

A Work Project, presented as part of the requirements for the Award of a Master's degree in Management from the Nova School of Business and Economics.

## **MACAU'S HOSPITALITY SECTOR: PLANNING A RESPONSE TO A PANDEMIC**

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# Abstract

The aim of this consulting project is to find the best strategy for Macanese Hotels to respond to a crisis like Covid-19. As such, the industry is segmented according to three business models – Hotels, Casino Hotels, and Integrated Casino Resorts – and data from one representative hotel per segment is analyzed to set a favorable response plan for each segment. Then, three scenarios – Operating normally, Joining the designated hotel quarantine list, and Joining the optional hotel quarantine list - are planned and analyzed in light of Covid-19’s pandemic and the Macau’s travel and quarantine restrictions. Results suggest that in a pandemic, Hotels should join the designated quarantine list, Casino Hotels should operate normally, and Integrated Casino Resorts should join the optional quarantine list.

**Keywords** (Strategy and International Business; Scenario Planning; Marketing Planning; Scenario Analysis; Strategy Consulting; Proactive Crisis Management)

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This work sets out to analyze specific actors in Macau's hospitality industry and the impact that the covid-19 pandemic had on them. To create a response plan for future pandemics, the 2020 events were evaluated to understand what industry players could have done to decrease the detrimental impact of covid-19 on their Macau operations. This evaluation is settled upon the mandatory quarantine scheme that existed in Macau during the pandemic; Hotels operating normally, hotels joining the designated quarantine list, providing quarantine stays for Macanese residents, or hotels joining the optional quarantine list providing quarantine stays for residents and non-residents.

The impact of Covid-19 on the Hospitality industry in Macau was analyzed in light of Macau's historical background, present administrative landscape, and the importance of the hospitality, tourism, and gambling sectors for the Macanese economy. Further analysis was made on Macau's environmental factors that might affect the industry.

Crisis management theory was concluded to be a beneficial lens to use for the analysis, in particular the tool of scenario planning. A response plan for future pandemics was then formulated by analyzing what hotels in the industry could have done better throughout the Covid-19 pandemic. As such, hotels operating in Macau were divided into three segments based on their business models; regular hotels, hotels with casinos, and integrated resorts with a casino – and for which segment one representative hotel was chosen to be analyzed.

Therefore, the hotels were analyzed using qualitative tools and quantitative tools, to see under which of the three operating scenarios they should have entered to be the most prosperous under a crisis such as the Covid-19 Pandemic.

Finally, recommendations were made for each hotel to be successful under the chosen scenario and for future improvement.

The following dissertation is a consulting project that uses scenario analysis as the main tool to elaborate a future pandemic crisis’ response plan for the hospitality industry in Macau.

| Introduction                                    | Background                      | Covid-19 Impact                           | Crisis Management                             | Analysis                                    | Conclusion                                            |
|-------------------------------------------------|---------------------------------|-------------------------------------------|-----------------------------------------------|---------------------------------------------|-------------------------------------------------------|
| <i>What is this work project investigating?</i> | <i>What is Macau’s context?</i> | <i>What happened during the pandemic?</i> | <i>Why do hotels need a response plan?</i>    | <i>Should hotels operate in a pandemic?</i> | <i>How can Macanese hotels operate in a pandemic?</i> |
| Setting the problem                             | Analyzing the background        | Assessing the impact of Covid-19          | Finding a solution to the problemm            | Analyzing the hotels                        | Deriving conclusions and final arguments              |
| Introduction                                    | History of Macau                | Covid-19 Pandemic regulation              | Crisis management in the hospitality          | Environmental Analysis                      | Conclusion                                            |
| Methodology                                     | Macau as a SAR                  | Impact of in the hospitality industry     | Scenario Planning as a Crisis Management Tool | Scenario Planning                           | Main takeaways                                        |
|                                                 | Macau’s Gambling Industry       | Impact of the pandemic in Macau           | Future Pandemics                              | Segmentation                                |                                                       |
|                                                 | Macau’s Hospitality Industry    |                                           |                                               | Hotel Analysis                              |                                                       |
|                                                 |                                 |                                           |                                               | The Case of Hotels                          |                                                       |
|                                                 |                                 |                                           |                                               | The Case of Casino Hotels                   |                                                       |
|                                                 |                                 |                                           |                                               | The Case of Integrated Casino Resorts       |                                                       |

Tools

- Research
- PESTLE
- Porter’s 5 Forces
- Financial Indicators
- Hospitality Performance Indicators
- SWOT
- TOWS

31

People answered a survey

3

Interviews

26

People answered a Facebook Pool

Discussion Forums and Chats

- Macau Quarantine – Facebook
- HK Quarantine Support Group – Facebook
- Ovolo South Quarantine – WhatsApp
- Dorsett MK Inmates – WhatsApp
- LKF hotel neighbor – WhatsApp



Macau's journey from its humble beginnings as a quiet merchant village to becoming one of the world's largest gambling and leisure destinations sheds light on the region's complex history and its impact on the present hospitality industry.

## 02 Background

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|                                                |   |
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| History of Macau                               | 6 |
| Macau as a Special Administrative Region (SAR) | 7 |
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Macau is an old Portuguese colony that has been operating under the “One Country, Two Systems” constitutional principle since its handover to China, in 1999.

### Macau's Geography

Macau is a small peninsula in the Greater Bay Area, bathed by the South China Sea, comprising three islands: Macau, Taipa, and Coloane. Macau and Taipa are connected by three bridges while Taipa and Coloane are connected by Cotai, a piece of land “reclaimed from the sea” (The Editors of Encyclopaedia, 2021).

### Macau's History

Macau was a small merchant's Portuguese colony from 1557 until 1999. It served as the primary port for international trade between Japan and China, as well as an intermediary port between Lisbon and Nagasaki (The Editors of Encyclopaedia, 2021).

### Macau's handover to China

Macau's sovereignty was transferred to China on December 20<sup>th</sup> of 1999, the date agreed upon the firming the “Sino-Portuguese Declaration”. The agreement envisioned a 50-year transition period for the Macanese territory, a time during which it would operate under the “One Country, Two Systems” constitutional principle, under which Macau is not ruled by socialism with Chinese characteristics philosophy. (BBC 2019)



Figura 1: Macau's map

Gambling was legalized in the 1800s and, because the SAR has a self-ruled administrative system, it remains legal, which has severely shaped the hospitality industry in Macau.

### Macau as a SAR

Throughout the 50-years of transition, Macau is set to operate as a Special Administrative Region of the People's Republic of China, being granted its own administrative system. As such, Macau has its own economic, legal, and legislative organizations, as well as its own currency and people's rights and freedom until 2049, when the transition will be complete.

### Gambling Industry

In the 1850s, in efforts to find a new source of revenue, the Portuguese government legalized gambling in Macau. After the handover, gambling kept being legal due to its special administrative system, even though all forms of gambling both domestically and abroad are illegal in China. As such, although Macau only has 30km<sup>2</sup>, it is 3 times larger than Las Vegas in terms of revenue, being commonly named "Las Vegas of the East". (Gaming Inspection and Coordination Bureau Macao SAR 2021)

### Hospitality Industry

The volume of gambling tourism in Macau has, therefore, severely impacted the hospitality industry having a huge impact on how industry players' business models are shaped.



Figure 2: The Venetian Macao at the center, Galaxy on the right and The Londoner on the left

The Macanese gambling industry, controlled by 6 gambling concession holders, is the main source of economic activity in Macau, generating 78% of the local government tax revenue.

*“The concept of gambling dates back into history and involves not only casinos with mainly table games and slot play, but sports betting on popular sports such as soccer and basketball, as well as pari-mutuel gambling which includes horse and dog racing.”*  
(University of Macau)

### Gambling Licenses

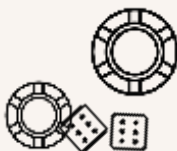
In Macau, only 6 operators are granted permission to operate casinos and gambling activities (Gaming Inspection and Coordination Bureau 2021):

- Sociedade de Turismo e Diversões de Macau (STDM), Galaxy Casinos S.A. and Wynn Resorts (Macao) were granted an exclusive gambling license
- MGM Grand Paradise S.A., Venetian Macao S.A., and Melco PBL Jogos (Macao) S.A. were allowed to sign sub-concessions with the license holders mentioned above, respectively

### Gambling Industry

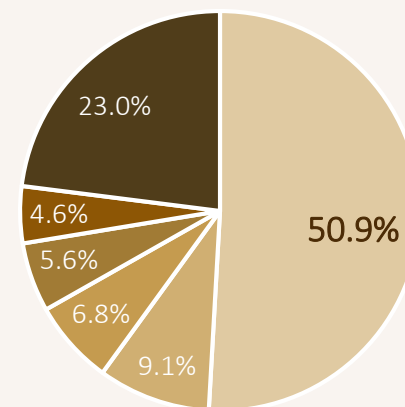
Currently, there are 41 casinos operating in Macau (Gaming Inspection and Coordination Bureau 2021):

- 22 owned by SJM
- 6 owned by Galaxy
- 5 owned by Venetian
- 4 owned by Melco Crown (previously “Melco PBL”)
- 2 owned by Wynn
- 2 owned by MGM



### Gambling Importance

#### Macau's Economic Sectors

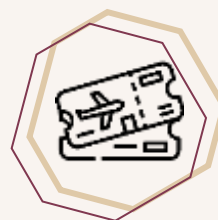


The gambling Industry represents **78% of the government tax revenue**

- Gambling Industry
- Real Estate
- Banking, Insurance & Pension Funding
- Retail and wholesale
- Hotels Industry
- Other

Graph 1: Industry Structure in Macau 2020 (Macau Statistics Bureau 2020)

Besides being the main driver of tourism, Macau's gambling industry generates 78% of the local government's tax revenue (Fortune. 2021. *Macau*). Together, the Tourism, Hospitality & Gaming (THG) sectors contribute more than 50% to the total GDP and employ 32% of the population (Macau Government Tourism Office 2020)



As gambling tourism grew, casinos in Macau expanded into the hospitality sector, which later fostered various unique hotel business models in the region.

### Tourism in Macau

Macau is the single largest gambling hub in the eastern world and plays a crucial role in the local economy. In 2019, tourism spending for gambling purposes amounted to 81% (Government of Macao Special Administrative Region Statistics and Census Service 2020) of total visitor spending, making the sector the main driver for tourism in Macau, and consequently, the most influential industry for the surrounding sectors such as the hotel sector.

### Macau's Hospitality Sector

Over time the Macanese gambling industry horizontally integrated the hotel sector, to capture as much of the visitor journey as possible, and, for many casinos, that meant opening their own hotel. These fundamental changes, lead the hotel industry to surface in Macau as a sprout of the gambling industry, changing the sector's players to exist within or around gambling. This transformation taken to the extreme is reflected in the iconic Macanese integrated resorts, which can include any facilities within, including casinos, malls, water parks, theaters, and more.



Figure 3: Galaxy Macau



December 2019 marked the beginning of a new way of living. The world got to comprehend the meaning of lockdown, state of emergency, liberty restrictions, and pandemic.

### 03 Impact of Covid-19

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By 2020's end, entrance in Macau was only allowed to residents and families, as well as Mainland China, Hong Kong, and Taiwan residents. Apart from a few exceptions, quarantine was mandatory for all inbound travelers.

Macau's travel restrictions and quarantine requirements have been ever-changing since the beginning of the pandemic on account of the surfacing of various outbreaks of the disease across the world. An analysis of the impact of the travel restrictions and quarantine requirements in place throughout 2020 was made to illustrate the impact of such policies on visitor arrivals and the average hotel occupancy in Macau<sup>1</sup>.

#### 1<sup>st</sup> Quarter 2020

No travel restrictions in place and 14 days of quarantine for arrivals from a 'high-incidence' list (Macau News Agency 2020).

#### 2<sup>nd</sup> Quarter 2020

Travel restrictions forbade entrance to international arrivals. Residents of Mainland China, Taiwan, and Hong Kong were allowed entrance (Reuters 2020).

#### 3<sup>rd</sup> Quarter 2020

Travel restrictions and medical observation remained identical to the 2<sup>nd</sup> quarter (Government Information Bureau of the Macao SAR 2020).

#### 4<sup>th</sup> Quarter 2020

Foreign travelers cannot enter Macau. Arrivals from low-risk areas of China allowed without quarantine for Macanese and Chinese. Any other case requires medical observation from 7-21 days (Government Information Bureau of the Macao SAR 2020).

#### Medical Observation Hotel Lists

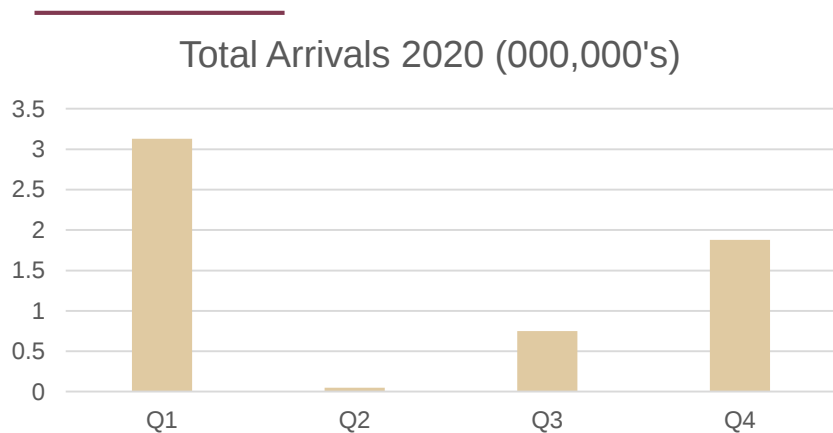
From the beginning of 2020, the Macau government began to turn hotels into medical observation facilities, where inbound travelers could quarantine for as long as they were required to. Inbound travelers could not choose in which establishments they would prefer to stay.

These hotels were part of the 'designated list' of hotels and could be appointed by the government or self-selected to become part of the list. The number of quarantine hotels changed according to expected demand during 2020.

Towards the end of 2020, travelers expressed they would like to be able to choose where to quarantine. So, from the 20th of December onwards, the previously named 'designated list' of hotels for medical observation was broken down into two new lists: an 'optional list' and a 'designated list'.

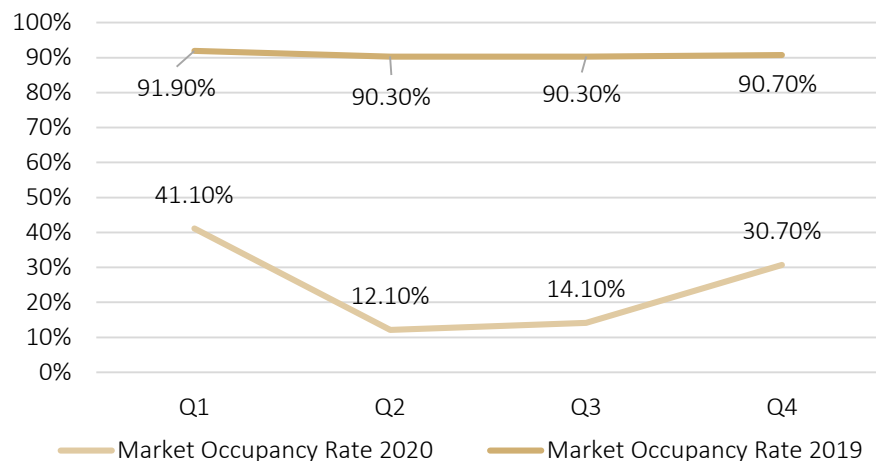
1: The information about the policies in place was derived from a certain point in time within each quarter, meaning the policies featured were not valid during the entirety of the period.

Travel restrictions and quarantine requirements led visitor arrivals in Macau to plummet and, consequently, the hospitality sector occupancy rate collapsed to 12.1% in 2020's 2<sup>nd</sup> quarter.



Graph 2: Total Visitor Arrivals In Macau per quarter in the year 2020 (Macau Governmental Tourism Office 2020)

### Market Occupancy Rate



Graph 3: Comparison of 2019 and 2020 Hotel Market Average Occupancy Rate (Macau Governmental Tourism Office 2020)

#### 1<sup>st</sup> Quarter 2020

Total visitor arrivals and occupancy rate were in decline, and, according to Nielen et al. (2021), hotels aim to have an occupancy rate of roughly 35% to break even financially. Therefore, market numbers were indicating proximity to detrimental levels for the industry.

#### 2<sup>nd</sup> Quarter 2020

Visitor arrivals amounted to 49 thousand from April to July, while Macau sums a total of 42 thousand hotel rooms, causing the lowest average occupancy rate observed during the year 2020.

#### 3<sup>rd</sup> Quarter 2020

In the third quarter, both indicators saw an upwards trend. However, there was still an oversupply of hotel rooms. The average Daily Room rate was 39% lower than in September 2019 indicating hotels effort in attracting more guests via lower room fees (Lee & Jang 2011)

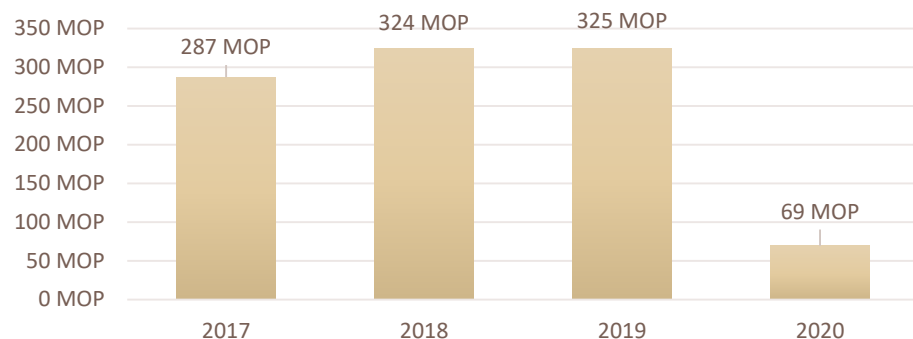
#### 4<sup>th</sup> Quarter 2020

Total visitor arrivals and the average market occupancy rate rose linearly indicating a positive trend for the hospitality sector. However, on year-end of 2020, occupancy rates are still below the break-even point and average daily rates read 32% lower than the previous year indicating strong efforts through pricing to recuperate purchase intentions.

