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Identify Key Business Strategies to Target the Mass Market in Macau.

by

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## **Part One**

### **Introduction**

Macau has been well-known as the “Monte Carlo of the Orient” and as the “Las Vegas of Asia”. Macau’s gaming industry had been monopolized by its government which issued licenses for decades before China took control. After Macau’s sovereignty was restored by the Chinese Government in 1999, the Macau SAR Government has been working on repositioning Macau as the world-class tourism destination by liberalizing gaming operation rights to outside casinos operators in 2002, and by bringing more outside casino companies to advance its competitiveness. In 2006, Macau surpassed the Las Vegas Strip and became the largest gambling centre in the world {{49 McCartney,Glenn 2008}}.

According to Macau Business (2011a), at the end of December 2010, Macau’s overall gross gaming revenue was MOP 188.34 billion (\$23.5 billion USD), a 58 % increase from 2009. Macau VIP baccarat generated a gross revenue of MOP135.65 billion (US\$16.96 billion), accounting for 72 % of the casino gaming revenue. The second most popular casino game in Macau, mass market baccarat, created revenue of MOP34.92 billion, which was an increase of 36.94 % year-on-year. Slots contributed 4.58 % of the overall casino gaming gross revenue. In 2010, Macau had a total of 4,791 gaming tables and 14, 050 slot machines (Gaming Inspection and

Coordination Bureau, 2010a). The VIP baccarat business has been the driver of Macau's gaming revenues for decades. By far, Macau is the largest gambling centre worldwide with regards to gaming revenue {{54 McCartney, Glenn 2008}}.

However, different operational styles, diverse colonial culture, the legal environment, organizational structure, clientele, and political policies have impacted the growth of Macau's gaming industry. Many critics and investors have expressed concerns about VIP volatility in Macau casinos, as Macau's gaming revenue heavily depends on the VIP segment. Gu (2006) raised concerns that Macau overly depends on the VIP baccarat, and that this may be harmful to the growth of gaming market in the long term. Furthermore, other Asian countries are aggressively pursuing legalized gambling in order to take advantage of the economic benefits from gaming revenues. Many Las Vegas-based companies have shown interest in building casinos in the Asia-Pacific region. The Macau SAR Government is seeking ways to sustain the growth of its own gaming market against threats such as intense competition from existing homogeneous casinos and erosion of revenue created by competing casinos.

Las Vegas has been known as the most successful non-gaming destination to the world. After the Macau Government gave concessions to outside casino operators, the casino operations in Macau properties have been influenced by Las Vegas parent

companies. Based on observations about the contribution of gross gaming revenues and increasing amounts of slot machines and tables games year by year, the mass market in Macau is still unexploited and stands ripe to expand following the Las Vegas gaming market model. Attracting the mass market to Macau by applying Las Vegas' experiences may be an effective method to maintain its long-term competitive edge and sustain more profitability.

### **Statement of Purpose**

The purpose of this paper is to examine Macau's present gaming environment and identify factors that will contribute to the success of a mass gaming market in Macau. The study intends to provide economic justification and tourism policy considerations which support the growth of Macau's mass gaming market by taking advantage of the booming Chinese economy and the fast growing popularity of gaming in China. In addition, this study will examine literature supporting Macau's transformation from a simpler gamblers' destination into a Las Vegas style international gaming, entertainment, and tourism destination, as well as arguments for sustaining steady gaming revenue growth while maintaining competitiveness to confront gaming proliferation in the Asia-Pacific region. Ultimately, the information summarized in this paper should provide the Macau SAR Government and the decision-makers of Macau's tourism and gaming industry with important practical

applications they need to formulate strategies for developing a diversified market, sustain gaming revenue growth, and develop as a world-class tourism destination.

### **Justification**

Tourism and gaming markets in Macau have a historically and culturally based competitive advantage. Firstly, gambling is a social and cultural phenomenon that has been part of the Chinese history for thousands of years; legalized gambling in Macau has been in place for over one hundred years, and Macau has been called the “Monte Carlo of the Orient” to the world. In 2006, gaming winnings in Macau surpassed those in Las Vegas {{54 McCartney, Glenn 2008}} which is suggestive of the Chinese’s gambling addiction, and subsequently why Macau is such a lucrative market in the Asia-Pacific district. Despite the Chinese’s strong passion for gambling, the Chinese government has only legalized home internet gambling and a national lottery. Taking into consideration the Chinese’s tendency towards gambling and Macau being the only public gambling place for the Chinese to speak their native language and share the same Chinese culture, the future of the Macau’s gaming industry seems promising (Farhoomand & Martin, 2006).

More recently, the SAR Macau Government has been working on repositioning Macau as a family-oriented tourism destination. Thanks to Macau’s unique cultural features and its long-term separation from mainland China, Macau has developed into

an independent economy as well as political, multiracial and free society. The rich legacy of colonial culture and heritage differentiates Macau from other tourism destinations in the world (Gu, 2004). An added advantage of repositioning Macau as a world-class tourism destination is Macau's location, situated 37 miles southwest of Hong Kong. Hong Kong has been renowned for its well-developed shopping, entertainment, and tourist attractions that appeal to non-gaming tourists in Asia. With the volume of slot machines and gaming tables increasing each year, it is clear that the mass market in Macau is still unexploited and has not experienced market saturation (Gu, 2004). By taking advantage of its location, Macau can attract more family-oriented tourists from Hong Kong while developing the unexploited mass market.

