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GGB

CASH IS KING

LVS' MIKE LEVEN

U.S. ELECTION RESULTS

NO GO IN JAPAN

10 TRENDS for 2015

What to look for in the new year

Aruze Arises

Underdog slot company makes mark in Asia and U.S.

Card Carrying

Why payment processing is so complicated for iGaming

Official Publication of the American Gaming Association

2015

10 for ’15

Our annual rundown of trending issues in the gaming industry

This year’s “10 Trends for 2015” contain several issues that were also something we considered in 2014. The interest in those issues has simply gotten more intense over the past year.

Our goal with this annual story is to prepare our readers for the things that will be trending in the upcoming year. If you are prepared and aware of what’s coming around the bend, you can better react.

So whether it’s the burgeoning area of social games, the collision of operators and manufacturers, the confusion in Indian Country, the shocking events in Atlantic City and what that means to the industry as a whole, or many more subjects, read this special report and you’ll be prepared for almost anything that comes along in 2015. And please let us know if you disagree with us, think we missed a major trend or believe we are right on the mark, so we can make the trending piece for 2016 even more valuable.

1. SATURATION SITUATION

Atlantic City could portend things to come


Shut-down Showboat Casino in Atlantic City

At the far northern end of the Atlantic City Boardwalk, two casinos sit empty and abandoned. A third may soon join them if reports are correct. They are all victims of saturation—too much supply, not enough demand. The same illness claimed another victim earlier in the year at the other end of the Boardwalk (and one in the middle), and it may not be over.

For those who believe that this phenomenon is limited to Atlantic City and that other jurisdictions wisely limited the number of casino licenses issued, it’s time to think again.

Let’s start with Connecticut, where the two tribal casinos in the eastern end of the state have seen declining revenues for more than half a decade. While Atlantic City casinos fell victim to new supply in their primary markets of Pennsylvania and New York, there has been little new supply in the feeder markets to the Connecticut casinos. Maybe a few more slots and tables at Rhode Island casinos, but we’re still a couple of years at least from any Massachusetts casino opening. And yes, New York City added two slot parlors, but not enough to sap the revenue that has been leaking from the Connecticut casinos.

And what about Ohio, where the full complement of casinos and slot parlors is now open? Revenue projections for those facilities haven’t been touched by actual gross gaming numbers. And even with disappointing numbers, the presence of Ohio casinos has negatively impacted casinos in Pennsylvania, West Virginia, Michigan and Indiana.

So what’s going on here? Is it true that supply has now outstripped demand? Are the casinos’ primary demographic—baby boomers—dying off and not being replaced by younger gamblers? Has the casino experience become old and stale?

The answer is probably yes to each of those questions, but it’s also much more complex than those answers seem to suggest.

For example, as crowded as the gaming market is in the northeastern U.S., Massachusetts and New York will add up to eight more casinos over the next several years and maybe more after that. So what will that increase in supply do to casinos already struggling for market share?

Time was, when a casino opened it exposed new players to the gaming experience, thereby creating new players and markets. That introduction formula has withered away as casinos elbow themselves into existing markets, cutting the pie into smaller pieces rather than growing it.

And what of the demographic argument? Young people clearly enjoy playing games and gambling, so what are we doing wrong in failing to convince them to enjoy that experience in a casino environment? The person or company that solves this particular issue will do very well.

And as for the vaunted “casino experience,” has the time come to re-evaluate what customers expect? Do the entertaining slot games we see on today’s casino floor really deliver what customers want? Winning is usually more important to them than entertainment, so maybe operators need to rethink their payback percentage, and maybe manufacturers need to rethink the cost of the devices themselves.

So saturation is more than just a group of casinos stealing business from each other. It’s more than presenting new games and non-gaming attractions. And it’s more than solving one problem, because another invariably arises. Saturation is the challenge we all face.

—*Roger Gros*

2. HOME SWEET HOME

The localization of tribal government gaming

As someone who has "been around" the tribal gaming industry for 20 years, people often ask for my opinion on particular tribal gaming issues, including gaming on recently acquired reservation lands (often mischaracterized as "off-reservation" gaming), the online gaming debate, the potential for more competition and slowing growth, the impact of gaming on the federal recognition of Indian groups, and so on.

