

LESSONS FROM THE JUNKET BUSINESS IN ATLANTIC CITY AND IN MACAO

*Carlos Siu Lam,
Gaming Teaching and Research
Centre, Macao Polytechnic
Institute,
carlossiu@ipm.edu.mo*

*Israel Posner,
Lloyd D. Levenson Institute of
Gaming, Hospitality and Tourism,
Stockton University,
posneri@stockton.edu*

*Felicia Grondin,
Lloyd D. Levenson Institute of Gaming, Hospitality and Tourism,
Stockton University,
felicia.grondin@stockton.edu*

ABSTRACT

Although junket operators can help casino operators secure business from premium patrons, there has been limited study of this topic in the academic literature. Recent junket business developments in Atlantic City (the most strictly regulated jurisdiction in the US), and in Macao (the world's largest gambling market) have led to new insights and understandings of the junket business, and this paper identifies key lessons learned from these two major casino markets. The qualitative research interview was adopted due to the under-researched nature of the junket business. This study is based on the institutional theory to analyze human interactions and activities in terms of overt or implicit rules involved in the junket business.

A review of the literature and interview findings indicates that junket operators may play a more important role with the economic slowdown, since their business is focused on bringing patrons from strong regional or national economies. This can be achieved by adopting certain location-specific strategies to match changes in the regional market. Diversified product offerings, rather than price reductions, are critical to entice premium patrons in the face of increasing casinos in nearby regions. Despite the economic contribution of the junket business, some junket practices might be perceived as exploitative of patrons. Apart from the appropriate balance between the public policy to minimize social costs and an appropriate regulatory standard, a jurisdiction needs to consider such local contexts as its unique culture and junket operators' intention to promote their interest, in order to better regulate the junket business.

1 INTRODUCTION

Since casinos need junket operators to entice premium patrons to bet large in their casinos, junket operators can play a role to help casinos to secure more business. As casino gaming has proliferated domestically and abroad, the competition for premium patrons has intensified. Although junket operators are crucial in the procurement of premium patrons, they do not necessarily operate the same way in all gaming jurisdictions. In fact, the authors have conducted some studies on the junket business in Las Vegas and in Macao to support this view (Siu Lam and Eadington, 2009; Siu Lam, 2013).

Atlantic City's casino industry, one of the most strictly regulated jurisdictions in the United States, has seen significant expansion over the past thirty years and is experiencing economic difficulties in recent years. Macao, being the world's gaming capital after years of impressive growth from the junket business, is facing consecutive months of gaming revenue decline. While the Atlantic City market may be different from Macao, its history of junket business from a peak-to-trough perspective may provide some valuable lessons for Macao. On the other hand, with its gaming liberalization in 2001, Macao's junket business has become its economic growth engine and attracted the attention of many Asian policymakers (GGB Staff, 2008). Following this, an analysis of the junket business in Atlantic City and in Macao not only would provide some insights for the two jurisdictions, but also for gaming destinations considering the adoption of junkets to fuel their casino growth.

This article describes the junket business in Atlantic City and in Macao. Of the limited number of articles about the junket business, the first author used the institutional theory to explain individual and organizational action (Dacin et al., 2002) to analyze the strategic moves made by VIP-room contractors and junket operators for his earlier article titled "Changes in the junket business in Macao after gaming liberalization". In this article the authors attempted to extend the institutional theory across gaming jurisdictions to compare how the institutions and cultures in Atlantic City and in Macao have affected junket operators in their effort to improve their respective junket business.

Given that systematic and reliable statistics on the junket business are quite limited, the study of junket operators is difficult because their operational information is confidential and of strategic competitive importance. As a result, the authors conducted interviews with experienced junket executives and government officials as a primary data collection tool. While the first author managed to obtain information from interviews with junket operators in Macao from October 2011 to April 2013 for his article mentioned earlier, the other two authors were able to arrange in-depth, semi-structured interviews to better understand the strategic actions made by junket operators in Atlantic City.

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The findings grounded in the life experiences of participants studied in both Atlantic City and in Macao were juxtaposed to identify homogeneity of

2003). According to Lee and Jang (2014), casinos in AC spent approximately 37% of their revenues on compliment-based promotional expenditures.

Table 2 Distribution of gaming and non-gaming revenue in Atlantic City

Year	Gaming revenue (%)	Non-gaming revenue (%)	Total revenue in thousand USD
2013	70	30	4,069,492
2012	70	30	4,306,858

the primary trip purpose for 80% of visitors to the city, leaving dining and walking on the Boardwalk as the other two favourite activities.