So far, gambling is still prohibited by Chinese government in mainland China and no legalized casinos have been built in mainland China or Taiwan. Macau has been the only location where Chinese people can legally take part in several kinds of public gambling. With the continuous and fast growing Chinese economy, the Chinese middle class has risen to the forefront with disposable income for leisure spending. Based on Friedman and Savage's (1948) theory on choice involving risk, as people increase their wealth, they are inclined to become risk-takers. Macau has long benefited being the sole Chinese jurisdiction where people can legally participate

in gaming activities, and the rising Chinese wealthy middle class with its cultural and financial tendencies towards gambling is a resource that can be tapped to ensure the longevity of Macau's gaming market.

The VIP market has been the driver of Macau's gaming revenue; however, over-reliance on VIP revenue presents high risk dependency on a highly centralized revenue structure in Macau's gaming market. Due to the previous prohibition on casinos issuing credit and limitations on travel funds for tourism, Junkets became agents between Macau's casinos and high rollers and were the method used by high rollers to borrow money without limitation. Even though the Chinese government now allows casinos to issue credit directly to players, Junkets still act as connectors and cannot be eliminated (Farhoomand & Martin, 2006). Most casinos still pay commission, accounting for a portion of the VIP gross margin, to Junkets in order to motivate Junkets to bring in more new players. Commission paid to Junkets, compensations and discounts provided to VIP players, and acquisition costs all cut into the profit margin of the VIP segment. This is why casinos operators have turned towards focusing on mass market gaming, as the profit margin in the mass market is bigger than in the VIP market (Farhoomand & Martin, 2006).

According to Ader, Falcone & Steinberg (1998), the extreme competition among Las Vegas' casinos has resulted in market saturation in Las Vegas; subsequently, the



Las Vegas Strip casinos had to explore and develop a large number of non-gaming amenities to fight for visitors and cater to entertainment seekers' desires. As a result, the mass gaming market, including entertainment, conventions, shopping and recreation, has become the primary driver of the Las Vegas visitors. Gu (2006) further points out that an industry limited to gaming may likely give rise to market saturation, which ultimately results in casino revenue reductions. As Macau is facing a similar situation, Macau should follow the example set by Las Vegas and pursue market diversification to combat market saturation. The successful non-gaming model in Las Vegas can provide Macau's casino operators with abundant world-class experiences to sustain the long term growth of Macau's gaming market.

### **Constraints**

The VIP baccarat has traditionally contributed to the lion's share of Macau's gaming revenue, but this must change as Macau's gaming industry searches for ways to distinguish itself in the international gaming market. Based on Pride and Ferrell (2000), product differentiation has been shown successful in lowering revenue risk and maintaining revenue growth in a competitive business environment. Gu (2006) emphasizes that if Macau follows the business model of western casinos, it may potentially compete for visitors with Las Vegas Strip and other Asian Las Vegas type gaming markets. However, Macau will lose its market niche once it transforms into

a mass-gaming operation and will confront cut-throat competition with other gaming destinations in Asia-Pacific district. As a result, repositioning Macau as a Las Vegas type casino will distract the gaming revenue from VIP segment, lower gaming profitability, and subject Macau's gaming market to intense regional competition. Furthermore, the Nevada Gaming Control Board (2002) pointed out, the gaming market has a higher profit margin than non-gaming market does in Las Vegas. All these factors may negatively influence American and Australian gaming operators that hold conservative attitudes towards developing a mass-gaming market in Macau. Moreover, the volatile VIP market and the Macau SAR Governments lack of requiring regular reports of gaming revenues may cause pullbacks from some investors and bankers.

The instability of the Chinese political system, stalemates between the Macau SAR Government and the Chinese Government, and fears for serious natural disasters such as another SARS outbreak may lead to uncertainties in the growth of the Macau gaming industry. In addition, there is a disproportionate relation between the amount of tax revenue received by Macau's government and money allocated towards improving urban infrastructure. It is estimated that around 70% of government tax revenue are from gaming, tourism, and hospitality industry. However, the Macau Government spent much less on improving the urban infrastructure such as

transportation facilities; infrastructure, medical facilities, and educational system.

Macau's current urban infrastructure is unable to support the goal of turning Macau into an international gaming and entertainment destination. If the Government capital cannot be effectively allocated to improve the local environment in Macau, the social and physical infrastructure will be unable to reach international standards and may pose severe threats and challenges to the expansion of Macau's gaming industry.

## **Glossary**

*Day-trip Market:* A market segment that can drive to the property and return home the same day {{55 Kathryn Hashimoto, George G. Fenich 2007}}.

*High Roller (High Stakes Gambler):* A premium player: anyone able and willing to spend five-thousand dollars or more in a weekend of gambling (There are an estimated 35,000 high rollers in the world.){{55 Kathryn Hashimoto, George G. Fenich 2007}}.

*Junket:* A form of compensation in which a group of known and rated gamblers is brought to the casino for an all-inclusive trip paid for by the casino and expected to participate in a given level of casino action{{55 Kathryn Hashimoto, George G. Fenich 2007}}.

*Mass market:* Approach to advertising that attempts to reach every consumer, rather than targeting a particular market segment. A mass market strategy is effective for

products that appeal to a broad cross-section of consumers, such as over-the-counter allergy drugs and popular soft drinks. It is not appropriate for products with limited appeal, such as gluten-free dietary supplements and specialty beverages. Mass market media is usually more costly than direct marketing media, because it is priced according to the number of consumers who will be reached, and must generate a large return in order to justify the expense {{56 Jane Imber, Betsy-Ann Toffler 2000}}.

*Niche marketing*: marketing strategy whereby marketers devote 100% of their efforts toward a small segment of a market instead of the whole market. Niche marketing generally appeals to smaller companies with limited resources. Typically, the small market segment, or niche, has been overlooked and underserved by other larger competitors but is still large enough to be profitable. There are several different niche marketing strategies: end user strategy, serving only one type of end user customer; vertical level strategy, specializing in one level of the production-distribution cycle; customer size strategy, selling products designed for only one size customer, such as petite or extra large clothes; service strategy, offering a service not available from any other company; and geographic strategy, selling only in one geographic area {{56 Jane Imber, Betsy-Ann Toffler 2000}}.

