

Report on the 15th International Conference on Gambling & Risk Taking*

Dean M. Macomber, M.S.

For many, the 15th International Conference on Gambling & Risk Taking was more than a gaming conference, it was the fifteenth gathering of The Eadington Clan, those students, industry colleagues, friends, and admirer's of its intellectual and spiritual leader, Dr. Bill Eadington. Those who did not know Bill must have wondered what all the fuss was about. They would find out.

The germination of The Eadington Clan began with Dr. Eadington's inspired first incarnation of the conference in 1974. I have not fact-checked this, but many regard this conference as the first conference on gambling. It is easy to speculate that attendees who entered the conference center for the first time were much like freshman far away from home, starting their first day of college full of anticipation and expectation yet accompanied by small but nagging, unsettling tinge of uncertainty. By the end of the conference the novitiates of the Clan were no doubt hooked by the commitment, passion, honesty and integrity of the pursuit of knowledge about all things gambling put in motion by Dr. Eadington. The left as full fledged Clan members with Dr. Eadington's message embedded as a late addition to their DNA chain. Membership and future participation in the Clan would become an extricable part of "who they are" for years to come. Between conferences Clan members spread the good work and good intentions of Dr. Eadington, breeding and multiplying new Clan members around the world in every nook and cranny of the gaming industry. This was a good thing. A wonderfully good thing.

It is testimony to Dr. Eadington's role – and I am going to take a bit of a risk here and refer to Dr. Eadington from this point forward as "Bill" as this what everyone called this wonderful and approachable man after a first meeting – that the spread of this thirst for knowledge and quest to find the Truth about gaming occurred at a time when gaming was still trying to escape the gravity of an illegal past and find a legitimate future. It is easy to forget the force of the headwinds from naysayers, critics, and opponents that far outnumbered supporters during this time. It may be said that the "good guys" and the "right guys" won as first Bill, then the original Clan members followed over the years by new Clan members collectively played a critical role making the industry what it is today: a legitimate, worldwide industry that employs tens of thousands, supports thousands of support businesses, raises billions of tax revenue, and provides unique and incomparable leisure time experiences to millions of visitors each year. The industry is not perfect still grappling with problem and compulsive gaming as well as other community impacts that may not be all positive, but all the more reason for the Clan and the conference to continue their work.

As most know, Bill recently passed away from one of the few arguments and fights he could not overcome with his own knowledge, logic, and seeking of the Truth ... his argument and fight with cancer. The Clan mourned individually, in groups, and collectively. But, in this 15th Conference – the conference that the Clan will probably

* Sections of this paper also appeared in *Global Gaming Business*

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always refer to as “Bill’s Conference” – Bill was remembered with the reverence he deserved and he was loved and celebrated out loud.

Eugene Christiansen, a close friend and industry colleague of Bill’s spoke about Bill’s “ecumenical approach” to the gaming industry referring not to a religion or religious exercise but in the context of his general, unconstrained, academic, and worldwide approach to the subject versus the majority at the time who were single mindedly focusing on the industry’s criminal history and need to rid it of those remnants. In Dr. Bernhard’s closing remarks at the end of the conference he quoted Henry Lesieur, founding editor, *Journal of Gambling Studies*, who said that (paraphrased) “Bill formed an invisible college” an exquisite reference to Bill’s ability to cast his influence via these conference iterations, the famous and unparalleled Executive Development Program, and the thousands of formal and informal, individual and group efforts all led by Bill that made the gaming industry better by seeking and finding the Truth.

Mrs. (Margaret) Eadington was in attendance with their two children, Michael and Diana. Bravely in my view but probably not so from hers, at the conference dinner she would tell us more about Bill, her husband, our leader. Bill the Academic was clearly equally adept at being Bill the Husband, Bill the Father, and Bill the Guy-Who-Liked-to-Party and Have Fun. The pictures from when they met in grade school, to their friendship in high school, to marriage after college, to their Volkswagen blue “bug” as it affectionately was called in those days was a slice of Norman Rockwell Americana, the way friendship, romance, and family should be. I believe almost everyone in the room made a faux move to cover up their need to wipe a tear from their eyes, me more than once. Mrs. Eadington opened her life to us making a man we admired vocationally now a man to be admired in seeming every other aspect of life. Bill was, indeed, a Great Man.

At the risk of over-using a quote but one I still find poignant, “... they say you die twice. One time when you stop breathing and a second time, a bit later on, when somebody says your name for the last time.” By this measure, within the gaming industry at least, Bill will live to a well deserved Forever.

To the Conference:

This is a large conference. Historically hosted by University of Nevada, Reno, this was the first year where the University of Nevada Reno through its Institute for the Study of Gambling and Commercial Gaming and University of Nevada, Las Vegas through its International Gaming Institute at its William F. Harrah College of Hotel Administration co-hosted.

Bill led the 15th Conferences as he had for the previous fourteen until his passing whereupon the his co-chairs for this Conference Dr. Bo Bernhard and Dr. David Schwartz took over.

