



**iGAMING
BUSINESS**

Mobile Gambling Report: Opportunities for the Industry

A New report from iGaming Business



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Introduction

For many industry commentators, 2011 will be seen as the year in which mobile gambling finally comes of age. For years now, the platform was heralded as the ‘next big thing’ – the future of gambling. Yet, results have fallen way short of the bold projections of a few years ago, and the real growth of this platform only began with the World Cup in 2010 where numbers suggested up to a 400% increase in platform usage across key operators. In 2005, Jupiter Research forecasted that global mobile gambling services would generate revenues of more than \$19.3 billion by 2009. This was one of many overly ambitious market forecasts that were regularly reviewed and scaled down as it became clearer that the reality of mobile betting and gaming was significantly different to the ideals.

Indeed, it has been suggested that this early over-optimism acted as a hindrance to the growth of mobile gambling – that the market’s failure to live up to ambitious projections made it increasingly unattractive to gaming operators and unworthy of diverting time or resources from fixed Internet products, developments and revenues.

However, the projections of today seem to more appropriately apportion value to a sector whose potential is clearer than ever. When we are seeing data being reported, such as that from H2 Gambling Capital, which valued the burgeoning global mobile gambling market at US\$2.8bn in 2010, it is little wonder that any lingering doubts about the mobile gambling sector’s potential for growth and profitability are being well and truly eradicated.



Report contents

Mobile Gaming- Opportunities for the Industry is the first report of its kind to delve into the mobile gambling sector of the iGaming marketplace. The articles that have been prepared in this report provide an in-depth review and analysis into the areas that the author has considered to be key in defining the mobile gambling industry as it stands today, ranging from estimating the size of the market to the myriad technology considerations, smartphone penetration in key gambling markets to the new mobile marketing landscape. To provide a uniqueness of insight, we have amassed a diverse portfolio of the industry's key participants and commentators to provide insight on the areas of highest interest and concern.

Because this report covers such a comprehensive range of areas, and looks to the future, not just the past it serves as an ideal overview of the space, just as operators are beginning to come on board and divert marketing spend and technical resource to their mobile efforts.

There are several operators already in play, but it's a massive learning curve for everybody, and no single operator has conquered the market yet. Collectively though there have been huge advances – with many individual companies making progress in differing areas. At this point, everybody can learn from each other and the purpose of this report is to amalgamate experiences and learnings so that for the good of the overall industry, individual companies don't have to re-learn hard lessons made by others and all see the intricacies of the marketplace from the perspective of specialists such as payment providers and mobile marketing experts.

Its early days in the sector, so measurement is far behind that available on the internet, but there are some data available and benchmarking possible, and this document pulls out numbers, where they are possible. It is however, much more than just projections about market size. They are widely covered already and the industry now needs to view the mobile landscape from all perspectives in order to plan, launch, improve and grow their mobile platforms and mobile products.

Section One: Mobile Gambling - Past, Present and Future

The past failure of the mobile market to deliver anything close to projected revenues was not just limited to the reluctance of mobile operators to divert resource and effort away from the Internet product range. The underlying reasons were technology, behaviour and ancillary service related.

Most of these road-block factors are addressed in this portion of the report along with their resolutions and other positive trends which are now enabling the growth of the platform.

Critical obstacles are also covered, as there are several technological and service provisions that, once resolved, will serve as step-change factors and promote/enable further considerable growth.

Historic Obstacles and Showstoppers

Inherently unsuitable devices that were built for little more than calls and texts were being called upon to deliver much more than their interface was truly capable of.



Historic Obstacles and Showstoppers

Prohibitive download process on old-school feature phones, where you might end up with “as few as one registered bettor for every 2,000 clicks on an ad” – Marcel Puyk, CEO of Collectivity.

Massive development costs and issues as a result of thousands of devices, screen sizes and iterations of operating systems. Fragmentation was a huge hindrance on the supply side of the mobile gambling marketplace.

