



SPECTRUM

GAMING GROUP

Independent Research and Professional Services

REMI Webinar:

Understanding future of online, land-based gaming

September 20, 2017

SIGHT: Spectrum Internet Gaming Heuristic Theorem

- Developed 15 years ago
- Based on principle that online gaming in US should evolve to benefit of land-based operators
- Key assumption: Casino operators in US would move from rejection of online to acceptance to embrace
- Most operators have reached acceptance, presently approaching embrace

Past is Prologue

- Radio vs. baseball
- TV vs. Hollywood

Radio vs. Baseball

“When radio came along and began to broadcast some baseball games, some of the entrenched conservative owners said, ‘Wait a minute. Why give away something that you’re trying to sell for your living, to try and keep your enterprise afloat? And especially on days of threatening weather when people would say, ‘Well, it looks like it may rain. I’ll just listen to the radio. I won’t go.’ They did not realize at the time the beneficial effect of radio, that it would be making families of fans.”

- From the documentary *Baseball*,
Geoffrey C. Ward and Ken Burns quoting broadcaster Red Barber

TV vs. Hollywood

- Major studios were threatened by TV, as viewers could be entertained at home
- TV evolved, studios adapted:
 - Hollywood became major TV producers
 - TV presented marketing opportunities for films
 - TV became important secondary market for films

Common Thread

- Technology did not alter social aspects of spectator sports or movie theaters
- Technology will not alter social aspects of visiting brick-and-mortar casinos



Photo: Caesars Atlantic City

Online Gaming in United States

- Demands new business model resting on foundation of long-established and large, brick-and-mortar gaming industry
- Online gaming policy needs to consider more than 1,000 casinos generating more than \$70 billion in annual revenue

Immutable Laws of Human Nature

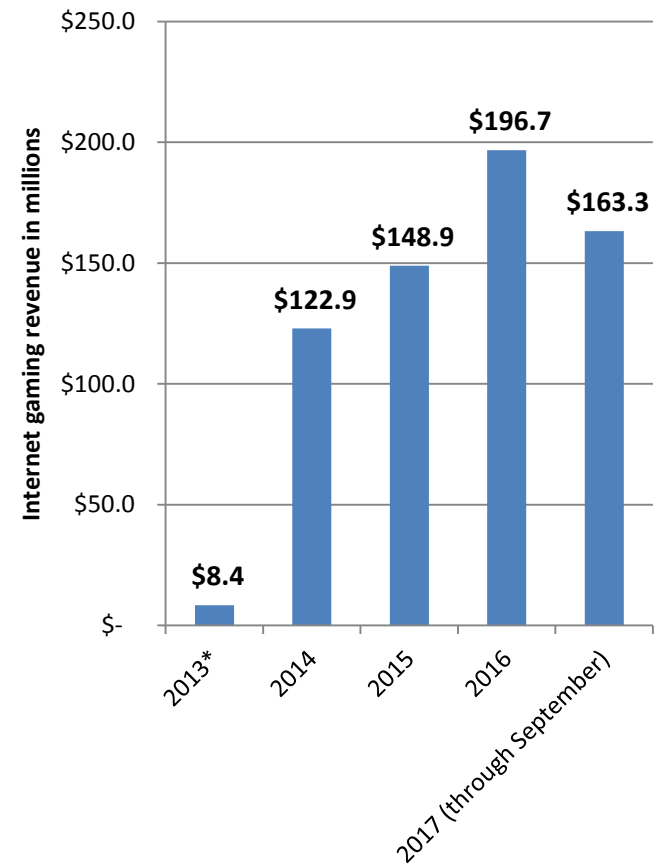
- People are hard-wired to enjoy games of chance and to take reasonable risk, regardless of decade in which they were born
- People are hard-wired to enjoy social settings, and to seek entertainment experiences with other adults

Online Gaming in US Should be Developed in Concert with Land-Based

- Not simply as new revenue stream
- Important marketing tool to reach new demographics in new way that would increase both online and land-based revenue

Vindication in New Jersey

- Online gaming is growing
- New demographics, new players
- Increased visits, spending at land-based casinos
- Strengthening brand recognition and loyalty while customer is off-property



*Internet gaming began in NJ 11/26/13

Caesars Experience: Online as Marketing Channel

- At a March hearing in Pennsylvania, Caesars Entertainment noted:
 - ‘(The) poker market in land-based casinos has grown since the onset of online poker.’
 - ‘Offline poker revenues have grown since the inception of online poker.’
 - Though its Total Rewards marketing program, Caesars notes that:
 - 80% of its online players are new customers
 - Of players in Total Rewards database, 42% of those who played online were inactive prior to offering of online play and then reactivated after online signup

