

# [Hard rock caf strategic review report](https://assignbuster.com/hard-rock-caf-strategic-review-report/)

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## Executive Summary

Global entertainment industry is presented by various sectors that, among others, include gambling industry. Increasingly complex global market environment outlines numerous challenges for the companies that operate in gambling segment. Evolution of regulatory profiles in European countries, strict governmental regulations and regional limitations in the United States; economic turbulence; volatile consumer confidence; and increasing public interest in CSR policies of the industry players shape the future of this economic segment. Hard Rock Hotel&Casino (HRH) is one of core businesses of the Hard Rock Corporation with yet, relatively small scale and scope of operations. This document provides an extensive analysis of internal and external environments in view of organizational strategy fit the industry profile and alignment with its competencies and expertise.   
Major findings of the report outline relatively strong strategic position of the company with positive expectations on growth potential and revenue streams. HRH benefits from the fact that it makes part of already developed and strong umbrella Hard Rock brand with developed sustainable relationships on upstream as well as downstream of the industry. The company is looking at further expansion to gambling industry and given the experience in franchise operations, along with the emerging market in Asian region, strategic potential of this market segment in core business focus of the Group is significant.   
Gambling, besides being extremely regulated and, therefore, complex market to enter represents strong competition, based on scale and scope of operations, built by large industry players as well as newly emerged trends in online gambling and decades old competition with substitutes. This competitive profile creates serious barriers for HRH fast expansion strategy.   
Evaluation of external and internal backgrounds of the HRH strategy reveals two major areas for improvement that could contribute towards building stronger competitive profile and overcoming challenges that the company is facing today (Peng, 2014). The document summarizes the recommendations that should address investment in integrated performance management solutions and franchise management and strategic shift from CSR-aware to CSR-driven long-term planning.

## Strategic Review

Company Overview   
Hard Rock Café International is a multinational company that owns and operates over 140 cafés, 8 casinos, 17 hotels and 4 live locations across the United States and various international locations. The company has been growing rapidly, both, organically through its own cafés and hotels in major US locations and number of international resorts, such as Cancun, Punta Cana and Tampa, and inorganically, through widening the chain of its franchise opportunities in café and restaurant sectors. Founded in 1971, the company is headquarters today in Orlando Florida with over 50 country representations and four Strong Brands: Hard Rock Café, Hard Rock Hotels & Casinos, Hard Rock Live and Hard Rock Merchandise.   
First Hard Rock Casino was opened back in 1995, in Las Vegas, and the company continued building its brand around international strategic locations of the gaming industry. Operating in gambling segment the company has to comply with international gambling as well as local industry regulations that put pressure not only on legal aspects of the business, but also on Corporate Social Responsibility (CSR) background with increased public interest in this area. Current operations include eight own casinos spread over the United States and global locations. HRH casinos are relatively small in size and face severe competition from larger industry players.

## Objectives of the Report

Recent developments of the company´s activities into related sectors of the industry, such as casino and casino resorts, places emphases on the analysis of its diversification strategy and allows putting into perspective the challenges and opportunities that the company will face in near and long-term future. With that in mind, the focus of this document is the analysis of the HRH brand strategy, its alignment with Hard Rock Café International umbrella brand competencies and external strategic fit. The report will provide a concise overview of the company´s external environments, internal capabilities and will drive conclusions and recommendations on its strategic direction, based on the findings (Sadler, 2003).

