Fall 2011

Targeting a Niche Market in Las Vegas Gaming Industry

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TARGETING A NICHE MARKET IN LAS VEGAS GAMING INDUSTRY

by

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Bachelor of Science in Food and Nutrition
Yonsei University
2008

A professional paper submitted in partial fulfillment
of the requirements for the

Master of Science in Hotel Administration
William F. Harrah College of Hotel Administration

Graduate College
University of Nevada, Las Vegas
December 2011
Chair: Dr. Bo J. Bernhard

TABLE OF CONTENTS

PART ONE

Introduction

Like neon signs, the explosive growth of the Las Vegas Strip is a thing of the past. Since 2008, the Las Vegas Strip has experienced economic stagnation along with a plunging housing market, stock prices, and employment rates. According to the UNLV Center for Gaming Research (2011), gaming revenue of Las Vegas Strip took a nosedive from 2008 to 2010 after 15 years of skyrocketing growth since 1984. The total revenue of the Strip has seen a similar, albeit slightly smaller drop. It reached $15.8 billion in 2007, but fell to $13.3 billion in 2010. Now Las Vegas seems to be suffering from oversupply and lack of demand. CityCenter and Cosmopolitan of Las Vegas have struggled since their respective openings in 2009 and 2010. Even worse, construction on the Echelon project and Fontainbleau Las Vegas has come to an abrupt halt.

Las Vegas casinos have been highly dependent on domestic customers. Casino customers from foreign countries account for just 7% of all casino customers in Las Vegas. Among all visitors who come to Las Vegas for purposes including conventions, business travel, package tours, and gambling, overseas visitors make up less than 20% (Las Vegas Convention and Visitors Authority [LVCVA], 2010). Unfortunately, the downturn is not limited to the casino industry but has affected every business sector across the United States. Keith Foley, a senior vice president at Moody’s Investors Service, notes in his analysis of the industry that domestic visitors are not unaffected by the current economic situation, and that these people do not want to wager big money after losing their savings (Nagourney, 2010). Las Vegas' high level of dependence on domestic customers has created a vicious cycle of economic difficulty.

At the same time, however, the situation in Asia is distinctly different. China's economy is growing. As a rising global economic leader, China produces many wealthy people and expands a wide variety of industries year by year (Barboza, 2011). Macau, a very small region of China, is the most well-known and the biggest casino market in the world. Despite its late start in the casino business, the revenue of Macau totaled about $24 billion in 2010 which is more than two times that which the state of Nevada earned in the same period (Master, 2011; Nevada Gaming Control Board [NGCB], 2010). In addition, two world-class casinos, Resorts World Sentosa and Marina Bay Sands, opened in Singapore last year and have performed far better than people imagined. The revenue and pre-tax profit of Resorts World Sentosa hit record highs in the first quarter of 2011, climbing to $913.6 million and $537.9 million respectively. These figures are around three times higher than those of the same period a year ago. Marina Bay Sands also took in $284.5 million in pre-tax profit and $584.9 million in revenue for the same period (Kwok, 2011).

Foley warns that the current situation of plummeted gaming revenue following the bad economy cannot be easily assumed to recover automatically with the regeneration of the economy (Nagourney, 2010). In other words, casinos cannot simply wait for the economy to revive, but have to set their sights beyond the majority of domestic customers, whose behavior is affected by the national economy, to the smaller but potentially stronger group of foreign visitors. Asians, the Chinese in particular, are one of the noteworthy groups for casinos to consider in terms of their economic power and passion for gambling.

Purpose

The purpose of this paper is to analyze the most profitable Chinese group in the Las Vegas gaming market in order to develop a customized marketing strategy for the group.

Statement of objective

The objective of this paper is to analyze the importance of a certain class of Chinese customers, a relatively unacknowledged but potentially vital segment of the market, and suggest a feasible and effective marketing strategy that may help shed some light on how to revive the sagging Las Vegas casino industry.

Justifications

Some people say that Las Vegas has expanded too much or it is a saturated market. Determining if the Las Vegas gaming market is saturated is a complicated process, but it is clear that the existing visitors to Las Vegas expect less than what Las Vegas casinos offer. This gap between demand and supply causes a decrease in revenue. The Strip is crowded with domestic visitors who are sensitive to the national economy and are not willing to spend. While the recession diminishes domestic visitors' willingness to visit and gamble in Las Vegas, the percentage of foreign customers has been increasing steadily from 13% in 2006 to 18% in 2010 (LVCVA, 2010). In particular, the expected rate of return and willingness of the Chinese to gamble are growing in accordance with Chinese economy and culture. Therefore, to seek an overlooked but potentially profitable market segment will be a way to increase new demand that leads to a profit improvement. Moreover, it is necessary to develop specialized marketing strategies to lure a certain group. Current casino marketing of Las Vegas has traditionally focused on high rollers. Yet recent studies show that focusing on high rollers is less profitable than expected due to the excessive spending and investment involved.