It took place from May 27th through May 31st fittingly at Caesars Palace one of the lasting grand dames of the palaces and icons along the Las Vegas Strip. Sponsors included Caesars Entertainment, IGT, Macao Polytechnic Institute, MGM Resorts International, Paragon Gaming, Las Vegas Sands Corporation, Association of Gaming Manufacturers, SHFL Entertainment, Bally Technologies, Casino del So, and GEOCOMPLY. The sponsor list is both interesting for who participated as much as those who did not, at best a sign of the industry’s struggle to still deal with the lingering effects of the Financial Crisis but on the negative side of the equation a demonstration of the struggle still taking place for academia and the search for the Truth within a commercial industry. Bill’s work is not done.

Depending upon how you count the 90-minute sessions of multiple presenters or panel discussions, special sessions, keynote addresses, a mock trial, and, ‘poster sessions’ there were some 82 ‘sessions’ and remarkably some 225 topics presented and discussed. The number of authors on a given topic is a multiple of this number, easily an average of two authors or more per topic. So, think about the collective ‘thought time’ and work that was expended thinking about the topic, debating the issues, and finally putting their findings into writing. Add travel time from places as far away as Africa, Asia, Europe, Latin America, and just about every other point on the planet and the amount of time, effort, and thought spent to further the Truth about gambling is borderline staggering. The direct and indirect benefits of this thought is equally staggering not to mention new studies that were certainly catalyzed by all of this activity. Kudos to Bill and all of the Conference co-chairs, assistants, staff, and sponsors not to forget to mention the support staff of Caesars Palace who were marvelous (I can particularly recommend the oatmeal raisin cookies, particularly toward the end of the day!).

This is an academic slanted conference and the topics leaned toward such issues as social impact, problem and compulsive gaming, and mathematics/quantitative analyses. The commercial side was also represented, however, reviewing success drivers of various venues, the art and science of feasibility studies and forecasting demand, employee issues, I-gaming, cost-benefit, risk-reward, legal issues, and the like.

In the social impact and problem and compulsive gaming sessions there is a lot of use of the word “longitudinal,” associated with studies a word not in my day-to-day vocabulary which explains, I guess, why I am not an academic. By the way, per Wikipedia one definition of longitudinal study is: “A longitudinal study is a correlational research study that involves repeated observations of the same variables over long periods of time — often many decades.” If you were not an academic before, now you are.

Some view of the breadth of the subjects discussed may be gleaned from a pick of the topic titles below:

- “A Longitudinal Study of Electronic Machine Gamblers in Alberta”
- “Gambling Regulations in Africa: Lessons and Challenges”
- “Rational Bubbles”
- “Gambling in the Correctional System in Ontario”
- “Casino Games and the Central Limit Theorem”
- “Baccarat Edge Sorting: A Further Look”
- “The MIT Card Counting Team: Reflections 15 years later”
- “Betting Market Efficiency Implications of Different Structures: Bookmakers Versus Exchanges”
- “The Indirect Contribution of Non-gaming Amenities to Casino Gaming Performance”
- “The Ant and the Grasshopper: Western Casino Operators in Macau and Singapore”
- “Is That a Slot Machine in Your Pocket? A Summary and Analysis of New Gaming Spaces”
- “Bricks and Mortar and I-gaming: Who Wins?”

I admit to being guilty of focusing on the commercial side of the gaming presentations, partially because my time was conflicted with having to meet a deadline to draft and send a consulting proposal to an unforgiving potential client and the fact that I was fighting (and losing) a battle with a cold which motivationally made the early morning sessions more difficult than normal to attend. Even so, below are some excerpts and take-aways from the sessions I personally attended.

Please note I did not tape record the sessions below and so there may be errors driven by ineffective or inaccurate note taking. Presenters should be contacted before quoting anything said below to ensure accuracy.

THE EADINGTON PAPERS: RESEARCH IMPACTS ON GAMING BUSINESS

Eugene Christiansen. Christiansen Capital Advisors.

Eugene Christiansen take-aways (selective not exhaustive):

- When world at large was focusing on mob control in Las Vegas, Bill set a different agenda: seeking the unfettered Truth about the direct, indirect, and induced impact of gaming from any and all perspectives. Bill welcomed all opinions, pro or con.
- Bill's direct impact:
 - Quality of Management
 - Bill's conferences, papers, and teaching in the classroom created the appetite for graduate, MBA-type subjects to be approached, discussed, and resolved.
 - Bill attracted those who would become industry leaders: Andrew MacDonald, Mark Lipparelli, Richard Sheutz, and hundreds more.
 - Bill was a mathematician and furthered the understanding of the gaming industry through quantitative methods via his own personal involvement and his "come one, come all" approach to having everyone participate in the discourse, from card counters to academics, to regulators, to owner-operators.
 - Bill also dealt with the economics of betting markets allowing governments who issue licenses and the licensees who operate them to both be more efficient.
- Bill's indirect impact:
 - Bill "un-demonized" and dispelled the fear of gambling thereby allowing rational talk and better results for all and every stakeholder.
 - Eugene: "Bill was sort of a one-man Wikipedia on gaming."
- Bill's induced impact:
 - Bill brought "light" to problem and compulsive gambling in a legitimate, un-emotional manner that allowed real progress not just rhetoric.

