

# Executive Summary

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## Background

Against a backdrop of a global economic downturn, evidence from some publicly-traded gaming companies such as Bwin.party, William Hill, Playtech and Ladbrokes show that throughout 2012 and 2013, revenues from poker have continued to be squeezed. No longer finding poker to be a licence to print money, some digital operators are having to work harder than ever to retain existing customers and encourage them to spend more money on their sites.

Essentially, digital poker's development has been similar to that of a typical teenager – large bursts of growth followed by shorter ones, periods of uncomfortable orientation and a sense of invincibility. However, times have changed. The digital poker boom is considered to have peaked in the UK by many industry commentators. The UK is a country that is now considered to be a mature market, well over its poker fad.

Meanwhile, growth in digital gaming in the US is still stymied by prohibition at the time of writing although positive moves on a state-by-state level, led by Nevada, that have seen gaming operators enter the market are considered bellwethers for regulation at a national level. Pockets of opportunity also still remain for the industry in markets that are starting to open meaning the digital poker industry is a long way from being nascent yet.

In essence, each digital poker operator is looking to participate in a sector becoming more socially acceptable and entertainment-based, benefiting from a liberalised regulatory structure in some markets, and enjoying growth across many key demographics including those that have been hard to reach through other types of gaming such as women. Add to that the growth in social media, smartphone apps and microtransactions and multiply that by the growing number of people globally with broadband connections and wireless access, the future still looks bright for digital poker.

## Digital Gambling

The gambling market can be divided into digital/remote/second screen (internet, mobile, interactive television) and non-remote (betting shops, casinos, cruises, private, at-event) gambling. In the case of poker, more people are thought to play the game privately (such as at home) than in casinos. Generally, a good poker player can make much more money from private games than from public (club or casino) games because of avoiding the casino cut or 'rake'.

Digital gambling is now regarded as one of the most important internet businesses globally. Besides sports betting, which has enjoyed first mover advantage in the online arena and has been the driver of online gambling, other areas such as casino games, poker, bingo and lotteries have expanded into this area. Social gaming (i.e. games played on social networks such as Facebook) are also growing in popularity with poker enjoying early success on this platform. And with social gaming specialist Zynga entering the real money poker market in April 2013, these are interesting times for the industry.

### The Online Poker Boom

During the 'poker boom' years of 2003 through 2006, online poker was one of the biggest money-spinners on the web, for example, some leading poker websites were bringing in \$2m to \$2.5m a day at that time.

Growth in the poker industry has been fuelled by many factors including:

- increased television exposure,
- reciprocal movement between online and land-based poker-playing,
- celebrity participation,
- high net-worth prizes,
- relatively low barriers to entry (due to 'skin' partnerships),
- better online payment methods and
- ease of online access through broadband and mobile penetration.

Between 2003 and 2006, the digital player pool was at least doubling in size every year, according to PokerScout.com. The number of new and inexperienced players made the games relatively easy to capitalise on. In 2007, however, the games became more competitive; casual players were the most sensitive to new regulations and new impositions to withdrawing and depositing money, removing some of the weakest players from the poker ecology. Many went from being significantly winning players to modestly losing ones, giving back about one-third of the money that they had made during the boom years, and withdrawing the other two-thirds.

According to the World Poker Tour, more than 60m Americans play poker, and 100m play in the rest of the world. Meanwhile, The Economist has estimated that there are 180-200m poker players around the world. Around 5.5m people are reported to play poker online regularly, although according to digital poker traffic measurement website PokerScout, digital poker traffic (excluding-Italy) decreased by 30% during 2011 as the industry came to terms with 'Black Friday' in the US, where over half the world's digital poker players are based.

### Main Types of Poker Site

The most popular variants of digital poker are Texas Hold'em and Omaha. As well as portals and affiliate offerings, there are three main types of poker site servicing multiple players:

- Free-to play (F2P) poker
- Game sites with poker or poker variants
- Pay-to-play/Real-money poker

The area having the greatest influence on the business model of a digital poker site is whether it chooses to become part of a network (a skin) or to go it alone. The differences between network and standalone poker operators are outlined in Chapter 6, with hybrid models of the two also apparent. A new entrant in the digital poker space might benefit from joining a network initially in order to learn the business and share liquidity, jackpots and marketing campaigns. A more established brand could then grow its business by migrating to a partly shared network and running its own streams through sharing liquidity and pots in off-peak times, before ultimately running a standalone network with complete control as a final model.