Constraints

The Strip can be a representative sample of Las Vegas casinos because more than 80% of Las Vegas visitors choose the Strip corridor for lodging and gambling, according to LVCVA

(2010). However, most of the people staying and gambling on the Strip are domestic visitors who are susceptible to the effects of a national economy in decline. Considering the proportionately larger expenditure of Chinese visitors, this study needs Chinese consumer data from major Strip casinos, such as the Wynn, the Bellagio, and the Venetian. These megaresorts each report making more than $72 million annually (NGCB, 2010). However, casinos in which a differentiated customer relationship is one of the core marketing techniques are reluctant to reveal their customers' information and profit data. Thus, this study may rely on the revenue numbers or estimates of profits. In addition, personal communication with casino executives also provides the information about profit trends and marketing to the Chinese.

PART TWO

Introduction

As shown in Part 1, Las Vegas is experiencing hard economic times and cannot just sit and wait for the rosy future. Larger potential of customers from overseas countries, especially those from China, than that of domestic customers who are affected by the national economy, would pave the way for the recovery.

In Part 2, Current casino marketing practices of Las Vegas and their roles, and business performance are described. It is important to know what tourism and gambling are like in China, which has expanding both of its population and economy. Furthermore, this part gives a space to the Chinese middle class, which is in the world limelight. Lastly, it gives a chance to consider needed improvement for Las Vegas casinos by inspecting a traditional relationship between Chinese gamblers and casinos in Las Vegas.

Casino Marketing as Differentiation Methods in Las Vegas

When it comes to casinos, Las Vegas is often the first place that crosses many people’s minds. Since the introduction of legal gambling in 1931, casino leadership has evolved from the maverick to the Mafia and from the Mafia to the MBA (Bernhard, Green, & Lucas, 2008). Despite these changes, casino gaming has remained the backbone of the city of Las Vegas. As Bernhard (2009) illustrated, the gaming industry has been battered as the media continues to portray Las Vegas as a city that pushes its luck. Moreover, some notorious people such as Bugsy Siegel are associated with Las Vegas by people around the world. Its sometimes negative reputation notwithstanding, Las Vegas is undeniably a trailblazer in the casino industry. Macau is still called “the new Las Vegas,” despite having already exceeded Las Vegas in revenue. Many currently booming casino markets have made Las Vegas their role model either implicitly or explicitly. In the casino marketing field, rivals as well as late-starters either copy or slightly change Las Vegas' marketing practices. Because Las Vegas has been so successful at expanding its business, these followers simply apply classical methods to their business and expect success.

As customer's expectations of the casino experience shift in response to the many successful megacasinos now on the global market, it may become more difficult to impress casino-goers with just spectacular size and impressive architecture (Lucas & Kilby, 2008). The applicability of the traditional Las Vegas mega-casino model to either the mature casino market, such as present-day Las Vegas, or other different-sized casino markets, is questionable. In addition, many customers no longer take an interest in mundane marketing strategies under business conditions that are highly customer-oriented.

A peculiar characteristic of the gaming industry is that casinos tend to look alike. Las Vegas casinos are no exception. From the outside, each hotel on the Strip may seem unique in design and character. On the inside, however, whatever the guiding concept of each hotel, the slot machines, table games, and rules of play are almost exactly the same. Marfels (2010) notes that the characteristics of look-alike businesses boost the competitiveness of the market. Because most of the competitors in the casino industry offer an essentially non-distinctive product, casinos have developed marketing activities in order to set their property apart from the others.

One such strategy is called comp. Comp, an abbreviation for complimentary, is a gaming term that refers to a casino incentive (Lucas & Kilby, 2008; Marfels, 2010). Comps are provided to a gambler depending on how much and how often he or she plays. The comp system is comprised of promotional allowances such as free rooms, dining, and show tickets, as well as promotional expenses such as cash back and reimbursement for travel. Casinos try to differentiate themselves from each other using their own comp-based promotions, thereby encouraging guests to spend time and money on gambling, ultimately generating greater revenue. Many previous studies have shown that the comp-based promotions aim to increase both short-term revenue and long-term brand loyalty (Browne, 2001; Bruzzese, 1992; Lucas & Bowen, 2002). Because Las Vegas, one of the highly comp-dependent industries, has been an industry leader for a long time, many casino operators in and out of Las Vegas believe that current comps work well and will continue to do so (McGowan & Brown, 2009).

While comps are one of the representative casino marketing activities as it is designed for most customers from low-end to premium players, casinos perform many other marketing activities that are targeted to different markets. Special events such as blackjack tournaments and golf tournaments, discounting gaming losses, dead chip programs, and slot club point offers are some examples. Since a competitive market has set up the business condition that the casino itself is not a unique product of the casino industry any longer, each marketing activity is developed as a strategy to distinguish it from competitors.

