Porters five force analysis, industry: casinos

The purpose of this analysis is to determine the attractiveness of the Casino industry by investigating five specific forces that have the potential to drive down profitability. The Casino industry is composed of firms operating primarily in providing gambling activities and games to consumers while also supplying hotel services and other commodities. Firms that exclusively operate non gambling resorts were not directly included in this profitability and market attractiveness analysis.

According to the Five Forces model exhibit provided, the Casino Industry is a rather unattractive industry. Although only “ Rivalry,” “ Threat of Substitutes,” and “ Buyers” were identified as unfavorable categories out of the 5, the influence of each category on profits is so significant that the industry should be considered unattractive. Rivalry between casinos is very high, where even well-established casinos such as the Venetian will compete not just with other major casinos such as the Wynn, but also with localized indian casinos that have a wider geographic dispersion.

Buyers have little bargaining power, but they command significant power due to their nonexistent switching costs. The threat of substitutes is high not just in game selection, but also in casino selection. The only threat of entrants would be from resort companies that operate exclusively hotel chains and not gambling services, but they would not enter as to not change their reputation. An independent startup would be unlikely due to the intense capital requirements and government regulations.

The firm that I have investigated thoroughly, Las Vegas Sands is in a somewhat unfavorable industry. Although LVS is considered one of the top resort casino companies, it only holds minimal market share primarily in Las Vegas and Macau, while still competing on an equal level with WYNN, MGM, and BYD who they themselves commend considerable market share. Also, profitability has decreased in the recent years primarily due to the economic recession and seasonal cycles. Macau, being a new gambling location sought by these companies, will have a larger effect on profitability as it begins to establish gambling laws.

According to the second exhibit, the data does match up. Due to the intense nature of the rivalry and lack of innovation abilities, these large casino companies must spend the majority of their capital on the construction and expansion of new casinos which negatively affect their operating expenses and incomes. Their return on assets is less favorable than the economy primarily due to the decreasing profits identified by the substantial effect of the 3 categories in the five force analysis.