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Sunrise, Sunset? Comparing the Las Vegas and Macao Gaming Markets in 2010

by

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ABSTRACT

Sunrise, Sunset? Comparing the Las Vegas and Macao Gaming Markets in 2010

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Part One

Introduction

When The Mirage opened in 1989, it was the most expensive hotel-casino in history with a construction cost of \$630 million. Along with eruption of its signature attraction, The Volcano, this high profile project started a tourism boom and started a trend of further developments of integrated mega-resorts. The Mirage set a new level of experience for Las Vegas strip.

However, the global financial crisis that started in 2007 has since left Las Vegas with the highest foreclosure rate in the country and sent accompanying businesses and growth tumbling (Veiga, 2010). Gaming industry has long been thought to be recession proof. But with disposable income for households still on the lows and still hesitant to put their money at risk, Las Vegas has been struggling to attract consumers willing to put their luck to test. Most of the future developments on the strip have been halted indefinitely and business revenue have dropped significantly.

Recent statistics show that Las Vegas gaming revenue fell 4.9% in July, state's fifth straight monthly decline (Cherab, 2010). While Las Vegas has been struggling to shake off the effects of the global recession, on the other side of the globe, Macao has staged a dramatic rebound: their gaming revenue surged 40% in August from a year before fueled by aggressive casino revenue growth (O'Keeffe, 2010b). Casino operators in Macao have been able to continuously improve gaming revenue by meeting the demands from high-stakes gamblers or VIPs.

Purpose

The purpose of this paper is to compare and contrast the gaming market in Macao and Las Vegas and identify the factors that are driving the economic success in Macao compared to the lackluster performance in Las Vegas.

Objectives

It is important to analyze the apparent disparity in revenue and growth trends between the two gaming mega-markets since the global recession. First, this paper will clearly identify the factors that drive the out-performance in gaming revenue in Macao. More specifically, factors such as tourism trends, revenue patterns, game preferences, marketing strategies, cultural difference, and gaming regulations that impact casino revenue will be examined in detail. Next, paper will discuss the results of the research and identify the factors that are driving the financial success in Macao. Furthermore, results will be used to recommend applicable changes that will stimulate economic expansion and growth in Las Vegas.

Justification

In 2006, Macao surpassed the Las Vegas Strip to become the world's biggest gaming center, measured by total gaming revenue (Cheung, 2007). In 2010, Macao has shaken off the global financial crisis, swine flu outbreak, and visa restriction to post revenue close to pre-crisis levels. Meanwhile, Las Vegas gaming revenue is still declining.

Although the numbers clearly indicate that Macao casino operators have sound business strategies to turn out high gaming revenue, but not much information is available on what the difference is between Macao and Las Vegas. Most of the mega-casinos in Macao are a part of

global expansion efforts by Las Vegas casino operators such as Las Vegas Sands, Wynn, and MGM Resorts International. Being able to identify winning combination of factors from successful business units and apply them to areas in need will be crucial to future success in Las Vegas.

Constraints

One of the main constraints in this study is the limited access to certain research materials that might be relevant to certain aspects of this comparison between the gaming markets in Macao and Las Vegas. All of the research will be based on published literature and interviews with experts in the gaming industry located in Las Vegas. A bit of information regarding Macao can be difficult to confirm due to the restricted access to resources in Macao.

Part Two

Introduction

Macao has become known as the “Las Vegas of the Orient” since 1850s when the Portuguese government legalized gaming activities. Macao is the only location with legalized gaming in China and revenue from gaming related businesses are the biggest source of income. Latest gaming revenue reached 117.9 billion patacas (\$15.2 billion) in 2010 and made up over 50% of Macao’s gross domestic product (Gaming Inspection and Coordination Bureau, Macao SAR, 2010; Statistics and Census Service, Macao SAR, 2010). Despite the global economic recession triggered by the U.S. financial crisis in 2007, Macao casino operators have rebounded back strongly.

Tourism Trends

Gaming industry in Macao began when the government ended the monopoly run by a local gaming tycoon Stanley Ho and granted casino operating concessions to multiple corporations such as Wynn Resorts, Las Vegas Sands, and Galaxy Entertainment Group. This change in policy spurred rapid growth in the industry and tourism in Macao as corporations started opening Las Vegas style mega-resort casinos.

Despite its relatively small landscape, Macao can currently provide close to 20,000 hotel rooms (Statistics and Census Service, Macao SAR, 2010). Since the deregulation in 2002, the scale of casinos is rapidly increasing along with traffic thru them.

Although factors such as renewed visa restrictions implemented by the Chinese government that permits just one visit every three months have had negative impact on the visitor arrival, Macao currently receives closed to 2.1 million visitors monthly (Statistics and

Census Service, Macao SAR, 2010). High percentage of visitors is day-trippers meaning that the average length of stay of tourists coming to Macao is low at 1.5 days compared to Las Vegas where tourists stay on average 4.6 days (Las Vegas Convention and Visitors Authority 2009; Statistics and Census Service, Macao SAR, 2010). Tourists from mainland China and Hong Kong generate approximately 85% of visitor arrival in Macao (Statistics and Census Service, Macao SAR, 2010).

