

CHARTWELL TECHNOLOGY INC.: STRATEGIC MARKET ENTRY INTO AN EMERGING ASIAN ECONOMY

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ABSTRACT

Globalization has prompted an increasing number of multinationals to develop expansion strategies for emerging markets. China is considered one of the most promising economies, and it is receiving major foreign investments for the marketing of varied products and services. Online gambling software providers have also responded to potential Asian gaming opportunities and they are constantly trying to capture operators in Asia. Their progress are hindered from the ambiguity of online gambling laws in China, and the absence of product customization that appeals to cultural values and needs of Chinese online gamblers.

Through analyzing China's business environment, the online gambling software providers' industry, and the internal situation of Chartwell Technology Inc, a company that produces online gaming software, this paper recommends how the Chinese market should be entered and how Chartwell can effectively market its product. This paper in no way endorses or promotes online gambling.

Keywords: Foreign Market entry ; Online Gambling Industry; Gambling Software ; China ; Macau ; Chinese Culture

EXECUTIVE SUMMARY

This paper is aimed at exploring and analyzing an expansion opportunity for Chartwell Technology Inc, an online gambling software development and licensing company in China. Chartwell recently expanded its operations in Europe, and is looking to enter emerging East Asian countries.

The online gambling sector is an emerging and promising industry for gambling software providers, but it is also faced with uncertain regulatory environment in many countries. Governments have been trying to control and at times ban online gambling, but have had limited success, mainly due to the ease with which it can be carried out by Internet users from the comfort of their homes, and lack of jurisdictional control over web-sites that are domiciled in regions where online gambling is legal (for e.g. the Caribbean islands, Costa Rica and several regions in Australia and New Zealand). The countries that allow online gambling cite that this helps them generate additional revenues through taxes that would otherwise go to counterpart countries that allow online gambling and have websites domiciled in their territories.

This report shows that Chinese online gambling market is characterized by strong demand, and there are hundreds of websites that target end-users from China. The industry for gambling software providers, like Chartwell, is also attractive. On the other hand, the regulatory environment at this point in time discourages online gambling activity, thereby making the sector's viability unpredictable. However, the picture is not unfavourable, as various sources suggest that the Chinese government seems to be interested in enacting laws to regulate online gambling activity and thereby benefit from the tax revenues. No concrete official promise has been made so far though.

Through analyzing the Chinese environment from various perspectives and matching them with Chartwell's strengths, weaknesses, opportunities and threats we have designed a process model that describes the managerial issues for market entry into China. Based on our analyses, we recommend that Chartwell set up a marketing office in Macau, China. This office will give the company a strategic entry into the Chinese market with minimal investment risk, and will be utilized by establishing brand recognition of its software and keeping the company up-to-date with latest developments in the regulatory environment, with specific reference to the online gambling industry. If the regulatory environment becomes increasingly favourable, Chartwell should expand into Mainland China and reap the benefits of its established position in Macau. This geographic position can be used to exploit other East Asian countries when their regulatory environment clears out.

It should be noted that this paper only provides Chartwell Technology with an analysis of the online gambling market and recommendations on how to capture it, and it is in no way intended to promote illegal gambling by any means, or to argue whether or not gambling should be legalized.

DEDICATION

Amirali Kazani: This project is dedicated to my loving parents, my caring brother (my mentor too), my sweet sister-in-law, and my cute nieces. Thank you all for always believing in me, always guiding me towards the path to success, supporting me when I was down, and making me what I am today. It is all because of God and you. I love you all!!!

Eric Wong: I would like to offer my deepest appreciation and thanks to my loving family. In moments of self-doubt my family was a pillar of support and guidance. Your unfailing encouragement has motivated me to do my best every day. Thank you, and I love you.

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SFU Business was instrumental to our academic progress. We would like to thank our MBA professors who inspired and challenged us to reach our potential: Dr Bert Schoner, Dr Michael Parent, Dr Ed Bukszar, Dr Rosalie Tung, Dr Jing Li, Dr Dave Thomas, Dr Ian Hand, Dr Mark Wexler, and Dr Hemant Merchant.

Finally, we would like to thank each other for the mutual support and encouragement throughout this intense project. The commitment, learning and experiences together will always be remembered. Best wishes and good luck in our future endeavours!

The second reader, Dr. Sudheer Gupta, wishes to dissociate himself from the opinions presented in this thesis. His signature on the front page only applies to grammar and structure of the thesis, not to its subject and content.

The analysis and opinions presented in this thesis are those of the authors, and in no way represent the opinions of the readers, Faculty of Business Administration or Simon Fraser University.

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1 INTRODUCTION

Multinational companies searching for new fortunes have looked to China's market as a source of international economic growth and competitive advantage. China's large consumer base provides opportunities to sell products on a large scale that attracts companies from all over the world. However, China is a unique Asian market with an abundance of market barriers. China's business environment changes very rapidly creating obscure economic risks that could obstruct successful market entry.

This applied project report employs academic cultural principles to the process of software customization and the marketing of Internet games in China's emerging online gambling industry. By analyzing Chartwell's internal and external situation, in the context of China, this paper attempts to draw marketing recommendations for Chartwell's diverse products and services. Due to the plethora of information relevant to Chartwell's China strategy, this thesis provides a value creation process model useful for guiding the progression of Chartwell's market entry to any Asian country. As a result, this applied project can be utilized as a useful tool for software providers wanting to enter Asian markets.

In respect to the Chinese market, the purpose of this report is to answer several important market entry questions for Chartwell Technologies. What are the most current political, economic, technological and social trends in China today? What legal and bureaucratic hurdles must Chartwell overcome to sell foreign products and services in China? Which companies in the online gaming software industry are expanding geographically and in which regions are they targeting? How does one do business with Internet consumers and operators in a cultural setting that is considerably different than one's own? And how much strategic customization of products

and services is required to sell to Chinese operators and end-users? Answers to these questions will provide Chartwell with insight into China's gaming environment.

This paper evaluates the relevant business issues presented in the above questions. We have used our findings and processed them in conjunction with Chartwell's competencies to develop a customized competitive strategy. This paper begins by describing Chartwell's internal organizational structure and suite of gaming products. This is followed by discussion of the external environment by introducing topics in politics, economics, Internet law, social and e-commerce issues relevant to gaming software providers. There is specific emphasis on Chinese culture and gambling studies done in China, which has implications on product development and marketing strategy. Finally, utilizing these findings and information gathered, this paper will make a recommendation regarding an appropriate entry plan for Chartwell's online gaming software, and a marketing strategy that will be most useful to promote its product in the Chinese culture.

It should be noted that this paper is in no way intended to promote illegal gambling by any means, or to argue whether or not gambling should be legalized. It is only intended to provide an analysis of the current market for online gambling, and suggest alternatives to Chartwell Technologies Inc. for establishing a presence in a region where gambling activities are legal.

2 CHARTWELL TECHNOLOGY INC. - THE COMPANY

2.1 Background

Chartwell Technologies is a gaming software company that has international presence. Chartwell's main product offerings include Internet bingo, poker, and cell phone gaming software, which are available for download, in browser and wireless options. Major clients of Chartwell include Harrah's Entertainment in Las Vegas and Paradisebet Limited in the United Kingdom.

The corporation was incorporated as 'Napier Explorations Inc.' in British Columbia on December 16, 1987 to engage in the business of mineral exploration. The corporation's mineral properties were abandoned in April of 1992, and it changed its name to Chartwell Ventures Ltd in November 1992. In November, 1998, the corporation acquired Gateway Technology Inc which was engaged in the business of developing software and integrating computer hardware and software for Internet and Intranet based computer applications. After acquiring Gateway Technology Inc., Chartwell Ventures shifted its business strategy from the oil and gas industry to the software technology development and licensing industry. In December 1998, the company changed its name to 'Chartwell Technology Inc' (Chartwell means Chartwell technologies hereafter). Effective December 8, 1998 Chartwell Technologies became a public company on the Toronto Stock Exchange and moved to Calgary, Alberta.

2.2 Recent Events in Chartwell's History and Financial Performance

Chartwell started developing online gambling software in 1999. Since then, it has been involved in the development, marketing and market development of its gaming software. Marketing and sales efforts were focused mainly on Europe and Asia due to the perceived

demand from these regions. Chartwell's revenues increased from \$ 0.17 million in year 2000 to \$ 7.3 million in 2003. During the fiscal year 2004, Chartwell increased the size and scope of its sales and marketing organization and established London, UK as a leading sales and marketing office. This gave the company a strong corporate presence in a key market area, i.e. Europe. In October 2004, Chartwell entered the Deloitte Technology Fast 50 list that includes companies which exhibit phenomenal revenue growth over a five years period. Chartwell was ranked 6th of the fastest 50 growing technology companies in Canada as selected by Deloitte¹. In May 2005, Chartwell acquired MicroPower, an online poker supplier, to continue advances in the growing online poker market². Chartwell's revenues reached \$ 17.8 million in year 2005³. At the end of 2005, Chartwell was in discussions with third-party gaming software suppliers to offer their games to Chartwell's licensees, pursuant to a revenue sharing arrangement commencing from 2006.

2.3 Organizational Structure

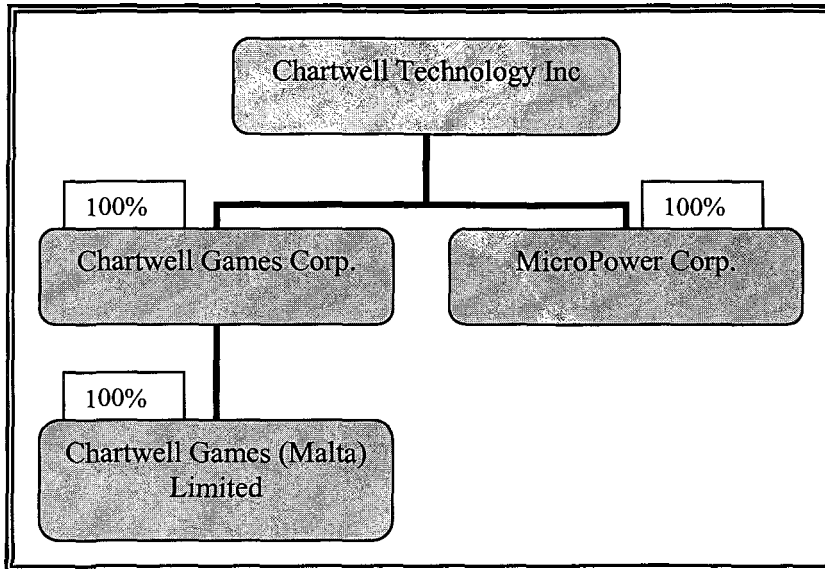
Today, Chartwell is headquartered in Calgary, Canada and have software development operations in Calgary and Vancouver, Canada and sales and marketing operations in Malta and London, U.K. Their corporate structure is as follows: (See Figure 1)

¹ Mathews CCN, "Chartwell Technology Makes Deloitte Fast 50 List," *Arrivenet Press*, 04 Oct 2004

² "Chartwell Acquires Micropower," *Casino City News*, 27 May 2005

³ Chartwell Technology :Annual Report [Online] 2005

Figure 1: Chartwell Technology Inc.'s Corporate Structure



Data Source: Annual Information Form-Chartwell Technology Inc, 2005

2.4 Products & Services

2.4.1 Chartwell Gaming System

Chartwell does not operate any gaming sites, nor does it operate the clients' sites. It provides gaming systems to its clients, who then offer the games to players. Players never place bets with Chartwell directly or indirectly. Instead of competing with its clients, Chartwell enters into "technology partnerships" with them, eliminating any potential for conflict of interest. It offers a customized approach, creating a unique system for each individual client that complements their current online operation and brand image. CyberBoss, Chartwell's administration, marketing and reporting software, and CyberBanx, its proprietary e-commerce engine, provide its clients with all the tools necessary for the successful operation and promotion of their Chartwell Gaming System.

Their entertainment software products consist of Online Games combined in a casino format. The Online Casino comprises of a large selection of card games, table games, slots and video poker. These games include both in-browser and download versions and a selection of

these games can also be played using Java enabled mobile devices and on networked kiosks. A brief description of these follows:

2.4.1.1 Multiplayer Poker

The Chartwell Multiplayer Poker product gives players a leading selection of the top poker games including Texas Hold'em. Chartwell Multiplayer Poker is licensed as part of a third party hosted Poker community, allowing players from multiple sites and using multiple currencies to play together. Each member of the community retains full control and confidentiality of their own players and data, allowing them to use existing payment systems and guaranteeing a completely secure environment for their players.

2.4.1.2 Chartwell Bingo

Chartwell's in-browser, multiplayer North American (75-ball) and UK (90-ball) bingo systems are Flash based for smooth, state of the art graphics and can be fully customized to match client's existing branding and themes. Clients have the option of joining the Chartwell Bingo community, where bingo players from multiple Chartwell clients can all play and chat together in the same games. Chartwell Bingo can also be deployed as a stand-alone product or integrated with a current online operation.

2.4.1.3 Soft Games

Alongside the traditional suite of casino games, Chartwell now offers an exciting range of eleven different 'soft' or fixed odds games to meet the new breed of gaming customer. Soft games include scratch cards, pull tabs, lottery-style games and hi/lo-based games which are more chance-based than games like poker or sports-betting which require higher levels of skill and strategy. These games have gained widespread acceptance as a form of inexpensive

entertainment, allowing Chartwell to expand the online gaming demographic by appealing to a larger audience, including non -traditional gaming markets.

2.4.1.4 Mobile Games

Chartwell has created a strong suite of casino and soft games for Java-enabled mobile devices, such as cellular phones. Games feature custom branding and animation. Clients offering other Chartwell products on their site can easily add mobile games, with players accessing the mobile download using their existing user names, passwords and player accounts. Chartwell is able to deploy its mobile casino suite across all leading mobile phone manufacturers and wireless carrier networks. Its target is to support the vast majority of phones in the UK and European marketplace at all times.

2.4.2 Managed Service Solution

The clients of Chartwell can be classified into two categories: those who are large, sophisticated gaming entities with a solid information technology (I.T.) infrastructure; and secondly, the operators who have an online presence but who are not currently involved in online gaming. For the latter category of clients who desire to enter online gaming industry, Chartwell offers to arrange a managed service solution through EliteClub Management N.V. It is an independent company acting as Chartwell's exclusive provider of managed services. They hold the gaming license and host the games on behalf of its clients, provide player access, manage the operations of the gaming site on a day-to-day basis and supply the hardware, connectivity and any third party software required by the gaming system. The client is responsible for marketing and player acquisition. The clients maintain complete ownership of their player database, and have access to real-time reports on the activities of their gaming site.

2.5 Vision for Future

Chartwell plans to:

- Increase its market share in the traditional Internet casino market, with a continued emphasis on the European market
- Explore and exploit emerging Asian economies, specially China
- Establish and further develop the liquidity of various gaming communities, thereby increasing revenues and gaining recognition among end-users.
- Introduce new products
- Establish market share in these new market areas.

Chartwell will continue to focus on product development and diversification of products, customers and revenues. This will entail entering emerging markets, specifically Pacific Rim countries, and exploring un-tapped market segments within existing markets. Chartwell has already entered European online gambling market through its office in London, UK. In order to continuously grow and expand its operations, Chartwell is interested in tapping the Pacific Rim online gambling market through a base in China. The following sections will analyze the environment of China from various perspectives, and its implication on the proposed expansion plan of Chartwell keeping in consideration Chartwell's strengths and weaknesses. Finally, a recommendation and marketing strategy will be proposed to explain the market entry strategy for Chartwell in China.

3 ENVIRONMENTAL ANALYSIS – CHINA

In order to estimate the prospects of Chartwell's success in China, it is imperative to have a deeper understanding of Chinese political, economic, social, legal and technological state. In the following section, we briefly discuss the key characteristics of the Chinese environment, with a specific attention to factors most relevant to companies in the software gaming industry.

3.1 Political Situation

In the technical terminology of political science the People's Republic of China (PRC) has been a communist state for much of the 20th century. For over two thousand years, prior to 1949, the state had been ruled by some form of centralized imperial monarchy with strong Confucian influences, which have left significant traces on subsequent political and social structures. Currently, the government of the PRC is controlled by the Chinese Communist Party (CPC). The support that the Communist Party of China has among the Chinese population is unclear, as there are no national elections, and private conversations and anecdotal information often reveal conflicting views. Many in China appear to appreciate the role that the government plays in maintaining social stability, which has allowed the economy to grow without interruption. Political concerns in China include the growing gap between rich and poor in the PRC, and the growing discontent with widespread corruption within the leadership and officials.⁴

Personal freedoms have grown considerably since the early days of Communist rule. However, heavy restrictions remain in some areas, most notably Internet censorship and freedom of the press. Censorship of political speech and information is openly and routinely used to protect what the government claims to be national security interests, including Internet

⁴ Wikipedia: China [Online].

ensorship⁵. The media have become increasingly active in publicizing social problems and exposing corruption and inefficiency at lower levels of government, although recently the PRC has tended to increase crackdowns on reporters. The government has also been rather unsuccessful at controlling information, and in some cases has had to change policies in response to public outrage.