In striving to be more innovative and creative, enthusiastic casino marketers have met with a lot of success. However, in spite of their efforts, sooner or later they will confront another challenge: replication. Any creative market promotion is bound to be repeated, not only by the property responsible for developing it, but by its competitors. Eventually the value of these marketing activities is diminished and its performance decreases as a result (Lucas & Kilby, 2008). Another barrier is cutthroat competition. Highly competitive market conditions drive casinos to give customers more than the others, leading to excessive cost increases.

In the 1980s and 1990s, comp-based promotion accomplished its goal. Casinos invested a large amount of money in these promotions and were rewarded with significant revenue increase

(McGowan & Brown, 2009). Now, however, the market has changed. The reversal of fortunes has urged Las Vegas casinos to change.

Up-to-date Performance of Las Vegas Casinos

The annual comparison revenue statistics of Las Vegas Strip casinos, published by the UNLV Center for Gaming Research in Las Vegas, shows performance records for on-Strip casinos with gaming revenue over $1 million. The number of locations that qualify for inclusion in the report is quite stable, ranging between 37 and 41 since 1984, with the exceptions of 1986 with 35 locations and 1993 with 32 locations. After steady increases, 2008 and 2009 saw sudden crashes in both gaming and total revenue respectively, as the market was disrupted by the Great Recession. The downturn has lasted until now, as the country has not yet recovered from the recession. It is worth noting that the portion of gaming revenue to total revenue has decreased constantly for over 20 years despite the quadrupled gaming revenue increase during that time. Percentage of gaming revenue over total revenue decreased from 58.5% in 1984 to 39.0% in 2010 (UNLV Center for Gaming Research, 2011). That the world's representative gaming industry's biggest cash flow came from the non-gaming sector shows how customer demands have been transformed. In fact, non-gaming revenue from shows, nightclubs, and restaurants now accounts for more than half of the total revenue of MGM (Browne, 2001).

Since 1970, the number of visitors to Las Vegas increased steadily until 2008 and 2009, when gaming revenue dropped significantly. In 2010, while gaming revenue and total revenue continues to decrease, the number of visitors has begun to recover. This information should demonstrate to Las Vegas casino operators the importance of reconsidering their operation system, including casino marketing strategies, to make the most of the increase in visitors.

China as a Market for the Casino Industry

Economy and population

In 1978, the government of China launched an extensive economic reform. This reform encompassed the founding of private and rural businesses, liberalization of overseas trade and investment, and investment in education and industrial production. Up to now, this reform has been a brilliant success. While the annual growth of China before 1978 was 6% with heavy fluctuation, it leaped to 9% with relatively stable changes afterward (Hu & Khan, 1997). By 2009, the gross domestic product (GDP) had increased from $228.47 per capita in 1980 to $3,768.62 (United Nations Statistics Division [UNSD], 2010). In addition to its economic growth, China is the most populous country in the world, though census data show that China's population has grown more slowly and more urbanized in recent years. China, the largest dragon in the world, is made up of 1.34 billion people, with an additional 73.9 million from last year.

Tourism

China is outstanding in many ways. With its own strong economy and growing population, it wields a strong influence over world tourism. Tourism Highlights 2011 Edition by The UNWTO World Tourism Organization (2011), a United Nations specialized agency, points out that the most notable change last year was that China rose to number three worldwide in terms of international tourist arrivals. China also entered the top three spenders in international tourism. China's expenditure on international tourism was $54.9 billion in 2010, following $77.7 billion from Germany and $75.5 billion from the USA, and accounted for 6% of the market share. In 2010, China's expenditure on world tourism per capita was $41, which was smaller than any other top 10 spenders, despite the increase of $1.2 billion in total tourism expenditure compared with 2009 (UNWTO, 2011). China's tourism spending in the U.S., on the other hand, reflects a different trend. The number of Chinese people traveling abroad was less than 0.8 million in 2010, the same as Italy which ranked 10th in the number of residents traveling abroad. However, China ranked 7th in spending in the U.S in the same period (International Trade Administration [ITA], 2010).

Chinese people are one of the world's largest tourist populations and the tourist population with the highest willingness to travel internationally. Chinese tourists also spend an increasing amount of money on their vacations, according to Survey Sampling International (as cited in “Chinese, Singaporeans most,” 2010). Chinese people have long been famous for enjoying travel. An old saying in China, “traveling for a thousand li equals reading ten thousand volumes of books,” shows that Chinese people regard travel as way to acquire knowledge and refinement (Jang, Yu, & Pearson, 2003). In spite of restrictions such as the difficulty of obtaining visas to the U.S. and limits on the amount of foreign currency Chinese citizens are allowed to take when going abroad, the demand in China for trips to the U.S. is growing every year. As early as 2000, the U.S. was considered one of the top destinations for Chinese outbound travelers (Jang, Yu, & Pearson 2003).