Table 3 Annual visitors to Atlantic City by travel mode (in thousands)

Year	Automobile	Casino Bus	NJ Transit Bus	Air	Rail	Total
2013	23,370	2,040	410	232	185	26,237
2012	23,807	2,491	461	274	194	27,227
2011	24,293	3,223	449	282	205	28,452
2010	24,678	3,709	456	292	194	29,329
2008	25,903	4,910	505	250	245	31,813
2006	27,545	6,041	526	260	162	34,534
2004	25,732	6,573	516	261	148	33,230

speed of the game, while a slot patron’s theoretical value is based on the denomination and the amount of coins circulated through the slot machines (Makens and Bowen, 1994).

Junket reps in AC are licensed to the standards established for casino employees. Some junket reps have formed junket enterprises offering the service of a junket rep to licensed casinos in AC. These junket enterprises are required to meet the standards established for casino key employees in order to be licensed (New Jersey Control Act and Commission Regulations, 2014). In New Jersey, junket enterprises are identified as ancillary casino service industries pursuant to New Jersey Statutes Annotated (N.J.S.A., 5:12-102c) effective from August 2012. Table 4 indicates that the number of licensed junket enterprises is on the decline.

Table 4 Number of junket enterprises in Atlantic City

Year	Initial Licensees	Renewal Licensees	Total
2013	4	5	9
2012	8	10	18
2011	2	0	2
2010	10	3	13
2009	14	29	43
2008	19	39	58
2007	17	40	57
2006	17	38	55
2005	19	45	64
2004	19	47	66
2003	24	50	74
2002	30	51	81
2001	38	52	90
2000	50	51	101

Source: Annual Reports (Casino Control Commission, State of New Jersey, and New Jersey Division of Gaming Enforcement)

Under the Casino Control Act, junket reps in AC are to identify patrons to receive complimentary based on their actual play, authorize such complimentary and determine the amount of such complimentary. These junket reps are neither allowed to offer gaming credit, nor to collect upon checks returned by banks.

6 CONTEXT OF JUNKET BUSINESS IN MACAO

Macao, situated on the humid Pearl River Delta, was the first European settlement on the China coast under the Portuguese administration for almost 450 years (Porter, 1993), and Macao has operated as a free-trade port since then. When Macao was under the Portuguese administration in the 19th century, the Macao-Portuguese government had chosen to adopt an incomplete and ambiguous regulatory system to manage the economy (Siu Lam, in press). With the popularity of gambling in Macao among the working class, including construction workers, domestic helpers, and harbour coolies, the Macao-Portuguese government granted the gambling monopoly rights to the Tai Xing Company in 1934, and to the syndicate the Sociedade de Turismo e Diversões de Macau (STDM) in 1962 (Lo, 2009). In 1984 STDM informally outsourced some of its private VIP-rooms to certain third parties who had social networks to entice high-betting gamblers to its casino premises. This was how a junket of premium patrons was organized by these third parties to Macao. At that time, most premium patrons were from Hong Kong and Taiwan. Since these patrons wanted to remain anonymous and keep a low profile in Macao, they preferred to go to private VIP-rooms with just a few tables where they could primarily play baccarat (Siu Lam, 2013).

To qualify for sharing in the gross gaming revenues derived from bringing patrons into VIP-rooms, VIP-room contractors, and junket operators who worked for them under informal contracts, would enter into agreements with STDM where compensation would be determined as a percentage of the turnover of non-negotiable chips⁽³⁾ computed on a monthly basis, from the concessionaire. At that time STDM was legally prohibited from issuing credits to patrons, so VIP-room contractors and junket operators were the only issuers of gaming credit in Macao. After Macao's handover to the People's Republic of China (PRC), its gaming liberalization introduced six gaming franchisees from Macao, Nevada and Australia respectively, as demonstrated in Table 5. Since the junket business could ensure significant amounts of gaming revenues, the VIP segment has been the focus of these gaming franchisees (Siu Lam, 2013).

Table 5 Gaming franchisees in Macao

Local Franchisees	Foreign Franchisees	
	Nevada-based	Australia-based
Galaxy Casino	MGM Grand Paradise	Melco Crown (Macao)
Sociedade de Jogos de Macau (SJM)	Venetian Macau	
	Wynn Resorts (Macao)	

7 GAMING ATTRACTIONS IN MACAO

With the outbreak of the SARS (severe acute respiratory syndrome) epidemic in Hong Kong in March 2003, the PRC introduced the free individual traveller scheme in July 2003 to revive the economy of both Hong Kong and Macao (Wang and Eadington, 2007). Following this, the number of visitors from the PRC has contributed to more than 63% of the total number of visitor arrivals in 2013, as shown in Table 6.

