CASE 1

WYNN RESORTS

SYNOPSIS OF THE CASE

The case details the history and growth of Wynn Resorts Ltd., under its founder, Stephen Wynn. From a rather humble background, and armed with unbounded ambition and vision, Steve Wynn developed a global gambling behemoth, catering to high-end gamblers in Las Vegas and Macau. The case details how Steve Wynn used both bold and big alliances and paid attention to details in running his rapidly growing casino and hotel business, to lead one of the most successful gambling and entertainment companies in the industry. With entry into Macau, a thriving province of China, Wynn steered the company to a different regulatory, political, and cultural context, with potentially huge risks and rewards. The case concludes with details of some of the risks and concerns, and requires students to come up with strategies to deal with the issues identified.

TEACHING OBJECTIVES

The main teaching objectives are as follows:

- To discuss Wynn Resorts' distinctive resources and competencies, and its key weaknesses.
- To use Porter's five forces model to analyze the competitive structure of the gaming industry in USA and Macau.
- To illustrate Wynn Resorts' business level strategy.
- To discuss Wynn Resorts' international strategy and the risks associated with it.

The case works well with material covered in chapters 1, 2, 3, 5, and 8; specifically, in chapters involving internal and external analysis, business level strategy of differentiation, and global strategies.

STRATEGIC ISSUES AND DISCUSSION QUESTIONS

What are Wynn Resorts' distinctive resources and competencies?

Wynn Resorts' key resource is Steve Wynn himself. It is clear that he has a great instinct for the business and has immense passion for his trade. His vision for where the business is heading and his instinct for what his customers would love made him a billionaire in a relatively short time. In addition, he is not just a strategic, “big picture” kind of a person. He also is a hands-on manager, just enough to inspire his employees and make his customers feel special. He is a charismatic leader. He is also a great communicator, because he is able to get other stakeholders such as financiers, developers, and politicians on board so that he can implement his plans.

A key resource in the international arena is Wynn Resorts’ operating license in Macau, which gives it the right to open an unlimited number of casinos in the area, subject to local government’s approval. It is likely that if Wynn Resorts runs its casinos well, and exceeds government expectations in terms of revenues and fees, Wynn Resorts could enjoy a great franchise in the largest gambling market in the world.

Wynn Resorts’ key competency flows primarily from Steve Wynn’s instincts and vision. The company knows how to take care of high-end customers, and keep them loyal to the brand. High-end customers feel pampered and relaxed, and they definitely seem to believe that the visit to Wynn Resorts property is worth it. This translates into millions of dollars of revenue at high margins for Wynn Resorts.

Wynn Resorts’ related key competency is innovation in HR practices that yields highly motivated employees. One example of an innovation in this regard is the tip-pooling system, which enables supervisors and dealers to share in the tips, and enables experienced dealers to become supervisors without any loss of income. This system provides incentives to both dealers and supervisors to provide the best customer service, know their “high-rollers” better, and make all effort to keep them longer in the casino area, which translates into additional revenues.

Wynn Resorts’ key weakness is its financing structure relative to its choice of industry. Wynn Resorts operates in a cyclical industry – the demand for gaming/leisure hospitality services fluctuates widely depending on the economic cycle. In this context, Wynn Resorts has chosen to be highly leveraged – its long-term debt is almost two times stockholders’ equity. This saddles Wynn Resorts with fixed debt-servicing demands even during downturns, which in turn threatens its maintenance, operations, and long-term growth.

What is the industry structure in which in which Wynn Resorts operates?