3.2 Social & Demographic Situation

The lack of birth control and promotion of population growth during the rule of Mao Zedong resulted in a demographic explosion, culminating in a population of 1.3 billion according to July 2005 estimates⁶. As a response to the problem the growing population has been causing, the PRC enacted a birth control policy in 1979, commonly known as the one-child policy. Still, with the global human population currently estimated at about 6.4 billion, China is home to approximately 20%, or one-fifth of the world's population. The one-child policy has resulted in an aging population, with bulk of the population being in the age range of 15-64 years (71% of the population). The median age is 32 years while the life expectancy is 72 years approximately. (See Table 1)

⁵ "China censorship: "storm in the brain," *R Conversation*, 04 July 2006

⁶ CIA World Fact book: China [Online].

Table 1: Population statistics of China

Population:	1,306,313,812 (July 2005 est.)
Age structure	<i>0-14 years: 21.4% (male 148,134,928/female 131,045,415) 15-64 years: 71% (male 477,182,072/female 450,664,933) 65 years and over: 7.6% (male 47,400,282/female 51,886,182) (2005 est.)</i>
Median age	<i>Total: 32.26 years male: 31.87 years female: 32.67 years (2005 est.)</i>
Population growth rate	0.58% (2005 est.)
Life expectancy at birth	<i>Total population: 72.27 years male: 70.65 years female: 74.09 years (2005 est.)</i>

Data Source: CIA World Factbook- China, [Online]

The majority of Chinese are non-religious (59% of the population, or about 767 million people). However, a vast majority of population follows the traditional beliefs of Confucianism and Taoism. Confucianism is not a religion, although some anthropologists have tried to imbue it with rituals and religious qualities. Rather, it is a philosophy and system of ethical conduct that since the fifth century B.C. has guided China's society. Institutionalized religions, such as Buddhism, Christianity and Islam, represent only about 8, 4 and 2 percent of the population, respectively.⁷

3.3 Economic Situation

After nearly a quarter century of reform and opening to the outside world, China's economic system is the second largest in the world. In 2005, China had a gross domestic product (GDP) of US\$8.158 trillion, resulting in a per capita GDP of US\$1,272⁸. The government has a goal of quadrupling the GDP by 2020 and increasing per capita GDP two-and-a-half times. Central planning has been cut back, and widespread market economy mechanisms and a reduced

⁷ Wikipedia: Religion in China [Online]

⁸ Wikipedia : List of Countries by GDP[Online] and CIA World Fact book [Online]

government role have been adopted since 1978. The government fosters a dual economic structure that involves the transition from a socialist, centrally planned economy to a socialist market economic system. Restraints on foreign trade were relaxed with China's accession to the World Trade Organization in 2001. Joint ventures are encouraged, especially in the coastal special economic zones and open coastal cities. As a result, economic development has generally been more rapid in coastal provinces than in the interior and there are large disparities in per capita income between these regions.

Chinese officials cite two major trends that have an effect on China's market economy and future development: world multi-polarization and regional integration⁹. In 2004, China became the world's third largest trading nation after the United States and Germany. Despite this, China's leaders face a variety of challenges to the nation's future economic development. They have to maintain a high growth rate, deal effectively with the rural work force, improve the financial system, continue reforming the state-owned enterprises, foster the productive private sector, establish a social security system, improve scientific and educational development, promote better international cooperation, and change the role of the government in the economic system.

3.3.1 Internet Gaming and Gambling Market Forecast

There is strong demand and high growth potential for regulated online gaming. Online computer gaming has been encouraged by Chinese government because of exciting revenue potentials. For example, Warcraft and Everquest are popular fantasy video games usually played by youths at Internet cafés. Chinese gamers consumed \$500 million US dollars of online gaming activity in 2004. There are currently over 25 million online video gamers in China¹⁰.

⁹ "Two Major Trends in Today's World," *People's Daily Online*, March 29, 2002

¹⁰ Game Daily, "China Imposes Limits on Online Game Sessions" *Business Week Online*, August 25, 2005.

The Chinese online gambling market is characterized by high growth and competition. Datamonitor, an international research company, produced an online gambling economic report for China in 2002. The report indicated that the market value for online gambling was \$53 million US. Datamonitor expected that online gambling would have a value of US \$76¹¹ (626 RMB) million in 2005¹². The average annual economic growth of the market since 2001 has been 24.1 percent. The Chinese online gambling market experienced 137.5 percent increase in total economic growth in the period of 2001-2005. China Today reported 129 overseas and 787 domestic Internet gambling websites operating in Asian countries: Taiwan, China and Hong Kong and regions in the Pacific¹³. The China Study for Lottery Studies reported there are 160 casino providers at the borders of China. As such, there is a competitive presence for end-users in China. We can conclude that economic growth for online gambling will continue to occur as well as increased competition for market share in China.

3.3.2 E-Commerce and Website Operators in China

Technology has allowed consumers to use the Internet for home gaming activities. In order to explore the economic potential of Internet gaming, e-commerce infrastructure in China should be evaluated for its capacity to support casino operators to collect rents from end-users. This section will argue that the e-commerce infrastructure in China is weaker than that of a developed country. However, China's e-commerce infrastructure is improving and companies are learning to use e-commerce technologies to become globally competitive. Chinese Internet business processes have been traditionally weak, but a positive outlook should be maintained as new foreign e-commerce payment providers are entering China to manage China's Internet transaction systems.

¹¹ This figure refers to Online Gambling only, while the figure of \$ 500 refers to online games that are legal in every jurisdiction

¹² "Industry Report on the status of Online Gambling in China," *Datamonitor*. 2002

¹³ "Internet Gaming invades the Chinese Mainland," *China Today*, May 2005

Zixiang Tan and Wu Ouyang's study of e-commerce impacts in China demonstrate that Chinese companies have taken steps to build e-commerce infrastructure¹⁴. They argue that China is slightly behind in conducting e-commerce transactions because of technical barriers in business processes, legal, and cultural perspectives that limit e-commerce diffusion. Chinese firms reported using the following technologies: e-mail, websites, intranets and extranets^{15/16}. Specifically, the Chinese firms surveyed by Tan and Ouyang reported the following participation percentages: 95.9 percent use e-mail compared to 98.5 percent of global firms; 69.5 percent had a website presence while the global average was 74.1 percent; 32.6 used extranet compared to the global average of 32.7 percent. Therefore companies that already use website technologies are familiar with mainstream Internet tools. However, the vast majority of companies across China have not adopted IT as standard business tools due to Internet adoption barriers. Large Chinese companies and certain industries with information sensitivity, like banking and insurance, are more likely to utilize new information technologies.

While Chinese companies have taken steps to utilize new information technologies, E-commerce has not been adequately adopted when compared to foreign counterparts. In 2001, a survey of 638 firms in China by The Network Economy Research Centre at Beijing University showed that 87 percent of firms had connected to the Internet and 69 percent reported creating company websites¹⁷. However, only 4 percent of Chinese firms reported making online purchases. According to Business Week, e-commerce has been slow because few people have

¹⁴ Tan Xixiang, and Ouyang Wu, "Diffusion and Impacts of the Internet and E-Commerce in China in Globalization of E-commerce." *Globalization of E-commerce*, Center for Research on Information Technology and Organizations, University of California, Irvine (2004): 340.

¹⁵ An **intranet** is a restricted-access network. Intranet enables a company to share its resources with its employees without confidential information being made available to everyone with Internet access.

¹⁶ An **extranet** is a private network that uses the Internet protocols and the public telecommunication system to securely share part of a business's information or operations with suppliers, vendors, partners, customers, or other businesses. An extranet can be viewed as part of a company's intranet that is extended to users outside the company. An extranet requires security and privacy.

¹⁷ Tan Xixiang, and Ouyang Wu, "Diffusion and Impacts of the Internet and E-Commerce in China in Globalization of E-commerce." *Globalization of E-commerce*, Center for Research on Information Technology and Organizations, University of California, Irvine (2004): 340.

credit cards and the postal service is not reliable¹⁸. Only 25 percent of surveyed firms use EDI while the global average is 44.3 percent¹⁹. EFT is used by 25.7 percent of firms while the global average is 43.4 percent²⁰. There were 2056 business to consumer websites in 2001, but only 659 actually maintained e-commerce operations; 270 B2C websites offered e-commerce services for multiple products; and the remaining focused on few special products. Total e-commerce B2C transactions equated to \$150 million US in 2001. There are more firms engaged in B2B online sales in China: total B2B transactions of \$US 13 billion. As of 2001, only 8.8 percent of Chinese firms had websites that supported online payment, while 33.3 percent of global firms' websites support online payment infrastructure. The data outlined in this section was the latest available information concerning corporate IT data in China. Although outdated, the information in this section is representative of the business trends in China.

Tan and Ouyang's conclusions suggest that the lack of a solid education of e-business and experience of information systems, security concerns and insufficient intellectual property rights, low credibility of vendors and consumers, and backward delivery of business processes have limited Chinese companies²¹. This is demonstrated by the low number of online sales and purchase coming from Chinese companies.

Due to e-commerce immaturity in China, several foreign firms have introduced themselves as services to exploit the e-commerce market: Smartpay, Alipay, PayPal and 99Bill²². These companies hope to use global branding and experience to help consumers with added security for website activities.

¹⁸ Bruce Einhorn, "The Net's Second Superpower in Business Week" *Business Week*, Issue 3874 (March 15, 2004): 54-56.

¹⁹ EDI is short for **Electronic Data Exchange** that is useful for information between companies. EDI is useful for companies to buy, sell, and trade information online.

²⁰ EFT is short for **Electronic Funds Transfer**. EFT is the process of transmitting money through computer networks.

²¹ Tan Xixiang, and Ouyang Wu, "Diffusion and Impacts of the Internet and E-Commerce in China in Globalization of E-commerce." *Globalization of E-commerce*, Center for Research on Information Technology and Organizations, University of California, Irvine (2004): 340..

²² Rebecca Buckman "Online Payment Firms Target China; Immature Market has Slew of Companies Popping Up in Effort to Gain Foothold in Wall Street Journal", *Wall Street Journal*, (August 11, 2005): 1-4.

3.3.3 Cash, Debit and Credit Cards

Transaction Card performance data should be monitored as it indicates the preferred method of payment and degree of credit card adoption. In respect to Internet gaming activities, credit cards have been the traditional method of payment for the Internet. As such, growth or decline in credit card performance data will be an important indicator for the prediction of successful online transactions.

Our research suggests that Chinese consumers are using credit cards more frequently: in total dollar value, number of transactions and total number of financial cards issued. The growth of credit card usage suggests that Chinese consumers are becoming more Credit Card friendly, which translates to a positive outlook that potential end-users will also experience confidence in online credit card use. However, the data should be interpreted with caution because most credit card transactions do not represent online gaming transactions, and further data can become outdated quickly.

China is primarily a cash based economy with high optimism in employment and income so the future is bright for credit cards. With China's fast economic growth, there has been explosion in credit card usage²³. This was mainly derived from several developments in China's market: new product driven market development, more credit card companies exploring market development, increasing purchasing power of people in major cities, increased merchant acceptance of credit cards, and banks given more authority to issue cards.

Bank promotions and credit cards are aimed at the younger population and strategic advertising can be seen in subways, fashion magazines and the development of sales representatives to promote credit cards.

Banks have changed procedures to promote and encourage the issuing of financial cards, which is a collective term for credit, debit and charge cards. A charge card can be used just like a

²³ Tan Xixiang, and Ouyang Wu, "Diffusion and Impacts of the Internet and E-Commerce in China in Globalization of E-commerce." *Globalization of E-commerce*, Center for Research on Information Technology and Organizations, University of California, Irvine (2004): 340.

normal credit card, only no interest is charged as balances are settled in full at the end of each month using Direct Debit. Debit cards are not credit cards; rather, they deduct money directly from the cardholder's bank account whenever a transaction is made with the card. Consumer protections guaranteed by law to credit card users often do not apply when a debit card is used. Previously, credit card applicants used to require cash deposits to cover repayments. New policies in the major banks have been changed: the issuance of cards is now based upon financial status. Issuing credit cards has been profitable. It has been found that most banks profit from consumer overdrafts and the interest obtained from overdrafts have been substantial. For example, due to overdrafts, the Industrial and Commercial Bank's income increased 21 percent and profits by 168 percent in 2004²⁴.

In 2004, 95 percent of cash was drawn from debit cards. Withdrawal of cash from credit cards fell because most transactions can be done by debit at low cost for the consumer. Currently, the 4 state owned banks require 2 RMB to withdraw cash from ATMs while the private banks offer free service. Debit cards receive highest penetration of all financial cards, representing 92 percent of the financial card market in 2004. However, new issues in Debit cards have been slow due the characteristic of a mature market. Today in China, credit cards have the highest rate of new issues and experiencing growing consumer acceptance. Below is data from 1999 to 2004 regarding financial cards and transactions (See Table 2).

²⁴ "Credit Cards in China: A Country Report," *Euromonitor*, January 2006

Table 2: Financial Cards Transactions Details, 1999-2004

Transactions Volume						
Million transactions	1999	2000	2001	2002	2003	2004
Credit cards	4.1	10.8	24.5	73.2	234.1	561.1
Charge cards	104.8	182.6	295.1	386.6	773.4	1,041.0
Debit cards	7,374.4	10,676.1	12,485.7	19,873.6	21,241.0	26,905.5
Total Financial cards	7,483.4	10,869.5	12,805.2	20,333.3	22,248.5	28,507.6
Value						
RMB million	1999	2000	2001	2002	2003	2004
Credit cards	29,726	62,930	113,202	151,187	174,177	366,999
Charge cards	139,307	289,612	511,711	681,057	777,077	879,242
Debit cards	1,255,943	2,633,333	4,708,281	6,231,228	8,598,420	12,842,256
Financial cards	1,424,976	2,985,874	5,333,194	7,063,472	9,549,674	14,088,497
Number of Cards in Circulation						
Million cards	1999	2000	2001	2002	2003	2004
Credit cards	0.5	0.9	1.2	1.6	3.5	8.9
Charge cards	17.1	19.4	20.3	20.5	21.8	22.5
Debit cards	157.4	252.5	359.6	457.9	614.9	731.5
Financial cards	175.0	272.7	381.0	480.0	640.2	762.8

Data Source: Euromonitor International from People's Bank of China, Trade interviews, Euromonitor International estimates, with figures rounded to nearest decimal in Value section.

3.3.4 Telecommunications Sector

The Ministry of Information Industry reported in 2004 that China had 295 million subscribers to main telephone lines, the highest number in the world but second per capita to the United States. There were substantial increases over the previous decade; in 1995 there were only around 20 million main line telephone subscribers. Internet use has also soared in China. In 1995 there were about 60,000 Internet users that increased to 87 million users by July 2004²⁵. This number is believed to have reached 111 million according to a January 2006 report.²⁶ China's 2.7 million kilometers of optical fiber telecommunication cables by 2003 assisted greatly in the modernization process. An estimate suggests the figure of Internet users to be in the range of 304

²⁵ International Telecommunication Union :Telecommunications Development In China Research – 2004 [Online]

²⁶ CNNIC: 17th Statistical Survey report on the Internet development in China [Online], 2006.

million by 2008, a penetration rate of 22.4% of the total population.²⁷

In general, large cities enjoy much better infrastructure and many more Internet users than economically poor provinces. For example, economically better off cities like Shanghai and Beijing report highest percentage of Internet penetration, i.e. 26.6% and 28.7% respectively.²⁸ Internet users in large cities tend to be higher educated, and these cities provide better legal environment for e-commerce activities. Many firms have understood Internet business opportunities, thereby taking steps to introduce and advertise new products and services, with special focus on these large cities. In terms of location of Internet usage, usage from home constitutes the biggest portion of Internet users, i.e. 70.5% of the total users.²⁹

It can be deduced from the information above that Chinese telecom infrastructure is adequate to employ e-gaming services, especially in the economically prosperous regions at a rapid pace. This data can be utilized in targeting the regions in which Chartwell should focus its attention, since both high internet penetration and buying power will affect the success of its products.

3.3.5 Broadband Access

In 2004, the number of broadband subscribers via DSL (Digital Subscriber Line) was 13 million.³⁰ This number has increased to 71 million by 2005.³¹ Analysts propose that this massive growth in China has partly been due to the growing community of online gamers, but also because the authorities have pushed the use of broadband in education.³²

In early 2004, the main fixed operators, including China Telecom and China Netcom, announced more expansive broadband development plans. After they separated from the old

²⁷ International Telecommunication Union :Telecommunications Development In China Research – 2004 [Online]

²⁸ CNNIC: 17th Statistical Survey report on the Internet development in China [Online], 2006.

²⁹ CNNIC: 17th Statistical Survey report on the Internet development in China [Online], 2006.

³⁰ Jo Twist, "China Leads the World in Broadband," *BBC News*, October 5, 2004.

³¹ CNNIC: 17th Statistical Survey report on the Internet development in China [Online], 2006.

³² Jo Twist, "China Leads the World in Broadband," *BBC News*, October 5, 2004.