Table 6 Visitor arrivals by country of origin in percentage

Country of Origin	2013	2012	2010	2008	2006	2004	2002	2000	1999*
PRC	63.5	60.2	53.0	50.6	54.5	57.2	36.8	24.8	22.1
Hong Kong	23.1	25.2	29.9	30.6	31.6	30.3	44.2	54.1	56.8
Taiwan	3.4	3.8	5.2	5.7	6.5	7.7	13.3	14.3	13.2
Other Southeast Asian Countries	7.5	8.2	9.2	9.7	5.2	2.9	3.4	3.9	4.2
America	1.0	1.1	1.2	1.4	1.0	0.9	1.0	1.2	1.3
Europe	0.9	0.9	1.0	1.2	0.9	0.8	1.0	1.3	1.8
Oceania	0.4	0.5	0.5	0.7	0.4	0.3	0.3	0.4	0.5
Others	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1
Total number in million	29.3	28.1	25.0	23.0	22.0	16.7	11.5	9.2	7.4

Source: *Visitor arrivals* (DSEC, 1999-2013)

Note.* Figures before 1999 were not available as visitors were then categorized according to their nationality, instead of their country of origin.

Table 7 Distribution of gaming revenue and non-gaming revenue in Macao

Year	Gaming revenue (%)	Non-gaming revenue ⁽¹⁾ (%)	Total in million USD ⁽²⁾
2013	95.7	4.3	40,777
2012	95.6	4.4	34,298
2011	95.7	4.3	29,983

Source: Annual Reports submitted to Hong Kong Stock Exchange by gaming

Given that all gaming concessionaires in Macao have been listed in Hong Kong since 2011, the data for the distribution of gaming and non-gaming revenue were available from 2011. A look at Table 7 indicates that the non-gaming revenue contributed to less than 5% of the total revenue, leading Macao to a less diversified gaming destination. Despite this, the restaurants and retail outlets offered by 35 casinos are within easy reach in the confined territory, and visitors in Macao were predominantly day-trippers who came to gamble and shop (Siu Lam and Crossley, 2014).

8 CHINESIFICATION OF THE JUNKET BUSINESS IN MACAO

As a result of the abundant business opportunities associated with the enormous number of visitors from the PRC in Macao, some mainland Chinese have been attracted to be junket operators, who could better understand their patrons' needs and more effectively serve them (Siu Lam, 2013). Due to the PRC's restriction on cross-border flow of capital, these mainland Chinese junket operators needed to create political connections for information

in Nevada identified business opportunities in AC and brought premium patrons there in compliance with the stringent Casino Control Act, junket business in Macao has evolved in an informal and custom-based fashion developed from the social interactions among the gaming franchisee, VIP-room contractors, junket operators and casino patrons (Siu, 2007). A perusal of the literature in the social science indicates that much of human interaction and activity structured is related to th

the underground economy in Peru that informal institutions can be efficient to regulate private interactions when the law is not available. Cooter (2000) also contributed to this view by adding that the role of formal institutions can be limited to correcting failures in such a circumstance. Despite this, Cooter (2000) indicated that public enforcement through formal institutions is necessary, although unproductive and uncooperative behaviour can sometimes be prevented by informal institutions prevalent in a particular culture.

12 EVOLUTION OF THE DEFINITION OF CULTURE

Although culture is an important reflection of a country's informal institutions, North (2005: 6) indicated that: "the culture of a society ... that we inherit from the past, shape our present and influence our future". This implies that culture is not fossilized and inert, but is dynamic instead. However, North (2005: 18) indicated that "economies that had evolved a cultural heritage that led them to innovate institutions of impersonal exchange dealt successfully with this fundamental novelty. Those with no such heritage failed". This notion of cultural heritage has the dangers of turning culture into a "catch-all" explanation for the differences between societies that cannot be explained otherwise (see Goldschmidt and Remmele, 2005; Herrmann-Pillath, 2006). Owing to the diversity of meaning assigned by economists and social science scientists, studies which rely on it are often discredited (El Karouni, 2007). Based upon this, a brief look at the evolution of the definition of culture in the neighbouring disciplines can help pave the foundation for our understanding of its change in focus, if any.