1. Wynn Resorts operates in Las Vegas and Macau. In Las Vegas, the competition is moderate. There are many competing hotels, but the market, after some consolidation, resembles an oligopoly. The competitors also have significant investments in developing brand loyalty, especially among the high-rollers. The barriers to entry are largely related to the location of the property, brand loyalty, and gaming licenses that are awarded by the government. The bargaining power

of buyers is muted by high degree of differentiation among competing properties, resulting in some brand loyalty and switching costs.
2. The bargaining power of suppliers (mostly service staff, specialized gaming infrastructure and equipment), and threat from substitutes is low.
3. In Macau, the intensity of competition is lower because the government strictly controls the award of licenses, which also acts as an entry barrier. Even so, the casinos that are awarded licenses compete actively among themselves to build a successful franchise. The licenses are given for a fixed period and need to be renewed which introduces some uncertainty in the industry.
4. Since gaming and associated hospitality is largely a discretionary product, the industry is subject to volatility of economic cycles, both in the US and Macau. In addition, Chinese government policies and regulations may be dictated in the future about the pace at which it wants this industry to grow, based on its perception of social costs of gambling. On the positive side, there is a growing social acceptance of gambling in the US, and an increase in the proportion of elderly is likely to favor gaming and gambling as well.

What is Wynn Resorts' business level strategy, and how is it executed?

Wynn Resorts' business level strategy is focused differentiation with an emphasis on customer responsiveness. It caters to high-rollers who are comfortable spending large amounts of money at casinos and want the best. Wynn Resorts has developed services that provide them with the ultimate in personalized attention including complimentary use of luxury cars and lavish suites. Wynn Resorts' property is smaller than the other properties on the Las Vegas strip giving customers the feeling of exclusivity and offering intimacy and privacy, while keeping operating costs down. Wynn Resorts forgoes other customer segments to service only the high-end clientele – a classic focus strategy move. Steve Wynn is personally involved in all aspects of floor operations including the concept of tip-pooling, an incentive system for dealers to become supervisors. His presence on the floor motivates employees to perform at their best, and allows him to model his vision of customer responsiveness to his employees. His presence keeps employees honest, hard-working, and engenders their trust. Steve Wynn pays close attention to his best and frequent customers, knowing them by name and remembering personal details such as their favorite drink. He uses his charisma to build loyalty from both customers and employees. Wynn Resorts' incentive system, especially tip-pooling, provides incentives to experienced dealers to become supervisors, and provide the best service to their customers to earn higher compensation.

What is Wynn Resorts' international strategy and what are the risks associated with it?

Case 1: Wynn Resorts

Wynn Resorts decided to bid for the rights to operate a property in Macau, near HK and mainland China. The local government there is keen to develop Macau as a big tourist destination. As the Chinese and other Asians become more affluent, they would be interested in Las Vegas and European style casinos and gaming facilities. Being close to a fast growing region of about $2 billion people is a smart move. However, the expansion to Macau carries some risks. The gaming license there is tightly controlled by the local government, and is given for a fixed period of time, after which the government can take over the operation. The current license will expire in 2017. The current license requires the operators to handover 35% of gross gaming revenue, and up o 4% of gaming revenues for the promotion of social interests, security, infrastructure, and promotion of tourism in Macau. In addition, if the Chinese, and other national governments close to Macau, believe that the gaming facilities in Macau are leading to social problems at home, then they may impose additional restrictions on travel to Macau, reducing the attractiveness of the gaming properties there. Also, some aspects of property management may not directly transfer to Macau, due to cultural differences. These relate to the atmosphere in the casinos, the degree to which Asians would appreciate aggressive marketing, down to the décor in the rooms, and the kind of restaurant and food choices they are offered. If Wynn Resorts does not tailor its facilities just right, it may fail to attract the high-rollers on which its premium strategy is built. Thus there are significant political, social, and cultural risks in Wynn Resorts' international strategy. Competitive threat also comes from other competing developments in the region, including one in Singapore. However, in the short run, these developments may help in growing the market, rather than creating any competitive headache.

What are the strategic issues that need to be addressed by Wynn Resorts at this stage?

One of the key strategic issues that Wynn Resorts has to address is having a depth in management. Steve Wynn is a dynamic and charismatic leader, but he should focus on developing strong managers to assist and succeed him at strategic levels.

