

# GLOBAL Gaming Business Weekly

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## California Dreamin'

*Tribes assess Schwarzenegger's power*

### GAMING IMPACT STATEMENT

**WHAT:** Election of Arnold Schwarzenegger as governor

**WHERE:** California

**WHY:** What effect is the state's new governor, adamantly opposed by its gaming tribes, expected to have on gaming in California and Nevada?

California tribes are hoping their new governor-elect, Arnold Schwarzenegger, doesn't try too hard to make good on his campaign promise to pull in up to \$2 billion from Indian casinos.

Many say it's a goal he can't accomplish no matter how hard he tries, at least without the tribes' compliance. Ousted Gov. Gray Davis has been attempting the same thing since the start of the year. In January, Davis announced that he would require the tribes to pay \$1.5 billion into the budget. He later reduced that figure to \$680 million, and still received nothing beyond the \$130 million a year the tribes now pay the state.

The problem is that 64 tribes are only a few years into the 20-year compacts they signed with Davis, so those tribes who are

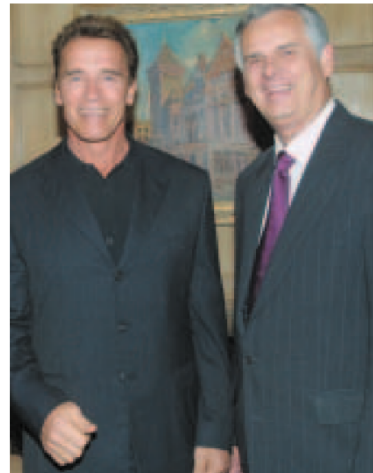
willing to renegotiate are the ones who want something in return: an increase in their slot-machine limit or a new casino.

Only about a dozen tribes with the largest casinos are said to have an interest in more slots. Three tribes with casinos under development recently signed compacts that provide for some state revenue sharing though, and more are in the works, including Station Casinos' joint venture with the Federated Indians of Graton Rancheria. Station has proposed a compact for the casino outside of San Francisco in which the tribe will pay the local government \$200 million over 10 years.

Station, along with Nevada gaming suppliers (who also supply California's casinos) are hoping Schwarzenegger makes no new revenue sharing demands on tribes and is open to new casino proposals.

But Nevada gaming operators who have no interest in California tribal casinos would

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Governor-elect Arnold Schwarzenegger and Los Angeles Mayor Jim Hahn (l.)

## Weekly Feature

### INCREASE YOUR ASIAN PLAY

*'Dead Chip Rolling' pays 1.5 percent with a table differential of \$100,000, Part 1*

by Steve Karoul

There is an increased interest in Asian gamblers now that two American casino operators have won casino licenses in Macau, thereby opening up huge opportunities for the future cultivation and development of an entire new market segment of premium Asian gamblers from mainland China. In addition, it appears that several other countries in Asia such as Taiwan, Thailand, Cambodia and others are also considering new business opportunities involving legalized casino gaming. This will undoubtedly open up many new opportunities for both casino operators and for casino staffing using experienced ex-pat gaming professionals. "Dead chip rolling with a table differential" is one of the most misunderstood areas of gaming in the rest of the world today outside of Asia, and is clearly preferred by premium Asian players.

If this all sounds like Chinese to you, you are not too far from the truth. You would be much more likely to hear this in Macau or another Asian casino that caters to an Asian clientele. You will also probably hear the casino management complain that the players "squeeze" all of the cards and that they have to use eight brand new decks of cards at the end of every shoe. You're right, the game is punto banco or baccarat. It is the game of choice of the premium Asian player market. Many casino operators around the world are not familiar with this terminology or this type of gambling. If you want to run junkets from Asia or are considering the possibility of getting involved in some way with Asian gaming, you should at least

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understand the basics. Then you can better decide if this type of business is right for your casino or not. In addition, the opportunity for new high-level jobs for experienced casino employees will continue to increase over the next few years.

