

Towards an emerging global gaming-market

Strategic opportunities for the Swedish state-licensed gaming companies

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Executive summary

State licensed monopolies backed by restrictive national legislations has for a long time dominated the European gaming market (Zoer, 2004), these gaming monopolies has prevailed over all criticism from the European Union for some time now. However, at this time these state licensed monopolies are starting to disperse and Europe might stand in front of a far reaching liberalization of its gaming market (Scott, 2004). The deregulation and liberalization of gaming laws is a real threat to casino, betting and lottery companies. The most recent court decisions of the European Court of Justice and national courts tend towards an increased liberalization of the European gaming market (Olson, 2003). The Swedish gaming and lottery market is strictly regulated, and the government has decided that only certain explicitly chosen actors are allowed to operate in these markets. The Swedish gaming monopoly is not likely to disperse entirely or immediately but the present form of governmental monopolies is not likely to sustain (Fransson et al., 2004). A new market is slowly emerging, a global gaming market (Europe Economics 2004). The scope of the study was to find suitable corporate strategies for the Swedish state-licensed monopoly companies - AB Svenska Spel; AB Trav & Galopp and Folkspel - in case of liberalization or deregulation of the Swedish gaming monopoly. The study was conducted as a prognostic study divided into six steps (1) Study phenomena on emerging markets and globalization of markets, (2) Mapping trends and characteristics of the worldwide wide gaming market; primarily US, (3) Study the Swedish gaming market, (4) Analyzing characteristics of the emerging global gaming market (Prognostic), (5) Analyzing characteristics of the Swedish market (Prognostic), and (6) Analyzing the strategic opportunities for the state-licensed corporations on the emerging market (Scenario).

This study show that the strategic opportunities for the Swedish state-licensed companies on a general level look quite positive, but some restructuring will be needed in order to successfully meet global competition and to protect the weaknesses of the Swedish state-licensed companies. The licensed actors in Sweden possess domestic strengths in especially the areas of trotting, horse racing, games of chance, slot machines and bingo. Their weaknesses are generally their small size and their inferior financial strength, at least when compared to the larger global actors. The Swedish casino division is an orphan in comparison to the global actors and is hence the weakest point in the value-chain of the Swedish state licensed gaming companies. This study has revealed opportunities that could enhance competition for the Swedish actors in case of a deregulation or liberalization of the Swedish gaming market. This study has not revealed what has to be done, but rather gives a presentation of the strategic opportunities that are exposed by analyzing the emerging global gaming market. However, the current interest for the topic, described in this thesis, and the many signs pointing towards a deregulation, should be reason enough for the Swedish actors to sit down and evaluate their opportunities in a future globalized gaming market, while “Alea iacta est” (Cesar, 49BC) - The die is cast.

Preface

The process of liberalization is currently intensively discussed in Swedish media. The sudden surfaced interest on the gaming topic is due to new laws and regulations as a result of joining the European Union. The intention of this study was initially to focus on a more general phenomenon - the pros and cons of strategies during liberalization, but as we proceeded we found that there were few prior governmental monopolies that actually were possible to benchmark against the Swedish case and thus receive any pros and cons of their strategies. The insufficiency is mainly due to the difference in laws and regulations surrounding different industries, and hence the possibilities of conducting any general conclusions were diminutive. This resulted in a decision to look into a specific industry and its actors that lately has been under strong surveillance and criticism - the Swedish gaming industry and its state-licensed gaming companies.

This thesis will, as far as we know, be the last academic contribution from us at least in the field of business administration; we wish you a pleasant reading.

Jakob Turcinov

Christian Borgström

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“Alea iacta est”

- Gajus Julius Ceasar, 49 BC -

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1. Introduction

1.1 Background

The European gaming market is dominated by state-licensed monopolies backed by a restrictive national legislation (Zoer, 2004). For a long time one of the last monopolistic industries within the European Union (EU) – the gaming industry – prevailed over all criticism from EU. Now, however, the state licensed gaming monopolies are starting to disperse and Europe might stand in front of a far-reaching liberalization of its gaming market (Scott, 2004). This process begun when the European Court of Justice (ECJ), late in 2003, decided that the prohibition imposed by Italian legislation on a UK betting service is a restriction of the freedom of establishment, and the freedom to provide services across the EU (Olson, 2003). Now, all strategies are under observation by ECJ, and are challenged in national courts in order to determine if they really focus on reducing gaming opportunities, which is the main argument for not deregulating the monopolies. As late as June 2004, Ladbrokes accused the Swedish Administrative Court of running political errands after ruling that the state's gaming monopoly was consistent with laws and regulations under current European Law (Dagens Industri, 2004.06.15).

The regulation of casinos is illustrative for the national attitude towards gaming. Spain allows private operators to run casinos, gaming halls and bingo halls, restriction only concerns foreign ownership. France has a regulation that implies that it is prohibited to open casinos within 100 km from Paris. Holland has created a legal monopoly situation over land-based casinos. Many European governments have granted a single entity exclusive right to provide gaming products. UK has facilitated competition between bookmakers, Denmark has limited the potential for competition through the monopolist Tipstjeneste, Netherlands has De Lotto, the German market has a restricted number of licenses - Oddset is state owned and four other companies are granted establishment, Greece has OPAP and Svenska Spel has an exclusive license in Sweden.

There are three basic forms of legal gaming found in modern societies: (1) highly regulated and rationalized operations through the state (as in Canada or Europe), (2) operations through non-profit organizations, such as churches and third and (3) operations through private for-profit corporations (as in Nevada). Due to the widely documented negative effects (crime, poverty, etc.) of a large-scale gaming industry has this third institutional form historically been the most problematic, at least from the point of view of those entities entrusted to protect society (Polanyi, 1957).

The increasing liberalization is a real threat to the existence of state-run casino, betting and lottery companies. Probably very few state-licensed operators yet have the experience and know-how to compete against gaming giants, such as MGM Mirage, Harrah's, William Hill or Hyatt's etc. The most recent court decisions of the ECJ and national courts tend towards an increased liberalization of the European betting and lottery market (Olson, 2003)¹. The main argument is that many state-authorized betting and lottery monopolies act in some respects much like ordinary private businesses and thus stands in contradiction to their original mandate. The ECJ and other EU institutions have already started, and will continue, to drive the liberalization process. The Swedish gaming monopolies are not likely to disperse entirely or immediately but it is indicated that the present form of governmental monopolies will not sustain (Fransson et al., 2004). A new market is slowly emerging, a global gaming market (Europe Economics 2004).

1.2 Problem discussion

The Swedish state-licensed gaming companies frequently market their products through various marketing-channels, strive for development of new products technologies, and actively search for new distribution-channels. The question is: how do these facts square with the state aim of promoting

¹ This is one interpretation of the ECJ court decision, several sources also claims the opposite

responsible gaming, which is the main argument for the state-licensed monopoly. A state that actively seeks to stimulate the demand for gaming products - either through development of new games, the opening of new distribution-channels or the roll out of aggressive marketing campaigns - may have difficulties in justifying its national gaming restrictions. The EU has several times criticized Swedish laws and regulations around gaming; so the question addressed in this thesis is not whether the monopoly will cease to exist, but rather which strategies could be used in order to consolidate a market position based on the experience from the emerging global market analysis in case of a deregulation or liberalization.

In the United States (US) the relaxations of regulations in neighbor states has created an incentive for states to allow local casinos to effectively compete and maintain tax revenues (Atkinson et al., 2000). Is it possible that the European Union will face a similar dilemma? A frenetic consolidation process dominated the casino industry in the US during 2004 - the recently floated Las Vegas Sands, MGM Mirage and Harrah's now dominate the industry. How will the deregulation in UK affect the European market? And further, how will it affect the Swedish state-licensed gaming companies? The two top companies in the US, MGM Mirage and Harrah's, are already established in the UK and many large US-actors have announced their interest to open mega-casinos in the UK. The UK government has announced that there will continue to be separate licenses for casinos, bingo halls, betting shops, arcades and racetracks (Sproston et al. 2000). Which corporate strategy changes could be made in case of a gaming regulation in order to successfully face the competition from the global gaming giants? This study investigates the Swedish gaming actor's strategic opportunities in an upcoming competitive global environment.

1.3 The overall objective

The purpose of the study is to present strategic opportunities for the Swedish state-licensed corporations in case of a liberalization or deregulation of the gaming market in Sweden.

1.4 Scope and limitations

The scope of the study is to find suitable corporate strategies for the Swedish state-licensed monopoly companies AB Svenska Spel, AB Trav & Galopp and Folkspel, in case of a liberalization or deregulation of the gaming monopoly. No concern is taken to the effects on human health and/or any form of abuse connected to the area of the study. The study's main focus lies upon the largest of the three actors - Svenska Spel. ATG and Folkspel are on a more general level also presented, analyzed and connected to possible strategies in case of a deregulation.

1.5 Thesis overview

Chapter 2: In this chapter one can read about the methodology used to reach the results.

Chapter 3: This chapter is presented to a reader not familiar with the basic concepts in business administration, or the concepts of globalization and emerging markets. For the more advanced reader, familiar with these areas, we recommend to step ahead to chapter 4.

Chapter 4: Here one finds a presentation of the worldwide gaming market; focus is laid upon the US-market due to its size and the probable effect it will have on the emerging market. The presentation focuses on market aspects, and the present competitive landscape within the gaming area.

Chapter 5: This chapter presents the Swedish gaming situation - including Svenska Spel, ATG and Folkspel.

Chapter 6: This chapter contains an analysis of the emerging global gaming market. This analysis is conducted in order to locate market characteristics, and determine distinguishing market forces in the upcoming market.

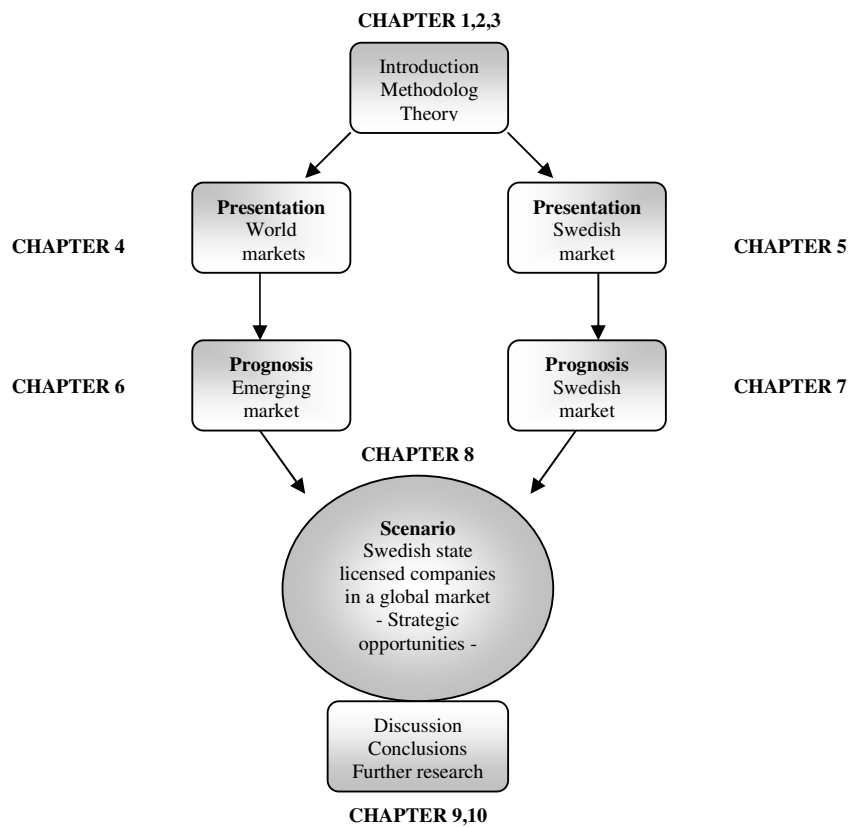
Chapter 7: This chapter contains an analysis of the Swedish state monopoly companies. This analysis is conducted in order to conclude what possible strategies, for the Swedish state-licensed companies, that could be used in case of deregulation or liberalization of the Swedish gaming market.

Chapter 8: In chapter 8 we have added more common thoughts to present a discussion around the subject; this to enhance and discuss how well this result corresponds to reality.

Chapter 9: In this chapter one find the conclusions of the study, presented along with some remarks connected to the study.

Chapter 10: Chapter 10 is for the curious reader - interested in the field of study, or how to extend this study, and/or verify/falsify the results of this study.

Figure 1.1: Report disposition



2. Methodology

This study has the character of being a prognostic study, since the purpose was to produce knowledge about the emerging gaming market and future strategic opportunities for the Swedish state-licensed companies. The ambition with the study was not to develop new theories nor to verify the existing, but to spread some light on the possible consequences and strategic opportunities for the state-licensed companies in case of a deregulated Swedish gaming market.

2.1 Prognostic study

The prognosis is the most important method for futuristic determination; prognoses are usually built up around trends and trend analysis. This method was used to reach conclusion and fulfill the purpose of this study. A prognostic study should, according to Lundahl and Skärvad (1999), be based on a prognosis and a scenario analysis. This study follows the structure of a prognostic study, the study has been divided into six steps, the three first steps describe the present gaming market situation based on a period of about two years time; the two following steps describes the prognostic parts and the last step is an analytical scenario analysis applied on the prognosis.

- (1) Studying phenomena on merging markets and globalization of markets
- (2) Mapping trends and characteristics of the worldwide wide gaming market (primarily U.S.)
- (3) Studying the Swedish gaming market 2005
- (4) Analyzing characteristics of the emerging global gaming market (Prognostic)
- (5) Analyzing characteristics of the Swedish gaming market (Prognostic)
- (6) Analyzing strategic opportunities for the state-licensed corporations in a global gaming market (Scenario)

2.1.1 What is the scenario?

A scenario usually deals with larger systems, such as enterprises, nations or even the entire world (Lundahl and Skärvad, 1999). The scenario presented in this thesis is concerning the possibility of a deregulated gaming market in Sweden. A scenario technique is a way to analyze the future in form of complete pictures, where the scenario author in great extent has freedom to use creativity (Lundahl and Skärvad, 1999). The complete picture is about presenting the strategic opportunities for the Swedish state-licensed companies in case of a deregulation of the present gaming laws. The analytical scenario technique makes it possible to collect and present a large set of loose parts into a common entity (Lundahl and Skärvad, 1999).

2.2 Data collection method

The data collection was based on secondary data such as articles and literature, and in some extent process data such as newspapers. The choice of method was based on the inability to receive any primary information concerning future company strategies or reveals about potential weaknesses etc. Another significant reason for not collecting any primary data was the high actuality of the investigated issue, which makes it very easy to gain access to necessary information concerning this area. The possibilities of mismatching or making wrong interpretations, of the information presented in the public media, are well known and have been verified against other sources.

2.2.1 Secondary data

Data collected from other people, researchers or institutions is referred to as secondary data (Andersen 1998). Due to the large range of secondary information in this field of study, and the inaccessibility of interview objects at that time, a major part of this thesis build upon prior studies on this subject. Process data was used in order to fetch the topicality of the area. Process data is according to Andersen (1998) newspapers, reports and other forms of media.

2.3 Data selection method

The selection of data concerning the markets benchmarked to the Swedish case, the selection of Swedish actors and the categorization of gaming areas has been chosen with great care.

2.3.1 Selection of world markets

The selection of the world gaming markets are primarily based on two factors (1) The size of the market and (2) Their part in the global deregulation process. There are several more countries, not presented in this thesis, facing a deregulating process of its gaming market, but their size and present state in the deregulation process has not been of any interest for this particular study, such as e.g. South Africa.

2.3.2 Selection of Swedish actors

The selection of Swedish actors are primarily based on their size combined with their possible future competitive climate, thus IOGT-NTO and some smaller actors are not included in the study of strategic opportunities in case of a deregulation of the gaming market.