According to Bourdieu (1972), culture refers to the complex of meanings, symbols, and assumptions about what is good or bad, legitimate or illegitimate that underlie the prevailing practices and norms in a society. This static concept was substituted with a more flexible understanding of culture as a "system of symbols and meanings" as Geertz (1973: 89) indicated that "[culture] is a historically transmitted pattern of meanings embodied in symbols, a system of inherited conceptions expressed in symbolic forms by means of which men communicate, perpetuate, and develop their knowledge about and attitudes towards life". Later, some social scientists including Swidler (1986: 273) challenged the "system of symbols and meanings" concept of culture by insisting that "culture is a sphere of practical activity shot through by willful action, power relations, struggle, contradiction, and change". According to this concept, culture helps justify and guide the ways that the family, economic, political, or religious systems function. The people involved, including organizational leaders, policy-makers, and individual persons, draw on culture to select actions, evaluate people and events, and explain or justify their actions and evaluations (Kluckhohn, 1951; Hofstede, 1980; Schwartz, 1999). Based upon the above, it appears that the focus of culture shifts away from *what culture is* to *what people do with culture*.

13 CULTURE, INSTITUTIONS AND BELIEF SYSTEMS

Apart from shaping how a country's people view the world (Chui et al., 2002), culture determines how they make

14 STRATEGIC ACTION AND INSTITUTIONAL CHANGE

Although cultural compatibility can play a role in institutional changes, institutions may not necessarily rest on practices of passive rule-following by individuals, but on a more active process in which capable players seek to advance their interests. Consistent with this thought, Hall and Thelen (2009) indicated that if an institution fails to serve the interests of the parties concerned, it becomes fragile and susceptible to defection from its rules. Moreover, Hall (2005) indicated that players' calculations about whether an institutional practice serves their interests are complex ones, dependent on a range of considerations.

Since institutions do not define final behaviour, players are generally engaged in a continuous reassessment of their own scope for action and the intentions of those with whom they are interacting to assess the effects of alternative courses of action (Hall and Thelen, 2009). It is not surprising that some capable players may manipulate culture to prefer certain arrangements to "sell" the new or imported ideas and institutions as compatible with the cultural heritage of the importing society. On the other hand, if these players are reluctant to change, they may constrain reforms by "selling" the idea that these new ideas and institutions as incompatible with the prevailing culture (Licht et al., 2001).

Given that the institutional change is an open process, Culpepper (2005) argued that the process of changing informal rules is a collective discussion among social players. Eggertsson (2001) specifically indicated that the higher the players are placed in the social hierarchy, the more powerful they are to control the social institutions. Following this, when the players see influential central players begin deserting the status quo, these lower-level players would look for cues from other players about their beliefs concerning the world. Based upon this, by interacting with players assumed to share the same beliefs and to be guided by a similar set of motivational goals, these capable players may make the deliberate choice to adhere to "the" reform that is in their interest unless and until an exogenous shock upsets the equilibrium.

The above indicates that there is nothing automatic, self-perpetuating, or self-reinforcing about institutional arrangements. In fact, Mahoney and Thelen (2010) indicated that a dynamic component is built in, where institutions represent compromises. Based upon this, the outcome of the acceptance of "the" institution is not solely a matter of chance, apart from the culture and belief, it is largely an outcome of political clashes between players pursuing their interests (Sewell, 1999). Furthermore, the process of institutional change can be vibrant as the players attempt to gain the best "deal" for themselves (Fine, 2001).

15 METHODOLOGY

In order to study what lessons can be learnt from the junket business in AC and in Macao, the authors chose a qualitative research approach since the systematic and reliable statistics of the junket business are quite limited. In order to get a better understanding of the junket business, the authors decided to conduct in-depth semi-structured interviews to “discover the meanings that participants attach to their behaviour, how they interpret situations, and what their perspectives are on particular issues” (Woods, 2006: 2), and such a method is particularly suited to under-researched areas of investigation (Finn et al., 2000).

Based upon the interview findings collected from seven participants over eighteen months in 2012/13 for his earlier journal article titled “Changes in the junket business in Macao after gaming liberalization”, the first author secured substantial data on the junket business in Macao.

