

THE NUMBERS GAME

Increased competition from hotels is putting downward pressure on club gaming but many are bucking the trend.

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The more machines a club has the more likely it is that the ups and downs of each gaming machine cancel one another out.

THE opening line from Charles Dickens classic *A Tale of Two Cities*, “It was the best of times, it was the worst of times”, could just as well be summing up the fortunes of hotels’ and clubs’ gaming performance in 2018.

Last year gaming revenue in clubs grew a meagre 0.2 per cent. Given inflation over the same period was 1.8 per cent, in real terms gaming in clubs went backwards. In contrast, gaming revenue in hotels grew by a healthy 6.9 per cent. It begs the question what’s driving the difference?

There is an adage that when Aristocrat does well, hotels do well; and Aristocrat happens to be doing very well at moment.

In the last few years Aristocrat has released several outstanding products including, *Lightning Cash™* and *Dragon Cash™*. These two products and their linked jackpot brethren have managed to significantly outperform the market.

The small scale of hotel gaming rooms – on average NSW Hotels only have 16 gaming machines – means adding several new Helix cabinets all carrying a Dragon or Lightning variant has a large impact compared to typically larger club installations. Couple that with the fact that more than 90 per cent of new gaming machine authorisations in hotels are Aristocrat compared to roughly 50 per cent in clubs, and it’s easy to see why hotels fortunes are so closely tied to those of Aristocrat.

However, according to Terry O’Halloran, Member Insights and Gaming Specialist at Russell Corporate Advisory, it’s more than just Aristocrat products that are driving the hotel performance.

O’Halloran, who has been conducting research on the performance gap between the club and hotel channels, believes it comes down to a combination of factors that all line up in favour of hotels. The rapidly increasing corporatisation of hotel sector and historically low interest rates are also key factors he says. These two factors have been the driving force behind a major capital refurbishment program in the hotel sector, which has resulted in much more modern hotel offering.

The statistics show that hotels have significantly increased their capital expenditures when it comes to gaming machines. Over the last five years the annual number of new gaming machine authorisations is up 58 per cent in hotels compared to a 0.5 per cent decline in clubs.

Put simply, growth in gaming requires investment in gaming; and on average hotels are investing more heavily than clubs. However, simply comparing overall club performance to that of hotels doesn’t really provide the full picture.

There is a lot of diversity in club performance and the market is almost split evenly when it comes to those that

experienced gaming revenue growth in 2018 and those that went backwards (see figure 1).

While club size, in terms of the number of gaming machines, does have impact on performance, it’s perhaps not in the way most might think. Contrary to popular belief, gaming revenue is not declining across the board in small clubs and large clubs are not immune to poor performance.

Gaming performance in small clubs is more volatile, partly due to the inherent volatility of gaming machines; the more machines a club has the more likely it is that the ups and downs of each gaming machine cancel one another out.

The volatility also reflects the greater impact that board and management decisions can have on performance in a smaller venue. It’s much easier for a club to double its membership when its coming of a base of 250 than it is when its coming off a base of 25,000.

It’s often assumed that location also plays a major factor in club performance. Many clubs in regional areas assume that it far tougher for them than it is for clubs located in the city.

However, the figures tell a different story. They show that club gaming revenue growth in the city versus the regions are virtually identical, with the regions ever so slightly ahead. In fact, most regions across NSW, including Sydney, have a mixture of clubs performing well and poorly.

Fundamentally, what the data demonstrates is that while broader market conditions do play some role in performance, it’s decisions at the individual club level that really matter. With a competitive gaming offering clubs cannot only survive but thrive even in the tough times. ■

FIGURE 1: NSW CLUB GAMING PERFORMANCE BY INDIVIDUAL CLUB SIZE

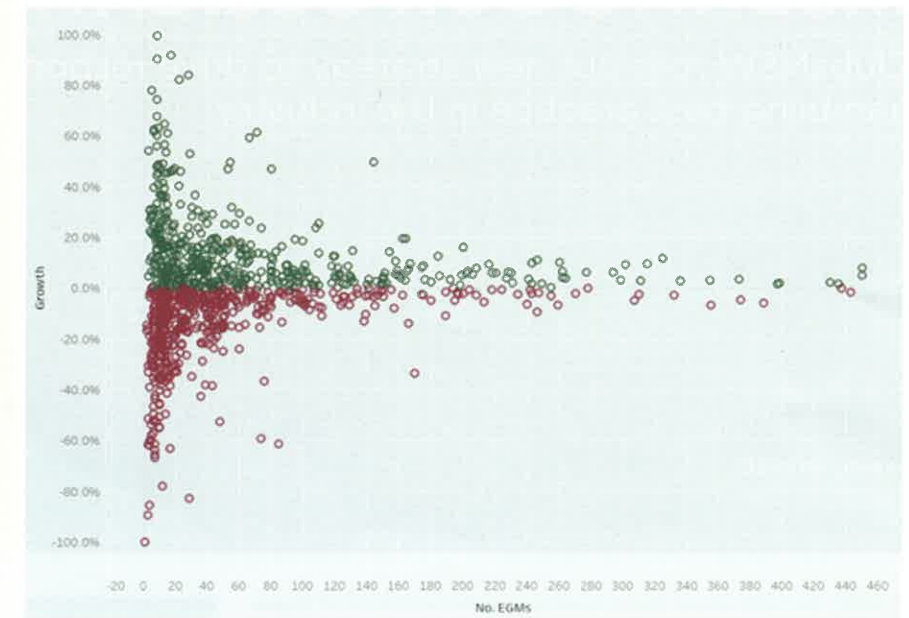


FIGURE 2: NSW CLUB GAMING REVENUE GROWTH AND DECLINE