#### So what is a dead chip?

A "dead chip" is basically a non-negotiable chip which can not be cashed out at the casino cage for currency versus a "live chip" or negotiable chip which may be cashed out for currency. Some casinos also utilise two completely separate sets of both dead and live chips for junkets versus their normal casino chips. This is an additional security feature which limits or controls junket play to certain tables or VIP rooms for better evaluation and control over the junket play. When the junket operator issues the credit or puts up the front money for the junket, you need to carefully control all cash outs of junket "live chips." Since the player knows that they are live chips, he assumes that they are also negotiable and many times will try to cash out claiming that he needs cash for his wife to go shopping or for tipping in the hotel, or some other reason. This can cause a big problem for the junket operator who needs to accurately monitor each of his customers turn over or "rolling." One simple solution to the problem is to set up a junket cash-out control sheet for each group. Simply list each player's name on the sheet. Every cash-out request from a junket player is directed to the junket operator or his representative for approval. If he approves the cash-out, the junket operator records the amount of the cash-out approved next to the player's name and signs his signature of approval beside each transaction. This eliminates arguments or disputes at the end of the junket. Another tip that I find very helpful is to keep a photocopy of each player's passport at the cash desk and in the pit. This is valuable because it makes customer identification much easier because you have both their name and their photograph, and because you have the correct spelling of each player's name. It also helps the staff learn the player's names quickly which helps create a friendly more personalised atmosphere.

On a side note, it is important to understand that in Asia it is very common for most players to use the services of a junket operator. The junket operator makes all of the travel and rooming arrangements for his customers and in many instances also serves as the unofficial banker who supplies credit to his customers. This is very convenient for the players who oftentimes look to borrow additional money from the operator during the duration of their junket. In Macau today, the majority of higher end table-game action comes in through junket operators who sometimes also lease VIP rooms or sometimes, on a smaller scale, may lease or sub-lease as few as only one table from the VIP room operator. This concept is also quite common on the nine casino ships that are currently operating out of Hong Kong today.

#### What is "rolling?"

Rolling is a term used to describe the turn over in a dead chip game. The player receives his buy-in in dead chips or non-negotiable chips. He places his bet in dead chips on the baccarat table either for Player or Banker. If the customer loses the bet, the dealer takes his dead chip and puts it in his chip float. If the customer wins the bet, the dealer returns the original dead chip wager and pays the customer his winnings in live chips. The junket rep or his chip runner will continually monitor the stacks of chips in front of each player. As they accumulate too many live chips they will exchange them with dead chips so that the customer will have an ample supply of dead chips to keep betting and keep the game going without having to stop to exchange chips. The junket rep will keep a record of each of his customers' transactions. As the junket rep accumulates too many live chips, he will take them to the casino cage and exchange them for more dead chips. The casino cashier will record this on the junket control sheet. For example, if the junket originally deposited \$1,000,000, you want to track and see how many times that \$1,000,000 is turned over or "rolled" through the cage exchanging live chips for dead chips. At the end of the junket any unused dead chips are returned to the cash desk and deducted from the cumulative or "rolling" turnover total. A normal three-four day junket will usually turnover or roll their initial deposit six to eight times. However, this figure can also go much higher for serious players, especially if they are winning.

The casino normally pays a commission of anywhere from 1.3 percent to 1.7 percent on the

total turnover or total "rolling" amount. The junket operator normally pays all of his junkets expenses from this amount of money and may even pay some of his better players a small percentage of his own commission. Whatever amount of money is left over after he takes care of his expenses is basically his net profit for the junket. The casino's net profit comes from the total win from the group less all expenses and commission. The idea behind the "rolling" is that it encourages longer casino play or action. We all know that one of the critical factors in casino statistics or determining theoretical win is "length of time played." The commission is based upon the loss of non-negotiable "dead chips" during the term of the junket.

One analysis by Andrew MacDonald from Crown Casino in Melbourne, Australia uses the term "once through the cage equals twice over the tables." He goes on to give a detailed analysis on why a game like baccarat where the house advantage is approximately 1.25 percent, casino operators are paying commissions in the range of 1.3 percent to 1.7 percent or even slightly higher in a few areas such as Cambodia on "dead chip" programs.