## Environmental Analysis

The involvement of the Hard Rock Group in a variety of the entertainment and HORECA business activities makes Brand Image more exposed to the volatility of legal and regulatory environment in the US as well as on the international arena. Shareholders´ report and governmental analysis highlight the constructs of the challenges that the company has been facing for the past decades. First of all, deteriorating economic landscape, 2009 recession and extremely slow recovery rate put significant pressure on HRH income in Las Vegas and critical international resort locations, such as Cancun, Mexico, EuroVegas in Hungary and Punta Cana, Dominican Republic. Secondly, increasingly complex competitive emphasizes the need for upstream-focused cost-effectiveness and business model diversification into less asset-heavy segments. Third construct is the cost of regulatory compliance with the regulatory bodies across the globe. Finally, the company has been facing significant challenges in marketing area related to illegal and wrong use of their Brand.   
Political factors include a variety of regulatory bodies in Hotel and Gambling sector that determine financial relationships, as well as guidelines of business practices in the US and global company´s locations. It is possible to argue that given the cost of running business internationally under strict and extremely regulated industry, the political element is extremely important for the company.   
Economic factors have been gaining speed over the past decade, influenced by decreasing consumer confidence, license and location regulations as well as diverse taxation legislation with regional and state differences. Global economic crisis along with unexpectedly slow recovery over the past years created numerous barriers for expansion that HRH planned for the year 2009. Major expansion of the business that resulted in the opening of additional 865 rooms and 30, 000 square feet of casino space by the end of 2009 put significant emphases on organizational ability to recover investment and create working capital not only for further growth, but to sustain existing operations. Market growth expectations were undermined by marginal reductions in visitor volume and airport traffic that went down from 38, 000 in 2008 to 36, 000 people in 2009. This along with the growth of casino and hotel capacity created stronger market competition based on access supply. The situation has been improving ever since and 2013, based on AGA (2013) report, reflects the highest since recession growth of the industry, accounting for a total net income from gambling of USD$ 37 billion, which represents 4, 8% growth relative to 2011. It should be taken into consideration, however, that the major part of the expense in the casino sector, declared by the company, and the industry in general is attributed to the bad debt and customer discounts that became a prominent part of competitive strategy in gambling industry.   
Public survey provides evidence to growing acceptance of gambling activities among adult American population. The recovery, however, will take time as consumer confidence index is still low in the majority of other global locations, including Europe (AGA, 2013). Along with a higher propensity to save among middle class and high middle class customer group, the potential for gambling sector growth still has room to grow.   
Social factor that affect HRH activities is majorly based on the demographic profile and ethical issues surrounding the activities of the sector. The empirical study, conducted by Rousseau and Venter (2002) in regards to the core drivers for gambling, outline the prevalence of economic factors, such as the expected return on investment, perception of gambling as a fast way of making money and seeing gambling as a way to gain money to solve debt problems. Second most influential factor is a psychological effect of gambling, where people see the activity as a way to escape from daily routine and often create gambling issues. While, on one side, this perception is logical, such consumer attitudes create series of ethical and moral debates in the society as well as in academic and business circles.   
Social background of the external environment is strongly related to the organizational ability to manage expectations and “ give back to the community”. HRH demonstrates a strong focus on community relationships, but does not offer clear and transparent communication strategy in regards to specific actions taken to contribute as a business to the wellbeing and financial health of local populations. The complexity of perceptions, associated with gambling activity put additional emphases on Corporate Social Responsibility (CSR) tangible and intangible costs.   
Environmental factor has indirect influence on the development of the industry. These factors, however, should be taken into consideration as the impact of natural disasters and the pressure that companies experience in view of compliance issues with environmental regulations are significant. The impact of these elements is hard to predict, but it may strongly affect organization in a short and long run. Additional pressure from environmental factors comes from high dependence of the industry on local and international tourism. With the economic crisis and slow recovery rates in place, the industry went through numerous challenges in overall reduction of customer flow in casinos and hotels. As such, reduction in international and national tourism spending in the United States alone over the period of 2008-2010 is accounted at 16% downfall. This statistics, however, allows evidencing the potential of Asian market, where international and regional tourism grew 21% over the past three years (World Bank, 2014).   
Legal factors influence on the gambling sector is determined by two critical elements: employment regulations and changing landscape of international regulatory requirements. Appendix I outline evolution of the gambling industry framework in the second biggest market for HRH - Europe. The reality shows, that over the past four years (2009-2013), the majority of the countries within the region shifted from unregulated legal environment in the sector to special licenses. On one side, this increasingly regulated legal environment places pressure on the compliance and CSR costs, which build on a significant portion of HRH expenses. Structure and transparency in the sector added by licensing regulations until today allow more accurate and more adequate estimation of growth potential in terms of upstream costs and risks, associated with external factors. It should be noted, though, that the industry players continue operating within numerous “ dark areas”, such as ambiguities, surrounding online gambling in the US based on the Federal Wire Act 1961 (PWC, 2010).