## **Part Two**

### **Literature Review**

#### **Introduction**

For the past two decades, the Chinese economy has been growing at an amazing speed, and continuously increases the percentage of wealthy and urbanized middle class with disposable income for traveling, entertainment, and tourism (Gu, 2006). Additionally, the China Government has increasingly relaxed the IVS scheme which allows more people travel to Macau and Hong Kong on an individual basis. Mainland China has become the biggest feeder market for Macau to support the growth of its gaming industry {{50 Kim,Woo Gon 2004}}. In order to attract these potential visitors, the Macau SAR Government liberalized gambling by giving out concessions to outside gaming operators, anticipating that the competitive environment will help Macau advancing its gaming industry and turn Macau into an international tourism destination.

It is noteworthy that Macau has overly depended on the VIP baccarat for decades; furthermore, it has raised high risk concerns towards the gaming market's ability to maintain stable growth. Based on statistics on Macau's gaming revenues generated from different types of games of fortunes (2005-2010), as showed in table 1, the gross revenue contributed by slot machines was insignificant compared to that from table

games. It should also be noticed that year-by-year increasing gross revenue from the slot business has identified the mass market to be an attractive market to drive additional gaming revenue in Macau. Furthermore, the Coati-strip is developing as an integrated gaming, hotel, entertainment, shopping, and convention centre. This demonstrates the inevitable trend for a pure gaming destination to become a mass gaming market against VIP market saturation. The Macau SAR Government is anticipating bringing more visitors to participate in the mass gaming market to pursue its vision of turning Macau into a leisure and entertainment centre (Macau SAR Government, 2008).

The following related literature will be presented in the following sequence. In the first section, the competitive advantages for Macau developing the gaming industry will be discussed and followed by a brief examination of the current gaming market in Macau. The third and the final sections will examine several factors that affect the international mass gaming market's attraction to Macau and discuss Macau's current gaming environment with regards to supporting the developing mass gaming market. In the end, Macau could borrow valuable experiences from similar gaming markets and forge a suitable way to sustain its growth of the gaming industry.

Table 1

*Gross Gaming Revenue from Different Types of Games of Fortune in MOP*

*(2005-2010)*

Game Types	2005	2006	2007	2008	2009	2010
Roulette	186.0	248.0	371.0	693.0	694.0	672.0
Black Jack	1,459.0	1,622.0	1,917.0	2,247.0	1,903.0	2,290.0
VIP Baccarat	28,864.0	36,783.0	55,762.0	73,772.0	79,834.0	135,648.0
Baccarat	10,448.0	11,911.0	16,515.0	21,264.0	25,498.0	34,917.0
Fantan	143.0	145.0	164.0	190.0	174.0	183.0
Cussec	1,526.0	1,923.0	2,755.0	3,043.0	2,826.0	3,555.0
Paikao	95.0	76.0	77.0	54.0	44.0	86.0
Boule	0.2	-	-	-	-	-
Mahjong	-	-	-	9.0	27.0	34.0
Slot Machines	1,250.0	2,053.0	3,594.0	5,653.0	6,503.0	8,618.0
Mahjong Paikao	6.0	4.0	3.0	2.0	0.4	-
Makccarat	-	-	9.0	16.0	8.0	4.0
3-Card Poker	172.0	128.0	114.0	73.0	94.0	131.0
Fish-Prawn-Crab	1,053.0	874.0	654.0	264.0	152.0	93.0
3-Card Baccarat Game	257.0	247.0	231.0	209.0	184.0	219.0
Craps	-	-	9.0	89.0	92.0	163.0

Game Types	2005	2006	2007	2008	2009	2010
Texas Holdem Poker	-	-	-	54.0	146.0	216.0
Pachinko	2.0	-	-	-	-	-
Tombola	1.2	2.0	2.0	1.8	1.8	1.7
Lucky Wheel	39.0	27.0	17.0	21.0	25.0	32.0
Live Multi Game	-	-	-	-	-	153.0
Stud Poker	522.0	556.0	750.0	925.0	938.0	1,060.0
Q Poker	24.0	24.0	20.0	7.0	5.0	1.0
Casino War	-	0.1	61.0	185.0	164.0	157.0
Fortune 3 Card Poker	-	-	-	-	55.0	109.0
Fortune 8	-	-	-	-	2.5	-

Source: Gaming Inspection and Coordination Bureau (2010b)

## **Macau Enjoys Competitive Advantages**

### **Gaming in Chinese culture**

It is obvious that the Chinese are interesting in gambling and games of fortune; gambling has been a part of daily life for Chinese for thousands of years (McNeal, 2006). Many studies point out that the “Chinese gamble for financial reasons and thus have a strong desire to win” (Access Asia Limited, 2002; Ozorio & Fong, 2004;



Vong, 2007) and show pursuit of gambling for excitement (Ozorio & Fong, 2004). Ozorio and Fong (2004) and Vong (2007) further suggest that this motivation is increased by the booming Chinese economy, stating that increasing wealth makes people more prone to taking risks and participating in high-risk activity such as gambling. They view gambling as a quick way to achieve additional wealth and to pursue stimulation (Liu & Wan, 2011). Risk-taking gamblers from mainland China have become the bulk of Macau's gaming clientele (Gu, 2006). Lam and Ozorio (2008:3) state that most Chinese treat gambling with friends or relatives as an accredited social activity. Gambling has become one kind of habit, a part of festival celebration, and a medium for social or business networking. Notwithstanding their strong desire for gambling, the Chinese Government has considered the potential social impact that gambling might bring about, and enforces strict restrictions on gambling. So far, the Chinese Government has taken no further action to legalize casinos at locations in Mainland China except in Macau. By taking advantage of the Chinese' tendency towards gambling, Macau's gaming future seems holds great potential.