China Telecom at end of 2001, they decided that broadband was the strategic growth area, and have since committed considerable investment in this area. Both launched nationwide marketing programs to promote broadband, including China Telecom's "Broadband Fast Forward Program" and China Netcom's "e-online Move". In 2003, the broadband monthly subscription fee was reduced from more than US\$ 40 to US\$ 15, and even as low as US\$ 10 in some provinces. According to the plans announced by the main operators, the number of broadband users in China will reach 50 million in 2007.³³

Broadband makes it easier for e-gamers to access online gambling websites and bet on them from the comfort of their homes. For example, according to Internet research company Nielsen/NetRatings' research on the traits of UK gamblers, it is evident that UK gamblers like the speed and convenience of betting online, and as the broadband boom continues, more and more people are likely to try online gambling. Their research also revealed that across Europe, more than 14 million people, about 14% of those online from home, visited a gambling or sweepstakes site in the month of February 2005 only.³⁴ This suggests that Broadband's proliferation promises the gambling website operators an increase in the number of customers accessing their websites.

It is important to consider the role of broadband for online gambling websites. Broadband provides an easy, convenient and private environment for an Internet user to engage in online gambling, as compared to physically visiting a casino or gambling site. Access to online gambling sites can definitely be achieved without using broadband, through using dial up connection or leased line. The problem with the alternative solution is loss of speed and efficiency of connection. Gambling websites usually contain graphics and application that are best viewed and accessed using a broadband connection, thereby providing the ultimate experience of gambling in a real time environment. Therefore, as more and more of China's Internet users are getting broadband access, it can be deduced that they, like the gamblers in UK,

³³ "Broadband Development and Technology Evolution in China," *Alcatel TeleCommunication Review*, Quarter 3, 2004

³⁴ Steve Ranger, "Broadband fuels online gambling boom." *Webwatch*, April 14, 2005

are more likely to engage in online gambling from the comfort of their homes rather than going to physical gambling sites.

3.4 Legal situation

3.4.1 Internet Gambling Industry and the Relevant Laws in China

The Chinese government has ultimate authority over Internet content and gambling laws. China has prohibited gambling except for sport and welfare lotteries, which has benefited Macau. Macau is the Las Vegas of Asia. Reverted from Portuguese rule, Macau remains the only legal gambling region in China and maintains economic autonomy. Legal gambling provided Macau with revenues of US \$5.5 billion and attracted 18 million visitors in 2005. It is estimated that Macau's gambling industry may exceed \$10 billion in revenues by 2010. After the break up of Stanley Ho's casino empire, Macau has experienced phenomenal foreign direct investment. Stanley Ho formerly held a monopoly of Casino enterprises in Macau so this break-up signalled that FDI was welcome. Today, Macau's total gaming revenue growth rate outpaces that of Las Vegas.

Gambling is a lucrative industry. Chinese ministers have complained about economic losses from capital outflows. According to a recent report, Chinese citizens spent 600 billion RMB (\$73.6 billion US) at overseas casinos during 2005: in Taiwan, Hong Kong and Macau³⁵. China's gambling industry is not transparent because of prohibition, which subverts the industry underground³⁶.

Many illegal gambling activities take place within China. To counter these, China has proposed stricter penalties for gambling violators and related governmental bribery. If the new law is passed, illegal casinos registered as legitimate business could face ten years imprisonment. Existing laws penalize violators with three years imprisonment. However, the government will

³⁵ Liu Yeqing, "Should China Legalize Gambling?" *We Observe the World*, November 11, 2005.

³⁶ Alfred Hermida, "Tapping Into China's Online Gamers." *BBC News*, June 25, 2005.

not restrict citizens from going to Macau, a Chinese province. The PRC government wants to prevent foreign gambling providers from servicing Chinese citizens³⁷.

The legalization of gambling in China is controversial. In December 2004, Wang Zengxian, a researcher with China Center for Lottery Research in Beijing University argued that an incremental approach should be made to legalize gambling in China³⁸. Wang argued that gambling prohibition reduced China's economic prosperity because Chinese citizens will be encouraged to visit foreign casinos, and this will divert the tax revenues to foreign countries. In addition, Jia Kang, chief of the national Ministry of Finance supported Wang's comments. Jia Kang said, "With a market economy, we have to face the reality and for the moment legalization will be an effective solution." However, Doctor Lu Jianhua of the Academy of Social Science of China opposes legalization and raised several questions:

- 1) Is it even possible to regulate gambling travelers to foreign countries?
- 2) Will legalized gambling reduce illegal gambling activities?
- 3) Will legalized gambling cause social problems in addiction and other related social risks?
- 4) Where should China start to legalize? China has no experience in legalization of gambling.

The US demonstrated that sovereignty issues can trump international law regarding gambling. In February 2005, the US was charged with violating WTO trade laws by supporting domestic online horse betting while at the same time blocking foreign online betting website operators. Complying with national law, US banks refused online transactions with foreign Internet companies. Currently, most gambling websites serving the US are located in foreign jurisdictions and there are similar happenings in China. Many foreign gambling websites are serving domestic Chinese gamblers external to borders.

³⁷ Zach Coleman, "China Launches Gambling Crackdown." *The Standard*, January 13, 2005

³⁸ Liu Yeqing, "Should China Legalize Gambling?" *We Observe the World*, November 11, 2005.

3.4.2 Chinese Direct Selling Laws

Direct selling is critical to carry out business transactions in China, so a discussion of relevant personal selling laws is inevitable. Direct selling or personal selling is an onerous process because two state agencies manage personal selling activities. The State Council department in charge of commerce together with the State Council department of industry and commerce administration determines the scope of products that may be sold directly based on the state of development of the direct selling business and the demand of Consumers³⁹. For a direct selling application several issues must be resolved:

1. The investor(s) has/have a good commercial reputation, and does/do not have a record of a major violation of the law in the five years immediately preceding the application; a foreign investor shall additionally have at least three years experience in direct selling activities outside China
2. Having paid in registered capital of not less than RMB 80 million (\$1.15 million Canadian)
3. Having paid a bond in full at a designated bank in accordance with these Regulations
4. Having established information submission and disclosure systems in accordance with provisions.
5. Provide product instructions and sample
6. Provide accounting documents that verify financial accounts
7. Provide marketing plan that is approved by the state
8. Provide articles of incorporation
9. A direct seller must have a branch in the province and is liable for direct salespersons activities

³⁹“Regulations for the Administration of Direct Selling,” *China Law and Practice: London*, Oct 2005.

Personal selling is required to do business in China. Given such laws, Chartwell should plan how to organize the necessary resources to implement a personal selling business model in China. Using the personal selling model will require substantial investment and commitment.

3.5 Cultural Implications of End-users in the Pacific Rim Countries

End-user Value Creation

Chinese culture pertains to people who live in Confucian heritage societies and Asian countries: Korea, China, Japan, Malaysia and etcetera. Culturally speaking, the entertainment value and entrepreneurial experience of online gaming greatly appeals to Asian gamers. Chinese gambling activities have been supported by 3000 years of gambling tradition, an entrepreneurial attitude and spiritual values. In all, these cultural features predispose Chinese people to gamble⁴⁰. However, to maximize sales of e-gaming in Asia, applying working knowledge of individual characteristics and cultural values to software customization is necessary for effective e-marketing. As such, Chartwell should customize its software in accordance with the cultural traits of Chinese people. Application of end-user characteristics will enhance the e-gaming experience and increase end-user value.

3.5.1 Introduction to Chinese Culture and Gambling

Cultural knowledge is learned and passed on from generation to generation. Cultural conditioning develops below the subconscious, and website users interpret website stimuli in accordance with it. Successful decoding of information will depend on the construction of the

⁴⁰ Ellen Oxford Basu "Profit, Loss and Fate: The Entrepreneurial Ethic and the Practice of Gambling in an Overseas Community in Modern China," *Modern China* No.17 (2) (1991): 227-259.

website in accordance to the target market⁴¹. The following will introduce information regarding gambling and Chinese cultural values.

China's social gambling is ubiquitous making gambling a national pastime⁴². There are at least 10 types of gambling activities in Macau and the Asia Pacific. For example, Mahjong is the most prevalent gambling activity in China, Taiwan and Hong Kong. Mahjong is a tiles game that is played for money with four players. In China, it is usually played with family and friends due to the illegal nature of gambling. Mahjong is also highly valued for its socializing feature, which the Chinese people enjoy. And at the casino, most Chinese players enjoy table games for social stimulation. Additional commercial games include greyhound racing, the state run Mark 6, sports betting, Macao casinos, casino ships, horse racing and online gambling. It is illegal to gamble in most Chinese provinces, but gaming activities occur throughout China.

Macau is the only legal gambling province in China. And as a result, tourism from nearby countries and Chinese provinces has benefited Macau's economy. Macau has experienced tremendous economic growth from commercial gaming activities and international tourism. Due to the illegal nature of gambling in China, there is a lack of research studies conducted to ascertain end-users' characteristics. To understand more about the users, gambling studies have been drawn from Macau, Hong Kong and neighbouring countries. The following will address the information from some of those studies.

Social Classes

People in different social classes approach gambling differently⁴³. For example, the Chinese working class in Malaysia will pray to the gods for lucky numbers and as often as possible, but the business class will use fewer rituals. In addition, the majority of Malaysian

⁴¹ Sudhir H. Kale, "Designing Culturally Compatible Internet Gaming Sites in UNLV Gaming Research & Review Journal," *UNLV Gaming Research & Review Journal*, Vol 10 (1) (2006).

⁴² Desmond Lam, "Slot or Table? A Chinese Perspective in UNLV Gaming Research & Review Journal," *UNLV Gaming Research & Review Journal*, Vol 9(2) (October 2005): 69-72.

⁴³ Ellen Oxford Basu "Profit, Loss and Fate: The Entrepreneurial Ethic and the Practice of Gambling in an Overseas Community in Modern China," *Modern China* No.17 (2) (1991): 227-259.

Chinese prefer “anonymous” gambling activities. Lotteries are the preferred game in Malaysia because disposable income is low, and it preserves harmony among reference groups. It is also suggested that poor rural areas prefer lotteries because social gambling, due to wins and losses, can cause harm to social ties⁴⁴. Impoverished Chinese will conserve harmony by playing lotteries rather than social games for money.

Another difference, regarding social class and gambling behaviour, is that Malaysian businessmen gamble less frequently than people of lower class⁴⁵. Higher-social-class Chinese fear losing capital assets and credibility in society. In contrast, lower class Chinese view the lottery as the only way of obtaining wealth and status. Therefore the decision to gamble or not, for Malaysian Chinese, is partially attributable to preserving social harmony and improving social status.

Implications of Social Class

The lower class Chinese have strong incentives to gamble, but will abstain from gaming in favour of harmony. From this information e-gaming may preserve the collectivist nature of lower class Chinese. By playing social games with people outside of immediate reference groups, social ties are preserved and gaming desires can be satisfied. Further, marketing to wealthier classes may satisfy their entertainment needs. For example, e-gaming at home can be an anonymous activity and therefore business class Chinese can be satisfied without risk to their social status.

Money, Entrepreneurship and Symbolic Value of Gambling

Chinese cultural values create powerful incentives to gamble. Firstly, money has symbolic value in Chinese culture, which sustains the attraction for Chinese to gamble. Money is

⁴⁴ Donald Nonini, “The Mysteries of Capital accumulation, honouring the gods and gambling among Chinese in a Malaysian market town” in *Proceedings of the First International Symposium on Asian Studies Southeast Asia*. Hong Kong: Asian Research Vol 3, (1979): 701-710.

⁴⁵ Ellen Oxford Basu “Profit, Loss and Fate: The Entrepreneurial Ethic and the Practice of Gambling in an Overseas Community in Modern China,” *Modern China* No.17 (2) (1991): 227-259.

exchanged frequently during gambling activities that facilitates social interactions. For example, weddings, birthdays, holidays and social gatherings often involve extensive gambling for merriment and conversation⁴⁶. Gambling and paper money are symbols of prestige, and during celebration wealth is openly displayed. Further, it is not uncommon to offer cash in red envelopes as gifts of good will. Distribution of wealth provides Chinese families with prestige and filial respect. Therefore monetary exchanges and social interactions can stimulate gaming activities.

Many different cultural rituals recognize the spiritual and symbolic importance of money. Ancestral glorification has been an important motivating factor for Chinese entrepreneurship⁴⁷. Symbolically, earning money helps to pay one's way into reincarnation. This can be done by burning "spirit money", which is symbolic to paying ancestral debt. Another example is the celebration of Chinese New Year and the distribution of "lucky money". Activities that generate and display money, such as gambling, attempt to satisfy spiritual commitments in Chinese culture.

Entrepreneurship is a Chinese cultural value. Harrel, a Chinese cultural expert, argues that the Chinese entrepreneurial ethic is a cultural value that requires one to invest one's resources in a long term quest to improve the material well being and security of some group to which one belongs and with which one identifies closely⁴⁸. Gambling is considered by some Chinese as an entrepreneurial activity.

Culturally speaking, gambling and entrepreneurship draw important parallels. For some Chinese, gambling is considered a financial investment and a source of income⁴⁹. Both business and gambling require investments to generate returns. In addition, skill and an entrepreneurial

⁴⁶ Ellen Oxford Basu "Profit, Loss and Fate: The Entrepreneurial Ethic and the Practice of Gambling in an Overseas Community in Modern China," *Modern China* No.17 (2) (1991): 244.

⁴⁷ A.B. Yu, "Ultimate Life Concerns, self, and Chinese Achievement Motivation" in *The Handbook of Chinese Psychology* (Hong Kong University Press, 1996) 309-321.

⁴⁸ Stevan Harrell, "The Concept of Fate in Chinese Ideology in Modern China," *Modern China*, Vol 11, 2 (1987): 203-206.

⁴⁹ Desmond Lam, "Slot or Table? A Chinese Perspective in UNLV Gaming Research & Review Journal," *UNLV Gaming Research & Review Journal*, Vol 9(2) (October 2005): 69-72.

aptitude are needed because gambling and business are competitive. Therefore gambling is viewed as an entrepreneurial activity, which only those who are clever enough can play⁵⁰.

The Chinese motivation of gaining wealth from managing business activities has important considerations for e-gaming. Recall that gambling, gaining wealth and pursuit of entrepreneurial activities fulfil culturally determined needs. Recently, China has experienced rapid growth in GDP at 9 percent per annum, which has led to greater than before wealth for many citizens. Lam argues that gambling will be used as a short cut for financial gain in Chinese society as the income gap widens⁵¹. As such, it is expected that gambling behaviours in China will increase from the search of new entrepreneurial opportunities and the momentum of economic changes. Chinese entrepreneurial values will motivate some end users to pursue gambling as a source of income. Cultural predispositions for entrepreneurship will also make it easier for Chinese clients to adopt Website management as a business occupation. Software developers who have penetrated the Chinese market can take advantage of Chinese cultural predispositions.

Many studies have investigated the entrepreneurial attitudes of Asian people, which are reflected in Asia's rapid economic growth. Geert Hofstede and Michael Bond's study of entrepreneurial values and Chinese culture may be beneficial to website and gaming construction. The study positively linked Asia's rapid economic growth to cultural development. This category of Asian values has been called Confucian Dynamism, the dominant value of the Chinese. Management studies have positively linked Confucian values to the rapid economic success of Japan, Singapore, Taiwan, Hong Kong and South Korea⁵².

⁵⁰ Ellen Oxford Basu "Profit, Loss and Fate: The Entrepreneurial Ethic and the Practice of Gambling in an Overseas Community in Modern China," *Modern China* No.17 (2) (1991): 227-259.

⁵¹ Desmond Lam, "Slot or Table? A Chinese Perspective in UNLV Gaming Research & Review Journal," *UNLV Gaming Research & Review Journal*, Vol 9(2) (October 2005): 69-72.

⁵² Geert Hofstede and Michael Bond, "The Confucious Connection: From Cultural Roots to Economic Growth in Organizational Dynamics," *Organizational Dynamics*, Vol. 16 (4) (Spring 1988): 1-18.

Ozorio and Fong conducted a study on casinos in Macau in an attempt to explain the gambling behaviours of Chinese peoples⁵³. Ozorio and Fong argue that Chinese casino patrons gamble to satisfy high risk taking needs, which is fuelled by their desire to win, to receive quick rewards and to satisfy their sense of excitement.

Due to China's cultural enthusiasm for gambling, Internet gaming should be studied to exploit a potential economic opportunity. There are approximately 111 million Internet users in China and the growth rate of Internet adoption is 33 percent annually. Increased access to IT infrastructure and wealth allow Chinese citizens to adopt the Internet and e-gaming activities. As China's e-commerce and computer technologies improve, Internet gambling will become more popular in the Asia Pacific. Studying and applying individual and cultural traits of Asian people will align e-gaming preferences that create gaming value.

Once again, it should be noted that this paper does not advocate or promote illegal gambling. Furthermore, research has also suggested that there are undesirable outcomes of gambling. Kwan's survey identified several family and personal problems that arise from gambling. 54% of his respondents suggested gambling can cause family quarrels, 52% identified that gambling increases money borrowing behaviour, 32.2% acknowledged that they do not encounter any problems, and 16% engage in illegal activities⁵⁴. These problems are not mutually exclusive. While it is an important issue, it falls outside the scope of this report. Nevertheless, social costs of gambling should be considered when attempting to promote gambling products.

⁵³ Bernadete Ozorio and Davis Ka Fong, "Chinese Casino Gambling Behaviours: Risk Taking in Casinos vs Investments in UNLV Gaming Research and Review Journal." *UNLV Gaming Research and Review Journal*, 8(2) (2004): 27-28.