Increasingly, tribal gaming issues have become more complex due to a combination of increased scrutiny by outsiders and investment by diverse stakeholders as well as the effective exercise of tribal sovereignty at the local level. In this context, it is becoming more difficult to clearly identify the "side of tribal sovereignty" without considering individual tribal positions. In the past, any action that was perceived as eroding or limiting tribal sovereignty was uniformly opposed by tribal governments and organizations, including the National Indian Gaming Association (NIGA). Lately, it seems that there is more than one way to argue the point that a particular position "supports tribal sovereignty."

A recent example in California illustrates the point. Proposition 48, a referendum on a single state-tribal compact (in contrast to Proposition 1A in 2000, which ratified 61 compacts), generated nearly $16 million in campaign contributions, most of it directed to the "No on 48" effort. Yet, "both sides" of Proposition 48 could argue that their position supports an exercise of tribal sovereignty. (The measure was defeated on November 5.)

For the two tribes who were party to the gaming compact on the ballot, Proposition 48 represented the culmination of a long road to economic development that included multiple acts of tribal sovereignty, including the acquisition of a new reservation parcel through negotiation of several federal, state and local government processes, and securing a complex tribal-state compact for a single property that benefits both tribes (and includes environmental protections) while also preserving two important funds that support non-gaming tribes and host communities in California.

In addition to the two tribes, Prop. 48 was supported by California Governor Jerry Brown (considered a "friend of Indian Country"), various union interests related to the tribes' designated casino management company, environmentalists, the local sheriff and other government officials.

The "No on 48" position also supported tribal sovereignty, however. The majority of tribes in California established their casinos on lands they held in trust prior to the passage of the Indian Gaming Regulatory Act (IGRA) in 1988. Many of those lands are in remote locations and required significant investment in order to offer gaming, if they were able to sustain a gaming facility at all.

Tribes with gaming have spent millions of dollars and nearly 20 years building a relationship of trust with California voters, including an understanding that the growth of tribal gaming would have a "natural limit" based on a known geography. In addition to concern over the statewide reputation for tribal gaming, individual tribes near the newly acquired lands involved in Prop. 48 strongly opposed their acquisition by a single tribe, arguing that the lands were used communally and never historically "owned" by a single tribe.

What this proposition ultimately reveals is that individual tribal governments are now exercising sovereignty at the local level in ways that can impact other tribes or public policy as a whole. This focus on a more local context for sovereignty makes it more difficult for tribes to unite at the state or national level unless there is some larger "common enemy" that threatens tribes equally (such as taxation by non-tribal governments).

Rather than being "on the side of sovereignty," it is more likely that interested parties will face a forced choice between individual tribal expressions of that sovereignty.

Other issues such as online gaming have divided tribes as well. Some tribes initially created a partnership with card rooms (COPA), while others believe that they can offer Class II gaming online under IGRA without further regulation (Desert Rose).

Some tribes worry that online gaming will threaten their land-based operations while others see it as a necessary extension of current offerings. Always, there is a host of lawyers, business partners, service providers, industry experts and others who are pushing their agendas into the debate as well. It is not always clear, even to tribal leaders or communities, which option is the most clear "exercise of sovereignty" among those available.

NIGA and other tribal organizations have responded to this localization by drafting documents that memorialize fundamental principles that all tribes can support. The NIGA resolution on internet gaming, for example, affirms that Indian tribes are sovereign governments with a right to operate, regulate, tax and license internet gaming, and states, "Those rights must not be subordinated to any non-federal authority."

The NIGA resolution also insists that "existing tribal government rights under tribal-state compacts and IGRA must be respected." Other provisions are similarly broad, and the resolution, passed in 2010, has passed the test of time.

The localization of tribal sovereignty makes it difficult to identify the "side of sovereignty" in general, but the good news is that this is the direct result of increased tribal authority and influence at the local level.

Academic research reveals that the best decisions are made when those making them will have to live with the consequences. Tribal gaming has provided the opportunity for tribal governments to manage their own affairs, and the effects have revolutionized Indian Country.

—Katherine Spilde, Ph.D., Associate Professor of Hospitality and Tourism Management (HTM) at the L. Robert Payne School of Hospitality at San Diego State University, and chairwoman of the university's Sycuan Institute on Tribal Gaming

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3. SLOT-SECTOR CONSOLIDATION

The mergers and acquisitions keep on coming

As much as the industry has been inundated this year with stories of consolidation in the slot-manufacturing sector, it is almost universally agreed that the mergers and acquisitions have not ended.

It is generally expected there will be more consolidation in 2015, for the same reasons that so many slot manufacturers signed merger agreements over the past 12 months:

There are simply too many companies selling slot machines.

