



UPPING THE ANTE

DESCRIBED BY ENCYCLOPEDIA BRITANNICA AS “ONE of mankind’s oldest activities,” gambling has also been one of society’s most enduring and profitable businesses. Entering the 21st century, many considered the gaming industry – as in land-based casino gambling – to be recession-proof. This myth of invincibility was shattered in the wake of the 2008 financial crisis, as profits plummeted across the industry and once-popular casinos in Atlantic City and Las Vegas closed their doors and filed for bankruptcy.

Weathering another economic downturn weighs heavily on the minds of gaming executives. But another issue poses perhaps an even greater threat to their businesses, and industry, as a whole: how to compete for the attention – and business – of younger generations.

Gen X-ers and Millennials are no longer aging into gambling the way their parents and grandparents did – or at least not at replacement level. Not only are they gambling less, the younger generations have different needs, values and expectations. The gaming industry doesn’t just need to be responsive to the changing tastes of consumers; it needs to find a way to be relevant to a different consumer altogether.

“It’s illogical to think that someone who grew up with the interactivity and connectivity of video games, the internet, and smartphones will wake up one day and morph into a traditional slot-machine player – it’s not going to happen,” says Roberto Coppola, a Las Vegas-based gaming consultant. “Our industry as it stands has not done nearly enough to future-proof itself.”

The gaming industry’s flamboyant tactics from decades past risk losing the attention (and wallets) of Millennials, says Brunswick’s **MARA RIEMER**

While businesses in all sectors can relate to the challenges posed by the speed at which technology and consumer preferences change, the problems are especially pronounced in gaming, a highly regulated industry slow to approve new products. The industry is not blind to this reality. The 2016 Global Gaming Expo in Las Vegas included sessions titled “The Generational Disruption of Gaming,” “Millennials: Morphing Entertainment Preferences” and “Economic Diversification: Non-Gaming Amenities and Beyond.”

Nearly all businesses are experimenting. Suppliers are creating games aimed at young adults, offering them a more interactive, more social experience. The downside is that while the new gaming activities such as eSports might attract some Millennials, none offer the high margins of traditional gaming.

Gambling is often associated with the US, especially Las Vegas, but today it is a global business. In 2006, Macau surpassed the Las Vegas strip in gaming revenues. The distinctive Marina Bay Sands in Singapore, which cost \$5.6 billion to build, has been said to be “the most profitable building in the world.” And the demographic challenges facing gaming companies are global as well. Even highly successful integrated resorts, like the Marina Bay Sands, which provide an array of non-gaming amenities aimed to attract a broader customer base, remain dependent for a large portion of their profits on a small number of gamblers in the “VIP segment” – the high rollers of the gaming industry who are willing to risk upward of \$100,000 per trip.

To offset this dependence, major casino operators in both Macau and Singapore are exploring ways to become relevant to a new wave of middle-class and young adults in China and Hong Kong. “The entire market has shifted toward the leisure traveler, a younger traveler segment looking for unique, local experiences,” says Cristina Quental, who heads market research at Sands China. “Millennials are the biggest segment of travelers in China.” The reward for businesses that connect with them is significant. “In 2019, an estimated 179 million Chinese tourists are projected to spend \$264 billion,” Quental says.

These demographic and generational shifts are real and measurable, but one should be wary of oversimplifying the issues gaming companies around the world are facing. Regulation and taxation vary greatly by country, as does the behavior of Gen X-ers and Millennials themselves.



“Generations are very nation-specific,” says Chuck Underwood, who heads the consulting firm The Generational Imperative. “About the only thing Chinese Millennials have in common with American Millennials is their name.” So while the industry needs to do a better job of reaching young people, it may also need to do a better job of appreciating their differences.

Both gaming operators and suppliers are asking themselves hard questions that leaders outside the industry can relate to: how can we change to welcome new audiences without alienating our current customers? We know we need to innovate – but how? Should we invest in new technology that might never receive regulatory approval? Will we cannibalize ourselves – should we do it anyway before someone else does?