1MOP ~ 0.12USD

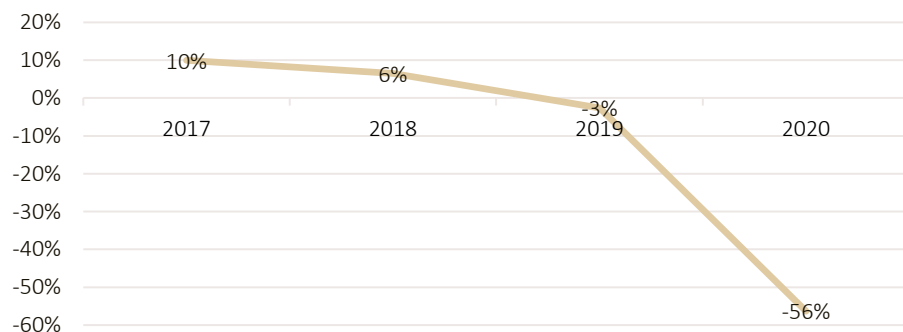
The downfall in visitor expenditure correlates with the 56% abrupt decline in the Macanese GDP, showcasing how Covid-19's impact on the THG industry deeply reflects on Macanese national accounts.

### Total Visitor Spending (000,000's MOP)



Graph 4: Total Visitor Expenditure In Macau from the year 2017 to the year 2020 (Macau Governmental Tourism Office 2020)

### Macao SAR, GDP growth (annual %)



Graph 5: GDP growth in Macau from the year 2017 to 2020 (The World Bank 2021)

1MOP ~ 0.12USD

### Impact of hospitality in Macau

- In 2020, as the pandemic took hold of the Macanese Tourism and Hospitality industry, total visitor arrivals decreased abruptly and affected total visitor spending which fell by a disastrous 79% in comparison to 2019.
- Furthermore, data collected from the end of the year 2020 showed a total tax revenue decreased by 66% (Ceicdata, 2021) which correlates with the decrease in gross gambling revenue of 79%. (Kihara 2021)
- The impact on the tourism and hospitality industry translated into a fall in GDP of 56%. (The World Bank 2021)

In conclusion, the decrease in arrivals and total visitor spending move linearly together with the decrease of the Macanese Gross Domestic Product. Therefore, providing insight into the vast dimension of the hospitality industry in regards to its effect on the Macanese Economy.



The distress caused by Covid-19 regulation and travel restrictions on the hospitality industry players triggered the need for actionable response mechanisms to smooth the impact on hotels' financial results and performance indicators.

## 04 Crisis Management

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To better manage the impact of a pandemic crisis such as Covid-19, hotels should use scenario analysis as an optimization tool for hotel's readiness, response, and recovery.

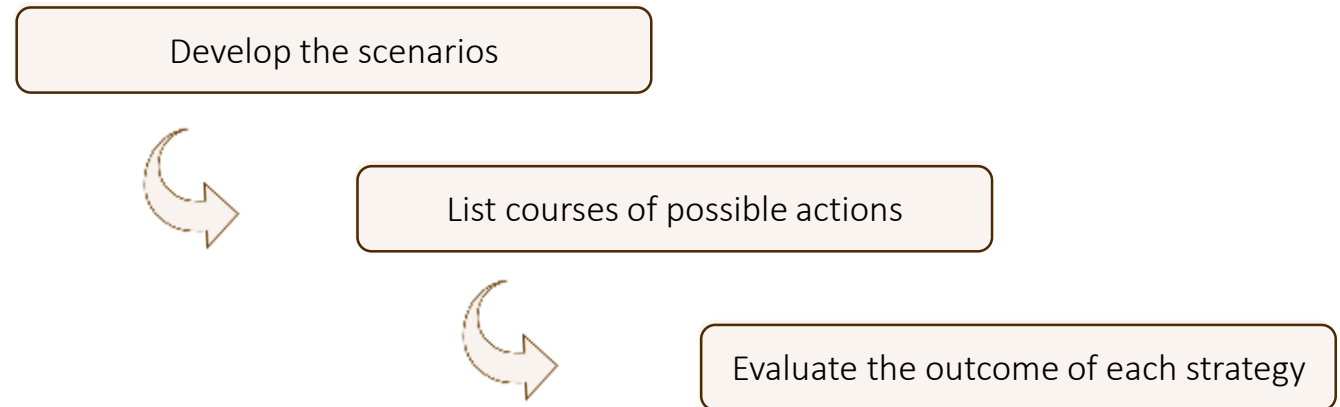
### Importance of Crisis Management

Looking at the previous results from the Macanese economy and hospitality industry, it is understandable that its necessary to take action to prevent and prepare for future similar occurrences.

According to Oliver Wack and Matt Hinton (2018), partners of Crisis Management Consulting firm Control Risk, the managerial tool of Scenario Analysis does not only serve as a critical instrument to mitigate the impact of a crisis but also serves a great purpose in the use of risk readiness.

The need for scenario analysis in crisis management is further proven by Toby J. Kash and John R. Darling (1998) who emphasize that crises are to be expected and need to be managed by strategic management tools such as Scenario Analysis.

Kash and Darling highlighted three important steps of scenario analysis to be used under times of uncertainty:



In conclusion, scenario analysis is a vital part of a business crises management strategy and can help achieve greater or less detrimental results in times of high uncertainty or crisis. Therefore, to achieve greater results for the analyzed hotels, which were impacted by Covid-19's detrimental effects, scenario analysis will be applied to shed light on how to operate more successfully.

Hotels need to develop a response plan for a future pandemic crisis, such as Covid-19, as their frequency has been rapidly increasing and is expected to further increase in the future.

#### Future Pandemics' Frequency

Throughout history, pandemics have become more frequent. In the past century there were 5 registered pandemics, but this century, up until 2021, 4 pandemics have been registered already: severe acute respiratory syndrome (SARS), Swine flu, Middle East respiratory syndrome (MERS), and the Covid-19. Thus, realistically, the Covid-19 pandemic cannot be seen as an isolated case. (Piret and Bouvin, 2021)

*"...The probability of a future zoonotic spillover event resulting in a pandemic of COVID-19 magnitude or larger is between 2.5-3.3% annually. In other words, there is a 22-28% chance that another outbreak on the magnitude of COVID-19 will occur within the next 10 years, and a 47-57% chance that it will occur within the next 25 years"* (Agyarko et al, 2021)

*"The study, appearing in the Proceedings of the National Academy of Sciences the week of Aug. 23, used a newly assembled record of past outbreaks to estimate the intensity of those events and the yearly probability of them recurring. It found the probability of a pandemic with a similar impact to COVID-19 is about 2% in any year, meaning that someone born in the year 2000 would have about a 38% chance of experiencing one by now. And that probability is only growing, which the authors say highlights the need to adjust perceptions of pandemic risks and expectations for preparedness"* (Michael Penn, 2021)



Pandemics and epidemiologic instances do not end with Covid-19, and according to research, the frequency will increase, and pandemics will occur again. It is therefore important to plan for scenarios and possible modes of operation to minimize their impact on Hotels, products, and services related to the hospitality industry.



Figure 4: Queue for mandatory testing



To prepare a response plan, three scenarios – Operating normally, Joining the government designated hotels quarantine list, and Joining the optional hotels quarantine list – will be planned and analyzed considering Covid-19’s pandemic and the Special Administrative Region of Macau’s travel and quarantine restrictions.

## 05 Scenario Planning and Analysis

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| <i>The Case Of Integrated Casino Resorts – The Parisian</i> | 61 |

Although Macau is a SAR, it is still under the great political influence of the Chinese Communist Party, which could legalize gambling overnight setting Macau back to being a merchant's village.

### Chinese Political Clout

Even though Macau is mostly autonomous as a SAR and has its own executive and legislative bodies (O A 1993) , it still operates under Mainland China, whose government has the power to completely transform the environment that surrounds the region and its industry.

China's totalitarian regime is presided by Xi Jinping, under the Chinese Communist Party (CCP). who also presides the military, describing a highly centralized political setting (The Heritage Foundation 2020). This said, Xi Jinping has full control of China and all the regions it encompasses within it. To illustrate the risk this political setting implies for the Macanese hotel industry, one can consider the following extreme (but possible) scenarios:



#### Limiting Chinese Visitors

The Chinese government can limit the influx of mainland visitors into the Macau SAR, as it did during 2020, by not issuing tourist visas. Chinese visitors make up the largest portion of Macau's demand



#### Surveillance and Prosecution

It can enact campaigns that track citizens' movements, affecting gaming in Macau, as many visitors use the casinos to undergo unlawful transactions. Such was the case of Beijing's anti-corruption campaign in 2014-2016.



#### Illegalizing Gambling Altogether

Even though Gambling is supposed to remain legal in Macau until the end of the 50-year transition period, China can still legalize gambling at any point, setting the region to its original merchant village status.

The impact of the Chinese political environment in the Macanese hotels translates into the Chinese government's influence over Macau's tourism sector. The industry is alarmingly dependent on Chinese visitors, but China can still limit demand and supply at a flexible rate. However, since Macau's economic activity and gambling industry are still monetarily beneficial to China, it is unlikely these threats will materialize.

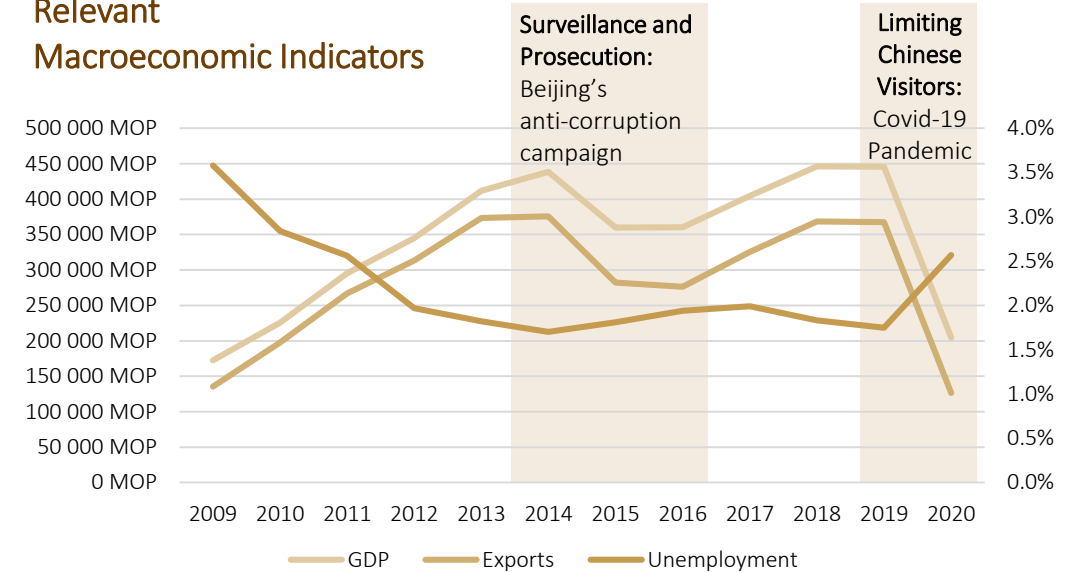
Due to the power held by the Chinese Communist Party over Macau, political movements that affect inbound tourism from Mainland China or gambling can hugely damage Macau's economic setup.

### Dependency on Tourism Sector

The risks to the hotel industry associated with the Macanese economic environment are closely connected to the political risks faced by the sector. Then, the risks to Macanese hotels can arise from:

- **Limits on Chinese Visits:** visitor arrivals fall and compromise the value of tourism-related exports which In 2019 accounted for 81.5% of Macau's total exports according to Knoema and to roughly 67% of Macau's GDP (Government of Macao Special Administrative Region Statistics and Census Service 2021).
- **Surveillance and Prosecution of Chinese citizens:** gambling revenues decline, depriving Macau's economy of part of its gaming tax charge, which amounts to nearly 30% of GDP. This tax is a large contributor to the region's accumulated reserves (Huang 2020) and is often used to subsidize businesses of the THG sector during crises (Lou 2021).
- **Illegalization of Gambling:** gambling in Macau disappears, setting 22% of the Macanese workforce to unemployment. In turn, the hospitality industry crumbles when its symbiosis with the gambling industry is destroyed, putting an additional 8% of the local workforce at risk (Government of Macao Special Administrative Region Statistics and Census Service 2020).

### Relevant Macroeconomic Indicators



Graph 6: Relevant Macroeconomic Indicators (Macau Statistics Bureau 2020)

The three sequences of events clearly illustrate that any shock that affects the gambling industry hurts the Macanese economy and supporting sectors. The hospitality industry enjoys a privileged position from operating around the gambling industry, but, simultaneously, is at the risk of being decimated if a shock impacts it. Given the gambling sector is exposed to a multitude of risks, this economic setup creates extensive vulnerabilities in the Macanese hospitality sector.

As Chinese nationality prevails in Macau, Guanxi, a form of favors exchange in business settings intrinsic to the Chinese social rule, can hugely benefit or damage THG industries' players.

### Guanxi 关系

*Guanxi* is a Chinese implicit social rule that reflects the depth of feeling within a personal relationship and the moral obligation to maintain a certain relationship, but it also reflects a combination of property, prestige, and social status.

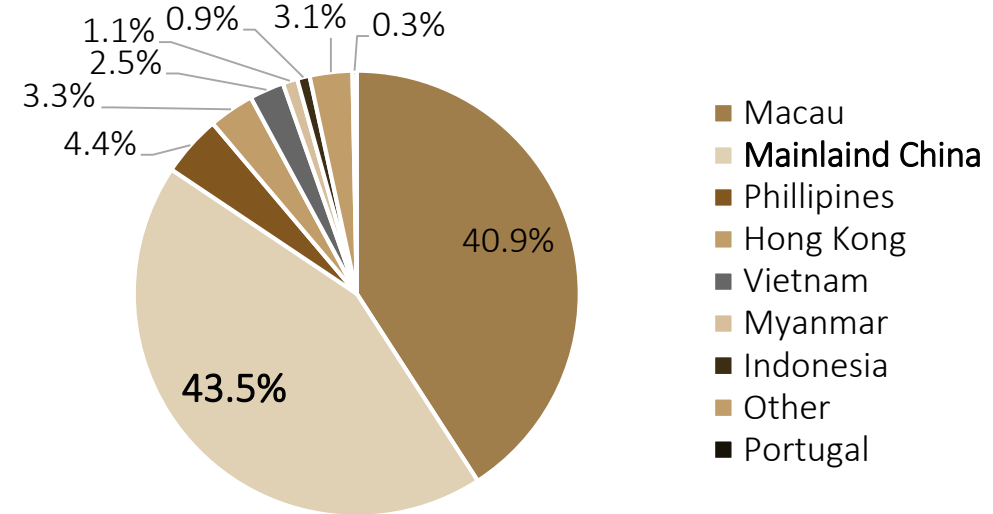
Translates as personal connections, relationships, and social networks and is based on tacit mutual commitments, reciprocity, and trust.

*Guanxi* plays a central role in the development of business transactions as it is implicitly entangled with individuals' interactions as the businesses implied grow together with the individual's relationship.

*Guanxi* plays an essential role with government officials, who can be a strategic tool for business success by allowing companies to obtain secret information and increase government regulations' knowledge. In the governmental or political context, reputation plays a crucial role in shaping *guanxi*.

However, the concept of *guanxi* raises ethical questions as the favors exchange is seen by many as government corruption. (Yin, 2017)

### Nationality Diversity in Macau



Graph 7: Nationality Diversity in Macau, 2016 Population By-census Detailed Results

As the majority of the Macau population are Mainland Chinese, *guanxi* plays a crucial role in relationships, businesses, and government decisions. The THG industries' players can greatly benefit by assuring their management team is well connected and by making favors to the government. However, it can also be deeply affected by other players' benefits prevalent from *guanxi*.

The fast rise of technology can pose a threat to Macau's hospitality industry as OTA's might cause loss of control, and the rise of online gambling during the pandemic might reduce the demand for brick-and-mortar casinos.

### Online Travel Agents (OTA)

The rapid development and use of technology are changing the hospitality and tourism industry as a whole.



91% internet adoption



87% of residents own a computer



89% of residents own a smartphone

- WeChat, the multifunctioning social media app that handles communication, payments, ordering, shopping, and company accounts is widely used by the population and ranks as the number one application used by smartphone owners in Macau (Seng, Mak, Li et al. 2020)
- China became, in 2018, the second-largest Online Travel Agent Market, growing 27% in revenue from 2017, a 400% larger growth than of the USA figures (Phocusright Research 2018)

The ever-growing influence from OTA's and dependence on third-party mobile applications for booking and payments will lead the hospitality industry to be dependent on third-party providers, inherently losing influence and control over distribution & profit margins (HVS 2015)

### Online Gambling

According to Grand View Research (2020), the Covid-19 pandemic together with the increasing world's digitalization are boosting the online gambling sector revenue.



