



**TABCORP Holdings Limited**

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Mr John Williams  
Director  
Productivity Commission  
PO Box 80  
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Dear John

**LICENSED CLUBS ASSOCIATION OF VICTORIA'S SUBMISSION TO THE  
PRODUCTIVITY COMMISSION INTO AUSTRALIA'S GAMBLING INDUSTRIES ("THE  
SUBMISSION")**

TABCORP would like to respond to a number of assertions raised in the Submission regarding the regulatory structure of gaming in Victoria, particularly with respect to the role of the Gaming Operators, TABCORP Holdings Limited and Tattersall's.

These assertions include:

- the regulatory structure directs wealth away from Licensed Clubs ("Clubs"),
- Victoria has the highest cost of provision of electronic gaming machines ("EGMs") in Australia,
- its difficult for clubs to justify investment in facilities to accommodate EGMs,
- Clubs are disappointed from the returns from gaming,
- Clubs cannot control their own destiny with respect to gaming, and
- Clubs have no security of tenure over EGMs.

In addition, TABCORP is in receipt of an addendum to the Submission dated 21 December 1999 ("the Addendum") which purports to demonstrate that a Club venue generating gaming revenue of \$12.4m per annum would lose \$3.6m per annum. We believe that this proposition is highly misleading and demonstrate this by providing what we believe is a more realistic forecast for a Club with gaming operations.

***1. Role of the Gaming Operator***

The existence of Gaming Operators is beneficial to the gaming industry in a number of ways. From a regulatory viewpoint, they provide an efficient method of ensuring effective compliance by venues with the regulatory requirements, rather than have each venue individually monitored by the Victorian Casino and Gaming Authority.



Having TABCORP, a publicly listed company, as one of two operators ensures even higher standards of disclosure and probity under Australian Stock Exchange and Corporations Law requirements.

However, the Gaming Operators also perform a very important commercial function by assuming a large proportion of the financial risks associated with establishing and maintaining a viable gaming operation. This extends beyond the capital required for the initial purchase of EGMs, but also encompasses ongoing costs including maintenance and communications, certain advertising and promotional expenses, provision of best practice systems, provision of new games, provision of jackpot and player loyalty products etc.

The Gaming Operators are able to maintain and enhance the revenue stream from EGMs by continuously monitoring and modifying the product offer as consumer need dictate. Due to their limited size, individual venues are unable to optimise EGM performance as efficiently.

Without the introduction of Gaming Operators, many Clubs, particularly smaller Clubs, would have been excluded from access to a gaming income stream. They would not have been able to assume the financial risks associated with the establishment and recurring costs associated with maintaining and enhancing a viable gaming operation.

Instead, this risk is assumed by the Gaming Operators who are able to build an efficient procurement, maintenance and marketing infrastructure. The Gaming Operators then provide the EGMs and associated products and services to venues free of charge.

In addition, as owner of the EGM, the Gaming Operator receives revenue based solely on the performance of those EGMs. Consequently, it has a direct incentive to support the Club in ensuring the EGMs perform to expectations. The Club benefits from these efforts as it is remunerated by the Gaming Operator via a share of the revenue from the EGMs installed in its venue.

Support services provided by TABCORP to its Club partners include:

<b>Staff training</b>	operational, financial, security, first aid, venue management, customer service and VCGA compliance
<b>Business planning</b>	assistance with strategic and marketing plans
<b>Marketing</b>	customer demographic analysis, proven promotional programs, frontline marketing strategies, and financial assistance and advice on signage, advertising and point of sale material
<b>Venue layout and design</b>	computerised 3D layouts



<b>Business analysis</b>	critique on venue performance and expert input into with selection of machines, games, denominations and jackpot strategies
<b>Venue Performance System</b>	programs encompassing : <ul style="list-style-type: none"><li>- venue appearance,</li><li>- greeting and dealing with customers,</li><li>- responsible service of gaming,</li><li>- emergency procedures,</li><li>- venue security,</li><li>- community relations,</li><li>- cash management and financial controls, and</li><li>- staff selection, management and training.</li></ul>

Club venues in other jurisdictions do not receive the type of support provided by Victorian Gaming Operators.