### **History of the Macau gaming industry**

A look at the history of Macau shows that it has been a Portuguese colony where the East cultures merged with the West's for hundreds of years. In 1847, the

Portuguese Government first legalized gambling in order to lessen dependence on trade by diversifying the economy and creating a constant source of income for the society. The Hou Heng Company, a pioneer in the Macau's gaming market, procured the exclusive concession and rights to the industry in 1930. In 1962, the monopoly license was issued to Stanley Ho's Sociedade de Turismo e Diversoes de Macau (STDM) which dominated the gaming industry in the Portuguese enclave for over 40 years. The tourism, gambling and hospitality industries have contributed to Macau's economy since then.

Following Macau's return to sovereignty in 1999, the Special Administrative Region (SAR) Government of Macau had realized economic benefits from gaming tax revenues. In 2002, the Macau SAR Government decided to end the monopoly system controlled by STDM by liberalizing its casino industry and bringing competition into its gaming market. The Macau SAR Government officially initiated public bidding for gaming operation to companies who had sufficient capital to participate in bidding {{18 Farhoomand, Ali 2006}}. Several casino owners and operators from Las Vegas expressed strong interests in entering the market in Asia.

Subsequently, six casino operating concessions and sub-concessions were given to Sociedade de Jogos de Macau (SJM), Wynn Resorts Ltd, Las Vegas Sands, Galaxy Casino Company Ltd, the partnership between MGM Mirage and Pansy Ho (Stanley

Ho's daughter), and the partnership between Melco International and Publishing & Broadcasting Ltd. (PBL). In the 2000's, these US gaming companies built their own casinos in order to gain profits from Macau's lucrative gaming market. The operation of these Las Vega style casinos built in Macau has been affected by those Las Vegas based companies (Gu, 2004). By giving out concessions to outside gaming operators, the Macau SAR Government expects to help Macau develop into an international leisure and entertainment destination.

### **Exceptional gaming growth in Macau**

Over the past few years, the fast growing Chinese economy has attracted more and more attention from around the world. As the country's economy shifts from poverty to prosperity; people are beginning to have more discretionary income to spend on traveling, entertainment, gaming, and shopping activities. Furthermore, China has generated a huge amount of mainland tourists by enacting the outbound travel policy, the IVS scheme, which allows certain Mainland residents travel to Hong Kong and Macau from selected major cities. According to the statistics of visitor volume on January 2011 released by Statistics and Census Service (2011a), visitors from Mainland China accounted for 58% of total 2,076,064, visitors from Hong Kong accounted for 25.5% and visitors from Taiwan accounted for 4.4%. Mainland China is clearly Macau's first and largest tourists-feeder market. This trend looks likely to

continue as the Chinese people are becoming wealthier and looking for opportunities to increase their affluence. This has created an increased demand for the Macau gaming market. The Chinese Government has also eased the IVS program, and visitors traveling to Macau on January 2011 under the IVS scheme have increased by 20.2% (Statistics and Census Service, 2011a). With the increasing middle class in China and the gradual relaxation of the IVS scheme, the profile of the Macau visitors has been changing with numbers of hard-core gamblers gradually decreasing and numbers of conventioners, entertainment seekers, and tourists increasing.

## **Gaming Market in Macau**

### **Lopsided gaming market and shifting gaming environment**

According to Macau Business (2011a) indicated, the VIP baccarat generated a gross revenue of MOP135.65 billion (US\$16.96 billion) in 2010, accounting for 72 % of its total casino gaming revenue. The product structure of Macau gaming market is distinctly different from that of Las Vegas. For instance, in Las Vegas, the revenue generated by slots is nearly double that of table games (Mellen & Okada, 2006). Differing from entertainment seekers, who are the primary clientele for Las Vegas and European markets, casino patrons in Macau show risk-taking propensity (Gu, 2002).

Although the VIP baccarat has been the cash cow in Macau gaming industry for decades, many critics and analysts raised their concerns that the volatility of the VIP market may lead to an unstable cash flow for Macau gaming industry. Gu (2006) raises concerns that Macau is too dependent on table game winnings and further indicates that the unbalanced revenue structure and less diversified revenue sources pose high level of risk in the long term. Besides, SJM (a subsidiary of STDM) has accounted for most of the VIP baccarat gaming business for decades, long before US companies entered the market. It only leads to VIP market erosion when newcomers attempt to take shares of this lucrative segment, break down the customer base of the destination, decrease its tourist volume and tourism receipts, and bring great revenue instability to Macau (Gu, 2006). Gaming analysts worry that the decline of the VIP segment will continue as China travel restriction further ease, more and more wealthy middle-class wage earners travel to Macau casinos, and game play shifts from VIP rooms to the mass-gaming market (Jalal, 2007).

Based on observations of the development of the Las Vegas gaming market, gaming-centric-activities will ultimately lead to market saturation. Diversifying the market base can sustain the growth of Macau gaming industry. In order to avoid market saturation and foster a more balanced economy, the Macau SAR Government liberalized the industry by giving out concessions and encouraging development in

the mass-market while reducing its over-reliance on VIP baccarat. According to table 1, Macau's mass gaming market significantly lags behind its Las Vegas' counterparts. The primary reasons are that the volume of visitors is not enough and the length of stay is 1.47 days in Macau, according to Statistics and Census Service (2011b). Visitors' stays in Macau are quite short when compared to visitors' average 3.7 day stay in Las Vegas.