2.3.3 Categorization of gaming areas

The categorization of gaming areas are based on the characteristics of the emerging global market. Even though the border-line of different gaming areas is blurring, one can find a pattern that sorts actors into casinos, sports betting and lotteries. These actors are also in some sense overlapping business areas but their focus usually remains in one area.

2.4 Study perspective

The intended perspective for this study was to be an objective party, not connected to any commissioner. The intention was to from an unbiased position reveal strategic opportunities for the Swedish state-licensed companies. Individual's conducted this study, and it is well known that the objectiveness of the individual is always in some sense biased. The author's intention was to act in the best interest of these companies and act risk averse when presenting the strategic opportunities.

2.5 Validity and reliability of study

2.5.1 Validity

The purpose of validity is to see how well the study fulfils its intention. Validity can be categorized into an internal part and an external part. Internal validity is about the relation between empirics and literature. It is important to really find out, what is being measured and if the intention is to measure this. It is about asking if the result is based on reality (Arbner and Bjerke, 1994). The intention of the study was to present strategic opportunities for the state-licensed companies - Svenska Spel, ATG and Folkspel. The internal validity has been taken into consideration during the selection of literature, the literature presented aim to create the prognosis of an emerging gaming market and to apply on a scenario of a deregulated Swedish gaming industry. The external validity part considers the study in general, particularly generalizations and if they are based on a solid ground (Arbner and Bjerke, 1994). The study focus to reveal strategic opportunities for the state licensed gaming companies,

generalization to other cases in the deregulation and/or liberalization processes cannot be advised, but the methodology used can be applied to other cases.

2.5.2 Reliability

The reliability of a study can, according to Lundahl and Skärvad (1999), increase if the following criteria are met:

- Development stability in the area of research
- Ability to control the development in the area
- Analogies or similar cases, benchmarking etc.

The gaming industry has a quite far-reaching history, but recently the gaming market has bursted and is in a rapid pace spreading across the globe. The development cannot be seen as rather stable at this point. The Swedish state has in some sense the possibility to control the development of a possible deregulation of the gaming market in Sweden, which consequently enables the companies to in a sense control the increased competition. To increase the reliability the study is built up on analogies and similarities, benchmarking the Swedish case towards actors such as US, UK, Macau etc.

It has quite unarguable become much harder to do good prognoses; there are several different reasons for this (Lundahl and Skärvad, 1999):

- Increased changing pace
- Changes are occurring on several areas at the same time
- The changes are becoming more dramatic

This is also true for the overall gaming sector – there is an increasing changing pace for technologies in different sectors of gaming. The Internet technology development is one such obvious example.

The advantages with studies based on secondary data are, according to Denscombe (2000), the accessibility to data, the cost efficiency and the durability of data. In this particular study there were a lot of published data; unfortunately all data was not free to use. Several sources demanded some sort of payment in order to access their empirical findings, primarily in the US. To conduct a study of this magnitude from own empirical studies would have been very time consuming. By using empirical material from others, e.g. Datamonitor, we could easily gain access to the characteristics of for instance the emerging market. Denscombe (2000) also presents some disadvantages with studies based on secondary sources: the reliability of the source, purpose of study and social constructions. The reliability of the sources used has been secured in some sense by using several independent sources for presenting the same phenomena.

3. Literature overview

3.1 Regulation, deregulation and the reasons

Regulation is according to Carlsson (1990) a tool to change the market characteristics by stating rules that in some aspect controls production quality, establishment and price for a merchandise that is to be bought and sold by others. Ougus (2002) explains that a market should be regulated if a market has failed to reach the desired results. Ougus also presents the reasons to be either of economic character or non-economic character. Regulations of economic reasons can be used to prohibit monopolies, or to avoid unwanted effects. Regulations based on non-economic reasons primarily have the purpose of protecting the individual, since individuals not always can be seen as having the judgment of what is their own best (Ougus, 2002). Regulations can be divided into two major categories (1) Social regulations and (2) Economic regulations (Ougus, 2002). The reason for social regulations is not to eliminate the welfare loss but rather to create an optimal level of welfare loss and marginal cost that arises. This regulation can be achieved by a license, a permit, a mandatory standard, an information demand or through economic instruments such as taxes and fees (Ougus, 2002). This means that social regulations are striving to protect lives, health and environment. Economic regulations on the other hand have as purpose to increase competition in markets with insufficient level of competition; economic regulations often regulate public ownership, price and quality as well as franchising (Ougus, 2002).

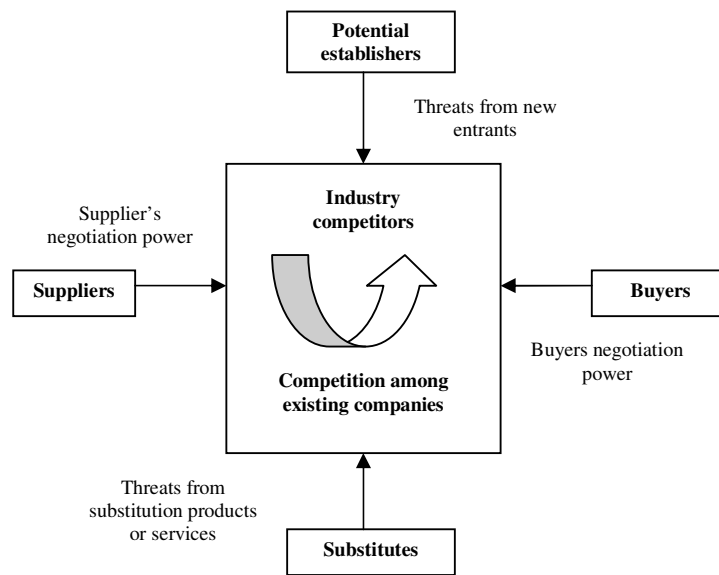
During discussions about regulation, the term *monopoly* often arises. The reason is that markets called regulated usually only include one actor - a monopolist that usually is owned by the government (Fransson et al., 2004). In this context, the term *deregulation* is often used for markets that actually are being re-regulated, in order to create prerequisites for market competition. A deregulation seldom is about a total liberalization. There are three major positive economic effects from sound competition: (1) Efficient distribution of resources (2) Price competition and (3) Increased innovation & research. Known negative effects of regulation are the maintenance costs, the price regulation of a monopoly and possible unexpected effects (Marell and Westin, 2002). In several studies, on the effects of deregulated markets, it has been proved that both the price and production efficiency had a positive development. From the large deregulations in US in the end of 1970, studies show that positive effects could be measured on price, costs, supply, efficiency and increased employment (Carlsson, 1990).

3.2 Five competitive forces

The competitive situation in an industry can be explained by five competitive forces (see Figure 3:1). The collected strength of these forces determines the final profit potential in the industry, measured in long-term return on the invested capital (Porter, 1990).

The goal with a competition strategy is to find a position in the industry, in which a company can defend itself the best against the competitive forces, or can affect them to its advantage. Knowledge about the sources behind the different forces lights up the strengths and weaknesses in a company, makes clear its position within the industry, as well as shows the areas where strategic changes might give the largest profit. The five competitive forces together decide the profitability and the intensity in the industry competition, where the strongest force or forces rule(s) and becomes decisive in the design of strategy (Porter, 1980).

Figure 3.1: The five competitive forces



Source: Porter (1980) "The competitive advantage of nations"

New entrants in an industry result in new capacity and might consequently result in price drops or increased costs for already established companies, which consequently reduces the profit. The degree of the threat depends on how big the hurdles are for potential new entrants, in conjunction with the expected reactions from existing competitors. If the hurdles are high, and/or the potential new entrant expects powerful responses, from already established competitors, then the threat of new establishment is insignificant (Porter, 1980).

There are six significant *hurdles* for potential new entrants: (1) Large-scale advantages, which relate to reduced piece-costs for a product as the absolute volume per time unit rises. Large-scale advantages prevent entrance by forcing the potential establisher to either start up at large-scale, or to accept the cost disadvantages, (2) Product differentiation, which means that already established companies have famous trademarks and enjoys customer loyalty that originates from earlier advertising, customer service, product differences, or simply from the fact that they were the first established in the industry. The differentiation creates a hurdle since it forces new establishers to large expenses in order to overcome existing customer loyalties, (3) The need of investing large capital resources to compete creates a hurdle for establishment, (4) Changeover expenses are non-recurring expenses that strike buyers that change from one supplier product to another. If the changeover expenses are high, then the potential establishers must offer significant improvements concerning expenses or performance, (5) Potential establishers need assurance about distribution for their products. Those channels might be occupied and (6) Established companies might have expense-benefits that potential competitors not are able to match, regardless of size and achieved large-scale advantages. The most important advantages are factors such as patent, location, governmental subventions and governmental politics (limit or prevent establishment in an industry) (Porter, 1980).

Competition among established companies is performed through well-known methods of getting a favorable position – tactical measures such as pricing, advertising campaigns, product launches, increased customer service or guarantee commitment. Rivalry rises as one or more competitors either feels pressed or sees an opportunity of improving the position. Intense competition is the reaction to a number of interacted structural factors: many or equal competitors, slow industry growth, high fixed production or storage costs, no differentiation, stepwise increase in capacity, heterogeneous competition, high strategic value.

All companies in an industry compete in a large sense with industries that produces *substitution products*. Substitute's limits an industry's potential profits by setting the limit on the prices, thus reducing the industry profitability. *Buyers* compete with the industry by forcing prices to decrease, negotiating about higher quality or more services, and playing out the competitors against each other – all on the expense of the industry's profit. *Suppliers* might exercise negotiation power towards participants in the industry by threats about increased prices or lowered quality on products and services. (Porter, 1990)

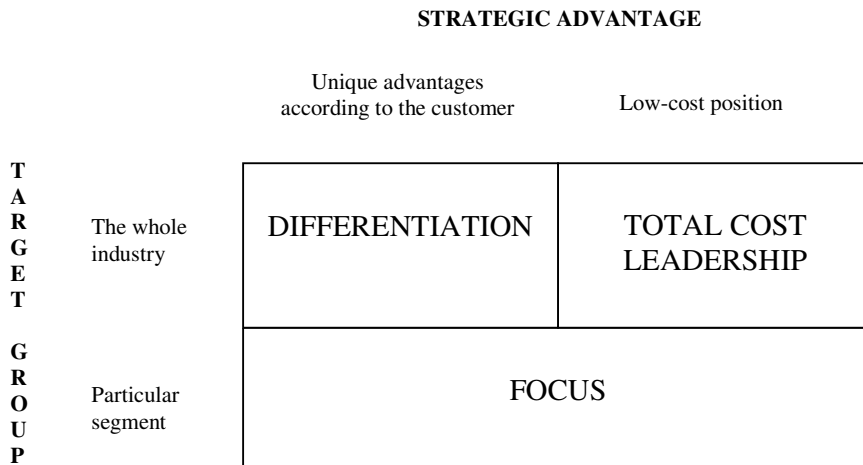
3.3 SWOT analysis

A SWOT analysis maps a company's *Strengths, Weaknesses, external Opportunities and Threats*. Conducting a SWOT analysis will simply give an overview of whether a company's business position is good or bad. The basic principle of the SWOT is to find a good fit between strategic efforts and the company's resource capability, which is reflected by its balance of resource strengths and weaknesses. As well as its external situation, this is reflected by the company's own market opportunities and specific external threats. Understanding a company's capabilities, deficiencies, market opportunities, and external threats is essential in the process of good strategy making. (Thompson and Strickland, 2001)

3.4 Base strategies

Generally, one can identify three completely consistent general strategies (that can be used alone or mixed) that create a defendable position and surpass the competitors in an industry. According to Porter (1980), there exist three potentially successful strategic approaches to master the five competitive forces and to succeed better than competitive companies in an industry: (1) Cost leadership (2) Differentiation and (3) Focus. (See figure 3.2)

Figure 3.2: Base Strategies



Source: Porter (1980) "*Competitive strategy, Techniques for analyzing industries and competitors*"

3.4.1 Total Cost leadership

The purpose of the total cost leadership strategy is to achieve a superior cost structure in an industry, which is done by a number of functional programs, aiming towards this primary goal. This is reached by a resolute search for cost reductions and general expenses. A low cost in relation to the competitors is the overall theme for the whole strategy, even if the quality, service and other areas not can be overlooked. A cost leadership position gives the company a result that, despite the presence of strong competitive forces, lies over the average within the industry. A low cost position defends the company against powerful buyers, since the buyers only can practice power by pressing the prices to the level of

the next most effective competitor. Finally, a low cost position often puts the company in a favorable position vis-à-vis substitutes when compared to the competitors in the industry. (Porter, 1980)

3.4.2 Differentiation

This strategy means a differentiation of the product or service that the company offers, and creates something that totally is perceived as unique within the industry. Differentiation might have many shapes: design or brand profile, technology, refinements, customer service or other dimensions. The differentiation strategy does not mean that the company can neglect the costs, just that these are not the primary strategic target. Differentiation is, if achieved, a vital strategy for achieving a result above average within an industry, since it creates a defendable position to master the five competitive forces. Differentiation also offers a protection against competition, due to brand faithfulness from customers, and consequently lower sensitiveness to the price. It also increases the marginal, which decreases the need for a low-cost position. The customer loyalty, that rises, and the need for each competitor to surpass the differentiation, constitutes establishment hurdles. The differentiation approach often takes a kind of exclusivity, which not is possible to combine with a high market share. (Porter, 1980)

3.4.3 Focus

This strategy means focus on a particular group of buyers, a segment of the assortment or a geographic market. Cost leadership and differentiation have both the purpose of achieving a goal within the industry as total, while the focus strategy aims at satisfying a particular target group, and each functional program is formed with respect to this. The strategy is based on the assumption that the company can serve its strategic target group more effective than competitors that has a broader alignment. The result will be that the company either accomplishes differentiation, by better seeing to the needs of a particular target group, or cost leadership in the target group, or both. The company that succeeds with the focus strategy might also potentially achieve results above the average for the industry. Focus means that the company either has a low-cost position from the target group's point of view, high degree of differentiation, or both. As with the other strategies, this strategy also constitutes a defense against the five forces of competition. The focus strategy might also be used in order to choose target groups that are the least exposed to substitutes, or where the competition is the weakest. (Porter, 1980)

3.5 Strategies and foreign markets

One of the biggest concerns, of companies competing in foreign markets, is whether to customize their offerings in each different country market, to match the tastes and preferences of local buyers, or whether to offer a mostly standardized product worldwide (Thompson and Strickland, 2001). There are four major reasons for a company to expand into foreign markets according to Thompson and Strickland (2001).

- (1) To gain access to new customers
- (2) To achieve lower costs and enhance the firm's competitiveness
- (3) To capitalize on its core competencies
- (4) To spread its business risk across a wider market base

When a company decides to expand outside the domestic market, they may use any of following generic strategic options: (1) Maintain a national (one-country) production base and export goods to foreign market utilizing either company-owned or foreign-controlled forward distribution channels. (2) License foreign firms to use the company's technology or produce and distribute the company's products. (3) Employ a franchising strateg. (4) Follow a multi-country strategy - varying the company's strategic approach. (5) Follow a global strategy - using essentially the same competitive strategy approach in all country markets where the company has a presence. (6) Use strategic alliances or joint ventures with foreign companies as the primary vehicle for entering foreign markets. (Thompson and Strickland, 2001)

Strategic alliances and cooperative agreements of one kind or another with foreign companies are favourable and potentially fruitful means for entering a foreign market, or strengthening a firm's competitiveness in world markets. Companies from different parts of the world form strategic alliances and partnership arrangements to strengthen their mutual ability to serve whole continents and move toward more global market participation. Both Japanese and American companies are actively forming alliances with European companies to strengthen their ability to compete in European Union and to capitalize on the opening up of Eastern European markets. (Thompson and Strickland, 2001) Alliances and joint ventures have however their pit-falls. Achieving effective collaboration between independent companies, each with different motives and perhaps conflicting objectives, is not easy. It requires many meetings of many people working in good faith over a period of time to iron out what is to be shared, what is to remain proprietary, and how the cooperative arrangements will work. If a company is aiming for global market leadership, the cross-boarder merger or acquisition may be a better alternative than cross-boarder alliances or joint ventures (Thompson and Strickland, 2001).

