

**iGAMING
BUSINESS**

Digital Casinos

A Market Assessment and Outlook

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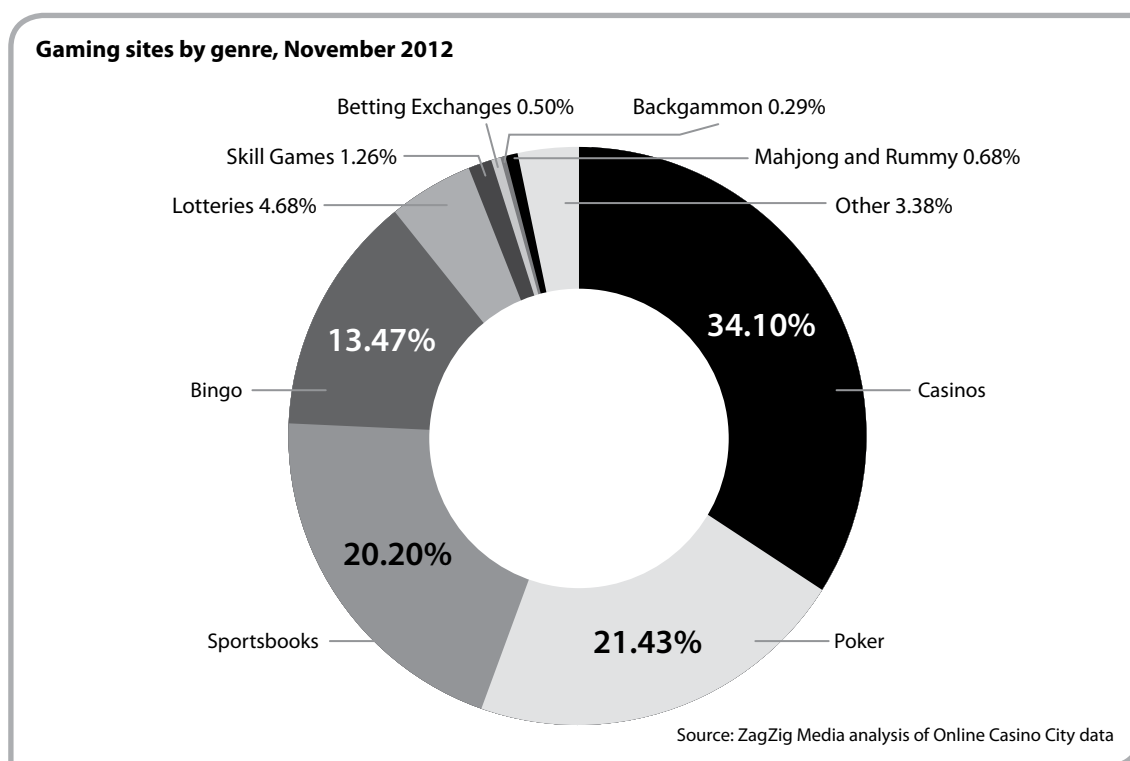
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Executive Summary

Overview

Online casinos were among the first gaming sites to appear on the internet when they launched in the mid-1990s thanks to the pioneering efforts of software companies such as Microgaming and CryptoLogic. Online poker followed in 1998 and by 2004 the online gaming market was estimated as having revenues of approximately \$8bn.

During the course of the past decade, the digital casino market (encompassing websites for computers, mobiles and other connected devices) has grown out of all recognition, maintaining its position as the leading gaming genre in terms of numbers of sites. At the time of writing, there were 956 casinos listed by Online Casino City (a site that tracks gaming sites), up from 774 at the time of the last edition of this report in mid-2010 and comprising 34.10% of the total market.



Each digital casino operator is looking to participate in a sector becoming more socially acceptable, benefiting from a liberalised regulatory structure in some markets, and enjoying very substantial growth across many key demographics including those that have been hard to reach through other types of gaming or betting such as women.

Over recent years, digital casino companies have embraced the capabilities of the internet and mobile devices, whether in terms of techniques for attracting new players, developing highly liquid playing networks, or delivering ever more feature-rich games and enhanced player experience such as live dealers.

In the early days, people were attracted by the glamour of blackjack and roulette and started playing slots when the latter became more entertaining. Some people started playing casino games in between games of poker, but now people are attracted to casino in its own right.

Industry Structure

The digital casino gaming industry is characterised by networks, software companies and standalone operators that are exclusively casino gaming-oriented or have added casino games to a portfolio of existing games and/or sportsbooks.