For years—decades, really—there were a handful of slot manufacturers of note serving the industry. However, over the past decade, the market became flooded with new players.

Class II stalwarts like Multimedia Games, Cadillac Jack and AGS moved into Class III with renewed game development and marketing teams. International slot leaders like Novomatic, Ainsworth and Casino Technology began selling and marketing to North American casinos. Amusement game manufacturer Incredible Technologies started making slots. Bingo companies Ortiz and Zitro increased marketing to North American casinos.

Something had to give. It started with two deals—Canadian supplier Amaya Gaming's buyout of Cadillac Jack, followed by Bally's acquisition of SHFL entertainment, the latter creating a full-service supplier of slots, table game content, e-tables and table utility products.

Then, the lottery companies got into the act. First, lottery industry giant Scientific Games bought WMS Industries and its WMS Gaming slot manufacturing company, one of the top five slot-makers in the business. Then, Scientific Games' competitor in the lottery business, GTECH—itself a product of a merger combining the Rhode Island-based core lottery supplier with Italian lottery operator Lottomatica and former slot suppliers Atronic and Spielo—announced it was buying leading slot manufacturer International Game Technology.

Then, another blindside—since GTECH was buying IGT, Scientific Games decided it would buy the No. 2 slot manufacturer, Bally Technologies.

The mergers were still not done. Aristocrat Technologies bought Class II supplier Video Game Technologies. Multimedia Games, long a subject of M&A speculation, was bought by an unlikely company, ATM supplier Global Cash Access.

Most experts say the deals are not done yet.

There are other big lottery companies, other big slot companies, and a lot of smaller suppliers, many of which are not capitalized to sustain competition with the big boys. Gaming analyst Frank Fantini wrote in September *GGB* that potential suitors include Intralot, the world's second-largest lottery company, and the only of the top three lottery suppliers without a slot partner.

On the other side, Fantini wrote, Aristocrat, while it did acquire a Class II supplier, remains the largest publicly traded slot manufacturer without a lottery partner.

Aristocrat and other large slot companies like Austria's Novomatic and Japan's Konami also could be looking to nab smaller slot companies, simply to remain competitive with the behemoths created by the past year's big deals. (Fantini brought up the prospect of Aristocrat acquiring Ainsworth, the company owned by Aristocrat founder Len Ainsworth.)

There is consolidation coming in other areas of gaming—cash-access companies, printing companies—but the trend to watch will be the one involving the companies that supply the industry's slot machines.

—Frank Legato

4. CASINOS AS SAVIORS

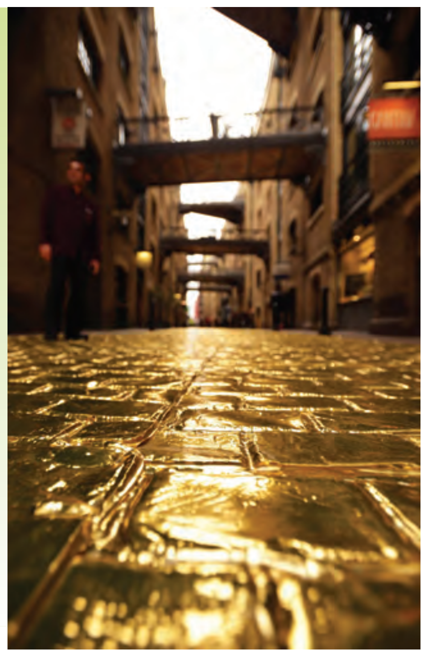
Economically depressed regions begin to realize that more is needed than simply gaming

The date was November 2, 1976. New Jersey voters went to the polls for the second time to decide whether to provide Atlantic City with casinos to revive its economy. The first time, two years earlier, it was defeated because casinos would not have been limited to Atlantic City. In 1976, that mistake was fixed, and voters overwhelmingly approved gaming only in Atlantic City.

Citizens and business owners in and around Atlantic City partied all night, expecting the streets to quickly become paved with gold. And they were—for a small group of people who owned land in the casino zone, in the beach block along the Boardwalk. Most of them cashed in and walked away millionaires. Others, not so much.

Prior to the legalization of casinos, Atlantic City was desperate. The faded resort had been rendered obsolete by air travel and faster automobiles. Once the primary holiday spot for Philadelphia and, to a lesser extent, New York, Atlantic City was now being ignored by more affluent and prosperous vacationers. The Democrat National Convention was held in Atlantic City in 1964 and, instead of reviving visitation to the town, it simply highlighted how outdated and dowdy the remaining resorts had been.