Andrew MacDonald Comments (selective not exhaustive):

- Early in his career, Andrew chose to forego a bonus and ask his Australian employer to pay for and send him to Bill's Executive Development Program instead. Per Andrew: "It was a career changer ... subjects introduced and the people he met." Andrew is now Chief Casino Officer for Las Vegas Sands, arguably the largest casino

operator on the planet.

- Bill opened Andrew's mind to so many aspects of the business ... not just one but the entire depth and breath of gaming and gambling.
- Andrew co-chaired the Executive Development Program with Bill for many years. He pointed out that over 1000 have attended the Executive Development Program.

Bo Bernhard Comments (selective not exhaustive):

- Bill gave us "the Village" the industry needed to support its growth to what is now a big, broad, and complex industry.
- Bill's legacy will live on through this Conference and the Executive Development Program.

THE FUTURE OF MACAU'S GAMBLING INDUSTRY: A SCENARIO ANALYSIS

Zeng Zhonglu (Lawrence), Ph.D.

- For the 27 years from 1987 when the Annual Gross Gaming Revenue for Macau was US\$230 million to 2012 when it was over US\$38 billion, gaming has grown at a compound annual growth rate of 24 percent.
- Prior to 2003, Hong Kong was the dominant visitor feeder market for Macau. In 2003 the Peoples Republic of China (mainland China) surpassed Hong Kong and this trend has continued.
- High Growth Scenario Justifications, i.e., growth of 10 percent or more from this point forward:
 - Macau has penetrated only a small part of the Peoples Republic of China.
 - Moreover, disposable income for urban residents grew at a 9.2% compound annual growth rate from 2003 to 2011.
 - And, the upper end of the market keeps growing, too: i.e., there were 1,020,000 millionaires in the Peoples Republic of China in 2012 experiencing a 6 percent year over year growth rate.
 - Guangdong Province, the province adjacent to Macau, represents 45 percent of total visitation from the Peoples Republic of China. Visitation from the less penetrated other provinces has increased steadily.
 - If China's economy continues to increase, so will consumer power and patronage of casinos.
- Low Growth Scenario Justifications, i.e., growth of 10 percent or less
 - The population growth in the Peoples Republic of China is expected to be greatest among 18 to 25 year olds and, historically, this age group has the lowest propensity to gamble.
 - Citizens of the Peoples Republic of China are becoming more educated and, here again, those with more education typically gamble less.

o There is an Adaption Theory that essentially says people adjust dynamically to a changing environment, i.e., after the surge and many in the Peoples Republic of China have tried gambling the novelty may wear off, they may realize they cannot afford it, there may be increased competition, and/or other factors may cause them to reduce their gaming trips and budgets.

LICENSING GAMING JUNKET PROMOTERS: THE DILEMMA OF MACAU REGULATORS

Changbin Wang, Macao Polytechnic Institute

- Licensing of the those involved in junkets and VIP rooms in Macau varies

o For a Junket Promoter license the Macau regulators may review one or more of the following: employment history, criminal record, applications for licenses outside of Macau, law suits, financial history, and other pieces of information but there are no set standards for granting or denying a license. A license is granted for one year with renewal provisions and can be accompanied by conditions. The licensee requires the licensee to remain suitable and suitability is rechecked every 3 to 6 years. A licensee must sign a contract with a casino wherein the amount and payment of commissions is specified. Over 200 Junket Promoter licenses are currently active in Macau today.

o But, “Cooperators” (the second level of junket operations and who report to the Junket Promoter) need not file for a license. The Cooperator need not submit for a license and only submit a criminal record. However, Junket Promoter licensees must submit a list of Cooperators annually. Licensees may disqualify and eliminate Cooperators. But, Cooperators do most of the legwork associated with obtaining customers. Most Cooperators come from the Peoples Republic of China.

o Conclusion: Because Cooperators do not undergo strict licensing the Macau licensing of junket operations is ineffective.

- Macau should:

o License Cooperators but not necessarily reveal their names (since gaming is illegal).

o And, cooperate with neighboring jurisdictions.

THE FUTURE OF CASINO CONCESSIONS AND SUBCONCESSIONS IN MACAO

Jorge Godinho, Associate Professor, University of Macau

- Periods of Macau Gaming

o Macau gaming began with the play of Fan-Tan in 1849 and continued through 1861.

o Short term concessions were issued from 1849 to 1889. Longer term concessions were issued leading to larger operations from 1889 to 1937.

o The first monopoly went to a company called Tai Heng in 1937 and was retained until 1961.

o The Sociedade de Turismo e Diversões de Macau, SA (“STDM”) monopoly concession lasted from 1962 to 2002.

- STDM was led by the famous and infamous Dr. Stanley Ho.

- The initial years of the monopoly lasted from 1962 to 1976.

- The ‘modern’ casino industry in Macau under STDM may be said to have lasted from 1976 to 2001. Taxation began in 1976.

o The break-up of the monopoly and the open bidding for a limited number of casino licenses occurred in 2002 after the handover of Macau back to the Peoples Republic of China.