Whether a company realizes the potential of alliances collaborative partnerships with foreign enterprises seems to be a function of six factors (Doz and Hamel, 1998):

- (1) Picking a good partner – A good partner shares the company's vision about the purpose of the alliance and has the desired expertise and capabilities.
- (2) Being sensitive to cultural differences.
- (3) Recognizing that the alliance must benefit both sides.
- (4) Ensuring that both parties live up to their commitments.
- (5) Structuring the decision-making process so that actions can be taken swiftly.
- (6) Managing the learning process and then adjusting the alliance agreement over time to fit new circumstances.

Alliances are more likely to be long-lasting when (1) they involve collaboration with suppliers or distribution allies and each party's contribution involves activities in different portions of the industry value chain, or (2) both parties conclude that a continued collaboration is in their mutual interest. This could for instance be due to new emerging opportunities to learn from each other, or perhaps because a further collaboration will allow each partner to extend its market reach beyond what it could accomplish on its own. (Thompson and Strickland, 2001)

3.6 Market leader defense strategies

According to Kotler et al. (1985) there are six different strategies for market leader to defend his/her market share: (1) Position defense (2) Mobile defense (3) Preemptive defense (4) Counteroffensive defense (5) Flank position defense and (6) Strategic Withdrawal. Treacy and Wiersama (1995) suggest that a market leading position can be held through continues work with creating value offers. Further the authors point out that to be able to sustain a leading position they have to put effort into innovations. *Position defense* is about building obstacles around its products and technology to defend its position (Doyle, 2002). This occurs when a company sees their product as "the best" and is counting with continues consumption of the company products. A company using position defense is a "sitting duck" to the competitors. Kotler et al. (1985) suggests that one who uses this strategy will sooner or later fail, while protecting a decreasing market. Position defense might be good under a short period of time, but the strategies around products and product development must be an ongoing process. *Mobile defense* is, according to Doyle (2002), when the market leader is trying to widen and diversify its market to increase the strategic defense of the products. When the market leader enters new markets and overcomes market shares, the company might use this as development for strategic defense or attack. *Preemptive defense* is, according to Doyle (2002), the best defense to attack the competition. It is better to attack upcoming threats before they have entered the market. Market leaders do sometimes avoid this strategy when it usually is committed to large costs, while sending out signals e.g. about price decrease. The *counter-offensive defense* is when an attacked market leader is answering the attack with attacking the competitor's weakest point (Kotler et al., 1985). Also Doyle

(2002) is pushing for this strategy, and agrees upon the fact that the attack should be placed at the weakest point of the competitor. The *flank-position defense* is sometimes used to support position defense. The strategy is used when attack is pointed towards the company's weaker products (Doyle, 2002). This is used to protect the weaker product by releasing a so-called fighter brand, a new cheaper product. This prohibits the new entrants to do progress on the market; the market leader is using this strategy for the competition to let go of the weak product. A *strategic withdrawal* is according to Kotler (1985) when a market leader has to identify its strengths and weaknesses and focus on the core business and get rid of the weaknesses. The organization does not need to defend the entire product line but give terrain for the competition. Treacy and Wiersama (1995) suggest that many market leaders are becoming too greedy and are milking their successful products instead of developing the corporation.

3.7 Strategies for competing in emerging industries

There are two critical strategic issues confronting firms in an emerging industry: (1) how to finance initial operations until sales and revenues takes off, and (2) what market segments and competitive advantages to go after in trying to secure a front-runner position (Hofer and Schendel, 1978). Competitive strategies keyed either to low cost or differentiation is usually viable. Focusing makes good sense when resources and capabilities are limited and the industry has too many technological frontiers or too many buyer segments to pursue at once. To be successful in an emerging industry, companies usually have to pursue one or more of the following strategic avenues (Kotler, 1984):

(1) Try to win the early race for industry leadership with risk-taking entrepreneurship and a bold, creative strategy. (2) Push to perfect the technology. (3) Adopt technology quickly. (4) Form strategic alliances with key suppliers. (5) Acquire or form alliances with companies that have related or complementary technological expertise (6) Try to capture first-mover advantages associated with early commitments to promising technologies. (7) Pursue new customer groups, new user applications, and entry into new geographical areas. (8) Make it easy and cheap for first-time buyers to try the industry's first-generation product. (9) Use price cuts to attract the next layer of price-sensitive buyers into the market. A rush of new entrants, attracted by the growth and profit potential, may crowd the market and force industry consolidation to a smaller number of players in due time (Thompson and Strickland, 2001).

3.8 Strategies for local companies in emerging market

The optimal strategic approach for local companies wishing to survive against the entry of global giants is according to Dawar and Frost (1999) dependent on (1) whether a firm's competitive assets are suitable only for the home market or can be transferred abroad and (2) whether industry pressures to move toward global competition are strong or weak (See figure 3.3).

When the pressure for global competition is weak and a local company has competitive strengths well suited to the local market, a good strategy option is to concentrate on the advantages enjoyed in the home market (Dawar and Frost, 1999). When a company has the strength suitable for competing in other country-markets, then a possible strategic option could be to let this expertise be transferred to cross-border markets (Dawar and Frost, 1999). When industry pressure to globalize is strong, any of three options make the most sense: (1) Focus to a piece of the industry value-chain where the expertise can provide competitive advantage. (2) enter into a joint venture with a globally competitive partner, or (3) sell to a global entrant into the home market. If a local company in an emerging market has transferable resources and capabilities, it can sometimes launch successful initiatives to meet the pressures for globalization head-on and start to compete on a global level itself (Dawar and Frost, 1999).

Figure 3.3: Strategy options for local companies competing against global challengers.

INDUSTRY PRESSURE TO GLOBALIZE	HIGH	Dodge Rivals by Shifting to a New Business Model or Market Niche	Contend on a Global Level
	LOW	Defend by using "Home-Field" Advantages	Transfer Company Expertise to Cross- Border Markets
		TAILORED FOR HOME MARKET	TRANSFERABLE TO OTHER COUNTRIES
RESOURCES AND COMPETITIVE CAPABILITIES			

Source: Dawar and Frost (1999) "Competing with Giants: Survival Strategies for Local Companies in Emerging Markets"

3.9 Structural drivers of change

Structural drivers of change are about the forces that are likely to affect the structure of an industry, sector or market. Drivers of globalization are global market convergence; the increase in convergence in the markets worldwide is partly due to the fact that customer needs are becoming more similar. There may be cost advantages of global operations that are especially true in industries with large volumes and economic of scale. The political changes since 1990 has tended to encourage free markets between nations, this governmental influence have tended to drive the globalization of an industry. Global competition is therefore becoming increasingly important (Johnson and Scholes, 2002)

4. The worldwide gaming markets

The selection of gaming markets presented in this section is based on their present state - going towards deregulation or liberalization of their gaming market.

4.1 United States (US)

Casinos were prior to the legalization of casinos in Atlantic City, in 1978, limited to the state of Nevada. Nevada was the first US state to legalize casino gaming in 1931 and has the largest gaming market in the US. The largest concentration of casinos is found in Las Vegas, with 14 casinos downtown and 47 on the "Strip," that yearly creates approximately \$5.3 billion in revenue, and attracts 35 million visitors annually. Casino gaming has become a major industry in the United States over the past two decades., and as a consequence, the annual gaming revenue has grown from \$9 billion in 1991 to over \$40 billion in 2001 (American gaming Homepage). Since 1989, when casino gaming only was legal in Nevada, Atlantic City, and New Jersey including those in Indian reservations, casino activities have expanded to 27 states. Legislators are seeking to raise tax revenue and prevent money leaving their states, by relaxing the restrictions previously imposed on gaming (Atkinsson et al., 2000). In Iowa the first riverboat casino was introduced 1991. The deregulation led to an increase in the number of riverboats, and gaming establishments were successful reversing the trend of declining revenue - in 1999 there were 9 riverboats in Iowa. The widening of the US gaming market is moving towards lower regulatory standards, this trend is also spreading cross the Atlantic to the UK, where the deregulation process is in motion by e.g. allowing betting shops to sponsor television programs. The number of slot machines has increased with 300 percent and there are still calls for further deregulation (Atkinsson et al., 2000). In the US, the relaxations of regulations in neighbor states have created an incentive for states to allow local casinos to effectively compete and maintain tax revenues. (Atkinson et al., 2000) During 2004 a frenetic consolidation process dominated the casino industry in the US. The recently floated Las Vegas Sands, MGM Mirage and Harrah's now dominate the industry.

4.2 United Kingdom (UK)

The UK government has followed a liberal path in the approach of regulation. Many forms of gaming are legal such as general betting, national lottery, bingo, casinos and gaming machines. Perhaps as a consequence of the higher level of restrictions on gaming in the rest of Europe, the UK has a relatively large gaming sector. UK accounts for almost a third of the total net expenditure on gaming in the European Union. The available evidence does not suggest that UK has a relative high proportion of social problems attributed to gaming compared to other countries. (Sproston et al. 2000) UK is sending clear signals that they are looking at a drastic shift in its casino industry. Gaming has been legal in the UK since 1968, but has been severely restricted by the British government. The concept of a Las Vegas company entering the British market isn't new. In the early 1980s, Golden Nugget Inc. (later called Mirage Resorts Inc.) attempted to win a casino license there. Though Europe isn't as rich a source of high rollers as the Pacific Rim it makes sense for U.S. casino operators to examine the possibility of opening British casinos. (Gaming magazine, 1999)

The National Lottery Act provides for a two-tier licensing system. The main license is to run the National Lottery, which currently is possessed by Camelot. The license contains rules for payments to the National Lottery Distribution Fund for the benefit of the good causes. The U.K. Gaming Board is the regulatory body for casinos, bingo clubs, gaming machines, the larger society and all local authority lotteries in Great Britain. The UK government also wants to privatize the Tote – the monopoly licensed body-providing pool betting - and change the National Lottery law in order to remove the monopoly. Tote is about the last publicly owned company in the UK. (Wright, 1996)

Huge global players, of two types, dominate the ownership pattern of casinos in the UK - casino and gaming specialist companies (mainly in USA, France and UK), and huge hotel and leisure chain companies (e.g. Hyatt, USA, and the giant multinational Accor in France), with casino operations inside their hotel and leisure sites. There are 22 casinos in London and a total of 65 in Britain, Scotland

has 7 (all Gala owned) and Wales 3 (Scott, 2004). The UK Government's Budd Report says that 12,000 people are employed in UK casinos, turnover is approximately \$6.5 billion, and there are 11 million visits annually - expanding at a fast rate. Two big players in the UK are Ladbrokes and William Hill; they remain firmly entrenched in their dominant market positions. Companies in UK are already positioning themselves ahead of deregulation, regardless of when it arrives, e.g. Rank Group moved to fill the Internet gap by acquiring the firm Blue Square. Many large US players, such as MGM Mirage and Harrah's, have announced interest to open mega casinos in the UK and the UK government has announced that there will continue to be separate licenses for casinos, bingo, betting, shops, arcades and racetracks. (Wright, 1996)

4.3 Australia

Legal gaming in Australia was until the 1980's mostly confined to lotteries and racing. Since then there has been a rapid liberalization, which resulted in such an escalation in gaming, and its associated problems, that both individual states and Federal Government now are introducing restrictive new laws and regulations. In 2003, the State of Victoria introduced legislation, banning the advertising of gaming machines and gave greater powers to local government to control the number of poker machines. States have also limited the number of game machines with South Australia moving to reduce them by a fifth. At the Federal level the 'Interactive Gaming Act' banned, in 2001, all interactive gaming advertising and all Australian-based sites (e.g. internet gaming). The example of deregulation in Australia is a warning. This self-contained gaming industry deserves a separate mentioning. Australia is location for one of the biggest gaming industries in the world (per capita spending), where major merger and takeover battles are currently taking place, e.g. between the large actors Tabcorp and TabLtd, involving something like \$1.6 billion dollars (Australian gaming council, 2004)

4.4 New Zealand

The regulation used in New Zealand purpose to maximize the contribution to economic growth while minimizing the social impacts. The current legislation enforces a statutory monopoly situation within certain areas of the industry, e.g. betting on racing is only legally done through TAB. In New Zealand, licenses for gaming machines pay a yearly levy to the society to be used to support treatment and prevention of problem gaming. There is a legislation allowing casinos to operate in New Zealand, and one of the reasons was to promote tourism, employment and economic development. According to the department of internal affairs, the tourism has boosted in some states of Australia. The casinos in New Zealand now include organizations operating for private profit. The profits from gaming machines are generally returned to local sporting groups and/or other community groups. The private establisher though, is not forced to pay to the charitable causes. One big benefit with the deregulated casino market is the increased tax payments; in New Zealand the government receives approximately \$122 million a year from gaming duties. As the industry is completely deregulated the revenue to the government will correspondingly increase. For New Zealand the future gaming industry looks positive in economic terms. (Curtis, 1998)

4.5 Macau

The city of Macau is located less than 40 miles west of Hong Kong, on the southeast shore of mainland China. Macau is situated within a relatively short distance of some of Las Vegas's most lucrative high-roller markets, including China, Taiwan, Singapore, Indonesia and Thailand. Macau's gaming industry has been in the hands of one man, Stanley Ho Hung-Sun. Ho previously controlled 10 casinos in Macau, and it is estimated that these casinos grossed roughly \$2 billion a year. Macau collected a 31.8 percent tax on gaming revenues from Ho's monopoly. Though Macau now is a part of China, it operates as a Special Administrative Region, which gives local authorities considerable autonomy over the city. The SAR Government pursues a more diversified strategy to develop Macau into a regional entertainment, exhibition and conference center headed by the gaming industry. The Macau SAR Legislature adopted a new gaming industry regime in September 2001, under which the monopoly

system was abolished and three new licenses were issued based on public tendering. One unsurprisingly went to the incumbent Stanley Ho, and his new holding company - Sociedade de Jogos de Macau (SJM). The remaining two were awarded to two Las Vegas-based companies - MGM Mirage and Las Vegas Sands. (Access Asia Limited 2002)

4.6 The competitive casino landscape

The present market is characterized by a blurry borderline between sports betting, casino business, bingo and lottery. In this particular section, a presentation of pure casinos and casino hotels will be done. The selection is based on size and ability to expand onto a global market.

The US casino industry has lately gone through a large consolidating stage. Mandalay Resort Group Inc. signed a \$7.9 billion merger agreement with MGM Mirage and shortly after the MGM-Mandalay deal; Harrah's Entertainment Inc. announced plans to buy Caesars Entertainment Inc. for \$9.4 billion in cash, stock and assumption of debt. Suddenly, two companies are on track to control two-thirds of the Las Vegas Strip and more than 72,000 rooms.

4.6.1 MGM Mirage

MGM Mirage operates 15 casino properties. Its US holdings include the MGM Grand Hotel & Casino, New York Hotel & Casino, the Boardwalk Hotel & Casino and 50 percent of Monte Carlo, all located on the Las Vegas Strip. The Golden Nugget in downtown Las Vegas; Whiskey Pete's, Buffalo Bill's and the Primm Valley Resort in Primm, Nevada, among others. Internationally, MGM owns and operates the MGM Grand Hotel & Casino in Darwin, Australia. It is headquartered in Las Vegas, Nevada. (Datamonitor, 2004) MGM MIRAGE (USA/Las Vegas) claims to be the world's number 2 casino and gaming group with its Bellagio and New York New York and MGM Grand brands. MGM Mirage has entered in Scotland, but also plans a almost \$60 million spend in the UK, with a massive proposal for a giant gaming center based on a casino at the Olympia, Earls Court exhibition center in West London. The company established 2004 a new record for net revenues when posting \$4.2 billion - a 10 percent increase over 2003 (MGM Mirage - Annual Report 2004).