So gaming was a savior for Atlantic City, the one economic development tool that would revive it as a resort.



And for many years, it worked. At its most successful, 33 million visited Atlantic City each year (OK, maybe it was only 5 million who visited six times a year, but those were the numbers). Even into the early 2000s, few imagined the gravy train would ever end, despite expansion of gaming into surrounding states.

But Atlantic City's lack of economic diversity cost it dearly as the recession hit and gambling expansion crept into its primary markets.

Atlantic City isn't the only gaming jurisdiction that counted on gaming as the economic savior. Many of the riverboat states leaned heavily on gaming.

Mississippi hoped to reverse years of economic hardship with stationary riverboats. New Orleans and Detroit counted on gaming to return their downtowns to prominence.

Gaming was surely a savior of dozens of Native American tribes that had no other way of bringing economic development to their reservations. But the concept of diversifying the tribal economies is just beginning to take hold.

And the idea of gaming as an economic savior is not limited to the U.S.

In the Philippines, the state-owned casino corporation, PAGCOR, is depending upon the vast Entertainment City tract of reclaimed bayfront land in Manila to create jobs and increase tax revenues, while bringing more tourists to the city with four $1 billion-plus casino resorts.

Saipan and the Northern Marianas have recently approved huge casino resorts to rebuild a tourist economy that is the islands' principal revenue source.

But putting all your eggs into one basket isn't the optimum method to revive an economy. Even the American Gaming Association agrees.

"Gaming serves as one component of a strategic, multi-faceted economic development plan and supports thousands of jobs, boosts small businesses and generates vital revenues for public services, such as education and safety," says Geoff Freeman, the president and CEO of the AGA. "While there's no regulatory silver bullet that will level the playing field in every state, lawmakers should consider ways to strengthen their partnerships with gaming companies or risk losing crucial jobs and revenues."

Many of the Asian gaming jurisdictions have realized the truth of this viewpoint. When strait-laced Singapore chose to issue RFPs for gaming in 2004, leaders understood that gaming was just one element of achieving its goal of increased tourism. Therefore, the number of casinos was limited to two, the size of the casino was to be less than 5 percent of the total size of the "integrated resort," and a wide selection of non-gaming amenities was required. But to achieve the level of investment required, the government understood that it must compromise and allow locals to gamble.

Before shelving casino legislation last month, Japan had similar goals connected to the 2020 Olympics being hosted there. South Korea, Vietnam, Taiwan and several other countries are interested in taking a measured approach to gaming to duplicate the Singapore success.

Back in the U.S., recent casino openings in four Ohio cities and in Baltimore seem to have recognized that gaming is only part of the equation in downtown revitalization.

New York and Massachusetts have approved casinos for depressed areas, but the jury is still out on how successful they will be, entering an already saturated market in the Northeast. Clearly, there needs to be additional economic development in each state since casinos cannot be the entire answer.

In Indian Country, the realization that a casino must be more than just gaming has forced tribal leaders to be more creative and visionary when it comes to building or expanding existing casino properties.

So the days of the casino as the main fiscal engine that fuels an economic revival seem to be over. Hopefully, forward-thinking communities will view gaming as a part—a vital part—of any economic rebound and treat gaming as it would any other business that plays that kind of a role.

—Patrick Roberts

5. INTERNATIONAL SHIFT

Have Asian casino operators outpaced their U.S. counterparts?

The global gaming industry is well into a third decade of massive expansion. Although demographic and technological trends have reshaped the attributes of the gaming experience, the most substantial investment opportunities and volume of EBITDA are still largely in the development of brick-and-mortar operations.

And despite distribution trends that have led to highly successful regional casinos (with total gross gaming revenue of over $21 billion in regional commercial markets 2012), route operations and online spend, the most provocative opportunities—if not the most lucrative returns—are arguably associated with what have become known globally as IRs (integrated resorts).

And the real prize seems to be access to premium Asian play, wherever such resorts are being developed. So, why should we be surprised if casino companies most strongly integrated into Asia have become the envy of the industry?

First Wave

Following the opening of the Mirage in Las Vegas in 1989, nearly two decades of intensive casino expansion were unleashed. That era saw unprecedented investment in Las Vegas (over $10.5 billion in capital investment between 1993 and 2000), and a flurry of activity in emerging markets throughout the Midwest, Gulf Coast and Native American sectors in the U.S.