At the time of writing, the leading poker networks by liquidity were Ogame, iPoker, Pacific Poker and Microgaming. Standalone site PokerStars was the largest in terms of market share overall.

### **Poker on Mobile and Tablet Devices**

The growth in mobile phone usage and particular in smartphones means that gaming properties are able to reach their fans more easily on the move than ever before through SMS alerts, mobile websites and/or smartphone applications (apps).

Mobile poker, unlike mobile bingo or other mobile casino games, has been slow to take off. The main reason for this was mobile technology not quite being advanced enough to handle multi-player poker over recent years. Players had often been reluctant to enter tournaments in a mobile environment in case they lost their mobile signals at a critical moment or were interrupted by a phone call. In the last 24 months however this has changed with powerful phones such as the iPhone and Androids becoming the norm and offering better connections and functionality.

Poker's first mobile offering was actually developed in 2004 by Cecure Gaming with its Aces Royal game. The company went on to run mobile poker games for UK mobile networks Orange, T-Mobile, 3 Mobile and Vodafone as well as for other mobile brands such as the World Poker Tour and Ladbrokes Poker Million. The company however went into administration in July 2009.

Bodog made news in December 2008 with a downloadable application for both the iPhone and Blackberry devices that enabled full digital poker access between any combination of platforms. This was followed with mobile poker launched by Cake Poker in early 2009.

Then in early 2011, Bwin became the first poker room to convince Apple to approve a real money poker app and many gaming operators have since followed with their own apps for the iPhone and iPad.

Hurdles to mobile poker development include:

- Regulation/licensing issues
- Trust and acceptance issues from customers
- Payment processing/billing arrangements
- Roll out of smartphones in certain markets
- User interfaces
- Data cost
- Industry structure
- Network coverage
- Age verification problems in some markets
- Cultural differences in perceived use of a mobile phone relative to a PC, for example, Americans tend not to use their mobile phones other than for communicating, whereas Asian and European people view mobiles as being general entertainment devices.

### **Poker and Social Media**

One of the biggest changes to the way people have engaged with the internet over the last few years has been seen in the growth of social networking and user generated websites, facilitated by the growth of broadband access and smartphone take up. Sites such as YouTube, MySpace and

Facebook, as well as virtual reality sites such as Second Life are now some of the most popular digital destinations globally. Blogging and tweeting (sending shorter messages via mobile internet) are other digital community tools that are now increasingly commonplace too.

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. According to Cisco, internet users spend an average of 24 minutes per day on social networking sites.

One of the interesting developments in remote poker has been the popularity of Zynga's Texas Hold'em and KamaGames' Texas Poker games on Facebook and the iPhone. For traditional poker players, the notion of playing poker for no money is ludicrous. However, that is precisely what is occurring with Zynga where millions are playing poker free. Whether Zynga can convert those into paying customers on its new real money platform however is another matter.

### **Poker and Television**

Television has been a prime ingredient in poker's popularity with the World Poker Tour (WPT) in the US first bringing the game to screens in 2003 and leading to a format that has since been replicated worldwide. However, it largely remains a passive experience for the viewer at home with programming centred around events that have already taken place rather than a more interactive experience as with the case of lottery and bingo programming for example.

Television however allows a poker operator to bring a degree of excitement to poker and to stimulate interest for the game in general, as well as being a way of driving players to poker offerings on other platforms and vice versa.

Some poker players have become television stars in their own right as they take their natural place as part of 'celebrity' popular culture. For example, several players have joined the cast of US reality shows in recent years. Bodog pro Jean-Robert Bellande was a castaway on the CBS reality hallmark Survivor. Annie Duke finished as the runner-up to Joan Rivers on NBC's Celebrity Apprentice. And player Tiffany Michelle joined Maria Ho on Amazing Race in 2009.