127,3\$ billion expected online gambling revenue in 2027

- As casinos close around the world due to covid-19 restrictions, the online gambling segment aims to expand (Sayre, 2020).
- However, strict measures are taken from mainland China to regulate gambling outside its legal zones.
- Just as recently as 2021, "Chinese prosecutors have indicated they are targeting online casinos after a growing number of operators allegedly used internet platforms to get around the country's laws against gambling" (Lau 2021).

Internet-based casinos and betting services pose an inherent threat to every conventional gambling market. However, The recent increase in anti-gambling activity coupled with Macau's increase in gambling-related tourism proves that Macau's position as China's only gambling hub.

The THG industries are subject to two main environmental risks: the rising public interest for sustainability as a differentiation method and the inevitable natural disasters that can halt tourism for short periods.

### Natural Disasters

The Macanese Peninsula has an inherent propensity for cyclones and weather impact. Solely in 2020, the region was impacted by 5 cyclones and 10 weather warnings of the highest alarmism (Lau et al., 2021).

A case worth mentioning is the typhoon Hato in 2017, the largest tropical storm to hit Macau since 1964, injuring 240 people and taking a total of 10 lives. Typhoon Hato left behind damages worth 11.5 billion MOP, and it took months until the SAR was fully recovered (Chenxi and Yao 2017). As for the hotel industry, businesses were closed for weeks after the disaster, both to repair damages, but also due to water and electricity limitations imposed. Moreover, after the disaster, the government discouraged tourism in Macau and temporarily suspended group packs (Morgan 2017).

The Macanese hotel industry is vulnerable to seasonal typhoons. The damages from the storms are felt in the short run, empowering these disasters to stop the industry temporarily. With global warming intensifying these storms, the risks associated with them become even larger.

### Environmental Policy

Wan, Chan, & Huang (2017) found that a sample of 31 hotels in Macau are active in their efforts towards more sustainable practices, and in fact, hotels in Macau show great environmental policies, such as operational solutions for waste management, energy-saving lighting, and mechanisms that reduce water and electricity use for hotel guests.

However, the lack of government policy and regulations on this matter restrains the hotel's trajectory towards sustainability. In this sense, it can arguably disrupt competition seeing as stricter legislation creates a more leveled playing field and evens out competitive advantages built from exploitation and limitless use of resources (Altenrath, 2021).

Sustainability policies can impact the hotel industry in the sense that they are becoming increasingly important in the customer decision process. As such, the Macanese hotel industry may be impaired by the regional government's lack of environmental action.



Hotel's risk legal disputes in case of misleading customers as well as not complying with health regulations. However, in case of a future pandemic, Macau's legal regulation allows for ease of staff costs reduction.

Through the Basic Law, Macau people have safeguarded their fundamental rights such as freedoms of speech, press, association, and assembly, procession and demonstration, religion, travel and entering and leaving Macau, as well as the rights to organize and join trade unions and to strike.

### Employment

- Verbal agreements are considered valid for residents ("Doing Business in Macau: Overview." n.d.)
- Written contracts are required for minors and non-resident workers, who must hold a work permit from the Labour Affairs Bureau, which requires a fixed-term contract, which can take three to four months to be approved ("Doing Business in Macau: Overview." n.d.)

Therefore, in a pandemic scenario, such as Covid-19, staff reduction has small costs associated and is legally easy, especially if most workers are residents in Macau. However, after a pandemic, companies might deal with talent pool shortages as hiring foreigners can be legally exhausting.

### Consumer Protection

- Consumers are guaranteed the right to information, health and safety protection, services quality, economical interest protection, damages indemnification, legal participation in the definition of its rights and interests, and legal protection and accessibility ("Doing Business in Macau: Overview." n.d.)

Hotels in Macau must be transparent in their offer and must comply with all government health guidelines to avoid legal disputes.

### Health

- The International Health Regulations from the World Health Organization are applied directly to the Special Region (Alves, 2017).
- Macao has introduced a QR three-color code system – green, yellow, and red - needed at border checkpoints and for entering public administration premises, casinos, and other venues. Red or yellow codes may be subject to testing, hospitalization, or restrictions on their movements (Gov. UK, 2021).

All people and companies in Macau must comply with the international WHO's covid-19 regulation. Furthermore, casinos and hotels can only host people that hold a green QR health code.

The lodging facilities in Macau were categorized under hotels, casino hotels, and integrated casino resorts and will be represented by the Harbourview Hotel, Starworld Hotel, and The Parisian Macao, respectively.



For this report, a hotel will be considered an **establishment that provides accommodation and lodging services for paying guests**, being the **lodging the main source of revenue**, including guesthouses, casino hotels, and integrated resorts.

The selected representative hotel to be evaluated within this study's context is the **Harbourview Hotel**.



The hospitality industry links to the gambling industry through casino hotels. For this work, casino hotels will be defined as **premises that provide temporary lodging services, gambling services, and food and beverage services**. This segment's main revenue streams are **gaming and casino**, low-key entertainment, **overnight stays**, food, beverages, and get-together facilities (University of Macau, 2021).

The selected representative hotel to be evaluated within this study's context is the **Starworld Hotel**.



Resorts are commercial establishments, which will usually consist of a hotel and a variety of additional services and amenities, on-site. Guests will usually have access to lodgings, restaurants, bars, entertainment options, recreational activities, and shops, which can all be accessed without leaving the premises. Integrated casino resorts take it a step further and encompass **hotels, casinos, clubs, spas, food and beverage services, retail, entertainment, and MICE** (Meeting, Incentive Travel, Conventions, and Exhibitions), **profiting from diversified revenue streams**. Integrated resorts are considered to be the future of resorts and the core modern feature associated with these are casinos, especially in Asia (University of Macau, 2021).

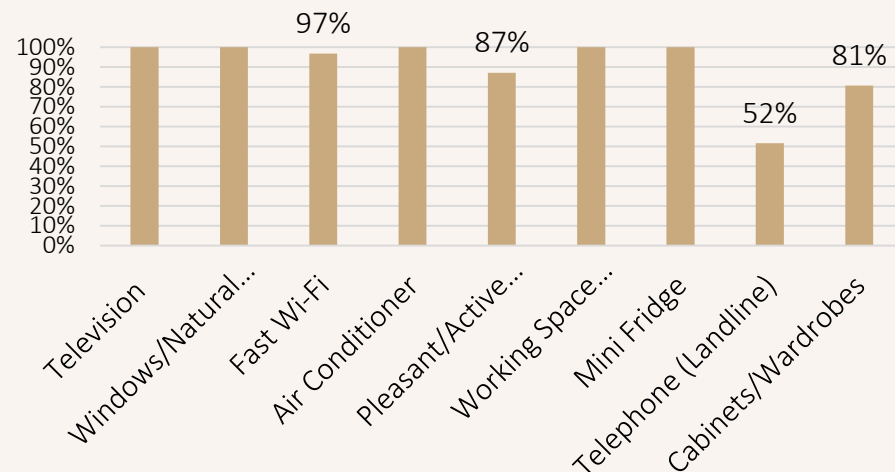
The selected representative hotel to be evaluated within this study's context is **The Parisian Macao**.

A public survey concluded that there is a consensus regarding basic features necessary for a quarantine stay, but people are willing to pay more for a range of extra features, such as food deliveries.

### Survey Analysis

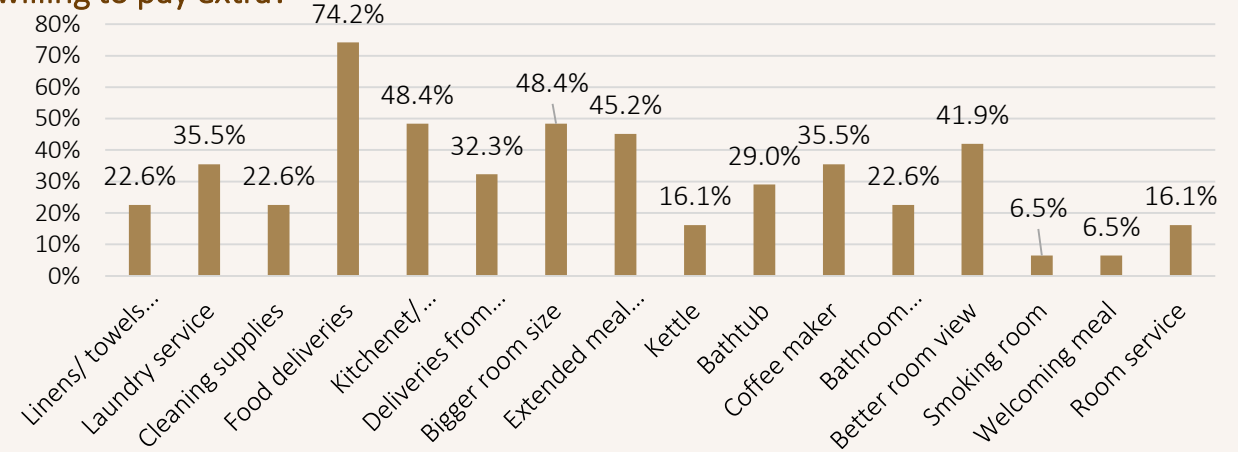
To understand how a Macanese quarantine hotel could better adjust to the basic and preferable features for a quarantine stay, 31 people answered the following questions:

Which do you consider to be the minimum basic requirements for your quarantine stays?



Graph 8: Survey Results – Basic Minimum Requirements

For which of the following room amenities/ hotel services would you be willing to pay extra?



Graph 9: Survey Results – Extra Features

In conclusion, the survey answers give insight into perceptions of what hotel room amenities or features are seen as mandatory and which has the propensity to give extra value to the quarantine guest. Therefore, through the addition of added value services and products, quarantine hotels can improve their financials by diversifying and increasing their revenue streams.

Through primary data collection, it was possible to understand that hotel management should keep other services operating and be aware of guests needs and wants.

Interviews

Most common topics interviewees referred:

- Food:** "I would advise anyone coming to Macau to bring lots of snacks and food."
- Food:** "I would like to have an option with an extended menu or better-quality food if pay more"
- Windows:** "the most important features (...) are: can you open the windows and do you have a balcony!!!"
- WhatsApp:** "All Hong Kong hotels have a what's app group set up for 'inmates'. Macau does not have this for some reason."

Discussion Forums

Most frequently raised topics (14-week period):

- Inquiries about restrictions, regulations, news, changes (92)
- Conversations about specific hotels, their standards, and amenities (28)
- Wellbeing during quarantine: Information, exercise and support groups (18)
- Topics about food and hotel food offering (13)
- Lack of delivery services (10)
- Lack of hygiene products (8)
- Lack of hotel room amenities (8)
- Conversation and Complaints about Wi-Fi connection (6)

Survey Analysis

To understand which services should remain functioning in each scenario, 31 people were asked:

Would you feel comfortable...

|                                                                                                                                                           | "Yes" | "No" |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-------|------|
| • ...staying at a hotel in which some of the rooms are being used for quarantine stay?                                                                    | 19%   | 81%  |
| • ...playing in a casino in which the rooms are being used for quarantine stay?                                                                           | 42%   | 58%  |
| • ...shopping at an integrated resort in Macau if its hotel was being used for quarantine stay?                                                           | 65%   | 35%  |
| • ...using the entertainment facilities (waterparks, exhibits, clubs etc.) at an integrated resort in which the rooms are being used for quarantine stay? | 55%   | 45%  |
| • ...eating in at a hotel's restaurant in which the rooms are being used for quarantine stay?                                                             | 55%   | 45%  |

The survey answers conclude that there is a considerable percentage of revenues that can be salvaged if the hotels join one of the scenarios. Therefore, hotel management, in both scenarios can decide to keep other services operating if there are conditions to securely isolate the quarantine ward.

To design the 3 scenarios, several common assumptions regarding time frame, hotel management, and quarantine settings were depicted.

The three scenarios to be analyzed were planned in light of Covid-19 impact and regulation and light of Covid-19's pandemic and the SAR Macau's travel and quarantine restrictions, comprising hotels joining or not the mandatory quarantine scheme. The scenarios were designed through logical assumptions either obtained through research or inferring, resulting from the lack of available data. The three scenarios – Operating normally, Joining a Quarantine Hotel List, and Joining the optional quarantine hotel list – will then be analyzed through a quantitative and qualitative lens.

#### Assumptions

- The first medical observation hotel opened on January 30<sup>th</sup>, 2020 (Macao News 2020). As such, during January, hotels will operate normally.
- In the mandatory quarantine scheme scenarios, hotels join on February 1<sup>st</sup>, 2020, and stay at least until the end of December 2020.
- Even though the optional quarantine list only started on December 20<sup>th</sup>, 2020 (Government Information Bureau of the Macau SAR 2020), optional list numbers will be applied to 2020, as a proxy to what would have happened if both lists were active since February 1<sup>st</sup>, 2020.
- Quarantine is assumed mandatory for all residents from Mainland China high-risk areas' (here considered Xinjiang, Liaoning, and Qingdao), Hong Kong, Taiwan and Macau, Macau residents' families, and Macau's non-resident workers.
- Only arrival by air from February 1<sup>st</sup>, 2020, onwards will be considered for demand calculation as at certain moments of 2020, land borders were closed, and ferries activities were shut (seaports arrivals) (The Parisian Macao 2021).
- If the hotel facilities reserve the capacity of isolating the rooms ward, management can choose whether to close or continue operating those services.
- For ease of forecasting, the average length of stay per person in quarantine is assumed to be 14 days long.
- The average number of people per room is assumed to be 1,27 (see appendix 1).

To plan the scenarios, mandatory quarantine scheme regulations will be complemented with a few assumptions, being the major difference between the scenarios the demand, price, and market share.

The scenario analysis that will be performed is based on the mandatory quarantine scheme that was in place in Macau during the pandemic. Therefore, the following analysis will comprise three scenarios: operating normally, joining the designated quarantine list, joining the optional quarantine list.

### Scenarios Definition

#### Operating normally

This scenario corresponds to the actual operations of the year 2020, therefore the financial results of the chosen hotel will be analyzed as is.

#### Designated hotel quarantine list

- The hotels in the 'designated list' for medical observation are only available for Macau residents and relatives, and non-resident workers
- Inbound travelers staying at designated hotels still have no choice regarding the hotel they are staying at, but part of the costs incurred while quarantining are partially subsidized.
- Residents and relatives pay 400 MOP daily per person to quarantine at designated hotels. Macau residents and relatives can apply for an exemption of payment on their first time traveling to Macau (subsequent returns do not allow for such application) (Moura 2020).

#### Optional hotel quarantine list

- The 'optional list', or 'self-selected list' is available for residents and relatives, and non-residents
- Inbound travelers staying at optional hotels can choose in which establishments they would like to quarantine at but must bear the costs of their stay.
- At optional hotels, the price for a full quarantine is defined by the establishment (Moura 2020)

#### Assumptions

- Room rate is at 400MOP per person per night, independently of how many people are sharing a room.
- Hotels can choose the number of rooms offered to the government for quarantine stays.
- Guests are distributed through hotels the designated list, proportionally to the relative number of rooms offered by each hotel.

#### Assumptions

- Hotels are free to define their own room rate as well as extra person rate.
- Rooms rates will be defined through consumers' willingness to pay and market analysis.

A Work Project, presented as part of the requirements for the Award of a Master's degree in Management from the Nova  
School of Business and Economics.

## **MACAU'S HOSPITALITY SECTOR: PLANNING A RESPONSE TO A PANDEMIC**

David Louro Mendonça Neves

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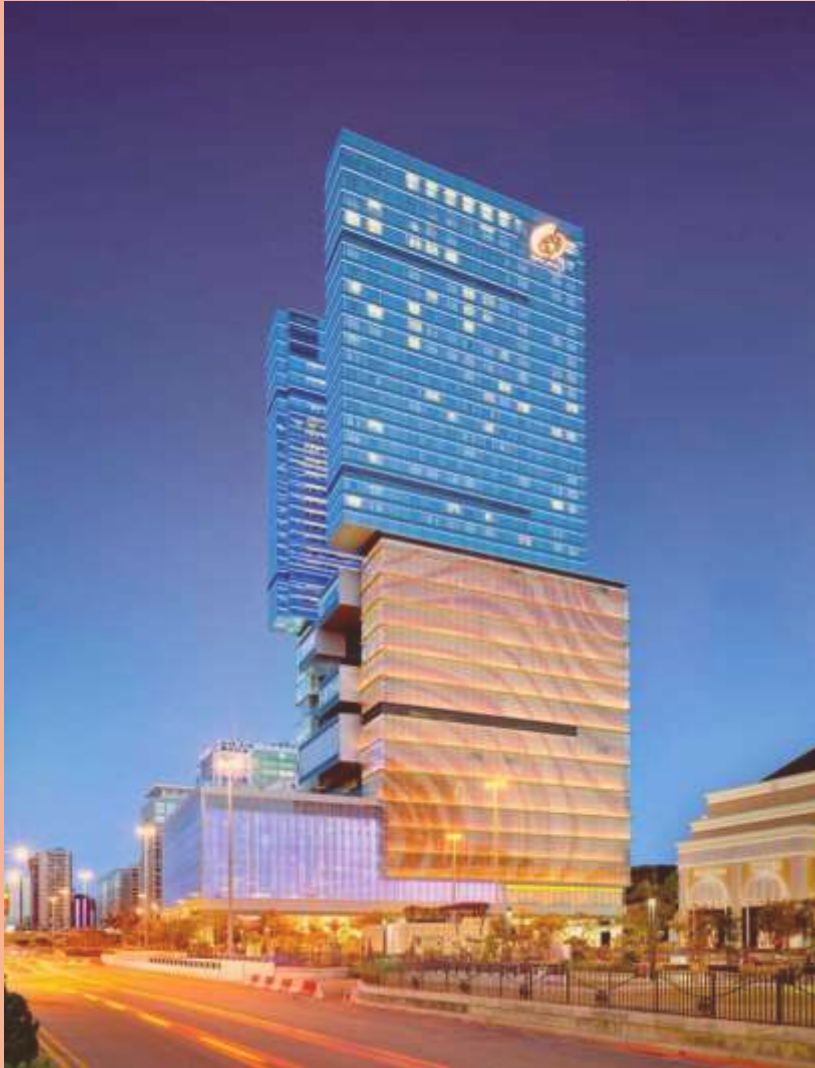
17-12-2021

# Abstract

The aim of this consulting project is to find the best strategy for Macanese Casino Hotels to respond to a pandemic crisis like Covid-19. As such, the industry segmented in three – Hotels, Casino Hotels and Integrated Casino Resorts – and data from a representative hotel from the mentioned segment is analyzed to set response plan for that segment. To prepare the response plan three scenarios – Operating normally, Joining a designated hotel quarantine list, and Joining an optional hotel quarantine list – are planned and analyzed considering the pandemic and the Macau’s SAR relevant restrictions. Results suggest that Casino Hotels should operate normally.

