

Making the Connection

The role of social gaming in the opening of the U.S. iGaming market, Part I

By Paul Girvan



Real-money iGaming has been introduced in three jurisdictions in the U.S.: New Jersey, Delaware and poker in Nevada. In none of these states can it be said that the introduction has been a success. In all cases the revenues generated were much less than projected. In general, this lack of success has been the result of payment processing problems, geo-location issues, lackluster marketing and low liquidity.

On the other hand, the initial introduction of iGaming has not seen any problems associated with underage gaming, unapproved geographic access or problem gambling. These successes are important, as they contradict many of the claims of opponents of online gambling. The software to achieve this has been proven to be effective, and this will greatly help in arguing for the expansion of iGaming to other states.

The failures in terms of revenue generation are, however, significant. It has now become apparent that real-money iGaming as currently set up will not provide a revenue windfall to the states.

This was something observers predicted some time ago, and has now been demonstrated. This causes a real problem for the expansion of iGaming for real money to other states. Legislators in the past have been motivated to pass gaming legislation to generate revenue, create jobs and encourage investment. iGaming offers comparatively few jobs and state revenues a fraction of land-based revenues.

Consequently, the traditional arguments made to enlist legislators and encourage them to open up a state to new forms of gaming are moot. Why would legislators adopt what would be a controversial position without the ability to point to concrete benefits for the state?

As a result, the expansion of real-money iGaming to other states seems to be in hiatus, at least in the short term.

Free-play and social gaming may be the best road forward “breaking a trail” for real-money gaming to follow when it becomes more widely understood and accepted. There are a number

of reasons why I see this as a valid way forward:

- Free-play and social gaming are essentially legal already. At most, gaming commissions may have to adopt regulations and approve operators.
- Much has been made of “saturation” on the land-based gaming side, and it is my belief that free play and social gaming offer one avenue to bolster the competitiveness of land-based casinos, providing them with the means to protect their markets, market their product and drive online customers to land-based casinos.

Maryland Live!, a free-play site, provides a good example of the effectiveness of free-play sites. The company has released some research which indicates that 12 percent of the online free-play database came into the casino to play for real money. Of these, 40 percent came more frequently, were worth 20 percent more per visit, and stayed 10 percent longer than other customers.

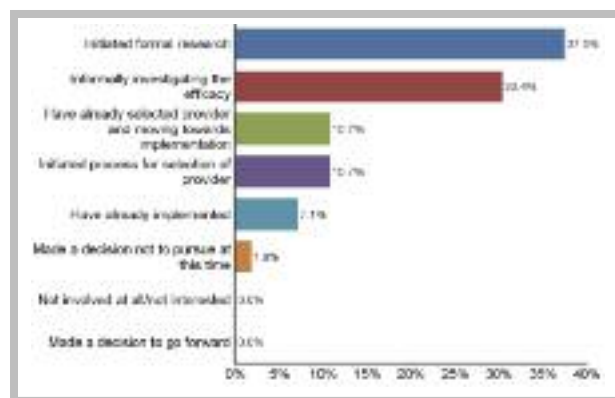
Another casino (which cannot be named for proprietary reasons) reported that its free-play poker site had 22,000 active poker players in five months, of which 15,000 were not in the casino database. The same casino also reported that 8 percent to 10 percent converted to land-based players.

This is of huge significance in many states where lawmakers have realized that they (the state) are major stakeholders in land-based casinos and are seeking ways to strengthen the gaming industry in their state.

A powerful argument can be made that free play or social gaming is merely another channel for the land-based casino to market itself and to engage with customers that currently may not be visiting their casino, and most importantly to combat competition from surrounding states.

- The demographics of free play and social gaming players are attractive to land-based companies in that they have a strong reach into younger demographics while at the same time reaching a broad swath of females 45 and over—the core demographic of slot players.

- Social gaming is a highly analytical endeavor with operators able to determine when the best time is to offer players promotional elements, or to prompt them to “level-up” by purchasing access to different games and levels.
- There would be no artificial geographic boundaries for casinos with customers from two or more states.



- It is a proven market with social casino gaming worth \$1.5 billion in the US.

- It is already a major presence in the emerging mobile channel, with mobile claiming a 58 percent share of the worldwide social gaming market and mobile casino gaming growth in the U.S. growing at an impressive rate (49 percent for casino games, 36 percent for bingo games and 5 percent for slots).

Most casino companies are already engaged at some level in the iGaming issue as the chart (taken from an Innovation Group Survey of casino operators in the fall of 2014) shows.

Next month, we'll present some charts and data that will establish the connection between social gaming and real-money iGaming.

Paul Girvan is a managing director with the New Orleans office of the Innovation Group with 25 years of experience advising clients across the gaming industry. Girvan leads the firm's iGaming practice. Contact Girvan at girvan@theinnovationgroup.com or 504-523-0888.