Payment processing was not initially supported on the mobile device, limiting the mobile offering to be “execution only” alongside a far superior fixed Internet service.

Mobile Internet simply didn't take off on feature phones. It was transaction not experience-based, and interaction beyond calls and texts was very limited.

Network infrastructures were simply not good enough to meet requirements.

Mobile Network Operators (MNOs) were extremely reluctant to be promoting or involved in gambling, which was grouped with pornography under Adult Content.

Lack of customer confidence or trust in transacting on their mobile

Current and Enabling Trends and Factors

Emergence of Smartphones, primarily driven by the Apple iPhone and iPad. Estimates suggest that up to 50% of Smartphone users have made purchases online.

Consumer behavioural changes - both in mobile usage, which now extends to a wide range of consumption and commerce, and also media usage which is moving increasingly towards a “multi-screen” habit.

Huge growth of in-running and in-play betting which now represents up to 50% of interactive football bets. Mkodo has identified that up to 30% of bets on mobile are on live events.

The demographic correlation between Smartphone/tablet adoption and betting propensity is driving player conversion.

Mobile data packages – no longer “pay per minute” – are enabling mobile gaming and bingo.

Consumer trust in mobile transactions and interaction has dramatically increased

Networks and Wi-Fi are far superior and meet the required capabilities for mobile gambling services.

Current Obstacles

Some networks are not ready. For example France and countries within Scandinavia are not completely up to the requirements for mobile gambling.

Small device size can make it difficult for customers to use for sustained periods of time.

Payment processing remains a huge problem for gaming operators, and there is some way to go before the mobile solution comes anywhere near the Internet payment processing offering.



Section Two: What do we mean by “Mobile Gambling”?

Products

It is widely acknowledged that sportsbetting has been the driver of mobile gambling, and certainly is the product that is currently generating most revenue. However, bingo is gaining huge traction, and as devices and networks continue to improve casinos and games will claim their own space. Already operators are seeing tremendous revenues from slots, yet, it is widely acknowledged that there is tremendous room for growth. Poker on mobile is not as straightforward as the other products, yet with the plethora of products available, it's hard to imagine that this will not find its own successes.

Functionality

The development of the mobile platform has been an interesting one. Historically, the available applications were, for the most part, simply another way for existing Internet-based customers to bet. Mobile had been a distribution channel only, secondary to the Internet account rather than a standalone platform or even, more importantly, a door to a new customer pool.

For some time, the mobile's ability to act as an acquisition and retention tool was grossly underutilised, due to functionality issues and the lack of resources afforded to it by gaming operators. This is in the process of changing dramatically, and we are now beginning to see evidence of mobile-specific marketing from operators, which is likely to increase significantly with the start of the 2011/2012 football season.

Section Three: Mobile Devices

Tablets

- Primarily considered to be entertainment devices and because they are larger than phones, tablets are definitely more suitable for mobile gambling, and particularly gaming.
- High-end, expensive devices imply affluent consumers – which correlates to the demographics of online/ interactive gamblers.
- Not as portable as mobiles, and evidence shows that tablets are primarily used at home.
- The iPad, although the market leader, is now seeing significant competition from other tablets including RIM's Blackberry Playbook, which supports Flash – something Apple have, to date, excluded from the iPhone and iPad devices.

Smartphones

- Despite Apple being the initial driver of Smartphones and bringing into effect the step-change from feature phones, Google's Android has taken over from Apple's iOS as the dominant operating system.
- More Smartphones have been shipped than feature phones in 2011.
- Sales of Smartphones and tablets are expected to exceed PC and laptop by end of 2013.

Feature Phones

- Despite the hype around Smartphones, Java-based feature phones still dominate the global marketplace.
- There are regional differences in devices used and in emerging gambling markets, such as Eastern Europe, Africa and South America, feature phones have higher penetration than Smartphones, and it's likely to remain this way for some time.