The Marina Bay Sands in Singapore (bottom) embodies the gaming industry’s transformation from the days of old. In addition to more than 500 gaming tables in the atrium casino (top), the complex contains a luxury mall with one of the world’s largest Louis Vuitton stores, 2,500-plus hotel rooms, a roof-top infinity pool, a nightclub and even an ice skating rink

These are concerns that many businesses share. A look at the gaming industry's past, and the course it needs to chart to have a profitable future, contain a number of widely applicable lessons.

FIVE in particular stand out that companies of all sectors and geographies could benefit from.

1 SPREAD YOUR BETS Gaming companies that survived and thrived have never maintained a status quo in their offering. Whether on a grand scale – opening a multibillion dollar building in a new country – or a small scale – updating a slot floor with the latest rendition of “Wheel of Fortune” – successful gaming businesses gave the same consumers a reason to come back, or new consumers a reason to try.

2 MAKE THE MOST OF YOUR DATA Casinos have a lot of data on their customers. But many struggle to do more than develop a direct mail strategy with a few bespoke offers. Some make attempts to create customer segments, but these often end up becoming meaningless reports on a shelf. Others tried to use the data to optimize the mix of game types on their slot floors, with some success. For most, the masses of data they collect become enigmatic – how to keep it updated and clean, how to make sense of it and how to extract meaningful insight are all elusive questions. But if you can understand the data, then you...

3 UNDERSTAND THE CONSUMER Ask important questions of your customers, and be prepared to invest to find out the answers. Understanding your customers' demographics,

psychographics, values, attitudes and perceptions is a huge advantage. Aim to go a step further, and know whether any of those values or perceptions are likely to evolve and, if so, how – for both current and prospective audiences.

4 DIVERSIFY THOUGHT The industry is notoriously insular. Much decision-making is still based on the gut instincts of executives who have been in the industry their entire careers. These men were once similar enough to their customers that such an instinctive strategy could work. Now, with the emergence of a more diverse and global customer base, a different approach is called for. Some have reached beyond the industry for talent, but too often, such outsiders find themselves frustrated due to a lack of support for new ideas.

5 DEFINE YOUR VALUE TO SOCIETY “Both Baby Boomers and Millennials are attuned to the ethics of a company, including how they treat employees, their operating practices, their ‘green-ness’, what social causes they support,” says Underwood. And while most companies are not in a highly regulated “sin” industry, some deep thought about how they relate to the community and society as a whole is still required.

Companies should be asking themselves, “What defines our license to operate?” “What do we contribute to society?” “How can we add value beyond making a profit for our shareholders?”

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LUCKY, OR JUST GOOD?

FROM SMOKE-FILLED SHOWROOMS WITH dancing showgirls to performances by Elvis Presley or Elton John, casinos in the US have a long history of employing eye-catching promotions and unconventional tactics to attract customers. Judging by the industry's explosive, steady growth, one could say these efforts were successful.

But others argue that economic forces, not clever marketing, drove the gaming industry's success. “In the 1950s, prosperity reached many American households. Suddenly they had disposable income and long-term job stability,” says Chuck Underwood, who leads The Generational Imperative, a consulting firm. “Combine that with a newly built interstate highway system and the invention of the jet engine, and Las Vegas was poised for a golden run.”



Slot machines were popular with Baby Boomers – and profitable for casinos. They are increasingly less so with Millennials

The devastating effects of the 2008 financial crisis on the industry underscore Underwood's point. In both 2008 and 2009, Nevada posted a roughly 10 percent drop in total-win, the metric used to indicate how much money the casino keeps. Atlantic City, once the East Coast hub of gaming in the US that welcomed a stream of buses filled with Baby Boomers eager to empty their coins into slot machines, saw a number of casinos file for bankruptcy.

For better or worse, every business feels the effects of the prevailing economic climate. But it is clear the industry needs to adapt its approach, and to do so quickly. “If you try to market to young adult Millennials the same way you did to young adult Gen X-ers,” says Underwood, “you're paving the way to your grave.”