Statistics show that the Las Vegas Strip has been one of the top tourist attractions in America for a long time (Murray, 2010). Chinese tourists are a significant presence in Las Vegas. According to *China Daily*, an analysis of Chinese gamblers by LVCVA found that Chinese gamblers wager an average of $6,000 each in the U.S., while domestic travelers within the U.S. average only $900. In 2010, the total visitor volume in Las Vegas was 37,335,436, up 2.7% from the previous year. On the other hand, the volume of Chinese visitors, 107,000 in 2009, soared by 38% in 2010. The data from U.S. Department of Commerce estimates a 219% increase by 2015 in visitors from China to Las Vegas, according to LVCVA (2011).

Gambling

The Chinese have a worldwide reputation as gamblers due to their performance within and outside the legal boundaries of gambling. Many Chinese people gamble not only in such legalized gambling destinations such as Macau and Las Vegas, but also in banned places such as card and mah-jong schools on street corners and elsewhere. In addition, they tend not to believe that gambling is a problem despite its illegal status (Eimer, 2010).

As shown in Binde (2005), China's gambling appetite runs deep in its history, particularly in Southern China including Hong Kong and Macau, where the majority of gamblers in Macau casinos come from. Keno, one of famous gambling games, originated from the Chinese lottery of the Han Dynasty, 100 BC (Schmittzehe & Partners, 2006).

While most gambling has been strictly banned in Mainland China except for the lottery, Macau has a longer history of legalized gambling, going back to the 1850s and the Portuguese government. Currently, 33 casinos in Macau are luring gamblers from all over the world. Nevertheless, the majority of Macau visitors are from mainland China, Hong Kong, and Taiwan. Even in Mainland China, high demand and supply for gambling still makes it profitable to circumvent the rules with overseas casinos, horseracing games, and online gaming sites.

It is not always easy to attract Chinese people to the overseas gaming industry, even with their willingness to travel and gamble and their increasing purchasing power. Macau, the new world leader in the casino industry and the strongest competitor to Las Vegas, has been the exceptional beneficiary of legalized gambling in China. The Chinese government prohibited gambling in any other region of Mainland China, with the result that Macau has been thronged with people from the rest of Mainland China (Velotta, 2011).

Market Segmentation

The growing middle class

Population and economic growth means that China as a whole is no longer a poor or monolithic market. Rather, many companies now try to find and target the best market segment for them. With other researchers, Cui and Song (2009) stress the growing importance of the middle class in China. Previous studies of the Chinese economy have not fully recognized the dramatic growth of the middle class. Data from MasterCard Worldwide and Asia Pacific were used to determine that China's middle class population, defined as households with an annual income of $6,000 to $25,000, reached roughly 87 million in 2005 from almost zero 10 years ago, and will grow to 340 million by 2016. In other words, the middle class will account for 60% of urban households in China by 2016, and already made up 39% in 2006.

This broad range of Chinese middle class populations can be subdivided further. According to Cui and Song (2009), 44% of the total middle class is now made up of the lower middle class. However, the upper middle class will expand as the overall middle class matures. The lower middle class and upper middle class populations show significant differences in patterns of consumption, though they are considered members of the same class. While members of the lower middle class seek to show off their wealth through expenditure, upper middle class consumers prefer to indulge their tastes in particular products based on past experiences. Analysts note that this burgeoning middle class has stronger tendency toward gambling. According to the research by *Malaysian Business* (as cited in Kaur, 2004), Chinese gamblers hold much greater potential than those in the United States, Malaysia, and Australia in terms of a comparison of legal gambling expenditures over GDP. Only 0.07% of GDP is spent on legal gambling in China, while the U.S., Malaysia, and Australia indicated 0.28%, 0.27%, and 0.37%, respectively. This implies that the more thoroughly a company analyzes its target segment, the more it can expect profit from the segment.

The diversity of defining middle class in China

It is clear that the Chinese middle class is growing drastically. Its rapidly increasing size and economic value are being watched with keen interest by domestic and international companies, economists, and sociologists. This interest has led to a great deal of research. Due to the heterogeneity of the Chinese economy, however, defining the middle class is not a simple task. In fact, the definition varies from study to study, and it is hard to judge which definitions are most useful. According to a recent study, a comparison of rural and urban middle-income households, conducted by The Center for Rural Pennsylvania (2007), middle class is normally defined by social scientists in terms of integrated criteria such as attitudes, education, values and incomes. On the other hand, most studies of the Chinese middle class only consider economic values such as GDP per capita or income to classify the Chinese middle class from an economists' perspective.

Income disparity

It is true that income is more important in defining a class than other criteria such as education, occupation, and political or economic influence. Nonetheless, income inequality in China has led to a broad and even vague meaning of middle class. In 2010, China's Gini-coefficient, a widely used measure of inequality, surged to 0.47 compared to 0.4 in the mid-2000s. Gini-coefficient varies between 0 and 1, indicating from complete equality to extreme inequality, respectively. A Gini-coefficient of 0.4 is considered a warning level of a dangerous amount of inequality (Tobin, 2011; Wang & Woo, 2010). Moreover, in terms of the Engel coefficient, a ratio of food expenses to total household income, the Engel coefficient in rural areas has consistently been surpassing that in urban areas. Generally, the Engel coefficient decreases as household income increases. The Engel coefficient of Beijing and Shanghai, one of the richest cities in China, is now lower than 30, which is a considerably lower value than that of other urban cities as well as rural areas (Tobin, 2011).