- Over this period the government never ran casinos, only regulating them and collecting taxes. Private business operated gaming.

- Prior to 1962 only Fan-Tan was allowed but in 1962 six different types of casino games were allowed.

- In 2002 three concessions were granted to Sociedade de Jogos de Macau, S.A. (“SJM”) (the successor to the former STDM), Wynn Resorts, and a combination Galaxy Entertainment and Las Vegas Sands. They were granted for a period of time. The Tender Committee is supposed to review the concession situation in 20 years.

- As a solution to conditions that evolved from the issuance of the first three concessions, three additional sub-concession licenses were issued: Las Vegas Sands (which split away from Galaxy Entertainment), Lawrence Ho/Melco-Crown, Pansy Ho/MGM.

- In addition, 17 Profit Sharing Agreements that already existed prior to 2001 were allowed to continue. In 2007 the practice of allowing Profit Sharing Agreements was frozen.

- After 2020/2022 Macau will need to decide whether to continue the current concession and sub-concession model.

o But, almost all of the Cotai Strip land is allocated. Land-fill and designation of other Macau areas could provide space for more casinos. Hengqin Island, across from Macau in the Peoples Republic of China could accommodate some uses but much of that land is already committed.

o But, there is a question of whether the Macau infrastructure can support more casinos. Macau could reach ‘capacity’ by 2020.

o By 2020 Macau could have 40 casinos.

- The issues to be faced in 2020 are, to name a few:

- o Should the current concessions and sub-concessions be renewed?

- o Should the high tax rate be changed?

- o Should more concessions / sub-concessions be issued?

- o Will the infrastructure be able to keep up with casino policy decisions?

SPORTS BETTING AND THE MEDIA

Chad Millman, Editor in Chief, ESPN Magazine

A luncheon Keynote Address

- Turning back the clock to the 1950's, the Kefauver's Hearings were focusing on investigating organized crime or 'The Mob' as it was the more common vernacular of the time. The Hearings were well covered by the media, captured the attention of citizens all over the United States, and disgorged a rather surprising revelation: bookmaking was more important than anyone suspected to the funding of the Mob's other operations. This led to the initial perception of book making sports betting as a 'national scourge.'
- Point shaving by team members and officials caused sports betting to be 'pushed more into the shadows.'
- But all of the notoriety also caused sports betting to grow.
- Jimmy the Greek appeared on CBS and began walking a very fine line between talking about sports and about betting line information.
- By the mid to late 80's Las Vegas was expanding or adding mega-sports books that were found to keep customers on property.
- Jimmy Vaccaro, a Race and Sports Book Manager on the Las Vegas Strip expanded the notion of proposition bets when he posted a bet whether 'The Fridge,' an athlete the size of a refrigerator but with the athleticism of someone half his size and a coach that would take him from the defensive line and put him in as a fullback would score a touchdown. The public did not need to know anything about football to make these bets. This was the accelerant of proposition bets that increased to the point that lately there were 300 prop bets on the Super Bowl accounting for 50 percent of the handle.
- By 1990 there were six states with legalized gaming. Now, there are 39 ... a 'second iteration' of the proposition bet effect. And, offshore books were taking sports bets further increasing their popularity. In 2005 US\$4.3 billion was generated by Internet sports betting versus \$2.2 billion earned by casinos in Nevada.
- The face of the sports better changed over this time as sports betting became demystified and sanitized.
- The NBA Commissioner was quoted as saying at some point in time he could foresee sports betting information appearing unfettered on television albeit, he added cautiously, not in his lifetime.

DO RACINOS REALLY WORK? A MACAO CASE STUDY.

Shuang Liu, Macao Polytechnic Institute

- A racino is a race course with table games and/or slot machines.
- In Macau, there have been two 'racinos.'
 - Yat Yuen Canidrome Slot Lounge which opened in 2005 by SJM and is still operating.

- o Macau Jockey Club Slot Lounge which opened in 2007 but over time the racing turnover was not very good and so neither was slot revenue or profits so it was closed.

- Observations and conclusions:

- o Racinos in Macao did not fare well as gambling alternatives increased.
- o And, as racing popularity decline so did the popularity of Macau racinos or, at least one.

TAIWAN: COMPARISONS WITH CASINO DEVELOPMENT IN THE U.S.

Kathryn Hashimoto, Su-Ching Hunag, and George G. Fenich, East Carolina University

- Historical context

- o Gambling was imported to Taiwan in 1644 to 1712 by Chinese who were migrating to Taiwan. Gaming became one of their major cultural activities. Food, clothing, and household utensils were used to make ‘barter’ bets. The front of the house was the casino and the back was the brothel. Problem and compulsive gambling was manifest even then as stories of gamblers who sold their wives and children, went bankrupt, and committed suicide can be found.

- o During the Chinese Civil War in the 1940s the Nationalists Party’s Chiang Kai-shek fled to Taiwan to set up an alternative government. China, declared sovereignty over the island.

- o Future Presidents of Taiwan would come to fear the now Peoples Republic of China. Political tension was the bridge between the two countries.