Macau has been viewed as a pure gambling destination for hundreds of years. For this reason, visitors to Macau are primarily gamblers instead of tourists. Due to intense competition, Las Vegas casinos were forced to develop the mass gaming market to attract entertainment seekers and tourists. Following that example, the Macau SAR Government is working on changing traveler perceptions of Macau from a day-tripper's destination to an attractive family entertainment destination. However, important factors such as numbers of entertainment seekers and competitive gaming environments that contributed to the successful mass-gaming model in Las Vegas are still missing in Macau (Gu, 2004).

Nonetheless, Morgan Stanley, a global financial services firm, believes that "the mass gaming market is the key to Macau's growth and the key to those western operators' profitability". Greff (2005) believes that the mass gaming market grow at

an amazing speed over the VIP market. Thanks to the Chinese's insatiable desire for gambling, Las Vegas-based casinos have been attracted to enter this lucrative market.

Notwithstanding, there is a problem with the policy of liberalizing gaming operations. Macau has trumped Las Vegas being the largest worldwide gaming destination in 2006. In order to increase more gaming profits, casino owners or operators have brought in more slot machine and table games every year. Goldman Sachs, a global investment banking and securities firm, expressed concerns of oversupply in the mass gaming market, resulting in a reduction in profits for Macau's gaming industry due to each license having no limitation on the numbers of casinos, partners, slot machines, or gaming tables. Chakravorty (2005) expressed concerns that the incrementally increasing visitor volume might not be enough to match the continual casino development in Macau and will fail to generate enough gaming revenue.

### **Infrastructure and resources in Macau**

There are a variety of modes of transportation in Macau, with the most common on being bus service. Each bus stop provides bus route maps and tourist information for visitors to consult. In addition to bus service, taxi service is also available in Macau; however, some areas may be more difficult for hailing taxis during rush hour, according to the Transport Bureau. The Tourist Office has further provided most

taxis with a destination guides that include multilingual information regarding the most requested attractions in order to remove the language barrier between taxi drivers and passengers. However, Macau's transportation system is still far from perfect and will be challenged to satisfy demand once the development of the Cotai Strip is completed. The new public bus company Reolian expressed concerns about the insufficiency of the bus drivers to operate since August 2011. This is due to the Macau SAR Government's insistence of a "100 % local bus drivers" policy unless there is a specified shortage of local workforce (Macau Business, 2011b). Other complaints include the identification of taxis, lack of information about the license plates, and most commonly, taxi drivers' refusal to take passengers. Such transportation problems are in dire need of improvements; otherwise, transportation limitations will impede Macau's attempt to reposition itself as an international tourism destination.

Besides land-based transportation, there are two international airports nearby: the first is Macau International Airport (MFM), and the second is the Hong Kong International Airport (HKG). According to Macau Business (2011c), Macau International Airport Company invested MOP 130 millions in infrastructure upgrading in 2010 in order to accommodate more passengers. Although the volume of passengers to Macau decreased to 4.08 million by 4.03 percent in 2010, the



Macau's authorities do not seem worried about the drop since the gradual relaxation of the IVS scheme and the increasing middle class from mainland china will offset the temporary drop in visitor volume.

The workforce pool in Macau provides another problem, including difficulties in providing the amount of labor demanded by an increasing numbers of casinos (Doocey, 2006). The shortage of workforce is due to the drawing of workers from a limited island population. Additionally, there is a decline of service standards resulting from a deficiency of qualified and trained personnel (McCartney, 2008).

The reason for that is because the Macau SAR Government enforced strict regulations and restrictions to prevent huge influx workers from mainland China; furthermore, there is a regulation on imported workers which limits the amount of time they can work in Macau. Additionally, permission to import workers is valid only if employers can prove that productivity has decreased due to a decrease in the number of employees hired (Resources and infrastructure, 2001). For all the reasons listed above, human resources and the service quality have failed to achieve international specifications and pose a threat to the mass market's growth.

The accomplishment of infrastructure projects in Macau has an important impact on the overall success of the mass-gaming market in the near and long run (Mellen & Okada, 2006). However, based on the development of current infrastructure and

resources in Macau, people are complaining about there are overcrowding at specific heritage sites, shortage of parking spots, and traffic congestion. The VIP baccarat has contributed considerable tax revenue to the Macau SAR Government for decades, but the Macau SAR Government invested less in upgrading its social and physical infrastructure, which fails to live up to the standard of world-class tourism destination.

### **Mass Gaming Market Can Drive Additional Gaming Revenue for Macau**

#### **Factors that affect the attraction of mass gaming market to Macau: The visitor volume**

Visitor volume plays an important role and decides a hit or a crash for casinos (Jalal, 2007). The Individual Visitor Scheme carried out in 2003, allows portion of the mainland residents travel to Hong Kong and Macau (prior to the IVS program, the Chinese Government only authorized traveling from Mainland China to Hong Kong for business or groups.), and has made Mainland China being the primary feeder market for Macau. As the IVS scheme is expanded to more jurisdictions, the visitor volume from Mainland China and Hong Kong to Macau will continue to increase (Mellen & Okada, 2006). Moreover, China's continued economic growth is generating more wealthy middle class Chinese with highly disposable incomes for traveling, entertainment, shopping, and tourism. Mellen (2006) pointed out that the visitor volume to Macau is expected to become increasingly less reliant on

high-rollers and more made up of entertainment-seekers, conventioners, and leisure seekers who travel to Macau for vacation, business or shopping. The increasing middle class with discretionary income and numbers of travelers from Mainland China and Hong Kong provided Macau with a stable influx of visitors to develop the potential mass gaming market.