⁵⁴ Fanny Vong Chuk Kwan, "Gambling Attitudes and Gambling Behavior of Residents of Macao: The Monte Carlo of the Orient in Journal of Travel Research," *Journal of Travel Research*, Vol (42) (February 2004): 271-278.

3.5.2 Hofstede's Cultural Dimensions and Website Activities

There are currently no studies involving cultural customization of e-gaming or e-gambling activities⁵⁵. However, it is likely that cultural customization will increase Chartwell's likelihood to succeed in Asian markets. Increasing end-user value through cultural customization will increase the frequency of returning Asian customers. Naturally, software developers that understand the nuances of website design and user interface will have competitive advantage in a highly competitive Asian market. To meet global sales potential, the application of cultural specific knowledge is important to persuade consumers to revisit and spend money on e-gaming sites⁵⁶.

Localizing website content for target customers was also found to be important for top companies entering China. Manard and Tan's study of top 100 companies discovered that many companies used localized branding strategies that considered political, economic, social and technological factors to develop website customization⁵⁷. Hofstede's cultural dimensions have been the standard tool for cultural customization of websites. Singh, Zhao and Hu's study of 40 US firms demonstrated that 5 dimensions of Hofstede & Bond were used in website content in China⁵⁸. This affirms the legitimacy of Hofstede's indices for cultural website enhancement.

Geert Hofstede's research summarizes several useful cultural dimensions for designing gaming websites⁵⁹. Interpreting information involves cultural biases that affect patterns of thinking, feeling and acting. Culture is defined as "the collective programming of the mind that

⁵⁵ Sudhir H. Kale, "Designing Culturally Compatible Internet Gaming Sites in UNLV Gaming Research & Review Journal," *UNLV Gaming Research & Review Journal*, Vol 10 (1) (2006).

⁵⁶ Maria D. De Juan, Laura Peracchio and David Luna. "Cross Cultural and Cognitive Aspects of Website Navigation in Journal of the Academy of Marketing Science", *Journal of the Academy of Marketing Science* Vol 30, No. 4 (2002): 397-410.

⁵⁷ Michael Maynard & Yan Tian, "Between Global and Local: Content Analysis of the Chinese Websites of 100 top global brands in Public Relations Review," *Public Relations Review*, Vol 30(3), (2004): 285-291.

⁵⁸ Nitish Singh, Hongxin Zhao and Xiaorui Hu, "Cultural Adaptation On the Web: A Study of American Companies' Domestic and Chinese Website in Journal of Global Information Management," *Journal of Global Information Management*, 11(3), (2002):64-80.

⁵⁹ Sudhir H. Kale, "Designing Culturally Compatible Internet Gaming Sites in UNLV Gaming Research & Review Journal," *UNLV Gaming Research & Review Journal*, Vol 10 (1) (2006).

distinguishes the members of one category of people from those of another⁶⁰." Besides individual factors, such as age and gender, communication through cultural dimensions dominates how users read and construct meaning from text⁶¹. This section will broadly describe Hofstede's cultural indices: Individualism and Collectivism, Power distance, Uncertainty Avoidance, Masculinity and Femininity, and Long Term Orientation (LTO) or Confucian Dynamism principles. These are discussed here to establish a profile for Chinese people. The implications of these dimensions as they relate to Chartwell's product will be discussed in the marketing strategy.

Individualism and Collectivism

The degree of individualism or collectivism describes to the degree in which individuals are integrated into groups⁶². Individualistic cultures are characterized by many loose relationships and a high degree of autonomy. Hofstede found that individualistic cultures value personal time, freedom, challenge and extrinsic motivators at work⁶³. In contrast, collectivist cultures have stronger associations with reference groups. Individualistic cultures have very separate social structures with loyalty to direct friends and family only. However, collectivist cultures will form very tight associations with the family, clan or a tribe. Work group tasks will be aligned for the greater good of society or group. Chinese culture is classified as highly collectivist.

Gambling behaviour is motivated by individual expression and Chinese popular culture⁶⁴. If an individual wins or profits, these activities will serve as an outlet for individual expression. One can boast of winning and being very clever. In other situations, boasting is an unacceptable social practice. In addition, individual expression and gambling are influenced by Asian pop

⁶⁰ Geert Hofstede and Michael Bond, "The Confucious Connection: From Cultural Roots to Economic Growth in **Organizational Dynamics**," *Organizational Dynamics*, Vol. 16 (4) (Spring 1988): 1-18.

⁶¹ Zahedi Fatemeh, Van Pelt William and Jaeki Song, "A Conceptual Framework for Website Design in IEEE Transactions On Professional Communication," *IEEE Transactions On Professional Communication* Vol. 44, (2), (June 2001): 1-21.

⁶² Geert Hofstede and Michael Bond, "The Confucious Connection: From Cultural Roots to Economic Growth in **Organizational Dynamics**," *Organizational Dynamics*, Vol. 16 (4) (Spring 1988): 1-18.

⁶³ Jeffrey Hsu, "Chinese Culture and E-commerce," in *E-commerce and Cultural Values*, ed. **Theerasak Thanasankit**, Hershey, PA (Idea Group Publishing, 2003).

⁶⁴ Desmond Lam, "Slot or Table? A Chinese Perspective in UNLV Gaming Research & Review Journal," *UNLV Gaming Research & Review Journal*, Vol 9(2) (October 2005): 69-72.

culture. Desmond Lam writes that modern Chinese films have glorified gamblers, which has stimulated Chinese youth to experience gaming. Dozens of movies focused on gambling, such as the “God of Gamblers”, have influenced many youths. In sum, gambling provides an important outlet for individual expression because few acceptable opportunities exist in collectivist societies. However, there are exceptions to this positive perception. For example, excessive gamblers who go into insurmountable debt are seen as poor choices in marriage and looked down upon⁶⁵. Furthermore, failure in business is disgraceful and therefore the attitude of money management is also important.

Power Distance

Power Distance is the extent to which the less powerful members of organizations and institutions, including the family unit, accept and expects that power is distributed unequally⁶⁶. A large power distance in statistical terms implies that power inequalities between individuals are seen as the social norm and established authority is valued. Small power distance countries will try to minimize inequality among citizens. High power distance tends to emphasize moral order and leadership of the nation. Large power distance cultures tend to have centralized political power and exhibit hierarchies in organizations with large differences in salary and position⁶⁷. Low power distance countries will have flatter hierarchical organizations; and parents and children may be view themselves as equals. Chinese culture ranks high on Power Distance.

⁶⁵ Ellen Oxford Basu “Profit, Loss and Fate: The Entrepreneurial Ethic and the Practice of Gambling in an Overseas Community in Modern China,” *Modern China* No.17 (2) (1991): 227-259.

⁶⁶ Geert Hofstede and Michael Bond, “The Confucious Connection: From Cultural Roots to Economic Growth in Organizational Dynamics,” *Organizational Dynamics*, Vol. 16 (4) (Spring 1988): 1-18.

⁶⁷ Jeffrey Hsu, “Chinese Culture and E-commerce,” in *E-commerce and Cultural Values*, ed. Theerasak Thanasankit, Hershey, PA (Idea Group Publishing, 2003).

Uncertainty Avoidance

Uncertainty Avoidance indicates to what extent a culture programs its members to feel either uncomfortable or comfortable in unstructured situations⁶⁸. Members of a culture with high uncertainty avoidance will feel threatened by uncertain or unknown situations. Strong avoidance cultures will tend to minimize uncertainty by introducing laws to increase predictability. High uncertainty avoidance cultures will have low tolerance of ambiguity, distrust of outsiders and mistrust of youth. Countries with low uncertainty avoidance tend to be less structured and tolerate more opened ended situations. Although China ranks averagely on this dimension, it is often suggested that Chinese people prefer less uncertainty.

Masculinity and Femininity

Masculinity and femininity pertains to societies in which social gender roles are clearly distinct⁶⁹. For example men are supposed to be assertive, competitive, tough, and focused on material success whereas women are supposed to be more modest, tender, nurturing and concerned with the quality of life. This dimension is shared by both men and women in society. The dimension of masculinity and femininity define working relationships and expectations. For example, traditional work goals for men include recognition, advancement and challenge⁷⁰. Traditional feminine goals are good relations with supervisors; peers and subordinates; good living and working conditions; and job security. Chinese culture is classified as masculine.

Long Term Orientation or Confucianism Dynamism

Confucian Dynamism is the attitude toward time, patience and emphasis on tradition versus demand for immediate results⁷¹. Chinese culture scores highly on this dimension. Higher

⁶⁸ Geert Hofstede and Michael Bond, "The Confucious Connection: From Cultural Roots to Economic Growth in Organizational Dynamics," *Organizational Dynamics*, Vol. 16 (4) (Spring 1988): 1-18.

⁶⁹ Geert Hofstede and Michael Bond, "The Confucious Connection: From Cultural Roots to Economic Growth in Organizational Dynamics," *Organizational Dynamics*, Vol. 16 (4) (Spring 1988): 1-18.

⁷⁰ Jeffrey Hsu, "Chinese Culture and E-commerce," in *E-commerce and Cultural Values*, ed. Theerasak Thanasankit, Hershey, PA (Idea Group Publishing, 2003)..

⁷¹ Jack Cook and Mike Finlayson, "The Impact of Cultural Diversity on Website Design in Sam

scores on LTO will mean greater patience for results. Hofstede found that most Asian cultures exhibited these Confucian Dynamism values⁷²:

- 1) A stable society requires unequal relations
- 2) The family is the prototype of all social organizations; older people have more authority than younger people, and men have more status than women
- 3) Treat others as you would like to be treated
- 4) Acquiring skills and education, working hard, and being frugal, patient and preserving

3.5.3 The Chinese Gambler's Profile: Macau, Hong Kong and China

Gambling is an entrepreneurial activity and players will invest in gaming activities with the highest perceived value. Gambling is motivated by the chance to make money and the idea of getting rich quick with limited investment⁷³. And culturally speaking, Chinese people will prefer to play games with the highest perceived value or perceived probability of winning⁷⁴. For example, Chinese people will play table games more often than slot games because table games offer higher stakes and thus larger wins.

Chinese people take gambling seriously. Besides the dollar size of winnings and probability of winning a game, speed of play is also an important consideration. Desmond Lam's study demonstrates that table games, such as the ones in casinos, are favoured for its get rich quick mentality⁷⁵. And in general Chinese people find table games more entertaining and exciting. Another insight offered by Lam is that table games resemble the collectivist social interactions of Mah Jong, which is valued by the Chinese.

Advanced Management Journal," *Sam Advanced Management* (Summer 2005):1- 45.

⁷² Jack Cook and Mike Finlayson, "The Impact of Cultural Diversity on Website Design in Sam Advanced Management Journal," *Sam Advanced Management* (Summer 2005):1- 45.

⁷³ Mikal J. Assved, *The Sociology of Gambling*. (Springfield Illinois: Charles C Thomas publisher, 2003).

⁷⁴ Desmond Lam, "Slot or Table? A Chinese Perspective in UNLV Gaming Research & Review Journal," *UNLV Gaming Research & Review Journal*, Vol 9(2) (October 2005): 69-72.

⁷⁵ Desmond Lam, "Slot or Table? A Chinese Perspective in UNLV Gaming Research & Review Journal," *UNLV Gaming Research & Review Journal*, Vol 9(2) (October 2005): 69-72.

Chinese people from different geographic locations share cultural similar attitudes towards gambling. Macau casino patrons and Hong Kong gamblers have no significant difference in the attitude toward gambling involvement and risk taking activity⁷⁶. Furthermore, a Hong Kong Affairs Study Bureau reported that 87 percent of Hong Kong residents who made a bet in a Macau casino found gambling exciting⁷⁷. We can assume with certainty that the gambling attitudes presented from the people in Macau and Hong Kong will be representative of Chinese people in general.

3.5.3.1 Macau

Under a limited democracy government, Macau is the only gambling province that permits gambling. Today, the special region has a population of 453,125 people of which 95.7 percent are Chinese origin, 1 percent Mekanese and 3.3 percent in “other” status. Further, 16.2 percent of the population are aged from 0 to 14 years; and 75.9 percent are aged from 15 to 64 years. In 2003, almost 12 million tourists entered Macau: 48.3 percent were from mainland China and 38.9 percent came from Hong Kong.⁷⁸ Gamblers in Macau should be studied because they provide the best picture of the gambling habits of both Chinese and Hong Kong citizens. This section will review the gambling behaviors of Chinese gamblers in Macau.

Several studies have investigated the impact of gambling on Chinese residents in Macau. In a study by Kwan, the top reasons for gambling in Macau are “entertainment”, followed by “trying your luck”, “killing time” and “excitement”⁷⁹. Interestingly, 91.8 percent of respondents in Kwan’s study gambled, but not at a casino environment. Kwan’s study was conducted in

⁷⁶ Bernadete Ozorio and Davis Ka Fong, “Chinese Casino Gambling Behaviours: Risk Taking in Casinos vs Investments in UNLV Gaming Research and Review Journal.” *UNLV Gaming Research and Review Journal*, 8(2) (2004): 27-28.

⁷⁷ Hong Kong Home Affairs Bureau : Report on a study of how Hong Kong people’s participation in gambling activities[Online], March 2002

⁷⁸ “Monthly Bulletin of Statistics,” *Statistics and Census Service in Macau*, 2004.

⁷⁹ Fanny Vong Chuk Kwan, “Gambling Attitudes and Gambling Behavior of Residents of Macao: The Monte Carlo of the Orient in Journal of Travel Research,” *Journal of Travel Research*, Vol (42) (February 2004): 271-278.

Macau, her respondents were permanent residents and 98 percent of the people studied were of Chinese origin. Another study of Macau residents was conducted by Ozorio and Fong⁸⁰. They found that social gambling is not considered a form of gambling. It was found that 73.1 percent of respondents did not consider social gambling as a gambling activity. However, Mark 6 (58.8 percent), sports betting (58.8 percent) and casinos (66.8 percent) are considered a forms of gambling. From 1,121 respondents residing in Macau, the top 10 gambling activities and amount spent per month are the following (See Table 3). It should be noted that these activities are not mutually exclusive.

Table 3: Top Ten Gambling Activities in Macau

Gambling Activities	Participation /100	USD per month
1) Social gambling	43.80%	\$20
2) Mark 6	38.70%	\$5
3) Soccer and basket betting	20.60%	\$68.70
4) Macao casino	20.70%	\$87
5) Greyhound racing	5%	\$9
6) Horse racing	5%	\$32
7) Mahjong House	3.30%	\$46
8) Pacapio	2.30%	\$6
9) Casino Ships	1%	\$278
10) Online gambling	1%	\$20

Data Source: Ozorio and Fong (2005)

Another significant finding by Ozorio and Fong is that Chinese people with income less than 8,000 Macau Pataca (MOP) will be 100 times more likely to become problematic gamblers than individuals earning more than 8,000 MOP per month. Problem gamblers are those people who gamble to the point that it hurts family relationships and financial well being. About 50 percent of men and 39.1 percent of women gambled in Macau in at least one of the forms of

⁸⁰ Bernadete Ozorio and Davis Ka Fong, "Chinese Casino Gambling Behaviours: Risk Taking in Casinos vs Investments in UNLV Gaming Research and Review Journal." *UNLV Gaming Research and Review Journal*, 8(2) (2004): 27-28.

gambling mentioned above⁸¹. The study also showed that the greater the family and individual income of the participant the more likely the respondent gambled. Families with incomes from 7001 to 12,999 MOP had social gambling participation of 46.1 percent; families with 13,000 to 19,999 MOP participated in gambling at 59.5 percent; and families with over 20,000 MOP dropped slightly at 55.0 percent. Males tended to gamble more often than females do. Similar trends existed across the board on the top gaming activities. The higher the income the more likely that Chinese people will gamble. However, gambling participation reaches a plateau and then declines for those in the highest income categories.

In a related study, Kwan cited lotteries, Mah Jong and soccer betting as primary gambling activities for residents in Macau⁸². This may be due to low income of Macau residents who cannot afford to gamble and secondly the cultural aspect of social gaming that motivates Chinese to gamble with friends and relatives: 67 percent of respondents earned less than \$5000 mapatas; \$1 US = 8.032 mapatas (2002). Residents who gambled spent 2 percent of their incomes. Kwan's findings suggest that the top 11 gambling reasons for the Macau Chinese people ranked in order are the following (See Table 4). It should be noted that these reasons are not mutually exclusive.

⁸¹ Bernadete Ozorio and Davis Ka Fong, "Chinese Casino Gambling Behaviours: Risk Taking in Casinos vs Investments in UNLV Gaming Research and Review Journal." *UNLV Gaming Research and Review Journal*, 8(2) (2004): 27-28.

⁸² Fanny Vong Chuk Kwan, "Gambling Attitudes and Gambling Behavior of Residents of Macao: The Monte Carlo of the Orient in Journal of Travel Research," *Journal of Travel Research*, Vol (42) (February 2004): 271-278.