- o The latest, Ma Ying-Jeau who took office in 2008 adopted a policy of engaging the Peoples Republic of China.

- Observations

- o Confucianism is deeply rooted in Taiwan and Confucianism prioritizes work over play making “a gambler” a derogatory title.

- o Chinese have a high sense of being able to mind control outcomes. They have a higher focus of external locus of control than their Western counterparts.

- Casinos are being offered in Taiwan but only on the seven offshore islands subject to a local referendum as a way to improve the economy.

- o The first island, Penghu, rejected casino gaming.

- o The island of Matsu passed a local referendum but development must wait for other events to occur.

- o A referendum by the residents of Kinmen island is expected to be next.

AN ANALYSIS OF AHP ON INVESTMENT PROJECT EVALUATION: A CASE STUDY OF MATSU INTEGRATED RESORT

Day-Yang Liu, Ph.D., Shia-Lee Fan, Suman Wang, Pi-Feng Hsieh, and Chung-Yi Fang

- Residents of Matsu Island passed a local referendum in favor of casino gaming on July 7, 2012. But, they must have a traffic study and other events/approvals must occur for gaming to begin.
- Taipei is a 15-minute flight from Taipei and 1.5 hours by boat.
- After surveying 19 experts the selection of the casino developer / operator should be based upon:
 - Reputation and managerial capabilities (weight of .5)
 - Developed schedule and financial plans (weight of .3)
 - Tourism attractions and uniqueness (weight of 0.2)
 - Local feedback (weight of 0.1)

Note: weights do not add to 1.0 because of rounding:

- ... plus other sub-criteria as well.

INTEGRATED RESORT AND CASINO LAW IN AN ASSET-INFLATED JAPANESE ECONOMY

Sasaki Kazuaki, Nihon University, Japan

- The Japanese have many paths toward casino gaming to choose from and decide.
- Background issues:
 - Abe-nomics
 - Bold monetary policy
 - Mobile financial policy
 - Growth strategy that rouses private investment
- Japan has one of the biggest gaming markets consisting of: lottery, horse racing, motorcycle racing, bicycle racing, motorboat racing, speedboat racing, and pachinko and derivative games.
- Gaming events
 - 2011 ... Promotion Law for Specific Complex Tourism Facilities Area Development (“Integrated Resort Promotion Law”)
 - April 2013 ... kick off of new Integrated Resort Parliamentary League
- Probable development scope
 - Two Integrated Resorts first in two areas.
 - Up to 10 total Integrated Resorts located throughout Japan

LAS VEGAS: THE HOUSTON OF THE GAMING INDUSTRY?

Bo J. Bernhard, Ph.D., University of Nevada, Las Vegas

Bo started with a recount of the history and “chapters” of Las Vegas’ development.

- The Early Days: Mavericks
 - Las Vegas was an outpost for outcasts (much like the early years of Australia).
 - Northern Nevada was gambling’s intellectual capital in the U.S.
- Fantasies and Realities: Mafia Management
 - Bugsy (Siegel) Fantasy: he was not the founder or the most influential ‘mobster’ in Nevada’s history.
 - There were four decades of ‘mob’ control at the Sands, Sahara, Dunes, Riviera, Hacienda, Tropicana, and Stardust hotels
 - The ‘mob’ was replaced and Nevada was legitimized and sanitized by ownership and operation by public corporations. Note this also had the perhaps unintended effect of making Las Vegas appeal to women, thereby in one stroke doubling the size of the marketplace.
- MBA-ization of Las Vegas Leadership
 - Systematic approaches replaced ‘street’ styles of management including research and data analysis. This was a “Moneyball” (reference to the movie of the same name) lesson learned.
- The Great (Gaming) Recession
 - In retrospect, the pace Nevada led by Las Vegas was growing was unsustainable.
 - But, in the process, this period led to the construction of the most expensive things built by humans (even the pyramids adjusted for inflation cost less than Steve Wynn’s US\$3 billion Mirage that opened in 2005 and MGM’s US\$10 billion City Center opening in 2010).
 - Then Asia delivered the KO (knockout) punch: First Las Vegas lost its revenue lead to Macau and then its runner-up position to Singapore.

Then Bo went on to compare Houston’s history and future to that of Las Vegas.

- Houston ... at one time was the oil and energy capital of the U.S. if not the world.
 - But when the first oil fields ran dry Houston’s future was uncertain.
 - Houston got a lucky respite when the Sindletop Oil Field was discovered in 1901. But, it too was eventually depleted.
 - During this period, however, 29 major oil and energy companies set up their headquarters in Houston. The intellectual capital of the oil/energy industry settled and stayed in Houston as production went overseas. The science of prospecting and how to run an oil/energy business also stayed in Houston. Houston backed it up with academic institutions (like Rice University) that supported the industry and continually produced

new leaders and advancements.

- o Houston was the first of the 20 largest metropolitan areas in the U.S. to recover from the recession.