However, new development in these markets was led primarily by domestic operators hungry to capitalize on states introducing enabling legislation to fill budgetary gaps, primarily in North American markets. Competition within and between markets remained moderate through most of that period, at least through the late 1990s.

And notwithstanding fluctuating economic cycles and inconsistent availability of capital, the dominance of U.S.-based powerhouse operators was undeniable. Think MGM Grand (later incorporating Mirage Resorts and Mandalay Resorts), Las Vegas Sands Corporation (LVS), Harrah's and Caesars (now consolidated), and eventually Wynn Resorts—and their emerging market counterparts, including companies like Isle of Capri, Grand Casinos and Ameristar to name a few.

During this period of U.S.-led expansion, Asian gaming operators concentrated on the handful of opportunities in their own backyards, with a few rare exceptions, such as the early interest in Foxwoods by Genting principals.

Some good questions for operators, investors and industry observers, are: Where will the next wave of expansion occur? Who will end up with the most prized opportunities? Does success beget success? Or is it a matter of access to capital, or strong relationships with VIP players?

U.S. Operators Enter Asia

Fast-forward to the late 2000s, and the landscape became quite different. First, there was a migration of gaming capital investment to international markets, primarily to Asia and most notably Macau, which had provided for a series of new but limited licenses and sub-licenses.

Between 2004 and 2013, Macau saw a total capital investment of over $23 billion on major projects. The major U.S. operators remained in the game, learning the ins and outs of VIP play in Asia, with LVS leading the new wave of development followed by substantial investments by Wynn and MGM. Caesars was the only major U.S. operator not to end up with its footprint in this crucial market. LVS also secured a coveted license in Singapore, as did Genting, but that was the last major move by a U.S. company in the region.

Domestic Drought/Asian Dominance

New opportunities in North America are now quite limited. Other than the opening of Massachusetts and added licenses in New York, and wishful thinking in Florida or Ontario, the North American opportunities well is running dry.

Recently, the Innovation Group conducted overlapping national studies of gaming revenue trends as well as gambler behaviors, and found that while only one major region had shown signs of revenue decline, growth is minimal (less than 2 percent) if not non-existent in the remaining regions. Additionally, player participation and frequency appear to have declined consistently across the U.S., and almost equally across all age segments. Similarly, due to impacts on discretionary income, average entertainment budgets are also declining.

Meanwhile, as U.S. operators are in the wings awaiting movement in Japan or Taiwan, or local play in Vietnam or Korea, the major Asian players are dominating, and taking on mid-sized opportunities in the Asia Pacific region within their regional strategic reach.

In fact, things have nearly come full circle, with successful Asia-based operators not only keeping their foothold in Asia, but doing so while entering the U.S., and exploring other global opportunities enthusiastically. Genting, for example, has operations in New York, soon to be followed by Las Vegas and one day potentially Florida. But the company also continues to expand in Asia, with additions to Resorts World Manila and a new property planned for Entertainment City, also in the Philippines.

As Crown maintains its position in Australia and Macau, it is developing aggressively at the Frontier site in Las Vegas. And while Melco remains heavily invested in Macau and is developing in the Philippines, the company is also looking hard at several real development opportunities in Europe.

What's Next?

Some good questions for operators, investors and industry observers, are: Where will the next wave of expansion occur? Who will end up with the most prized opportunities? Does success beget success? Or is it a matter of access to capital, or strong relationships with VIP players?

Beyond even the larger Asian casino operators, there is movement by a new wave of potential visionaries who may lead—Asia's answer to Steve Wynn or Sol Kerzner. For example, Tony Fung is embarking on a massive integrated resort in Cairns, Australia while Chinese junket operator Imperial Pacific is planning to invest multi-billion dollars in developing a world-class destination resort in Saipan, Commonwealth of the Northern Mariana Islands.

And let's not count out Europe and Latin America, each with the potential to become more attractive as economies stabilize and governments revisit their regulatory and tax structures.

Like any industry, gaming has seen cyclicality over the last 25 years, with variability based on macro-economic trends, shifting regulatory environments, technological innovation and consumer preferences.

But there is a certain irony in the history of casino development, and the concentration of U.S. and Asian companies vying for the biggest prize. It may have all started in Las Vegas when U.S. companies owned the global VIP market, but now it seems their Asian counterparts are fighting to take it back.
—David Rittvo and Michael Zhu, Innovation Group Asia


Cotai Strip

6. THE GREAT COMEBACK

Las Vegas is back, but smaller than ever?