The second strategic issue is the extent to which Wynn Resorts should focus on gaming and luxury hospitality. Should it diversify geographically beyond Macau? Gaming is a highly regulated industry everywhere, and it requires local connections and investments to get gaming licenses. Should it diversify its business lines? Then the question would be the extent to which its competencies can transfer to other lines of businesses. In some cases, for instance, maintaining luxury hotels and service apartments in major centers of the world, Wynn Resorts may be well positioned. It may also think about partnering or running luxury transportation services for its customers. Overall, Wynn Resorts managers have to decide how comfortable they are focusing exclusively on a rather cyclical and heavily regulated industry like gaming.

CASE 2

APPLE IN 2008

SYNOPSIS OF THE CASE

The case documents the history of Apple computer, from its foundation through till the end of 2008. The case covers all major events in the history of this company, including the success of the Apple II, Apple's mixed results with the early Macintosh line of computers, the company's problems in the 1990s, its reemergence after the return of Steve Jobs in the late 1990s, and the company's introduction of the innovative iPod and iPhone lines.

TEACHING OBJECTIVES

Students relate very well to this case. Many of them have and use Apple products, and they often have strong opinions about the company and its offerings, which leads to a lively classroom discussion. The main objectives are as follows:

1. To discuss the formulation and implementation of a business level strategy based on differentiation.
2. To use Porter's five forces model to analyze the change in the competitive structure of the personal computer industry over the last three decades.
3. To illustrate how important network effects are in technology driven industries.
4. To discuss the nature of competitive advantage.

The case works very well with material covered in chapters 2-7 of the text. I normally use the case to wrap up my discussion of business levels strategy issues.

STRATEGIC ISSUES AND DISCUSSION QUESTIONS

1. Historically, what were Apple's major competitive advantages?

Apple II and Macintosh were the machines that made Apple. They both had to following features.

- Ease of Use. They were not designed for geeks. This drove Apple's success in the education market, including K-12.
- First GUI in 1984 with the introduction of the Macintosh

- Design elegance. From the outset, Jobs was obsessed with the appearance of Apple computers
- Complete solution – plug and play

Brand loyalty among important segments

- Machines plus marketing and rebel image helped to create strong brand loyalty among certain segments. Initially education was the core market segment, and later desk top publishing (after the introduction of the Mac, postscript programs (particularly Adobe and Aldus) and the laser printer.

2. Why did Apple fail to build on these advantages to lead the industry?

Apple's missteps:

- Failure to focus on the business segment, despite the success of VisiCalc
- Apple III, introduced in 1980, was bug filled.
- Internal management turmoil at Apple.
- Limitations of the first Macintosh computers. There was no hard drive and insufficient memory. Moreover, lack of developer tools to help develop applications led to a limited supply of applications, which hurt demand.
- High price point of the Lisa ($10,000) which was aimed at business users.
- The failure to license the Apple OS to other entities. This was actively discussed at several points in the company's history. It is interesting to debate whether this was in fact a key strategic mistake, or whether the failure to execute was (see question below).

Rivals' moves

- Entry of IBM in 1981 changed the game entirely
    - IBM's decision to adopted an open architecture created a vibrant industry supplying software and peripherals
    - IBM had cache with corporate America, which helped drive business sales
    - IBM arranged for key applications to be introduced at the same time as the IBM PC
    - Early success of IBM PC led to important applications being developed first for that machine – a spread sheet program, Lotus 1-2-3 and a word processor, Word Perfect.

- Growth of IBM clone makers increased supply and lowered price of IBM PCs.
- Increased installed base of IBM and IBM compatible machines started a network effect which led to the dominance of the Wintel architecture.

- Lesson: Companies that can best ride network effects will dominate market.

3. Was Apple's demise inevitable, or could they have succeeded despite the decision not to license the OS?

Demise was not inevitable. Apple failed to *execute* of several fronts. Replay the tap of history, and imagine what might of happened if (a) the company had been well led at a critical point in its history, (b) Apple III had been well engineered, (c) the first Macintosh had not suffered from flaws, (d) the Lisa had been priced lower, (e) capitalizing on VisiCalc, Apple had pushed hard into the business community early on, and (f) Apple had provided tools to make developing applications for the Mac easier.

