

INSIDE ASIAN Gaming

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Raising the Game



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Silver Heritage is ramping up its directly managed slot business in Asia

Some of the best business partnerships actually begin after work over a pint of beer and a televised sports game. So it was with Silver Heritage's chief executive officer, Mike Bolsover, and chief operations officer, Tim Shepherd. Watching the 2003 Rugby World Cup at a Marriott hotel bar in Malaysia, the pair discovered they were both independently establishing sports bars in Southeast Asian casinos to capitalise on the growing popularity of televised European football and the advent of Internet sports betting.

Mr Bolsover had been a proprietary trader and business development director with the sports betting group Victor Chandler International for four years from 1999. Mr Shepherd had moved to Hong Kong in the mid 1990s and had worked as a consultant to the UK-founded bookmaker Ladbrokes and to Macauslot, Macau's only licensed sports betting operation in which Macau's former gaming monopolist Dr Stanley Ho has a stake.

With their common interests and complementary expertise, Messrs Bolsover and Shepherd joined forces just as Silver Heritage's first sports lounge went online at Laos' original licensed casino—now known as Dansavanh Nam Ngum Resort—in

2003.

Silver Heritage—originally a middleman between Asian casino operators and overseas licensed bookmakers like Stan James—was at that time leading the development of Las Vegas style sports betting in Asia. The company gained a foothold for suppliers in the region through a well-connected local network and attracted new customers to licensed casinos on the Thailand-Laos and Thailand-Cambodia borders.

Nowadays Silver Heritage's original sports betting lounges have been transformed into fully automated, directly managed, electronic gaming areas, with sports betting just one component of the business mix. The floors in the lounges are usually split equally between server-based games, slots and automated table games. Around 95% of the sites' revenues are from these products, with the balance from sports betting and poker.

Direct management of slot facilities in a venue licensed to another operator—usually on a revenue sharing basis—is not a brand new concept in Asia. The key to success in this field is in execution of that management. That's in terms of signing up good quality venues, getting market-appropriate equipment and in effective marketing and promotion of the sites.

Silver Heritage now directly operates gaming lounges in nine venues in four Asian countries. The sites are mostly in licensed casinos but one is on a cruise ship that sails in Asian waters. The venues are in: Laos (four, including the company's own "Club 19" Dansavanh at the Dansavanh Nam Ngum Resort); Cambodia (three, including at NagaWorld, Phnom Penh's only licensed casino, operated by Hong Kong Stock Exchange-listed NagaCorp); Singapore (the cruise ship) and The Philippines (one venue in Manila).

Sports to slots

The transition from sports betting into operation of electronic gaming machines (EGMs) was driven by casinos' demands for new ideas to feed their growing operations, recalls Mr Shepherd. That shift of operator focus was in many cases a consequence of sports betting becoming regulated and being designated as a non-casino monopoly in many parts of Asia.

In 1999, the Macau government awarded Macauslot the sole licence to operate sports betting in that Special Administrative Region of China. Although the business generated just US\$38 million in 2008, the monopoly was recently extended for another year—to the disappointment of many executives in the city's integrated gaming resorts.

In 2002 the Hong Kong government issued an ordinance that amended the Hong Kong Jockey Club's gaming licence, allowing it to organise and promote online and retail betting on local and foreign soccer matches. HKJC began offering such services commercially in 2003. The move was in response to the perceived growth of unregulated and unlicensed soccer betting in the territory. HKJC's previous remit was confined to the promotion of horse racing, horse race betting,

lottery promotion and lottery betting. By the time of the 2007/08 soccer season, sports betting was generating an impressive US\$4 billion annually for the Jockey Club.

Taking a lead from Hong Kong, Singapore also decided to regulate its sports betting market. The sole licence in Singapore was granted to Singapore Pools, recalls Mr Shepherd.

“The market for casino-based sports betting still exists in Asia, but it has become more of a niche product,” he adds.

“Casinos still continue to request sports betting and SHL remains one of the niche providers of this product to licensed casinos in Asia. At the same time, the small casinos we worked with were growing up and wanted new ideas—one of the product categories we introduced was slot machines.”

Raising US\$150,000 as start-up capital for the new product line, Silver Heritage purchased 30 reconditioned machines in mid 2004 from New South Wales, Australia, and operated them in Dansavanh. The initial investment was recouped in six months and a new business was born for Silver Heritage.

Mr Bolsover said: “While slots are far more capital intensive than sports betting—which might have cost us US\$10,000 per installation to set up with a couple of plasmas, a PC screen and a bit of time—they are, potentially, a much bigger business.”

Silver Heritage’s best performing gaming machines (server based roulette) gross as much as US\$450 per machine per day in the best performing venue, says Mr Bolsover.