Casinos

Table 1 represents the 33 casinos in Macao that meet the high influx of day-trippers whose only intent is to gamble (Gaming Inspection and Coordination Bureau, Macao SAR, 2010). In order to capture this market, Las Vegas casino operators such as Wynn Resorts and Las Vegas Sands have entered the Macao market by replicating their Las Vegas style. For example, the Venetian Macao closely resembles The Venetian in Las Vegas and even includes the Grand Canal Shoppes, a 500,000 sq ft upscale shopping mall.

Table 1

Number of Casinos in Macao in 2005-2010

Concessionaries	2005	2006	2007	2008	2009	2010		
						1st Qtr.	2nd Qtr.	3rd Qtr.
S.J.M.	15	17	18	19	20	20	20	20
Galaxy Casino, S.A.	1	5	5	5	5	5	5	5
Venetian Macao, S.A.	1	1	2	3	3	3	3	3
Wynn Resorts (Macao) S.A.	-	1	1	1	1	1	1	1
Melco Crown Jogos (Macao) S.A.	-	-	1	2	3	3	3	3
MGM Grand Paradise, S.A.	-	-	1	1	1	1	1	1
TOTAL	17	24	28	31	33	33	33	33

Note . Adapted from Gaming Statistics by Gaming Inspection and Coordination Bureau, Macao SAR, 2010

Revenue Patterns

Despite the similarities, revenue patterns differ greatly between the two markets. Gaming activities account for over 95% of casino revenue in Macao whereas they only make up 40% of total casino revenue in Las Vegas (UNLV Center for Gaming Research, 2010). Unlike Macao, revenues from non-gaming activities such as conventions, shows, entertainment, and shopping are substantial portion of the casino revenue in Las Vegas. Las Vegas visitors on average spent twice more than visitors coming to Macao and allocated close to half of budget towards non-gaming activities (Las Vegas Convention and Visitors Authority, 2009). Also, the non-gaming budget has increased over 20% from 1999 to months leading up to the financial crisis in 2007 and Las Vegas visitors spent 44% more on shopping than the visitors in Macao in 2007 (Las Vegas Convention and Visitors Authority, 2009).

As mentioned previously, majority of tourist mix in Macao consist of day-trippers from mainland China and Hong Kong who spend most of their time as well as budget on gaming activities. However, international tourists in Macao most frequently spent money on meals, followed by shopping, lodging, local transportation, and then gambling.

Game Preferences

Heavy reliance of gaming activities in Macao is apparent from analyzing the data in Table 2. Supply of gaming tables as well as slot machines have more than tripled since 2005 and more than 10 fold since 2002.

Table 2

Number of Gaming Tables and Slot Machines in 2005-2010

Items	2005	2006	2007	2008	2009	2010		
						1st Qtr.	2nd Qtr.	3rd Qtr.
Gaming Tables	1,388	2,762	4,375	4,017	4,770	4,811	4,828	4,838
Slot Machines	3,421	6,546	13,267	11,856	14,363	14,503	14,659	14,316

Note . Adapted from Gaming Statistics by Gaming Inspection and Coordination Bureau, Macao SAR, 2010

Trend that really differentiates Macao from Las Vegas is the popularity of table games such as Baccarat and Blackjack. Table 3 shows that total revenue from Baccarat accounted for over 90% of the total revenue from different games in Macao so far in 2010 (Macao Gaming Inspection and Coordination Bureau, 2010). On the other hand, Baccarat revenue is responsible for slightly over 20% of all gaming revenue for the Las Vegas Strip (UNLV Center for Gaming Research, 2010).

Table 3

Gross Revenue from Different Game Types of Games of Fortune in 2005-2010

Game Types	2005	2006	2007	2008	2009	2010		
						1st Qtr.	2nd Qtr.	3rd Qtr.
Roulette	186	248	371	693	694	135	161	154
Black Jack	1,459	1,622	1,917	2,247	1,903	594	541	528
VIP Baccarat	28,864	36,783	55,762	73,772	79,834	28,761	32,368	34,047
Baccarat	10,448	11,911	16,515	21,264	25,498	8,024	8,310	8,884
Fantan	143	145	164	190	174	45	43	52
Cussec	1,526	1,923	2,755	3,043	2,826	869	856	884
Paikao	95	76	77	54	44	19	20	23
Boule	0	-	-	-	-	-	-	-
Mahjong	-	-	-	9	27	7	8	10
Slot Machines	1,250	2,053	3,594	5,653	6,503	1,948	2,028	2,236
Mahjong Paikao	6	4	3	2	0	-	-	-
Makccarat	-	-	9	16	8	2	0	1
3-Card Poker	172	128	114	73	94	29	30	33
Fish-Prawn-Crab	1,053	874	654	264	152	28	24	20
3-Card Baccarat Game	257	247	231	209	184	55	55	52
Craps	-	-	9	89	92	19	22	34
Texas Holdem Poker	-	-	-	54	146	48	52	52
Pachinko	2	-	-	-	-	-	-	-
Tombola	1	2	2	2	2	1	0	0
Lucky Wheel	39	27	17	21	25	8	9	8
Live Multi Game	-	-	-	-	-	22	41	44
Stud Poker	522	556	750	925	938	273	266	255
Q Poker	24	24	20	7	5	1	0	-
Casino War	-	0	61	185	164	39	41	38
Fortune 3 Card Poker	-	-	-	-	55	24	24	27
Fortune 8	-	-	-	-	3	-	-	-

Note. Adapted from Gaming Statistics by Gaming Inspection and Coordination Bureau, Macao SAR, 2010

Furthermore, one can conclude from Table 3 that the Macao gaming industry relies heavily on not only gaming activities but on high-stakes table players. On the other hand, Las Vegas revenue is more diversified, including mass-market gamblers like slot machine players and non-gaming segments such as conventions, entertainment and shopping.