**Keywords** (Strategy and International Business; Scenario Planning; Marketing Planning; Scenario Analysis; Strategy Consulting; Proactive Crisis Management)

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## 05. The Starworld Hotel Analysis

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- 01 Hotel Description
- 02 Internal Analysis
- 03 External Analysis

## Scenario Analysis

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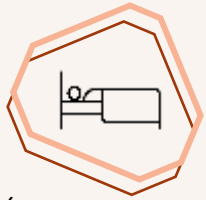
- 04 Standard Scenario
- 05 Designated Quarantine List Scenario
- 06 Optional Quarantine List Scenario

## Contingency Plan

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- 07 Outline
- 08 Strategic Recommendations

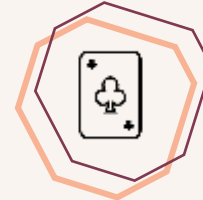
Starworld Hotel is a modern luxury establishment whose business model focuses on its integrated casino rather than on the hotel's accommodation.



28% occupancy rate  
in 2020



497 rooms (MGTO 2021)  
and 4 different room rates



2 183 million MOP  
gambling revenues in 2020



7 food and beverages  
awards in 2019

The Starworld Hotel is a 5-star luxury hotel with an integrated casino. It is located at the heart of the entertainment district of the Macau Peninsula and rises 39-stories above the ground (Lifestyle 2021).

Starworld Hotel offers much more than just accommodation. Within its premises. Guests and visitors alike may find an outdoor infinity pool, a gymnasium, one pop-up store<sup>1</sup>, a multipurpose banquet hall, and several restaurants (Starworld Hotel 2021).

However, the hotel's largest attraction and the most important facility is its Starworld Casino, located on the bottom 15 floors of the property (Lifestyle 2021).

The Starworld Casino generates most of the hotel's revenues (94% and 95% in 2019 and 2020, respectively) (Galaxy Entertainment Group Limited 2020), henceforth corresponding to the Starworld Hotel's main operations.

The 1st and 3rd floors are used for mass gaming, while VIP rooms can be found from the 5th to 15th floor along with hotel supporting facilities.

The Starworld hotel is fully owned by the Galaxy Entertainment Group (GEG), which operates the hotel and the casino. The group is one of the leading resorts, hospitality, and gaming companies of Macau, and holds one of the six existing gaming concessions and sub concessions in the special administrative region (Lifestyle 2021).

1. The pop-up store was set up temporarily during 2021, so it is not going to be taken into consideration during the remainder of this analysis.

# Starworld's industry's moderately small set of suppliers increases external pressures on an ever-growing collection of players

## Supplier Power

Starworld's suppliers are unknown, but parallelism can be drawn from its parent company, GEG.

The group discloses that 30% of its purchases are from its 5 largest suppliers, meaning they are moderately important to the business. However, 60% of the group's suppliers are SMEs, which means suppliers of the group are not extensively relevant in size (Galaxy Entertainment Group Limited 2020).

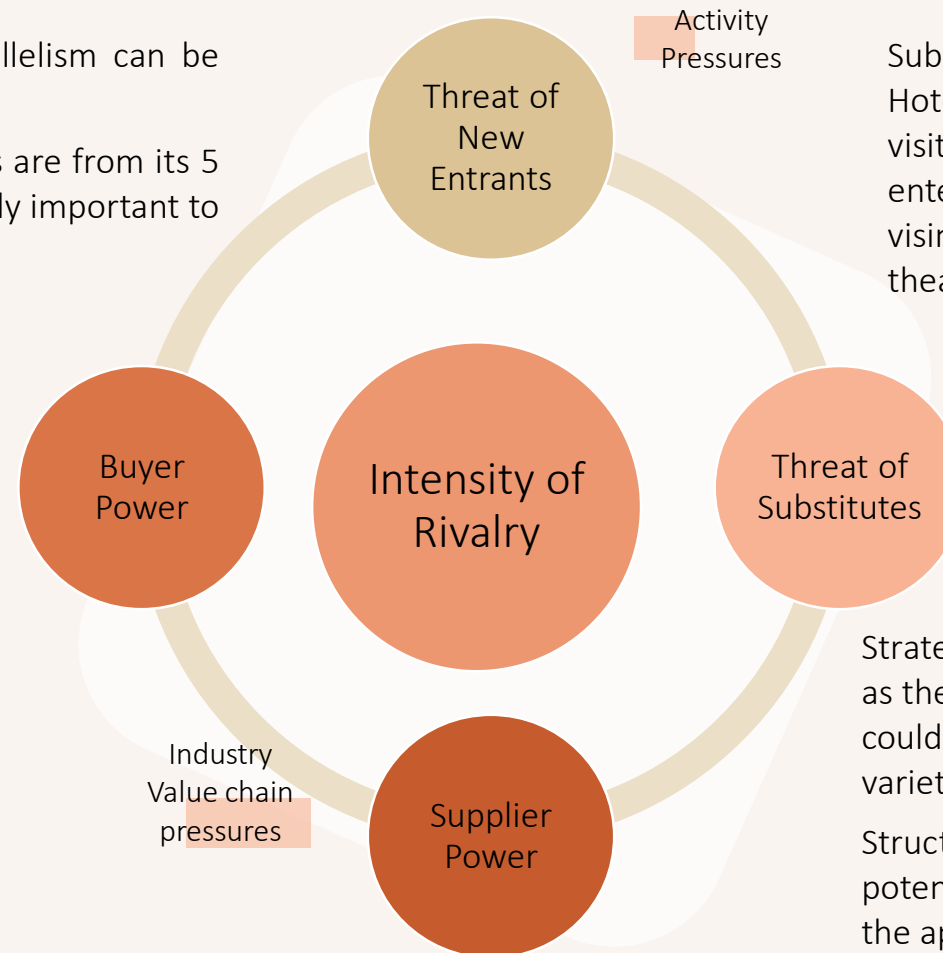
**This concludes a moderate supplier power.**

## Buyer Power

The demand for Starworld Hotel's services is high and growing, meaning customers are not expected to be able to exert much power over the business.

Moreover, Even though switching costs for casino visitors are little to non-existent, as casinos in Macau generally have free entrance, this factor is not strong enough to empower customers.

**Demand-side growth results in low buyer power**



## Threat of Substitutes

Substitutes of the experience offered by Starworld Hotel will include any service or activity casino visitors can purchase or enjoy besides gambling to entertain themselves. In Macau, these could be visiting touristic attractions, parks, museums, theatres, shopping centers, etc. However, as gambling is a very particular form of entertainment that these substitutes are not capable of matching its offer.

**The threat of substitutes is not relevant.**

## Threat of New Entrants

Strategic barriers to entry are unlikely to materialize, as there is no clear dominant player in the market that could impose them, even though there is a wide variety of firm sizes in the market.

Structural barriers to entry may only be a reality for potential owners of gambling establishments without the appropriate capital to undertake the project.

**Lack of barriers generates a high threat of new entrants.**

## Competitive Set

For the definition of the Starworld Hotel competitive set, only players that compete with Starworld's primary activity were accounted for the sake of simplicity.

Then, the competitive set of Starworld Hotel comprises all businesses that provide gambling services in Macau. These include (MGTO 2021):

|                                                                                   |                                                                                   |                                                                                   |                                                                                   |
|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
|  |  |  |  |
| Non-luxury hotels with casinos                                                    | Stand-alone casinos                                                               | Integrated resorts with casinos                                                   | Luxury hotels with casinos                                                        |
| 12 players                                                                        | 9 players                                                                         | 11 players                                                                        | 5 players                                                                         |

Luxury hotels with integrated casinos are Starworld Hotel's direct competition, as their value proposition and target market are the same. They are the L'Arc Hotel Macau, the New Orient Landmark Hotel, the Legend Palace Hotel, the Regency Art Hotel, and Grand Lisboa.

Industry rivalry in Starworld's setting is quite high, and the hotel must focus its efforts on outperforming competitors while accounting for its dependence on Chinese travelers and gambling.

## Industry Rivalry

The intensity of rivalry comes as a result of the businesses' competitive set, the demand it faces, incentives to price rivalry, or existent exit barriers in the market. Of these, the competitive set of Starworld Hotel and the market demand impose relevant pressures on the hotel's competitive environment:



**Competition:** as shown on the left, Starworld Hotel operates in an industry with an extensive set of diverse competitors, which makes coordination amongst players unfeasible. This leads to high intensity of rivalry in the market, which is strengthened by the high threat of new entrants faced by Starworld Hotel.



**Demand:** Demand volatility in the gaming sector is high, contributing to intense competition. In Macau, it results mainly from the dependence of the region's gambling sector on the Chinese market. China is a politically unstable country with the ability to make regulatory changes to travel to and from Macau. Besides, it is also a country that largely restricts individual freedoms and runs operations to impose its ruling. Therefore, people's ability and willingness to visit Macau and Starworld Hotel may be affected more often than not.

The Starworld Hotel is highly dependent on its gaming operations, which leaves the business vulnerable to a series of internal and external pressures.

## Strengths<sup>1</sup>

- Exclusive view over the city and lake Van Nam
- Central location
- Multiple award-winning dining options
- Convenient shuttle bus
- Complete room offer and amenities
- The casino gambling offer
- Unique modern architecture and luxurious décor

## <sup>1</sup>Weaknesses

- High prices for the offered products and services
- Staff's occasional shortcomings
- Limited offer for guests who do not intend to gamble at the casino. For instance, in terms of entertainment or business-related activities.
- Limited non-accommodation and non-casino facilities



- Underserved customer markets (ex: business travelers)
- Possible regulatory changes in Macau stemming from the improvement of the pandemic (Ritchie et al 2020)
- Higher global consumer confidence improvement of the pandemic (The Conference Board 2021)
- Increase in the purchasing power of the Chinese, which grew 4,63% in the past decade, and is expected to grow 2,03% more until 2026.

## Opportunities

## Threats

- Multiple competitors in proximity to the hotel
- Emergence of new competitors
- Macau's dependence on the Chinese market allied to China's possible future regulatory changes
- Chinese anti-corruption campaign that targets VIP players and their gambling activities (Blaschke 2020)

1. The pop-up store was set up temporarily during 2021, so it is not going to be taken into consideration during the remainder of this analysis (O A 2021)

Starworld's internal environment would largely benefit from diversification of the hotel's offer, but its Casino operations are still its most powerful strength.

|            | Opportunities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Threats                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Weaknesses | <p>Upgrading its offer beyond the casino would allow Starworld Hotel to tap underserved markets.</p> <p>For instance, Starworld should consider adding meeting rooms to its property, as it currently lacks appropriate premises for business travelers. Moreover, additional entertainment options should also attract business and other customer types alike. In turn, <b>these actions would up the hotel's value proposition, and potentially mitigate the fact that customers find the prices at Starworld too high.</b></p>                                                     | <p>The Starworld Hotel should improve its customer service to avoid underperforming relatively to existing and new competition.</p> <p>The business should consider letting go of the staff that is underperforming or offering effective training to said employees.</p>                                                                                                                                                                                                                                         |
| Strengths  | <p>The Starworld Hotel should make use of its superior gambling services to attract the wave of visitors that would be expected from an improvement of the pandemic and a consequent <b>increase in the customers' confidence.</b> The Chinese market requires particular focus, as it is the most important market for the hotel.</p> <p>The hotel should use its strongest offer beyond gambling to attract underserved customer markets. Starworld should make an additional effort to flag its dining options, mentioning the multiple awards granted to these establishments.</p> | <p>The Starworld Hotel should use its gambling offer to reduce the vulnerability to Chinese potential anti-corruption campaigns. For instance, by shifting its gambling offer from the VIP segment to the mass table segment, Starworld Hotel would be able to avoid major losses if these campaigns were to materialize, as VIP customers tend to be the most affected by them (Blaschke 2020).</p> <p>The hotel must make use of its strongest selling points to prevail over existing and new competition.</p> |

# The pandemic generated extensive losses in Starworld Hotel.

## Covid-19 Pandemic – Major Impacts on the Starworld Hotel



In the standard scenario, the Starworld Hotel undergoes business as usual. Most of its total revenue is generated by Starworld Casino, its primary business unit. Other activities are considered secondary and stem from the gambling operations



As such, the hotel's profits were severely hit during the pandemic. In 2020 the hotel's casino revenues fell, across all gaming segments, to nearly 20% of 2019's level and **EBITDA went from 3 502 million MOP to -275 million MOP** (Galaxy Entertainment Group Limited 2020).



The Starworld Hotel's loss during 2020 is estimated at - **650 037 million MOP**. The estimated income statement and associated assumptions are available on the supporting excel file.



Accommodation at Starworld Hotel followed gambling revenues, with the occupancy rate dropping from 100% in 2019 to 28%, and estimated room revenue **decreased by 72.8%**. Additionally, the F&B segment revenues **decreased by 87.4%**.

Assumptions:  
1. Estimated "F&B and others" revenues are solely attributed to the F&B segment at the Starworld Hotel.  
2. The hotel is open for business every day during the year 2020.  
3. Mall revenues are not mentioned because it pertains to the activity of one temporary pop-up store.

# The drop in gambling revenues pushed the hotel's profits to go under.

## Performance Indicators 2020

≈ 2 305  
Million MOP  
Total Revenues

423 MOP  
REVPAR

2 183  
Million MOP  
Net Gaming

≈ 51'000  
Rooms Sold

≈ 77'1  
Million MOP  
Room Revenue

28%  
Occupancy Rate

1 509 MOP  
Average Daily Rate

80%  
Occupancy Rate in January

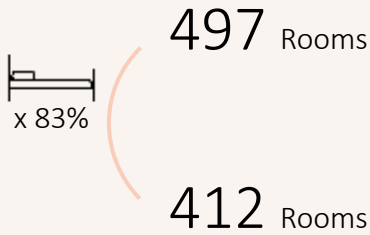
The average daily rate was assumed to be the same as Starworld Hotel's closest competitor, Grand Lisboa.

The occupancy rate for January was assumed to be equal to the Macanese hotel industry's average for that month.

In the designated quarantine list scenario, Starworld hotel revenues are lower than in the standard scenario for all business units.

Revenue Analysis

The Starworld Hotel offers 83% of its rooms for quarantine, following the same behavior of its competitor, Regency Art Hotel.



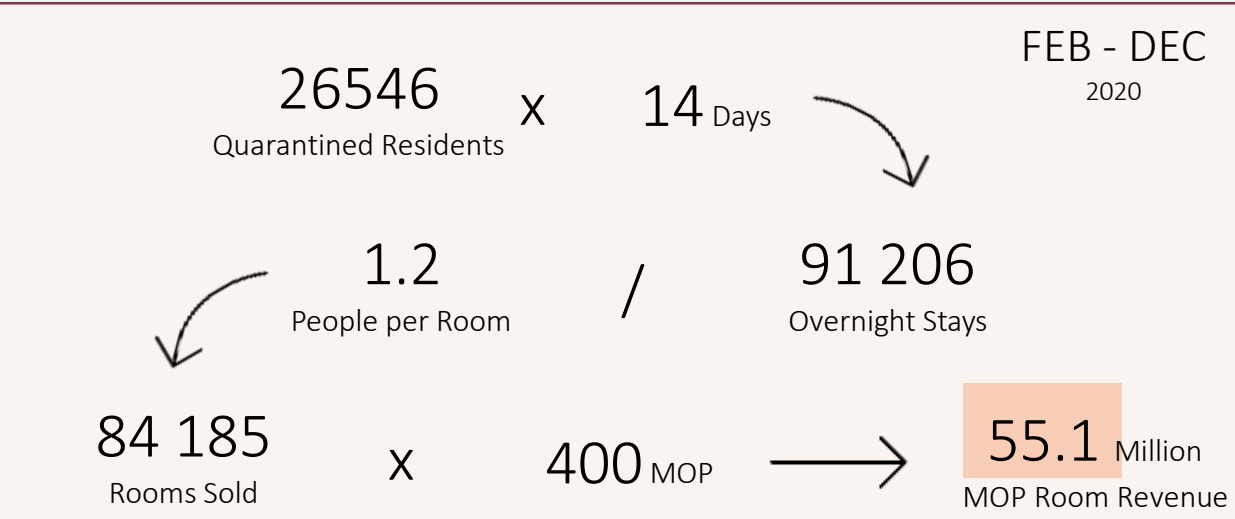
The number of guests allocated to Starworld Hotel by the government will be dependent on the hotel's market share within the designated list.