- New entrants to mobile gambling are, for the most part, not undertaking any development for feature phones, concentrating on Smartphones instead.

Section Four: Markets

This section of the report will analyse the key gambling markets and where they stand in terms of mobile readiness. For unfettered mobile growth, there has to be several critical factors in place which are beyond the control of the gaming operators. Smartphone penetration and mobile network sufficiency are two such aspects. In the UK (Europe's largest gambling market), Smartphone penetration is as high as 30% among adults; a figure which is rapidly increasing. Other fast-growing gambling markets have a lesser Smartphone adoption coupled in some cases with network coverage that is patchy at best in rural areas.

In Asia, and particularly in Japan and Hong Kong, mobile betting is already a dominant platform, and yet the massive growth right now lies with the government operators such as the Hong Kong Jockey Club. The US has the highest Smartphone penetration and consumer transaction on mobile devices, yet their prohibitive legislation means that this market is largely closed to mobile opportunities. That being said, one of the earliest moves in 'mobile gambling' was made in Las Vegas, Nevada, when Cantor Gaming was licensed to provide in-resort mobile wagering.

At the other end of the spectrum, in the emerging markets of South America, India and China, feature phones, rather than Smartphones, remain dominant which omits any of the new entrants to the market that are, for the most part, focussing their efforts solely on the latter.

Section Five: Technology

The legacy of developing for mobile gambling is one of myriad platforms, devices and operating systems. Theoretically, this should be getting easier, although this is an arguable point. Despite the (likely) lower porting costs, the fragmentation still exists across devices, platforms and system versions.

Today's hype in the media and the gaming industry primarily surrounds Apple and Android, yet it is not quite that simple. Questions arise as to the pros and cons of Native versus HTML5 apps, the lack of Flash on Apple, the future position of Blackberry as a consumer product, especially now that their PlayBook has launched to great accolade, and of course the inevitable demise of J2ME.

While J2ME is a nod to the past developmental efforts that never really came of age, the fact that underneath today's massive Smartphone hype, most phones are Java-based is often ignored. Admittedly, when Nokia moves its Smartphone operating system from Symbian to Windows it will cause a huge shift in the market, but it's not here yet, and more importantly, the emerging markets such as Eastern Europe and Latin America, in which mobile rather than Internet gaming will arguably be more prevalent, lag behind the technology adoption rates of the UK and Western Europe. In this light, Java/J2ME is effectively non-negotiable for an operator or supplier looking to gain traction in these jurisdictions.



The market is not showing signs of stabilisation in terms of a standardisation of operating systems, and the land grab isn't over yet.

Native or M-web app

Native App	M-web App (HTML5)
+ Very fast – locally installed	+ Cross platform
+ User experience	+ No local installation
+ Utilises device features	+ Easy to update and maintain
– Updates require a new install	– Early platform – not yet mature
– Strict publishing rules	– Slower app response time
– Prohibitive or limiting App store policies	– Security and encryption
– Huge development costs	– Not as feature rich as native apps

Section Six: M-Commerce and Payment Processing

Many consider the entire area of M-Commerce to be the 'holy grail', and it is hard to argue against this supposition. Mobile Network Operators (MNOs) have the primary billing relationship with the customer, which was seen by some as the key component in driving exponential growth. The ability to pay via a phone bill or Premium rate SMS (PSMS) through Payforit would be a game-changer, but there are so many issues – including fees/charges and paying winnings to credit control by the MNOs – that it has never taken off as a suitable method for gambling.

Finding the line between the spontaneity of PSMS and low charges of debit/credit cards is still a work in progress, and while payment providers are in the process of developing mobile specific payment systems, it remains a process in development.