Lesson: Execution is everything. Licensing might have helped to build a network effects, but it was not absolutely necessary.

4. How has the structure of the personal computer industry changed over the last 20 years? What are the implications for the profitability of personal computer manufacturers?

Consider how things have changed from 1980s to 2000s using Porter's five forces model.

Entry Barriers

Forces lowering entry barriers

- IBM's open architecture lowered entry barriers
- Standardized components are widely available
- R&D is done by component suppliers
- Assembly is easy and does not require strong production skills. Evidence for this is the long tail of small firms in the industry that collectively still accounted for half the global market in 2005, no one of which had more than 2% of sales.
- Distribution is not hard

Forces tending to raise entry barriers

- Importance of brand as an assurance of quality
- Economies of scale on the input side
- Economies of scale required to support dedicated customer care functions
- Economies of scale required to support diverse product offering (Dell's mix and match)

- Economies of scale required to support information systems and tightly

On balance

Entry barriers have fallen, and new entrants have emerged. Long tail of small entrants keeps downward pressure on prices.

Buyer Power

Buyers have without question have become more powerful
- They see PCs as commodities and products of leading firms as direct substitutes for each other
- Buyers have become more sophisticated about computing, and more price sensitive.
- Translates into low switching costs and downward pressure on prices

Suppler Power

- Powerful suppliers of key inputs (operating system and microprocessor) have been able to extract economic value from the industry
- 2005 Intel and Microsoft earned $20 billion while the entire PC industry only earned $6 billion.
- Suppliers of other components have little or no power (inputs such as memory chips and hard drives are commoditized).

Substitutes

- Historically few if any, but that is now starting to change.
- Computing is starting to become ubiquitous.
- Video game consoles, wireless phones, digital TVs, etc are all computers
- If the center of gravity in computing shifts to the Internet, there will be less demand for computing power onboard PCs (although more for demand servers).

Rivalry

- PCs have become low margin commodities
- Market is still quite fragmented
- Demand is mature is many developed nations and limited to replacement demand
- Advantages of size (brand and scale economies), while they exist, are not powerful enough to put small clone makers out of business.

- Consequently, competition is intense and prices decline continually.

In Sum

The industry has become very competitive. Commodity type product, powerful buyers and suppliers, and continual new entry by small players, coupled with slowing demand growth, have all helped to increase the intensity of competition over the least 20 years. This is becoming a very difficult industry in which to make money.

6. Given the analysis of industry dynamics, what must a PC firm do to make an economic return in this industry? Is Apple protected from these competitive forces in any way?

Build high quality, low cost machines, and execute well. Be more efficient than rivals. In an industry where the product is seen as a commodity, it is the low cost player that can deliver the best quality (few defects) at the lowest cost than wins. Historically this has been Dell, although Lenovo and HP are both starting to match Dell.

Apple is protected in the sense that it has a uniquely differentiated product in a commodity industry. It has the advantages of brand loyalty, ease of use, and design elegance. More on this below.

7. In the early 1990s, Dan Eilers commented that Apple was on a "glide path to history". What underlay this assessment?

Eilers was no doubt referring to the declining market share and strong network effects enjoyed by the Wintel alternative. Loss of momentum meant loss of applications and thus, a reduction in the value of owning an Apple machine. In turn, this implied a loss of demand, and a further reluctance of application developers to write programs for the Macintosh machines.

What complicated matters further was that unlike other PC manufacturers, Apple made it own OS. While the cost of this was increasing, Apple's market share was contracting, making it ever more difficult for Apple to recoup the costs of creating new versions of the OS (note that the cost of developing an OS increased Apple's R&D costs).

Consider, if it cost Apple $500 million to develop a new operating system in the mid 1990s, while rivals licensed their OS from Microsoft at $50 a machine, Apple would have to sell 10 million machine to match the OS cost enjoyed by rivals – something that it didn't even come close to doing (in 2005, Apple sold 4.5 million machines).