The estimations for the gambling and F&B revenues at Starworld Hotel were derived from customer insights on the willingness of clients to frequent casinos and restaurants at hotels used for medical observation.

1MOP ~ 0.12USD

$$\begin{matrix} 15,407 & \times & 80\% & \times & 1509 & = & 19 \text{ Million MOP} & \text{JAN} \\ \text{Available Rooms} & & \text{Occupancy rate} & & \text{ADR} & & \text{Room Revenue} & \text{2020} \end{matrix}$$



$$\begin{matrix} 2\,802 & \times & 78\% & \times & 42\% & = & 915 \text{ Million} & \text{Casino Icon} \\ \text{Total GGR} & & \text{Adjustment Rate} & & \text{Willingness} & & \text{MOP Room Revenue} \end{matrix}$$
  
$$\begin{matrix} 23 \text{ Million MOP} & \times & 55\% & = & 14 \text{ Million MOP} & \text{F&B revenue Icon} \\ \text{(Standard)} & & \text{Willingness} & & \text{F\&B revenue} \end{matrix}$$

The main figures of this analysis can be found in appendixes 3, 4, and 5. Assumptions are featured in the supporting excel file.

Even though Starworld Hotel welcomes more guests in the designated quarantine scenario, its gambling revenues are crippled by a slump in demand.

Cost Analysis

Food and Beverages Expenses

F&B expenses are expected to increase, as the hotel is required to provide meals three times a day to guests, while restaurants remain open for the public.



Staff Expenses

The effects of the scenario on staff expenses are assumed to offset each other, leaving staff costs at the same level as in the standard scenario.



All other costs and expenses are assumed to remain equal to the estimations built in the standard scenario, as it is not predicted any changes will arise from the arrangements of the designated quarantine scenario. The full analysis can be found on the supporting excel.

Performance Indicators – Designated Quarantine Scenarios

≈ 984

Million MOP

Profit/Loss ▼

199 MOP

REVPAR ▼

915

Million MOP

Net Gaming ▼

≈ 84,185

Rooms Sold ▲

≈ 55.1

Million MOP

Room Revenue ▼

50%

Occupancy Rate ▲

In the designated quarantine list scenario, Starworld Hotel’s results are overall worse than in the Standard scenario.

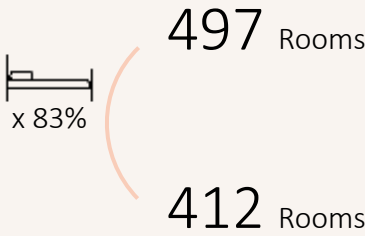
In terms of accommodation, while the hotel’s occupancy increases due to the allocation of guests made by the government, this effect is not enough to offset the drop in the ADR.

Regardless, the Hotel’s main driver for the poor performance in this scenario stems from much lower casino revenue. As guests are not able to use the casino, and part of the visitors do not feel comfortable about playing at the Casino anymore, demand shrinks considerably.

In the optional quarantine list scenario, Starworld hotel revenues are lower than in the standard scenario for all business units.

Revenue Analysis

The Starworld Hotel offers 83% of its rooms for quarantine, following the same behavior of its competitor, Regency Art Hotel.



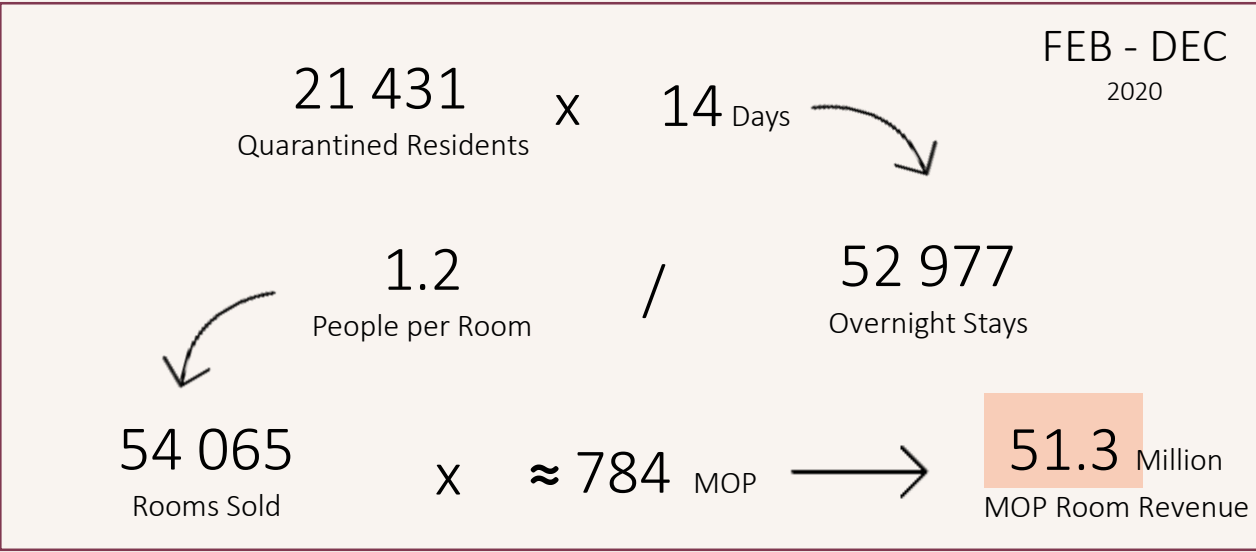
The number of guests at Starworld Hotel will be dependent on the hotel's market share within the optional list.



The estimations for the gambling and F&B revenues at Starworld Hotel were derived from customer insights on the willingness of clients to frequent casinos and restaurants at hotels used for medical observation.

1MOP ~ 0.12USD

$$\begin{matrix} 15,407 & \times & 80\% & \times & 1509 & = & 19 \text{ Million MOP} & \text{JAN} \\ \text{Available Rooms} & & \text{Occupancy rate} & & \text{ADR} & & \text{Room Revenue} & \text{2020} \end{matrix}$$



$$\begin{matrix} 2\,802 & \times & 78\% & \times & 42\% & = & 915 \text{ Million} & \clubsuit \\ \text{Total GGR} & & \text{Adjustment Rate} & & \text{Willingness} & & \text{MOP Room Revenue} & \end{matrix}$$
  
$$\begin{matrix} 23 \text{ Million MOP} & \times & 55\% & = & 14 \text{ Million MOP} & \text{F\&B revenue} \\ \text{(Standard)} & & \text{Willingness} & & & \end{matrix}$$

The main figures of this analysis can be found in appendixes 6, 7, and 8. Assumptions are featured in the supporting excel file.

Starworld Hotel’s higher ADR and lower occupancy compared to the previous scenario produce similar results, but, indeed, casino revenues still set the trend.

Room Rates and Room Revenue

In the optional quarantine list scenario, Starworld Hotel can charge its own price to guests that wish to quarantine there. From customer insights collected, it was possible to calculate the average room rate guests would be willing to pay for each room type offered by the hotel, ranging between 615 – 1989 MOP. The rooms offered can be found in appendix 9.

The weighted average room rate of Starworld Hotel in the optional quarantine list scenario is 784 MOP.

Cost Analysis

Costs and expenses are expected to not change when compared to the designated quarantine scenario, as the hotel operations are similar. The optional quarantine list scenario’s most impactful changes affect Revenues instead.

Performance Indicators – Optional Quarantine Scenario

≈ 980

Million MOP

Profit/Loss ▼

248 MOP

REVPAR ▼

915

Million MOP

Net Gaming ▼

≈ 54,065

Rooms Sold ▲

≈ 51’3

Million MOP

Room Revenue ▼

32%

Occupancy Rate ▲

In the optional quarantine scenario, Starworld Hotel’s results are, again, overall worse than in the Standard scenario.

In terms of accommodation, the hotel’s occupancy increases, due to the larger demand. However, the room rates preferred by guests for quarantining at Starworld are still too low to improve the hotel’s room revenue.

Regardless, the Hotel’s main driver for the poor performance in this scenario stems from much lower casino revenue. As guests are not able to use the casino, and part of the visitors do not feel comfortable about playing at the Casino anymore, demand shrinks considerably.

Starworld's dependence on casino revenues calls for a response plan to uphold them.

### Qualitative Analysis

The qualitative analysis produced about Starworld Hotel demonstrates the hotel's extensive **dependence on its gambling segment**, and the vulnerability to shocks that affect that segment. Therefore, the hotel should invest in **upgrading its offer** beyond the Starworld Casino, as a **safety net** for future shocks such as the Covid-19 pandemic.

However, whether the business is planning on diversifying its offer or not, if Starworld Hotel is to experience another health crisis using its current business model, it must **play to its strengths** to avoid unnecessary losses. This means that considering Starworld's present operations, upon a crisis like the current pandemic, the hotel must seek to ensure the **Starworld Casino** is operating properly and employ strategies that **prioritize visitors' safety**.

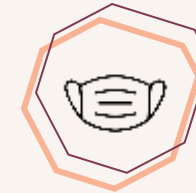
### Quantitative Analysis

The quantitative analysis on Starworld Hotel **came to reinforce** the main takeaway of the qualitative analysis.

The Starworld Hotel is **worse off** in both the designated and optional scenarios, not necessarily due to the implications of the scenarios on its accommodation segment, but instead due to the impact of the scenarios' conditions on **Starworld Casino revenues**. The demand decrease for Starworld's gambling services when it becomes a quarantine hotel leads to a decrease in profits, **regardless** of how well the hotel performs in the two scenarios.

Therefore, the hotel's **best chance** is to follow the **standard scenario** and remain operating as usual, as this scenario does **not undermine casino revenues** further.

## How to proceed?



Prioritize Safety

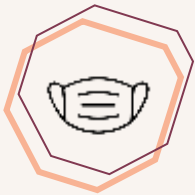


Build a brand



Diversify offer.

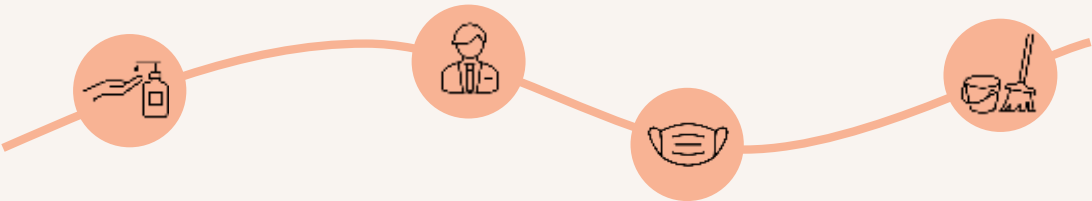
# The Starworld Casino must ensure clients' safety to increase demand.



From customer insights previously collected, only 42% of the surveyed individuals would feel comfortable visiting a casino at a quarantine hotel.

This implies potential visitors of casinos may have reservations about their safety when visiting a casino amidst a health crisis – a fact that Starworld Hotel must take into consideration when planning its response to a pandemic like the Covid-19.

In this sense, reassuring guests and visitors that the Starworld Casino is a complete entertainment venue that guarantees its customers a good time while ensuring their safety should be Starworld Hotel's priority. To do so, Starworld Hotel must measure the ideal tradeoff between a seamless gaming experience and restrictive health measures.



Most importantly, the hotel must make sure that current and potential customers know about and believe its efforts to maintain health protocols through a well-cemented integrated marketing plan.

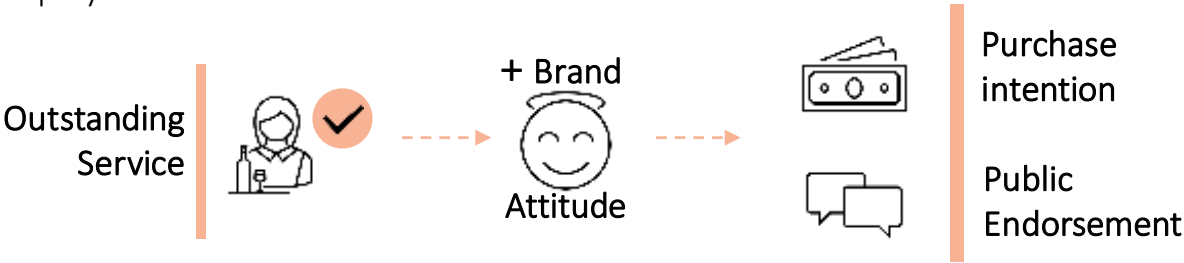
# The Starworld hotel needs to improve its staff performance to increase its market share.



According to the qualitative analysis of Starworld Hotel, the business usually performs well when compared to competitors.

However, when it comes to customer service, some of Starworld's reviews describe the unhelpful and rude staff, which is not admissible for a 5-star hotel

This largely hurts the business' brand and sets back Starworld's market share about its competitors, which can be decisive during a potential health crisis. As such, part of Starworld Hotel's response plan for a future pandemic should largely focus on ensuring all customers are well taken care of by the hotel's employees.



Better staff performance can be achieved either by replacement of the workforce, or, preferably, by providing appropriate training to the staff. The latter is already a focal point of GEG's environmental and social governance.

The training provided should include modules on health procedures and safety measures to seamlessly integrate the previous and current recommendations.

# Diversification is the key for Starworld to mitigate segment-specific risk.



One of Starworld’s most notorious vulnerabilities is the hotel’s dependence on its casino revenues, which can be severely impairing for the business during a health crisis.

As observed after the scenario analysis performed on Starworld Hotel’s financial indicators, the impact of the pandemic on casino revenues set the results for each scenario analyzed, regardless of the different assumptions made.

In this case, Starworld Hotel suffered severe losses as a result of its specialization in gaming services. But by further developing its accommodation and F&B segments, the hotel would be able to somewhat mitigate the losses in any specific segment. Diversification in the case of Starworld hotel could mean:



Improving  
F&B Segment



Targeting other  
customer segments



Improving or creating  
other services/activities

Some of these diversification options may be complex to implement, but by targeting one strategy, a positive spillover effect will kick start the others. For instance, In the short run, the hotel can begin by communicating its award-winning dining options to the public, attracting other customer segments.



Figure 7: Starworld Hotel, FengWeiJu Restaurant



The consulting project suggests that in a pandemic crisis similar to Covid-19, Hotels should join the government designated quarantine list, Casino Hotels should operate normally, and Integrated Casino Resorts should join the optional quarantine list.

## 06 Conclusion

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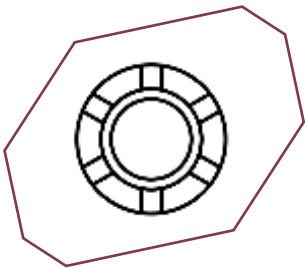
Conclusion

78

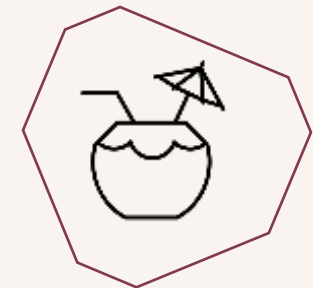
The hotel's operational constraints and long-term strategy led each segment to diverge regarding the most suitable course of action for the response plan, in case of a future pandemic similar to Covid-19.



Casinos play a big part in the Macanese hotel's ability to attract guests and differentiate themselves on the market. **However, Hotels and Lodging facilities have little to no other revenue streams**, depending heavily on accommodation. Therefore, the analyzed hotel segment benefited from operating in the **Designated Hotel list**, seeing how it distributes incoming travelers equally among hotels, **eliminating the need for hotels to differentiate their offer** and compete over market share. Conclusively, the hotels should aim marketing strategies at becoming a great quarantine stay for Macanese residents to **leverage the time as a quarantined hotel to gain attractiveness and higher market share post-covid**.



Contrarily, the best course of action for **casino hotels is to operate as usual**, since their main source of revenue stems from their **gambling services**. This conclusion follows the realization that casino hotels in quarantine lists **lose part of the demand for their casino** due to visitors' concerns about its environment amidst a pandemic. It was found that, even though being part of a medical observation list may increase these hotels' occupancy, that is **not nearly enough to make up for the loss in gambling revenues**. Instead, casino hotels shall focus on their ability to **differentiate themselves outside of the quarantine lists** to gain market share during the crisis. The primary strategy to achieve this goal is to promote the **perception of casino hotels as safe environments**, while still conveying the hotel's value proposition of superior gaming services.



Integrated casino resorts follow an alternative path and join the **Optional Hotel list**. Although hotels would be able to secure higher gross profit by operating normally, the operating profit from joining the optional hotel list is slightly higher than the other two scenarios. This is mostly due to the lower need of staff and the lower investment in marketing efforts following the reduction in services' revenue and the number of bookings for operating in the quarantine list. This scenario further creates positive externalities by securing future revenues from capturing new customers. By providing a suitable quarantine stay, integrated casinos resorts also have a shot at securing customer loyalty. Lastly, by joining the optional hotel list, the integrated casino resorts would improve their *guanxi* with government officials, setting themselves in a more **favorable position to see their gambling licenses renewed**, for example.