4.6.2 Harrah's Entertainment Inc.

Founded in 1937 in Reno, Nevada, Harrah's Entertainment, Inc. is the world's largest casino operator. Harrah's Entertainment, Inc. owns or manages through various subsidiaries 28 casinos in the United States, primarily under the Harrah's, Rio, Showboat, Horseshoe and Harvey's brand names (Datamonitor, 2004). Harrah's strong brand name and the company's commitment to its business have helped it become one of the largest and most diversified casino networks in the US. The company is likely to reap benefits from its new market forays, which include entry into the UK market and the domestic racino market, which is a combination of trotting, horse racing and casino. The acquisition of Caesars Entertainment has produced many opportunities for the company which now has secured its position as number 1 in the market. The company established 2004 a net revenue value of \$4.55 billion - a 15 percent increase over 2003 (Harrah's Entertainment Inc. - Annual Report 2004).

4.6.3 Las Vegas Sands

Las Vegas Sands Corp. is a hotel and gaming company headquartered in Las Vegas, Nevada. Las Vegas Sands, Corp. owns and operates the Venetian Casino Resort, the Sands Expo & Convention Center in Las Vegas, and the Sands Macau Casino in Macau. Las Vegas Sands has also entered a certain agreements to develop gaming properties in the United Kingdom, and are exploring other gaming entertainment opportunities in Asia, Europe and the United States.

During 2004, the company presented a net revenue value of \$1.2 billion, a 73 percent increase over 2003 (Las Vegas Sands - Annual Report 2004).

4.6.4 Gala Group

The Gala Group was founded in 1997 following a management buy-in from Bass. In the following two years Gala acquired four bingo chains, and in December 2000 Gala acquired Ladbrokes Casinos

from the Hilton Group Plc. The casinos have been re-branded Gala Casinos. Gala has 10,000 employees in the UK. Since 1997 Gala has grown the business significantly. In 1997 Gala was worth \$155 million and in 2000, \$220 million. In 2003 the UK Company, Candover & Cinven, bought the business for \$0.8 billion. Gala has 28 casinos in the UK – plus one in the Isle of Man and one in Gibraltar. From 1997 to 2003, Gala has invested over \$75 million in capital expenditure to enhance facilities for both bingo and casino customers. Gala Group Company presented 2004 a turnover of \$963 million (Gala Group – Annual Report 2004).

4.6.5 Hyatt (Regency)

The Hyatt comes close to Harrah's and MGM in size with its Regency brand. This Chicago based company operates in Las Vegas, and will soon also operate the big new licensed casino in Illinois. Internationally Hyatt operates in Canada and the Caribbean. It has over 120 full service hotels in North America and the Caribbean, and some 80 hotels and resorts in another 39 countries outside the home Americas group. Its non-hotel casino interests are extra to these figures. Hyatt presented 2004 an annual turnover of \$297.5 million.

4.6.6 Stanley Leisure PLC

The largest casino operator in the UK is Stanley Leisure with its 41 casinos - 37 provincial casinos and four casinos in London. Stanley leisure also is the fourth largest betting office in the British Isles with over 600 Stanley racing shops and the new Stanleybet shops. Group turnover increased in 2004 by 67 percent to \$2.938 billion. (Annual report 2004, Stanley Leisure PLC)

4.6.7 Accor Casinos

In 2004 Lucien Barrière's casino operations and Accor Casinos were merged, also part of the deal was Colony Capital from the U.S. Accor Casinos is now France's largest casino operator, the group ownership structure is believed to be Barrière Desseigne (51 percent), Accor Casinos (34 percent) and Colony Capital (15 percent).

4.7 The competitive landscape of sports betting and lottery

There are a large number of established actors in the worldwide sector of sports betting. Below we chose to present actors that have shown an interest in establishing operations in foreign countries.

4.7.1 Unibet International Ltd.

Unibet (International) Ltd is a part of the Unibet Group Plc located in the UK. Deloitte and Touche are the appointed auditors of Unibet. Unibet was originally established in 1997 in the UK, and is licensed and regulated by the laws of UK and Malta. Today Unibet is the biggest public listed operator in the Nordic market. At the end of 2003 Unibet presented a turnover of approximately \$0.25 billion (1.8 billion SEK). An interesting observation is to note the equivalent value at the end of 1998 – 0.27 million SEK (Unibet Homepage, 2005.05.13).

4.7.2 Hilton Group Plc (Ladbrokes)

Hilton Group plc is a major international company with two operating divisions - Hilton International, which owns the rights to the Hilton name outside the USA, and Ladbrokes Worldwide, which is one of the world's largest commercial retail betting and gaming organizations. Formerly known as Ladbrokes Group PLC, the group's name was changed on 14 May 1999 following shareholder approval at its 1999 Annual General Meeting. Hilton Group plc is amongst the leaders in the leisure industry and has operations in the hotel, health club, and regulated betting and gaming services sectors. It employs more than 77,000 people across the world in more than 70 countries. The company is headquartered in Watford, UK. (Datamonitor, 2004) For the fiscal year ended December 2004, the group posted revenues of approximately \$22 million, an increase of 33 percent on the previous year. The company operates over 2500 gaming sites in UK, Ireland and Belgium (Hilton Group Plc. – Annual Report 2004).

4.7.3 William Hill

William Hill is one of the leading providers of fixed-odds bookmaking services in the UK, offering odds and taking bets on a wide range of sporting and other events. The company has over 1,600 betting shops located across the UK making it the second largest operator of betting shops in that particular country. William Hill also offers telephone and online gaming services (Datamonitor, 2004). The company's annual report, fiscal year 2004, presented a turnover of approximately \$15.3 million, an increase of almost 40 percent on the previous year (William Hill – Annual Report).

4.7.4 Camelot Group

Camelot Group operates the UK National Lottery, which is the world's largest lottery. The company is runned as a consortium, which is equally owned by Cadbury Schweppes, De La Rue, Thales, Fujitsu Services and Royal Mail Group. Approximately 30 percent of the company's revenue is distributed to good causes throughout the UK, while Camelot retains about 0.5 per cent as profit. At the end of fiscal year 2004 the company presented a turnover of approximately \$7.6 billion (Camelot Group – Annual Report 2004).

4.7.5 Tattersall's Holding

Tattersall's Holding is Australia's largest private company and is an operator of lotteries in several parts of the world. For the fiscal year ended June 2002, the company generated revenues of approximately \$6 billion. In addition to operating lotteries, the company also runs an online gaming site, which is aimed at the international market. Tattersall's is headquartered in Melbourne, Australia. (Datamonitor, 2004) The company presented total revenue of \$379 million (Tattersall's Holding – Annual Report).

4.7.6 Expekt

Expekt.com ltd was founded in London UK 1999, first offering a gaming website in English and Swedish. Today Expect also holds licenses in Malta and Austria and is the largest Internet bookmaker in Scandinavia. Expekt's services are offered in at least 18 languages. Expect also offer gaming through mobile communication and digital television. (Expect Homepage, 2005.05.13) Expekt offer casino, poker and sports betting opportunities via the Internet and at end of 2004 a turnover of approximately \$1750 million was presented (Expekt Annual report 2004).

4.7.7 Betsson

Betsson Ltd, located in London, was founded in 2002 and has a bookmaker license which is regulated by the British authorities. What separates Betsson from their competitors on the Internet is mainly their idea that all parties are betting against each other and thereby creates the odds. Betsson take bets on casino, sports betting, poker and also offer the ability to create an own bet (Homepage Betsson 2005.05.13).

4.7.8 Multipoker

Multipoker is a company specialized on different poker games through the internet, such as Texas Hold'em, Omaha High, Omaha 8 or better, Seven card stud and Stud 8 or better. The Company is licensed and regulated by the government of Gibraltar. (Homepage Multipoker 2005.05.13)

5. The Swedish state-licensed gaming companies

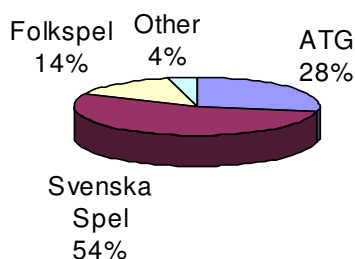
The Swedish gaming and lottery market is regulated in a way that the government has decided that only certain actors are allowed to operate and offer gaming products. The three major actors are (Svenska Spel Annual report 2004):

- Svenska Spel (“Swedish Gaming”)
- ATG – AB Trav och Galopp (“Trotting and horse racing”)
- Folkspel (“National Movements”)

There also exist a few small actors - IOGT-NTO lotteries, which purpose is to finance their non-profit association, and A-lotteries, which is an economic association that has offered lotteries since 1957. The IOGT-NTO and A-lotteries both have a vision to gain a considerable market share in the pool game area in the near future. (Fransson et al., 2004)

In 2004 the total turnover for gaming in Sweden was about \$260 billion, international gaming websites excluded (Lotteriinspektionen Annual report 2004). The distribution value of market shares can be divided in to four entities (see figure 5.1): (1) ATG, (2) Svenska Spel, (3) Folkspel and (4) Other.

Figure 5.1: Distribution of Swedish market shares



Source: ATG Annual report 2004

The three large actors are not competitors; instead the gaming market is divided between them. Svenska Spel has exclusive rights on all sports betting, except for trotting and horse sports, which lies under ATG’s control. Svenska Spel is also responsible for various lottery and number games, as well as dog racing. Folkspel arranges Bingolotto, bingo and a number of other lotteries (SHU 2003:028). Lottery in Sweden is regulated by two legislations - the *Lottery law* (1004:1000) and the *Casino law* (1999:355). The Lottery law withholds the general regulation for all lottery activities in Sweden, while the Casino law regulates casinos with international gaming rules.

The private-industry is more or banished from the Swedish gaming and lottery market, with exception for companies that offer certain games of amusement character, that is, games with low stakes and winnings. The present regulation depends on the fact that lottery, i.e. gaming for money, is an occurrence that might provide problems, both for the individual and for the public (Lottery inspection homepage, 2005.05.10). Lottery means, somewhat simplified, that someone offer others to participate in games for money, and thus the possibility to win money. The possibility to win is steered by a random moment. Within the phenomenon of lottery, there exists the possibility for non-serious arrangers to take advantage of the lottery in a criminal purpose. Furthermore, lottery and gaming means a risk of social and economic problems for the individual. Lottery has for a long time, due to its special character, been an object for governmental regulation in Sweden.

The Swedish actors have, as from 2002, the rights to use new techniques, such as Internet, to mediate lotteries. The Lottery Inspection is a central supervisory for lotteries in Sweden. The authority’s task

is, among other things, to run an effective supervision of the Swedish gaming market. (Lottery inspection homepage, 2005.05.10) The gaming in Sweden is also reforming by increased accessibility new distribution channels (Svenska Spel Annual report 2004). The international competition has been though during 2004, the large expansion is primarily concerning the web-based sector. The customer segment of this gaming distribution channel is primarily younger men, which in the long perspective is very cumbersome (Svenska Spel Annual report 2004). The main problem for the Swedish state-licensed monopoly company is that it cannot compete on the same terms as the competition when it comes to Internet.

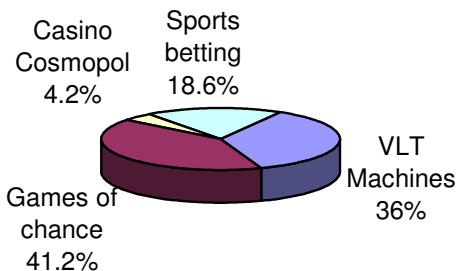
5.1 AB Svenska Spel

AB Svenska Spel is Sweden's largest gaming monopoly, and is owned by the Swedish government. The company possesses a domestic market share of 54 percent, and presented 2004 an annual turnover of approximately \$2.9 billion. Svenska Spel offers a number of gaming activities via different distribution channels. The company has for instance more than 20 games of various characters on the Internet. As one of the first gaming companies in the world Svenska Spel also offer gaming opportunities via mobile phones. (Svenska Spel - Annual Report 2004)

The retailer channel continues to be Svenska Spel's outstanding distribution channel, even though gaming through interactive channels increases. The 6200 retailers are also the company's most important competitive advantage as it gives a valuable link to the customers. Svenska Spel achieved, despite competition from the Internet, almost the same level of turnover last year (2004) as in 2003. A basic strategy for the coming years is to optimize the retailer channel in order to have the right products in the right locations. (Svenska Spel - Annual Report 2004)

Svenska Spel's operations are divided into five divisions (business areas): (1) *Sports betting*, (2) *Games of Chance*, (3) *Video Lottery Terminal (VLT) games*, (4) *Casino Cosmopol* and (5) *Svenska Spel International*. (Annual report Svenska Spel, 2004)

Figure 5.1: Distribution of market shares in Svenska Spel.



Source: Svenska Spel Annual report 2004

5.1.1 Sports betting

The Sports betting division offers products related to sports, for instance pool games such as *Stryktipset*, *Europatipset*, *Måltipset*, *Oddset* and *Greyhound* racing. The trend in the sports betting market is fast games with fast endings. Interactive distribution-channels, such as the Internet and mobile phones, have increased such has the development pace for all this kind of betting mediums. Sports' betting as a phenomenon is strongly rooted in sports-interested men; who insist on using the retailer-channel when conducting their buys. At the end of fiscal year 2004 this division presented a turnover of approximately \$512 million. (Annual report Svenska Spel, 2004)

5.1.2 Games of chance

Games of Chance is Svenska Spel's largest market area and offer lottery products such as *Triss*, *Tia*, *Lotto*, *Keno* and *Joker*. *Triss* is the big-seller in the product portfolio, and not to long ago the division introduced a world-unique probability game on the Internet – *Pick'n'Click* – with great success. The Games of chance division has a very dominant domestic position on the market. New to this particular game segment is the increasing international competition. The Internet has pushed for this development and is now followed by new technologies such as mobile communication and interactive television. During 2004, however, the retailer-channel generated 94 percent of the division's total turnover. Customers demands in an increasing extend new products, faster endings, and possibilities to more and higher winnings. At the same time, there is a decrease in the demand for those games that are slow and give less experience. Games of chance will according to own saying focus on a continued product-renewal and high innovation pace in order to meet the increasing competition from the Internet. At the end of fiscal year 2004 the division presented a turnover of approximately \$1160 million. (Annual report Svenska Spel, 2004)

5.1.3 VLT Games (Video Lottery Terminals)

The VLT Games division was created in 1996 and has since then had a very strong development. The VLT product portfolio consists of the *Jack-* and *Miss Vegas*, where *Jack Vegas* is found in restaurants and *Miss Vegas* in bingo-halls. The current trend is in great extent characterized by fast and simple games with high entertainment value, as well as high bet-payback ratio. (Annual report Svenska Spel, 2004) This business area has been a success and the main factor behind the success is the characteristics of this type of games; they are fast; the time between stake and winnings is short; they offer many different options. Lately, the division's growth-rate has leveled out – one main reason is an emerging saturation-phase on the market. The number of VLTs is restricted to 7000 in restaurants and 500 in bingo-halls, and those limits are more or less achieved. The restriction is consequently a built-in break for further growth. Competition on the Swedish restaurant gaming market mainly comes from illegal gaming machines. The lottery-inspection has estimated the number of illegal machines to 3000, that is, almost half the number of legal VLTs. Svenska Spel has via its improved technical and innovation competence begun to run the development of the future VLTs by themselves. A number of machines with complete new character will be launched during 2005. The design is own-developed and world-unique. At the end of fiscal year 2004 Svenska Spel presented a turnover of approximately \$986 million for the VLT business area. (Annual report Svenska Spel, 2004)

5.1.4 Casino Cosmopol

Casino Cosmopol is a wholly owned subsidiary to Svenska Spel. Operations are, as from 2004, carried out in four cities: Malmö, Gothenburg, Stockholm and Sundsvall. The casinos offers *table games*, *slot machines*, as well as restaurant and bar operations. Casino Cosmopol has exclusive rights to operate international casinos in Sweden. However, tough competition is experienced from other entertainment areas in the respective locations. Casino Cosmopol also faces competition from increasing casino gaming via the Internet. The casino division is only a few years old so one main the goals is to broaden the customer-base. Restricted possibilities to market the games and the brand has this far limited the success. However, some of the marketing activities, e.g. package offers, have been successful. At the end of fiscal year 2004 Svenska Spel presented a turnover of \$116 million for the Casino Cosmopol division (Annual report Svenska Spel, 2004)

5.1.5 International

International is the newest division in the enterprise Svenska Spel; this market area is developed due to a possible cooperation with international actors such as World Lottery Association (WLA). However, the main reason for this newly established department is to prepare for the increased international competition. The idea is to create a network among state-licensed gaming companies in order to be able to face new competition. The International division aim to become a world leader partner in regulated gaming markets within five years. (Annual report Svenska Spel, 2004)

5.2 ATG

ATG (AB Trav och Galopp) was founded 1974 by the Swedish government in order to secure the economic benefits of trotting and horseracing. ATG's success and the generated surplus have in great extent contributed to a high class horse sport and in Sweden. ATG is 90 percent owned by STC (Svenska Travsportens Förbund) and 10 percent owned by Svenska Galopp. The most famous product is V75 – the largest individual gaming product in Sweden. ATG offer their products at nearly 2000 ATG-retailers, via their Internet-homepage (ATG.se), and at about 1000 other land-based sites.

