

CLEARING THE AIR

The Impact of Non-Smoking Legislation
in Queensland Clubs

EXECUTIVE SUMMARY

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INTRODUCTION

The Risks

The evidence that exposure to other people's cigarette smoke is dangerous to health is incontrovertible. As awareness of the health risks of passive smoking has grown, demand for smoke-free public places has dramatically increased.

The introduction of non-smoking legislation will affect the way businesses operate in the hospitality sector, with many in the industry predicting a significant reduction in turnover and profitability.

Report Methodology

The report collects information from key industry sources, based on the Queensland (QLD) experience, to assist clubs in preparing for, and managing under, the non-smoking legislation. Subsequent reports will include an analysis of the impacts of non-smoking legislation in the Australian Capital Territory (ACT) and QLD.

This is the **first** in a series of four (4) quarterly reports encompassing analysis from September Quarter 2006 through to June Quarter 2007. Each report will include quarterly trend information and a review of strategic direction.

Report 1

- September Quarter 2006 analysis outlining the impact of non-smoking legislation in QLD.

Report 2

- Incorporates December Quarter 2006 into trend analysis, outlining the impact of non-smoking legislation in QLD and a brief analysis of the ACT situation.

Report 3

- Incorporates March Quarter 2007 into trend analysis, outlining the impact of non-smoking legislation in QLD and ACT.

Report 4

- Incorporates June Quarter 2007 into trend analysis, outlining the impact of non-smoking legislation in QLD and ACT.

Report 1 Content

Topics include:

Overview of Non-Smoking Legislation in Australia & Overseas

Data is collected from various governments, health organisations and industries across Australia and abroad, giving the reader a background into the enforcement of non-smoking policies and implications for related industries from a global perspective.

Club Health-Check

Key findings of the report are presented as a Health-Check for clubs to consider as part of their overall strategy in minimising the impact of non-smoking legislation.

Financial & Gaming Data from Club Data Online (CDOL)

Club Data Online is a performance reporting and benchmarking system that collects information directly from clubs' Trial Balance and Gaming Performance Reports. This report shows trends in total club revenue and various parameters of club operations from June 2005 to September 2006. A sample of the same 31 clubs is used over this period.

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Retail Trade Data

Any analysis of the impact of non-smoking legislation must be considered in light of general economic trends, in this case, Retail Trade over the period in question.

Perceptions of QLD Club Managers

An online survey was completed by 92 QLD club managers completed. The results are a measure of the perceptions of club managers regarding the impacts of the legislation on their business, and the strategies they adopted to manage these impacts.

About the Publishers

Club Data Online

Club Data Online (CDOL) is the leading provider of independent Online Performance Reporting and Benchmarking services to the Australian Licensed Club Industry. CDOL currently services over 400 Licensed Clubs representing over 30,000 gaming machines within a multi-billion dollar and diverse operating environment across QLD, NSW & ACT.

There are approximately 50 Queensland Clubs contributing data to CDOL. These clubs are a mix of small, medium and large operations spread across metropolitan, coastal and country locations.

Combined, they contribute approximately 8,000 gaming machines to the database and monthly total club revenues in excess of \$35 million.

CDOL is delivered by Industry Data Online Pty Ltd. Many industries are benchmarked by a variety of organisations, but CDOL is the first system of its kind, in that it receives financial and gaming data

electronically, direct from club systems, and delivers analysed results online to subscribers in “quick-time”.

The purpose of the service is to strengthen the Licensed Club Industry through the development of a database of operating and economic performance information that can be used to assist participating clubs to better manage their operations.

The Australian Licensed Club Industry, in all jurisdictions, is undergoing an unprecedented period of change and uncertainty with a raft of economic, social and regulatory changes delivering increased pressure on the foundations of the Industry.

The consequence of these changes is that the Licensed Club Industry’s growth has slowed or stagnated or even declined in some instances. Club Management and Boards of Directors are now becoming highly focused on operating performance and profitability.

The Industry and individual Clubs require accurate information on which to answer critics, monitor their performance, deal with financiers and suppliers and promote Industry initiatives. The use of real, current and compelling data enables clubs to better analyse their operations, which will improve performance and consequently improve profitability.

CMP Consulting

Responding to its clients’ challenges, CMP Consulting has evolved to become a broad-based advisory group. Its team of highly qualified professionals has wide-ranging experience in business operations, finance, recruitment and marketing that enables it to provide timely and pragmatic business solutions.