## HK Quarantine Support Group

Private group · 62.9K members



Joined

+ Invite



About

Discussion

Featured

Topics

Members

Events

Media

Files

Questions



Catarina Salgado created a poll.

10h · 🌐



Hi everyone! 🙄 Are you all quarantining alone or are you sharing?



Added by you  
Alone



20 votes



Added by you  
4 people sharing the room



2 votes



Added by you  
2 people sharing the room



1 vote



Added by you  
3 people sharing the room



Add an option



Like



Comment

### About

If you are in isolation and looking for help from a buddy please email [hkstaysafe@gmail.com](mailto:hkstaysafe@gmail.com) and we will get back to you ASAP

If you would like ... [See more](#)



#### Private

Only members can see who's in the group and what they post.



#### Visible

Anyone can find this group.



Hong Kong



General

Appendix 1 – Facebook pool, number of people per quarantine stay

|                    | 2017       | 2018       | 2019       | 2020      |
|--------------------|------------|------------|------------|-----------|
| Hotel/F&B/Others   | 475 MOP    | 462 MOP    | 475 MOP    | 102 MOP   |
| Room Revenue       |            |            | 282 MOP    | 77 MOP    |
| F&B and Others     |            |            | 193 MOP    | 25 MOP    |
|                    | 4.5%       | 3.7%       | 4.2%       | 4.4%      |
| Net Gaming         | 10,051 MOP | 12,009 MOP | 10,715 MOP | 2,183 MOP |
|                    | 95.0%      | 95.9%      | 95.3%      | 94.7%     |
| Mall               | 49 MOP     | 53 MOP     | 55 MOP     | 20 MOP    |
| Total Revenue      | 10,575 MOP | 12,524 MOP | 11,245 MOP | 2,304 MOP |
| Occupancy Rate     | 99%        | 100%       | 100%       | 28%       |
| Hotel Rooms        | 497        |            |            |           |
| Rooms Available    | 181405     | 181405     | 181405     | 181405    |
| Rooms Sold         | 179591     | 181405     | 181405     | 50793     |
| Average Daily Rate | -          | -          | 1,553 MOP  | 1,509 MOP |

|              |                                                                                                                                   |
|--------------|-----------------------------------------------------------------------------------------------------------------------------------|
| Assumption 1 | The average daily rate of Starworld is unknown. The metric was assumed to be equal to its most similar competitor - Grand Lisboa. |
| Assumption 2 | Mall revenue is not considered for this analysis as it pertains to the revenue from a temporary pop-up store.                     |

Appendix 2— Starworld Hotel Available Data

|                                                | Rooms Available | Occuoancy Rate | Rooms Sold | Average Monthly Revenues |
|------------------------------------------------|-----------------|----------------|------------|--------------------------|
| January                                        | 15407           | 80%            | 12326      | 19 MOP                   |
| February                                       | 14413           | 23%            | 3354       | 5 MOP                    |
| March                                          | 15407           | 23%            | 3586       | 5 MOP                    |
| April                                          | 14910           | 23%            | 3470       | 5 MOP                    |
| May                                            | 15407           | 23%            | 3586       | 5 MOP                    |
| June                                           | 14910           | 23%            | 3470       | 5 MOP                    |
| July                                           | 15407           | 23%            | 3586       | 5 MOP                    |
| August                                         | 15407           | 23%            | 3586       | 5 MOP                    |
| Septembe                                       | 14910           | 23%            | 3470       | 5 MOP                    |
| October                                        | 15407           | 23%            | 3586       | 5 MOP                    |
| Novembe                                        | 14910           | 23%            | 3470       | 5 MOP                    |
| December                                       | 15407           | 23%            | 3586       | 5 MOP                    |
| Total                                          | 181902          | 28.0%          | 51074      | 77.1 MOP                 |
| Average occupancy rate in Macau during January |                 |                |            | 80%                      |

2

1

### Appendix 3 – Starworld Hotel Designated Quarantine List Scenario Revenue Analysis

|                            |        |
|----------------------------|--------|
| Decrease in Room Revenue   | -28.5% |
| Decrease in gaming Revenue | -58.1% |
| Decrease in F&B Revenue    | -45.2% |

### Appendix 4 – Starworld Hotel Designated vs Standard Scenarios

| Starworld Hotel - Income Statement                                 |                |
|--------------------------------------------------------------------|----------------|
| Revenues                                                           |                |
| Room revenue                                                       | 77,067 MOP     |
| F&B and others                                                     | 25,325 MOP     |
| Nte gaming                                                         | 2,182,570 MOP  |
| Special gaming tax and other related taxes to the Macau Government | -851,202 MOP   |
| Raw materials and other consumables                                | -209,643 MOP   |
| Other income                                                       | 179,694 MOP    |
| Other expenses                                                     | -520,853 MOP   |
| Staff costs                                                        | -1,200,858 MOP |
| EBITDA                                                             | -317,899 MOP   |
| Adjustments                                                        | 42,899.0 MOP   |
| Adjusted EBITDA                                                    | -275,000 MOP   |
| Depreciation                                                       |                |
| Property, plant, and equipment                                     | -348,373 MOP   |
| Amortisation                                                       |                |
| Gaming license                                                     | -24,237 MOP    |
| Computer software                                                  | -4,924 MOP     |
| Finance costs                                                      | -12,448 MOP    |
| Joint ventures                                                     | 81,007 MOP     |
| Associated companies                                               | 13 MOP         |
| Loss/ Profit before taxation                                       | -583,962 MOP   |
| Taxation charge                                                    | -70,075 MOP    |
| Loss/ profit                                                       | -654,037 MOP   |

|           | Rooms Available for Quarantine | Number of Rooms Occupied | Occupancy | Overnight Stays | Deluxe Room | Executive Room | Premier Suite | Starworld Suite | Revenue  |
|-----------|--------------------------------|--------------------------|-----------|-----------------|-------------|----------------|---------------|-----------------|----------|
| January   | 15407                          | 12326                    | 80%       |                 |             |                |               |                 | 19 MOP   |
| February  | 11526                          |                          |           |                 |             |                |               |                 |          |
| March     | 12760                          |                          |           |                 |             |                |               |                 |          |
| April     | 12349                          |                          |           |                 |             |                |               |                 |          |
| May       | 12760                          |                          |           |                 |             |                |               |                 |          |
| June      | 12349                          |                          |           |                 |             |                |               |                 |          |
| July      | 12760                          | 41740                    | 27%       | 52977           | 14 MOP      | 8 MOP          | 7 MOP         | 4 MOP           | 33 MOP   |
| August    | 12760                          |                          |           |                 |             |                |               |                 |          |
| September | 12349                          |                          |           |                 |             |                |               |                 |          |
| October   | 12760                          |                          |           |                 |             |                |               |                 |          |
| November  | 12349                          |                          |           |                 |             |                |               |                 |          |
| December  | 12760                          |                          |           |                 |             |                |               |                 |          |
| Total     | 152890                         | 54065                    | 32%       | 52977           | 14 MOP      | 8 MOP          | 7 MOP         | 4 MOP           | 51.3 MOP |

| Casino Revenues       |           |
|-----------------------|-----------|
| Rolling Chip Win      | 492 MOP   |
| Mass Table Win        | 663 MOP   |
| Electronic Gaming Win | 19 MOP    |
| Total GGR Win         | 1,175 MOP |
| Net Gaming            | 915 MOP   |
| F&B and Others        | 14 MOP    |
| Total Hotel Revenue   | 980 MOP   |
| REVPAR                | 248 MOP   |

|                            |        |
|----------------------------|--------|
| Decrease in Room Revenue   | -33.4% |
| Decrease in gaming Revenue | -58.1% |
| Decrease in F&B Revenue    | -45.2% |

Appendix 6 – Starworld Hotel Optional Quarantine List Scenario Revenue Analysis

Appendix 7 – Starworld Hotel Optional vs Standard Scenarios

## Starworld Hotel - Income Statement

|                                                                    |                       |
|--------------------------------------------------------------------|-----------------------|
| Revenues                                                           |                       |
| Room revenue                                                       | 51,323 MOP            |
| F&B and others                                                     | 13,888 MOP            |
| Net gaming                                                         | 915,271 MOP           |
| Special gaming tax and other related taxes to the Macau Government | -356,956 MOP          |
| Raw materials and other consumables                                | -209,643 MOP          |
| Other income                                                       | 179,694 MOP           |
| Other expenses                                                     | -559,002 MOP          |
| Staff costs                                                        | -1,200,858 MOP        |
| <b>EBITDA</b>                                                      | <b>-1,166,283 MOP</b> |
| Adjustments                                                        | 42,899.0 MOP          |
| <b>Adjusted EBITDA</b>                                             | <b>-1,123,384 MOP</b> |
| Depreciation                                                       |                       |
| Property, plant, and equipment                                     | -348,373 MOP          |
| Amortisation                                                       |                       |
| Gaming license                                                     | -24,237 MOP           |
| Computer software                                                  | -4,924 MOP            |
| Finance costs                                                      | -12,448 MOP           |
| Joint ventures                                                     | 81,007 MOP            |
| Associated companies                                               | 13 MOP                |
| <b>Loss/ Profit before taxation</b>                                | <b>-1,432,346 MOP</b> |
| Taxation charge                                                    | -171,881 MOP          |
| <b>Loss/ profit</b>                                                | <b>-1,604,227 MOP</b> |



Starworld suites, located at the highest floors of the property, and the most expensive and luxurious rooms of the hotel (108sqm).



Premier suits, located on the floors 33 through 38 (72sqm).



Executive rooms, which can be found from the 30th floor until the 38th (36sqm).

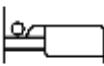


Deluxe rooms, present from the 18th floor until the 29th (36sqm)

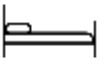
Appendix 8 – Starworld Hotel Optional Quarantine List  
Scenario Income Statement Estimation

Appendix 9 – Starworld Hotel Room offer with room size and details.

Appendix 10 – Prices Charged by The Parisian Macao in Optional Lisys

 **57,14%**

57,14% of the Macau residents surveyed said they would consider staying at The Parisian Macao if it was part of the optional quarantine list, including their first quarantine stay.

 **79,17%**

79,19% of the surveyed non-residents from Hong Kong, Taiwan and Mainland China said they would consider staying at The Parisian Macao if it was part of the optional quarantine list.

 **<775MOP**

The surveyed population willing to stay at The Parisian Macao is, on average, willing to pay per night: 775MOP for a Deluxe Room, 820MOP for an Eiffel Tower King Room, and 960MOP for a Famille Room.



**Deluxe Room** (140)

 33 sqm  
 7F – 29F  
 Standard View  
 **775MOP**



**Eiffel Tower Room** (250)

 33 sqm  
 7F – 29F  
 Eiffel Tower View  
 **820MOP**



**Famille Room** (40)

 47 sqm  
 11F – 25F  
 Standard View  
 **960MOP**



**Cannes Suite** (20)

 47 sqm  
 7F – 25F  
 City View  
 **1000MOP**



**Lyon Suite** (350)

 72 sqm  
 7F – 29F  
 (110) Garden  
 **2000MOP**



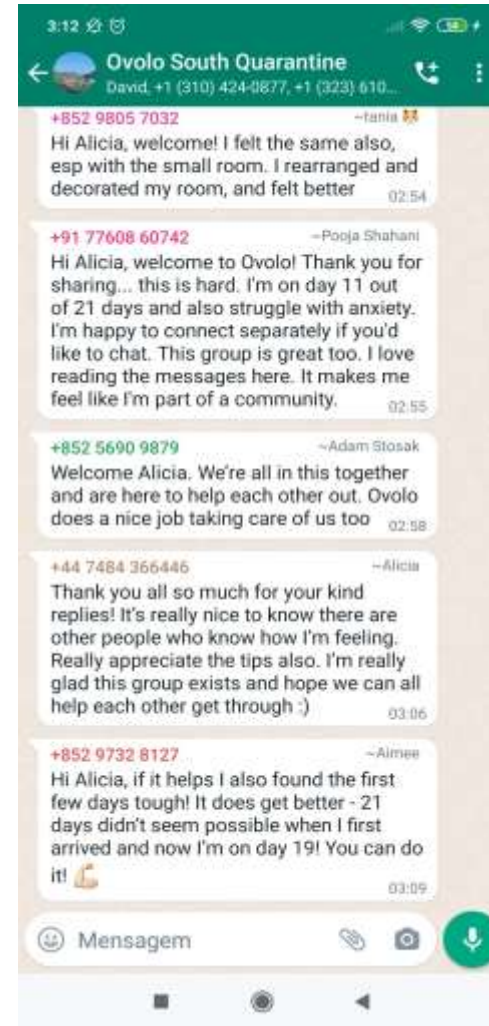
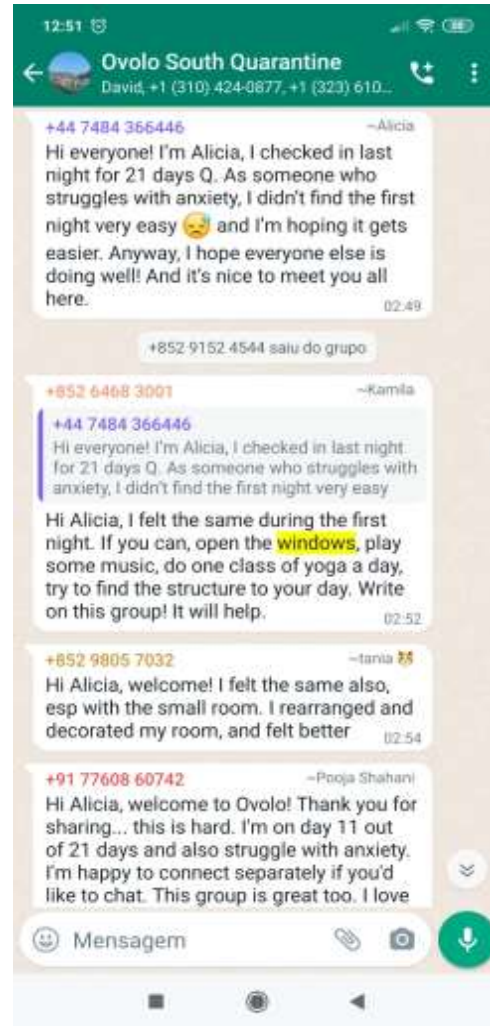
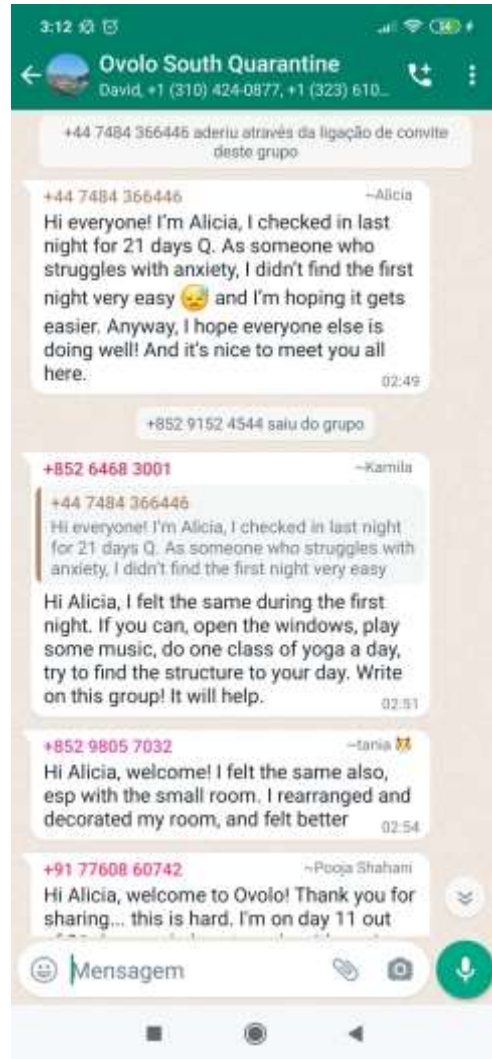
**Champagne Suite** (210)

 72 sqm  
 7F – 29F  
 Eiffel (130)  
 **2100MOP**

Consumers' willingness to pay, taking into account their willingness to pay extra for a better view

Benchmarked to the Grand Sheraton Macao

## Appendix 11 – Guests support on quarantine groups.



Appendix 12 – Trip advisor comments on quarantine stay at the Grand Sheraton Macao



travelerintaiwan  
Shenzhen, China

16 9

### Medical stay quarantine package

Review of Sheraton Grand Macao

Reviewed 11 March 2021 via mobile

I'm currently entering my second week of the 2 week quarantine stay and I chose to do Macau this time due to the hotel selection opportunity as opposed to other Mainland cities where they put you in any hotel that's available on the day of entry. I wasn't expecting too much before coming here but I am taking time to write this review because it has been a top-notch hotel and one of the best I have stayed in with or without quarantine. And I stay over 150 nights a year in hotels on average.

The rooms are decent, slightly aged but very well-kept. Their service has been top-notch, including welcome amenity, the food they provide daily, and any requests that you may have are always answered with sincerity and a real sense of care. I have stayed another quarantine hotels and the difference is beyond night and day.

When I come back to Macau on weekends in the future, I will be back at this property for sure!