In the early days of the industry, digital casinos were principally entrepreneur-led start-up businesses, typified by Microgaming being launched in the basement of a parental home by two brothers. Such early operators often managed a one-stop-shop offering, from software and content development through to direct player marketing.

However, as the market started to develop and more participants entered, operators started offering elements that could be outsourced such as software for backend systems and games content. More recently operators have been able to outsource a wide range of content and increasingly a wide number of specialised services. This has meant that marketing-led businesses have been allowed to focus on the player environment, and in some instances outsource the remainder of the operations and system support.

The digital gaming market has clearly segmented into customer-facing 'business to customer (B2C)' and 'business to business (B2B)' sectors. Some operators, such as 888, Interwetten and Bwin.party offer both propositions. Meanwhile, an acronym has also been mooted for dealing in the more monopolist-regulated markets - B2G ('business to government'). For example, Bwin.party has teamed up with national gambling monopolies in France and Denmark and software company Playtech has with RAY in Finland. OpenBet meanwhile works with government-run entities in France, Denmark and Canada.

Regulation

In the US, the Unlawful Internet Gambling Enforcement Act of 2006 (UIGEA) has had its greatest effect on the casual and/or new gamer. Whilst it is relatively easy for established gamers to negotiate the maze of financing options and get money into an online account, 'newbies' have almost no idea where to start. And with the implied threat of regulators looking over their shoulder, many have simply chosen not to take the plunge - which, of course, is exactly what the US Congress intended. Efforts to license online gaming federally in that market, despite promising developments, could take time, and efforts instead are now moving faster at a state level.

In the European Union, as shown in Chapter 6, the regulatory landscape is a mixed bag of draconian regimes and liberalisation, which adds a further layer of complexity to operators considering a new market entry. No single jurisdiction is alike and the success of markets varies greatly across Europe.

Many industry insiders believe it is necessary to create a modern legal framework for online gaming under which both state and private operators can be given access to the market under strict regulations and independent controls. Only thus will it be possible to eliminate the black market and ensure effective protection for consumers.

Digital Casino Game Types

The innovations inspired by the Pac-Man craze in the 1970s (see Chapter 11) led to the development of more sophisticated video gaming and ultimately digital casino gaming. Digital casinos now represent a multi-billion dollar industry, with thousands of sophisticated, interactive, story-filled video slot machines among the many types of gaming directly descended from Pac-Man. Even a Pac-Man slot is available to European players as a mobile application offered by Namco Games.

Some products offered by digital casinos still closely replicate traditional land-based casino formats such as roulette and blackjack. Others such as poker and slots/arcade formats have developed a large range of variants and constantly innovate. Increasingly sophisticated bonus rounds now incorporate video clips, sometimes from popular Hollywood movies, which broadens their entertainment appeal. The move also reflects the increasing development of online gaming as a mainstream entertainment format. Virtual racing is also increasing in prevalence on digital casino sites.

This report takes a closer look at the following main types of casino game:

- Card-based casino games – baccarat and blackjack (Chapter 7)
- Dice-based casino games – craps (Chapter 8)
- Wheel-based casino games – roulette (Chapter 9)
- Slot-based games – slots and progressive slots (Chapter 10)
- Video-based casino games – video poker (Chapter 11)
- Virtual reality-based games – virtual horseracing and greyhound racing (Chapter 12).

Types of Online Casino

In addition to portals and affiliate offerings, there are three main types of online casino sites servicing players:

1. Free casino games/play-money sites. Free casino games are offered by a small number of specialist sites (such as 777.com and Freecasinogames.com) or as an option on real-money sites. Game play is free and prizes are usually given as points or as small denomination cash prizes. The operator's business model for this type of site where it is standalone tends to be built on banner advertising sales and/or sales of data. Often these sites are used to drive players to real-money sites. Many software providers for example introduce pop up messages during the game play asking players whether they want to convert to real money wagering. One of the dangers of a free-playing online casino site however is that it can create potential customers for other sites, not just its own operations. Converting free players to paying players remains a challenge for the online gaming industry.
2. Game sites with casino or casino variants. These websites offer a range of casual games, of which casino games are often included. These sites include casual games sites such as Pogo and Gamesville. Many of these sites offer ad-supported free-to-play browser-based games while offering optional paid subscriptions that provide a variety of benefits including access to more games or an enhanced experience compared with free-to-play, such as unlimited playtime.
3. Real-money casinos. These sites represents the bulk of the online casino industry and are typically offered by state-owned companies, land-based casino and betting brands, standalone dotcoms and/or entertainment brands that have entered the gaming space. The business model for this type of site is discussed in this report.

