

Determinants of hotel occupancy rate in a Chinese gaming destination



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ABSTRACT

This paper aims to investigate factors affecting the hotel occupancy rate of the sole official gaming destination in China – Macao. Data from 39 hotels (3–5 stars) during the period of 2008–2011 have been applied. Three categories of determinants forming nine hypotheses were tested and all are supported except seasonality. Eight factors were identified exercising significant influences on the hotel occupancy rate in the destination. A regression model of 51.5% predictability is generated to predict the hotel occupancy rate in the destination. The study is concluded with insights to hoteliers who are interested to invest or operate in a gaming destination.

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1. Introduction

According to The World Tourism Organization, international tourist arrivals have shown a decline since 2009 (UNWTO, 2009) and the tourism industry worldwide is suffering the aftermath of the 2008 crisis. The hospitality industry in particular is among those hit seriously by the financial crisis. Overall occupancy has gone down in all world regions (UNWTO, 2009; Woodworth, 2010) while Asia and the Pacific region experienced a 30.3% fall in revenue per available room (RevPAR). Studies of global and regional tourism flow (Smeral, 2010; Song & Lin, 2010) revealed a drop in tourism demand in general after a financial crisis. However, China and Hong Kong are exceptions due to the good prospects of the Chinese economy (Song & Lin, 2010). More prominently, the Macao hospitality industry has performed satisfactorily ever since the gaming liberalization, with an average of over 80% of hotel occupancy rate all year round (DSEC, 2011). The Macao Special Administrative Region (S.A.R.) government's decision to liberalize the gaming industry in 2002 has attracted billions of foreign direct investment, particularly hotel developers. A 70% increase in 5-star hotels in Macao was recorded between 2008 and 2011. Besides the industry's flourishing performance since 2004 when new hotels have started their operations, another 25,000 hotel rooms are currently under construction and to be finished in 2016. The hospitality industry's

prosperity is no doubt fueled by the gaming liberalization. Given the background of the industry performance and the promising outlook, Macao hospitality industry demands a detailed study to investigate the factors exercising influence on the hospitality industry in this gaming destination.

This paper attempts to provide a detailed analysis of factors influencing the occupancy rate of Macao hospitality industry and generates an outlook of the industry. Meanwhile, the study also intends to shed light on any potential impacts caused by the world financial crisis onto hospitality industry. Given the World financial crisis of 2008 has imposed substantial turbulence to most of the major tourism destinations around the globe (PATA, 2010), studies also revealed that the impact of the financial crisis essentially depended on the vulnerability of the tourism destination to financial instability (Dwyer & Lothian, 2012). Hence, Macao with a total population of around 600 thousands, received 29 million tourists in 2013 (DSEC, 2014) representing a cumulative increase of around 18% in the number of tourists since 2011, and being the sole gaming destination in China offers an important opportunity to investigate the impact of financial crisis onto the city, particularly the hotel industry. This study provides a detailed investigation of the factors influencing the hotel occupancy rate between 2008 and 2011, when a record of 70% increase in 5-star hotels in Macao taking place and the world financial crisis in 2008 resulted in a 3.7% decrease record in worldwide tourist arrivals (SESRIC, 2010). Data from 39 hotels (3–5 stars) during the period of 2008–2011 were applied. Three categories of hypotheses including nine factors were tested and all are supported except seasonality. Eight factors were identified exercising significant influences on the hotel occupancy

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rate of the hospitality industry and a regression model of 51.5% predictability is generated that explained the hotel occupancy rate of Macao during the period of 2008–2011. In addition, the authors intend to contribute to the literature on hotel occupancy rate and its determinants for destinations with casino facilities as an influencing factor.

The paper is structured in five sections, beginning with background of the study, followed by literature review, proposed research model and formation of hypotheses. The methodology section explains the data employed and details analytical methods applied. Findings and discussion followed to depict research results and the paper is summarized with important insights to hoteliers who are interested to invest or are operating in a gaming destination.

1.1. Background of the study

Ever since the gaming liberalization (2002), the Macao hospitality industry went through a number of important events during the eight-year period (2004–2011). The first international hotel was established in 2004, the gaming revenue of Macao surpassed that of Las Vegas since 2006 (Devoss, 2008), and the world financial crisis in 2008. Since the gaming industry liberalization, there has been a 70% increase in 5-star hotels in Macao and has attracted billions of US dollars in foreign direct investment to Macao (DSEC, 2011). According to an earlier research on the hotel industry of Macao by Lam and Lei (2010), the period of 2004–2007 marked the establishment of the first international hotel and the year before the financial crisis, the occupancy rate of the hotel industry in Macao was significantly affected by five major determinants. They are average room rate (ARR), total available rooms (TAR), tourist arrival (TA), casino facility (CF) and consumer price index (CPI). With an aim to further investigate and examine the Macao hotel industry, the current research covered the subsequent four years from 2008 to 2011 when the financial crisis took place to economic recovery. The determinants that imposed significant influence on the hotel occupancy rate of Macao during the period 2004–2007 were thus included in the present study. Together with another four factors from the same study (Lam & Lei, 2010), namely seasonality, star rating, GDP and inflation rate; yet they were revealed as important factors associated with tourist arrivals, tourism demands and hotel industry demand (e.g. Chen, 2010; Smeral, 1988; Wu, Law, & Jiang, 2010) in the existing literature, therefore they were included in this study for further investigation. These were seasonality, star rating, gross domestic product (GDP) and the inflation rate.