The Swedish lottery law regulates lotteries arranged for the public, and according to the law, the government is appointing the permission. ATG has the Swedish concession to arrange gaming on horses, and in this concession between the government and ATG the terms and conditions for the gaming is also regulated. The Swedish institution Lotteriinspektionen supervises that these terms and conditions are being followed. The relatively new concession has increased ATG's opportunities to expand, and thus find partners internationally, as well as offer faster gaming (time between bet and payment (ATG Annual - Report 2003).

During 2003 \$1.4 billion was shared, \$0.16 billion went to the Swedish government due to totalisator-taxes, \$0.98 billion went back to the customers in form of winnings, and the surplus of \$0.19 billion was shared among Swedish trotting and horseracing. ATG is currently facing an increasing competitive environment, primarily from international Internet gaming-sites. Updating and increasing the product portfolio is seen as important in order to secure market shares. Strong focus is laid upon marketing and prioritizing of brands such as Harry Boy and V75 in order to reach new customers. (ATG Annual report 2003)

5.3 Folkspel

Folkspel is a lottery and gaming company owned by 78 Swedish non-profit social and sports organizations, which together have 5 million members. Folkspel's mission is to secure and develop the national movement's possibilities to apply their own efforts in order to increase their earning capacity. The surplus from the activities is in full returned to the members. During 2003, Folkspel had a turnover of \$0.31 billion, from which \$107 million was returned to the movements. Folkspels's main activity is lotteries and games. Their largest product *Bingolotto* has since launch provided near \$1.6 billion to Sweden's movements. (Homepage Folkspel 2005.05.13)

6. The emerging market

The emerging global gaming market is characterized by a high level of fragmentation and heavily increased competition, due to the large regulations around the world. In the US, the relaxations of regulations in neighbor states have created an incentive for states to allow local casinos to effectively compete and maintain tax revenues (Atkinson et al., 2000). During 2004, a frenetic consolidation process dominated the casino industry in the US. The recently floated Las Vegas Sands, MGM Mirage, and Harrah's now dominate the industry (Datamonitor, 2004). The widening of the US gaming market is moving towards lower regulatory standards. This trend is also spreading cross the Atlantic to the UK where deregulation is in process – e.g. betting shops are allowed to sponsor television programs and the number of slot-machines has increased with 300 percent - and there are still calls for further deregulation (Atkinson et al., 2000). The UK government wants to privatize the Tote – the monopoly licensed body-providing pool betting, and change the National Lottery law to remove its monopoly. According to Zheng (2002) this creates an incentive for a diversification of US gaming operators into the European market. Hence, there is also an increased importance for European markets to acknowledge the increased competition from a wider range of competitors.

The global trend in casino gaming is the emergence of open access “American style” casinos, e.g. as in Australia (1980's), Canada, New Zealand and USA (1990's). Even European jurisdictions have endeavored to introduce modern "Vegas-style" practices into their gaming industries. Gaming operations in Greece and Portugal feature widespread marketing activities; proposals for legalizing casino gaming, and Ireland have focused on a “United States”, rather than a “United Kingdom”, style of operation (Wright, 1996). Now, casinos are benefiting from a relaxation of many gaming laws, for instance the ability to advertise and offer far more than just gaming. The increasing exploration of other revenue streams for casino operators, such as dining, accommodation, retail stores and numerous leisure activities (Datamonitor, 2004) have resulted in the ability of operators to offer larger winnings in a popular atmosphere. Competition in the industry is also driven by the growth of other entertainment options (substitutes) such as horse racing, non-gaming resorts, and home gaming on the Internet.

6.1 General characteristics of the emerging market

The value of the global gaming market is distributed such that Asia-Pacific has 42 percent of the entire global gaming value, the US has 37, 2 percent and Europe has 18, 9 percent (see Figure 6.1) (Datamonitor, 2004). As gaming now is being liberalized in the US state by state, the US actors are looking for new markets. Large actors have already established operations in the Asia-Pacific area (e.g. Macau) and are looking to establish further gaming sites in the nearby area (e.g. Thailand, Cambodia etc.) The leading source of revenue is the machines segment, which generates 32.9 percent of the sector's value. The sports and racing segments accounts for 28, 5 percent of the sector's value, this makes it the second largest segment in the global market. The third largest share is the casinos segment, which is responsible for 13 percent of the sector's value (see Figure 6.1). (Datamonitor, 2004)

Figure 6.1: Global gaming market shares and distribution



Source: Datamonitor (2004)

Price competition, as regards gaming, is effectively eliminated by the regulation of the odds that are set for each of the games that casinos are permitted to offer (Datamonitor, 2004), but the level of complimentary or subsidized hospitality is a significant element in this industry (London Clubs International PLC and Capital Corporation PLC, 1997). The odds and the payout ratio are becoming competitive issues in the sports betting sector. There is also an evident trend towards fast games that have a quick resolution.

The quality of the services offered is one of the key elements of competition between casinos operating in the upper segment. Quality competition can be found in a number of areas, including the provision of food and wine, personal attention of the management and staff, discretion of management, the quality and technical standard of staff, and private dining facilities (Annual reports 2004, MGM Mirage, Harrah's etc). The gaming industry is going towards a complete entertainment industry (MGM Mirage Annual report 2004) from dealing with only casinos, or hotels, to becoming involved in everything from golf courses to travels. Many US casinos and/or hotels have started to offer complete solutions e.g. free travels and package solutions of different kinds.¹¹ (MGM Mirage Annual report 2004)

The industry is beginning to utilize new technologies to attract new gamers. The Internet has been a major force to development, and online gaming is expanding. The development in on-line gaming has served to drive the sector's growth in recent years (Datamonitor, 2004). Internet gaming is currently illegal in the US, the largest market for casinos & gaming. Although firms can find loopholes, these restrictions have hindered growth somewhat. Nevertheless, the Internet is likely to continue to grow as a channel for gaming, with such things as virtual casinos increasing in popularity (Datamonitor, 2003). The single greatest barrier to the entry of a new casino operator is the regulatory and the licensing process. Another significant barrier to this market is the high start-up costs, and yet another major barrier is illustrated by one of the fastest growing areas of the market - online gaming. The market has only recently begun to show strong growth as many customers felt that the Internet gaming was too insecure. Recent strides in improving websites' usability and security have been expensive but have proven worthwhile for the companies. (Datamonitor, 2003)

The biggest players in this emerging market are the well established and already highly competitive US companies MGM Mirage and Harrah's. These companies have a long history of competition and a far-reaching consolidation on the domestic market during the last year, which have lead to an increased importance of a complete entertainment industry (Datamonitor, 2004). As the consolidation process in the US has lead to large Mergers & Acquisitions, the US actors are severely much larger than the competition, almost forming a sort of natural oligopoly situation in the US. The large enterprises behind the gaming companies in the US create high entry barriers to the emerging gaming market, as the start-up costs are very high (Scott, 2004).

6.2 Forces in the emerging market

The five competitive forces together decide the intensity in the industry competition and in the profitability, and the strongest force or forces rule(s) and becomes decisive in the design of strategy (Porter, 1980). (See figure 6.2)

According to porter (1980) there are different hurdles for new establishment. The most important advantages are factors such as patent, location, governmental subventions and governmental politics (limit or prevent establishment in an industry). There are in the case of a global gaming market several limitations through political limitations and/or prohibitions (Zoer, 2004). The present greatest barrier is the regulatory and the licensing process. But another significant barrier to entry is the high start-up costs (Datamonitor, 2004). A sharp increase in new entrants has occurred during the recent years, this

¹¹ This has of course been a trend for some time, but now it is in a far greater extent

because of the by-pass of regular distribution channels such as Internet etc. Substitute services / products have surfaced and the awareness of substitutes are easy available. The transparency of information for buyers is increasing buyer bargain power.

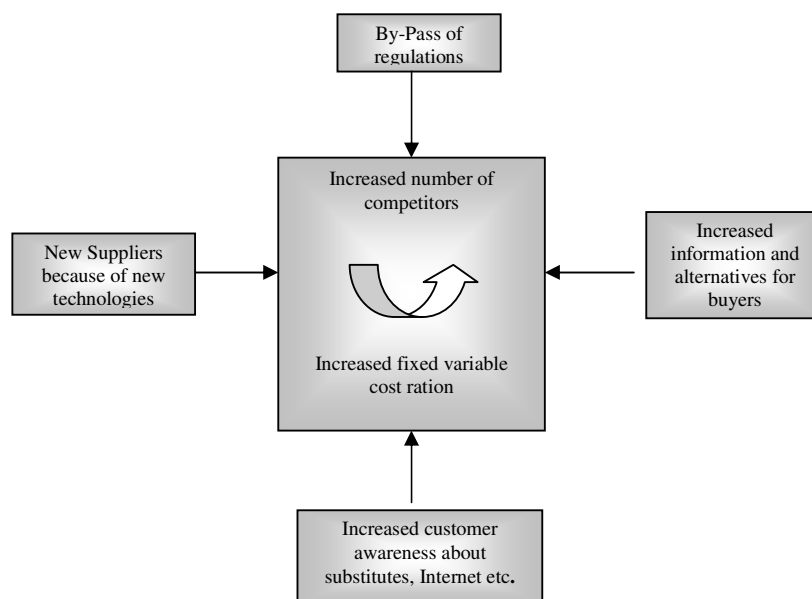
In 2004, a frenetic consolidation process dominated the casino industry in the US (Datamonitor, 2004). This has led to US companies to look for market shares outside US. The industry competition is similar to an oligopoly situation in the liberalized market, but clearly globally fragmented due to present regulations. Within the industry the increased number of competitors is sharpening the competitive climate, the product portfolio and the increased ratio of fixed versus variable costs effects is taking effect.

The competition in the gaming industry is driven by the growth of other entertainment options (substitutes) such as horse racing, non-gaming resorts, and home gaming on the Internet. The quality of the services offered is one of the key elements of competition between casinos operating in the upper segment (Annual reports 2004, Harrah's, MGM Mirage etc.). The industry is beginning to utilize new technologies to attract new gamers. The Internet has been through a major development, and online gaming is beginning to expand. The development in on-line gaming has served to drive the sector's growth in recent years (Datamonitor, 2004), but the substitute's limits an industry's potential profits by setting the limit on the prices that the companies in the industry profitability can gain (Porter, 1980). An increase of substitutes is a very strong force in the industry, as is the demand for faster games and quick resolutions, such as the internet and slot machines.

The transparency in the industry has led to increased bargain power from the customers, the new establishers has presented new products, high payout ratios and quicker games, this is forcing prices to decrease (porter, 1980), implies that payout ratio is increasing.

The bargain power of the supplier has increased in importance, this mainly due to the emergence of web software development, such as Boss Media in Sweden, and the urge for new technologies in the industry to meet the demand of faster games. New technologies are one of the emerging global gaming markets most drastic change, technologies such as Internet, mobile communication and other digital medias is expanding dramatically, which gives suppliers increased negotiation power (Porter, 1980). A lot of new suppliers is emerging due to the new forms of distribution channels and as new games develops the borderline between casinos, sports betting and lottery is blurring. (Scott, 2004)

Figure 6.2: Competitive forces in the emerging market



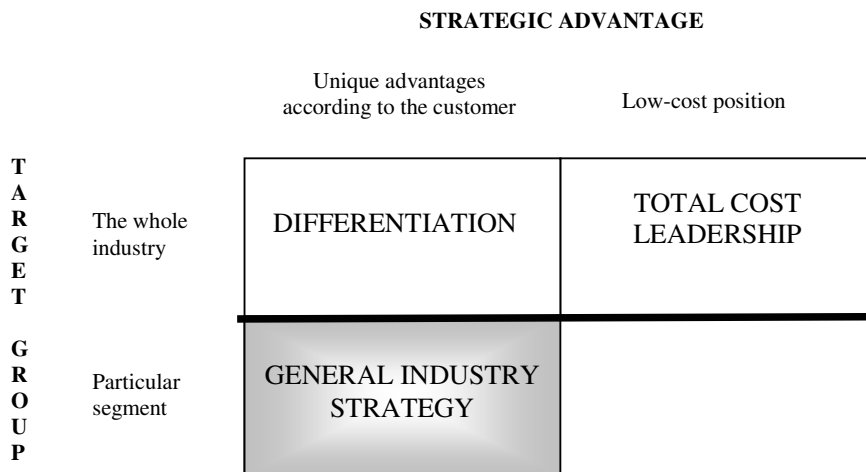
Source: Porter (1980) "The competitive advantage of nations"

6.3 Base strategies in the emerging market

As competition is leveling up in the gaming industry the positioning is becoming more important. The strongest players already have a distinct positioning towards a particular segment, high rollers^{III}. Despite the increased competition in the US and Las Vegas almost none of the competitors have moved from focusing on this specific customer group. Competition in the casino world is much about adding on more services, increasing quality on services, offering broader service perspective leading to include everything from transport and accommodation to gaming (Datamonitor, 2004).

The focus strategy is based on the assumption that the company can serve its strategic target group more effective than competitors that has a broader alignment (Porter, 1980). The general strategy in the global gaming industry today is focus-differentiation strategy (see figure 6.3). The differentiation strategy doesn't mean that the company can neglect the costs, just that these aren't the primary strategic target (Porter, 1980). The large gaming companies compete with perceived luxury, hospitality and are focusing on high rollers. The focus strategy might also be used in order to choose target groups that are the least exposed to substitutes, or where the competition is the weakest (Porter, 1980). In the case of the US companies the focus is set to the high roller segment which are not very exposed to substitutes such as internet and mobile communication gaming, but rather the casino luxury atmosphere (Annual reports 2004 (MGM, Harrah's etc.).