**Factors affect the mass gaming market attract to Macau: The average length of stay**

According to Mellen (2006), the growth of gaming revenue is highly related to the increase of visitor volume and visitor stay length. Visitors who stay overnight show a tendency of shopping, generating gaming wins, and creating other revenue; the longer visitors stay, the more they will spend on gaming, shopping, or other activities. He further states that gaming winnings in Las Vegas casinos strongly corresponds with visitor volume; nearly all the visitors in the Las Vegas market stay overnight, which shows how the relationship between numbers of visitors and gaming revenue is highly relevant (Table 2). As mentioned in the previous section, the average length of stay in Macau during 2010 was 1.47 days, according to Statistics and Census Service (2011b). In comparison, the average length of stay in Las Vegas was 3.7 days in 2010. While the growing Chinese middle class with increasing disposable income provides Macau the additional revenue derived from its mass

gaming market, factors such as visitor volume and stay length must be targeted to ensure the gaming industry's prolonged success.

Table 2

*Historical Las Vegas Statistics (1970 - 2010)*

Year	Visitor Volume	Clark County Gaming Revenue
1970	6,787,650	\$369,286,977
1971	7,361,783	399,410,972
1972	7,954,748	476,126,720
1973	8,474,727	588,221,779
1974	8,664,751	684,714,502
1975	9,151,427	770,336,695
1976	9,769,354	845,975,652
1977	10,137,021	1,015,463,342
1978	11,178,111	1,236,235,456
1979	11,696,073	1,423,620,102
1980	11,941,524	1,617,194,799
1981	11,820,788	1,676,148,606
1982	11,633,728	1,751,421,394

Year	Visitor Volume	Clark County Gaming Revenue
1983	12,348,270	1,887,451,717
1984	12,843,433	2,008,155,460
1985	14,194,189	2,256,762,736
1986	15,196,284	2,431,237,168
1987	16,216,102	2,789,336,000
1988	17,199,808	3,136,901,000
1989	18,129,684	3,430,851,000
1990	20,954,420	4,104,001,000
1991	21,315,116	4,152,407,000
1992	21,886,865	4,381,710,000
1993	23,522,593	4,727,424,000
1994	28,214,362	5,430,651,000
1995	29,002,122	5,717,567,000
1996	29,636,361	5,783,735,000
1997	30,464,635	6,152,415,000
1998	30,605,128	6,346,958,000
1999	33,809,134	7,210,700,000
2000	35,849,691	7,671,252,000

Year	Visitor Volume	Clark County Gaming Revenue
2001	35,017,317	7,636,547,000
2002	35,071,504	7,630,562,000
2003	35,540,126	7,830,856,000
2004	37,388,781	8,711,426,000
2005	38,566,717	9,717,322,000
2006	38,914,889	10,630,387,000
2007	39,196,761	10,868,464,000
2008	37,481,552	9,796,749,000
2009	36,351,469	8,838,261,000
2010	37,335,436	8,908,698,000

Source: The Las Vegas Convention and Visitors Authority (LVCVA)

**Factors affecting the mass gaming market to Macau: The development of non-gaming facilities**

The Cotai Strip, developed by the Las Vegas Sands Corp and modeled after the Las Vegas Strip, is a master-planned development providing a new line-up of luxurious hotels, prestigious brands, marvelous live entertainment, according to the Cotai Strip website. The Cotai Strip houses the world's most recognized hotel

brands, including Venetian Macau, Four Seasons Hotel, Far East Consortium “The Phoenix”, Shangri-La Hotel, Sheraton Hotel and the St. Regis, Hilton Hotel and Conrad Hotel, and Fairmont, Raffles and Swissotel to provide patrons shopping, conference, entertainment, shows, and dining spaces to explore at their leisure. Upon its completion, the Cotai Strip will offer more than 550, 000 square meter of meeting and retail space and 25, 000 seats for world-class entertainment (Las Vegas Sands Corp., 2011).

Jalal (2008) states that, the Cotai Strip will transform Macau from a hardcore gaming centre to a more diversified tourism hub following the Vegas mold. He also mentions that those new mega-resorts will dramatically change the demographic of visitor to Macau, decreasing hardcore gamblers and increasing entertainment seekers, conventioners, shoppers, and tourists. Mellen (2006) estimates that once each stage of development at Cotai Strip is completed, the added hotel rooms, gaming amenities, meeting and convention equipment, non-gaming facilities such as shops, shows, and restaurants will increase the length of visitors stays to overnight in Macau and extend the potential feeder markets from China to other regional countries.

According to Ung (2010), the “Historic Center of Macau” was listed by the United Nations Educational Scientific and Cultural Organization (UNESCO) as a world heritage site in 2005. This international recognition has leveraged Macau as a

gaming centre encompassing a culture heritage attraction, and provides Macau with a distinct advantage to differentiate itself from other gaming destinations. Ung (2010) also mentions that “Macau definitely has potential to develop heritage tourism. From a historical perspective from many scholars, Macau is a centuries-old Western colony in the Far East.” Silva (2002) described Macau as a “Melting Pot of East and West” while Clayton (2003) describes Macau as a “City of Museums.” Furthermore, Lung (2002) explains that “Macau has many unique historic buildings and sites, and almost each and every one of them possesses great culture significance and distinct character.” Similarly, Wu (2002) gave high appraisal on Macau’s culture heritage as “combining the cultures of the East and West...as an exotic flower in the blossoming garden of diverse Chinese Architecture.” All these statements demonstrate that Macau holds the distinct advantage: culture heritage for developing a mass market that focus on leisure and tourism.

### **Factors discouraging slot play in Macau**

Slot machines are very common in western casinos, and are a primary revenue source of the mass gaming market. However, slot play is not very prevalent in Macau’s gaming market. Liu (2011) identifies several elements that discourage slot play in Macau casino. The primary reasons for most Chinese gamblers’ dislike of slot play are the perception of fewer payoffs, uncontrollable outcomes, overly quick



losses, small jackpots, lack of challenge and excitement, and greater difficulties when playing. Other reasons are regarding the service and include: less knowledge with the slot rules, difficulty in acquiring assistance in slot areas, slower service in slot areas, and lack of comps that are more available in table games.