Simply stated, the house advantage can be considered to be twice that of "normal" due to the ratio of actual versus non-negotiable turnover being 2:1. Therefore, baccarat can be considered to have a house advantage on "dead chip" play of 2.5 percent for analytical purposes. Or conversely, the "dead chip" commission percentages should be halved to view them realistically in terms of actual turnover. Either way the results are the same.

In Part II of this article in the October 20 edition of *Global Gaming Business Weekly*, the author explains some of the intricacies of the program and some of the regulatory problems present in some jurisdictions. ■

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## The Rich Get Richer

Harrah's gives huge order to IGT

### GAMBLING IMPACT STATEMENT

**WHAT:** IGT's dominance in the slot manufacturing industry  
**WHERE:** United States  
**WHAT:** Just one month after what many competitors considered a successful showcase at G2E, the industry's leading trade show, IGT closes its biggest deal ever.

It's like the Yankees making every World Series. Just as they thought they might make a run at slot market leader International Game Technology, the also-rans in the manufacturing industry must feel like the Cubs (or the Red Sox).

Last week IGT announced what amounts to one of the largest slot machine orders in its history, as Harrah's Entertainment, Inc. has agreed to purchase a minimum of 11,000 new coinless-capable slots to expedite the introduction of its proprietary ticket-in/ticket-out system, called "Fast Cash."

"This deal is one of the largest orders, if not the largest single order, IGT has ever received, and it is of historical signifi-

cance for both companies," said G. Thomas Baker, IGT's chief executive officer. "With this order, we are on track to achieve a new target of 60,000 to 65,000 replacement machine sales for fiscal year 2004."

Several analysts voiced approval of the order and proclaimed the much ballyhooed "replacement cycle" alive and well.

"IGT easily has another four quarters of growth in replacement demand, which will likely sustain if not permit further valuation expansion," said David Anders of Merrill Lynch.

IGT's stock soared nearly 11 percent on the news, closing at \$31.16 per share the day of the announcement. Harrah's shares rose 21 cents to close at \$42.05. Other slot manufacturers, notably Alliance Gaming, which provides the platform for the Fast Cash system, also rose on the news amid speculation that they too would soon profit due to the replacement cycle.

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## Weekly Feature

### INCREASE YOUR ASIAN PLAY

'Dead Chip Rolling' pays 1.5 percent with a table differential of \$100,000, Part II

by Steve Karoul

In Part I of this article, published in the October 13 edition of Global Gaming Business Weekly, the author explained the basics of a "dead chip rolling" program. This article will explain some of the specifics and variations of the program.

There are a few variations of a dead chip junket program in effect around the world but the basics are all the same. Some highly regulated gaming jurisdictions may not allow this type of play for various reasons but primarily due to the fact that the junket operator may be issuing credit and it is both difficult to monitor and to control. Some casinos pay a slightly higher bonus on the first turn if the total junket turnover reaches a pre-set target. This bonus is usually enough to cover the junket agent's air ticket. I like the concept of "risk-reward" so I normally use a penalty clause if I offer a bonus. Using the same principle, for example, I may set a target of six turns of the front money deposit as the minimum requirement for qualification. If the junket does not achieve the minimum number of turns or rolling, I penalize the agent by proportionately reducing the commission. I use a simple ratio:

**Total Net Rolling x 1.5 percent**

Initial \$ Deposit x 6 = Proportionate percent of commission to be paid.

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For example, let's assume that the initial junket deposit is \$1,000,000 and we require a minimum of six turns to qualify for full commission but the junket only has \$4,500,000 rolling at the end of the junket. We can then see the following:

$\$4,500,000 \times 1.5 \text{ percent}$   
 $\$1,000,000 \times 6 = 1.125 \text{ percent commission instead of the normal } 1.5 \text{ percent}$

This may seem like small amounts when we think of fractions of a percent but in real dollar terms this can add up to substantial amounts of money. In the last example I used the fractional percentage difference in dollar terms equals the difference between  $(\$4,500,000 \times 1.5 \text{ percent} =) \$67,500$  in commission paid versus  $(\$4,500,000 \times 1.125 \text{ percent} =) \$50,625$  in commission actually paid. At the end of a year this savings to the casino goes straight to the bottom line as additional incremental net profit since your other variable expenses remain unchanged.