Tourism trends and revenue patterns are closely related factors that also describe the differences in game preferences in Macao and Las Vegas. Large percentage of day-trippers from mainland China and Hong Kong equates to higher percentage of revenues from gaming related activities in Macao. Tourism related to gaming activities drives rest of the businesses in Macao.

For example, day-trippers tend consider gaming activities as their main purpose of the trip and allocate only a small amount of time and money towards rest of the activities such as entertainment and shopping. In comparison, greater number of vacationers in Las Vegas means more diversified mix of revenue sources such as entertainment, food and beverage, and shopping. Only a small percentage of vacationers in Las Vegas visit solely for gaming related activities and most consider gaming activities as just another form of entertainment.

The financial crisis of 2007 along with the burst of the housing bubble has greatly depressed tourism globally. Tourism in Las Vegas where people came to spend their disposable income for enjoyable leisure time has been seriously impacted due to the decelerating consumer spending. Both convention bookings and hotel-casino revenues as well as gaming and non-gaming fell sharply and business units were forced to close or significantly reduce their labor force to reduce operating cost. However, evidences show conspicuous differences in post-crisis performance of Las Vegas and Macao. Quarterly growth of gross gaming revenue in Macao had dropped from 61.8% in the first quarter of 2008 to a low of -12.7% a year later (Statistics and Census Service, Macao SAR, 2010). However, in 2010, gaming revenues were up stunning 50% from 2009 and set an all-time record high in October 2010 (Trippon, 2010). Next sections of the literature review will discuss the role of high-stakes players and casino marketing strategies that are contributing to the financial out-performance in Macao since the financial crisis.

High-rollers

Data indicates clearly that the market segments are not the same between Macao and Las Vegas. High-rollers or VIPs only represented about 5% of total Las Vegas gaming in 1999

(Lucas, Kilby, & Santos, 2002). However, VIP Baccarat alone accounted for approximately 70% of total Macao gaming revenue in 2010.

Approximately 27% of table games in Macao offer VIP baccarat, while only 2% of the tables in Las Vegas cater to high-rollers (Farhoomand, 2006). Low stake Blackjack is the biggest table game in Las Vegas, explaining approximately 35% of its table age revenue in 2005.

In order to fully understand the differences in casino revenue profile between Macao and Las Vegas, fundamental and behavioral attributes of high-rollers and mass-market customers need to be examined. Excellent anecdotal examples that provide great insights are the SARS and swine flu epidemic in 2003 and 2009 respectively. Rapidly spreading virus and lethal cases of infection had created fear around the world and global travel and tourism experienced immediate impact during each period. Fear of inception from a host during means of travel or in crowded areas such as hotels greatly suppressed the mass-market business in both Macao and Las Vegas. However, data shows that high-rollers were not deterred by SARS and swine flu and continued to their wagers at the tables. One explanation is that high-rollers were offered special care to limit exposure to public by means of private transportation and isolated gaming rooms (Wang & Eadington, 2007).

High-rollers in Las Vegas often receive limousine services to and from the airport and can enjoy their stay in isolated suites with private butlers. Most importantly, they usually have private tables reserved for the length of their stay for various table games at the casino. Similarly, Macao also offers the royal treatment to those in the high-roller category. However, Macao operates their casino business on a significant different model from the rest of gaming industry.

In a nutshell, Macao casinos have two different systems that are driven by marketing themselves to the mass-market players and high-rollers. Mass-market player system in Macao is similar to that of the system in Las Vegas. There are a set of formulas that predicts the profitability of a player and the player is given a discount to his or her expenses for the trip. The VIP system in Macao involving dead-chips and junket operators is what differentiates itself from Las Vegas and how the casinos in Macao have been so successful in attracting new high-rollers and keeping existing players. Details of the VIP system Macao will be discussed in the proceeding sections of the literature review and provide insights into the differences between Macao and Las Vegas.

Junket Operators

Junket operation was originally developed in Macao in means of attracting more gamblers for their gaming industry. Since Macao was not a known tourist destination in 1930, volume of mass-market players was not large enough to support the growing economy in Macao. Junket operators were created in part by the economic demand to find premium players by jobless individuals in desperation for work and income. They called themselves “Jin-Ke” where “Jin” means introduce and “Ke” means customers in Chinese (Wang & Eadington, 2007).

Modern day junket system called the VIP-room contractual system is essentially a network of partnerships that links a high-roller to a casino. Dead chips, also called junket chips, are chips sold or lent by the casinos to VIP promoters or junket operators. Those chips are then lent to the high-rollers for a fee. End result is that the junket operator funds the high-roller with dead chips for wagering at the VIP-room they have the partnership with.

Figure 1 shows the transactions involved in the VIP-room contractual system. There are a total of 13 transactions involving 4 parties. Appendix A provides a detailed description of each of the 13 transactions involved in this system (Wang & Eadington, 2007).