- Las Vegas

- o Despite demand exceeding that of Las Vegas in various parts of Asia, the concept, development, design, construction, and management of a multiple property tourist/MICE/visitor destination and/or Integrated Resort resides in Las Vegas, the headquarters of most of the U.S. largest casino companies.

- US companies have 40 percent market share in Macau.

- US companies have greater than 50 percent market share in Singapore.

- Over 90% of slot technology-driven revenues come from slot and electronic gaming device companies located in Las Vegas

- o Conclusion: Las Vegas is to gaming what Houston is to oil/energy and Silicon Valley is to technology ... it is the nuclear center of intellectual capital capitol of gaming. This is a premise upon which to build Las Vegas' future.

- Internet Gaming both offers threats and opportunities to this leadership position.

THE BOOMERANG EFFECT

Jonathan Galaviz, Galaviz & Co., Nevada and Singapore

Jonathan began his presentation stating that his objective was to suggest practical concepts and commercial ideas following up on Dr. Bernhard's thesis that Las Vegas is the intellectual capital capitol of the gaming industry and should leverage this position so that the Greater Las Vegas Area can continue to grow.

- Jonathan posited: Why should an academic focus on Las Vegas being an Intellectual Capital Hub and source of Intellectual Capital?

- o Ideas, not politics.

- o Strategic outlook.

- o Macro focused.

- The capital invested in Asia by U.S. and other companies will come back to Las Vegas, ergo Las Vegas should no fear Las Vegas companies expanding beyond the city boundaries, they should embrace and nurture it.

- Why the 'world' should look to Las Vegas for development, funding, operating, and marketing leadership: Would you rather not rely on a company for advice, products and services, capital, and management ...

- o That has been able to steadily build visitor demand over the last 60 years to 40 million visitors per year?

- o That has been able to unlock the synergy of multiple casinos in zones (south,

center, and north Las Vegas Strip), areas (Downtown vs. the Strip), and as a total destination (over 150,000 hotel rooms)?

- o Whose owners, architects, and development team have produced the largest gaming establishments in the world, including free standing Integrated Resorts?

- In addition to being the Intellectual Capital Hub for gaming, Jonathan also feels that Las Vegas needs to prepare and welcome demand from Asian feeder markets.

- o Las Vegas needs to be a Global Hub that serves and welcomes all countries but, in particular, prepares itself to serve Asia, i.e., Las Vegas needs to become Asian cultural and language friendly.

- o Tourists from the Peoples Republic of China to the U.S. grew 35 percent.

- o Genting Bhd. Has purchased the former Echelon and plans to build an Asia-focused mega casino-resort.

- Macro strategy

- o Diversify within tourism, not out of it (e.g., include not only the gaming companies but the vendors, architects, law firms, and other support companies).

- o Make Las Vegas an International Hub

- o
 - Little things and big things (e.g., little thing ... have the Las Vegas government and funded tourism websites in both English and Mandarin).

- o
 - Designate Mandarin as a second language.

- What should Las Vegas business do?

- o Take advantage of and use U.S. government resources.

- o Embed a good home for Asian investment in the company's DNA.

- o For tourism and gaming related companies, make Las Vegas their intellectual hub.

- What should students do?

- o Understand finance.

- o Understand business.

- o Explore the culture, food, and other aspects of Asian life and business.

- o Learn an Asian-based language (at least the top 20 phrases).

INTELLECTUAL CAPITAL AND THE GAMING INDUSTRY

Mikael B. Ahlgren, The Pennsylvania State University

Mike Ahlgren sought to show the attendees how to “operationalize” intellectual capital.

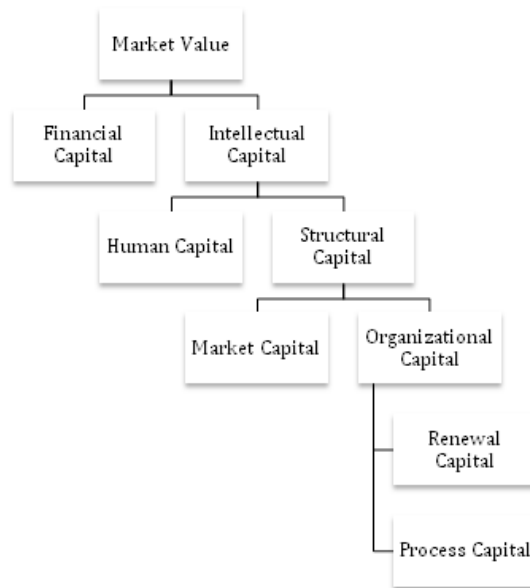
- The concept and benefit of intellectual capital can take a cue from Lao Tzu's quote from 600 B.C. ... “We make doors and windows for rooms. But it is the space that

makes the rooms livable. While the tangible has advantages it is the intangible that makes it useful.”