Johnson (2002) further mentions that “comp, that is complimentary services” such as free drinks, meals, shows, and rooms, are provided less to answer service problems, and more as a motivation to urge and reward slot play. His findings further demonstrate that offering complimentary services increases customers’ satisfaction and generates loyalty. In addition, less socialization in slot areas further deter gamblers from participating in slots. The Macau SAR Government is working on altering players or visitors’ perception of slots and attracting more gamblers to engage in slot play, in accordance with the prospect of transforming Macau into a leading leisure, entertainment and tourism destination (Macau SAR Government, 2008).

A few slot machine manufacturers have raised concerns that the lack of available information regarding slot machine performance may become one of the factors deterring slot growth, especially because casino owners are reluctant to reveal information on machine performance and disclose information on the house

advantage. The article furthered mentions that the lack of feedback causes difficulty in efforts to improve their business (Brandon Schubert, as cited in Jalal, 2008).

### **Similarity to Las Vegas' gaming market**

Las Vegas has been viewed as the Mecca for US gamblers, like the way the Macau gaming market is presently positioned, and evolved into a destination providing entertainment, meeting, convention, and shopping to reduce its reliance on the hard-core gaming segment (Mellen, 2006). The transformation of Las Vegas' gaming industry took more than a decade, and was driven by the needs of entertainment seekers. The fierce competition amongst Strip casinos resulted in market saturation (Ader, Falcone, & Steinberg, 1998), leading gaming operators to develop various non-gaming amenities in an effort to attract more customers and compete for market share (Gu, 2004).

Macau is currently undergoing the same evolution that Las Vegas experienced. Gaming operators have invested billions of dollars to build mega gaming resorts in Macau after government authorities liberalized gambling. However, the VIP baccarat has been dominated by Stanley Ho for decades. US operators have had difficulty gaining VIP market shares due to VIP saturation. This demonstrates that intense competition among casinos only leads to VIP revenue uncertainty and VIP market erosion. However, the mass-gaming market in Macau has not experienced

the same level of proliferation. Thus providing high-class gaming spaces, luxury hotels, gourmet food, elite shops, and exciting tourist attractions, combined with factors such as the booming Chinese economy and gradual relaxation of the IVS program, should help attract and bring more visitors to Macau and boost the mass market segment.

### **Homogeneous markets in neighboring countries**

Liberalized gaming by the Macau authority was intended to bring in competition and reposition Macau as an international gaming destination. The operations of the casinos built by Las Vegas based owners were influenced by their respective parent companies. Gu (2004) raises concerns that, if Macau positions itself as Las Vegas-style gambling destination without product differentiation, sooner or later it will become a direct rival to the Las Vegas Strip, and also compete with other homogeneous rivals in neighboring countries such as Singapore, Korea, and Thailand. The intense competition among casinos may lead to revenue uncertainty and may not generate enough visitor volume to produce substantial casino revenues. The Cotai Strip, as an integrated resort development, is expected to consolidate the growth of Macau's gaming market against competition from other existing or emerging homogeneous destinations.

### **Conclusion to Literature Review**

The literature examined points to the necessary shift from a dominant gaming destination into an all-encompassing leisure destination to ensure Macau's long-term success in the mass market. Taking full advantage of the Chinese passion for gambling, Macau's standing as the only legalized gambling jurisdiction in China, and promoting Macau's culture heritage will all help Macau's gaming market differentiate itself from other gaming destinations, maintain stable gaming revenue growth and guard itself against other emerging rivals in neighboring countries. The growing Chinese economy along with the rising middle class with disposable income, and the gradual relaxation of the IVS scheme will increase the visitor volume to Macau as they develop unexploited, lucrative mass gaming markets. Liberalized gambling licenses to American and Australia gaming operators providing modernized management, world-class customer service, and experiences from world-class casinos will help Macau in diversifying its gaming market and growth the gaming industry.

## **Part Three**

### **Introduction**

The literature review examined the comprehensive gaming environment in Macau, showing that Macau enjoys distinct competitive advantages in developing its gaming industry in the Asia-Pacific district. However, some scholars note that over-reliance on VIP gaming revenue poses a high risk to Macau's gaming market in the long run. They suggest that Macau needs to explore the mass gaming market to sustain the growth of its gaming industry. The studies point out, with regards to Las Vegas' experience, that diversifying Macau's gaming industry to explore the mass gaming market will drive additional gaming revenue for long term success.

However, Gu (2006) notes the potential loss of a niche market, the VIP baccarat, if Macau repositions its gaming market similarly to that of Las Vegas. Liu (2011) further identifies that some factors that might impede the development of mass gaming market.

Even so, the advantages of developing mass-gaming market in Macau outweigh the drawbacks. In the end, these findings should persuade Macau authorities and decision-makers to play towards Macau's distinctive advantages to reposition it as a leading international leisure and gaming destination.

### **Results**

Based on the literature review, the success of a mass-gaming market or not depends on the large volume of visitors, longer length of stay, and abundant non-gaming facilities to support. The Chinese insatiable desire for gambling, the growing Chinese economy along with increasing middle-class with disposable income for traveling, shopping, and other leisure activities, and a huge influx of Mainland visitors travel to Macau and Hong Kong under gradual eased IVS program all suggest a bright future for Macau's gaming market.

In order to attract more visitors, the Cotai Strip is being developed as an integrated casino resort to cater to the leisure seekers, entertainment seekers, shoppers, and gourmandizers. However, the social and physical infrastructure in Macau is not up to international standard. And the human resource in Macau is less professional and showed insufficient to support the demand of new casinos opening. Macau needs to advance its gaming market and maintain its competitiveness against other existing and forthcoming gaming destinations in the Asia-Pacific district. By borrowing and learning the experiences from the similar gaming destinations, this should help Macau advance its gaming market while keeping competitiveness against rivals in the neighborhood.