On the other hand, the second and third authors stationed in New Jersey managed to get a list on active vendors for January 26, 2014 from the Division of Gaming Enforcement in New Jersey. There were altogether 17,363 enterprises providing ancillary casino service on the list, and by searching for the word “junket”, the authors had found ten enterprises with the word “junket” in their names. These authors made telephone contacts with these ten enterprises asking for interviews, and four of them rejected. Based upon the remaining six enterprises and their recommendations, these authors managed to interview nine executives with more than ten years’ experience in the junket business over six months since March 2014. To have a better knowledge of the junket business from the regulatory perspective, these authors tried to interview experienced government officials from both the Casino Control Commission and the Division of Gaming Enforcement in New Jersey. To avoid embarrassing the source or jeopardizing the source’s job for expressing their own personal opinions, these authors adopted the same approach as the first author by contacting experienced middle-level government officials through their friends, rather than submitting a formal

employed to ensure research trustworthiness, including corroborating the evidence from multiple sources and checking with interviewees and peer debriefing with their colleagues.

The findings grounded in the life experiences of participants studied in the contexts of Macao and AC were juxtaposed to identify homogeneity of codes and, critically, to note discordance and dissonance. Given that there is no one correct view of a phenomenon (Walsh and Downe, 2005), the three authors

Caesars has been described as the ‘Walmart’ of the junket business in Atlantic City because of its focus on quantity and mass distribution points, and its Total Rewards members may redeem their points in venues all over the country. On the other hand, Borgata is at the other end of the junket business in Atlantic City representing the high-end exclusive and most aggressive targeting elite players - mostly from the New York area. (2)

Splinter reps bond with patrons by accompanying them to dinners, golf outings, and fishing trips. Sometimes, these reps may conduct ‘player development trips’ by visiting patrons. Because of the personal relationships that form between us, we can convince most of our patrons to follow us to whatever casinos we suggest. (6)

With the different types of junket reps in AC, different casinos have adopted different strategies, with some focusing on quantity and others on high-end patrons. Based upon the above, it appears that the splinter reps in AC resemble the junket operators in Macao, who develop close relationship with their premium patrons.

18 EFFECT OF LOCATION ON JUNKET BUSINESS

With the increased competition from out-of-state casinos, AC’s particular location suggests some target markets to focus. Typical comments were:

Geographic proximity of Atlantic City to east coast would result in quicker travel time and cheaper cost. For this reason, Atlantic City is a more favourable destination to junket reps who primarily serve east coast clients. Besides, the limited number or non-existence of charter flights to Las Vegas from east coast cities, like North Carolina and Virginia, also contributes to Atlantic City being a more favourable gaming destination. (1)

The increased competition by additional gaming options in other jurisdictions has affected our [junket] business. Travel time and cost plays a significant role in bringing clients to Atlantic City. For this reason, casino operators are more likely to offer charter flights to Atlantic City for clients from locations along east coast of the US, while we junket reps book commercial flights for our premium patrons. (7)

The geographic proximity of AC to the east coast has made AC a more favourable destination to patrons from the east coast, and premium patrons interested in the east coast tour.

19 COMMISSION REVENUE OF JUNKET REPS IN ATLANTIC CITY

Although there is no publicly available data on the commission revenue of junket reps in AC, some participants commented on the change in their commission revenue, illustrated as follows:

To better determine what a patron is really worth, Caesars made use of computer technology and created the Total Rewards Program. The program calculates what the patron is worth, i.e., the average trip theoretical (ATT) based on the patron's actual play. Junket reps receive commissions that can be as low as 10% or as high as 16% of the ATT based on their patron's rating. For instance, if a patron with an ATT of US\$10,000 is comped US\$1,000, the patron is only worth US\$9,000 to the casino. If the junket rep may get 14%, this means that the junket rep may make 14% of US\$9,000, i.e., US\$1,260. (4)

As a result of computer technology, casinos have become more sophisticated in identifying the level of patron play. Years ago the information was more speculative without computers and casinos used to give 40% of ATT in comps, but that has been reduced to 10 – 20% now. (6)

Apart from the stipulated percentage of the ATT, some junket reps are entitled to fixed commissions. One participant commented:

Usually there are minimums of US\$750 per person per trip and maximum is US\$25,000 in commission on a player per trip. Besides, there are few very large junket reps who can get such a fixed commission as US\$50,000 per month for bringing in many big patrons. (5)

On the other hand, since casino operators need junket reps to entice premium patrons to their properties, some junket reps in AC appear to be able to make a decent income, and may not necessarily be affected by the local economic downturn. Typical comment was:

Despite the fact that gaming revenue in Atlantic City has declined, some junket reps have managed to survive the downfall by bringing patrons from some stronger regional or national economies. Besides, some capable reps are able to make more money by opening such retail shops as boutiques, cafes and restaurants in Atlantic City, apart from their commission revenue. (11)