According to Social Indicators by UNSD (2011), per capita GDP in China indicates huge gaps by region. Macau, one of China's special administrative regions, has more than 10 times the value of other Chinese regions. The per capita incomes of China, Hong Kong and Macau were $3,769, $29,987, and $39,385 in 2009, respectively. China’s urban-rural wealth disparity in 2009 shows a per capita income of $2,500 in urban areas, versus $755 in rural areas. The gap is expanding year by year, according to *China Daily* (2010).

Furthermore, these wide income gaps also appear between cities within urban areas. That is, the disparity is not limited to a dichotomy between urban and rural regions. Considering the definition of urban middle class by the National Bureau of Statistics as households whose yearly income is between $9,450 (RMB 60,000) and $78,700 (RMB 500,000) (as cited in The Hong Kong Industrialist, 2010), RMB 60,000 is categorized as middle class in Western areas such as Qinghai or Xinjiang, but not in Beijing or Shanghai (Chen, 2010). Chunling (2009) takes the four criteria of income, occupation, education, and consumption into account to profile the middle class in Mainland China and reconcile the conflicts. He concludes that the middle class has been emerging as a major group not in China nationwide, but in some urban areas. Shanghai, for instance, has the highest consumer spending, 75%, which is higher than nation’s average (Chen, 2011). Among the cities in urban areas, the majority of the wealth of China converges on the east coast. The most affluent 25 metropolises are all located on the east coast. Even though most areas in China hardly compare in absolute value with U.S. standards of income, Hong Kong, ranked the first in China, had a per capita GDP of $42,200 (purchasing power parity) in 2007, which is more than 90% of that of the United States (Cox, 2009).

Inaccuracy of official data

In addition to the income inequality, inaccuracy of official data also makes the definition of middle class more controversial. Since hidden incomes are usually found in urban areas, the gap between actual income and official data in those areas can be so large that the richest 10% of urban households' per capita disposable income in 2009 showed a threefold greater value than the reported data (Wang & Woo, 2010).

Standard gaps between China and the U.S.

Martin (2010) at The World Bank notes the difference in definition of middle class between the Western standard and the standards of the developing world, including China. Although the middle class in developing countries is a group whose income exceeds the median poverty line of the countries, living standards of those middle class families still fall short of the U.S. middle class standards. According to Kharas (2010), the numbers of the global middle class hide the differences in purchasing power. The range for what constitutes a middle class consumer is quite broad, so someone in the Chinese middle class does not spend as much as someone in the US middle class. From the perspective of the Western middle class, around 80 million people in developing countries entered the middle class from 1990 to 2002, and half of them came from China.

Las Vegas Casinos and Chinese Players

The Chinese as world famous bettors and Las Vegas as a byword for a historical gambling destination are inextricably linked. Las Vegas has tried to serve them well for a long time, and has consistently demonstrated awareness that Chinese people are one of its most important market segments. For example, when casinos were competing for the first gaming license in Singapore, James Cameron's amazing *Avatar* concept was rejected by the government because it did not consider Feng shui. Feng shui is a traditional Chinese belief that arrangement of human and environment in harmonious alignment with the forces of the cosmos brings fortune (Encyclopedia Britannica, 2009). In addition, MGM had to completely rebuild its main entrance since its original design, a lion with a wide mouth, is believed in China to bring very bad luck. The reason Las Vegas casinos try hard to please Chinese people is that they are playing quite a big role for the industry. Every year, the Strip is crowded with the Chinese eager to amass a sizeable profit during the Chinese New Year holiday rush. Here, the term Chinese New Year confirms again how much the Chinese are influential. So-called Chinese New Year, which refers to Lunar New Year, is celebrated not only in China, but also in Vietnam, Taiwan, and South and North Korea.

In the Las Vegas casino industry, the term "Chinese gamblers" refers to high rollers and does not represent all the Chinese people who gamble in Las Vegas. As a result, Las Vegas casinos usually overlook the potential to market to the Chinese middle class market and Chinese slot machine players. Of course, Pareto's Rule applies to the gaming industry as it does to other business, as 20% of the gamblers spend 80% of the money. Steve Wynn said at a gaming conference in the 1980s that half of his revenue came from 10% of his customers (Lucas & Kilby, 2008). According to Lucas and Kilby (2008), gaming revenue trends in major Las Vegas Strip casinos with $72 million or greater revenue show the critical roles played by table games in total revenue. A large part of table game revenues came from Chinese high rollers, who are a heavyweight presence in the high 20% of Pareto's Rule or the best 10% of Wynn's customers. Here is the fatal trap of numbers in which so many casino operators are caught. Despite an approximately doubled table win from 1996 to 2006, the profit from table games was greater in 1996 than 2006. It seems that the overall trend of table games profit remains static. In other words, there have been excessive cost increases for table game operations whether or not casino operators have intended so. On the other hand, a fairly different profit trend is reported for slot games, with the similar revenue flow, profits are increasing.

