

Gambling on the edge of china critical thinkings examples

[Business](#), [Company](#)



1. How would you characterize competition in the gaming industry in Macau?

Macau is one of the biggest gambling hubs in the world and is especially attractive because it is the only place in China where gambling is legal. Many companies wish to open casinos or hotels in this former Portuguese colony. However, with casinos it is not that simple. Legally, there is no competition in the Macau gambling industry as the Executive of Macau SAR has a monopoly over all gaming business (Pereiro, 2010). It can sign concession agreements with companies granting them the right to open casinos in Macau in exchange for significant contributions, taxes, and premiums. So far, such concession and sub-concession contracts were concluded only with six companies that actually compete with each other for clients and revenues. Therefore, we can state that effectively there is an oligopoly in the Macau gambling market, as the number of competitors is limited and is unlikely to increase due to high entry barriers.

The competitive forces analysis shows that the companies should not fear potential new entrants as the entry process is controlled by the SAR. The gambling industry does not depend much on suppliers, except for casino's employees who can actually influence the business through protests and demonstrations as they did in 2014 (Loo & Wong, 2015). Buyers have a lot of bargaining power since the casinos' clients are not locals but people coming from other countries and especially from China. The industry also heavily relies on junkets who allow the Chinese to evade restrictions that prohibit them to take out of the country more than \$50, 000 in Chinese currency equivalent (Rovnick, 2013). As to the substitute products, Macau can offer

many other entertainments but they do not pose a significant threat to the industry. Competition between rivals is quite intense since other companies have matching competitive assets.

2. From the institution-based view, what institutional developments have facilitated the development of this industry?

All that competition in the Macau gambling industry has become possible due to several institutional developments. First, upon reunification with Mainland China Macau was able to maintain a high level of autonomy, and the Commercial Code that provided a necessary framework for gambling industry remained the same (Pereiro, 2010). Second, the SAR practically encouraged companies to invest in Macau and established a procedure of concession agreements, highly beneficial for all parties. Another development was the legalization of junket operators that finance casinos' clients.

3. What resources and capabilities were behind the performance of Wynn Macau?

One of the competitors in the Macau gambling industry is Wynn Macau, Limited. In 2011, the company's performance was the best in terms of fair share ratio and that success was ensured by company's resources and capabilities. First, the company signed concession agreement with the SAR in 2005 and in 2006 signed sub-concession agreement with Melco. The premiums that Wynn is getting from Melco are a source of additional income. In December 2011, the only Wynn casino in Macau featured 286 VIP tables, 212 mass tables, and 943 slot handles. The company has access to cheap financing as its shares are traded on the Hong Kong Stock Exchange.

The management and marketing skills of the company are outstanding. The company's entry into the Macau market was meticulously planned. Although the sub-concession agreement was signed in 2002, the company opened its casino only in 2006 when its competitors already established the industry, and the market was booming. The company targeted the upper end of the market, knowing that VIP tables generate more revenue. The management also very carefully planned the company's expansion, acting as if they knew that the financial crisis was looming.

4. Retrieve and analyze recent information concerning Wynn's operations in Macau. Are there any recent developments that may significantly affect Wynn's future performance? How does the updated assessment of performance differ from your assessment of Wynn's performance answered in Question 3? What factors may be able to explain the change in its recent performance?

However, now the Wynn's performance is not that good. In the first quarter of 2015 its EBITDA declined by 45%. The company has cut its dividend payments from \$1.50 to \$0.50. Its revenue from the VIP tables dropped by more than 50% and there was a decline of 7% in the mass market revenue (Loo & Wong, 2015). In March 2015, Wynn Macau encouraged its employees to take unpaid leave (Lopez, 2015). Clearly, the company is not doing well. The main reason for that is the anti-corruption campaign of the Chinese President Xi Jinping that started to affect the company's performance as early as 2013. Fewer customers from China come to Macau to gamble, and the decline is especially evident in the VIP segment that Wynn targets. The Chinese government sees the Macau casinos as the places where rich

Chinese businessmen and corrupt government officials can convert yuan into foreign currency in amounts larger than allowed, through the operations of junkets (Rovnick, 2013). As a result, 16% of Macau junket operators shut down in 2014 (Lopez, 2015). Although, the Communist Party also frowns upon retail clients gambling, the VIP segment is more affected. Therefore, Wynn felt the tightening of the Chinese policy earlier than its competitors did and has reported declines in revenue already in 2013. Moreover, Wynn's Asian operations are based only in Macau while its competitors have expanded their business in Asia to other hubs (Lopez, 2015).

The company's future is unclear. It plans to open a new casino in the Cotai region in 2016 but does not know how many tables it will be allowed to have. The Macau government announced that there would be a cap on the increase of tables, partly because of Macau "overcrowding" and workers demonstrations in 2014 (Loo & Wong, 2015).

5. ON ETHICS: Responsible gaming is promoted by various stakeholders in various gambling capitals of the world, such as Macau. The government in your city or country is soliciting views from stakeholders on the issues concerning the introduction of gambling. Discuss the various stakeholders' positions that will most likely be presented to the government, and debate the pros and cons of introducing gambling in your city or country. What conclusions can you make about gambling and its impact on society?

The introduction of gambling in any city or country is always a controversial issue. Businessmen will argue that gambling is a profitable industry for both companies and locals. A casino offers new employment opportunities and generates large amounts of tax revenues. Moreover, gambling attracts

tourists and facilitates the development of city infrastructure.

For some people, gambling is just an entertainment, a good way to spend their time even if they lose some money. However, religious people believe that gambling is a sin, and it should be prohibited. Non-believers simply state that gambling is dangerous as it can become an addiction and later an illness that is hard to cure. Sometimes people place a bet and lose everything they have. Casinos may also become a cover for money laundering or other illegal activities.

Therefore, gambling can have both positive and negative impact on the society. To reduce negative effects and to benefit from positive effects, the authorities should regulate gambling activities rather than prohibit them.

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