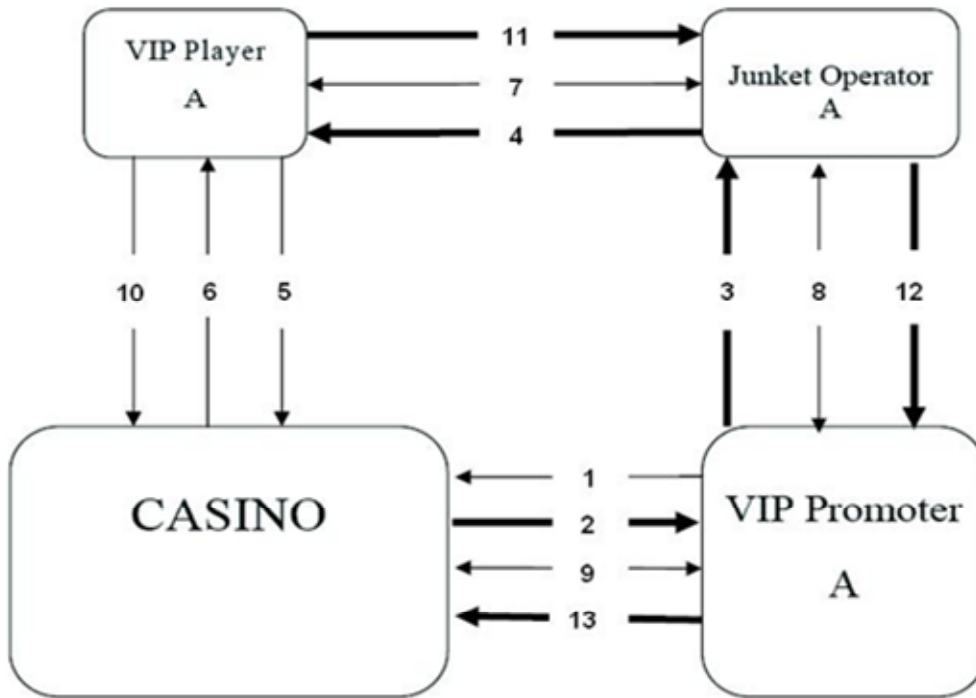


Figure 1 . VIP-room contractual system.

Adapted from "Transaction Flow of VIP-Room Contractual System: VIP-Room Contractual System," by Wang W. & Eadington W.R., 2007.

As described in previous sections of this paper, Macao casinos relies heavily on high-rollers and VIP Baccarat, which account for over 70% of gaming revenue. The VIP-room contractual system has played a significant role in the development of Macao gaming industry. Rapid growth fueled by the system can be seen in Table 4.

Table 4

VIP-Room Performance, 2000-2005

Year	VIP Room Gaming Revenues	Gross Gaming Revenues	VIP Room Share of Total Gaming Revenues
2000	10,790	15,878	68%
2001	12,755	18,109	70%
2002	15,864	21,546	73%
2003	21,532	27,849	77%
2004	28,916	40,187	72%
2005	28,023	44,725	62%
2006	32,668	54,996	59%

Note . Adapted from *VIP-Room Performance: VIP-Room Contractual System* by Wang W. & Eadington W.R., 2007, p. 15.

There are important advantages of having a VIP-room contractual system. First of all, the VIP system is based on personal relationship which in one of the critical characteristics of the Chinese culture. High-rollers in Macao are marketed and invited to the casinos by junket operators rather than directly from the casinos. Junket operators are also keen on pursuing relationship beyond the casino doors to earn loyalty from their players.

Consequently, the junket operators who have the relationships keep information on the high-rollers highly confidential and difficult to access to others. However, in Las Vegas, many aspects of a player are frequently recorded and stored by the casinos. For example, a high-roller in Macao is able to borrow dead chips from his junket operator without any paperwork and just based on the relationship whereas in Las Vegas, credit approval is a tedious process that requires player to reveal sensitive material such as banking information and credit rating.

Cultural Differences

In the western world, excessive urge to gamble was viewed as a sin historically. Problem gaming is now diagnosed as a medical condition known as clinical pathological gambling. More often than not, gamblers are perceived as people with bad influences and negative sociological impact. However, gambling is more widely accepted and associated with superstition in Asia.

Asians are a superstitious group of people with strong beliefs in notions of luck, Feng Shui, fate, and destiny. Lam (2010a) claimed that “some Chinese gambling superstition thinking and behavior have become essential parts of the Chinese culture and are popularly accepted by the population”. Studies have found higher rates of gambling activities and excessive gambling among the Asian population, especially Chinese male (Blaszczynski, Huynh, Dumlao, & Farrell, 1998).

Moreover, strong preference among Asians towards table games involving dice and cards over slot machines could be related to approval and familiarity within the Asian culture and the way they are passed down from generation to generation. For example, dice and cards have been used in Chinese culture for centuries, which could be the factor that attracts them to the casino games such as Baccarat (Clark, King, & Laylim, 1990).

Gaming Regulations

Although there are strong skeptics among the international gaming industry, Macao has emerged as a credible and safe gaming jurisdiction by the financial markets since the deregulation in 2002. Global gaming corporations such as Wynn Resorts are considering moving its headquarters and major investment focus to Macao from Las Vegas and already have offered equity in their Macao subsidiaries on the Hong Kong Stock Exchange (Berzon, 2010).

Despite the recent developments, there are still legal issues of concern. First of all, Macao is a network of six concessions where gaming is an activity reserved for the government (Godinho, 2010). In a concession system, all decisions are taken in a tender process. The tender process is considered to be the event that sets the rules, which will dictate the gaming industry for decades until the current concessions expire in either 2020 or 2022. Figure 2 illustrates the latest Macao casino concession and sub-concession system. The uniqueness about the

concession system is that unlike Las Vegas where the jurisdiction licenses the casinos, Macao licenses the operators.