Table differentials are another very interesting Asian gaming concept that originated in Macau. It can be compared to an insurance policy for the casino since it limits the amount of risk that the house is willing to assume with each hand of baccarat. A big punto banco or baccarat table normally has 14 seats. This means that if your normal betting limits are, for example, \$100 to \$5,000, and all 14 players decide to bet Player at the same time, the risk factor for the house is now  $14 \times \$5,000$  or \$70,000 for that hand. However, if you had a \$100 minimum bet with a table differential of \$30,000, the risk factor for the house for this same hand would only be \$30,000 instead of \$70,000. I have seen table differentials go as high as US \$200,000 but I am more conservative and have never operated a casino with more than a \$100,000 table differential due to the volatility of the game. (Remember, we are in the business of gambling but we should never be gamblers when making these types of decisions.)

In effect, table differential means the spread or difference allowed between the total wagers on Player and the total wagers on Banker. This means that the customers are allowed to bet higher amounts if they wish but the total difference or spread between Player and Banker can never exceed the differential or in this case, \$30,000. If the customers want to bet higher amounts you could, in fact, end up with \$1,000,000 being bet on the Player and \$1,030,000 being bet on the Banker but the casino risk factor is still only \$30,000.

One can see this situation happening daily in the VIP rooms in the Macau casinos or in many Australian casinos. It is also quite common to have different table differentials going at the same time on different tables. For example, \$30,000, \$50,000, \$75,000 and \$100,000 differential games could all be going on simultaneously at different tables, usually with different minimum bet requirements.

One may also ask, what happens if the bets exceed the table differential? Usually the players will work it out among themselves giving "face" or respect to the individual with the highest bet by withdrawing some of their bet amount to reduce the total wagers back within the differential limit. In a few rare instances where you may have some players playing against players from other countries and nobody wants to lose "face," the pit boss may instruct the dealers to reduce every player's bet by a set percentage such as 10 percent until the total wagers or spread comes under the set table differential.

Junket baccarat with Asian customers is normally a very slow game because the customers like to "squeeze" the cards. This is a cultural quirk, but their enjoyment is to slowly roll up the edge of their cards to look at their hand as the rest of the table shouts word of encouragement or luck. It makes the game much more sociable for them but it also bends the cards to the point of ruin, which means you must change the eight decks at the end of every shoe. Another cultural quirk associated with this type of play is "side betting," where the players make unofficial side wagers among themselves as the cards are being "squeezed." Some junket groups also bring along professional side bettors who book all of this unofficial wagering. Some casinos around the world do not allow this, but sometimes it is difficult to control unless you have bi-lingual staff capable of completely understanding the table conversation and hand signals.

### Scam prevention

Another risk with this type of gaming is for the casino operator to realize the true profit potential from this type of play. There are numerous "tricks of the trade" per se being used throughout Asia. One is the old "Forex Scam," where the junket operator works out a pre-set conversion ratio in advance with the players before arriving at the casino. For example, a 2:1 ratio may mean that every \$1,000 chip is unofficially worth \$2,000. Therefore, if the player officially loses \$50,000 at the casino, he may end up owing the junket operator \$100,000 at settlement time back in their home country. The junket operator is basically operating his own casino within your casino but with no overhead or expense. Therefore, you need to know who you are doing business with.

While this article provides a brief general overview of these types of programs, I caution operators not to make quick decisions about these operations unless they completely understand the mathematical statistics and the risk/reward ratios associated with them. I have seen some excellent explanatory analysis work on these subjects by Andrew MacDonald, from the Crown Casino in Australia and by Jim Kilby, professor of gaming at the University of Nevada Las Vegas. Therefore, do your homework properly and then decide if these programs are right for your casino or not. One additional tip is that if you run a normal baccarat game for your junkets or premium individual players, you may want to develop a tracking sheet to record every bet. This will make it much easier to calculate an accurate average wager, which will be important for calculating the theoretical win, which is sometimes called earning potential. You can use this figure to evaluate the player for comps, airfare reimbursement or even partial qualification. Good luck. ■

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