Figure 6.3: Global industry general base strategy



Source: Porter (1980) “Competitive strategy, Techniques for analyzing industries and competitors”

6.4 Competitive landscape of the emerging market

Possible establishers on a deregulated Swedish casino market might be MGM Mirage, Harrah's entertainment, Las Vegas Sands, Gala Group, Hyatt and/or Accor. Harrah's Entertainment, Inc. is the world's largest casino operator and MGM is the second largest casino operator (Datamonitor, 2004). E.g. Harrah's plans entry into the UK market (Harrah's Annual report 2004). According to Porter (1980) a great barrier to entry is large-scale advantages. Harrah's and MGM Mirage have these large scale advantages on the global gaming market, due to their large domestic market (Datamonitor, 2004). Las Vegas Sands is a hotel gaming and company with headquarter in Las Vegas, and operates casinos in Macau and US. Arrangements are done to develop gaming properties in the United Kingdom and the company is also exploring other gaming entertainment opportunities in Asia, Europe and the United States (Las Vegas Sands Annual report 2004). Also MGM Mirage owns and operates hotels and casinos in US, Scotland, Macau and Australia, MGM plans establishment at the Olympia,

^{III} High-rollers are people that wagers big bets

Earls Court exhibition center in West London, UK (MGM Mirage Annual report 2004). This shows the eager of US companies to establish operations outside US, and according to Thompson and Strickland (2001) companies expand to foreign markets to either gain access to new customers, to enhance firm's competitiveness, to capitalize on its core competences or to spread its business risk across a wider market base. The hardest competitive pressure is most likely to occur in the customer segment high-rollers, while casinos are trying to offer luxury and hospitality above normal.

Possible establishers in case of a deregulated betting and lottery sector could be Unibet, Ladbrokes, Expekt, Betsson, Multipoker, William Hill and Tattersall's, from which one have seen already from the internet market. Unibet is licensed and regulated by the laws of UK and Malta. Today Unibet is the biggest public listed operator in the Nordic; Ladbrokes is one of the world's largest commercial retail betting and gaming organizations (Datamonitor, 2004). William Hill is one of the leading providers of fixed-odds bookmaking services in the UK. William Hill also offers telephone and online gaming services. Camelot Group operates the UK National Lottery, the world's largest lottery (Camelot Group – Annual Report 2004). Tattersall's Holding is Australia's largest private company. The company also runs an online gaming site, which is aimed at the international market. Tattersall's is headquartered in Melbourne, Australia (Tattersall's Holding – Annual Report 2004). Expekt.com Ltd was founded in London UK 1999, today in (2005) Expekt also holds licenses in Malta and in Austria and is the largest Internet bookmaker in Scandinavia. Expekt also offers gaming through mobile communication and digital television (Expekt Annual report 2004). Betsson Ltd was founded in 2002 and is located in London, the main idea with Betsson is that all parties are betting against each other and thereby creates the odds. Betsson take bets on Casino, sports betting, poker and the ability to create an own bet (Homepage Betsson 2005.05.13). Multipoker is a company specialized on different poker games through the Internet. The Company is licensed and regulated by the government of Gibraltar (Homepage Multipoker 2005.05.13). In industries with large volumes and economics of scale, cost advantages can be used, governmental influence has tended to drive the globalization process of industry (Johnson and Scholes, 2002) this is also true for the gaming industry, deregulation of gaming has led to establishment of gaming companies in UK.

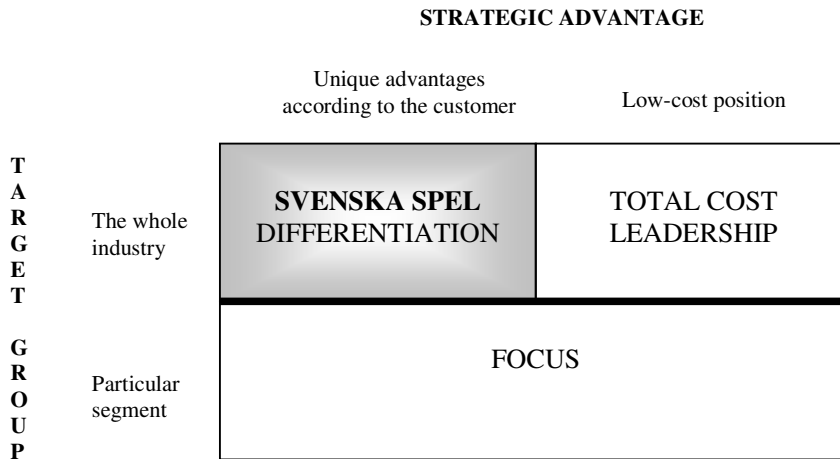
7. The Swedish gaming market

The Swedish gaming market is, with a few exceptions, divided between three major non-competitive actors – Svenska Spel (54 percent of total gaming market 2004), ATG (28 percent - 2004) and Folkspel (14 percent - 2004). From a domestic point of view, the three units act monopolist within its respective field, making the competitive environment on the domestic market, with respect to gaming, near insignificant. However, the fast development of the Internet technology has exposed the Swedish gaming actors, especially Svenska Spel and ATG, to competition - resulting in, among other things, an increased importance of strategic management. In the following sections an analysis of the Swedish gaming giants will be conducted, presenting their current positioning, strengths, weaknesses, surrounding forces etc.

7.1 Svenska Spel

AB Svenska Spel is Sweden's largest gaming company. They possess a market share of 54 percent and an annual turnover of \$2.7 billion (Svenska Spel Annual report 2004). The competition-free domestic gaming environment makes the evaluation of Svenska Spel's strategic positioning somewhat diffuse. However, in view of Porter's Three Base Strategies model (Porter, 1980), Svenska Spel, as a unit, principally has chosen a differentiated strategic approach (see figure 7.1). This statement is based on Svenska Spel's operation-similarities with the characteristics of the differentiation approach and the divergence from the other strategic approaches - Svenska Spel has no pronounced low-cost position, Svenska Spel offers several variants of gaming, with the whole Swedish population as target-group (in contrast to the Focus strategy) and Svenska Spel's activities are distributed over several various channels (a main characteristic of the Differentiation strategy).

Figure 7.1: Svenska Spel Base strategy



Source: Porter (1980) "Competitive strategy, Techniques for analyzing industries and competitors"

Whether Svenska Spel's present choice of strategic positioning is good or bad is hard to concretely bear out during the existing circumstances. However, a demonstration of Svenska Spel's strengths, threats, weaknesses and opportunities, through a SWOT-analysis (Thompson and Strickland, 2001), gives a foundation for further evaluation. Svenska Spel's main strength is, according to own saying, their large gaming portfolio and ability to develop new games (Svenska Spel – Annual Report 2004). Calling it a strength or not, the governmental-issued barrier towards entrance of potential gaming competitors is without saying positive in eyes of Svenska Spel. The same governmental-issued regulation is however also the factor behind the company's main weaknesses - in some aspects it limit

the growth and market expansion of the company (Svenska Spel – Annual Report 2004). As a leader within the area of technological development, Svenska Spel sees opportunities in the highly topical mobile-gaming and iTV concepts. Svenska Spel is also well aware of the current fast-game trend (Svenska Spel – Annual Report 2004). The main threat on the domestic market doesn't come from other gaming company's, instead, most of all in the Casino business area, the threat comes from other entertainment areas (Svenska Spel – Annual Report 2004). Another highly topical threat (and possible opportunity) is the emerging gaming globalization, which should not be taken to lightly upon. If this phenomenon becomes reality, it has potential to significantly change the current circumstances for the Swedish gaming units. Lately, Svenska Spel also faces an increasing competition on the virtual gaming area, a trend that is likely to continue.

The competitive situation in the Swedish gaming industry can be explained with the help of Porter's Five-Force model (Porter, 1980). The threat from potential new gaming actors, as well as the competition among existing companies, on the Swedish market was until recently, due to prevailing circumstances, neglected. The explosive development within the Internet technology has, however, made this threat visible. The Swedish gaming giant still doesn't face any mention-worthy physical domestic competition or competition-threat, instead the competition and threat from potential establishment is met on the virtual gaming arena – Internet (Svenska Spel – Annual Report 2004). These two forces have yet not had any major impact on the Swedish gaming actors, but the strength of these forces are rapidly growing. The main threats from substitute products or services, that the Swedish gaming actors face, are not within the gaming sector. Instead they are found in other entertainment areas, such as movies, theatres, dance-palaces etc (Svenska Spel – Annual Report 2004). With the increasing Internet-located competition, the players have in some aspects got an increased negotiation power. As players become aware of different gaming conditions the payback rate is one decisive factor in the player's choice of gaming-retailer (Svenska Spel – Annual Report 2004).

The five competitive forces together decide the intensity in the industry competition and in the profitability, and the strongest force or forces rules(s) and become decisive in the design of strategy (Porter, 1980). None of the forces, discussed above, are at this particular moment especially strong. Substitution products or services exists, but has a minor impact on Svenska Spel as a unit (Svenska Spel – Annual Report 2004). However, potential and existing competition are fast growing threats to Svenska Spel and together with the players increasing negotiation power will these three forces be likely to have a decisive roll in Svenska Spel's future design of strategy. Svenska Spel's five business areas have all different market prerequisites – making them individually interesting to observe and analyze. When analyzing the emerging market characteristics, one can find categories of competitive environments, in the following sections a more detailed study will be made on the respective business areas.

7.1.1 Sports betting

Sports betting, as a business area, constitute 18.6 percent of Svenska Spel's total gaming turnover 2004 (Svenska Spel – Annual Report 2004). Sports betting gaming-portfolio includes products all connected to sports. Sports betting's flagship is Stryktipset that thanks to systematic product development has succeeded to maintain a strong position on the market over a long period of time. Another big-seller, Oddset, has despite increased competition achieved a new sales-record during 2004 (Svenska Spel – Annual Report 2004). The business area Sports betting has a similar strategic approach (differentiation) as the Svenska Spel entity. Like in the Svenska Spel case, this statement is based on Sports betting wide product-portfolio, and the fact that they target the whole Swedish population, as well as the operation-characteristics of Sports betting.

Conducting a SWOT analysis (Thompson and Strickland, 2001) on Sports betting resulted in the following observations: The main strengths are the company's strong market position, the brand recognition, the ties to the sports movement, their product development skills and use of the retailer-channel. A main weakness is the governmental-issued prohibition from using the Internet as a distribution-channel when it comes to trendy game-forms offered by the competitors (Svenska Spel –

Annual Report 2004), resulting in lost market expansion potential, and a major lead-advantage for the existing and potential competitors on this particular segment of the Internet-market. Another weakness is the possibility for Internet-competitors to offer a higher payback rate than Svenska Spel's permission allows (Svenska Spel – Annual Report 2004). The Sports betting division sees opportunities in the emerging gaming technology, where gaming via mobile phones and iTV is particularly interesting; during 2004, Sports betting launched, for instance, Oddset on the 3G-mobile net (Svenska Spel – Annual Report 2004). The main threat comes from the increasing Internet-gaming actors, offering trendy fast games with a high payback rate. When weighing the strengths against the weaknesses, the strengths are at the moment still superior. The retailer-channel is Svenska Spel's most competitive tool, and has hindered a greater market-share loss to the Internet-actors. The reason is an urge, among many players, to conduct their gaming through the retailer-channel. This is shown by the fact that only 8 percent of the business area's turnover comes from the Internet-channel. The major threat from Internet-competitors are however significant and should be a high prioritized. As mentioned the explosive development within the Internet technology has made the threat from existing and potential competition visible. The visibility is particularly evident for the Sports betting business area. Sports betting doesn't face any physical domestic competition or competition-threat, instead the competition and threat from potential establishment is met on the virtual gaming arena – Internet (Svenska Spel – Annual Report 2004). The magnitude of these two forces has an increasing trend and the forces have become even stronger due to the regulation and limitation that Sports betting faces. The main threat from substitution products is gaming forms, offered by Internet-actors, that Sport betting is prohibited from offering. Those gaming forms are direct competitors to Stryktipset and Oddsetbörsen (Svenska Spel – Annual Report 2004). With the increasing Internet-located competition the players have, in some aspects, got an increased negotiation power. As players become aware of different gaming conditions the payback rate is one decisive factor in the player's choice of gaming-retailer (Svenska Spel – Annual Report 2004).

The strongest force in Sports betting's environment is the increasing entrance of competitors on the virtual arena. However, the Sports betting business area keeps showing an increased turnover over the years (Svenska Spel – Annual Report 2004) despite the increased competition, which consequently means that these forces still are quite modest.

7.1.2 Games of Chance

The Games of Chance division is Svenska Spel's largest business area (42 percent of Svenska Spel's total turnover), targeting an overall Swedish customer-base. The flagship Triss continues to grow, and made all-time-high 2004 despite increased competition (Svenska Spel – Annual Report 2004). A major trend within this gaming-area is the increasing popularity for faster games. During 2004, the business area experienced lost sales of the traditional products, and increased sales of the faster games. Keno is a strong-going product with the potential for further growth (Svenska Spel – Annual Report 2004). Pick'n'Click became an immediate success when introduced on the market during 2004. Pick'n'Click is a world-unique probability-game with the uniqueness of having a winning on each play-field. As with Sports betting, this business area has chosen a differentiated approach when analyzed towards Porter's Base Strategies Model (Porter, 1980). The reasoning is the same as when analyzing Svenska Spel as an entity, as well as the Sports betting business area. When running a SWOT analysis (Thompson and Strickland, 2001) over the Games of Chance business area it is shown that it has many strengths – the highly qualified co-workers, advertising and promotion skills, product innovation skills, the wide customer-base, strong brand-recognition and the large product-portfolio (Svenska Spel – Annual report 2004). No major weakness was discovered during the analysis. Opportunities are seen in the fast game trend, especially on the Internet, which calls for further production-development and a high innovation-pace (Svenska Spel – Annual Report). The main threat is, as for some of the other business areas, the increasing Internet-competition. Another threat is the decreased interest for the traditional products, which during 2004 resulted in the termination of one of the business area's products.

The existence of domestic competition from smaller lottery-actors has no significant impact on the business area - Games of Chance have a very dominating position on the domestic market (Svenska Spel – Annual Report). As with the other business areas, Games of Chance face increasing competition from Internet-actors. The entrance-threat of further actors is also very high (Svenska Spel – Annual report). The Internet-channel generate however only 6 percent of the business area's total turnover, while the retailer-channel still stands for the larger part of the sales (Svenska Spel – Annual Report 2004). The retailer-channel constitutes, for a large fraction of the customers, an invaluable social meeting place, and is considered a part of the gaming-process (Svenska Spel – Annual Report). Since the whole gaming-industry is in a casual condition it is hard to speculate in future strength of the different forces. However, at the moment there is no force that really threatens a further positive development of the Game of Chance business area. The retailer-channel remains the superior distribution-channel, and this fact is likely to continue. The Games of Chance business area has the potential and prerequisites to remain Svenska Spel's most valuable gaming area.

7.1.3 VLT Games

VLT Games, as a business area, constituted 36 percent of Svenska Spel's total gaming turnover 2004. VLT's gaming-portfolio includes Jack- & Miss Vegas – fast simple games with high entertainment value, and high payback rate. VLT Games has been a success for Svenska Spel, but lately the growth-rate has leveled out – one reason is an emerging saturation-phase, another is the governmental-issued restriction on the total number of VLT machines allowed. One of the main aims at the moment is to broaden the customer-base. (Svenska Spel – Annual Report 2004)

SWOT: ing the VLT Games business area makes clear that the main strengths are, the trendy characteristics of the game, fast and simple, entertaining with a high payback rate, and the exclusive rights that Svenska Spel has on this type of games. The main weaknesses are the emerging saturation-phase, and the restriction on allowed number of machines, which consequently means a barrier of further growth. Opportunities lies within the development area – Svenska Spel has the necessary technical and innovational competence to run the development by themselves (this is of course also a major strength) - in 2005, there will be launched a number of own-designed machines with a complete character. The exclusive rights to run and operate VLT Games should consequently mean a competition-free market, however, a major threat, in the shape of illegal gaming machines, is present on the Swedish VLT market. The lottery-inspection has estimated the number of illegal machines to 3000, with a total turnover of approximately \$10 billion – when comparing this number to the restricted number of legal machines – 7500 – should the threat be evident. If the business area is to maintain a positive growth, then the major problem with illegal gaming must be fixed. Not even a superb portfolio of strengths will have any significant effect if this problem remains.