Customer Acquisition and Retention

With personalisation and localisation of services high on the agenda of many gaming operators, understanding the demographics and motivations of digital casino players can greatly enhance the effectiveness of product development strategies and customer retention initiatives. Furthermore, brands from other media or industries might be leveraged to appeal to these types of customers effectively.

Internet registration information and customer tracking technologies enable operators to gather a wide variety of information about customers, including valuable demographics. This helps operators to implement effective customer research management (CRM) systems and produce highly targeted marketing campaigns and customer retention strategies including loyalty schemes.

Likewise, land-based casinos can capture details about their customers through membership programmes. In short, a casino operator has a potential advantage of possessing detailed intelligence on who its customers are and what they like or dislike.

Attracting New Customers

Digital casino operators need to balance the requirement of making their services easily accessible to novice gamblers with the provision of creating more sophisticated services for established customers. There needs to be a comprehensive offering that is priced competitively and that is tightly controlled and closely monitored by the operator.

Retaining Customers

The benefits of introducing a customer retention scheme for digital gaming products are:

- Happy customers are more likely to be loyal customers
- Constructive approach to minimising complaints
- Builds on perceived corporate values
- Perfect accompaniment to your customer incentive programme

The cost of acquiring new customers runs 8 to 10 times more than the cost of keeping existing ones. Therefore, having persuaded new customers to open an account and gamble with them, digital casinos need to develop the strategies that can retain customers and encourage them to spend more. Whilst eye-catching promotions help to drive customer acquisition, customer retention comes from engendering loyalty through building bonds with players. This leads to people playing more games, more often, for more time.

Casinos and Connected Portable Devices

The 'anytime, anyplace, anywhere' convenient culture of mobile phones, combined with their status as a trusted device makes them ideally placed for offering gaming services to customers. Casino operators are indeed getting in on the act by increasingly offering mobile websites, SMS alerts, mobile websites and/or smartphone applications (apps) to their customers.

In the past few years, gaming software developers have injected vast amounts of capital into the development of such mobile propositions. New technology is designed to display all the graphics, sound effects and game backgrounds just like the online versions, right on a mobile phone screen. This has generated a wide range of mobile casino options.

The mobile platform opens up a wealth of opportunities from alternative channels for playing casino games, removing the need for customers to visit a bricks and mortar establishment or find a computer to play a game.

However, in order to be successful, mobile casino operators need to reach as broad a set of consumers as possible, while at the same time minimising the time and cost invested in delivery.

Marketing is an essential part of the mix, making it easy for customers to hear about the offerings and then to reach and use the services. SMS shortcodes can easily be incorporated in a range of offline and online campaigns, as can 'send-to-a-friend' viral options.

Mobile gaming has been slow to gather momentum due to technological constraints, but this is now starting to change with powerful, internet-ready mobile phones ('smartphones') becoming more accessible.

There are five main areas of gambling/gaming on mobile phones:

1. Mobile betting - Services include live betting during sports events and betting exchanges.
2. Mobile casino games (including poker) - The simplest and most common mobile phone casino games are slots games. Some mobile casinos also offer card games and multiplayer poker rooms.
3. Mobile skill games - Graphic rich creative games for cash prizes are available on many mobile services such as Desert Treasure, Crazy Camels and Jumping JackCash.
4. Mobile lotteries - The simple nature of entering a lottery makes the game an ideal candidate for the mobile platform.
5. Mobile bingo – an easy way for bingo players to play the popular game on their phones.

Industry experts agree that the mobile channel has not yet fulfilled its potential for gaming companies. Many operators have long considered that mobile gaming would require further technical advances before it could ever match the ease and usability of internet gaming. Many suspected that the gaming industry would not feel the effects of a mobile gaming boom until it could match other platforms for speed and robustness. Mobile phone capability combined with market dynamics has resulted in the separate development of mobile sportsbook solutions that enable punters to place phone-based bets, and mobile gaming solutions through which casino style games can be either accessed online or downloaded to the phone.

With the advent of wireless smartphones such as the iPhone, mobile gaming is now expected to grow at a faster pace however. Such handsets offer better hardware and user interfaces, better connectivity and a superior content platform. They also provide the capacity for live dealer streaming. The first movers in the smartphone gaming/gambling space were Betfair, Tabcorp and Paddy Power which all launched smartphone apps in 2010.

Launching smartphone apps is not enough however. Organisations still have to deliver a highly intuitive interface and a single portal service to create a true mobile gaming destination. Delivering a single portal that enables customers to access all services in one place, with one account and one password will increase uptake according to industry insiders.