## Porter´s 5 Forces Analysis

An analysis of the competitive industry through Porter´s 5 forces Model allows identifying the core focus of strategic efforts that the company should adapt in order to gain competitive advantage on the market. The analysis includes rivalry assessment, bargaining power of suppliers and customers, entry barriers and threat of substitute.   
First of all, from the perspective of the industry competition, HRH operates in oligopolistic competitive environment, especially on its core European and North American markets, where the a great market share of over 20% is concentrated in hands of up to ten largest casino groups. Major competitors of HRH include Ceasars Casino Group, Sands Las Vegas and a number of alternative products offered by Skybet and 888 Holdings in the online sector. Concentration of the competition is another strong factor that outlines the nature of gambling industry with the center in Las Vegas and limited European locations, where HRH opened its largest casino facilities. The reality of the market, however, demonstrates growing competitive profile of regional casinos from such regions as Pennsylvania and Yonkers in the US that affected revenues of Atlantic City and Las Vegas gambling, slumping sales income in 2009 alone by 13. 2% (PWC, 2010). European gambling market continues being dominated by Western Europe and Spain specifically, where market competition is determined by open rivalry large amount of small players, competing on a regional basis with major casino groups, such as HRH (PWC, 2010).   
Threat of entry analysis reveals powerful element of governmental regulations that control the spread of the industry and significantly increase the costs of entry to the market by license control and tax regulations. This negatively affects small players and outlines the stability of the industry.   
Bargaining power of buyers is concentrated in two major gambler segments: 1) large players (Key accounts “ Whales”) that account for over 18% of the total casino revenue in the United States and so-called ‘ spot’ segment, which brings large profit on slot machine utilization. The reality of the gambling industry is extremely low loyalty with the second customer segment as this player is looking for special offers, price conditions and does not have specific ties with any specific casino brand. This gives strong bargaining power in the hands of this stakeholder. “ Whale”, on the other hand, it’s the customer with very different set of values, that brings forward prestige and reputation of “ self” in the establishment as well as influenced by the Brand Image. For this customer, switching cost is significantly higher. At the same time, given the revenue volume coming from this customer segment, the need of long term partnership is critical to sustain the business (Johnson, Scholes and Wittington, 2011).   
Bargaining power of suppliers is represented by two major upstream channels, IT and equipment suppliers. Both markets reflect open competition and little differentiation. This allows large casino groups, such as HRH itself drive supplier relationships. Casinos have strong bargaining power over suppliers, determined by economies of scale and low switching costs. In many cases, equipment operations are based on leasing and, therefore, asset costs is also relatively low that allows not only control suppliers´ relationships, but offer flexibility and differentiation to the customers through regular changes in equipment and slot offers. On the IT side, integrated system solutions offered by suppliers to casino chains are reasonably low in their variety. There are several large players that offer IT infrastructure for gambling industry, but as long as it does not include integration with online casino, such as the case of HRH, switching cost also remain reasonably low.   
Substitutes present one of the major risks in the area. Along with complex regulative environment with size and competitive dynamics shaped on regional, and not even on country basis, substitutes, such as horse betting, online casinos and lotteries put significant pressure on traditional gambling revenue streams, offered by Hard Rock. Casino chains consider it critical within their strategic growth initiatives to cover rapidly growing segment of online gambling as a way to leverage their revenue channels and diversify into less asset-heavy sectors of the industry.