- Academics sought to define intellectual capital for business strategic and tactical reasons. From 1980 to 2006 the thought leaders proposed multiple categories that combined to create intellectual capital. The number of categories ranged from 3 to 7 but eventually the academic community seemed to settle on the following:

- o Human Capital.
- o Organizational and Structural Capital
- o Relational Capital

- Mike went on to review a comprehensive effort by Israel to assess its intellectual capital on a country-wide basis. The authors of the study decided upon the following structure to categorize and quantify Israel’s intellectual capital as a country:



INSIDE STRAIGHT: HOW CHINA’S PROVINCES ARE CHANGING THE WORLD – AND WHAT IT MEANS FOR GAMING

William Antholis, Director, Brookings Institute

A luncheon Keynote Address

- To determine how Macau changes the world you need to see how Beijing sees the world.

- Context

- o The government of the Peoples Republic of China (“PRC”) must manage 1.3 billion people. To put this task in perspective, 1.3 billion people is the number of people that reside in all of Mexico plus Brazil plus the rest of North and South America plus 27 countries in Europe put together.

o Modern day PRC was managed in much the same way our military manages its military bases, i.e., Beijing appoints the regional leaders, rotates them, but manages them from a strong central authority. This is problematic because the PRC areas being managed have different histories, cultures, languages and dialects, economies, and other attributes.

o This approach did not work during the Mao Era as evidenced by the 30 million who starved to death and the Cultural Revolution that was a failure. And so, post-Mao the management of the provinces was liberalized and they were allowed to experiment (within reason)

o The first province allowed to experiment was Guangdong Province in the 1980s. Guangdong operated under different rules: e.g., the elected their own executives, collected their own taxes, and managed their own affairs. Private ownership of property was allowed as was foreign import and export. Unions were allowed as well as Non-government Organizations (“NGOs”). Free speech was expressed through newspapers and social media (70 percent of Guangdong residents have access to the Internet).

■ This experiment spread to two other provinces along the coast. Their mandate was to “grow Gross Domestic Product” (the economy) vs. exercise control as before.

■ They grew the economy by exporting.

■ They were wildly successful: these three provinces contained only one-third of the PRC’s population but accounted for two-thirds of its economic activity and 80 percent of its exports.

■ In order to spread the wealth, over time production was shared with the inner provinces and the taxation and government income earned in the ‘rich’ and growing coastal provinces was distributed to the rather stagnant inland provinces.

o The central PRC government is still wrestling with distribution of benefits, spreading the infrastructure to germinate economic gains in the source provinces so government aid is reduced, and the myriad of other details that come with running a country and an economy of this size and complexity.

o It is interesting to note that even today the U.S. has only 6 Consulates in China including one in its Embassy versus 100 Consulates for the same geographic coverage in Europe.

• By a quirk of history and politics, Hong Kong and Macau are governed and managed differently. Both were under the rule of foreign countries (the United Kingdom and Portugal, respectively) but in 1997 the British ‘handed back’ Hong Kong to the PRC and two years later in 1999 Portugal did the same thing with Macau. They were designated Special Administrative Regions or “SARs,” the only two such regions in the PRC. The quid pro quo for doing so was that for 50 years each would be governed and managed under “One Country. Two Systems.” The SAR system allowed Hong Kong and Macau to each separately elect their own officials, collect their own taxes, and manage their own affairs.

• Macau must manage its government and the gaming industry in Macau must manage under this broader framework. The central PRC government wants to control growth to be steady and sustainable. They want and will allow Macau to tap domestic markets in the PRC but only “when ready.”

o Meanwhile, Macau whose visitors used to be dominated by those from Hong

Kong now relies on the PRC for 50 percent of its visitor traffic. In turn, Guangdong provides 55 percent of all visitors, the Pearl River Delta provinces 20 percent, the rest of the PRC coast another 25 percent and the rest of the PRC 8 percent. Essentially, the primary feeder market to Macau is from the PRC and the coastal provinces of the PRC.

o Implications:

■ Staffing will be critical. Macau will need to draw upon labor from the PRC feeder markets for language and cultural affinity reasons.

■ Macau will need to market differently to the various PRC feeder markets (e.g., ‘coal miners’ have a different mid-set than factory workers).

- Conclusions

o The Macau government and Macau businesses must first be aware of and then think about the central government’s PRC Strategy, then a given province’s or areas strategy before deciding on its own.

o Current operators must realize the gaming concessions are all renewable. If it is perceived that the central government is going to influence the maintenance or issuance of new concessions that will send ‘shock waves’ through Western owner/operators and capital markets.

o We need to watch for any change in attitude toward terms of the concessions and tax rates.

o And, big picture, the inner provinces need to be watched for possible backlash to current or future policies; if there is going to be a massive change in political strategy it is likely to come from the inner provinces.

o As we have seen other emerging countries falter, so might the PRC: We don’t know what the Achilles Heel might be for the PRC.

THE EFFECTS OF GAMING TAX / RETENTION RATE ON CASINO PERFORMANCE

Will E. Cummings, Cummings Associates

Will sought to evaluate the relationship between gaming tax rates and retention rates (the amount of gaming revenue kept by the casino owner after paying gaming tax and other mandatory payments and fees) and then, the effect gaming tax has on casino performance for the government and owners.

- Taxes have the effect of reducing Return on Investment and therefore also reduce

...