Considering the sharp rise in numbers of Chinese visitors and their spending in Las Vegas, the revenue-profit trend in both slot and table games indicates the widespread equation of Chinese gamblers with table game players and high rollers can be reconsidered. As a matter of fact, Macau casinos, where Chinese people are the majority of their customers, have added slot games more aggressively than table games since 2005. The ratio of tables and slots changed from 1:2.27 in 2005 to 1:2.96 in 2011. While the total number of tables is 5,379, 4 times greater than six years ago, the number of slots has reached 15,900 with an 6 times increase in the same period (Gaming Inspection and Coordination Bureau of Macau SAR [GICBM], 2005; GICBM, 2011).

Conclusions

As seen in the literature review, there is a limit to the existing marketing trends of Las Vegas. The latest bad business performance reflects inefficiency of the marketing practices and urges improvement. Because of the nature of the gaming industry, it is almost impossible to stand out from competitors with just a casino by itself. Therefore, casinos should be prepared with new marketing strategies appropriate for the changed business environment, thereby attracting more customers. The emerging Chinese market has tremendous potential for the gaming industry in terms of its population, economic power, desire to travel and willingness to gamble. Although Las Vegas casinos have offered decent services to the Chinese, their efforts have been too focused on premium players playing table games. As various industries keep a close eye on the middle class in China, Las Vegas casino would be wise to follow their example. China’s middle class can bring new demand to the stagnant Las Vegas gaming industry and soak up the inefficiency in the business. Considering China’s unique condition, it is necessary to find further subdivided segments within the broader middle class, and begin to target these markets.

PART THREE

Introduction

A careful review of the literature shows the Chinese high-roller-centric marketing in Las Vegas and the potential of the Chinese middle class. A spokesman from Marina Bay Sands reports in an interview with *China Daily* that since the growing Chinese middle class is an attractive market, casinos now serve them consciously (Yip, 2010). In general, after identifying the target market, finding how to satisfy the market follows. In order to do this, knowledge of the characteristics of the target market is the key factor to success in marketing.

Results

Profile and consumer trend analysis

Chunling (2009) analyzed a general profile of the Chinese middle class based on previous studies. As the average education level has advanced rapidly nationwide, the average education level of the middle class has also increased. While the previous middle class had only economic capital, the current middle class has grown in cultural capital as well, reporting longer education times year by year. The Chinese middle class is now engaged in socially elevated positions, such as professionals, administrators of governmental organizations, and managers. In addition, the average age of the middle class is getting younger. The average age of middle class residents in urban areas dropped from approximately 38.5 in 1988 to approximately 36.3 in 2006. Resulting from the advantageous situation of middle class men in China, the sex ratio is quite stable over time, showing more males than females. This disparity is more noticeable in the upper division of the class. Since major members of middle class in China work for the government, they tend to keep the social-political order constant. The fact that at least two thirds of the urban middle class believes that the social situation in China is stable and harmonious shows they are the main beneficiaries of the recent economic growth, and actively pursue a high social status. However, people who entered into the middle class more recently are more open to Western democracy than previously existing groups within the middle class.

Among the population of the richest 20 cities in China in terms of GDP per capita, those whose income is the same as or little higher than the regional average can roughly be classified as middle and upper middle class in those regions. From a nationwide perspective, these are considered wealthy consumers by many studies. According to McKinsey & Company (2009), wealthy consumers account for only 1% of all urban households. It is unusual to regard the upper 1% as middle class. However, considering that there is an extraordinarily large income disparity between urban cities in China, ranging between $9,450 and $78,700, according to National Bureau of Statistics (as cited in The Hong Kong Industrialist, 2010), and that most promising middle class consumers originate from eastern coastal cities, the middle and upper middle class in the richest 20 cities who are partially affiliated to wealthy consumers will probably account for a considerably larger proportion of the population in those areas. Three out of four municipalities (Beijing, Shanghai, and Tianjin), two special administrative regions (Hong Kong and Macau), and other affluent cities in the East and Central South regions of China, such as Guangzhou and Shenzhen, make up the 20 cities (Cox, 2009; McKinsey & Company, 2009). In other words, the middle and upper middle class in those areas have several characteristics in common with the high class of the Chinese society.

Compared with 30% in the U.S. and 19% in Japan, as much as 80% of wealthy consumers in China are under 45 years old and are knowledgeable about luxury brands. Chinese wealthy consumers are apt to pursue the functional benefits of purchase, such as quality and design, more strongly than wealthy consumers elsewhere. They tend to prefer foreign brands and new technology. Like consumers from other classes in China, the wealthy spend a good deal of time surfing the Internet and watching TV (McKinsey & Company, 2009).