The forces regarding Porter's Five-Forces model, are quite vague in this gaming sector. As with the other business areas, the Internet-competition force is likely to be decisive in the future shape of the market. From own experience it should be mentioned that VLT Games faces an unknown degree of threat from table-games (substitution product) – e.g. Cherry Casino – on the domestic market.

7.1.4 Casino Cosmopol

Casino Cosmopol – Svenska Spel's wholly owned subsidiary – was 2004 responsible for 4.2 percent of the total turnover. Casinso Cosmpol has exclusive rights to run International Casino activities on the Swedish market, where the activities includes table games, slot machines, and restaurant & bar operations. Casino Cosmopol is Svenska Spel's youngest business area, and 2004 was the first year when all of the originally planned Casinos were in operation. To categorize Casino Cosmopol's strategy approach in Porter's Base Strategies Model (Porter, 1980) is easier said than done. On the one side is their wish to broaden the customer-base, and on the other hand is the fact that the gaming-opportunities only are offered in four physical gaming-palaces (Svenska Spel – Annual Report). Further, Casino Cosmpol offers dance-nights and entertainment-packets to low-cost prices, prices that other entertainment actors aren't able to compete against. This has resulted in great discontent from

competing actors, which claims that Casino Cosmopol runs disloyal competition (Dagbladet, 2005.05.17). A mix of the different strategy approaches is thus practically visible.

It is hard to discern any major strength in the Casino Cosmopol's business area. The concept is very young, and the Swedish casino market is still going through a shaping process. Of course is an exclusive right to run Casino activities a pro that gives Casino Cosmopol a unique domestic position in the entertainment and experience industry. Casino Cosmopol has from an international point of view a weak balance sheet, and the offers, surrounding the gaming activities, are few in comparison with potential international competitors. Casino Cosmopol sees opportunities in geographically expanding their activities, opportunities that due to regulations not are possible at the moment. This fact also limits the size of the potential turnover (Svenska Spel – Annual report 2004). Again there is an ever-increasing threat from Internet-actors, offering similar and/or equivalent products as Casino Cosmopol. The magnitude of the threat is enlarged due to a government-issued regulation that prohibits Svenska Spel from offering casino- and poker-games on the Internet.

The forces surrounding Casino Cosmpol are, in some aspects, somewhat stronger than in the other business areas. Competition is met from other entertainment areas (e.g. Theatres, Cinemas, Dance-palaces etc) located nearby the casinos (Svenska Spel – Annual report). Competition is also faced from other gaming-actors such as restaurant-casinos (e.g. Cherry Casino) and Bingo halls. The threat of potential competition is also growing - some of the major International Casino operators (e.g. Harrah's and MGM Mirage) have shown great interest in expanding its business to the European market, and if the Swedish casino monopoly is dispersed, it may have large consequences for Casino Cosmopol.

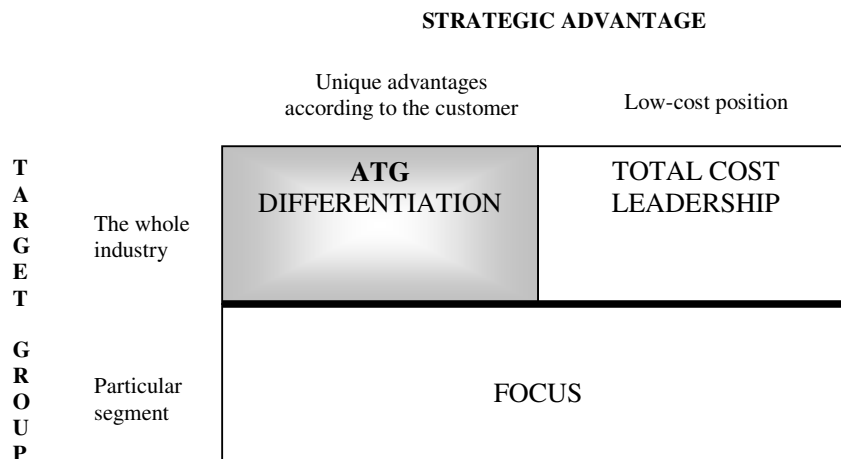
7.2 ATG

The last few years' substitutes to "ordinary gaming" have grown dramatically – e.g. Internet gaming. The three primary forces connected to this area are the force of substitutes, the force of new entrants and increased bargain power from suppliers. Suppliers might exercise negotiation power towards participants in the industry by threats about increased prices or lowered quality on products and services (Porter, 1990). New suppliers due to the new medium Internet has led to increased bargain power from this segment. New entrants are an increasing threat due to the ability to by-pass of Swedish regulations combined with a competitive disadvantage due to the regulations about payout ratio (Almgren, 2004).

In the case of ATG the particular strength is the present trotting and horse racing regulation as well as their most famous product - V75 (ATG Annual report 2003). Other strengths are according to Almgren (2004) that ATG owns rights to courses, horses and a well functioning database system surrounding their gaming products. ATG's main weaknesses are, due to current regulation, the limitation of not being allowed to follow the fast game trend and the possibility to offer higher payout ratio. ATG has a present payout ratio of 69 percent (Fransson et al., 2004). The main opportunity for ATG at the present time is the relatively new concession, which has increased ATG's opportunities to expand or enter foreign alliances. (ATG Annual report 2003). The main threat is at the present time a deregulation of the Swedish gaming market, but it does not only constitute as a threat it also will open for opportunities. Another increasing threat for ATG is the expansion of the Internet gaming-sites (ATG Annual report, 2004).

To master the five competition forces, there exist three potential successful strategic approaches to succeed better than other companies in an industry.1) Cost leadership 2) Differentiation and 3) Focus (Porter, 1990)

Figure 7.2: ATG Base strategy



Source: Porter (1980) “*Competitive strategy, Techniques for analyzing industries and competitors*”

As a result of their unique position on the Swedish market, ATG can use a clean differentiation strategy. The differentiation strategy doesn't mean that the company can neglect the costs, just that these aren't the primary strategic target (Porter, 1980). (See figure 7.2) Differentiation also offers a protection against competition due to brand faithfulness from customers and consequently lower sensitiveness to the price. This is also an incitement for V75 and ATG to maintain a strong position on a deregulated market, since V75 is the largest individual gaming form in Sweden. ATG offer their products at nearly 2000 ATG-retailers, via their Internet-homepage (ATG.se), and at about 1000 merchandises (ATG Annual report 2004). The customer loyalty, that rises, and the need for each competitor to surpass the differentiation, constitutes establishment hurdles. (Porter, 1980)

7.3 Folkspel

Folkspel will probably not meet any actual competition, or any new entrants (disregarding from the internet gaming sites). Bargain power from suppliers and buyers are also limited at this time, while it is owned by organizations working for organizations. Folkspel's unique position permits them to use a differentiation strategy as an entity, but a sort of focus strategy on specific games they offer. The game Bingolotto has a broad differentiation strategy, but some other products have a clear demographic focus group, such as Bingo-halls that targets pensioners. The focus strategy aims at satisfying a particular target group, and each functional program is formed with respect to this (Porter, 1980). Folkspel has a clear possibility to not be further affected by the rising threat from Internet gaming sites, while these players usually do not use Internet nor gamble on this specific games.

The fact that Folkspel is a lottery and gaming company owned by 78 Swedish non-profit social and sport organizations, that together have 5 million members, and the fact that all surplus is fully returned to the members are some of the strengths for Folkspel according to Flatow (2004). The weaknesses of Folkspel are primarily the demographic distribution of players. The younger generation is not attracted by these games in any further extent. An opportunity for Folkspel is the possibility to establish a new product such as Bingolotto to attract a larger segment. The threats of Folkspel are primarily the long-term survival, and the demographic distribution. According to Flatow (2004) Folkspel's situation is quite different from Svenska Spel an ATG, since they do not compete in the terms of price (payout ratio) (Flatow, 2004). Thereby one can conclude that the margins would not decrease in any greater extent in case of a deregulation.

8. Strategic opportunities for the Swedish state licensed companies

The entrance of competitors on the Swedish gaming market obviously would constitute a major threat to the well-being of the current domestic market leaders (in Sweden), however, competition could also mean a great opportunity for especially Svenska and ATG to develop and expand its businesses. Current government-issued regulations and restrictions, which limits Svenska Spel’s Internet- and casino expansion (Svenska Spel – Annual Report 2004), may restrict the response to the new market situation. Such deregulation consequently gives the Swedish actors the contingency to extend its movement in any possible direction and thus increase the turnover.

8.1 Svenska Spel

Svenska Spel’s main strength is their wide product-portfolio. By splitting the operations into four (five) business areas the company has strategically spread its business risk (Thomson and Strickland 2001). A negative result in one business area might thus be covered with a positive result from another. According to Dawar and Frost (1999) the optimal strategic approach for local companies wishing to survive against the entry of global giants depends on (1) whether a firm’s competitive assets are suitable only for the home market or can be transferred abroad and (2) whether industry pressures to move toward global competition are strong or weak. The four business areas have each company-unique products, distribution-channels, strengths, weaknesses etc., and thus different prerequisites in a future deregulated global gaming market.

Figure 8.1: Strategic opportunity for Svenska Spel on the emerging market

INDUSTRY PRESSURE TO GLOBALIZE	HIGH	New Market Niche Casino Cosmopol (1) Games of Chance (2) Sports betting	Contend on a Global Level Casino Cosmopol (2) VLT Games
	LOW	”Home-Field” Advantages Games of chance (1)	Transfer Company Expertise to Cross- Border Markets (VLT Games)
		TAILORED FOR HOME MARKET	TRANSFERABLE TO OTHER COUNTRIES
RESOURCES AND COMPETITIVE CAPABILITIES			

Source: Dawar and Frost (1999) ”Competing with Giants: Survival Strategies for Local Companies in Emerging Markets”

8.1.1 Strategic opportunities for Casino Cosmopol

Casino Cosmopol is Svenska Spel’s newest and smallest business area – making it a “sitting duck” in a global competitive environment, facing gigantic casino enterprises with large wallets and long experience. Since some of the larger US-casinos already have shown interest in the European Casino market (e.g. UK) Svenska Spel is forced to assume a competitive future. The pressure to globalize will obviously be high in a global casino industry and thus, according to Dawar and Frost (1999), lies Casino Cosmopol’s future opportunities in (1) to niche their market activities or (2) to contend on a global level (see figure 8.1). The general characteristics of the emerging casino market are giant enterprises, targeting high rollers (a focused differentiation strategy) with complete package solutions.

Casino Cosmopol is currently not in the position of competing on the same level. The current lack of experience and financial resources makes global level contending impossible. In order for such a strategy to survive Casino Cosmopol will be forced to enter an alliance with one or more foreign competitors. Strategic alliances with foreign companies are, according to Thompson and Strickland (2001), a powerful and fruitful means to strengthening a company's competitiveness in world-markets. The second and most likely alternative is to find a proper market niche. By withholding the current position strategy, to target the Swedish market and the average Swede (a focused low cost position, see Porter (1980)) will give Casino Cosmopol a reasonable chance to maintain their activities. Casino Cosmopol's future is in case of facing a customized – Casino Cosmopol like – competition probably even more uncertain. This scenario brings however a third alternative – making a strategic withdrawal. The strategic withdrawal is, according to Kotler et al. (1985), when a market leader has to identify its strengths and weaknesses and focus on the core business and get rid of the weaknesses. The present greatest barriers to foreign country casino markets are the regulatory and the licensing process as well as the high start-up costs. A deregulated global casino market in Sweden is not likely to imply total liberalization. Instead a regulatory, similar to the one in e.g. Macau, is to expect; where a limited number of licenses are accessible. This framework has the possibilities of becoming Casino Cosmopol's rescue, since a limited number of competitors, with a probable different strategic positioning, will give Casino Cosmopol the access to an unused market share.

8.1.2 Strategic opportunities for Games of Chance

There are no obvious indicators that this particular gaming sector will face any high globalization pressure. Due to the high uncertainty concerning the future in this gaming segment a sufficient strategy, as an exception of the general perception, might be to defend itself by using "home-field" advantages (see figure 8.1). This is more or less what Kotler et al. (1985) calls *position defense* – the company sees their products as the best and is counting with continues consumption of the company's products. The retailer-channel is currently the superior distribution-channel (Svenska Spel – Annual Report 2004), and is in case of competition a key strategic tool. However, the retailers are physical assets, located on the Swedish market, and not physically transferable abroad. The concept is transferable but demands high start-up costs. The conclusion is thus that a continuous niche towards the Swedish market would be preferred in case of global competitive games of chance market. The highly qualified co-workers, the advertising and promotion skills, the product innovation skills, the wide customer base, strong brand recognition and large product portfolio together constitute the prerequisites for defending this particular market segment.

The current and future development on the virtual arena (the Internet), within this gaming sector, might give the necessary indications to evaluate future strategies. If it is shown that the Swedish Games of Chance is winning "foreign market shares" on the Internet, and the Internet market keeps "stealing" market shares, a change of focus, from the retailer-channel and the Swedish market to the interactive channels and the global virtual arena, should be considered. By using an Internet-variant of the mobile defense strategy (Kotler et al., 1985), offering the products through several Internet-sites, will Svenska Spel hopefully widen and diversify its market to increase the strategic defense of the products.

8.1.3 Strategic opportunities for VLT Games

The VLT Games business area is currently facing an emerging saturation-phase on the Swedish market, and is due to prevailing restrictions facing its maximum growth-limit (Svenska Spel – Annual Report 2004). The business area has been, and actually still is, a success for Svenska Spel. The not to narrow-minded should be able to see the great opportunities that a deregulated VLT gaming market could offer Svenska Spel in this gaming sector. Gaming machines is the world's largest gaming sector, with a customer-base that demands fast, simple and entertaining products with a high payback rate (Svenska Spel – Annual Report 2004). As being one of the world leading companies within the development of VLT machines the Swedish VLT Games business area has great prerequisites to, depending on degree of industry pressure, either contend on a global level or to transfer their expertise to cross border markets (see figure 8.1). According to Thompson and Strickland (2001) there are four

major reasons for a company to expand into foreign markets; in the case of Swedish Games of Chance could the reasons be to (1) gain access to new customers or/and (2) to spread the business risk across a wider market base. If Svenska Spel decides to expand outside the domestic market they may, according to Thompson and Strickland (2001), use strategic alliances with foreign companies as the primary vehicle for entering foreign markets. The strategic choice of entering foreign markets is related to what Kotler et al. (1985) calls mobile defense – according to Doyle (2002) the company is then trying to widen and diversify its market to increase the strategic defense of the products. The Swedish actor's main strength is the possessed technical and innovational competence – a competence that already is proven by the development of their own world-unique designed machines, which will be introduced on the market during 2005 (Svenska Spel – Annual Report 2004). The advantage of acting both in the supplier- and distribution-tier has strengthened their opportunities in a global competitive environment. The two-tiered architecture constitutes for instance a defense against one of the emerging global gaming market characteristics – increased supplier negotiation power. Actually, the Swedish VLT-actor also faces the opportunity to cultivate its activities towards the supplier-tier, or at least partly act supplier to foreign competitors.

8.1.4 Strategic opportunities for Sports betting

Swedish Sports betting is known for their strong market position, brand recognition, their connection to the sports movement, their product development skills and the sales through the retailer-channel. Despite competition from increasing Internet-actors Swedish Sports betting, has during 2004, shown a new sales-record for one of their products – Oddset (Svenska Spel – Annual Report 2004). This is an evident sign on their competitive strength. The main reason for the continued success is the customer's predilection for the retailer-channel, which is shown by the fact that only 8 percent of the company's total turnover was produced from Internet-products. In a deregulated environment Swedish Sports betting will meet more or less promised foreign competition on the current ruled market piece - several foreign sports betting companies, e.g. Ladbrokes, have stated a wish of entering the Swedish sports betting market (Dagens Industri, 2004.06.15). The pressure to globalize is high in this gaming sector and thus according to Dawar and Frost (1999) their two choices are either to contend globally or choosing a market segment viable. The retailer-channel is a physical asset, built-up on the Swedish market and thus not physically transferable. Even though the concept is transferable is it not unique and also associated with high start-up costs. Left is the choice of conducting a market niche. The Sports betting division could with a position defense strategy keep their current focus on the Swedish market. This strategy is according to Doyle (2002) much about building obstacles around its products and technology to defend its position. Swedish Sports betting has already realized the importance of the retailer-channel and is currently in the process of developing their relationship further (Svenska Spel – Annual Report 2004). Technological improvements and a more intimate relationship with the customers are two main factors in this development. By focusing on the sales through the retailer-channel, with the aim of creating a unique customer experience, together with the strong brand recognition will give Swedish Sports betting good prerequisites to defend the home market segment. A further refinement of this strategy could be to, in whatever possible way, try to complicate the use of retailer-channels among potential establishers.