Table 4: Top ten reasons for gambling - Macau residents

Reason	Percentage
1) Entertainment	32
2) Try my luck	16
3) Kill Time	14
4) Excitement	11
5) Friends urged me to	11
6) Gain Extra Money	6
7) Get Rich	5
8) Advance to higher social class	2
9) Forget unhappiness	1
10) To help with household expense	1
11) Other	1

Data Source: Kwan (2004); frequencies converted into percentages

To summarize the above findings, Kwan and Ozorio & Fong's studies are complementary and both support the idea that Chinese people have social and entertainment needs when they search for gaming activities. Kwan's study investigated the behaviours and attitudes of Macau residents, which showed that Chinese consumers gambled usually within their means and for entertainment purposes. Ozorio and Fong investigated the participation of Macau residents on each gambling activity available. These studies demonstrated that social gambling, namely Mah Jong, and sports betting are the most popular forms of gaming in China while online gambling takes only 1 percent of total gaming activities.

The main difference between these two studies is that respondents held wide discrepancies in their attitudes regarding specific games. For example, some respondents in one study considered Mark 6 as a "gambling" activity while other respondents considered it as a form of "entertainment". Thus, more research in the area of consumer perceptions for specific types of games is necessary in China. The perception of online gaming as either "gambling" or "entertainment" will bring to light how acceptable e-gaming is to society, which would have

implications on how operators should market to e-gamers. Unfortunately, there is little research to define whether online gambling is more “entertainment” or “gambling” for Chinese consumers.

3.5.3.2 Hong Kong

Hong Kong is a limited democracy with a population of 6,940,432 people. It has an age structure as follows: *0-14 years*: 13.5% (male 488,607/female 445,593), *15-64 years*: 73.7% (male 2,495,679/female 2,620,336) and *65 years and over*: 12.8% (male 413,031/female 477,186)

Hong Kong people have substantially higher incomes than Macau residents with all the same choices of gambling activities: casinos, sports betting etcetera. A Hong Kong government telephone survey of 2093 respondents found out that an overwhelming 81.1 percent of the population in Hong Kong participated in one form of gambling or another; another 81.1% of respondents reported having gambled in legal and illegal gambling activities. From the people who gambled, 0.1% reported “online gambling within the last week”; 0.1% reported “gambled online in the last year”; 0.3% reported “online gambling ever”; and 99.5% reported never having gambled online at all⁸³.

From the same government study of Hong Kong, the 12 to 19 age category was studied extensively for gambling behaviours. Approximately 50 percent of respondents in this age category, below the age of 18, responded that they will gamble once they turned 18 years old. Only 26.5 percent of the age group of 12 to 13 years mentioned they would gamble at the legal age. The following are age categories of youth online gamblers as indicated from the Hong Kong Home Affairs Bureau:

- a) 1 percent of 12- 13 years olds online gambled in 2004-2005
- b) 2.3 percent of 14-15 year olds online gambled in 2004-2005
- c) 2.1 percent of 16-17 year olds online gambled in 2004-2005

⁸³ Hong Kong Home Affairs Bureau : Report on a study of how Hong Kong people’s participation in gambling activities[Online], March 2002

d) 2.7 percent of 18-19 year olds online gambled in 2004-2005

Personal contacts are the greatest influence for the first gambling experience in Hong Kong⁸⁴. “Friends and schoolmates” was the most important persuading factor at 20.5 percent of gamblers, “relatives” were second most persuasive at 18.6 percent, “self” was 13.5 percent, “parents and grandparents” at 12.1 percent, siblings at 8.7 percent, the “do not remember” category was 16.7 percent, and “others” was rated at 9.6 percent.

Advertising provided little help in promoting gambling activities. Only 0.4 percent of youth gamblers were persuaded to gamble by advertising. Gambling activities in Hong Kong are largely promoted through word of mouth and by close personal contacts. The major reasons for Hong Kong people to gamble are as follows (See Table 5). It should be noted that these reasons are not mutually exclusive.

Table 5: Top fifteen Reasons for Gambling-Hong Kong residents

Reason	Percent
1. Just for fun	25.6
2. Curiosity	15.7
3. Entertaining other people	9.6
4. Hoping to win	8.4
5. Killing time	7.4
6. Trying my luck	5.3
7. Excitement seeking	1.2
8. No specific reasons	0.5
9. Wanted to learn	0.3
10. For charity	0.2
11. Birthday	0.2
12. Sharing the bet with others	0.1
13. For interest	0.1
14. Travel	0.1
15. Others	28.2

Data Source: Hong Kong Affairs Bureau (2005)

⁸⁴ Hong Kong Home Affairs Bureau : Report on a study of how Hong Kong people’s participation in gambling activities[Online], March 2002

Chinese people are culturally predisposed to gambling, but they have an entrepreneurial attitude so gambling is a thoughtful process. In this cultural report, the people and gamblers of Macau and Hong Kong were studied to evaluate the merit of the online gambling market in China. In the studies reviewed, in Macau and Hong Kong, about 81 to 91 percent of Chinese respondents admitted to gambling. However, to decide on the game of choice, Chinese gamblers will calculate odds, the size of the pot and speed of each game. Cultural preferences demonstrate that Chinese players enjoy table games due to their collectivist nature.

If e-gaming services are to provide entertainment and an opportunity for wealth, e-gaming is able to fulfil the needs of Chinese people. Kwan confirms the entertainment and social needs of Chinese end-users. This suggests that Chinese players are looking for gaming activities to fill their time and be entertained. Online gambling could fulfil these top consumer needs.

Summary of PEST

This section contributes to China's online gaming market evaluation by describing the potential issues Chartwell Technologies will face in China. We have shown that the political and legal situation of online gambling is ambiguous, but regardless of any legal or technical entry barriers, rivals are aggressively trying to penetrate the online gaming market. Further, cultural and social factors provide substantial evidence that online gaming activities will have a promising future to satisfy gamblers in China. Technology adoption is still immature for most Chinese provinces, but the best prospects for technology adoption and e-gambling activities are in coastal regions. Coastal populations in regions, like Shanghai and Beijing, show great progress in internet diffusion and financial card use. Chinese society is becoming more forthright about credit cards, which promises to help in e-commerce activities.

In conclusion, the gambling industry is a lucrative one, but the market for internet gambling is still immature as research studies suggest that 1% of gamblers in Macau and Hong Kong participate in internet gambling. Slow penetration of internet gambling may be due to the cultural need (guanxi) for long term relationship building required to introduce Chinese consumers to internet gamble. Gambling software providers that have the resources to use cultural marketing techniques, namely building long term relationships and personal selling, will have competitive advantage in the introductory stage of launching e-gambling in the Chinese market. So far gambling software providers have been reluctant to make long term commitments in China.

4 CHARTWELL - INDUSTRY ANALYSIS

We will analyze the gambling industry in general and in reference to China where applicable, using Porter's 5 forces framework.

4.1 Competitive Rivalry

The online gaming industry emerged in mid-1990's. Since then, many companies have come into existence in this increasingly competitive, but at the same time potentially attractive industry. Dynasty gaming, Cryptologic, Orbis Technology and Playtech Inc, are the few major competitors of Chartwell that are incorporated in North America and Europe. G Master Tech is another potential competitor that is domiciled in Macau. To have a better understanding of their operations, growth plans and financial performance, the following are corporate profiles for competitors mentioned above.

4.1.1 Dynasty Gaming

Overview

Dynasty Gaming Inc., through wholly-owned subsidiaries located in Montreal and the Turks & Caicos Islands, is a leading developer and supplier of an Internet gaming software product marketed as Mahjong Mania. Dynasty Gaming's predecessor company, Events International Holding Corporation, acquired the Mahjong Mania assets, including its proprietary technology and its development team in exchange for an issue of common shares during 2005. On December 9th 2005, the company's name was changed to Dynasty Gaming to better reflect its primary sphere of business⁸⁵. The common shares of Dynasty Gaming are listed and traded on the

⁸⁵ Dynasty Gaming Inc: Links [Online]

Toronto Venture Exchange under the trading symbol “DNY”. The Company believes that approximately 75% of its common shares are held by Canadian investors and the balance by U.S.-based investors.

Recent events & Financial Performance

Dynasty Gaming Inc. is solidifying a two-phased strategy to secure a lead position in the Chinese market and within the international online gaming sector with its first-to-market software for an aggregate player, cash wager version of Mahjong, the world’s most played game. The company has signed licensing agreements for *Mahjong Mania* with 7 online casino operators. The most significant contract to date, finalized in January 2006, is with Ladbrokes, the world's largest bookmaker and a leading online casino operator with a large Asian and Chinese client base.

Mahjong Mania is the first-to-market version of an aggregate play, cash-wager version of online mahjong⁸⁶. *Mahjong Mania* has also been licensed to a unit of the Macau-based Ho Group⁸⁷, the largest and so-called founder of gambling in Macau. Dynasty Gaming and Ho Group will jointly create and sponsor the first World Cup of Mahjong tournament during December 2006⁸⁸.

Dynasty announced on 15th May 2006 that they have signed a letter of intent with Beijing Junnet Union Science and Technology Limited Company covering the promotion, marketing and distribution of Mahjong prepaid cards in China. Prepaid cards, similar to telephone calling cards, are widely used by people in China for accessing and playing various online sports and casual games with opportunities for winning reward points redeemable for prizes. According to Dynasty’s CEO, this was a giant step forward as a means of accessing the world’s largest and

⁸⁶ “Dynasty Gaming and Ho Group Joint Venture First-Ever World Cup of Mahjong,” *Yahoo Finance*, April 2006.

⁸⁷ Dynasty Gaming Inc: Links [Online]

⁸⁸ “Dynasty Gaming and Ho Group Joint Venture First-Ever World Cup of Mahjong,” *Yahoo Finance*, April 2006.

fastest growing Internet Marketplace and creating a first to market footprint for their online Mahjong gaming product.⁸⁹

The company experienced continuous growth in their revenues, which increased from \$ 3.96 million in 2003 to \$ 6.2 million in 2004. Their revenue for the 9 months ending 30th September 2005 is \$ 6.4 million. However, Dynasty Gaming has also suffered a net loss from operations from these periods, with the current deficit at \$ 3.6 million as at 30th September 2005.⁹⁰

4.1.2 G Master

Overview

G-master was established in July 2000 in Macau. It provides comprehensive online gambling solutions to interested investors, both individuals and companies. Their range of offering includes not only the software, but also advice on how to obtain legal online betting licenses, software and hardware setup, payment gateway integration, operation and management training, marketing and consultation service. In addition to online gambling solutions, G-Master has developed *G-WIN.COM*, the largest online gambling network in Asia. G-Master also provides wide range of IT support to help traditional companies turning idea into successful e-businesses.⁹¹

Recent events & Financial Performance

G-Master is recognized as an experienced and reliable software provider in the Macau and Asia Pacific region. This is evident from the fact that in September 2004, G-Master was appointed by First Cagayan, also known as FCLRC (Philippines Online Gambling License Issuing Organization), to analyze and ensure that all software being used by each applicant for a Restrictive SportsBook License complies with the requirement of the Interactive Gaming Act. G-

⁸⁹ "Dynasty Gaming Advances China Strategy; Signs Prepaid Card Agreement With Leading Chinese Distributor," *Market Wire*, May 15, 2006

⁹⁰ Dynasty Gaming Inc: Finance [Online]

⁹¹ Gmaster Inc. Home[Online].

Master will provide FCLRC with a certificate of compliance to this effect prior to the issuance of any license. Jason Chan, the CEO of G-Master, commented at that time that there are not a lot of software providers suitable for Asian operators, they are either too complicated for punters or for back end controllers. G-Master will provide practical advice to such software providers to improve on their product.⁹² G-Master also participates in all the major exhibitions, for e.g. GIGSE 05 Global Interactive Gaming Summit & Expo in June 2005 in Canada, Macau Gaming Expo in April 2005 in Macau and Pacific Congress on Interactive Gaming in March 2005 in Australia.⁹³

Their performance results and financial data are not available in the public domain.

4.1.3 Cryptologic

Overview

Cryptologic was founded by in 1995 by brothers Andrew and Mark Rivkin, who started with an Internet idea regarding communication protocols to settle transactions securely and quickly. Following this idea, development of the first ECash and gaming application began in early 1996. Wagerlogic Limited, a wholly-owned subsidiary of Cryptologic, is responsible for the licensing of its gaming software and services to an internationally recognized blue-chip customer base. Wagerlogic completed its first license in November 1996, and has increased on its number of customers substantially since then, making Cryptologic a reliable name in the online gambling industry. In September 1998, Cryptologic got listed on Toronto Stock Exchange (TSX) under the symbol 'CRY'. In March 2000, the company began trading in the NASDAQ National Market under the symbol 'CRYP'. In September 2003, the company began trading on the London Stock Exchange Main Market under the symbol 'CRP'.⁹⁴

⁹² "Macau gaming experts take to Worldwide online gaming field," *Online Casino News*, September 2004

⁹³ Gmaster Inc. Home[Online].

⁹⁴ Cryptologic Inc.: History [Online].

Recent events & Financial Performance

Wagerlogic's gaming solution is comprised of a total suite of more than 80 Internet-based casino, multi-player bingo and player-to-player poker games in multiple languages (English, Spanish, Japanese, Chinese, French, German, Italian) and multiple currencies (US Dollars, British Pound Sterling and Euros) with an integrated e-cash management system and 24/7 customer support.⁹⁵ Wagerlogic licenses its software to 38 websites, 2 of which operate in Chinese language.⁹⁶

Wagerlogic was recognized as the iGaming Software Provider of the Year at the 2006 UK Gambling Awards, the UK's premier industry awards event, in January 2006. WagerLogic was honored for its innovative Internet casino and poker software. It was also observed that WagerLogic licensees' central poker room has consistently ranked among the top five poker rooms on the Internet, and attracts more than 9,000 simultaneous online players.⁹⁷

Cryptologic has 3 wholly owned subsidiaries; Wagerlogic, Ads Dot Com and ECash Direct.⁹⁸ Their financial information is provided in a consolidated form; hence the financial performance of Wagerlogic alone is not publicly available.

4.1.4 Playtech

Overview

Playtech Limited was incorporated in September 2002 in British Virgin Islands, and has various wholly owned subsidiaries in Cyprus, Israel and British Virgin Islands.⁹⁹ Playtech is one of the top online gambling software providers in the industry, with a huge number of 118 websites that use its software. Playtech introduced real-time game and transaction histories, VIP rating and a comp points scheme, fraud prevention and player retention tools. Live human dealers

⁹⁵ Wagerlogic Inc.[Online].

⁹⁶ Online Casino City: Wagerlogic [Online].

⁹⁷ Cryptologic Inc.: Investor Information. [Online]. January 31, 2006.

⁹⁸ Mergent Online: Cryptologic Subsidiaries information [Online]

⁹⁹ Playtech Limited : Playtech Annual Report [Online]2005

and progressive games featuring interactive, animated bonus stages and real-time, online contact between players and customer service personnel are included in their résumé of developments.¹⁰⁰

Recent events & Financial Performance

There are 118 websites that use Playtech's software, 14 of which operate in Chinese language. 11 of these 14 websites are based in Antigua and Barbuda. Playtech successfully completed the migration of the Hard Rock Casino to its platform in 2006. With 120 Hard Rock Cafes and 13 Hard Rock Hotels and Casinos in more than 40 countries, Hard Rock International owned by The Rank Group Plc is one of the world's most globally recognized brands. On 28 March 2006, Playtech's shares were successfully admitted to the Alternative Investments Market (AIM) market of the London Stock Exchange (LSE)¹⁰¹.

Playtech enjoyed dramatic revenue increases in the past years. Their revenues increased from US\$ 26.4 million in 2004 to US\$ 47.6 in 2005.¹⁰² The listing of its shares on AIM market of LSE resulted in the company valuation of approximately £548 million.¹⁰³

4.1.5 Orbis

Overview

Orbis Technology, established in 1996 in West London, is a subsidiary of NDS group which is listed on NASDAQ and Euronext Brussels stock exchanges. Orbis is a pioneer in the design and development of online gambling systems providing the OpenBet(TM) single account, single solution technology to leading bookmakers and broadcasters worldwide.¹⁰⁴ OpenBet technology allows bets to be placed in a variety of ways, including via the Internet, cell phones, and telephones.¹⁰⁵

¹⁰⁰ Online Casino City: Playtech [Online].

¹⁰¹ Playtech Limited: History [Online]

¹⁰² Playtech Limited : Playtech Annual Report [Online]2005

¹⁰³ Playtech Limited: History [Online]

¹⁰⁴ Orbis : Home [Online]

¹⁰⁵ Hoovers : Orbis Technology Limited [Online]

Recent Events & Financial Performance

Orbis has a well developed clientele of 20 web-sites, 7 of which operate in Chinese language¹⁰⁶. Two of the seven websites that operate in Chinese language are domiciled in Macau. There are a total of 3 websites that are domiciled in Macau, and are permitted to accept online purchases of Pacapio¹⁰⁷, a Chinese lottery. These websites can also offer online wagering on horse races.¹⁰⁸

Orbis is one of the 15 wholly owned subsidiaries of NDS Group¹⁰⁹, and their individual financial performance data is not available in the public domain.

Summary of Competitive Analysis

The various competitors and their details can be summarized as follows (See Table 6).