Over the past few years, most televised poker was a result of digital poker room time buys. In most cases, a digital poker company would hire a production company to buy up various time slots, usually late at night, and create poker programming that heavily advertised its product. This programming, beyond the obvious advertising benefits, had little programming support from the network itself.

Before the events of Black Friday in the US led to the demise of many poker shows, some industry insiders had been concerned that, although television had fuelled the popularity of poker, there was a danger that too much poker-relating programming would turn people off the game.

Many experts agreed that there had been a lot of poor poker programming on television and that production companies and broadcasters needed to start being more savvy with formats and choice of participants in order to prevent audience churn. Ironically, with less poker programming now available to networks, demand may exceed supply and television audience levels may rise again, particularly for the 'crown jewel' poker events.

### **Commercial Models in Digital Poker**

In a digital poker room, the player's computer screen becomes a virtual card table at which they and their opponents appear as various characters. Some sites allow players to customise the look and feel of their playing environments and choose avatars to represent themselves.

There are games where players can join in and leave at any time (known as cash or ring games), and tournaments that they can join for as little as \$10 (many sites operate in multiple different languages and currencies).

Some websites focus more on cash/ring games, whilst other poker rooms focus more on tournaments. Some focus on higher limit games, whilst others focus on low limit, or even penny games. Each digital poker room has different sign-up bonuses, with different rules and 'reload' incentives.

Digital poker platforms need to have sufficient liquidity in terms of volume of players i.e., enough active players playing a wide variety of games ensuring that new players logging on will not have a significant wait to join the game of their choice. Provided digital poker platforms have suitable liquidity in terms of volumes of players, they are exposed to comparatively low risk compared to those running more traditional sports books, which explains the proliferation of such websites.

Some poker sites are able to achieve liquidity by going it alone and building a successful affiliates programme, whereas others generate traffic through being part of larger networks.

A network model offers:

- low barriers to entry
- instant liquidity
- product knowledge
- minimal infrastructure costs
- marketing expertise
- ability to bring brand to market quickly

A standalone model offers:

- Independence
- flexibility
- control of campaigns and bonusing etc
- proprietary database
- no network limitations

### **Protecting Player Accounts and Paying Out**

A digital poker operator would not have a business without robust payment and security functions. These tend to be outsourced in the digital gaming world, although this is usually disguised from the customer.

Players can use a variety of payment options to make deposits and withdrawals on poker sites, although these vary from site to site and some refuse to process payments from or to US citizens. If a poker site gets the payments side of its business wrong, it can lose customers. If it gets it right however, it can enhance loyalty, grow margins and market share.

### **Poker and Marketing**

Digital poker operators need to not only attract players, but also keep them coming back. Players are becoming more transient and the pressure is on for operators to hold on to their players in any enticing way that they can. Insiders suggest that new digital gaming operators need to spend around \$30,000-\$50,000 each month in marketing if they are to compete with established brands or those with deep pockets. Some digital gaming operators are reported to spend well over \$1m per month on their marketing budgets alone.

With marketing departments under greater pressure to justify promotional and brand expenditure, the challenge to all marketers is how one can accurately measure the proposed and actual return on advertising and sponsorship investment potential. Meanwhile, advertisers are actively seeking ways to go 'beyond the 30-second spot' through the seamless integration of content and marketing messages.

### **Legislation and Regulation**

In most countries, the regulation of gaming is based on whether the predominance for the outcome of the game lies in skill or chance. Regulations relating to gaming vary from country to country and even by territory to territory in some countries, so an operator looking at entering a new market or even acquiring players from other markets will need to seek appropriate legal advice. As an example, some gaming sites claim to spend over £1m annually on legal advice and fees alone, so a new gaming operator needs to plan for such costs in their budget.

Digital poker operators obviously need to adhere to the laws of their target markets if they want to escape the wrath of governments and their regulators. Operators face significant legal and legislative risks due to the fact that many countries still lack a clear legal framework for digital gaming, and in many instances market access by private providers is restricted in order to protect state monopolies.

Some markets that have banned digital gaming completely however are predicted to experience growth as established customers in particular find alternative ways of funding their accounts and/or continue to be targeted by offshore sites that choose to disregard legislation.