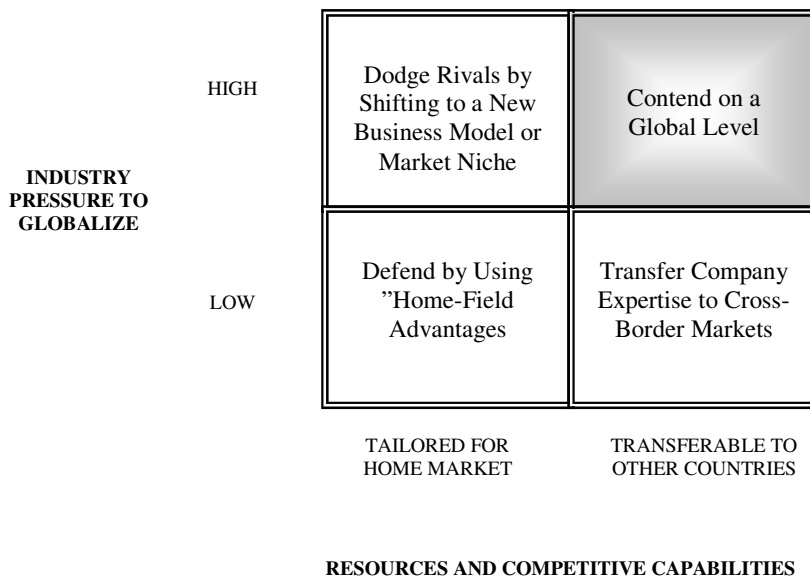
It's a world-known phenomenon that new technologies are faster adopted and mainly used by younger generations, this is also true for e.g. Internet gaming. The Internet-actors entice a younger customer-group (Svenska Spel – Annual Report 2004), and the emerging mobile phone and iTV technologies are likely to do the same. Even though the interactive channels (the Internet, mobile-phones and iTV) still constitute a modest fraction of the total sports betting sales, they have the future potential to turn the present circumstances around. It is though likely that, as the younger Internet-generation becomes older the Internet-sports betting will obtain increased importance. It would thus be foolish to completely abandon the Internet sports betting market. Instead, we propose that Swedish Sports betting continues its Internet activities by going with the flow. The Swedish market segment with the retailer-channel as tool should initially remain the main priority, but as the Internet market expands could Swedish Sports betting gradually change focus. Many readers might rage at the above speculation, and wonder about the enormous opportunities that is missed when not using offensive strategies in an

emerging market. Kotler (1984) means that to be successful in an emerging industry, companies usually have to pursue one of the strategies mentioned in section 3.7 in this thesis, but since the changeover expenses in the gaming market are modest or non-existent, and the fact that many customers use several Internet-actor's products (Svenska Spel – Annual Report 2004) we claim that Swedish Sports betting will have great opportunities to gain Internet market shares also in a later stage of the development.

8.2 ATG

The globalization pressure is also increasing in the trotting and horse racing market. Harrah's has among others developed racino gaming - a combination of casino and horseracing. ATG owns horseracing tracks, has a very well established net of distributors, and owns a large system for betting on horse racing and trotting (ATG Annual report 2004). The choice of strategy depends primarily on the possibility to transfer the business model to a foreign market, or if this is not possible a new business model has to be created or a new niche has to be found (Dawar and Frost, 1999). In the case of ATG, their strong position gives them power to potentially transfer their business model to foreign markets. The fairly new concession allows ATG to expand, and so they should. When industry pressure to globalize are strong, any of these three options makes most sense according to Dawar and Frost (1999): (1) Focus to a piece of the industry value-chain where the expertise can provide competitive advantage, (2) enter into a joint venture with a globally competitive partner, or (3) sell to a global entrant into the home market. ATG may possible focus on a piece of the value-chain where they with a competitive partner might create competitive advantages, such as a joint venture with Svenska Spel to expand an internet-based betting arena. By joining Svenska Spel and offer services on foreign markets ATG might be able to contend on a global level in its industry (see figure 8.2).

Figure 8.2: Strategic opportunity for ATG on the emerging market



Source: Dawar and Frost (1999) "Competing with Giants: Survival Strategies for Local Companies in Emerging Markets"

8.3 Folkspel

Folkspel conducts gaming and lotteries where the competition is weakest, according to Porter (1980) this is an usual effect of a focus strategy, Folkspel will not be affected in the same extent as ATG and far from Svenska Spel in case of a deregulation of the Swedish gaming laws. This is also expressed by Flatow (2004) and he also adds on that Folkspel do not have to compete in terms of payout ratio which further strengthen believes in a small effect on Folkspel's operation. Despite this statement there are more or less suitable strategies to work with. According to Dawar and Frost (1999) when the pressure

for global competition are weak and a local firm has competitive strengths well suited to the local market, a good strategy option is to concentrate on the advantages enjoyed in the home market. Folkspel is a non-profit organization so the option to enter a global market is not an issue, nor is the urge to find a niche or try to dodge the rivals; Folkspel's strategic option is to assemble and use the home field advantages by being a non-profit organization, supporting sport organization to withhold an already strong domestic market place. To continue to be an actor on the Swedish market on the long-term perspective, Folkspel is in need of games that could attract a younger generation.

8.4 Probable strategies for establishers in Swedish market

Due to the consolidation process in the US the major companies are now seeking for sights abroad, as in Macau and UK. According to Thompson and Strickland (2001) expansion to foreign markets are done either to gain access to new customers, to achieve lower costs and enhance the firm's competitiveness, to capitalize on its core competencies, or to spread its business risk across a wider market base. Many of these incitements are fulfilled for the market leading US gaming companies. When a company is to expand outside the domestic market, they can use any of the generic strategic options: (1) Maintain a national, (2) License foreign, (3) Employ a franchising strategy, (4) Follow a multi-country strategy, (5) Follow a global strategy or (6) Use strategic alliances or joint ventures with foreign companies as the primary vehicle for entering foreign markets (Thompson and Strickland, 2001). The two most likely cases for a large enterprise such as MGM Mirage and Harrah's is to either follow a global strategy and run "Vegas-style" casinos around the globe or go into a strategic alliance or joint venture with foreign companies, as can be seen in Macau where a US company, the Las Vegas Sands, has a alliance with a domestic company. But if a company is aiming for global market leadership, the cross-boarder merger or acquisition may be a better alternative than cross-boarder alliances or joint ventures (Thompson and Strickland, 2001).

8.5 Industry structural drivers

Government influence has tended to drive the globalization of an industry, and political changes have since 1990 tended to encourage free markets between nations. Global competition is therefore becoming increasingly important and encourages global competition. (Johnson and Scholes, 2002) An obvious structural driver in the case of the emerging global gaming industry is the governmental influence. The ECJ is studying the phenomena on gaming monopolies in Europe, and the result will be presented during 2006. The characteristics of the emerging global gaming market are highly dependent on the outcome of this study.

9. Discussion

One legitimate question is of course if the gaming regulations in the European Union will fall, since the entire thesis builds upon the fact that it will. It is of course arguable whether it should or should not sustain in its present form. However, we have find it hard to see that a state-licensed monopoly company, that spends huge amounts of money on commercial can argue that they in-fact follow their original mandate of supplying no more than the present need. According to Ougus (2002) regulations can be divided into two major categories (1) Social regulations and (2) Economic regulations (Ougus, 2002). Somewhat simplifies the entire case can be broken down into these two pieces; if the Swedish gaming state-licensed gaming companies can prove to have a social regulation, then the original mandate will hold, if not, then the regulation is of economic art and thus stands in contradiction to the EU laws and regulations about free trade. The backside of gaming cannot be neglected when deciding if a deregulation should or should not be done. There are a lot of studies done in the area of social effects of gaming, and to sum it up short it is not a large consensus around this issue, but it is measurable that in areas where gaming is entirely liberalized, crime has become a major issue. Therefore a re-regulation of the Swedish gaming market is the most probable progress from this point forward, anyhow resulting in the need for a corporate strategy for the Swedish state-licensed companies.

A short notice should also be made about the macro-economic effects of liberalization, notably there are both positive and negative effects connected to a deregulation of the current gaming regulation. The effects on minor sport organizations presently financed by the revenue created by the state-licensed operators will of course decrease, but money is money, so it is still a matter of priorities. A large positive effect, measured in Macau and New Zealand is the increased tax revenues. Depending on the future industry size and how the taxation rules will be set in Sweden, the tax revenues can at least partly cover the loss of financing of minor sport organizations.

Since large parts of the report rely on the development of the US market, a legitimate question could be if the European Union is facing the same development as the US has done lately. This question is however not very easy to answer. The consolidation process on the US gaming market has more or less forces the actors to look for foreign markets. The European market is the third largest gaming market in the world, so in some sense one can say, yes this development will spread to Europe, but on the other hand, the incentive for deregulating is not the same in the European Union. US states had prohibition against gaming, which made the incentive for deregulation of nearby states to prevent the money to go out from the state. In the European Union there are mostly restrictions and regulations around gaming, not a prohibition. Either way the gaming giants will try to get licenses worldwide to strengthen their position on the domestic market, probably resulting in a similar case to the US.

10. Conclusions

This study has revealed opportunities that could enhance the Swedish actor's competitiveness in case of a deregulation or liberalization of the Swedish gaming market. One shall though bear in mind that this study is not made as a consultancy service, or as a particular case study backed by these operators, but on a more general level, since information of this kind of character is highly sensitive to the companies involved. With this part sorted out, a presentation of the revealed opportunities for the state-licensed companies will now be presented.

Figure 10.1: Summary of strategic opportunities for the Swedish state-licensed companies

COMPANY	DIVISION	STRATEGIC OPPORTUNITY
SVENSKA SPEL	<i>Casino Cosmopol</i>	(1) Dodge rivals by new market niche (2) Defend position by creating strong alliances. Dependent on foreign establishers market strategies.
SVENSKA SPEL	<i>Games of Chance</i>	(1) Dodge rivals by new market niche. (2) Defend by using home field advantages, position defense (3) Observing Internet development, potential mobile defense
SVENSKA SPEL	<i>VLT Games</i>	(1) Contend on global level and create alliances, mobile defense (2) Alt. Transfer expertise to cross border markets.
SVENSKA SPEL	<i>Sports betting</i>	Market niche, position defense & Internet - go with the flow
ATG	<i>General</i>	Contend on a global level and create alliances
FOLKSPEL	<i>General</i>	Defend by using home field advantages

Svenska Spel's four (five) business areas have all different prerequisites in a future deregulated gaming market. Casino Cosmopol is likely to meet the hardest competition and is also the business area for which the future is the most uncertain. Casino Cosmopol has short experience and a weak balance sheet when compared to the potential competitors. Depending on the emerging competitors strategy, Casino Cosmopol is likely to stand before three strategic moves: (1) To withhold the current strategy – targeting the broad audience, (2) entering an alliance with a foreign competitor – building a global competitive strength or (3) Making a strategic withdrawal – getting rid of the weakness (Casino Cosmopol) and put more effort into the Svenska Spel's remaining business areas (see figure 10.1)..

The Games of Chance division is going towards an uncertain future. Indications of whether this sector will face global competition are yet not determined. Svenska Spel could choose to, depending on if the pressure to globalize will be high or low in this particular segment, either keep their physical focus on the Swedish market segment through position defense or through a mobile defense strategy (see figure 10.1). Swedish games of Chance should closely follow the development on the Internet arena. If it is shown that their products wins foreign market shares, a change of focus from the retailer-channel to the interactive channels could be a possibility, and a hence adopting a mobile defense strategy instead.

Due to an emerging saturation-phase and a strong position on the Swedish VLT market a deregulation should be welcomed from this division's point of view. It stands clear that this division has great opportunities on a global VLT market. Foreign market shares could be conquered by entering foreign markets combined with foreign alliances (see figure 10.1), and due to the skills within the innovation- and development area VLT Games has the prerequisites to become a world-leading actor in this particular gaming sector.

Swedish Sports betting's prerequisites are somewhat similar to Games of Chance's – the retailer is currently the superior distribution-channel but the Internet channel keeps increasing. Therefore a similar strategy could initially be used (see figure 10.1). By broadening the retailer-channel and possibly licensing them could build up a hard-penetrated defense to the domestic market. Further, the Internet development should be closely observed. If the current development continues and the Internet

market continues to grow, at the same time as the retailer-channel loses its importance, it is important that the Svenska Spel's sports betting division re-evaluates its strategy and investigate the opportunities in a shift to focus on the Internet market.

ATG's strong position gives them the power to transfer their business model to foreign markets (see figure 10.1). The fairly new state-issued concession allows ATG to expand, and a strategic opportunity for ATG is to do so. ATG could possibly focus on a piece of the value-chain where they with a competitive partner might create competitive advantages. Such an arrangement could be a joint venture with Svenska Spel in order to develop an internet-based betting arena. By joining Svenska Spel and offer services on foreign markets ATG might be able to contend on a global level in its industry. Another opportunity is to create an alliance with a large foreign actor on e.g. the racino market to conquer more foreign market shares.

Folkspel will in case of a deregulation not be affected in the same extent as ATG or Svenska Spel. One of Folkspel's strategic opportunities is to assemble and use the home field advantages of being a non-profit organization (see figure 10.1). In order for Folkspel to successfully operate in the long-term perspective, an important factor could be to attract a younger generation.

The strategic opportunities for the Swedish state-licensed companies, in case of a deregulation, look from a wide perspective quite positive. Some sort of restructuring would however probably be needed in order to successfully be able to meet new competition and protect the weak spots of these companies. The licensed actors in Sweden have good domestic strengths on trotting, horse racing, games of chance and slot machines, and in some extent bingo. Their weaknesses are generally their small size and their inferior financial strength, at least when compared to the larger global actors. The major threat is the size of the global contenders; when regarding the Internet the payout ratio is becoming a more important competitive advantage.

Finally, this study has revealed opportunities that could enhance competition for the Swedish actors in case of a deregulation or liberalization. This study is not an exhaustive presentation of what has to be done, but rather a presentation of possible strategic opportunities for the Swedish state-licensed gaming companies. However, the current interest for the topic, described in this thesis, and the numerous indications for a deregulation, should be enough for the Swedish actors to sit down and evaluate their opportunities in a future globalized gaming market, while "Alea iacta est" (Caesar, 49BC) - The die is cast.

11. Research recommendations

In Macau and in South Africa, the gaming industry has been deregulated or liberalized and in these states one might find a similar case as in Sweden. Because of the limited time after the deregulation in these two states this thesis does not benchmark the current situation in Sweden to these cases in any further extent, although this was the initial idea. There are a lot of cases in the world on deregulation and liberalization of gaming laws, but few reassemble the Swedish case at this time, although it probably will be very interesting to see what will happen in South Africa and in Macau, this to see the results of their quite recently deregulated gaming industry.

Yet another recommendation is to investigate the same phenomena, the deregulation of the Swedish state-licensed gaming industry, from a macro economic point of view. Combining the results of studies made on the social impacts of gaming towards the economic impacts of gaming and hence conclude a national strategy in case of a deregulation or liberalization of gaming in Sweden.

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