## Resources and Competences

Internal Competences Analysis   
The analysis of internal competences will focus on evaluation of strategic fit of the company´s strategy into the industry reality. Appendix IV illustrates Value Chain Matrix, with the core competitive strategies that HRH have adapted on primary and secondary levels. The company operates very asset-heavy operations and currently works only with own locations that allow building on Brand Image and strategic alignment of the company, but limits its growth potential. Tangible assets, utilized within the company that can be considered its core competence include, among others, expanded operations to Punta Cana and Cancun that differentiate HRH growth strategy and put it ahead of its global competitors.   
HRH corporate strategy and organizational culture are critical core competencies. Organizational management focuses on strategic HRM management and realizes the value of individuals as critical company´s assets. Internal training and retention policies adapted outline good strategic alignment with growth objectives of the corporation. It should be noted, that one of the downsides of current operations on HR side is a lack of coherent, integrated performance management system that reduces the effectiveness of Key Performance Indicators (KPIs) setting on a global level. With that in mind, the company needs to further focus on bringing into picture integrated solutions that will also address future franchise solutions.   
Recommendations for Future Development   
Evaluation of strategic fit and internal competences was conducted with the basis of TOWS matrix analysis that helped the research group outline core areas for improvement and strategic focus that is recommended for creation of competitive strategy, aligned with company´s capabilities. Major findings outlined in the document are driven as the summary of the TOWS matrix (Appendix II). The analysis reveals opportunities that current economic background provides in the industry: growth of Asia Market and online gambling. It is evident that present HRH strategy lacks focus on capturing these opportunities and instead is trying to grow in existing geographical locations and segments. Given the challenges related to integrated technological solutions and competitive disadvantages of HRH casino locations, focusing on the above growth alternative is critical for future revenue streams.   
Hard Rock Group operates on a variety of markets and segments, and the internal analysis reveals internal weakness, related to performance management and KPI setting. Further growth of the company can be compromised by inability to set robust control structure, especially given the increasing role of franchise in the overall operations of the group. That said, the company should invest financial capital in building an integrated performance management system that will not only link own operations, but enable aligned and effective control measure for Hard Rock franchisees.   
Conclusions and Recommendations   
Given the complexity and high level competition in gambling industry, HRH will continue facing challenges related to initial investment requirements and limitations set by the governmental authorities across the globe. An analysis of the market potential outlined the growing opportunities of increasingly favorable Asian market (Appendix III). With that in mind, one of the major recommendations that can be made for the company´s strategy is a further extension of its inorganic growth strategies to HRH business. In other words, by implementing franchising structure into the gambling business the company will be able to solve two issues: a) local knowledge with a global presence, and 2) investment levels reduction, pursuing global expansion strategy. This, along with already strong company´s policy on employees´ training and development will create a significant base for sustainable business operations.   
Gambling business, as it was previously identified is a subject to strong ethical and moral debates that create complications for entering and sustaining its operations across the globe. With that in mind, the large industry players must focus their efforts on bringing CSR into the core of their strategic development. It is possible to argue that Hard Rock Company placed emphases on internal stakeholder management, which surely builds on part of CSR scope. There is a clear gap, however, between the company and the increasing demands of local communities for responsible business practices. Re-evaluation of the current strategy to more CSR-driven long-term planning should become a primary recommendation for the organizational management. Intangible in the near future, this strategic direction will help to sustain profitability and Brand reputation in the industry that is a subject to negative public image.   
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World Bank (2014). ‘ USA and Asia Statistics’. World Bank Data. Retrieved 11 February 2014, http://data. worldbank. org/indicator   
Appendix I – Eurozone Regulatory Base Evolution   
\*Source: http://www. gamblingcompliance. com/node/49155   
Appendix II – Complete TOWS Matrix   
Appendix III – Global Gambling Market Overview   
Appendix IV – Value Chain Matrix