20 CUSTOMER SERVICE IN SECURING PATRONS

The key to success for junket reps in AC is providing excellent customer service to patrons, as indicated by the following participants:

As casino gambling spreads all over the country, casino companies have developed the sophisticated loyalty programs such as Total Rewards to effectively keep track of the amount of money their customers have spent, especially for splinter reps. This has shifted to focusing on player quality rather than quantity. Thus, as systems

21 EFFECT OF BUSINESS ENVIRONMENT ON JUNKET BUSINESS

With the deteriorating business environment in AC, some interviewees indicated that the casinos' profit-driven attitude has made casinos less attractive than before. Two participants commented:

In the past, Atlantic City casino properties had more aggressive advertising programs, more generous complimentary programs, and a greater focus on attending to patrons... and comps from casinos have dropped from 40% of ATT to 10 – 20% now. As a result of the worsening economic environment and thinner profit margins, I think Atlantic City casinos have developed more of a 'corporate' bottom line, profit-driven attitude, which could contribute to a patron's less pleasurable experience. (7)

Years ago clients had fun in Atlantic City as they were treated more personally and 'special'. The recent climate in Atlantic City has evolved into being focused on money making and visitors aren't having fun like they used to years ago, and this has led to the City's overall reduced 'hospitality' reputation. (9)

Despite the difficult business environment, some junket reps indicated that they are playing a more important role than before. One participant commented:

With the closing of casinos, casino operators may rely on junket reps to a greater degree to bring people in from surrounding areas.... Frequency of employee turnover resulting in casino operators' inability to build effective relationships with patrons would bring the outcome of junket reps to have more responsibility for relationship building. Besides, elimination of higher-level executives for cost and efficiency savings also result in junket reps being relied upon to a

of New Jersey's licensing process: New Jersey does all the work and other jurisdictions ride on New Jersey's licensing award 'coat-tails'. (2)

With the repeated requests from the casino industry, although New Jersey has undergone a series of "deregulation" to make its regulations more business friendly, some junket reps thought that the regulators were not helpful, and requested for greater support and fairer treatment.

Regulatory changes have not made Atlantic City more market-oriented. In fact, may be less market-oriented as changes included scaling back cash comps. (2)

Although we junket reps can be of some help to the industry, I think regulators remain discourteous, unhelpful, and unresponsive. I really hope that they would express the same degree of hospitality to junket reps as they do to casino operators, like making parking accommodation for junket buses close and convenient to casino operators. (6)

Casino operators don't necessarily have to report 'real' numbers, due to the lack of CCC representatives' presence on the casino floor during hours of gaming operation, where they once were. These operators have the ability to not be 'entirely forthcoming' when reporting revenue. While this change may have helped casino operators, this change did not help junket reps. (9)

23 DISCUSSION

Based upon the perspectives of the interviewees, the authors attempted to discuss how the practices in Macao compare to those that are currently implemented in AC, and to discuss what lessons Macao and AC can learn from each other with respect to the junket business.

23.1 *Lessons from Macao on the junket business in New Jersey*

23.1.1 Location-specific strategies

With a land area of 30.3km², Macao has 35 casinos to receive annual visitors close to 30 million a year. With its superb border-location, as well as the wealth accumulation of the mainland Chinese as a result of the PRC's rapid economic development since its open-door policy in 1978, Macao has been able to enjoy the first-mover advantage to feed off the PRC's outbound tourist markets, where casinos are illegal (Siu Lam and Crossley, 2014). Macao, operating as a free trade port in the midst of relatively few gaming

with patrons due to the elimination of higher-level executives and changes in personnel associated with casino efficiency and cost-savings purposes. Junket reps in AC may have a greater role in the development of premium patrons. Despite the economic contribution by junket reps, some participants complained of the arduous and time-consuming application process, unfair and discriminated treatment from regulators, and called for less restriction on gambling regulation.

Whenever gambling is legalized, there is the need to keep out organized crime and the desire to minimize social costs (Collins, 2003). However, competition from neighbouring states offering casino gambling under a less strict regulatory regime may create an incentive to relax regulations, particularly for jurisdictions like AC that rely on gambling and tax revenues. By lifting some restrictions on gambling like extending New Jersey's gambling industry beyond AC, or lowering regulatory standards in AC, New Jersey may be able to attract patrons from neighbouring states. Just as the shoemaking industry could not return to a craft industry, the changes in the regional casino market have already reversed the evolutionary process and necessitated a more important role for junket reps in bringing premium patrons from some stronger regional or national economies. Faced with such changes, New Jersey may consider the appropriate status between its public policy to keep out organized crime and minimize social costs, and a lower regulatory standard.