Conclusion, Apple has an intrinsically higher cost structure due to the OS cost, which had to be recouped from an installed base that was shrinking due to the growth of the Wintel alternative.

What saved Apple in the 1980s and early 1990s were two things; its success in the education market where ease of use was critical, and the company's domination of the desktop publishing market, which enabled it to charge a premium price for its machines.

How did the company come to dominate desktop publishing?

- Adobe developed Postscript
- Apple licensed Postscript and produced the laser writer
- Aldus used Postscript to produce Page Maker for the Mac
- The Mac GUI interface was intuitively appealing to graphic artists.

This seems to have been an *emergent* strategy. Apple did not plan for this, but as it started to happen, they seized the initiative.

8. Evaluate Apple's strategies since 1990 (focus on Scully and the return of Steve Jobs)? How did Scully try to save Apple? How did Jobs?

The story of Apple since 1990s has been an attempt to claw back market share and overcome Eilers' dismal logic in the face of the hard reality of declining prices for PCs. This hard reality become even tougher in 1995, when the introduction of Windows 95 reduced the perceived differential advantage that Apple enjoyed in ease of use.

Scully's strategy

Had three themes

- Made himself chief technology officer
  - Theme: An attempt to seize control from the geeks who tended to over-engineer products, which led to product delays and high costs
- Drive down prices and costs
  - Introduced low cost version of the Mac (Mac classic) to capture price sensitive consumers
  - Cut prices of Mac's and Apple IIs
  - Cut workforce and salaries of top managers.
  - Reduced costs by outsourcing assembly
  - Theme: Try to gain volume and share by reducing prices and offering consumers a superior value proposition – differentiated product at the price of commodity PCs.

- Create new standard in industry
    - Alliance with IBM for OS and apps
    - Note that he was trying to reduce the costs of developing new OS by sharing them with IBM
    - Adopt IBM's Power PC architecture
    - JV to develop application to kick start demand for new operating system.
    - Theme: Develop a superior alternative to the increasingly dominant Wintel standard. Goal was to develop an AppIBM standard.

- Results were mixed
    - Sales expanded, even though gross margins were compressed
    - IBM alliances fell apart. Why?
        - Against the DNA of both companies, which had been historical rivals?
        - IBM lacked commitment given that it was also riding the Wintel boom
    - Bottom line: Scully's strategy failed to solve Apple's problems or reverse relative decline. Apple was still on a glide path to history.

Steve Job's Strategy

Scully was succeeded by Spindler and than Amelio. Spindler licensed the Mac OS to clone makers in 1994, but it was too little too late. Jobs returned in as a consultant in 1997 after then CEO Amelio purchased his NeXT company for $435 million. Became CEO in April 1998.

Early moves: 1997-2003 arrest the decline

- Microsoft investment and commitment to produce Office established credibility
- Focus on the base
    - Reduced product lines from 60 to 4
    - Terminate licensing deals
    - Invest in building design capabilities
    - Develop low priced machines with design elegance
        - iMac, iBook and Titanium G4 Powerbook
    - Invest in new OS based on NeXT OS (introduced 2001)
        - Issue frequent updates and try to get installed base of 25 million to upgrade. Covers cost of ongoing OS development
    - Develop applications to help drive demand

        - Third party developers refused, so Apple made the investment in iLife programs
    - Invest in building brand
- Develop distribution
    - Lack of channel was hurting sales
    - Establish direct sales like Dell
    - Establish Apple stores: an expensive gamble to reach customers
    - An attempt to ramp up sales
- Theme: try to reemphasize differentiation and drive sufficient volume to cover costs of developing new OS. Try to restart network effect. There were financial improvements between 1998 and 2000, but Apple was still trailing Dell. Arguably Job's had done many of the right things, but Apple was too far behind the eight ball to boot strap its way out. Sales and profits slumped in 2001 and 2002. Seemed to be same old story…..then along came the iPod.