Server based option

As of 30th June this year the company has 730 machines installed in nine venues in four Asian countries. They generate gross revenues of more than US\$2 million per month across all 730 machines, says the company; and a further 120-plus are currently being redeployed in existing locations to optimise returns. It adds that despite the current challenging economic conditions it sees immediate expansion opportunities in all four existing markets. Silver Heritage says it will be operating in 14 venues by the end of the year and sees expansion potential in Vietnam and India.

Around 30% of its installed machines are controlled by computer servers, states the company. Silver Heritage says it leads in supplying this server-based distribution technology in Asia thanks to a partnership with Inspired Gaming, an AIM-listed UK company. Silver Heritage says its ability to offer server-based gaming has been a major deciding factor for operators in a number of slot operation deals. Server based gaming is not only a delivery system but also a separate product category in its own right, with its own compliance requirements, points out Silver Heritage.

The tie-up with Inspired Gaming happened because Silver Heritage was proactive in seeking market opportunities and new business partners for the region—another thing that sets it apart from its competitors, says Mr Bolsover.

“We went to Inspired and said ‘You need to be in Asia’,” he explains.

Inspired Gaming’s core product is a multi-wheel roulette game, which enables participants to play up to four different wheels from one single terminal—a design unheard of until very recently, according to Mr Bolsover.

“It’s a fantastic product for Asia, where people love to watch a whole bunch of tables and follow rolls of luck.”

Silver Heritage also represents Slovenia-based company Royce & Bach, an automated roulette game supplier, and Cadillac Jack, an American slot machine manufacturer new to Asia.

“Their slots do well in certain American markets that are similar to some of the Asian markets we operate in,” states Mr Shepherd.

Surroundings matter

Silver Heritage says it is actively managing assets in all its venues to ensure a good return on investments. As well as slot product innovations, the company focuses on the design and decor of its electronic gaming areas. In January 2008 it launched the Millionaire’s Club at Dansavanh and spent US\$120,000 redecorating the premises. Future investments in the range of US\$500,000 to US\$2 million will further enhance the company’s offer.

“Our aim when renovating our gaming areas is to make them the best available in the local market. That creates excitement among the customers and drives more people to the casino,” says Mr Shepherd.

The company assists local operators in running their electronic gaming areas, conducts promotions for all of the games within the space, and cross-promotes sports betting, slots and poker, he explains. He cites excellence in marketing and venue management as reasons that border casinos prefer to form partnerships with Silver Heritage rather than its market rivals.

“They trusted us to choose the best mix of games, now they’re trusting us to bring in the players as well, and for that we get a higher percentage of the revenue share,” explains Mr Shepherd.

“We realised we had to do more because casinos largely disregard slots, choosing to spend their marketing money elsewhere—that’s why they have us buying the machines for them in the first place,” he reasons.

Putting on the style

Recently, the company expanded its themed gaming area concept with the addition of Club 19 at Dansavanh Golf Club in Laos, which opened in January 2009. To golf enthusiasts 'the 19th hole' is a euphemism for the clubhouse or bar where players meet after a game to socialise and discuss their round. Club 19 takes that clubhouse idea and adapts it for the gaming market. The boutique scale gaming facility welcomes golfers and club members to bet on sports, play poker, and try their luck on EGMs following their round out on the greens. Silver Heritage's new association with golfing is helping to move its offer up market and has boosted the quality of players it attracts, claims Mr Bolsover.

Quality venues have become central to Silver Heritage's ongoing growth, says the company. It plans to open two to three boutique venues like Club 19 every year from now until further notice. It says it has shifted its focus from growth based on expanding its universe of machines to growth based on maximising the yield of existing and new machines. It says this is achieved by securing the best partners and the best locations. Mr Bolsover hopes the club concept will open new markets for the group in The Philippines in the short term, and Vietnam in the not-too-distant future. SHL has even been approached by a company in New Zealand who like the Club 19 concept.

For its Club 19 strategy, Silver Heritage formed a partnership with Robert Trent Jones (RTJ), one of the world's foremost golf course design and golf course architecture companies. RTJ is redeveloping Dansavanh Golf Course into a destination for foreign enthusiasts of golf. RTJ has worked on projects all over the world including Dubai, New Zealand and Vanuatu. Mr Shepherd is confident the partnership will eventually open doors to markets beyond Southeast Asia.

Silver Heritage's business plan is to expand the business threefold or even fivefold in the next three years. Measured on a slot machine basis, that could take the business from 850 machines to between 2,500 to 4,250 machines.

"We won't just measure success in terms of machine numbers. We want to be known in the industry as a company that manages venues extremely well and where possible actually improves them—that's the case whether it's an electronic gaming area in a casino or a gaming area at a general entertainment resort," says Mr Bolsover. "Managing our gaming assets with increased efficiency will also mean achieving better returns for our shareholders."