Supposing that the Chinese upper-middle class means those people whose average household income is between $80,000 and $92,000 based on 2008 Wealthy Chinese Consumer Survey (as cited in McKinsey & Company, 2009), key characteristics of the group can be specified in depth. Most members of this group are willing to pay for premium brands, luxury goods, and flashier products and services to show off or stand out from the crowd. They regard brand status more highly than product attributes as their income increases, but value for money carries the strongest clout in purchasing over any other criterion. They usually look actively for the cheapest price (Deloitte, 2010; McKinsey & Company, 2009).

In some ways, the lifestyle of this segment of the Chinese middle class is similar to that of people with same income in America. Both groups try hard to make more money, buy bigger houses, and are enthusiastic about their children's education ("The urban middle class," 2005). On the other hand, the Chinese middle class is distinct from their Western counterparts in taking great pride in both themselves and their national identity. According to a recent study conducted by the Hong Kong Trade Development Council ("The Mainland middle-class," 2010), high self-esteem affects their spending patterns, making them tend to be strong purchasers rather than big savers.

Getting the target market to Las Vegas

The richest 20 cities in China, where the targeted Chinese gamblers reside, face South Korea and Japan at a short distance. A flight from Seoul or Tokyo to the major cities such as Shanghai, Beijing, or Hong Kong takes only two to four hours. Both Seoul and Tokyo offered nonstop flights bound for Las Vegas several times a week. Despite being one of the top three

Asian countries sending visitors to the U.S., China has never had a direct flight to Las Vegas. Although Singapore Airlines once tried connecting Hong Kong and Las Vegas through the flights leaving Singapore, this connection lasted less than a year due to the fear of SARS and global terrorism (Fine, 2000). At present, Korean Air is the sole nonstop flight provider between Las Vegas and the Asian mainland.

The first nonstop flight from Asia to Las Vegas was launched by Northwest and Japan Airlines in 1998. Both airlines provided a total of four flights per week, connecting Narita International Airport in Tokyo to McCarran International Airport in Las Vegas (Fine, 2000). In 1998, the number of Japanese travelers to Los Angeles dropped by 20% from the highs of the previous year. While the economic crisis in Japan was the main reason for the decline, around 10% of the decrease was due to the new non-stop flights to Las Vegas. That is, some people, whose ultimate destination was Las Vegas, must have had an unnecessary trip.

In 2006, Korean Air started direct flights from Seoul to Las Vegas three times a week. For four years after its launch, the flight brought not only 221,000 visitors from Seoul, but also $120 million in non-gaming economic impact to Las Vegas. It also helped elevate South Korea to one of the largest international markets for Las Vegas (Velotta, 2010). The latest news that Korean Air has inaugurated direct flights from Las Vegas to Seoul from 2011 indicates the consolidated linkage between Las Vegas and the Asian market (http://www.koreanair.com/).

In between target customers and Las Vegas, there are many strong competitors, such as casinos in Macau, Singapore, and Australia. The look-alike trend in casinos is especially obvious in Macau and Singapore, since both gaming spots are largely run by Las Vegas-based companies and tend to copy the trends set by Las Vegas. Las Vegas is at least 15 to 20 hours by plane from the eastern coast of China. All visitors have to stop over somewhere else before they reach the destination. Needless to say, the irritation and fatigue after a long haul will tend to negatively affect the overall travel experience. Many customers are simply unwilling to pay for travel to Las Vegas due to relative inaccessibility. For most travelers, the experience they associate with the destination includes the entire journey there and back. The nonstop flights from Seoul and Tokyo imply the necessity of reserving a convenient connection.

Las Vegas as a durable brand

Today, Las Vegas still means casinos for people all over the world, no matter how many competitors arise. The reason Las Vegas is the gaming Mecca of the world is not just because Las Vegas was the first to be successful with mega casino resorts. Las Vegas' commitment to building a strong brand image has been crucial to its success. The dramatic chronicle of the leadership of the city was used to build up the strong image. Bernhard, Green, and Lucas (2008) have analyzed the way in which the history of Las Vegas, with its mafias and daring businessmen, has been used to promote the city as a whole, though this image has been a double-edged sword to Las Vegas, as discussed above. In recent years, the city and casino industry have tried to mitigate this defect. Hedden (1996) emphasized the corporate image, saying image is all about a company. Las Vegas, a city as an independent integrated casino corporation, has built one more powerful image of a true-entertainment destination for everybody regardless of age or sex.

In spite of those hard efforts, Las Vegas now seems to be stuck in a long period of crisis. As the prosperity of the city was more than good luck, the current crisis should not be simply considered misfortune. Just as many baseball teams were managed by unscientific methods and intuition, as shown in *Moneyball* (Lewis, 2003), Las Vegas casinos have been too complacent about the reasons for their success. Nonetheless, it is too early to make a hasty conclusion that Las Vegas is now Lost Vegas, as suggested by Prabhkar (2011) and others.