Rather than direct wealth away from the Clubs, the Gaming Operators provide Clubs with a low risk income stream that may not otherwise be available, particularly to small Clubs. In addition, the Club receives a broad range of support services to assist it maximise its potential, not only in terms of gaming but overall venue performance.

## ***2. Returns from Gaming***

The Submission states that the cost of gaming is very high in Victoria, due to share of revenue received by the Gaming Operator and the Government taxes.

TABCORP supports the view stated in the Submission that the tax on club gaming proceeds in Victoria is high compared to other jurisdictions, not to mention other forms of leisure and entertainment.

However, TABCORP does not support the Submission's assertion returns to a Club from gaming are "limited" and that the "returns are so tight, considering the risk, that it is difficult to justify the initial investment".

Moreover, the proposition outlined in the Addendum using an Imaginary Club example, that a Club generating \$12.4m per annum gaming revenue in Victoria could lose \$3.6m for the year is highly misleading.

If that was the case every Club with EGMs would be in liquidation as the average gaming revenue across Victorian clubs is closer to \$2.0m. Clearly this is not the situation.



Further anecdotal evidence to the contrary is the continuing demands made by existing and newly established Clubs to the Gaming Operators for an allocation/increased allocation of EGMs.

We have not attempted to compare the returns from gaming across a variety of jurisdictions as the Submission has unsuccessfully attempted, because of the inherent difficulties associated with this approach, namely:

- the performance of machines varies significantly across jurisdictions (as shown in the table below);
- the amount of advertising and promotional spend also varies significantly between jurisdictions, Victoria being comparatively low due to the support from the Gaming Operators in this area;
- food and beverage pricing is generally more competitive outside Victoria due to the existence of very large "Super Club" facilities;
- Victorian venues are able to achieve greater efficiencies due to assistance provided by the Gaming Operator in implementation of best practice procedures.

	<b>6mth Dec '98 - TABCORP</b>	<b>1997/8 NSW (1)</b>	<b>1997/8 Qld (2)</b>
Net machine revenue per EGM per Day	\$129	\$96	\$78

Source

- (1) NSW Department of Gaming and Racing, *Gaming Analysis 1997/8*
- (2) Queensland Office of Gaming Regulation, *October 1998 newsletter*

The comparison in the Addendum is misleading for the following reasons:

- No assumptions are provided to describe how the figures have been derived, and
- The Victorian figures bear little resemblance to the trading results of Victorian venues because:
  - it is highly unlikely that any Victorian Club venues achieve gaming revenue of \$12.4m per annum. Certainly, the better performing club venues in TABCORP's network achieve between \$7m to \$10m per annum, the average being less than \$2m,
  - the level of gaming salaries and wages at \$1.0m is extremely high, and would be unlikely to exceed \$0.6m in the busiest Clubs,
  - \$1.2m of promotions is well in excess of what any Victorian Club would spend in this area, \$0.4m would be very high, and
  - whilst some Clubs may make a small loss on catering an estimate of \$312,000 is very excessive and would imply that the food operation is grossly mismanaged.



We would prefer to focus on a more realistic, albeit conservative, estimate of the profitability of a Victorian Club gaming venue as follows:

	<b>\$000</b>	<b>\$000</b>
<u>Gaming (\$129 NMR/EGM/Day)</u>		<b>+\$10</b>
EGM revenue	4,944	5,327
Tax	(1,648)	(1,774)
Gaming Operator	<u>(1,648)</u>	<u>(1,774)</u>
Venue commission	1,648	1,774
Salaries & wages	(445)	(479)
Promotions & other	<u>(346)</u>	<u>(372)</u>
Income from Gaming	857	923
Income from Food	-	-
Income from Beverage	250	250
Other income	<u>25</u>	<u>25</u>
<b>Total income</b>	<b>1,132</b>	<b>1,198</b>
Overhead expenses	<u>(600)</u>	<u>(600)</u>
<b>Profit before Int &amp; Depreciation</b>	<b><u>532</u></b>	<b><u>598</u></b>