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With offices in Brisbane and Sydney, CMP has played a pivotal national and international role in club, gaming and hospitality consulting. CMP consistently delivers high quality client service and enjoys a unique position in the club industry by virtue of its long-standing business relationships. By constantly monitoring changes in gaming and hospitality policy legislation, CMP is able to recognise and interpret trends and advise its clients before there is any negative impact on the industry or individual businesses.

CMP believes the major challenge in today's business environment is to create internal operating efficiencies, and make smart strategic decisions that lay the foundations for a strong business. . It achieves these efficiencies by working as a partner, but independently of the client organisation, to evaluate the necessary capabilities and requirements.

CMP's key service capabilities are:

- Research
- Market Development
- Strategic Planning
- Finance & Economics
- Feasibility Studies
- Business Plan
- Community Impact Statements
- PR & Event Management
- Recruitment.

Non-Smoking Legislation

Workplace smoking is estimated to cost the United States economy around US\$47 billion per year. In Australia, the figure is around US\$6 billion per annum, and worldwide, the annual net cost of tobacco use is more than US\$200 billion (WHO, 2006).

Currently, five countries have nation-wide laws prohibiting smoking in enclosed workplaces and public places, including bars and restaurants. On 29 March 2004, Ireland became the first country to ban smoking in all indoor workplaces. This was followed by Norway (June 2004), New Zealand (December 2004), Bhutan (March 2005), and Scotland (March 2006). In addition, legislation has been passed in nine US States, nine Canadian provinces and territories, and seven Australian states.

Malta, Sweden, Italy and the Canadian provinces of British Columbia and Prince Edward Island ban smoking in workplaces but allow designated smoking rooms in bars and restaurants.

The Australian Situation

Australia has ratified the Framework Convention on Tobacco Control (2004) in which we recognise (Article 4.2(a), p. 4), "... the need to take measures to protect all persons from exposure to tobacco smoke"; and we agree (Article 8.2, p.6) to, "...actively promote.... the adoption and implementation of effective legislative, executive, administrative and/or other measures, for protection from exposure to tobacco smoke in indoor workplaces.... and, as appropriate, other public places" (WHO, 2006).

Within this framework there are numerous approaches to adoption of the underlying principles (Exhibit 1).

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Exhibit 1: Adoption of Non-Smoking Principles in Australia

Jurisdiction	End-date	Strengths	Weaknesses
Tasmania	In place (from 1/1/06)	All indoor areas smoke free. Remaining smoking areas unenclosed, un-serviced, separate from eating areas.	-
Queensland	In place (from 1/7/06)	All indoor areas smoke free. Remaining smoking areas unenclosed, un-serviced, separate from eating areas.	-
Western Australia	In place (from 31/7/06)	All indoors licensed areas smoke free.	Still serviced by workers in smoking areas up to 50% enclosed.
ACT	In place (from 1/12/06)	Smoking areas un-serviced.	Remaining smoking areas may be up to 75% enclosed.
South Australia	1/11/07	Partial indoor bans.	Very long wait, and mostly-enclosed (to 70%) loophole will leave staff at risk indefinitely.
New South Wales; Victoria	2/7/07	Partial indoor bans.	Long wait, and mostly-enclosed (to 75%) loophole will leave staff at risk indefinitely.
Northern Territory	None	-	Almost all licensed areas remain smoky and unsafe - and no timetable for improvement.

Source: <http://www.ashaust.org.au/SF'03/law.htm>, 2006

Note: Most jurisdictions currently allow indoor smoking in certain "high roller" gaming rooms.

The Queensland Legislation

The *Tobacco and Other Smoking Products Amendment Act 2004* introduced by the Queensland Government imposes the most stringent non-smoking laws in Australia. This legislation effectively bans smoking in outdoor eating and drinking areas; major sporting facilities (but excludes roads, car parks, picnic areas and areas of parkland); on patrolled beaches; at prescribed outdoor swimming areas and within 10 metres of a children's playground. The Act also empowers local government to enforce the legislation.

From 1 July 2006:

- 100 per cent of the indoor area including 100 per cent of poker machines must be no-smoking
- outdoor eating and drinking areas where food or drink is provided as part of a business, must be no-smoking
- Liquor licensed premises that hold a general or club liquor licence can choose to have a Designated Outdoor Smoking Area (DOSA), where only smoking and drinking can occur
- There are a number of additional rules that must be followed if licensees choose to have a DOSA, including having a Smoking Management Plan for the premises.

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Overview

Several studies find that smoke-free legislation is good for business as non-smokers eat and drink out more often.

Retail Trade, Australia

The ABS Retail Trade data for September 2006, shows that total Retail Trade turnover grew by 5.5% in September 2006 compared with September 2005.