Digital Casinos and Social Media

The gaming landscape has changed greatly in the past six years, most notably away from the traditional single-player console games and towards lighter casual and social games on the internet and mobile devices.

In the past decade, digital games have become a widely accepted form of media entertainment, even outside the traditional 'core gamer' segment. In tandem with this shift into the mainstream media market, the industry has seen an increasing interest in 'social' multiplayer gaming activities, from both the audience and the gaming industry.

No longer the preserve of the young male, social games are played by everyone from stay-at-home mothers to the middle-aged. Indeed, research puts the average age of a social gamer as 48 years old. And among these forty-something-year-olds, 90% reported the same or increased game play over the previous three months. They're spending less time reading books and magazines and even less time watching TV or going to the movies.

The most popular social games tap into real-life passions and relate to the hobbies and interests of the user. Multiplayer games and trading games in particular have proved to be popular on social networking sites. Lottery games and slots have proved incredibly popular too, regularly featuring among Facebook's top applications. Games that show players how their friends are doing seem to encourage the player to play more, and encourage competition among their friends in return. Meanwhile, social chat is a major feature of playing some games online such as bingo.

At the time of writing there were hundreds of virtual slot machine and poker games on Facebook, including Jackpotjoy, Slotomania and DoubleDownCasino.

In June 2012, Zynga launched its second casino-themed mobile app, Zynga Slots, available on Facebook and designed for use with iPhone, iPad and iPod Touch handsets.

The US firm declared that Zynga Slots marked the third game in the franchise after Zynga Poker and Zynga Bingo and had been designed to "up the ante in the mobile casino experience with the use of innovative features including seamless gameplay, high-quality graphics and never-before-seen social elements" in order to deliver "the ultimate slots experience for casino fans and new players alike".

Barriers to Growth for Digital Casinos

Apart from market entry costs, further development in the industry (or in individual digital markets) could be hindered by factors such as the global economic downturn, broadband or smartphone penetration not happening as fast as predicted and restrictive legislation.

What is Next for Digital Casinos?

Whilst the rate of growth in new digital casino sign-ups in any individual territory can be expected to decline over time as a market matures, the impact on overall growth will be mitigated by the opening up of new territories through increased penetration of broadband and smartphones and the recognition by governments of a need for a proper regulatory framework for online and mobile gaming.

Whether individual casino operators succeed however will come down to their ability to attract and retain paying customers who are increasingly getting younger, or from the growing pool of non-core gamers.

In terms of future trends for the digital casino industry, the following have been identified as potentially the most important or likely to happen:

- Consolidation
- More Non-Traditional Gaming Brands Entering the Market
- More Casinos Launching Play-Money and Real-Money Sites
- More Deals in the US as the Market Plays 'Wait and See'
- More Targeting of Growth Markets
- Continued Cross-selling of Products
- Reaching Non-Traditional Online Gamers
- Differentiation Becoming Paramount
- Greater Efforts to Hold Onto Existing Players
- More Innovation/Production of New Games and Formats
- Mobile Gaming Will Continue to Get Smarter
- More Localisation
- Better Security
- Increasing Use of Social Media

Industry Soundbites From the Report

Daniel Better, casino & games group director, Bwin.party:

"There may be nearly 1,000 online casinos, but rapid polarisation of the marketplace will inexorably lead to a flight by consumers to the quality end where few operators have the ability to continually innovate, keep pace with consumer demands and differentiate their product.

Apps for mobile products have become a commodity in a very short timeframe: producing real money games for the fast-expanding mobile market, however, is a completely different and considerably more technologically demanding proposition. Many of the 1,000 or so online casinos cannot keep pace with the innovative dynamism that is and indeed is exposing a vast difference in the quality of products on offer at the top and lower regions of the online casino industry.

Bwin.party, for instance, has more than 1,700 software engineers and an in-house games development studio. Compare this capability with those of casino sites that can only offer what are really yesteryear's range of games available at multiple casinos and it becomes clear why polarisation is where the industry is heading and fast."

Anthony Prissman, programme manager, Fortune Affiliates (on behalf of Platinum Play Online Casino)

"There are three elements that matter the most to customers: entertainment value, safety and security, and support service. These are the areas that casinos should develop to differentiate themselves from competitors. If you get them right, these three elements will give your brand a distinct competitive advantage in the crowded casino market.

Entertainment value is created with a wide range of quality games and interesting promotions. Make the most of the scope of promotions by offering a variety that is likely to interest different customers. Free spins, lucky draws, purchase matches, cash rewards and loyalty programmes are some examples. Wrap some compelling themes around them to mix them up and make them unique."