**Major assumptions**

Gaming

- 105 EGMs
- \$129 net machine revenue per EGM per Day ("NMR/EGM/Day"), being the TABCORP club average for the six months to December 1998,
- Wages equate to 9% of gaming income
- Promotions and other expenditure equate to 7% of gaming income

Other

- Food operates at break even
- Beverage income of \$250,000 on sales of \$1m
- Overheads excluding depreciation and interest of \$600,000
- Assumes facility existed prior to the introduction of gaming

It should be noted that the above profitability estimate was based on a Club generating the NMR/EGM/Day of \$129. We note that this is well below the total network average for the six months to 31 December 1998 of \$190. The lower Club NMR/EGM/Day reflects the inferior locations of Clubs which were historically selected to service the Club's social needs rather than maximise the returns from the Club's income generating activities. In addition the "sign in" requirement is a barrier to "walk in" custom.

Some Clubs in TABCORP's network exceed double the average NMR/EGM/day used in the above example. As shown in the sensitivity, a \$10 improvement in NMR/EGM/Day represents additional income of \$66k.



Clearly these returns show a far better position than alleged by the Submission. Furthermore, even the Imaginary Club Scenario in the Addendum demonstrates a sizeable profit from gaming activities. If a Club does incur a loss, it is clearly not attributable to gaming. Without gaming income, many Clubs would not be able to develop into prosperous and meaningful establishments which are able to provide a variety of services to their members and the community at large.

### **3. Clubs Lack of Control**

As noted above, both the Gaming Operator and their Club partners are provided with a direct incentive to work together in establishing a successful gaming operation.

As a Gaming Operator, it is appropriate that TABCORP has a lot of input into the selection of EGMs, games, denomination of games and the percentage of return to player, as the EGMs are owned and operated by TABCORP.

However, these decisions are made after assessing the needs of the Club and its members, detailed analysis of EGM and game performance and independent market research.

Any decisions with respect to the gaming activities at the venue are always made in consultation with the Club. Naturally any other decisions rest with the Clubs themselves. TABCORP's field representatives meet regularly with each Club to discuss performance and to agree how the performance can be optimised both on a machine by machine basis and generally regarding the overall amenity of the Club. This consultative approach has in many cases also led to significant improvements in the overall performance of the Clubs activities, particularly in the areas of food and bar trade.

It is only through meeting consumer needs that TABCORP can establish a successful gaming operation with its Club partners. Consequently, all efforts are focussed on achieving that goal.

It is unfortunate that a number of Club venues have had EGMs removed due to poor performance. Every effort is made by the Gaming Operator over a number of months to assist the Club to improve its EGM performance before this action is taken. Removal of EGMs results in wasted effort and expenditure incurred by both the Club and the Gaming Operator in establishing the gaming operation. Accordingly, such action is a last resort, and is only carried out at the end of the Venue contract or with the agreement of the Club. In all cases of downsize, the aim is to protect the revenue stream at the Venue with the optimal number of EGMs.

However, the restriction on the number of EGMs available to the Gaming Operators, leaves them with no choice but to reallocate some or all of a Club's EGMs to another Club where EGM performance is likely to be significantly superior.



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An increase in the current EGM cap of 27,500 for Hotels and Clubs would undoubtedly reduce the pressure on Gaming Operators to reallocate EGMs.

We believe that the Gaming Operators make an essential contribution to the Victorian gaming industry which directly benefits the Clubs. Victoria clearly delivers a superior product to the market place, and this is largely, if not entirely, due to the industry structure. In addition, we believe that the industry structure provides an equitable distribution of EGMs and this was a primary motivation of the Government in implementing this structure.

Please call me on (03) 9868 2595, should you require clarification in regard to any of the matters raised above.

Yours sincerely

**TRICIA WUNSCH**  
General Manager - Corporate Affairs