Show less

Date of stay: March 2021



Sagar Shrestha wrote a review Oct 2021  
Macau, China • 33 contributions • 2 helpful votes



5

### "Quarantine package at Sheraton Hotel"

"Recently, Due to the covid case at macau, I got call from Health bureau macau, that we are ride same bus with covid passenger but we don't have symptoms but for the security reason they are request to stay quarantine for few days. After that we follow rule and regulation according to government and Luckily we got Sheraton hotel stay for the quarantine till October 8 at room number 2-3430. Recently we are stay quarantine, so I want to share most memorable memories while stay this hotel at Tripadvisor because everyone know the service of that hotel while they need to stay at quarantine. we are not expect excellent service compare to before. When I was enter the room everything is perfect and it's "wow". Room each and every decoration is perfect and bed is more comfortable compare to other hotel. They provide more water more then 24 bottles, more bath amenities, towels, toilet amenities etc which is enough for almost 1 week. We got breakfast, lunch, dinner at accurate time. Just I want to say thank you for your excellent service while we are stay quarantine. We hope we will come back to stay here as soon as possible with our friends and family. Thank you Sheraton hotel for excellent service."

Read less

Date of stay: October 2021

Trip type: Travelled solo

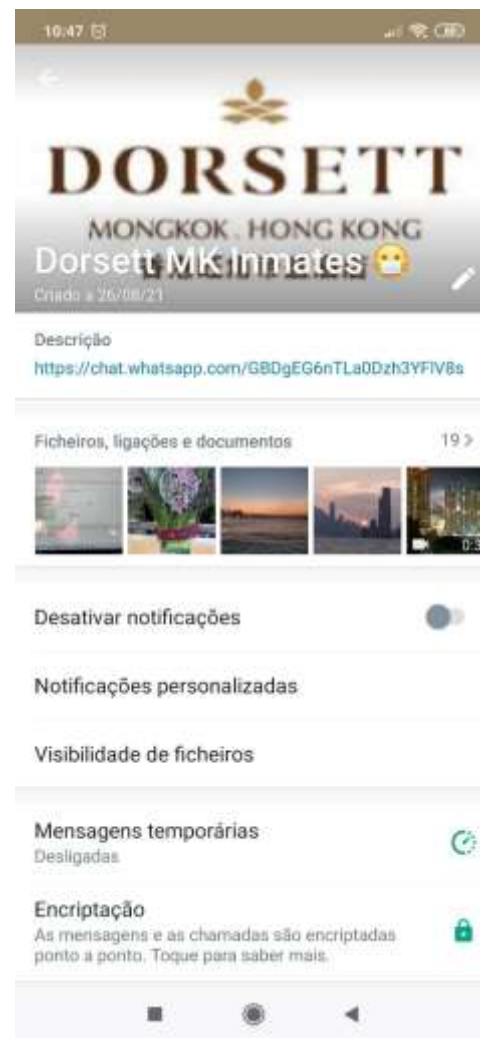
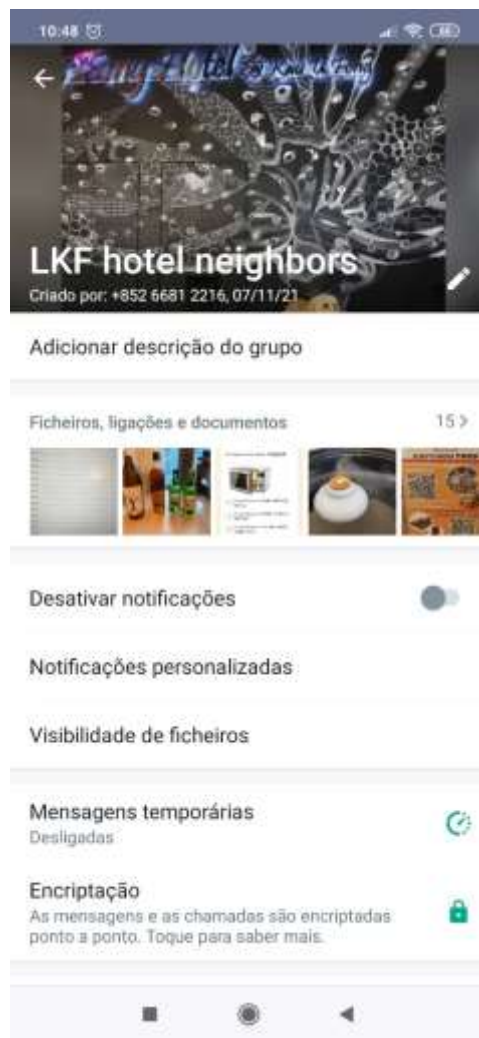
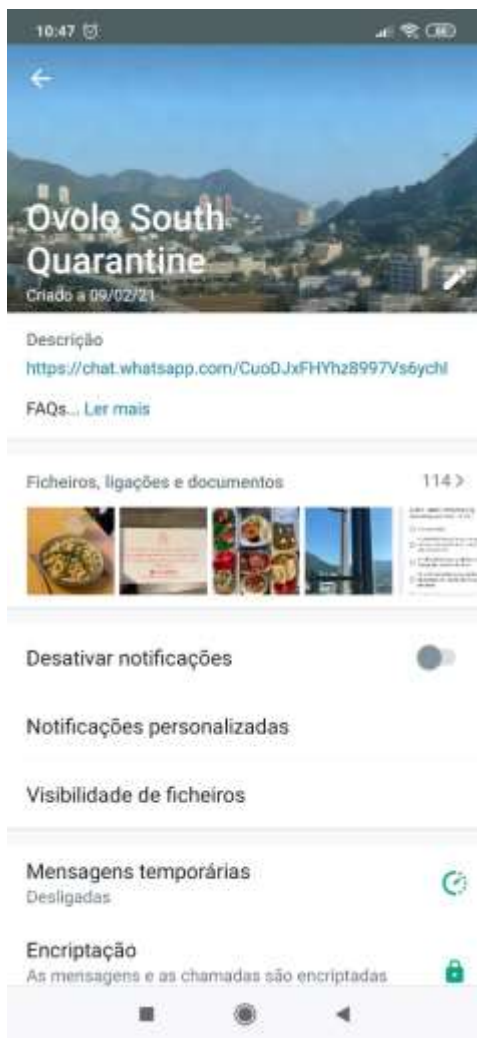
## Appendix 13 – Quarantine Hotel's marketing efforts and meals.



# Appendix 14 – Ovolo South Hotel “Last Supper”



## Appendix 15 – WhatsApp Hong Kong Quarantine Support Groups.



Appendix 16 – Facebook’s HK Quarantine Support Group



### HK Quarantine Support Group

Private group · 64.6K members



Joined ▼

+ Invite



About Discussion Featured Topics Members Events Media Files Questions



Appendix 17 – Facebook’s Macau Quarantine



### Macau Quarantine

Private group · 245 members



Joined ▼

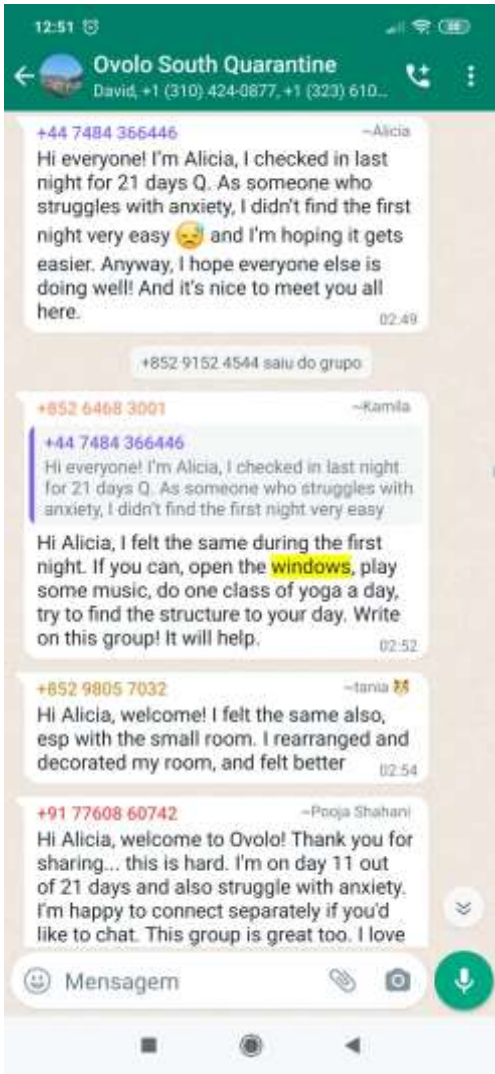
+ Invite



About Discussion Rooms Topics Members Events Media

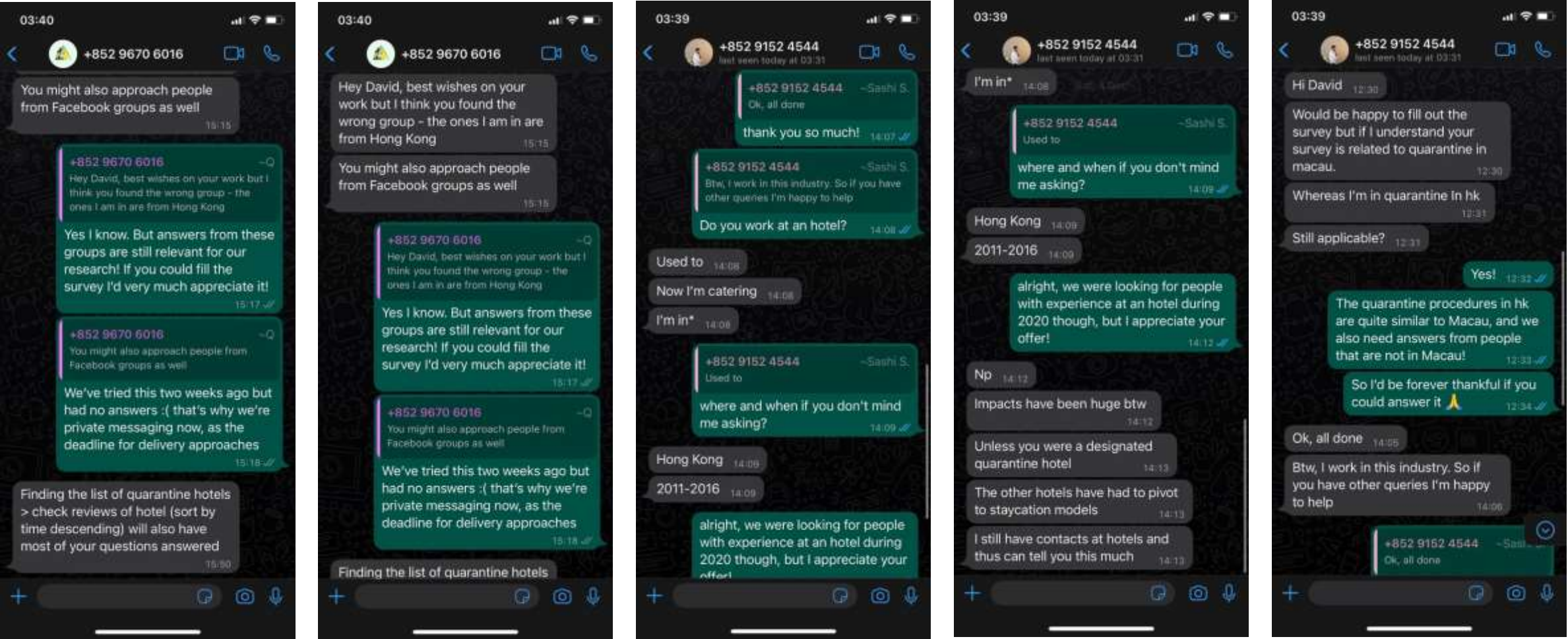


Appendix 18 – Customer insights

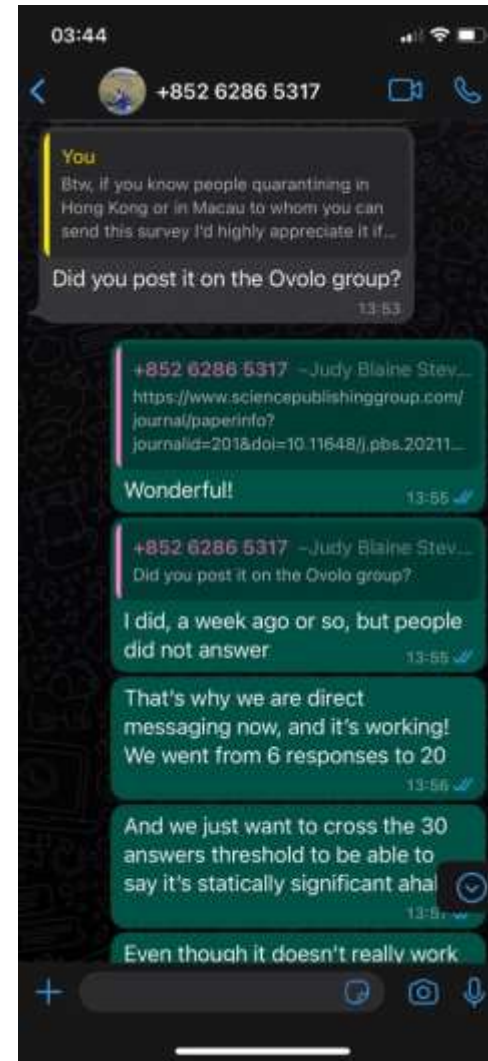
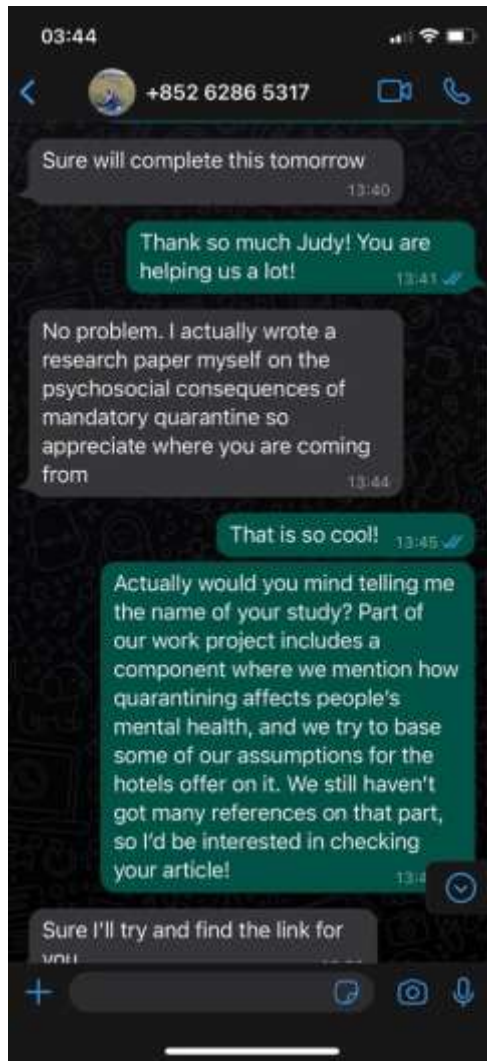


Appendix 19 – Customer insights.

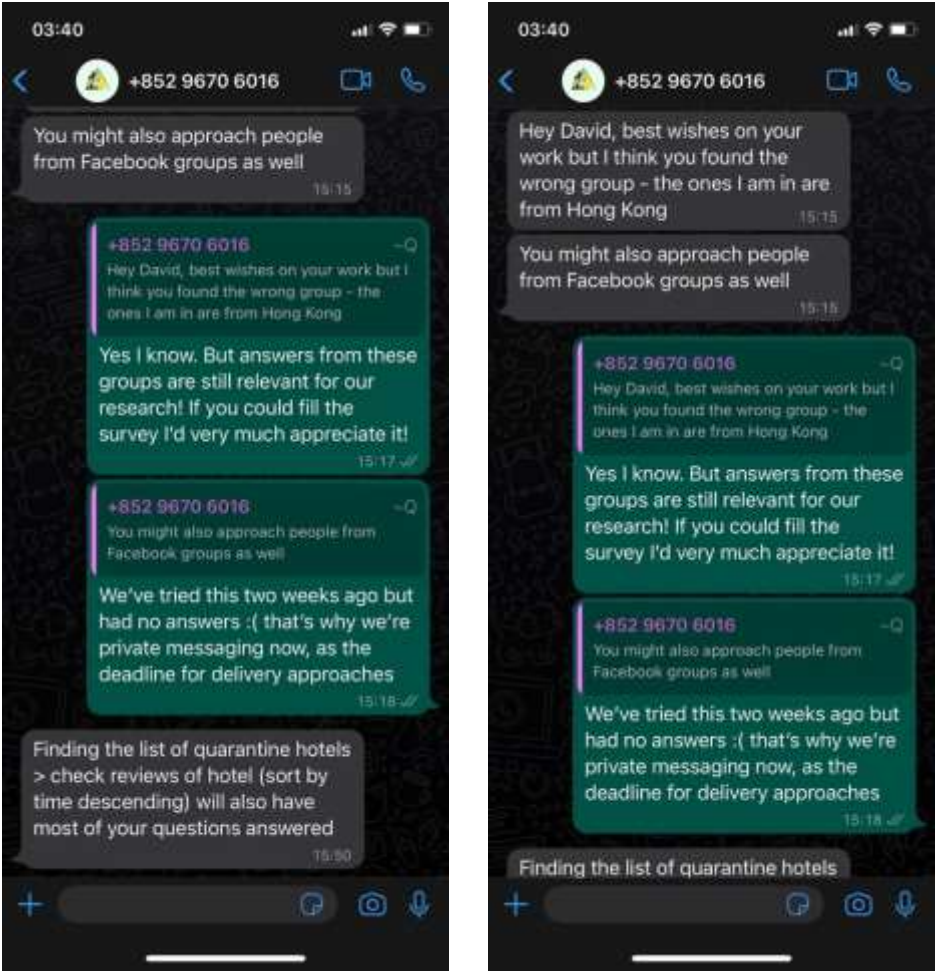
Appendix



## Appendix 20 – Customer insights.



Appendix 21 – Customer insights.