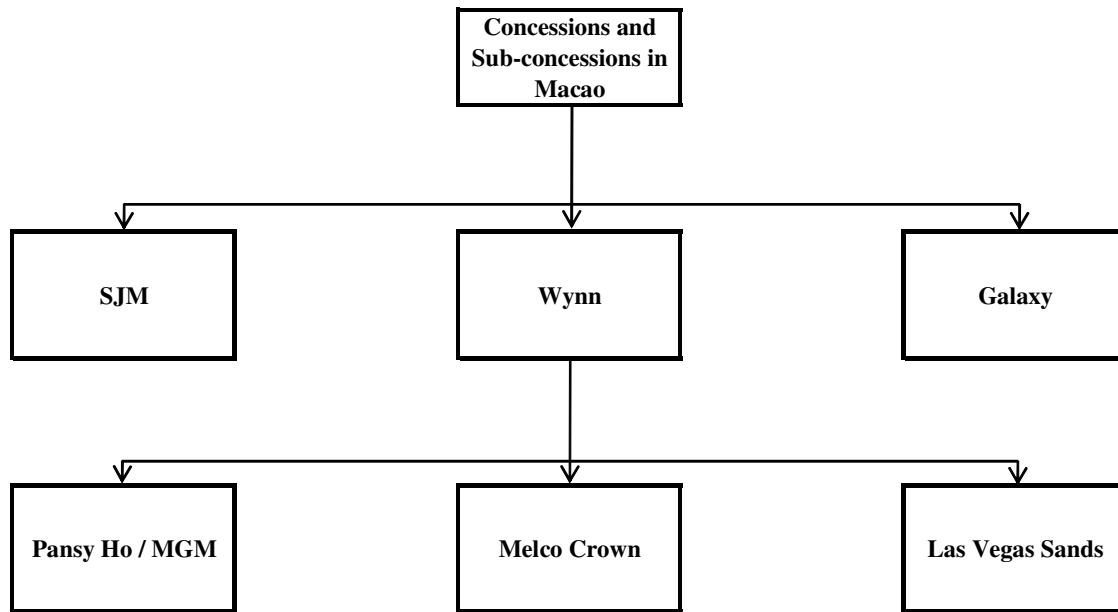


Figure 2 . Macao casino concessions, sub-concessions, and operating agreements.
Adapted from "Macao Casino Gaming Law and Regulation: At a Turning Point?," by Godinho, Jorge A.F., 2010.

The main risk of this system is that the concessions are free to enter into as many partnerships as they like and those partners are very loosely regulated. Day to day casino operators and those partners in profit sharing agreements are not subject to a suitability investigation and therefore not selected into participate in the tender (Rose, 2010).

Another area of great concern for the Macao is the VIP-room contractual system. As Figure 1 suggests, the junket operation involves an elaborate system of transactions in order to fund the high-rollers. These transactions create rooms for risk in many ways. For example, junket operators could be tied to the triad and their activities (Godinho, 2010). Also, as aforementioned, VIP-room contractual system is one based on personal relationship rather than paperwork. Lack of audit trails can lead to inconclusive investigations in criminal cases involving any individuals taking part in the VIP-room contractual system.

Many gaming industry experts heavily scrutinize regulators in Macao for their weak efforts in cleaning up the triad connections in the industry. Intricate ties between the gaming industry and the triad can be traced back to the gaming mogul, Stanley Ho. He has exclusively controlled the gaming industry by operating all of the casinos on the island until the deregulation in 2002. Not only is Stanley Ho a gaming mogul but he is also involved in major property and transportation investment (Lintner, 2007).

Despite everything Stanley Ho has accomplished from a business perspective in Macao, even after almost a decade after the deregulation, the shadow of rumored illicit activities still lingers over everything attached to his name. He had been deemed unsuitable for gaming licenses in several occasions in the past including 1992 in Australia and 1996 in Canada. In 2010, the New Jersey Division of Gaming Enforcement deemed Pansy Ho, Stanley Ho's daughter, an unsuitable partner for MGM Mirage because of her financial dependence on her father. The New Jersey Casino Control Commission claimed that "numerous governmental and regulatory agencies have referenced Stanley Ho's associations with criminal enterprises, including permitting organized crime to operate and thrive within his casinos". Despite the controversy, MGM Mirage exited its business in New Jersey to pursue the tremendous opportunities in Macao with Pansy Ho (Jinks, 2010).

Las Vegas has also experienced a prolonged period of dominance by the organized crime members. During the 1940s through the early 1980s, Las Vegas was led by characters connected to organized crime from big Midwestern cities like Chicago. Mafia-associated leaders like Bugsy Siegel used underworld financing to muscle around government bodies critical of the gaming industry's ties with organized crime and built the Flamingo which was the first hotel in Las Vegas to offer unprecedented opulence. In late 1960s, regulatory and government entities of

Nevada started a strong legislative pressure to drive out organized crime as well as opening Las Vegas to corporate ownership with Nevada's Corporate Gaming Act of 1969. The act attracted corporate investment in the gaming industry and attracted skilled business and political leaders to push for reform and long-term investments that had led Las Vegas to the “Entertainment Capital of the World” (Bernhard, Green, & Lucas, 2008).