Numbers never lie. Last year, the number of people who flew into McCarran Airport in Las Vegas exceeded the number who arrived in 2007, the year the economy crashed. Occupancy rates and ADR on the Las Vegas Strip have bounced back. And the locals market is creeping back on the strength of renewed construction around town and rising housing valuations.

So what's wrong with this picture?

What hasn't bounced back so strongly are gross gaming revenues.

GGR on the Las Vegas Strip in 2007 was $6.8 billion. In 2013, it had inched back up to $6.5 billion. Not bad, but when you drill down into the numbers, you'll see much of that rebound is attributable the game of baccarat and the Asian players being brought in by the companies with a presence in Macau—Las Vegas Sands, Wynn Resorts and MGM Resorts.

Slot win over that period has been flat or declining. And with the dependence on the volatile baccarat tables, revenue can vary wildly from one month to the next. Some Las Vegas casinos have downsized their gaming floors, and have eliminated money-losing operations (like poker rooms, now that the popularity of the game is again waning).

Still, Las Vegas has once again reinvented itself to adjust to the times. Large amounts of capital are going into strictly non-gaming attractions—Caesars Entertainment's Linq and High Roller observation wheel; MGM's Park and arena behind New York-New York, and its Rock City festival grounds opposite the new SLS Las Vegas on Sahara; and expanded niche projects in the Downtown area.

New projects are on tap. Genting's Resorts World Las Vegas will get under way this year on Boyd Gaming's former Echelon site, expanding its U.S. presence beyond New York City. Australian gaming magnate James Packer recently bought the former New Frontier site across from Wynn Las Vegas and will develop his first North American Crown casino. Both will be multibillion-dollar properties.

A second arena has been announced for the old "Wet and Wild" site next to SLS. But many Las Vegas arenas and stadiums have been "announced" but not built.

Non-gaming continues to be the key concept for Las Vegas. As gaming revenues continue to languish, non-gaming dollars now make up almost 70 percent of all revenue crossing hands on the Strip. Nightclubs attract a new generation of visitor to Las Vegas, not necessarily to gamble, but certainly to enjoy the bottle service at the hottest nightspot.

So will the rebound continue? Gambling can be found in almost every region of the U.S., including Las Vegas' primary feeder markets. Visitors no longer come to Las Vegas just to gamble. Gambling is part of the package that includes entertainment, dining, great hotel rooms, and the naughtiness that is Las Vegas. It appears marketers understand the appeal of the "What Happens Here Stays Here" campaign. And the customers are responding.

—Patrick Roberts

7. MONETIZING SOCIAL GAMES

The profitability of social gaming goes way beyond virtual credits

When leading slot manufacturer International Game Technology bought social gaming company Double Down Interactive two years ago for $500 million, many in the industry thought the price was vastly inflated. Double Down promptly generated $213 million in revenue in the first year, and few have since called it a bad acquisition.

The value of monetizing social, free-play casino and poker games has only become more obvious since then, from Caesars Interactive's Playtika platform—$135 million in revenues for the second quarter of this year, up 95 percent year-on-year—to free-play sites from Williams Interactive to Aristocrat showing big gains.

Social gaming has been the growth story of the gaming industry, even as land-based slot revenues have gone down. Over the next year, social casinos will rake in money not only from the credits purchased by players and website advertising on the social sites, but in more indirect ways as social gamers turn into land-based gamers, and as traditional casinos use social sites to promote their brands, and to get people in the doors.

In 2015, more casinos are sure to launch free-play sites that will allow social gamers to earn player's club points with their free play, as more land-based casino operators realize that social gaming platforms allow them to build engagement with their current databases, and create a clearer picture of who those customers are. Casinos will be able to acquire new customers by extending their gaming brand to social sites like Facebook.

As technology improves, social gaming on mobile channels will offer land-based casinos even more marketing opportunities. Geofencing technology will enable subscribers to social sites run by casinos to be offered comped meals or free stays for the points they've earned on the social sites on their mobile devices when they are, say, less than 25 miles from the property.

Casinos can use social gaming to create an extended reach of the land-based brand to customers outside of the current property database. They also can use the digital platform to continuously engage with customers and create transparency on what digital activities attract the most value.

Finally, research shows that most active casino gamblers play the social games online, and that majority is growing every year. Thus, casinos can use social gaming sites to recapture business or increase visits from customers who have gambled there in the past.

