based upon the turnover of chips. However, in other parts of the world Non-Negotiable Chip Rolling Programs are almost non-existent. One has to wonder why?

First, we have to understand that junkets in any form represent a risk/reward type of situation for the casino. The risk side of the equation translates into dealing with unknown players, unknown sub-junkets or independent reps and they are usually very expensive programs for the casino. Non-Negotiable Chip Rolling commission programs in Asia normally pay anywhere from 1% to 1.8% commission on a hold percentage of 2.7% for baccarat.

This means that on the higher side of the commission spectrum, casinos will actually pay out 50% to 70% of their hold percentage on the game. In other words, the junkets are actually earning more than the casino on this business despite the fact the casinos have invested hundreds of millions of dollars in building these magnificent properties. So one naturally has to ask how the

casinos make money and why they would even consider paying such high commissions?

Junkets in Asia are quite different from the rest of the world and the players are also different in their propensity for risk, their propensity for gaming and their access to large amounts of money for gaming purposes. Asian players without question represent some of the largest players in the world.

One additional factor is volume of business. Despite the casino's ability to only keep a small percentage of revenue based upon turnover, the turnover volume of this business is huge in comparison to business volumes in Western casinos. Simply stated, a small percentage of huge volume translates to more revenue than a high percentage of a much smaller volume of turnover. The law of economics kicks in and Asian casinos continue to promote Non-Negotiable Chip turnover commission programs.

We also have to consider the rewards or benefits for the casinos. There are actually many benefits. For starters, the casinos do not have to intimately know their customers. It is the junkets that have to assume this responsibility because their business model in Asia is predicated upon the junket issuing casino credit to their players as well as being responsible for the collection of any credit issued.

The casino's primary concern is settlement with the junket at the end of each month on any money owed to the casino. Casinos often hedge the risk by obtaining a security deposit or some type of collateral or assurance from their junkets.

Most casinos and junkets in Asia understand regulatory compliance and understand that laws are either black or white but not gray in color. However, some of the areas that junkets actually operate in are gray areas. The largest involves the movement of funds. Many countries in Asia, including China, have currency control regulations in place. Nevertheless, junkets still seem to find ways to collect their debts from their players once they arrive back in their home countries after a gaming trip and they still manage to pay off any obligations to the casino at the end of each month.

The title of this article is, "Casino junkets: part art, part science, part voodoo." This is the voodoo part. Trying to trace the flow of money or movement of funds seems to resemble black magic in many ways but that subject is better left for another time.

Business in Macau has been on the decline for the past two years with substantial drops in casino revenue for a variety of different reasons. One is the Chinese Central Government's crackdown on corruption which has caused a ripple effect from the players to the

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Proposed new mega-resorts such as the US\$8 billion Aquis on Australia's northeast coast will put further pressure on Macau's operators.

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junkets and on to the casinos. In effect, the old junket business model that existed previously in Macau is now broken.

A senior level Beijing government official recently commented that Macau should diversify its tourism offerings in order to attract higher quality visitors including more business and family travelers. There was no mention of casino players or the VIP segment of the market. In addition, Macau is now facing fierce competition from several existing markets in Asia such as Singapore, Australia, Korea, the Philippines and Cambodia as well as from several new markets where we are seeing proposals for multi-billion dollar integrated resorts.

The proposed new Australian mega-casino project, Aquis, will be a US\$8 billion resort with eight hotels, 7,500 rooms, two large casinos, a golf course, lagoons and nearby beach. We also see Saipan developing a new US\$7 billion casino resort. In addition, Las Vegas Sands has publically stated that they would spend up to US\$10 billion for a new casino resort in Asia in the right location. What does all of this mean for Macau?

With the old model no longer the cash cow it once was and the customer base changing, Macau must reinvent itself. It needs to become more creative and look for new opportunities to develop business both from existing markets and from new ones.

In the past, players from other parts of the world were viewed as small players by Macau casino operators and weren't necessarily welcomed with open arms. With China supplying almost the entire customer base, foreign players that did visit Macau had to fend for themselves. They did not understand the language or how the local commission programs or casino comps worked. Consequently, many returned home disappointed with the whole experience. Macau can't afford to lose these players anymore.

Casinos in Macau can easily reinvent themselves and their way of doing business if they want to. It would, for example, be simple enough to create a designated “International Room” inside each property offering more Western style casino games such as Blackjack, Roulette, Craps and Pai Gow. These rooms could be staffed with bilingual and even trilingual staff, all helped by new customer service training focused on serving foreign players.

Gaming staff could also be trained in a Western style casino rating system where the objective is to focus on table game

ratings to calculate the Theoretical Win for each player. Casinos in the West normally rebate a percentage of Theoretical Win back to players which can be used within the property to pay for their room, food, beverage, airfare reimbursement, spa, salon or even retail shopping.

Theoretical Win is normally automatically calculated by CMS (Casino Management Software) based upon manual rating inputs. It is the same formula used by casinos around the world which is Average Bet x Number of Hours Played x Number of Decisions per Hour for that game x House Advantage for the game being rated. Western Casinos, depending upon location and gaming tax, may rebate 20% to 35% of Theoretical Win back to the player in points. Each Point has a dollar value so 1,000 points may be equal to \$1,000 worth of comp dollars that the player may redeem at the casino.

Junket reps or independent reps are either paid a percentage of Theoretical Win or they are paid a percentage of actual rated loss in the casino such as 10% of the player's rated loss. One should note that Rolling Chip commission programs based upon turnover are actually 100% accurate as opposed to a manual Rating System where there may be some errors based upon visual observations. Therefore it is very important to properly train casino management as well as empower them to make executive level decisions quickly on the casino floor to help avoid customer disputes.

An additional point is that most of these new players will either be cash deposit players who bank transfer their funds to the casino in

advance or will already be established casino credit customers with a good history or track record in Central Credit.

Many casinos set a minimum amount for the cash deposit or approved credit line for a player to be rated on such a program. That minimum amount could be US\$25,000 with total deposits or credit up to US\$100,000 or more. Players with less money are still welcome to play in the International Room but casino comps may be quite limited based upon management's discretion.

There are many creative ways to attract international junket reps or independent reps as well as to attract players directly. Casino alliances are quite common in other parts of the world where casinos develop reciprocal promotions for certain higher rated players and share the hosting of such players when they visit each other's properties. This same concept is now being employed by many of the casino cruise ships, but these programs are not really competitive since time and distance, as well as expense, are factors that limit such long distance trips to once or twice a year as opposed to weekly visits to their local or home casino.

As the words of a famous song by Bob Dylan go, "The Times They Are A-Changin'." The time for change in Macau is now. Opportunity is out there. It is time to rethink junkets and to consider "...Part Art, Part Science, Part Voodoo." The bottom line is that international junkets or new international players will not replace lost VIP business in Macau, but they may offer a new cost effective way to mitigate some of the loss. iag