In the US, the Unlawful Internet Gambling Enforcement Act of 2006 (UIGEA) and subsequently Black Friday have had their greatest effects on the casual and/or new bettor. Whilst it is relatively easy for established bettors 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 digital gaming federally in that market, despite promising developments, could take time, and regulation is now moving faster at a state level.

"Black Friday was the online poker industry's dotcom crash," said one industry insider. "Essentially, the UIGEA was the real beginning but Black Friday has become the historical marker stone that most of us will, in coming years, define as the turning point."

The key questions for a new digital poker entrant to consider when entering a new market are:

- Do they need a licence and if so, can they get one?
- If not, are they prepared to potentially invite litigation from the particular government or regulator?
- Can they ensure distribution and brand presence?
- Are the new opportunities of a regulated market greater than the increased costs of business that will follow from going the 'official' route?

### **Liquidity Issues with Ring Fenced Markets**

A successful digital poker proposition hinges on liquidity and the increasing trend for countries to ring fence their markets is causing concern for the future of the industry in some quarters.

In its 2012 annual report, French regulator ARJEL argues that the French online poker market can only be saved if the current ring fencing policy is abandoned and French poker rooms are allowed to merge their French player pools with their international player pools.

However the regulator explained that this would only be possible to achieve with the modification of the country's current online gambling laws. ARJEL warned that this process could take some time since it will depend on politicians' willingness and promptitude to work out a new online poker regulatory system.

Besides France, several other countries that recently legalised online casino games and online poker also face the same problems. Whilst the Spanish online poker market is somewhat more profitable than the French market, poker operators with a Spanish licence also often struggle with lack of players and liquidity.

Experts believe that at some point in the future countries such as France, Spain and Italy will be forced to allow online poker companies to interlink their national player pools. This however could only be achieved if the online gaming regulatory processes and taxation regimes of these countries are harmonised first.

Liquidity is also an issue at a state level in the US. At the end of April 2013 in the state of Nevada, Ultimate Gaming, a majority-owned subsidiary of Station Casinos, went live with its real money online poker site UltimatePoker.com, becoming the first operator in the US to offer legalised online poker. 888 will also soon begin operating online poker games in the state alongside established casinos like Treasure Island and Caesars. However, its services will be limited to players physically in the state and only in the genre of poker.

The online gaming industry is focusing instead on developments in New Jersey that has a much larger population (8.8m versus 2.7m in Nevada) and where the state law permits all casino floor games, not just poker. However, even New Jersey is unlikely to be a game changer given that online gaming companies will still have to cater to players on a state by state basis.

### **What is Next for Digital Poker?**

Whilst the rate of growth in new digital poker 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 connected devices and the recognition by governments of a need for a proper regulatory framework for digital gaming.

Whether individual digital poker 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 poker industry, the following have been identified in Chapter 10 of this report as potentially the most important or likely to happen:

- More consolidation
- More land-based gaming brands entering the market (and vice versa)
- More deals in the US as the market starts to re-open
- More targeting of growth markets
- More cross-selling of products
- Greater efforts to hold onto existing players
- More innovation/production of offerings and formats
- Mobile gaming will continue to get smarter
- More social poker games
- More localisation
- Better security
- More player engagement
- Increasing use of sponsorship
- Less poker on television but higher quality
- Resurgence in land-based play
- Poker will have to rethink its business model



### **About The Report**

The Global Business of Poker: Fifth Edition provides an overview of the status of digital poker in all key markets as well as forecasts up to 2016. It examines how gaming companies are reaching out to their audiences through digital poker.

It outlines the key elements in developing and executing a successful digital poker experience. It includes digital poker overviews by region; areas of opportunity; factors affecting growth in the industry; the smartphone revolution and how it is affecting poker offerings; how social gaming is now part of the digital poker mix; best business models for digital poker; monetisation and marketing strategies; regulatory issues as well as the future of the digital poker market.

It provides case studies of the major digital poker sites, networks, software companies and operators and takes a look at who the winners and losers will be as well as which countries/regions present the best opportunities for investment.

The report provides real insight and benefits to gaming developers and operators, sponsors, brand managers, marketers, agencies and others who are actively involved in digital poker or that might be considering entering the industry.