Queensland has shown moderate trend growth in Retail Trade over the last 13 months, particularly in Food retailing and Household Goods.

Hospitality and Services turnover has shown weak trend growth over the five months to September 2006, while in Queensland, there has been a decline in Hospitality and Services trade over this period.

The Queensland Experience

This section uses data taken from CDOL to assess the impact, of the non-smoking legislation, on several parameters of Club operation.

These include:

- Total Turnover
- Turnover by type – bar, food, gaming
- Expenses by type
- Gaming impacts.

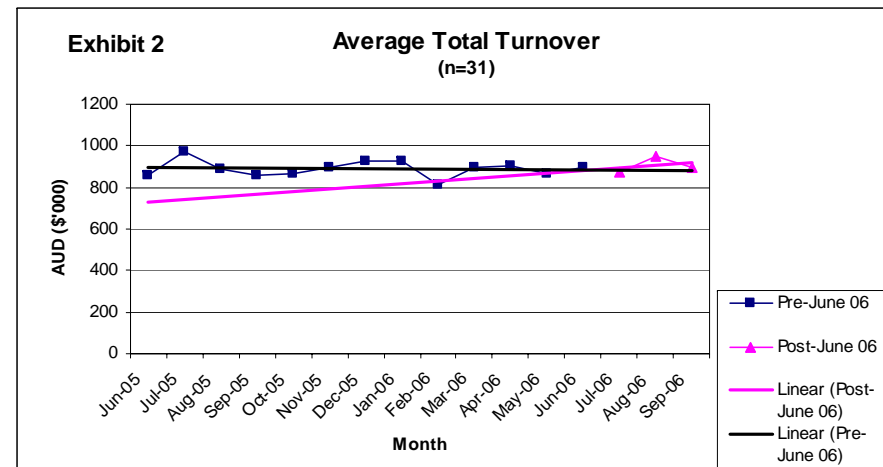
The analysis uses data from 31 clubs that have been CDOL members for the entire period, June 2005 – September 2006. Wherever possible, as a measure of general economic activity, this data is

compared with Retail Trade data from the Australian Bureau of Statistics (ABS).

The 31 participating Clubs are profiled in the main Report.

Average Total Turnover

Based on Average Total Turnover, the non-smoking legislation appears to have had minimal impact in Queensland (Exhibit 2).



Gaming

Across the 31 CDOL subscribers, Average Gaming Revenue showed a very slight uptrend in the 13 months to the end of June 2006. In the three months ended September 2006, the uptrend is markedly greater than in the preceding 13 months.

Similar trends are evident in Average Gaming Net Revenue.

Average Turnover per EGM sheds some light on the drivers behind the growth evident in the previous Exhibits. Post-June 2006, the

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Average Turnover per Day per EGM is significantly lower than Pre-June 2006, and lower than the same period last year, indicating that the revenue growth trend is driven by the increase in the number of EGM since June 2005.

While these declines are significant, it is important to remember that they come on the back of a general decline in Hospitality and Services trade in Queensland since January 2006, coupled with the introduction of more EGM's. **Thus, we should not rush to attribute the reduced turnover per EGM to the introduction of the non-smoking legislation.**

Bar and Bottleshop

Actual revenues appear similar, Month-on-Month, in 2006 and 2005.

Food

In contrast to bar revenues, Average Food Revenue has increased significantly in the Post-June 2006 period.

Advertising, Entertainment, Marketing & Promotion

The CDOL data suggests that Queensland clubs have increased their Advertising, Entertainment, Marketing & Promotions (AEMP) expenditure in the wake of the non-smoking legislation.

Regional Impacts

After only one Quarter operating under the non-smoking legislation, there is insufficient data to provide a meaningful analysis at a regional level. This analysis will be provided in subsequent reports.

Club Industry Perceptions

Introduction

A total of 92 Queensland club managers completed an industry survey about the non-smoking legislation. Respondents were asked to report on the impact that the legislation has had on revenue units over the September Quarter 2006 and the relevant success that particular strategies have been in minimising any impact. Based on their experiences, clubs recommended certain timeframes for these successful strategies to be implemented.

Key Findings

According to club managers, the Gaming and Bar units appear to be most negatively affected by the legislation over the September Quarter 2006. Over 50% of clubs report a negative impact on Gaming and 46% of clubs report a negative impact on Bar. 42% say that Food remains unaffected by the legislation while 39% say it has shown positive revenue.

Staff

Overall, clubs see the role of staff as an important or very important part of the strategic plan to minimise the impact of the legislation.

Impact on Gaming Products

The majority of clubs report some level of impact on their respective gaming products.

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