Lastly, current Macao gaming law lacks responsible gaming programs and player protection programs for problem gamblers (Lam, 2010b). Sociological impact of problem gambling is a major risk to the sustainability of the gaming industry as a whole and Macao gaming law needs reform to protect the citizens.

Conclusion to Literature Review

Factors that drive the revenue stream in the gaming industry have been thoroughly analyzed and they were used to compare and contrast the gaming markets as it pertains to the two gaming mega-markets, Macao and Las Vegas.

Macao casinos are experiencing tremendous growth while Las Vegas casino operators are seeing their revenues stagnating. Factors such as the latest tourism trends, casino revenue patterns, game preferences, casino marketing strategies, and cultural differences suggest that Macao casinos are heavily dependent on high-rollers compared to the more diverse source of revenue in Las Vegas. Data analysis clearly indicates that the revenues from high-rollers are the main drivers of the financial success in Macao. The VIP-room contractual system in Macao works well to serve Asian high-rollers who have a natural propensity to gamble more of their disposable income than other cultures while Las Vegas offers tourists endless array of non-gaming activities such as conventions, entertainment, and shopping.

Despite current level of demand for gaming, long-term sustainability of the growth in the gaming market in Macao comes into question when analyzing current gaming regulations. Uniqueness of the concessionary system and its partnerships with junket operators create risk for loopholes within the jurisdiction that regulates the Macao gaming market.

Part Three

Introduction

When Las Vegas Sands became the first casino operator from the western hemisphere to open a Macao casino in 2004, gaming industry experts questioned whether an American company could navigate the apparent disparity in business structure of the concession system as well as the cultural differences of the casino customers. However, Las Vegas Sands was able to recoup its \$240 million construction budget within a year of the opening of Sands Macao (Benston, 2009).

As Las Vegas Sands was planning next development, the Venetian Macao, other American casino operators such as Wynn Resorts rushed into developing the next Las Vegas in Macao. Gaming industry experts and analysts still wondered if American casino operators would be able to reinvent Las Vegas in Macao. Las Vegas has established itself as the entertainment capital of the world. Las Vegas attracts diverse group of visitors including casino guests and family vacationers and frequently holds major conventions attended by companies and related people all over the world.

Financial crisis of 2007 has crushed tourism globally especially in Las Vegas where approximately 60% of the revenues are from non-gaming businesses (Gu & Gao, 2006). Decline in the housing market as well as high unemployment rate significantly reduced consumer spending and consequently desire to test their luck at the casinos. However, Macao was able to survive the global financial crisis without suffering the drastic decline in revenues like Las Vegas did. The single most significant reason for the lack of sensitivity to the harsh global economic condition was the narrow market of high-stakes table games that Macao depends on. Although

Macao suffered similar slowdown in tourism, majority of the visitors in Macao are not tourists but game players or premium gamblers.

Ironically, gaming industry experts and financial analysts are now questioning if Las Vegas can weather the storm and get back on its feet. All of the data presented in this paper suggest that Macao has surpassed Las Vegas as the gaming capital of the world and the industry has been growing at an unprecedented level. Macao casinos have been exceptional in their ability to attract and retain loyal high-roller players and continually grow its mass as well as slot game market.

However, factors analyzed in the previous sections of this paper also show that Macao faces numerous challenges in the future to sustain the growth as well as the integrity of the gaming industry. Some of the major challenges include conflicting structure of the concession system with the rest of the global gaming industry and over-concentrated preference towards high-stakes gaming activities.

This section of the paper will formulate and present a solution derived from Macao's high-roller focused casino marketing system that can be adopted by Las Vegas operators in order to revive its gaming industry. Also, recommendations will be made addressing the challenges Macao faces in sustained development of the future gaming industry.

VIP Specific System in Las Vegas

As suggested by literature review section of this paper, Macao casinos use a unique system that is designed to satisfy, attract new, and retain existing high-stakes players. However, most of Las Vegas casinos market to different levels of players based on a tiered mass-market system. As an oversimplified example, platinum members receive access to a VIP lounge

restricted to regular players. Implementing VIP focused system in Las Vegas could help stimulate the high-stakes table game revenues. This strategy will also assist Las Vegas casino operators depend less on revenues from non-gaming activities such as entertainment, shopping, and conventions, all of which are vulnerable to economic slowdowns.

The paramount factor that influenced the VIP-room contractual system in Macao is the characteristics of the Chinese culture. The VIP-room contractual system allows high-rollers to conduct business based on personal relationships rather than with entities such as the casino operators and consequently this system guarantees confidentiality (Wang & Eadington, 2007).

Initially, Las Vegas casinos also emphasized building personal relationships with guests. Casinos focused on establishing relationships with all guests and providing them with exceptional and unique customer services that can only be experienced in Las Vegas. Proactive marketing made both high-rollers and mass-market players feel like “kings” and translated directly into growth and higher revenues (Breitling & Fussman, 2008). However, as corporations took over Las Vegas, the prestige or “face” of the guests digitalized into mathematical formulas embedded in “player’s cards”. Although the use of modern information technology techniques is essential in streamlining business operations within a casino where customer flow can be overwhelming, many will argue that Las Vegas casinos have lost the personal touch factor.