- o Capital expenditures

- o Ancillary amenities and attractions

- o The character and attractiveness of the property

- Cause and Effect of Taxation Levels

- o With low taxes you get huge, Integrated Resorts and large regional destination properties

- o With high tax rates you get locals' casinos and minimum slot / video lottery terminal 'bars'
- Will's analytical tool is a Gravity Model
 - o Gravity models mimic consumer purchasing behavior: the important factors in determining potential demand is:
 - Location.
 - Location.
 - Then size.
 - Then everything else (i.e., location is most important).
 - o The closer the consumer is to the property the more likelihood they will patronize it and come more often. The typical demand curve when plotted against distance is a negative exponential curve, i.e., if you double the distance $\frac{1}{4}$ of the population visits and if you triple the distance $\frac{1}{9}$ th of the population visits relative to those closest to the casino. The general shape of this demand curve has proven the same across multiple markets and is widely used by those in the business of forecasting demand for gaming projects.
 - o But, location is not the only consideration.
 - Size matters. The bigger the better.
 - Attractiveness Coefficients ... a variable to account for everything else such as personal income, micro access, spaciousness, game mix, fit and finish, management, hotel, garage, retail/dining/entertainment, brand, and tax/retention rates. Will's term for Attractive Coefficient is Power Rating. Will uses Power Ratings to adjust for several forces in the model but overall it is the adjustment factor to adjust for "everything else" besides distance and size.
 - o Power Ratings vary across markets: e.g., the average Power Rating for Atlantic City casinos as a group is 109, Mohegan Sun 103, Foxwoods is 100, a typical U.S. racino in the northeast 95, and Twin River in Rhode Island 87.
 - o A one point change in Will's Power Rating yields a greater than one point change in performance.
- Will analyzed the dozens of demand forecasts he has done over the years to determine the relationship between tax and performance.
 - o The higher the Retention Rate (i.e., the lower the tax and other mandatory owner payments), the higher the Power Rating or attractiveness of the property.
 - o If the tax rate is reduced by 1 percent, state revenues increased by 2 percent.
 - o Going from low to high Retention Rates, reductions in taxation (increases in Retention Rates) yield more tax revenues to the state, i.e., demand increases sufficiently to overcome the lower tax rate. (Macomber note: this is because at a lower tax rate casino owners tend to build bigger, better facilities and spend more on incentive marketing).
 - o Caveats: the analyses was based on slots only for selected data points. There are confounding, collinear factors to consider and no significant economic rents are assumed.

THE IMPACT OF A GAMING TAX INCREASE ON CROSS-STATE DEMAND

Mikael B. Ahlgren, Pennsylvania State University and Sarah Tanford and Ashok K. Singh, University of Nevada, Las Vegas

Illinois increased its gaming revenue tax in the highest tier in 2005 from 50 percent to 70 percent. Ahlgren and his Team analyzed the impact and concluded this increase had a negative effective on total taxable revenue to the state.

- Factors than motivate governments to increase taxes:
 - Collect more gaming tax revenues.
 - Political feasibility.
 - Intra-state competitiveness.
 - Local and state economic development.
- Analyzing subsections of adjacent, cross-state competitive casinos operations, the Team found the tax increase in Illinois resulted in a ...
 - 6 percent increase in the Indiana Chicago-land Area Cluster performance.
 - 5 percent increase in the Iowa Cluster performance.
 - 6 percent increase in the St. Louis, Missouri Cluster performance.
 - The implication is that previous consumers of Illinois casinos diverted their patronage to Indiana, Iowa, and Missouri.
- Conclusion: Taxes should not be raised indiscriminately because it may have a net negative effect on the state doing so.
 - Caveat: while demand dropped radically in Illinois right after the tax increase some of that business migrated back possibly because: they found competitors also reduced incentives and/or they determined that travelling to other locations was not worth the effort.

CLOSING REMARKS

Bo J. Bernhard, Ph.D., International Gaming Institute, University of Nevada, Las Vegas

Bo closed the conference by noting how impressed he was by the overall tone that carried throughout the entire conference and every session, i.e., a tone of academic neutrality, kindness, and community. For that, he thanked everyone.

Bo then went on to categorize the world into four quadrants. He did this by labeling the vertical axis “smartness” and competence with a “high” ranking at the top and not-so-smart or not-so-competent at the bottom. He labeled the horizontal axis “kindness” with the left representing not-so-kind and “nice-ness” at the right side. Bill Eadington, he said was one of those rare individuals in the Upper Right Quadrant ... smart and nice.

He also thanked Bill for his efforts that resulted in the consolidation of the industry into a community, an effort that will continue to reward us all for years to come.

Finally, as stated in the opening of this article, he quoted Henry Lesieur, founding editor of the Journal for Gambling Studies, “Bill formed an ‘invisible college’ ... with communication among scholars around a specific area of interest.” One quote cannot and should not make the man, but somehow at the end of a four day conference with hundreds of topics and presenters none of which would have been there with out Bill’s initial inspiration and ensuing continuing passion, the quote seemed to sum up all that was good and wonderful about Bill and, by inference, the conference.

Bo invited everyone to attend the 16th Conference. Most were making plans as he uttered the words.