23.4 *Lessons from Atlantic City on the junket business in Macao*

23.4.1 Heavy reliance on complimentary packages

The Atlantic City casinos have a common practice to give away complimentary goods such as rooms, food and beverages, or gifts, in order to boost gaming revenues (Hill, 2008). However, as casinos in AC have been in a fierce competition for gaming demand by increased use of promotional expenditures to bind patrons to specific properties, whether such increased expenditures will necessarily increase profitability is questionable.

In contrast to 10% to 20% of the ATT made by junket reps in AC, junket operators in Macao are allowed to earn no more than 1.25% of the 2.8%, i.e., about 45% of the ATT for the most popular baccarat. Unlike junket reps in AC who are not allowed to offer gaming credit, junket operators in Macao have to bear relatively greater risk as a result of their gaming credit authorization and collection. A look at Table 11 indicates that the average GGR earned by a gaming table in VIP-rooms appears to be increasing at a slower pace when compared with the average GGR of a gaming table from the mass halls. The ratio between the average GGR of a gaming table from VIP-rooms with that of a gaming table from the mass halls declined from 7.18 to 1 in 2007 to about 3.61 to 1 in 2013.

Table 11 Gross gaming revenue (GGR) in million USD⁽¹⁾ from gaming tables in VIP-rooms and in mass halls in Macao

Year	GGR from gaming tables in VIP-rooms	Number of gaming tables in VIP-rooms	Average GGR ⁽²⁾ per VIP gaming table	GGR from gaming tables in mass halls	Number of gaming tables in mass halls	Average GGR ⁽³⁾ per gaming table in mass halls	Ratio ⁽⁴⁾ between average GGR by a VIP gaming table and by a gaming table in mass halls
2013	29,765.64	2,186	13.62	13,457.58	3,564	3.78	3.61 to 1
2012	26,312.18	2,288	11.50	9,988.89	3,197	3.12	3.68 to 1
2011	24,474.75	2,260	10.83	7,526.89	3,042	2.47	4.38 to 1
2010	16,927.65	1,877	9.02	5,500.41	2,914	1.89	4.78 to 1
2009	9,962.56	1,573	6.33	4,122.10	3,197	1.29	4.91 to 1
2008	9,206.08	1,215	7.58	3,662.24	2,802	1.31	5.80 to 1
2007	6,958.59	1,081	6.44	2,953.30	3,294	0.90	7.18 to 1

Source: Data were compiled from a private source.

Note: (1) The exchange rate from Macau currency to USD is 8.0134 to 1.

(2) It was found by dividing column 2 by column 3.

(3) It was determined by dividing column 5 by column 6.

(4) The ratio was determined by dividing 4 by column 7.

Given that the profit on the junket business in Macao depends on the

Although Macao has 35 casinos with greater variety of food and entertainment, its non-gaming revenue occupied less than 5% of the gross revenue of casino operators in Macao as illustrated in Table 7, which was much less than that of about 30% in AC. With the increasing interest in a number of jurisdictions in Asia to employ casinos to fuel their economic growth (Coleman et al., 2014), Macao's benefit from its superb location has started to get eroded.

Lessons from the Atlantic City experience indicate that the lack of non-gaming amenities would be a threat due to its reduced appeal to patrons in contrast to other gaming jurisdictions. With the ease of the mainland Chinese patrons to visit gaming destinations abroad (Siu Lam, 2013), junket operators in Macao may need to consider the tastes and preferences of their patrons in a creative way and the manipulation of service approaches and strategies to adjust to those tastes and preferences, such as working with junket reps abroad on arranging junkets so that their patrons might experience gaming

maximization of their earnings based upon their principle of “no prey, no pay”.

With the emergence of such news reports as US wants “robust oversight” of Macau junkets (James, 2013), Hong Kong probes Macau junket figures (RA/CG, 2014), and the need for junket operators’ restructuring (HKEJ, 2014), there has been mounting pressure for reform to “solve” the social ills associated with the apparently exploitative or corruptive practices associated with the junket business in Macao. Although lessons from the Atlantic City experience indicate that some enforcement mechanisms based upon formal rules and regulations could carry greater clout than just moral suasion, many mainland Chinese junket operators would tend to follow the Chinese culture of linking themselves to some key junket figures and closely observe the moves made by such figures in order to determine their next move to advance their interest.