## Appendix 22 – Customer insights.



## Appendix 23 – The Parisian Macao room distribution.

## Appendix 24 - Performance Indicators

| <i>The Parisian Macao</i>         | <i>2020<br/>(MOP)</i> | <i>2019<br/>(MOP)</i> | <i>Impact</i> |
|-----------------------------------|-----------------------|-----------------------|---------------|
| <i>Total Room Revenue</i>         | <i>264 990 000</i>    | <i>1043900000</i>     | <i>-75%</i>   |
| <i>Occupancy Rate</i>             | <i>27,30%</i>         | <i>97,20%</i>         | <i>-72%</i>   |
| <i>Average Daily Rate</i>         | <i>1164,35</i>        | <i>1276,77</i>        | <i>-9%</i>    |
| <i>Revenue per available room</i> | <i>313,17</i>         | <i>1244,65</i>        | <i>-75%</i>   |
| <i>Total Number of Rooms</i>      | <i>846154</i>         | <i>838710</i>         | <i>-</i>      |
| <i>Rooms Sold</i>                 | <i>227586</i>         | <i>817610</i>         | <i>-72%</i>   |

## Appendix 25 - Standard Scenario 2020 Revenue Discrimination

| Standard Scenario 2020 |                 |                |            |                        |
|------------------------|-----------------|----------------|------------|------------------------|
| Month                  | Rooms Available | Occupancy rate | Rooms Sold | Approx Monthly Revenue |
| January                | 72323           | 80%            | 57858      | 67367428               |
| February               | 63213           | 22,51%         | 14229      | 16567162               |
| March                  | 69986           | 22,51%         | 15753      | 18342215               |
| April                  | 67728           | 22,51%         | 15245      | 17750530               |
| May                    | 69986           | 22,51%         | 15753      | 18342215               |
| June                   | 67728           | 22,51%         | 15245      | 17750530               |
| July                   | 69986           | 22,51%         | 15753      | 18342215               |
| August                 | 69986           | 22,51%         | 15753      | 18342215               |
| September              | 67728           | 22,51%         | 15245      | 17750530               |
| October                | 69986           | 22,51%         | 15753      | 18342215               |
| November               | 67728           | 22,51%         | 15245      | 17750530               |
| December               | 69986           | 22,51%         | 15753      | 18342215               |
|                        | 826364          | 27,3%          | 227586     | 264990000              |

Note: Average occupancy rate for Macau hotels in January is 80%

Rooms available deducted from Rooms Sold accounting for rooms under maintenance, being therefore diferente than the total numbers of rooms

Appendix 26 - Designated Scenario 2020 Revenue Discrimination

| Designated Quarantine List     |                           |          |                 |          |                                          |                                                   |                                        |          |           |
|--------------------------------|---------------------------|----------|-----------------|----------|------------------------------------------|---------------------------------------------------|----------------------------------------|----------|-----------|
| Rooms used for quarantine      |                           |          |                 |          | Rooms not used for quarantine            |                                                   |                                        |          |           |
| Rooms available for quarantine | Rooms Sold for quarantine | Occ Rate | Overnight Stays | Revenue  | Rooms available for non-quarantine stays | People that feel comfortable staying at the hotel | Rooms Sold for non-quarantine purposes | Occ Rate | Revenue   |
| 0                              | 0                         | 0        | 0               | 0        | 72323                                    |                                                   | 57858                                  | 80%      | 67367428  |
| 30362                          | 96537                     | 24,58%   | 122528          | 49011099 | 32851                                    | 19,4%                                             | 2754                                   | 8,38%    | 3206547   |
| 37135                          |                           | 24,58%   |                 |          | 32851                                    |                                                   | 3049                                   | 9,28%    | 3550106   |
| 34878                          |                           | 24,58%   |                 |          | 32851                                    |                                                   | 2951                                   | 8,98%    | 3435587   |
| 37135                          |                           | 24,58%   |                 |          | 32851                                    |                                                   | 3049                                   | 9,28%    | 3550106   |
| 34878                          |                           | 24,58%   |                 |          | 32851                                    |                                                   | 2951                                   | 8,98%    | 3435587   |
| 37135                          |                           | 24,58%   |                 |          | 32851                                    |                                                   | 3049                                   | 9,28%    | 3550106   |
| 37135                          |                           | 24,58%   |                 |          | 32851                                    |                                                   | 3049                                   | 9,28%    | 3550106   |
| 34878                          |                           | 24,58%   |                 |          | 32851                                    |                                                   | 2951                                   | 8,98%    | 3435587   |
| 37135                          |                           | 24,58%   |                 |          | 32851                                    |                                                   | 3049                                   | 9,28%    | 3550106   |
| 34878                          |                           | 24,58%   |                 |          | 32851                                    |                                                   | 2951                                   | 8,98%    | 3435587   |
| 37135                          |                           | 24,58%   |                 |          | 32851                                    |                                                   | 3049                                   | 9,28%    | 3550106   |
| 392685                         |                           |          |                 | 49011099 | 433679                                   |                                                   | 90709                                  | 20,92%   | 105616958 |

Appendix 27 - Optional Scenario 2020 Revenue Discrimination

| Scenario B                     |                                  |                           |          |                 |             |                                          |                                                   |                                      |                                        |          |           |
|--------------------------------|----------------------------------|---------------------------|----------|-----------------|-------------|------------------------------------------|---------------------------------------------------|--------------------------------------|----------------------------------------|----------|-----------|
| Rooms used for quarantine      |                                  |                           |          |                 |             | Rooms not used for quarantine            |                                                   |                                      |                                        |          |           |
| Rooms available for quarantine | Max Rooms for quarantine per day | Rooms Sold for quarantine | Occ Rate | Overnight Stays | Revenue     | Rooms available for non-quarantine stays | People that feel comfortable staying at the hotel | Min Rooms for non-quarantine per day | Rooms Sold for non-quarantine purposes | Occ Rate | Revenue   |
| 72323                          | 0                                | 0                         | 0        | 0               | 0           | 72323                                    | 80%                                               | 1866                                 | 57858                                  | 80%      | 67367428  |
| 30362                          | 2235                             | 295659                    | 75,29%   | 375260          | 456930325   | 32851                                    | 19,4%                                             | 98                                   | 2 754                                  | 8,38%    | 3206547   |
| 37135                          | 2235                             |                           | 75,29%   |                 |             | 32851                                    | 19,4%                                             | 98                                   | 3 049                                  | 9,28%    | 3550106   |
| 34878                          | 2235                             |                           | 75,29%   |                 |             | 32851                                    | 19,4%                                             | 98                                   | 2 951                                  | 8,98%    | 3435587   |
| 37135                          | 2235                             |                           | 75,29%   |                 |             | 32851                                    | 19,4%                                             | 98                                   | 3 049                                  | 9,28%    | 3550106   |
| 34878                          | 2235                             |                           | 75,29%   |                 |             | 32851                                    | 19,4%                                             | 98                                   | 2 951                                  | 8,98%    | 3435587   |
| 37135                          | 2235                             |                           | 75,29%   |                 |             | 32851                                    | 19,4%                                             | 98                                   | 3 049                                  | 9,28%    | 3550106   |
| 37135                          | 2235                             |                           | 75,29%   |                 |             | 32851                                    | 19,4%                                             | 98                                   | 3 049                                  | 9,28%    | 3550106   |
| 34878                          | 2235                             |                           | 75,29%   |                 |             | 32851                                    | 19,4%                                             | 98                                   | 2 951                                  | 8,98%    | 3435587   |
| 37135                          | 2235                             |                           | 75,29%   |                 |             | 32851                                    | 19,4%                                             | 98                                   | 3 049                                  | 9,28%    | 3550106   |
| 34878                          | 2235                             |                           | 75,29%   |                 |             | 32851                                    | 19,4%                                             | 98                                   | 2 951                                  | 8,98%    | 3435587   |
| 37135                          | 2235                             |                           | 75,29%   |                 |             | 32851                                    | 19,4%                                             | 98                                   | 3 049                                  | 9,28%    | 3550106   |
| 392685                         |                                  |                           | 69,02%   |                 | 456 930 325 | 433679                                   |                                                   |                                      | 90709                                  | 20,92%   | 105616958 |

Appendix 28 - Other Services Revenue

|                                         | Standard Scenario<br>(USD) | Standard Scenario<br>(MOP) | Percentage of people<br>who wouldnt be<br>comfortable using the<br>services | Designated      | Optional    | Loss        |
|-----------------------------------------|----------------------------|----------------------------|-----------------------------------------------------------------------------|-----------------|-------------|-------------|
| Total Casino<br>Revenue                 | 180 000 000                | 1 445 400 000              | 58%                                                                         | 606135483,<br>9 | 606135483,9 | 839 264 516 |
| Total Mall<br>Revenues                  | 27 000 000                 | 216 810 000                | 35%                                                                         | 139877419,<br>4 | 139877419,4 | 76 932 581  |
| Food and beverage                       | 14 000 000                 | 112 420 000                | 45%                                                                         | 61649677,4<br>2 | 61649677,42 | 50 770 323  |
| Convention, ferry,<br>retail and others | 5 000 000                  | 40 150 000                 | 45%                                                                         | 22017741,9<br>4 | 22017741,94 | 18 132 258  |
|                                         |                            |                            |                                                                             |                 |             | 985 099 677 |

## Appendix 29 - Standard Scenario 2020 Cost Discrimination

| The Parisian Macao Costs              | 2020<br>MOP   | 2019<br>MOP   | Impact  |
|---------------------------------------|---------------|---------------|---------|
| Casino                                | 1 839 653 415 | 6 414 501 098 | -71,3%  |
| Rooms                                 | 188 233 423   | 357 643 503   | -47,4%  |
| Mall                                  | 58 791 071    | 78 866 071    | -25,5%  |
| Food and beverage                     | 234 367 119   | 486 650 336   | -51,8%  |
| Convention, ferry, retail and other   | 62 843 478    | 267 757 834   | -76,5%  |
| Service Costs                         | 2 383 888 506 | 7 605 418 841 | -68,7%  |
| The Parisian Macao Operating Expenses | 2020<br>MOP   | 2019<br>MOP   | Impact  |
| General and Administrative expenses   | 650 929 793   | 1 049 971 730 | -38,0%  |
| Corporate Expenses                    | 2 458 265 135 | 194 049 217   | 1166,8% |
| Pre-opening Expenses                  | 575 338 649   | 34 597 922    | 1562,9% |
| Operating Expenses                    | 3 684 533 576 | 1 278 618 869 | 188,2%  |
| Total                                 | 6 068 422 082 | 8 884 037 711 | -31,7%  |

## Appendix 30 - All Scenarios Cost of Rooms Sold

|                        | 2020             | 2020A                    | 2020B   |
|------------------------|------------------|--------------------------|---------|
| Rooms Sold             | 227 586          | 187 246                  | 386 368 |
| Average lenght of Stay | 1,9              | 14                       | 14      |
| Number of bookings     | 119782           | 13375                    | 27598   |
| Impact on costs        | -47,4%           | 11,2%                    | 23,0%   |
| Cost of Rooms Sold     | 188<br>(to 2019) | 21<br>(to 2020 scenario) | 43      |

## Appendix 31 - All Scenario Other Services Revenue and Expenses Impact

| Growth Rates                                      | Scenario Standard        |                             | Designated                       |                 | Operational    |                 |
|---------------------------------------------------|--------------------------|-----------------------------|----------------------------------|-----------------|----------------|-----------------|
|                                                   | Revenue Impact 2019-2020 | Expenses Impact 2019 - 2020 | Revenue Impact 2019 - Designated | Expenses Impact | Revenue Impact | Expenses Impact |
| Casino                                            | -86,9%                   | -71,3%                      | -94,5%                           | -77,6%          | -94,5%         | -77,6%          |
| Mall                                              | -49,1%                   | -25,5%                      | -67,1%                           | -34,8%          | -67,1%         | -34,8%          |
| Food and beverage                                 | -80,0%                   | -51,8%                      | -89,0%                           | -57,7%          | -89,0%         | -57,7%          |
| Convention, ferry, retail and other               | -80,0%                   | -76,5%                      | -86,9%                           | -83,2%          | -86,9%         | -83,2%          |
| General and Administrative expenses (Net Revenue) | -84,3%                   | -38,0%                      | -92,6%                           | -41,7%          | -89,6%         | -40,4%          |
| Corporate Expenses (Net Revenue)                  | -84,3%                   | 1166,8%                     | -92,6%                           | 1281,3%         | -89,6%         | 1240,2%         |
| Pre-opening Expenses (Net Revenue)                | -84,3%                   | 1562,9%                     | -92,6%                           | 1716,2%         | -89,6%         | 1661,3%         |

## Appendix 36 - Absolute Other Services Costs All Scenarios

| Costs                                             | Scenario Standard | Designated    | Operational   |
|---------------------------------------------------|-------------------|---------------|---------------|
| Casino                                            | 1 839 653 415     | 1 439 866 315 | 1 439 866 315 |
| Mall                                              | 58 791 071        | 51 393 708    | 51 393 708    |
| Food and beverage                                 | 234 367 119       | 205 883 530   | 205 883 530   |
| Convention, ferry, retail and other               | 62 843 478        | 45 059 053    | 45 059 053    |
| General and Administrative expenses (Net Revenue) | 650 929 793       | 611 794 099   | 625 823 165   |
| Corporate Expenses (Net Revenue)                  | 2 458 265 135     | 2 486 276 939 | 2 406 674 190 |
| Pre-opening Expenses (Net Revenue)                | 540 740 726       | 593 773 406   | 574 762 654   |

## Appendix 32 - All Scenarios Operating Profit

| Operating profit                    |                  |                |                |                |
|-------------------------------------|------------------|----------------|----------------|----------------|
|                                     | 2019             | 2020           | Designated     | Optional       |
| Room Revenue                        | 1 043 900 000,00 | 264 990 000,00 | 154 628 056,69 | 562 547 283,32 |
| Room Costs                          | 357 643 503,10   | 188 233 422,68 | 21 017 875,39  | 43 368 856,46  |
| Room Gross Profit                   | 686 256 496,90   | 76 756 577,32  | 133 610 181,30 | 519 178 426,87 |
| Room Gross Margin                   | 66%              | 29%            | 86%            | 92%            |
| Services Revenues                   | 12 205 600 000   | 1 814 780 000  | 829 680 323    | 829 680 323    |
| Services Cost                       | 7 605 418 841    | 2 195 655 083  | 1 742 202 606  | 1 742 202 606  |
| Services Gross Profit               | 4 600 181 159    | -380 875 083   | -912 522 283   | -912 522 283   |
| Services Gross Margin               | 38%              | -21%           | -110%          | -110%          |
| Total Revenue                       | 13 249 500 000   | 2 079 770 000  | 984 308 379    | 1 392 227 606  |
| Total Costs                         | 7 963 062 345    | 2 383 888 506  | 1 763 220 481  | 1 785 571 462  |
| Gross Profit                        | 5 286 437 655    | -304 118 506   | -778 912 102   | -393 343 856   |
| Gross Margin                        | 40%              | -15%           | -79%           | -28%           |
| General and Administrative expenses | 1 049 971 730    | 650 929 793    | 611794099,2    | 625823165,4    |
| Corporate Expenses                  | 194 049 217      | 2 458 265 135  | 2486276939     | 2406674190     |

| Pre-Opening Expenses                                |                   |                  |                  |                  |
|-----------------------------------------------------|-------------------|------------------|------------------|------------------|
| Employee Benefits                                   |                   |                  |                  |                  |
| Wages, salaries, bonus and termination costs        | 314600840         | 249236402        | 120475469        | 153485293        |
| Staff Meals                                         | 15661352          | 12638986         | 1979891,1        | 4490824,7        |
| Pension Costs - defined contribution plan           | 457710000         | 279018410        | 279018410        | 279018410        |
| Share-based compensation, net of amount capitalized | 321200000         | 120450000        | 120450000        | 120450000        |
| other employee benefits                             | 112420000         | 281050000        | 281050000        | 281050000        |
| <b>Total Employee Benefits</b>                      | <b>1221592192</b> | <b>942393798</b> | <b>802973770</b> | <b>838494528</b> |
| Advertising and Promotion                           | 13 538 317        | 2 465 643        | 1228676          | 1636798          |
| Contract labor and services                         | 24 090 000        | 16 060 000       | 16 060 000       | 16 060 000       |
| Utilities and operating supplies                    | 0                 | 16 060 000       | 16 060 000       | 16 060 000       |
| Other support services                              | 8 030 000         | 0                | 0                | 0                |
| Total Pre-Opening Expenses                          | 1267250509        | 976979441        | 836322446        | 872251326        |
| operating expenses                                  | 2511271456        | 4086174369       | 3934393484       | 3904748681       |
|                                                     | 2 775 166 199     | -4 390 292 874   | -4 713 305 586   | -4 298 092 537   |
| <b>Operating Profit</b>                             |                   |                  |                  |                  |
| Decrease from 2019                                  |                   | -258,2%          | -269,8%          | -254,9%          |

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