Along with the spontaneity issue (which is critical from the customer's perspective) lie the charges associated with each method that the gaming operator must bear. With MNOs taking 30%+ of PSMS charges, it effectively isolates this method as a pure acquisition tool, and yet there are very few real mobile-based payment solutions that do not require Internet interaction or use web-based technology that is not entirely suitable for mobile. For the exponential growth of mobile gambling, there must be vast improvements in the quantity and quality of payment solutions that allow customers to easily and quickly make deposits and withdrawals on the mobile – using their preferred method.

Section Seven: Mobile Marketing

App Stores: Currently, the only way to get an application to an iPhone or iPad customer is via Apple's official



App Store. Yet, the restrictions on gambling are onerous and the application process is lengthy and tedious at best. On the other hand, Android is theoretically more flexible but, since March 2011, has expressly prohibited the presence of any gambling application in its Android Market. However, operators can promote Android applications from any source, including their own website, and third party app stores such as Amazon, Getjar and Ovi.

Advertising: Advertising on mobile devices has significantly changed in recent months being that internet consumption, driven by social media sites such as Facebook, has increased dramatically which means that the volume of advertising and targeting opportunities has also grown in parallel. Specialist agencies such as Somo, Google's Admob and 4th Screen are working with many gaming operators in this field.

SEO: Search engine optimisation on mobile is not as slick as it has become on internet. Google's search engine for mobile, separate to its internet functionality, has been described by some as "hit and miss". There are also massive differences in consumers search process on mobile as opposed to fixed internet and to simply replicate the internet strategies on mobile will not suffice. In addition, SEO must now include positioning within App Stores, which is a brand new phenomenon that is only just being realised.

Tracking: Currently a well-acknowledged issue for marketing and affiliates in that it is not nearly as effective on mobile as it is on internet, although efforts are being made to rectify this situation.

Affiliates: Typically the presence of affiliates is the sign of a mature marketplace, which mobile gambling certainly is not. Yet, operators and affiliates are seeing the opportunities and gaining traction far earlier in mobile than they did with fixed internet gambling.

SMS: Considered by many as "old school" mobile marketing, yet it remains one of the most effective tactics, provided it is executed properly.

Section Eight: Case Studies – Suppliers

Having interviewed a wide range of suppliers in the mobile industry, this section will provide a snapshot of the industry – who's who, what services are on the market and where they are going in the future. All pertinent sectors are covered from platform aggregators and white-labellers, payment processors, games developers and those who mobilise the betting operations of others.

Ali Quantum	A mobile and Internet platform provider that amalgamates multiple suppliers for its licensees to pick and choose from. Partners include IGT and Cozy Games.
Collectivity	Took its first mobile bet on June 1, 2002.
Cozy Games	Has found that once a player plays on mobile, their lifetime value increases by 20% over those who play on Internet only.
IGT	Bringing its premium branded content to mobile platform – and now undertakes synchronised releases with its Internet game deployment.



Mfuse	Early mover in the field who enabled many operators to launch mobile sportsbooks. Clients include many of the largest operators.
Mkodo	Chose mobile web over Java in 2006 and in 2007, launched its first sportsbook with Rank.
Mobenga	Clients include Paddy Power, bwin, Betsafe, Unibet, Stan James, Nordicbet and Expekt.
OpenBet	Will be the exclusive platform onto which Fremantle Media will launch its first four branded slots games.
Playtech	Partnered with mobile connection provider Buongiorno to launch in the Italian market under the brand "Winga".
Spin 3	Microgaming's mobile partner offering turnkey mobile solutions to its clients, which include Ladbrokes and 32Red.