## **Conclusions**

The booming Chinese economy and the gradual eased IVS program have caused a shift in the demographic of Macau's visitors. What used to be a market driven by sole gamblers (especially the VIP segment) is now increasingly driven by leisure seekers. The gaming market in Macau is expected to split to two main portions with old casinos in Macau remaining exclusively focused on gamblers and the new Cotai Strip casinos catering towards the mass market, including leisure seekers, entertainment seekers, shoppers, gormandizers, and conventioners. With this shift, Macau needs to evaluate its ability to succeed in the mass market.

By comparing Macau's gambling industry to successful models around the world, we have identified that the success of Macau's mass market sector is dependent on several factors: visitors' stay length, success of slot machines, and retention rate. In addition, Macau presents several unique issues that need be addressed in order to ensure its success in the world gambling and tourism stage: its standing as an UNESCO listed world heritage site, regional competition, and Macau's own internal infrastructure.

As mentioned in the previous section, the length of stay is one of the factors directly related to the success of a mass gaming market. In order to attract visitors to stay longer at Macau, Macau should consider creating partnership with Hong Kong. For instance, offering an accommodation joined with an entertainment tourism

package (e.g., packaging together hotel rooms and Disney tickets) could be an effective way to entice visitors to stay longer. Spending a longer period of time in Macau would increase the both the potential of visitors gambling as well as the number of times a gambler could gamble.

According to Liu (2011), slot machines are the main source of revenue for the mass gaming markets at American and Australia casinos. In order to promote slot play, Liu (2011) further indicated that gamblers are willing to participate in slots more frequently if casinos raise the jackpot, increase the hit frequency, bring in more new machines or newer games, or improve the service in slot areas. Even doing so might lead to rising costs; casinos operators should look towards the success of American and Australian casinos' slot machines to carefully evaluate the benefits and the costs for promoting slot play.

In addition, casino operators in Macau should pay attention to the retention rate or the loyalty rate which is indicative of customer satisfaction during their visiting period. In order to live up to being an international gaming and tourism destination, the workforce at Macau should undergo a qualified training program on how to deliver better customer service and satisfy customers' needs in an efficient and an appropriate way.



Gu (2006) raised concerns that repositioning Macau as a Las-Vegas-type gaming destination may lead to Macau losing its distinctive advantage as a VIP baccarat gaming hub. However, in 2006 Macau was listed as the World heritage site by UNESCO {{17 Ung,Alberto 2010}}, and such approval has assisted Macau in differentiating itself from other gaming destination in the world. This cutting edge advantage over other gaming destinations should be marketed to increase tourism traffic to Macau. A greater flow of people into Macau, even if not directly for gambling purposes, increases the gambling potential. It should noted that increased tourism also ties to the first factor of mass market success, stay length, as tourists often stay for longer periods of time than day trip gamblers. This would increase both the likelihood of gambling and the number of times that visitors can gamble.

Macau also needs to monitor competitors in the same region. Singapore is currently Macau's strongest rival, attracting investors and bankers by employing lower gaming levy (Gu & Gao, 2006). Policies such as gaming levy in Macau should be reexamined to assess Macau's competitiveness with other nearby gaming destinations. Macau should maintain its competitiveness to attract more investor and banker based clientele, and also build more gaming facilities and non-gaming amenities to attract even more visitors.

Finally, the Macau SAR Government should note that the current social and physical infrastructure in Macau is unable to support the vision of being a leading gaming and tourism destination. With the constant and increasing gaming revenues, the Macau authorities or decision-makers should allocate more capital for improving the surrounding infrastructure of the tourist attractions. Once the infrastructure in Macau is complete, visitors will feel comfortable staying and traveling within Macau and would share these experiences to their relatives or friends. Macau can change its perception from the simpler gaming destination to a leading leisure and tourism destination to the world.

### **Limitations of the Study and Recommendation for Future Research**

This study is primary based on literature, articles, and press news which examined the comprehensive gaming environment in Macau and further identified the factors contributing to the possible mass market development in Macau. Those factors are mainly attributed from the similar Las Vegas gaming market; however, this study lacked numerous examples to strengthen the support for the mass gaming market developed in Macau. In addition, the study focused less on the difference of gaming policies, customs, and cultures between the East and West—questions may arise of how well Macau’s mass gaming market could follow that of Las Vegas.

It is worth noting that the aforementioned factors are not the only ones affecting the success of a gaming market. Internal factors such as image perceptions, motives, and attitudes as well as external factors such as time availability and perceived costs of the destination affect visitors' choice of tourism destination (Baloglu, & McCleary, 1999). Image perceptions will be the most influential element among those factors to determine the ultimate destination choice (Ethtner, & Ritchie, 1991). For most destinations, the images perceived by potential visitors and how these images are administrated will determine the success or failure of the tourism market (Sonmez, & Sirakaya, 2002). Future research should focus on the destination attractiveness, as it is an influential factor that contributes to the success of Macau's mass gaming market.

The booming Chinese economy as well as Macau's liberalized gaming operations in 2002, Macau's gaming industry has experienced the explosive growth in recent years. Macau enjoys being the only jurisdiction in China for the Chinese to legally gamble. However, neighboring countries have experienced the economic benefits of legalizing gambling such as strong tourism and gaming tax revenues, increasing GDP per capita, more employment opportunities, and driving the development of relative industries. These countries, especially Singapore, present competition to Macau. A common saying states that "You will never be defeated if you know everything about your opponents and know the strengths of yourself." Future research should

also focus on the tourism policies adopted by other regional competitors to ensure

Macau's competitive edge above other neighboring countries.

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