As the social gaming universe expands, land-based casinos will find more ways to cash in on the popularity of social gaming. And with 130 million smart phones just in the U.S., the ability to market through social sites to known gamblers may be the best method yet of monetizing social gaming.

—Frank Legato

8. OPERATORS vs. VENDORS

High holds, slot replacements and technological battlefields

The relationship between casino operators and their equipment vendors—particularly slot manufacturers—has seen rocky times over the years. When slot-makers in the 1990s first revealed plans for high-profile games that would be leased with the vendors getting a cut of the profits, operators balked.

Some, notably the former Harrah's Entertainment, even flirted with refusing to sign any participation deals for new slots. Manufacturers, though, consistently fought to reclaim some of the millions in R&D and license fees they poured into their biggest titles by offering them only in participation deals. When the highest-profile branded slots began earning several times house average, slot managers couldn't refuse. Eventually, the operators couldn't do without leased games.

When the recession hit, the operators stretched out their replacement cycles, causing a ripple effect with the manufacturers. The result was lean times on both sides of the supply chain.

Operators attempted to rebound, as much evidence has shown, by using the popular penny denomination to raise theoretical hold on the slot floor. But even after the economy improved and hotel revenues rebounded, the industry's slot revenues remained flat.

The Association of Gaming Equipment Manufacturers (AGEM), the trade group of all the major slot manufacturers, thinks those two facts are connected. The group has launched an investigation into whether there is a correlation between operators' attempt to recoup revenue by tightening slot holds and the decline of slot revenues for those operators.

The association is well-equipped for the venture—the data rests in the sales records of AGEM members. Those records show the programs selected by operators for each slot game purchased, which indicates the theoretical payback percentage. The AGEM study will try to identify policy shifts where operators began to buy the higher-hold programs and match them to periods of declining slot revenue.

The implication, of course, is that operators were greedy in keeping high hold numbers, causing many players to quit going to casinos because their money went too quickly.

The outcome of the AGEM study certainly will make slot holds a trend to watch in 2015. For the future, issues between operators and manufacturers may focus on trends in game design. While manufacturers are providing hardware today that looks the same as it has for decades, there are voices on both the operator and manufacturer sides calling for something new—namely, a product that will attract a younger audience.

It is a bone of contention among many on both the operator and supplier sides. Some say the fact that a traditional slot machine has no appeal for a 25-year-old does not mean that same player will not go for the simple slot machine when he's 40—just in time to replace the baby boomers that dominate the slot floor today.

Others say millennials and Generation Xers will never want to sit down and watch reels spin, and radical changes in game design are overdue—namely, competitive video games, with no spinning reels but a home-video-style experience with skill determining the winner.

The answer to this argument is likely to fall somewhere in the middle, with games for both types of players. It's something already being pushed by many slot manufacturers. What remains to be seen is how much space the casino operators are prepared to turn over to the millennials.

—*Frank Legato*

9. THE ROAD NOT TAKEN

Why iGaming is not a passing fad

When iGaming launched in New Jersey in late November 2013, there were high hopes on all sides. The administration of Governor Chris Christie saw iGaming as a way to balance the budget, and projected a billion-dollar market. Atlantic City casinos were more reasonable, and stuck to the projections made by analysts of about a $400 million market.

The casinos wanted to replace some of the gaming revenue that has been lost to surrounding states over the last seven years. And the iGaming operators, most of whom came to the U.S. after staying white-listed in foreign jurisdictions, expected to be pioneers in what some thought would become the biggest market in the world.

The wide-eyed optimism was, as we know now, misplaced. There was no mad rush to sign up for iGaming in New Jersey. And those that had an interest often confronted obstacles that seemed insurmountable. ID verification, geolocation, and most importantly, payment processing made what should have been an entertaining experience into something akin to signing up for Obamacare.

Atlantic City's casino operators were poles apart in their involvement with iGaming. Some embraced it; others ignored it. Most inked deals with operating partners, mostly companies with iGaming experience in Europe, but the dynamic of each relationship was different. Some land-based casinos took an active role in planning with their partners, while others simply took the money and ran. But the more successful iGaming ventures today are the ones that included full collaboration from each side.

Consumer education has also been lacking in New Jersey. With an uncertain authority to market via affiliates—the major marketing tool in Europe—New Jersey operators have been cross-marketing with their online partners. When state regulators required that affiliate marketing sites obtain an ancillary casino license—a higher bar than simply vendor registration—several companies complied, but the powerful Eu-

ropean affiliate marketers opted, for the most part, to decline.