Main disadvantage of the player’s card system is that it minimizes the personal connection of casino players to the casino. Players including high-rollers are not taken care of but rather players are trying to take care of themselves by registering sufficient gaming activities on their player’s cards. Although this approach might be convenient for the casino operators, it can discourage players away from the tables as they have no assurance that their needs will be

looked after. Another reason why the player's card system can discourage players is that the system does not protect players from confidentiality. Player's card essentially logs all gaming activities of players during their stay including credit transactions as well as overall winnings or loses.

Challenges

There are major challenges in implementing a VIP specific system in Las Vegas. First of all, tourist market structure in Macao is very different from that of Las Vegas. In Macao, vast majority of high-stakes table market is fueled by visitors from mainland China and Hong Kong (Gu & Gao, 2006). As previously mentioned, gambling has been a part of Chinese culture and Chinese have a greater propensity to gamble their disposable income than Americans. Given that the majority of high-stakes table participants in Las Vegas were from Asia, the challenge for Las Vegas casino operators is to seek out and attract new high-rollers from the rest of the world.

Differences in regulation policy in Las Vegas gaming industry from Macao also provide significant challenges in implementing a VIP system similar to the one in Macao. Two core fundamental factors of the VIP-room contractual system are personal relationships and confidentiality. However, most businesses including the VIP specific businesses are based on law and regulation in Las Vegas. Asian premium players and high-stakes players around the world have substantial demands for personal confidentiality and anonymity and most likely will not conform to electronic or paper submission of personal information to the casino now required by regulators (Wang & Eadington, 2007). The obvious challenge is to find a balanced VIP specific system that could satisfy the premium players within the constraints of the regulation.

Recommendations

Just as how the Chinese culture has played a significant role in shaping the VIP-room contractual system in Macao, American culture and values should be carefully examined and the current mass-market system should be revised to better fit American culture. Western culture puts heavy emphasis on receiving exceptional customer services that will leave a unique experience and memories. Table 5 lists the two key learning points from the VIP-room contractual system and potential solutions derived from them that could be applied in Las Vegas.

Table 5

Application of the VIP-Room Contractual System in Las Vegas

Learning Points from the VIP-Room Contractual System	Solutions in Las Vegas	Results
Personal Relationship	Assign casino marketing representative to all qualified players Open regional marketing sites in order to establish closer connections with players around the country	Players may not know that they are qualified VIP players with special privileges Players can walk into a local outlet and make reservations and obtain latest information on upcoming events
Exclusivity	Clearly define VIP guests Create multiple categories within the VIP system (i.e. VIP doesn't have to be defined in monetary terms)	Mass-market player who is a frequent guest of the hotel along with his employees can be designated VIP status and receive special offers that interest his business

Using customer relationship management techniques to reach out to qualified players who may not have a casino representative will help to retain players who may not realized that they have a qualified status and unique perks. Also, opening regional outlets will help to establish closer personal connections with customers. For example, casino players of any level as well as family vacationers can visit a local outlet and experience beforehand the level of service they will be guaranteed during their stay. Premium players can handle cumbersome and sometimes frustrating credit matters with a local representative whom they already have a relationship with rather than a general representative onsite at the casino.

The VIP-room contractual system is reserved for high-stakes gaming which is clearly defined as players who have set aside a large sum of money strictly for gaming activities. Invited guests can enjoy exclusivity and the perks range from an exclusive entrance to the casino and VIP representatives at service. Las Vegas has a diverse tourist mix of non-gaming guests including those with substantial convention, shopping, or entertainment budget and therefore exclusivity can be applied to a broader group of guests by creating different categories within the VIP system. For example, casinos can grant VIP status and offer exclusive deals and perks to the clients of a corporate planning company that frequently books large blocks of rooms.

Implementing solutions as suggested in this section can be time consuming and the cost can be expensive especially in times of economic slowdown. However, anecdotal examples from Macao suggest that investment in infrastructure and resources to attract and retain new players is critical especially during the times of economic crisis.

Sustainability of Macao Gaming Industry

Although Macao continues to grow at unprecedented level seen in any gaming jurisdiction in the world, the sustainability of the industry is often in question. One of the major challenges Macao faces is the over-concentrated market mix of tourists and their strong bias towards gaming activities. Narrow tourist mix of day trippers from mainland China and Hong Kong is potentially threatening. As they have already done in the past, Chinese government could tighten the visa policy to reduce the sociological impact of the Macao gaming industry. If further visa restriction disrupt the flow of high-stakes players from mainland China and Hong Kong, Macao could face disastrous financial repercussions. Diversifying the customer base to include tourists and vacationers from American or Europe could significantly increase revenues

from restaurants, shopping, entertainment, and sightseeing and reduce over-reliance on the high-stakes table market.

Macao casino operators heavily rely on junket operators to bring high spending gamblers to their casinos and as the high-stakes business thrives, margins will be hurt by increasing commissions paid to the junket operators. Eliminating the junket operators should help profit margins, but, the strategy could result in higher balance sheet risk as the casinos will be responsible for credit standings of their players. Also, gambling debt is not recognized in China and the casino operators will eventually have to resort to junket operators for debt collection.

Junket operation in itself is one of the key risks in the sustainability of the gambling industry in Macao. Complicated transactions involved in funding high-stakes players can be a part of criminal activities such as money laundering or fraud by organized crime groups and could encourage similar groups in other countries to take advantage of the confidentiality and anonymity provided by the VIP-room contractual system in Macao.