Table 6 : Profile of Chartwell's Competitors at a glance

Name	Domiciled in	Major Products	Client locations	2005 Equity
Dynasty Gaming	Canada	Mahjong Mania and its prepaid cards,	Virtually all the revenue generated from North America	CAD \$ 3.3 million
G Master	Macau	Online casino, legal advice on obtaining licenses, payment gateway integration	Pacific Rim, Philippines, Antigua	Not Available
Cryptologic	Canada	Casino suite, e-cash management system	Netherlands Antilles, Malta,	US \$ 87 million ¹¹⁰
Playtech	British Virgin Islands	Casino suite, Videobet (digital land bases gaming platform ¹¹¹)	Antigua and Barbuda, Costa Rica Kahnawake, UK, Netherlands Antilles,	US \$ 19.7 million
Orbis	UK	OpenBet™ Casino suite	Isle of Man, Gibraltar, UK, Malta, Macau	Not Available

¹⁰⁶ Online Casino City: Orbis [Online].

¹⁰⁷ A tombola game similar to Keno, <http://www.chinats.com/macau/Attraction/entertainment.htm>

¹⁰⁸ Online Casino City: Macau Jurisdiction [Online].

¹⁰⁹ NDS Group : NDS Group Annual Report [Online]2005

¹¹⁰ Cryptologic Inc: Cryptologic Inc Annual Report [Online]2005

¹¹¹ Playtech Limited: Products [Online]

Comparing rival products with those of Chartwell Technologies, it is apparent that competitors provide exceptionally similar offerings of products and services. They all provide online gaming software that includes a package of game management, affiliate management and performance reporting features. Such gaming systems equip operators with all the tools they need to manage their websites in real-time. On top of that, most software providers service their clients with training, technical support, professional advice on compatibility of hardware and software, and business solutions to help operators succeed in their market. This suggests that competitive advantage of the firm is dominated by technology, which seems to be almost comparable across the competitors discussed above. Differentiating products by premium services may benefit software providers in capturing or maintaining market share.

The online gaming software industry reflects the negligible concentration of competitors in China; hence there is an absence of monopolistic or oligopolistic characteristics in the market. This means that no single firm or a group of 'BIG' firms captures significant market share.

Competing in this industry requires a significant capital commitment. This is required to acquire latest technology, sophisticated equipment, software licenses, regulatory compliance costs and to attract and retain highly professional and technical personnel. This capital commitment raises the exit barriers for the firms competing in this industry and forces them to continue operating.

All these factors, i.e. absence of monopoly or oligopoly, virtually non-existent competitive advantage and high exit barriers results in moderately high competitive rivalry within the online gambling industry.

4.2 Bargaining Power of Suppliers

Suppliers in any industry, if powerful, can exert an influence on their customers, usually resulting in the customer paying a higher price for the product being supplied or risk losing the

supplier to its competitor. Their power comes from various sources, such as their being limited in number, their huge size or higher switching costs for their customers.

Chartwell supplies gaming software to its clients, which is programmed and developed by in-house IT specialists. There are no external suppliers hence no supplier threat. However, the success of the company is largely dependent on the performance of its key technical personnel. In this industry, competition for highly skilled technical personnel is intense as these people are considered the back-bone of the company. Failure to retain key employees could have an adverse material impact upon the Company's growth and profitability. Chartwell has been successful in retaining and promoting their technical staff and have experienced negligible staff turnover since it commenced operating in this industry. Considering this, the bargaining power of suppliers is perceived to be low.

4.3 Bargaining Power of Buyers

The bargaining power of buyers is the impact that customers have on a supplier industry. Buyers, when strong, use their power to influence suppliers to reduce their prices and hence share profits of supplier. Buyers are strong when they are limited in number; their purchases are huge in comparison to the capacity of their supplier; or when their costs of switching suppliers are negligible.

Customers of gaming software providers are the web-sites that offer gaming facilities to their virtual visitors. These web-site owners are called licensees as they enter into a licensing agreement with the software provider. A software provider firm typically has many clients as the websites that provide online gaming are large in number and the industry is growing; their sales are not dependent on a single or few major customers, and switching costs are considerable. This suggests that buyers have weak bargaining power in this industry.

4.4 Threat of New Entrants

Threat of new entrants is high when barriers to entry are low; and low when barriers to entry are high. Barriers to enter the online gaming and entertainment software industry can include:

- Significant capital costs relating to software development
- Long lead time relating to software development
- Scarcity of qualified and experienced online gaming and entertainment software programmers
- Strategic relationships developed with the licensees

Chinese online gaming industry is very nascent and still getting developed as the companies are trying to tap this country amid uncertainty as to the future rules and regulations. Most of the competitors will be companies trying to capture a market share by providing the products and services they are already providing in other areas of the world. What this suggests is that they have already incurred significant capital costs of development, they can launch their product within very short time, and they have a team of experienced and qualified software programmers and developers. This leaves the major barrier to entry being the non-availability of licensees as they are locked in with other software provider. Since Chinese market is still developing, there are many identified as well as unidentified customers for such products that are not being locked-in. It will be imperative for any firm to lock-in as many customers as possible to create high barriers of entry to firms entering the market later. Currently, the threat of new entrants is considered to be moderate.

4.5 Threat of Substitutes

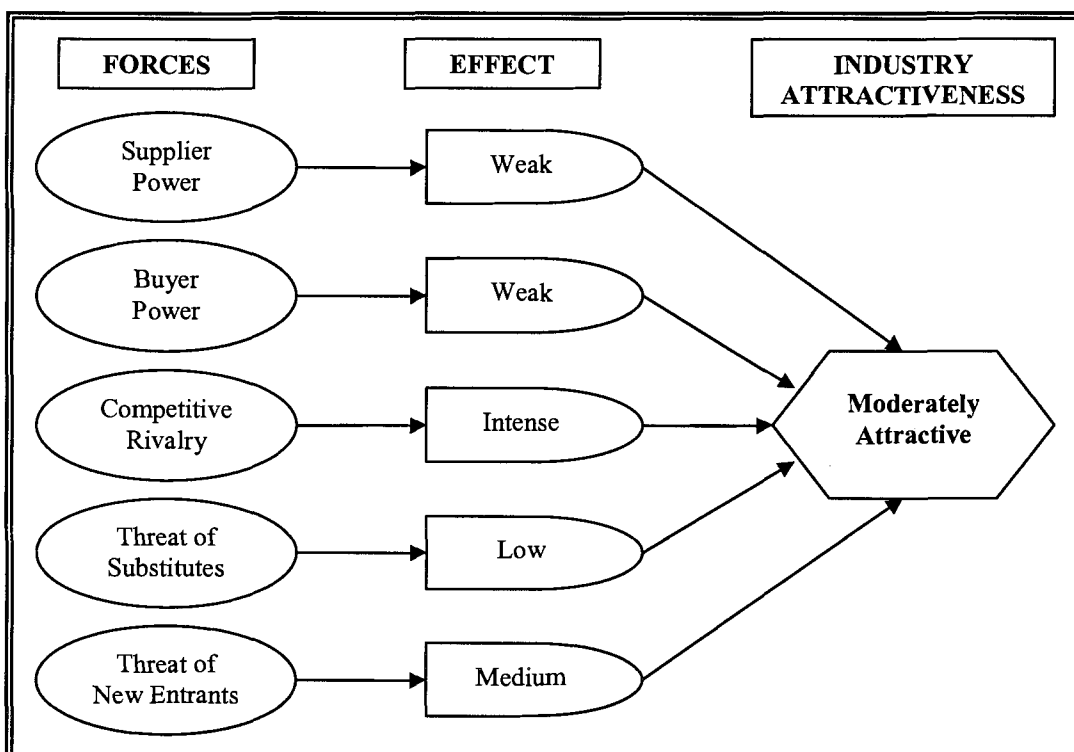
In Porter's model, substitute products refer to products and services in other industries. Substitute products are threatening if they have the potential of affecting the demand of a product by a change in their own prices. Chartwell's customers are web-site owners that provide online

gambling options on their web-sites. Substitutes for online gaming software include entertainment software allowing the users to pay-per-view, online lotteries and online betting on sports. These substitutes are already available to web-site owners and currently are utilized by many web-sites, often in conjunction with online gambling. Moreover, the willingness of buyers to completely switch from online gambling to other services is negligible. Therefore, the current threat of substitutes to affect the demand of online gambling software is perceived as low.

Industry Attractiveness

Considering the 5 forces discussed above with Porter's 6th force, the stakeholders specially the government regulations, we conclude that the industry for online gambling in China is moderately attractive (See Figure 2). If government regulations were clarified and unambiguous as they relate to online gambling, and the competition was less intense, this would have been an attractive industry for software developers.

Figure 2: Porter's Five Forces Analysis of Online Gambling Software Providers Industry



Based on Porter, 1995

5 INTERNAL ANALYSIS - CHARTWELL

The analysis of Chartwell's operations, China's environmental analysis and the online gambling industry's situation help us to construct a competitive analysis of Chartwell, which takes into consideration its strengths and weaknesses and matches them against the opportunities in the Chinese online gambling industry and the threats it may impose.

5.1 Strengths

- Chartwell's products are of comparable quality in relation to its competitors' offering, and have options for customization to meet the clients' needs. They are also comparable in terms of initial investment (software set-up and development) and license fees.
- Chartwell possesses a team of dedicated, committed and highly skilled multi-cultural technical staff that enables the company to continuously develop and up-grade its offerings.
- Chartwell's offering includes CyberBoss (Chartwell's administration, marketing and reporting software), and CyberBanx (its proprietary e-commerce engine), that provide its clients with all the tools necessary for the successful operation and promotion of their Chartwell Gaming System
- The company has sufficient experience of expansion, as it expanded successfully in the European market.
- Chartwell has achieved sustained growth since its inception, and as a result possess exceptional financial resources to fund further expansion without adversely impacting the on going operations. It has approximately CAD \$ 3.9 million in cash reserves, and the management is confident it can easily support any major expansion plans.

5.2 Weaknesses

- Chartwell is not one of the industry leaders, and therefore does not possess ‘visibility’ as compared to its major rivals, such as Cryptologic and Boss Media.
- The company’s sales cycle typically ranges from six to twelve months, and may be longer. This begins with an interested customer and culminates in entering into a commercial agreement with the customer.
- Chartwell does not currently possess any patent or copyright registrations in Canada, US or any other jurisdiction it operates in.
- Chartwell does not maintain its own gambling websites, probably due to regulations or their own preference of not to compete with their operators, while there are some software developers who also maintain their own websites¹¹², thereby reaping the benefits which would otherwise accrue to the operators.
- Chartwell does not possess any specific experience of Asian market and its consumer behaviour, and does not have any business relationships with the local players of Chinese online gambling market.

5.3 Opportunities

- Macau, which we recommend as the venue for Chartwell’s marketing office, is investment-friendly, with a particular reference to gambling industry. Gaming, tourism and hospitality industry is estimated to contribute more than 50% of Macau's GDP, and 70% of Macau government revenue. With the opening of the Sands Casino in 2004 gambling revenues from Macau's casinos were for the first time greater than those of Las Vegas (each about \$5 billion), making Macau one of world's highest-volume gambling

¹¹² Chartwell Technology :Annual Report [Online] 2005

centers. Other casinos slated to be opened through 2008 are the Wynn Macau Casino in 2006, the Venetian Macau in 2007, the Galaxy , Crown Macau and others upto 2008.¹¹³

- There are few companies already operating in Macau that provide online gambling software. The most prominent one is G-Master technology, a Macau Based company. However, it currently targets customers from the Philippines and Antigua, therefore, does not hold a major share of Macau’s online gambling market. This suggests that the market has substantial growth potential.
- East Asian countries are cited as an emerging market for online gambling, as per capita incomes of these countries are increasing and consumers are getting familiarized with the use of Internet and online gaming. The telecom sector in all these countries has also experienced substantial improvement and the governments are investing huge sums for their development.
- E-commerce has also emerged as an industrial sector on its own, which provides an opportunity to companies like Chartwell to provide consultancy services to organizations that are just beginning to embrace e-commerce applications.
- There is a global interest in legalizing and regulating the online gambling industry, as it provides international governments with substantial revenue streams through taxing the profits of online gambling web-sites. UK enacted its Gambling Act in 2005¹¹⁴, and as a result benefits from other countries’ outflow of gambling revenues. It is suggested by analysts that all the major countries will follow suit. However, there is substantial uncertainty and debate on whether to legalize and regulate online gambling and in what form. Chartwell can benefit if some countries like China legalize online gambling

¹¹³ Wikipedia: Macau [Online].

¹¹⁴ “New Gambling Laws to Help Addicts,” *BBC News*, March 10, 2006.

5.4 Threats

- Larger competitors from outside Macau may enter it before Chartwell does, thereby establishing presence and hence capturing a substantial market share by taking advantage of their superior position in the North American and global market.
- Chinese government may enforce laws to prohibit online gambling in Macau, although this is unlikely to happen given the administrative structure of Macau and the amount of revenue generated by Macau through the operations of gambling industry.
- Local web-sites may not like Chartwell's product, as the design and appearance of its current software does not reflect Chinese tastes and preferences.
- By selling its software in Macau, Chartwell faces the risk of currency fluctuation. Macau's official currency, Pataca, is pegged to Hong Kong Dollar, which floats freely against Canadian Dollar. Chartwell's revenue will be in Pataca/HK \$ while virtually all its costs are incurred in CAD \$.
- Macau does not have specific Intellectual Property Rights (IPR) protection laws, and copying of technology is common as in mainland China.

6 RECOMMENDATIONS

In a crowding software developer market, entering emerging economies becomes strategically crucial. By entering China, Chartwell will have the opportunity to learn new business skills and exploit China's exciting economic development. China has an annual economic growth of 9 percent that has stimulated consumer spending on gaming activities. An estimated US \$50 billion dollars were wagered in Chinese underground casinos and illegal gambling businesses in the year 2005¹¹⁵. And it was estimated that 300 to 700 gaming websites are actively serving the Chinese market from offshore locations. In addition, 4 to 6 million cell phone subscriptions are signing up every month¹¹⁶. Soaring consumer gaming activities are partly due to China's rising incomes and new technology adoption in primarily coastal regions. China's rapid Internet penetration, growing credit card market and a culture that embraces gaming suggest a favourable marketing position in China.

Considering the lucrative online gambling industry in China and environmental factors, and matching Chartwell's resources and strengths with these, it is recommended that Chartwell enters the Chinese online gambling market. It should build its presence in the region to take advantage of future opportunities that may arise following the clarification of regulations.

The Chinese online market is a very complex, and therefore a strategic customization program is necessary to exploit the opportunities it presents. Some of the challenges of market entry are the politics of gaming legalization, cultural customization of Internet games, globalization, intellectual property protection, e-commerce management, IT infrastructure issues,

¹¹⁵ Geoffrey York and Colleen Freeze, "Gambling Crazy China Seen as Next Great Site for Internet Gold Rush in Globe and Mail," *Globe and Mail*, (July 4, 2005): A1

¹¹⁶ Kenneth Lieberthal and George Lieberthal, "The Great Transition in Harvard Business Review," *Harvard Business Review*, Vol 18(10) (October, 2003): 1-18

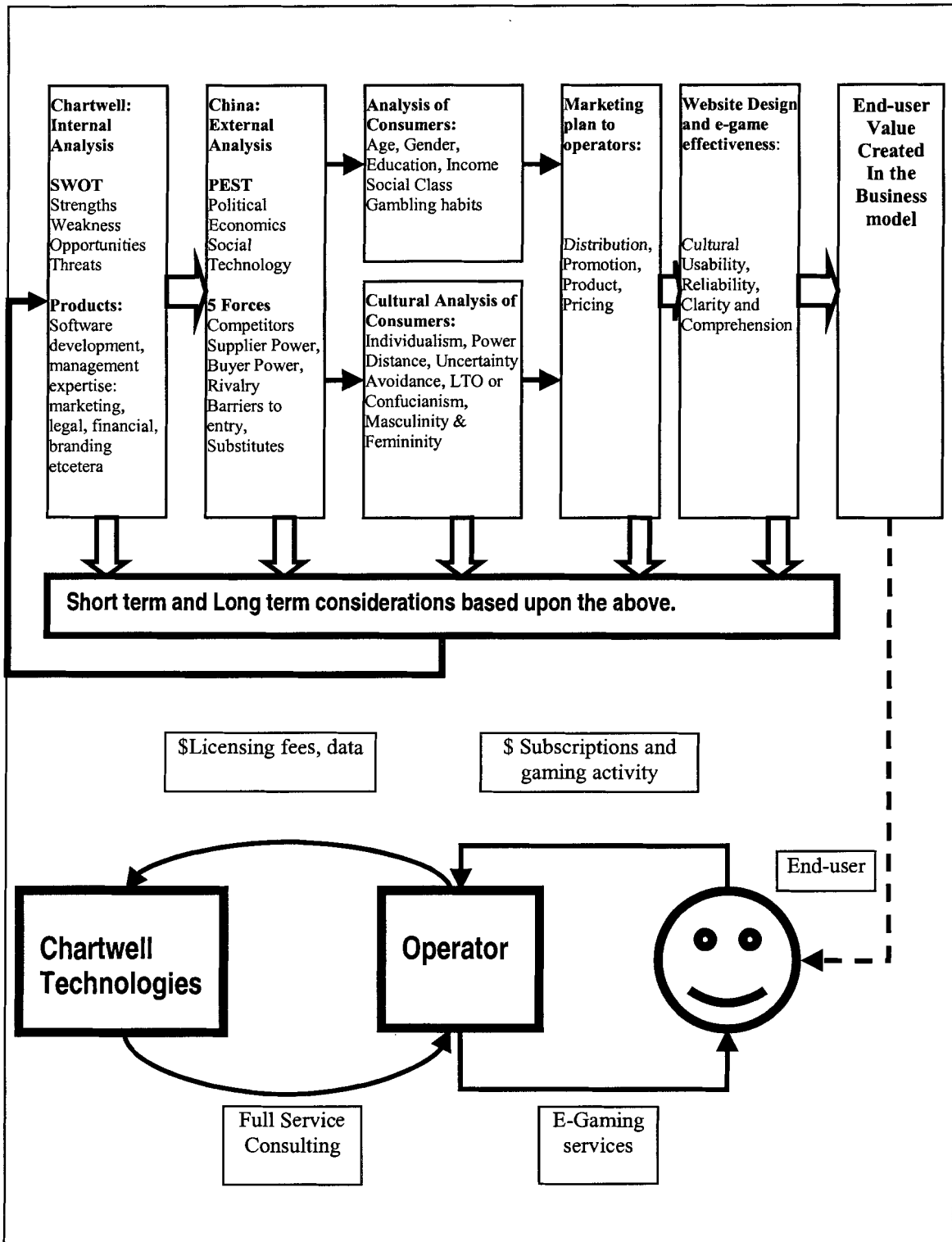
competition in a maturing industry and other cross border trade issues. Amongst these concerns we must answer the question that all companies ask during internationalization: How much standardization and customization do we need in Asian markets to create end-user value?