For the two four-year periods, Figs. 1 and 2 demonstrate the changes in hotel occupancy rate, tourist arrival and total available

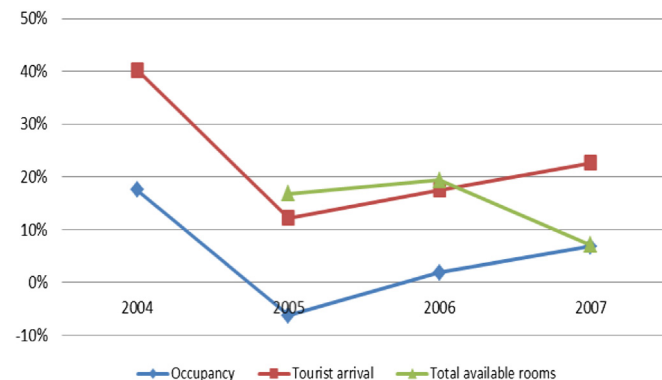


Fig. 1. Percentage changes in average hotel occupancy rate, annual tourist arrival and total available hotel rooms in Macao during 2004–2007 (4 years).

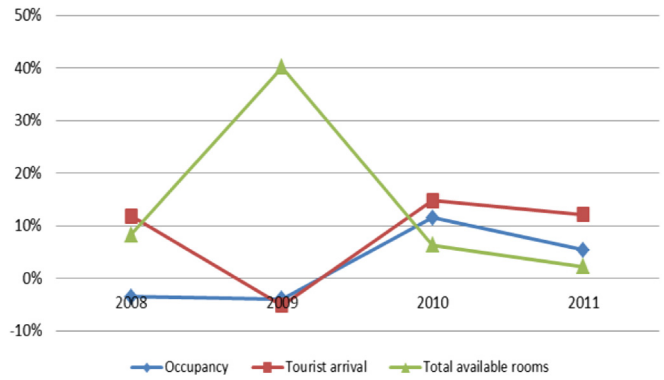


Fig. 2. Percentage changes in average hotel occupancy rate, annual tourist arrival and total available hotel rooms in Macao during 2008–2011 (4 years).

hotel rooms in Macao during the period of 2004–2007 and 2008–2011 respectively.

Figs. 3 and 4 illustrate the changes on macro-economic factors of consumer price index, gross domestic product and inflation for the same two four-year periods.

From 2004 to 2007, the number of hotels (3-star or above) increased by more than 30%, while the number of tourists increased by more than 60% (Lam & Lei, 2010). Following this increase, from 2008 to 2011, the number of hotels increased by 8% and the number of hotel guests increased by 14% (DSEC, 2013). With this remarkable performance, worldwide hotel investors have been gazing at this lucrative market. Yet, study on Macao hospitality industry is sparse. Thus, this study is formed and aimed to examine the hospitality industry located in the sole gaming destination in China, Macao.

2. Literature

2.1. Hotel's business performance and factors

Hotel business performance has been examined from varies perspectives, including financial data (e.g. Enz, Peiró-Signes, & Segarra-Oña, 2014; O'Neill, 2003; O'Neill & Mattila, 2006; Pan, 2007; Tsai, Kang, Yeh, & Suh, 2006), customer related aspects (Grissemann, Plank, & Brunner-Sperdin, 2013; Gundersen, Heide, & Olsson, 1996; Wu & Lu, 2012), input factors, for example, energy consumption (e.g. Xu, Chan, & Qian, 2011) and other relevant ones. Venkatraman and Ramanujam (1986) proposed three perspectives for performance evaluation, in which financial performance is a relatively important aspect. In addition, Barney (2002) advocated

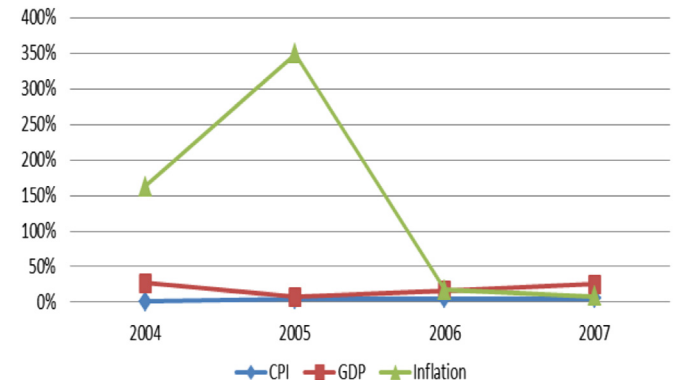


Fig. 3. Percentage changes in consumer price index, gross domestic product and inflation of Macao during 2004–2007 (4 years).

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