Recommendations

In order to diversify the tourist mix in Macao, casino operators and Macao policy makers need to look into the tourist mix of the neighboring destinations. Macao has very close geographical connections with both Hong Kong and mainland China and both of those destinations receive diverse tourist mix from around the globe. Joint and cross marketing efforts can motivate travelers to include Macao as part of their trip. Table 6 outlines a few important Las Vegas style strategies that can increase the non-gaming revenues in Macao.

Table 6

Application of Las Vegas Style Developments in Macao

Learning Points from Las Vegas Style Developments	Solutions in Macao	Results
Strong Food and Beverage Establishments	Attract celebrity chefs	Global dining experience can attract tourists from western countries who are particular about their dining experiences
World-class Entertainment and Shopping	Create unique shows such that can only be experienced in Macao Invest in world-class nightlife	Entertainment, nightlife, and shopping will attract more trend driven younger tourists
Develop a Business Market	Build technology driven convention and exhibition facilities	Attract convention market currently concentrated in Japan, Singapore, and HK

Strong non-gaming businesses such as food and beverage establishments backed by celebrity chefs can attract international tourist who are particular about their dining experiences. Also, world-class entertainment and shopping such as Cirque de Soleil, concerts by international music artists, venues for vibrant nightlife, global brand shopping outlets will attract much broader mix of tourism including younger visitors driven by latest trends. Lastly, developing a reliable convention and exhibition facilities can attract the convention market currently concentrated in Japan, Singapore, and Hong Kong.

Conclusion

The question of whether Macao can establish itself as “Las Vegas in Asia” has been discussed and analyzed in great detail ever since the first western casino operator, Las Vegas Sands, entered the market in 2004. Since then, not only did Macao surpass Las Vegas in gaming related revenues, but Macao has continued to grow and expand aggressively despite the global economic crisis which has depressed Las Vegas across all businesses.

Macao casino operators have built their operations around a narrow tourist mix from mainland China and Hong Kong high-stakes table game players and consequently the VIP

segment in Macao accounts for close to 95% of casino revenues. On the contrary, Las Vegas has a more diverse mix of tourists and received a healthy contribution of approximately 60% of revenues from non-gaming activities such as shopping, entertainment, and conventions. However, the global financial crisis has had a detrimental effect on consumer wealth and non-gaming revenues have decreased accordingly.

The VIP-room contractual system in Macao is a unique operational scheme that is different from any other gaming jurisdictions in the world. Through an elaborate network of VIP promoters and junket operators, casinos are able to attract heavy volumes of premium players. Junket operators essentially fund the high-rollers using borrowed chips from the casinos in exchange for a fee. Although this system has a few disadvantages to casino operators such as reduced margin due to commissions paid to VIP promoters and junket operators, it has two major advantages over the mass-market system used in Las Vegas. First of all, the VIP-room contractual system is based on personal relationships. Marketing as well as credit system are much more effectively through personal relationships among Chinese premium players who have an utter demand for confidentiality and anonymity. Secondly, because credit and debt collection are not handled by the casinos directly, they do not hold any credit risks on their balance sheets.

The question of whether Macao can be the “Las Vegas in Asia” has evolved into how the gaming industry in Macao needs to respond and prepare in order to sustain its tremendous growth in the long run. Immediate solutions include adapting some of the Las Vegas style management strategies such as diversifying the tourist mix in order to maximize revenues from non-gaming related activities and reduce the heavy reliance on high-stakes table revenues.

Vice-a-versa, due to the financial success of Macao casino operators even after the global financial crisis, western casino operators especially those in Las Vegas need to examine the

factors contributing to the financial success in Macao and design solutions such as a VIP specific program that could stimulate the casino revenues as well as satisfy the demanding regulations of Nevada.

Appendix

Description of the thirteen transactions in the VIP-Room Contractual System

Transaction 1: The VIP promoter puts a deposit into the casino's account. This is the precondition for the entire system to continue. It ensures that the casino will bear no credit risk, and provides a pool from which the VIP promoter can draw.

Transaction 2: The casino provides dead chips to the VIP promoter.

Transaction 3: The VIP promoter lends dead chips to the Junket operator.

Transaction 4: The Junket operator lends dead chips, just borrowed from the VIP promoter, to his customer, the VIP player.

Transaction 5: Using the borrowed dead chips, the VIP player starts gaming with the casino.

Transaction 6: The VIP player accumulates regular chips while "washing" his dead chips (playing with the dead chips until they are lost) through transaction 5.

Transaction 7: The junket operator starts dead chip dealing (i.e. "chip rolling"). In order to stop the player from using the just-won regular chips in his wagers, the junket operator keeps exchanging the player's regular chips with dead chips he has on hand at a one-for-one price.

Transaction 8: The junket operator sells the regular chips that he just "bought" from his customer through transaction 7 to the VIP promoter and receives the equivalent amount in dead chips plus commission.

Transaction 9: The VIP promoter sells the regular chips that he just "bought" from his junket operator through transaction 8 to the casino for the equivalent amount of dead chips plus commission.

Transaction 10: Using the dead chips that he just "bought" from his junket operator in transaction 7, the player continues to bet until he once again exhausts all of his dead chips. The

cycle continues until the player decides to quit, or when the player has lost all of his playing chips.

Transaction 11: The junket operator starts to collect debt from the customer, which had been created by transaction 4, regardless of whether the customer has won or lost.

Transaction 12: The junket operator pays his debt, which was created by transaction 3, to the VIP promoter.

Transaction 13: The VIP promoter replays the original chip draw, which was created by transaction 2, to the casino.

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