9. The iPod: Why has Apple been so successful with the iPod business?

Apple has been very successful with the iPod and iTunes. Apple's success stands in stark contrast to the failure of early players in the music download business, such as Napster. There are a number of reasons for Apple's success.

- The timing was right. The Music Industry realized that they needed independent legal channels for distributing music over the Internet. The Genie was already out of the bottle, they had to do something.
- Apple was a legitimate company with a strong reputation that was operating within the bounds of the law.
- Steve Jobs was able to persuade the music companies that it was in their best interests to support a legal download service. He was also able to persuade musicians that they needed to support the initiative. A legendary figure like Jobs was able to pull off what the people associated with Napster never could.
- The fact that iTunes files could only be played on the iPod created a closed world in which copyright violations were less likely to occur. This helped to allay the fears of music publishers regarding illegal file sharing.
- Apple offered the music companies a great deal – of the $0.99 paid for every download, $0.89 reportedly goes straight to the music companies. They capture most of the economic profit.
- The iPod itself was technologically sophisticated and cool. The design elegance helped to drive demand.
- Job's decision to make iTunes and the iPod work with Windows dramatically increased the addressable market for the iPod.

It's interesting to note that Apple's entry into the music download business was not a planned strategy, it was an emergent response to an unanticipated situation.

10. What have been the main themes of Apple's strategies post 2003 -

Four main thrusts…

Switch to Intel chip architecture

- The Power PC had failed to match the performance of Intel chips.
- Switch to Intel architecture makes it easier for developers
- Switch to Intel architecture allows for a duel boot, which arguably lowers switching costs and enables Windows user to migrate more easily to Apple.

Leverage success of iPod to drive Apple computer sales

- Theme: iPod drove traffic into Apple's stores, making them very profitable.
- There is a clear spill over effect on iMac and Powerbook sales

Extend to iPod boom

- New models (e.g. iPod Nano) are helping to keep demand strong
- New functionality (e.g. download videos) are helping to drive future demand

Move into mobile computing with the iPhone

(Discussed below)

11. What explains Apple's success with the iPhone? How sustainable is this success?

The Apple iPhone is a smart phone, which is basically a small handheld computer with Phone, Internet browsing, and general computing capabilities. Although the iPhone was not the first smart phone, its share is growing rapidly. Apple's success here is based on a number of factors:

- Focus on the consumer! Other players in the smart phone market were focused on business users (e.g. Microsoft and Blackberry). Apple realized that there was substantial unmet demand in the consumer market place.
- Revolutionary interface. The iPhone is very well designed, and the touch-activated interface is attractive, innovative, and easy to use, which appeals to the

consumer marketplace. Apple was the first to introduce a touch activated interface in this market place.

- Leveraging the brand. Apple was able to leverage its powerful brand equity with consumers to get people to try the iPhone.
- Applications. Apple has realized the importance of applications for sales of the iPhone, and is creating incentives for third part developers to make and sell applications (through its apps store). Essentially, Apple is leveraging a network effect here. The more valuable apps offered on the iPhone platform, the greater the utility of owning an iPhone, the greater demand will be, and the more apps that will be offered! Microsoft rode just such a network effect with Windows, now Apple is trying to ride one with its iPhone.

The sustainability of Apple's success in the iPhone business depends in large part upon its ability to win what is rapidly becoming a format war in the smart phone business. To do that, it must exploit network effects, and so far Apple seems to be doing a better job than its competitors.

12. Has Apple finally solved its long standing problems? Strategically, where might the company go from here?

- Thanks to the iPod and iPhone, Apple has become hip among young consumers
- Computer sales are strong due to iPod (and iPhone) spillover
- Financial performance has improved rapidly
- Apple now differentiated on ease of use and design elegance
- Brand has been re-energized

But:

- Company is still a niche player in the larger industry
- Unclear how sustainable the iPod boom is
- Apple has a long way to go if it is to be viewed as an alternative to Wintel in the business arena

Case 2: Apple Computer