But when regulators were informed that there were sites marketing legal New Jersey iGaming alongside the illegal blacklisted U.S.-facing sites, scrutiny only increased on marketing by operators, a situation that is still in flux today.

Earlier this year, the other two iGaming states, Delaware and Nevada, announced that they would seek to pool players via an interstate compact. While such an agreement wouldn't be much different than operating alone for these two small states, the addition of New Jersey could be significant. But differences in technical requirements, games, regulations and other legal matters have conspired to delay compacts.

The success of iGaming in these three states is the proof that it can be done safely and securely. Despite initial issues with geolocation, there have be no incidents of players being allowed to log in across state lines. And there have also been no reports of minors or problem gamblers being able to access any iGaming sites in those three states.

Payment processing remains an issue, but progress is being made on creating new "legal gambling" designations for credit card companies, as well as other options like "e-wallets" or remote deposits that will ease the payment procedures in the future.

So while iGaming in the U.S. hasn't become the breakthrough success that many predicted prior to its introduction, it is a new industry, with new regulations and new technology that has a bright future. Now if we can only wait for its arrival.

—*Patrick Roberts*

MILLENIAL MOMENTUM 10.

How will this generation relate to casino gaming?

Without question, one of the most significant discussions at G2E this year revolved around the millennial generation and the changing face of our casino guest. It is not a new topic in the gaming space, nor is it something unique to our industry.

A recent *Time* magazine article highlighted this demographic shift on a national level, noting that there are over 85 million millennials that represent 27 percent of the US population—the largest segment currently. The article goes on to state how this group, born between 1980 to 1999, is highly educated, has compelling average salaries, and is focused on saving for retirement earlier and making that happen at a younger age. The flip side, however, is that millennials are carrying far more student debt than prior generations, were hit harder by the Great Recession, and are finding it more difficult to acquire assets and build equity.

It is already evident that this "next generation" is both "social media-advanced and tribal"—and they *never* "unplug."

In fact, their sense of self directly correlates to their influence on the social media. They also like to keep their options open with regards to their time and spend.

Millennial technology (and related devices) is also an extension of who they are, so integrating it into every level of product and service design and execution is paramount. One of the most telling facts, though, is their desire for aspirational experiences and genuine relationships. Given their limited time and money, coupled with the highest levels of access to unending information, they don't want to be "sold," and they aren't impressed with simple transactions and commodities.

So what does that mean for this generation's future interest in our industry?

It is crystal clear that the experience we offer has never been more important than now. We are not delivering a slot or table game or dining transaction; we must have our sights set on delivering a comprehensive entertainment experience.

Our properties cannot merely be places to just drink, eat or gamble; they need to evolve into destinations that engage this generation with genuine products and services that allow millennials to enjoy a socially interactive, compelling and experiential discovery that gives them a sense of value that exceeds the mere consumption or accumulation of goods. This is achieved in both the design and operation of the venue.

The gaming industry is clearly moving in this direction. New technology platforms and games focusing more on skill with video gaming parallels are at the forefront of this shift.

Innovation in video display, audio and 3D interaction, and multigame connectivity with bonusing and competitive scoring, are advancements in interactive gaming. Casino and non-casino interactions in communal settings meet this need.

Hotels, restaurants and spas packaging together unique bundles of activities that are customized to the guest go beyond booking traditional parts of a vacation stay. Corporate cultures that put attention on philanthropy, sustainability and employee goodwill as part of the total ROI appeal to their sensibility of moving our respective communities forward.

Millennials don't behave like their parents or grandparents, and that will force us all to reflect on our business models and how we move our offerings to the next level.

Marketing on digital platforms in ways that show people having fun and doing things they can't do elsewhere fulfill this desire. The truth is, email and phone calls are antiquated means of communication in their world.

Most importantly, the continued focus on creating relationships with guests that are not transactional in nature but "personal" allow us to move the needle in their world and build future long-term loyalty. Millennials are 24/7 and *now*, and our services and products need to mirror this need.

Although the challenge may seem daunting, the reward for success could yield the most ROI our industry has ever seen. Millennials don't behave like their parents or grandparents, and that will force us all to reflect on our business models and how we move our offerings to the next level.

Operators who make the right moves could find themselves catering to an entirely new market of slot, table-game and other revenue-center patrons. The casino industry's evolution into shared experiential entertainment destinations will engage millennials and ensure the next generation of gaming embraces the next generation of customer.

—Mark Birtha, senior vice president and general manager, Hard Rock International