This section of the report attempts to answer this crucial question for Chartwell Technologies. Our report covers a number of management issues that have been simplified into a business and value creation model useful for learning in Asian markets. Using the applied decision framework described in the following section, the China strategy will focus on short term and long term stages of development that will minimize risk and encourage Chartwell's Asian expansion activities.

6.1 Business Model and Applied Decision Framework for Value Creation

Presented below is a process model of the managerial issues encountered in market entry to China. End-user value can be created by using an applied decision framework (See Figure 3). To describe this process model we start by looking at the far left box called Internal Analysis and end with the End-User Value box. By analyzing and creating value added decisions from each category of managerial issues, we can translate end-user value into revenues within our proposed business model. It is important to take a process view of the value chain so that continuous analysis and strategic improvements can be done. In sum, Chartwell can increase capital flows from end-users by making value added decisions; and thus creating economic value for both operators and Chartwell Technologies as shown below.

Figure 3: End-user Value Creation Process Applied to Chartwell's Business Model



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Internal Analysis

Internal analysis of the organization should be done first. Investment opportunities can be excluded or chosen by evaluating whether Chartwell has the resources to undertake a project. The internal analysis was done using a SWOT framework that measured the strengths and weakness of Chartwell Technologies. For example, internal components to be evaluated can include quality of products, management expertise, marketing knowledge, legal knowledge, financial resources, and value of Chartwell's branding. Any of these variables could be utilized for competitive advantage.

External Analysis

Secondly, environmental analyses can be done, in the Context of China, with a PEST (Political, Economics, Social, and Technological) and Five Forces decision framework. With this knowledge Chartwell can forecast whether external variables affecting the online gaming industry could influence the opportunity to collect rents from operators. Further, by understanding the competitive environment, Chartwell can develop strategies that consider the degree of rivalry, revenue opportunities and investment risk that exist in China to make appropriate investment decisions.

Consumer Analysis

The third step in the process model is to learn about the consumer. By understanding consumers, products and services can be improved to create end-user value. Our report has drawn upon gambling studies and cultural theories to develop a customized marketing plan to add value to the end user.

Strategy Formulation: Marketing Plan and Website Development

This section will elaborate on the next process phases: four and five. After evaluating the above, a market entry plan must determine the strategic fit that matches internal strengths, the

environment and customer needs. As such, the next logical step is to consider marketing strategy and website design based upon the information gathered in previous process steps. We have chosen to use the Four Ps framework for its simplicity and effectiveness. Furthermore, we have chosen to use Hofstede's cultural framework to provide cultural customization to Chartwell's gaming products.

Business Model

The market entry process, which includes the customization of e-gaming products, will add value to the end user. By creating end user value, the e-gamer will become satisfied and therefore is more likely to contribute subscription fees and increase internet gambling activities that benefit the operator. In turn, the operator becomes satisfied and contributes licensing fees to Chartwell. Chartwell benefits from higher end user activity by directly gaining from performance related revenues structured from their licensee payment agreements with operators. In sum, by creating end user value the interest of stakeholders are aligned and the cycle of revenue generation will be continuous. By creating end user value, suppliers of products and services are more likely to contribute quality products and services to clients in the business model.

6.2 The China Strategy Begins in Macau

In the next few years, Macau will be the second largest gaming market in the world after the United States¹¹⁷. In consideration to China's business environment, consumer characteristics and Chartwell's company attributes, we believe Macau is an ideal entry point for promotional activities in the Chinese market. Political risk is low in Macau and geographic advantages can be obtained with a marketing channel. These factors will be discussed in turn.

¹¹⁷ Standard and Poor's Ratings Direct. "Vegas vs Macau: Who will win?" *Business Week Online*, June 8, 2006

6.2.1 Low Political Risk in Macau

China has prohibited gambling except for Macau. Several Chinese government departments conduct substantial information censorship on Internet gambling in China. The gambling industry is legal in Macau, which makes doing business with clients and conducting market research much easier. As a special economic region, foreign direct investment in the entertainment industry is welcome and contracts are more likely to be honoured. And thus the political risk for operating and promoting gaming services in Macau is lower than that of any other Chinese territory.

Since 2002, the gaming industry in Macau is under rapid liberalization that broke up Stanley Ho's casino monopoly. This favourable environment is attracting \$10 billion US dollars in Greenfield investments, most in the form of US-owned land-based casinos, in the next 5 years. With astronomical economic growth, Macau promises to be a very special economic region for gaming.

6.2.2 Geographic and Competitive Advantage

Chartwell's presence in Macau will realize geographic advantage. Firstly, Macau is the Las Vegas of the Orient and it attracts the wealthiest international gamers from Asia and all over China. Moreover, due to Macau's close proximity to Hong Kong and other coastal regions, presence in Macau will help Chartwell to access the Chinese gaming and entertainment marketplace.

A marketing office can exploit cultural predispositions. Chinese people have social dispositions for gambling and a Macau marketing office is ideal for learning to do business with Chinese operators. A presence in China will exploit the long term orientation of Chinese culture and relationship need of Chinese clients. Benefits are:

- Foreign direct investment shows long term commitment to Asian stakeholders: end-users, operators and government agencies. A marketing office offers legitimacy and credibility to do business with all Chinese clients.
- A marketing office is a value added selling channel that improves consumer trust, which in turn facilitates commercial exchanges. Face to face transactions will improve business relations (guanxi) and personal communications favoured in Chinese culture.
- Competitive advantage can be obtained by promoting the Chartwell brand on Chinese soil. Chinese consumers identify more closely with companies and brands established within China's borders. In addition early mover advantages can be obtained in a young operator market in China.

6.2.3 Marketing to Favourable Demographics in Macau

Macau's location has marketing advantages based upon the continual flow of Chinese gaming tourists and high profile gamblers. Chartwell can actively target operators at gaming trade shows in this well established entertainment region. Further, Chartwell can also build international industry networks and find new opportunities in Asia. Within China's borders, direct personal marketing, travelling to nearby provinces and distribution of software can be conducted with geographic cost advantages. But most of all direct marketing to operators and end-users can be done more quickly and effectively for competitive advantage.

Macau's gaming and tourism economy is characterized by favourable demographics: education, entrepreneurship, income, social, historical and cultural. These characteristics support gambling as a national pastime and predispose consumers to gaming services. Both gaming software providers and land based casinos have fully established marketing services to take advantage of Macau's favourable consumer environment. Knowledge of Chinese characteristics and applying them will improve product offerings to operators and end-users. Our research findings from the Chinese gaming market suggest several short-term strategies.

6.3 Short-Term Objectives

Chartwell should:

- Build a presence and the Chartwell brand in Macau; and initially market its product to ‘land-based casinos’ and websites that are domiciled in Macau.
- Provide services to target segments. Through establishing itself in Macau, look for further avenues for growth and explore market opportunities.
- Build relationships with government and ministry officials, and continuously monitor legal environment with specific focus on online gambling industry
- Explore possibilities, and prepare a plan to become ‘local’ in the future, i.e. through hiring local software developers, using local inputs.

6.4 Short-Term Strategies

Macau’s openness to gambling will accelerate the effectiveness of Chartwell’s promotional activities to not only operators but also end-users. While Chartwell does not conduct end-user marketing or compete with operators, knowledge of end-users enhances the effectiveness of client marketing, which rewards Chartwell with licensing revenue. Chartwell should consider the benefit of applying Chinese end-user characteristics to marketing in Macau.

1. Cultural customization of gaming software

Chartwell provides unique product solutions with “technology partnerships with operators”. Adding cultural customization to gaming software will enhance product value for both Chinese operators and end-users.

Adopting culture, technological, economic, political, individual and social aspects of China enhances the experience of end-users during website navigation. Cultural adaptation will enhance usability, clarity and comprehension of end-users. In return, greater end-user value is

created, which encourages revisits to gaming websites. In sum, more revenue can be generated in our proposed business model for Chartwell and its operators.

Chartwell should also consider developing casino table games for Asian users as it caters to their cultural appeal for social gaming. For example, the company Las Vegas From Home has already developed games such as Big 2 and Mahjong. Other table games such as Baccarat and Black Jack may also be useful in luring Chinese players from land based Casinos. As mentioned before, a marketing office enhances the possibility of converting land based players into online players when tourists travel to home destinations.

2. Maintain Integrity of Intellectual Property Rights

Chinese companies have been known to violate IPR laws. As a result, Chartwell should refrain from providing product offerings that are easily copied or else operators may take advantage.

To protect proprietary technologies, Chartwell should not partner with any other company in the software developer business. This avoids the managerial complications of Joint Venture structures. It may also be superfluous to invest in a full fledged Chartwell Technology centre in Macau as a sales and marketing office would be sufficient to capture potential clients.

Government may have joint venture requirements across different administrative regions. If a partnership is required then Chartwell should try to find a partner external to the industry, which has little knowledge of gaming. This will minimize the opportunity costs of technology transfer fundamental to Chartwell's business.

3. Start to build a relationship with relevant government departments

It is also imperative for every company entering China to build local ties and relationships with government officials. Chartwell should look to engage itself in local community and prepare itself to leave some money on the table e.g. by way of donation, charity

or commission. This is a standard though very important business practise in China, and it will help Chartwell obtain a positive image in the community, and may also help in applying for future expansion in new provincial markets.

4. Start exploiting the target market:

Chartwell's target consumers are available in Macau, which lowers searching costs for operators. Macau attracts gaming consumers from China and Hong Kong. In 2005, 10.5 million mainland China visitors went to Macau representing 60 percent of total tourists. The rest of the feeder market comes from Hong Kong, which represents 30 percent of total visitors to Macau. In addition, Macau offers close proximity access to favourable coastal regions: Shanghai, Guangdong, Beijing and Hong Kong. In addition, land based casinos can be targeted in Macau.

Potential operators will be attracted to the gaming industry and trade shows in Macau. Chartwell should begin to tap the gaming market by feeding on the flow of Casino tourists and land based casinos. Chartwell can create competencies in personal selling and long term relationship building with potential operators. With tremendous consumer traffic in the region, personal selling can be conducted opportunistically for both operators and end-users.

G-Master, a leading Macau based IT company, has begun consulting and selling gambling technologies in Macau and East Asian countries. Therefore Macau offers a potential gateway to China's emerging online gambling market, which can then be exploited to enter other Pacific Rim countries due to similarities in trends and business environment across the Pacific Rim.

6.5 Marketing Strategy

6.5.1 Objectives

Driven by the dynamics of a competitive domestic industry structure in North America, Chartwell Technologies should find new business opportunities in the Asia Pacific region:

Singapore, China, Hong Kong, Japan and Australia. The focus of our marketing strategy will be China.

6.5.2 Target Market Segment

Analyzing Chartwell's product, it can be suggested that Chartwell's software is a special purpose product requiring a high involvement purchase decision making process. Therefore, it is imperative that Chartwell targets a customer segment that is most likely to be willing to act as an operator for Chartwell's software. Having a well defined consumer profile will help Chartwell to focus its efforts on the target group; will increase the chances of turning them into operators that are efficient and committed; and will eventually improve its bottom-line.

Based on the analysis of gambling website operators and Internet users in Pacific Rim region, the following consumer profile demonstrates a high likelihood to become an operator, and therefore can an attractive target segment. It is to be noted that, though the profile describes a person, it includes both individuals working on their own and individuals representing a company which they control.

Geographic

Persons planning to operate in Macau or other Pacific Rim countries should be targeted. These include residents of China as well as other countries, the only condition being their presence in Macau and intention to operate gambling web sites.

Demographic

The main attributes in this category are a suitably high level of education and technological knowledge to understand and support their operation, sufficient entrepreneurial experience, and sound personal or corporate financial resources to maintain the business. Moreover, individuals or companies having their own website and IT infrastructure are more

likely to become operators since they have necessary technical skills and structures in place to accommodate a second stream of income.

Psychographic

In this area, the only characteristic to concentrate on would be their commitment and perseverance in their past and present dealings. This will help the company to target people who are most likely to succeed even if faced with uncertain circumstances initially. In essence, the prospective operators to target should have good education and technical skills, commitment and zeal to succeed, and necessary financial resources to carry out their operations successfully. A focused effort by Chartwell on such consumers will result in high rate on conversion into operators, acquisition of committed partners, and a healthy bottom-line.

6.5.3 Product

Since Chartwell is planning to target the nascent Chinese market for its products, successful local and cultural customization of Chartwell's e-gaming systems will provide Chartwell with competitive advantage. Customization of products from individual and cultural perspectives is important to achieve consumer satisfaction. If Chartwell's gaming software is unable to attract and provide value to end-users then operators will fail in Asia. Marketing failures may harm Chartwell's international reputation, hurt shareholder value, marketing expenses may be incurred without compensation and competitors gain through Chartwell's losses. These risks can be minimized by localizing Chartwell's suite of games, products and services.

Hofstede's cultural dimensions discussed earlier can be utilized to guide the customization of Chartwell's product:

- **Implications of Individualism and Collectivism**

Chinese culture tends to exhibit collectivist characteristics and the success of e-gaming may be influenced by group incentives. Collectivists will not value personalization, but would value the opinions of their peers and in-group to validate product and brand choices. User interface and Web design that draws upon the following characteristics may be more appealing to collectivists¹¹⁸:

- 1) Group achievement is favoured over individual achievement
- 2) Success is demonstrated by group achievement
- 3) Language to avoid conflict and controversy
- 4) Tradition and history is emphasized

As a result, websites targeting collectivists tend to focus on brand and logos instead of people. Harmony should be favoured and controversy on the website should be avoided¹¹⁹.

- **Implications of Power Distance**

Chinese culture scores highly on power distance so marketing requires authoritative messages to consumers¹²⁰. Website symbols and expressions should exhibit the authority of premium brand¹²¹. Symbols of wealth, expertise and authority build trust that encourages users to initiate a transaction and to begin a relationship with the e-gaming website. Websites can use several authoritative symbols to market to China. For example, companies with international recognition can use branding, and refer to their industry awards, gaming industry experience and management expertise to establish greater trust.

¹¹⁸ Jeffrey Hsu, "Chinese Culture and E-commerce," in *E-commerce and Cultural Values*, ed. Theerasak Thanasankit, Hershey, PA (Idea Group Publishing, 2003).

¹¹⁹ Jack Cook and Mike Finlayson, "The Impact of Cultural Diversity on Website Design in Sam Advanced Management Journal," *Sam Advanced Management* (Summer 2005):1- 45.

¹²⁰ Sudhir H. Kale, "Designing Culturally Compatible Internet Gaming Sites in UNLV Gaming Research & Review Journal," *UNLV Gaming Research & Review Journal*, Vol 10 (1) (2006).

¹²¹ Jeffrey Hsu, "Chinese Culture and E-commerce," in *E-commerce and Cultural Values*, ed. Theerasak Thanasankit, Hershey, PA (Idea Group Publishing, 2003).

In addition, more needs to be done in customer relations. In the Chinese culture the buyer has relationship power. Gaming websites that market to high power distance cultures should take a modest approach in furthering relationships with end-users and clients¹²². In other words, gaming websites should have presentations that demonstrate subservience to the end-user¹²³. Deference to the end-user reflects the buyer's authority in the Chinese culture. In addition, the choice of language, tone and appropriate salutation should be carefully considered to demonstrate the customer's authority. In contrast, small power distance countries, such as the UK, would prefer informal tones in language and prefer equality in power structure. High power distance end-users, like the Chinese, will expect structured access to information¹²⁴. Extensive rules and guidelines about electronic gaming should also be provided. More structure will make end-users more comfortable with website navigation and increase user comprehension.