Apart from observing the moves by leading junket figures, if there is powerful external pressure such as the likely involvement of the PRC’s central government that challenges the continuity of their informal rules, many junket operators and reps from the same and related clans would be engaged in a continuous reassessment of their own scope for action (Hall and Thelen, 2009) and consider the reform – legal rules and regulations. Whilst lobbying government officials of the substantial loss in gaming tax and employment, these junket operators and reps might work together to determine the intentions of the regulator, the formal rules and regulations they have to respect, and the loopholes they can manipulate (Siu Lam, 2013). Rather than individually observing the externally imposed formal rules and regulations, junket operators and their men would continuously come up with innovative ideas to actively observe the formal rules and regulations in order to advance their interest. Based upon this, without considering such factors as the relational ties and interests associated with the mainland Chinese junket operators and reps in Macao, the strict application of formal rules and regulations to regulate them would unlikely produce satisfactory effect.

24 CONCLUSION

AC enjoyed great casino growth when there were no casinos in its neighbouring region. The mushrooming “convenience gaming” locales throughout the region since 2001, in conjunction with AC’s limited non-gaming attraction, has led to the closure of some casinos in AC. To secure more business, casinos in AC have been employing complimentary packages to bind patrons to their casinos, and loyalty programs to better assess a patron’s worth. As a result of the cost and efficiency savings associated with the closing of casinos, casino operators in AC have relied more on junket reps to bring patrons from some stronger regional and national economies. Despite the more important role expected of junket reps in the difficult period, junket reps in AC appear to be very strictly regulated.

On the other hand, Macao has enjoyed impressive junket business growth due to its location-specific strategies in the midst of limited number of Asian gaming jurisdictions, despite its very limited non-gaming appeal. Moreover, mainland Chinese junket operators' preference for ethnic homogeneity of junket reps has led to their better understanding of the tastes and needs of patrons from the same and related clans. Given that junket operators have been primarily relying on business volume to maximize their earnings, the increasing knowledge of the mainland Chinese patrons about the junket operation in Macao and their request for discounts and benefits has made junket business not as profitable as before to junket operators.

An analysis of the above two jurisdictions indicates that location-specific strategies are critical to a gaming jurisdiction in the midst of relatively few gaming jurisdictions in the region. When additional gaming options are available in neighbouring region, diversified product offerings, rather than price reductions, would be crucial to entice premium patrons, particularly for gambling-dependent jurisdictions. Despite the effectiveness afforded by the computer technology, loyalty programs may not necessarily provide more satisfactory service than what junket operators can offer in Macao. In fact, if such programs are inappropriately executed, it might result in a "less-than-hospitable" reputation. Moreover, to effectively regulate the junket business, apart from the appropriate status between the public policy to keep out organized crime and minimize social costs, and an appropriate regulatory standard, the regulator needs to consider such local contexts as the legal regulation model versus the relationship-based structure, and junket operators' intention to promote their respective interests, to achieve more satisfactory effect.

25 ACKNOWLEDGEMENT

- 4) Net wins refer to the amount resulting from deducting all gaming losses from all wins.
- 5) Rolling-chip turnover refers to the sale of non-negotiable chips. Bets are wagered with nonnegotiable chips and winning bets are paid out by casinos in “cash chips”. Baccarat averages a house advantage of about 1.4%, and each non-negotiable chip lasts about 2.0 wagers; thus the theoretical win as a percentage of rolling-chip turnover is about 2.8%.
- 6) Total Rewards is a casino loyalty program which enables members to earn points based on plays at slot machines and table games, and these points may be used towards meals, merchandise and other items.

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APPENDIX A

Questions prepared for interviews on junket business in Atlantic City:

- 1) Are there any differences between junket reps now and when gaming was liberalized in neighbouring states such as New York and Pennsylvania? What are they?
- 2) What are some features of junket reps in Atlantic City? Have there been any changes in Atlantic City after gaming liberalization in neighbouring states like New York and Pennsylvania? Why?
- 3) For casino operators in Atlantic City, are there any differences between now and when gaming was not yet liberalized in neighbouring states like New York and Pennsylvania? What are they?
- 4) What are the major problems a junket rep faces in Atlantic City? What can be done to minimize the effects of such problems?
- 5) There have been some requests for more effective measures on regulating the junket business in Atlantic City. What do you think about this? What can Atlantic City do to help improve its junket business?