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888	Acquired the games development studio, Mytopia, in June 2010 including a real-time multiplayer mobile poker application which has been installed by more than 1 million users globally.
Bet365	Browser based sportsbetting product with exclusive mobile-specific bonus incentives for customers.
Betfair	Recently announced £1 billion in bets were placed on mobile in the last financial year, with 168,000 bettors using mobile devices.
Betfred	Betfred App is compatible with iPhone and Android handsets
Betsson	Supports extensive range of feature phones as well as Smartphones.
bwin.party	Real-money iPhone poker app is available through Apple's UK and Austrian App Stores.
Ladbrokes	18% of Ladbrokes customers who bet online, also bet on mobile.
Mbet	A white label operation from Cometa Wireless, hosted on Ali Quantum's Plus Five platform.
mFortune	mFortune is one of the early movers in mobile gaming and uses Income Access affiliate marketing software to drive penetration in the marketplace.
Paddy Power	Arguably the most attractive consumer-friendly native app on the market, with position in Apples App Store.
Probability	Q1 2011 Net Gaming Revenue was 45.6% higher than Q1 2010. iPhone and Android devices increased to 42% of income during June 2011, up from 37% three months prior.
Rank	Attributed 20% of revenue to its mobile platform in 2010, representing an increase of 300% year on year.



Sportingbet	By the end of 2010 mobile represented up to 10% of active customers in the markets in which it was launched it in and the company began to roll the product out widely
Unibet	Launched Java application for mobile betting and downloadable casino in 2008, followed by WAP and iPhone applications in 2009
Virgin Games	Has made commitment to HTML5 apps, rather than native.
William Hill	Q1 2011 saw a year-on-year increase in total mobile stakes of 750%.
Zynga	iOS poker application was the top grossing app in Apple's US App Store, and in the top five in the UK in May 2011.

Industry Soundbites from this report

Chris Costello, Mobile Development Manager, IGT: "Mobile is an opportunity to grow revenue, rather than cannibalise it. As a new channel it is definitely being seen to increasing the revenue of the operator".

Sreeram Vanga, Managing Director, Cozy Games: "As soon as a customer plays on mobile, their overall value increases by 20% compared to web-only players".

Marcel Puyk, CEO, Collectivity: "Mobile already represents 15% - 20% of business for those operators that have launched on this platform, and has the potential to reach 30% - 50% of gambling turnover within a few years – certainly much faster than many people are predicting".

Charles Cohen, CEO, Probability: "The world is changing very fast, and the one question that everybody wants to know is what is mobile gambling going to do to the internet business".

Andrew Pegler, Business Development Director, Mfuse: "The advent of HTML5 will help us all bridge the user experience gap between pure native applications and MWAs (mobile web applications)".

Mark Gibson, Senior Business Development Manager, Mkodo: "Apple caused a big change and made it work by dragging everybody else up. They are a difficult company to work with from a gambling perspective, but you can't underplay their importance in".

Mark Jones, Sales Director, Ali Quantum: "When things started moving towards mobile, companies such as Jamster were very successful in getting people involved – downloading ringtones and logos were huge. They opened up the mobile marketplace, but also stitched us all up through what were perceived as underhand tactics, backdoor charges and a difficulty to un-sign-up".

Aj Thompson, Founder and CEO, GamingXperts.Co: "Everything hinges on M-Commerce and payments – you have to be able to get money in and out on the mobile device without using fixed line internet"

Marcus Wareham, CEO, Mfuse: "The absolute key to mobile success is discoverability by the user"



David Hunter, CEO, Ukash: “With credit cards the operator has lower payment processing costs, but it’s subject to trust, where the player has to put their details into their mobile device, and also it lacks the spontaneity of Premium SMS – which offers the best call to action for the customer – but in itself has concerns for the player and problems and costs for the gambling operator”.

Henrik Mandal, CEO, Kyoogi: “If your app is not in the Top 10 list, your app does not exist”.

Simon Murphy, Head of Gambling EMEA, Fremantle Media: “Now is the only time we could have even considered moving our brands into mobile space – it would have been difficult on Java handsets, as the quality wouldn’t have been in keeping with the brand. The way our brands and games are executed is crucial”.





What is the main industry of your company

- Online Operator
- Professional Services
- Payment Solutions
- Marketing
- Land Based Operator
- Technology Provider
- Software Provider
- VC/Investor
- Mobile Operator
- Jurisdiction
- Affiliate

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