According to Bernhard and Ahlgren (2011), 40% of the revenue of Macau, the world's most lucrative gaming spot, is generated by Las Vegas-based companies, such as Las Vegas Sands, Wynn, and MGM. In Singapore, Marina Bay Sands accounts for 40% of the total gaming revenue ("Genting leads Singapore's," 2011). Moreover, the target potential customers, who are now a big part of Macau and Singapore customers, have a hungry curiosity for Las Vegas as the legendary gaming destination. Then, what is needed for Las Vegas is something that will wake up its vulnerable conventional management and link it with this new target market.

Conclusions

Las Vegas, though a powerful brand name, is not what it used to be. Gaming revenue that continues to decrease even with increased visitors, the halted casino construction projects, and an all-time record high unemployment rate are today's Las Vegas. However, operators still seem to be tied down by traditional management styles. Although a new marketing strategy is a good way to be differentiated, it is too limiting to apply it only to Chinese VIPs and domestic mass customers, as mentioned earlier. The burgeoning Chinese middle class should be recognized as having the potential to offset the inefficient marketing for Chinese VIPs and the domestic mass.

It is impossible to regard China, the world most populous country, as a single market. Rather, China, like the Eurozone, has a wide economic and cultural disparity between regions. The Chinese middle class, comprised of 157 million people, is also best viewed as many potential markets. Today, many business sectors in and out of China are keeping an eye on this group, the second largest middle class after America's. Most of them subdivide the group according to their own standards and target the segment that best matches their existing business strategy and environment. According to Kharas and Gertz (2010), some relativists defined the middle class as those between the 20^{th} and 80^{th} percentile of the consumption distribution and between 0.75 and 1.25 times median per capita income. In that manner, the target market, the middle and upper middle class in the richest 20 cities in China, can be roughly assumed as those between the 50^{th} and 80^{th} percentile of the consumption distribution and between 1.00 and 1.25 times median per capita income in those area. Marketing strategy for this group has to be tailor-made in accordance with their unique characteristics.

Las Vegas is well equipped with business infrastructure. The problem it faces is how to deliver its world-class products to the target market. Although many Asian countries, including China, play an important role in Las Vegas, only one flight connects Las Vegas to Asia. The travel website Travelocity recently launched a new booking engine, in order to offer tailored travel options to their customers for the perfect vacation, according to Nejib Ben-Khedher (as cited in "Travelocity," 2011), chief operating officer of Travelocity. In the same way, Las Vegas has to turn its eyes outward in order to develop new relationships and communicate with target customers with global tastes and internet savvy. Casinos can develop fun travel packages, social network promotions, and so on. For a young and massive customer group, these active approaches would work more effectively and efficiently.

Some people say Macau and Singapore have caused Las Vegas to downgrade. In fact, these new gaming capitals are good supporters as well as competitors for Las Vegas because many potential customers will experience the megaresorts and high-end service there, and then dream more of Las Vegas. Contacting target customers in person helps Las Vegas-based companies to secure an important asset, customer data. For example, players' club system integration is convenient not only for the companies but for the potential customers who will visit Las Vegas.

Glocalization, a combination of global awareness and local action (Khondker, 2004) is both the challenge faced by Las Vegas casinos and at the same time, something that Las Vegas is better equipped to accomplish than any other city in the world. That is because even the most lucrative gaming jurisdiction cannot beat the historical fame of Las Vegas. Seeking more innovative and systematic changes based on research rather than relying on habits from the past, is what is needed for Las Vegas to enter a new, dramatic act of its career as gaming capital of the world.

Recommendations for Future Research

Because 95% and 97% of foreign visitors in Las Vegas prefer staying and gambling on the Strip corridor, respectively (LVCVA, 2010), this study was conducted mainly with the Strip casinos in mind. The result of the study emphasizes that the Strip casinos should target profitable customers, build up a strong connection with them, and plan customized marketing strategies. In order to succeed in these marketing practices, however, it is not enough for casinos to focus only on their own properties. Most first-time visitors to Las Vegas tend to think of the city of Las Vegas as a brand they want to experience. Indeed, first time visitors are more likely to visit Las Vegas for pleasure or as a vacation than repeat visitors, and repeat visitors are more likely to visit Las Vegas for gambling than first time visitors (LVCVA, 2010). In fact, Chinese first time outbound travelers highly expect to have various experiences at the destination. Given that many targeted Chinese customers have never been to Las Vegas before, making customers loyal to one property is something casinos can deal with after they bring customers to the city. Put simply, on-Strip casinos should put more emphasis on entertainment and leisure for the target customers who are visiting Las Vegas for the first time. Although each casino on the Strip has various entertainment facilities of its own, visitors rarely stay in one hotel for the leisure. In 2010, 64% of foreign visitors visited downtown during their stay. This demonstrates that on-Strip casinos would do better to organize marketing plans linked to locations outside the hotel. Thus, future research can establish integrated marketing systems bridging on-Strip casinos to off-Strip casinos, other leisure facilities, and tourist attractions to help attract target customers.

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