- **Implications of Uncertainty Avoidance**

Cultures that score low on uncertainty avoidance, like Chinese culture, are more likely to visit websites, more willing to part with credit card information, and reveal other information. In addition, such cultures are more likely to adopt new technologies and play online games¹²⁵. Therefore to create value for these cultures more options, more content and exploration should be provided.

¹²² Sudhir H. Kale, "Designing Culturally Compatible Internet Gaming Sites in UNLV Gaming Research & Review Journal," *UNLV Gaming Research & Review Journal*, Vol 10 (1) (2006).

¹²³ Sudhir H. Kale, "Designing Culturally Compatible Internet Gaming Sites in UNLV Gaming Research & Review Journal," *UNLV Gaming Research & Review Journal*, Vol 10 (1) (2006).

¹²⁴ Jack Cook and Mike Finlayson, "The Impact of Cultural Diversity on Website Design in Sam Advanced Management Journal," *Sam Advanced Management* (Summer 2005):1- 45.

¹²⁵ Sudhir H. Kale, "Designing Culturally Compatible Internet Gaming Sites in UNLV Gaming Research & Review Journal," *UNLV Gaming Research & Review Journal*, Vol 10 (1) (2006).

- **Implications of Masculinity and Femininity**

Hofstede suggests that China tends to exhibit a masculine culture. Chinese culture exhibits traditional gender roles so symbols that differentiate gender distinctions will be favoured. In addition, website text that refer to Chinese family orientation and age distinctions between young and old will align the website with the masculine characteristics of Chinese culture. Other masculine symbols can be illustrated by providing test that distinguishing work tasks with reference to status. Website operations should also have quick results and navigation oriented towards exploration with perceived authority from the user. The end-user should gain prestige through competitions in game play, and the use of graphics, sound and animation should stimulate end-users from China¹²⁶. These conditions will align the websites to the cultural characteristics of the Chinese. Finally, masculine cultures enjoy competition and achievement. E-gaming websites should emphasize competition and winning in masculine cultures¹²⁷. References and rewards for high achievement will be favourably received.

- **Implications of LTO**

Based upon China's high LTO score, several strategies can be employed to enhance websites' appeal to customers¹²⁸. Website content should have a practical focus of customer values, which addresses long-term needs of users. The design of the web sites should also focus on building a long term-relationship with the end user, for e.g. by help of greeting them by their name when they log in.

¹²⁶ Jeffrey Hsu, "Chinese Culture and E-commerce," in E-commerce and Cultural Values, ed. Theerasak Thanasankit, Hershey, PA (Idea Group Publishing, 2003).

¹²⁷ Sudhir H. Kale, "Designing Culturally Compatible Internet Gaming Sites in UNLV Gaming Research & Review Journal," *UNLV Gaming Research & Review Journal*, Vol 10 (1) (2006).

¹²⁸ Jeffrey Hsu, "Chinese Culture and E-commerce," in E-commerce and Cultural Values, ed. Theerasak Thanasankit, Hershey, PA (Idea Group Publishing, 2003).

Additional recommendations

Hsu identified the following additional factors that should be considered when designing websites¹²⁹:

- 1) Colours: red means happiness; white and black symbolize mourning. Appropriate use of colours should be used on websites and black should largely be avoided.
- 2) Chinese people favour websites with local news and content, which can be used to increase user interest and revisits.
- 3) Using Chinese language is critical in website interface due to Chinese conservatism. Chinese people favour Chinese over English language on websites.
- 4) Guanxi is defined as the expression of connections to secure good favour in business and personal relations. Displaying business and social connections on the website creates end-user value. By dealing with a vendor with strong guanxi, the end-user builds his own connections and furthers personal goals.
- 5) Emphasis of reciprocity gifts and favours as a technique to build good will and guanxi. Gifts and favours are effective to build short term relations, but meritocracy is required for long term business relations. Rewards given to patrons on gaming websites may be construed favourably by Chinese gaming users.

Customizing Chartwell's software's set up, language, appearance of the websites and type of games etc in accordance with the cultural traits discussed above will result in a product that is targeted for Chinese market, and will have a very high receptivity and acceptance, both by the operators and end-users alike.

¹²⁹ Jeffrey Hsu, "Chinese Culture and E-commerce," in E-commerce and Cultural Values, ed. Theerasak Thanasankit, Hershey, PA (Idea Group Publishing, 2003)..

6.5.4 Price

Chartwell's objective is to attract a larger number of clients for its products. This means that Chartwell is aiming to maximize its product's rate of sales growth in the region. Therefore, Chartwell should select a price level which is relatively low as compared to its competitors to attract as many new customers as possible and lock them in, hence capture a large share of the market. This comparatively lower priced strategy can be classified as Penetration Pricing¹³⁰, and it is justified on the following grounds:

- Customers are price sensitive: they are more likely to become a licensee of Chartwell if they see that the cost is lower when compared to other software providers
- Production and distribution costs per unit are likely to fall following an increase in sales volume. Production costs will be negligible since it merely involves copying the software and giving client the access to it.

This competition-oriented pricing method¹³¹ is also justified on the grounds that Chartwell is operating in a competitive environment, and does not have the freedom to set its own price. This means that if Chartwell sets a premium price for its software, it will be very difficult to attract customers who are willing to pay a price higher than what the competitors are asking. In depth analysis of the price charged by competitors and the quality of the offering will help Chartwell to set its price at an optimal level to achieve its strategic objective of sales growth.

6.5.5 Place

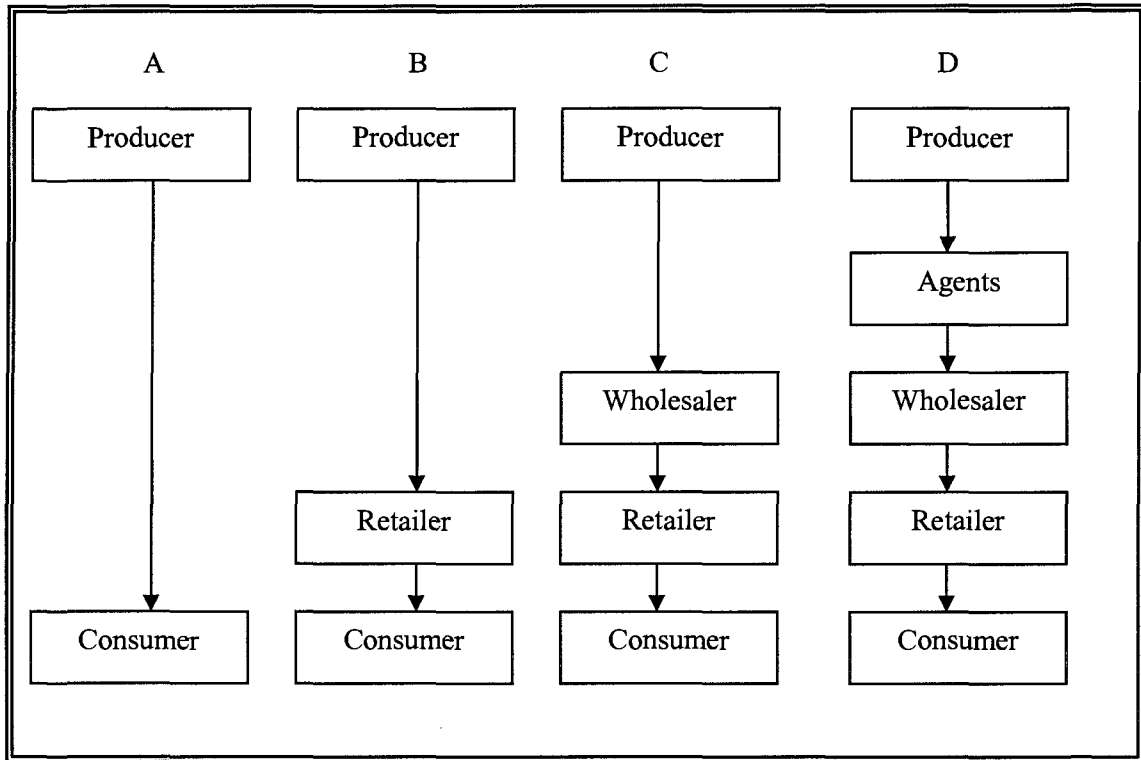
The process of selling and distributing gaming software can be substantially different from that of ordinary products. Software can easily be transferred online via email or downloadable versions, and hence does not require physical delivery of a storage medium containing the data. Also, there may not be any need to mass distribute the software and vie for

¹³⁰ Tutor 2 U: Pricing Strategies [Online]

¹³¹ University Of Delaware: Pricing Strategies [Online]

shelf space given the nature of Chartwell’s product and legal constraints. Distribution channel design thus can be a very simplified one, involving the producer (Chartwell) and consumer (operator) as depicted by option A (See Figure 4).

Figure 4: Distribution Channel Options



Based on: Mullins, Walker, Boyd and Larreche (2005) Marketing management: A strategic decision making approach.

This distribution channel will help Chartwell to get in-depth knowledge of consumer preferences and tastes, and thus offers an opportunity to provide targeted products and services. Utilizing any other option apart from model A will distance Chartwell from its customers, and will not provide an opportunity to build long term relationships and attain first hand understanding of business environment. Finally, adopting any other channel will add extra costs in marketing the product without generating any benefit.

6.5.6 Promotion

The profile of a Chinese operator adheres to the demographic, psychographic and geographic characteristics in the segments discussed. The target market will most likely be found in coastal areas with robust business activity. Citizens in Beijing, Shanghai, Guangzhou, and Hong Kong are wealthier and more educated. Due to the gaming tourism in Macau, many wealthier and highly educated professionals travel to Macau for gaming pleasure.

Relationship marketing is the most effective technique for attracting clients. The first gambling experience for many Chinese is social and introduced by family and friends. Due to China's Long Term Orientation and the illegal aspects of gambling, the majority of gaming promotions will be by word of mouth. Chartwell should be patient in building business relationships and establishing local networks with government and potential clients.

Promotion Message

Chartwell should communicate an entrepreneurial opportunity for Asian Operators. For example, Chartwell can communicate to the operator that he will be trained to fully operate an e-commerce business management opportunity. This message will satisfy the entrepreneurial spirit in Chinese culture and the management of e-gaming should fulfil excitement needs.

Who Should Sell Chartwell Products

Chartwell management should hire several local individuals at its marketing office to promote its products. Doing so will help Chartwell by using marketers who are well versed with Chinese culture and business language, and can therefore relate Chartwell products to customers' needs. This will also offer local networking opportunities. Committed workers will strengthen Chartwell's public image in China and provide good will to the community.

Chartwell should look to engage a reputed head hunter to identify potential employees that can help Chartwell promote its product professionally. Chartwell should also plan to provide

them with sufficient training as regards the understanding and use of its products so that they can easily match the products to the target segment utilizing their cultural and societal knowledge.

Trade Shows

Chartwell should use traditional marketing channels of trade shows in Asia Pacific.

Chartwell has experience using these promotional channels and the target market will likely gravitate to gaming trade events. Some of the trade shows that are scheduled for near future are:

Date: April 27, 2007.

“The 6th International Gaming and Entertainment Expo” is a gaming trade show with over approximately suppliers introducing new technologies. Several Gaming software companies, such as Real Time Gaming and Tailoi, have attended these gaming industry events in Macau¹³². This show is held once per year.

Venue:

Macau Tower Convention and Entertainment Center

Largo da Torre de Macau

Phone : +853 933 339

fax : +853 960 103

Date: June 13, 14 2006

Asian Gaming Expo

Venue: Macau Tower

Hiring Marketing Agencies

Seeking professional advice from marketing agencies may be useful since they may have direct knowledge of the target market. Therefore marketing agencies can be used to target potential clients. Ad agencies can be contacted and negotiated to have pay-for-performance criteria. In other words, only when an operator is found and a contract is complete that payment would be made to the promotional agency. Outsourcing marketing functions may reduce the cost of searching for operators: time and learning to market to Chinese clients.

¹³² International Gaming Expo: Overview [Online]

6.6 Long Term Focus

In the long run, Chartwell should work to capitalize its position as an early entrant and try to gain a competitive market share of Macau market, thereby generating substantial revenues and gaining wider customer base, both in terms of operators and end-users. Chartwell can also use its established position in Macau to achieve further expansion:

- If legal status of online gambling clears out in future and is favourable, expand into mainland China and use the experience gained in Macau to build a competitive position.
- Using Macau/China as a base, build presence in the emerging Pacific Rim countries.

The presence of an established sales and marketing office in China will be helpful in achieving these expansion opportunities. The business model that should be encouraged is a step wise approach: first to achieve brand recognition and market awareness of Chartwell's gaming products in Macau, and then expand in mainland China if conditions are favourable. An incremental approach will ensure greater chances of success through minimum capital commitment, and will therefore reduce the risks of under-performance or failure.

Having established itself as a successful and top quality software provider in Macau, and Mainland China if regulations allow, Chartwell should then look to expand its business in other East Asian countries. The East Asian countries have similar cultural values, therefore the cultural interest and demand for gambling activities is strong in these regions. Due to the wait and see approach by the governments of Pacific Rim countries, legalization of gambling has been slow. A marketing office ready to exploit deregulation of the industry is strategically important for early mover advantage. An office at Macau could be a strong point of entry for the entire East Asian region in the long term as deregulation in the gambling industry is a good possibility.

7 LIMITATIONS

The data gathered for this project is selected, analyzed and drawn upon to offer significant insight into the topic. As a result, this report fulfils its purpose of suggesting general recommendations and strategies, and thus qualifies as a stepping stone study. However, the data utilized in this project is collected from secondary sources, which may limit the effectiveness of the recommendations in 2 ways:

- Although we have used the most recent publicly available data, some sources provided outdated information, and hence may not reflect the current state of affairs in China and other Pacific Rim regions discussed in the report.
- There is a lack of publicly available research data on the market size and trends of online gambling in China, as these data is collected and retained by Chinese governmental agencies and not made public.

Another area of concern could be the ever changing regulations in China. There is a lot of debate regarding the regulation and policing of online gambling among various agencies in China, but nothing concrete has surfaced so far.

In view of these limitations, we suggest that our findings should be construed with some caution. We suggest that Chartwell carries out primary research utilizing its marketing office to gather data on online gambling activities in China. Such data will be up to date, and may also provide information on the legislative areas concerning online gambling currently under review.

8 CONCLUSION

For competitive reasons, Chartwell Technologies has shown impressive ambition by internationalizing in the UK and preparing to participate in emerging markets. By initiating international growth strategies Chartwell can build value for its shareholders and competitive advantage in a maturing domestic market. This project has attempted to provide a process framework for dealing with the crucial managerial issues relevant to market entry in China. In addition, we provided an academic perspective on how to cater to Chinese consumers as well as a tangible marketing strategy that is useful to create value for Chartwell's shareholders.

A global product requires a global plan. To be a player for a borderless product, Chartwell must analyze its internal situation, and study the external environment to market in China. In choosing a specific strategy for globalization, we have reviewed the latest political concerns, social trends and technology issues that may affect operators and end-users' abilities to make economic transactions with Chartwell. This report has analyzed Chartwell's assortment of products and competitive position in relation to other software providers. Furthermore, our report examined the cultural behaviours of Chinese end-users and we have learned that they are sophisticated, entrepreneurial and entertainment driven. After considering this material, the outlook for the selling of gaming software is promising in China.

It has been found that both end-users and operators are predisposed to certain cultural traits that makes Chartwell's assortment of gaming products and services attractive to Chinese clients. In addition, technology infrastructure and e-commerce adoption has been growing effectively increasing the rate of Internet gaming adoption in coastal provinces. As China becomes more economically liberated, its citizens will experience greater prosperity that will lead to heightened demand for entertainment and entrepreneurial activities, which coincides with the

consumer positions of the end-user and operator. However, the major drawback of Chartwell's competitive position is the obscure gambling policies that China presents. Gambling prohibition is contradicted by the fact that it is also cultural activity and a national pastime. This conceptual complexity can be simplified because Chartwell sells a borderless product that allows Chinese clients to operate their businesses in gambling friendly jurisdictions. As such, Chartwell's suite of Internet gaming products and services is capable of exploiting an economic environment that is experiencing suppressed, but powerful demand for online gambling. From the environmental analysis, it is observed that the market for online gambling is becoming increasingly favourable and China should be classified as a moderately attractive investment opportunity. Macau, due to its gambling friendly environment and gambling laws, will be a strategic entry point for entering China's challenging online gaming market.

Chartwell Technologies has the management expertise, motivation and critical resources to exploit Asian markets. However, Chartwell should not go into the Asian markets haphazardly, but should be engaged with the social and cultural nuances of doing business with Chinese consumers. If Chartwell can adopt culturally appropriate strategies in its marketing plan, the ability to take advantage of the Chinese operator market will be greatly enhanced. To generate end-user value, Chartwell's gaming websites will need cultural adaptation to enhance user friendliness and comprehension. It is important to take a cultural approach to the marketing of Chinese clients to build trust and strong working relationships. As such, a marketing office in Macau will be useful to satisfy Chinese cultural needs.

The authors would like to underscore that this paper is in no way intended to promote illegal gambling by any means, or to argue whether or not gambling should be legalized. It is only intended to provide an analysis of the current market for online gambling, and relevant environmental factors in China, so that it helps Chartwell Technologies to understand the Chinese online gambling market, and utilize this information as a stepping stone towards a more detailed research on the viability of the region.

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