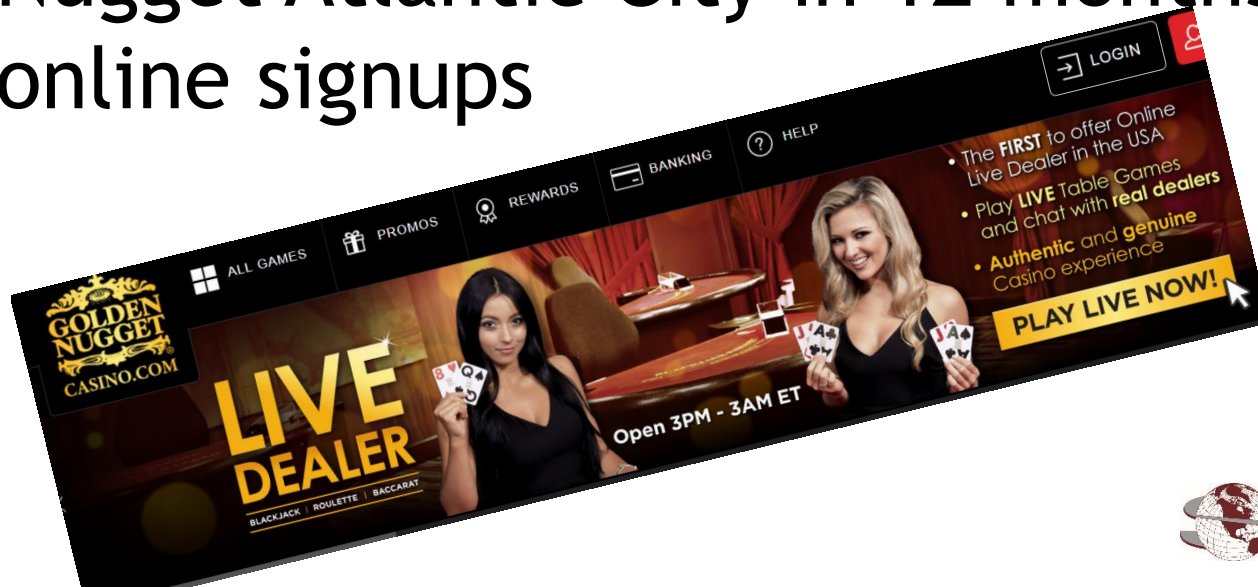
Tropicana Experience

- 60% of players who signed up for online were not previously enrolled in database
- Of remaining 40%, half were inactive or lapsed: had not generated any tracked play at Tropicana in previous 12 months



Golden Nugget Experience

- Only 11% of online signups have come from Golden Nugget Atlantic City rated patrons
- Of those, only 8% were active at Golden Nugget Atlantic City in 12 months prior to online signups



SugarHouse Experience

- ‘Our online players in NJ are, on average, 8 to 10 years younger than those players visiting SugarHouse’s physical facility.’
 - Richard Schwartz, President of Rush Street Interactive, *iGaming Business North America*, Issue 30



Does Online Play Cannibalize Land-Based Play?

- Tropicana customers who played both online and land-based *increased* their total land-based spend, as well as their frequency of visitation
- The 8% of active Golden Nugget players who sign up online have increased their spend at Golden Nugget 15% after signup

Land-Based Operators have Advantage

- Well-known brands associated with entertainment experience, as well as with gaming integrity, i.e., players know intuitively that their games are honest
- Established player loyalty programs easily redeemed for entertainment options, including free rooms, show tickets and dining experiences
- Existing compliance process tailored to US regulatory environment

Option I for Legislators across US

- Adapt online for benefit of their land-based operators
- View online as marketing tool, as well as revenue stream
- Measure fiscal impact in wider perspective

Option II for Legislators across US

- Allow an open-market in which online and land-based operators can compete
- This will address needs of lotteries, others that need to develop online platforms
- Land-based operators would still possess clear advantages

Universal consideration for lawmakers

- Online policies will inevitably vary from state to state, and must be customized
- Type, size and location of existing land-based industry will be one key factor
- Tax rate is key policy consideration, regardless of which online policy is selected

Issues that must be considered

- Taxation
- Lotteries
- Exclusivity

Tax rate considerations

- New Jersey has online tax rate of 15%, roughly double land-based rate
- This creates clear incentive for land-based operators to encourage online players to visit properties
- Other states have significantly higher land-based rates, thus precluding that option
- Many states will likely be forced to tax online at lower rate than land-based operations

Fiscal viewpoint: Multiple revenue streams

- Regardless of model, tax rate, online must be viewed as part of multi-channel gaming, taking into account:
 - Online gaming revenue
 - Increased land-based revenue
 - Increased non-gaming spending
 - Sales tax
 - Entertainment tax
 - Potential for additional capital investment
 - Increased employment, payroll tax

Lotteries

- Potential competitors
- Potential allies

Land-based operators: natural beneficiaries, catalysts

- Proven marketing skills, databases
- Desirable assets
- Proven to advance public policy on numerous fronts:
 - Employment
 - Capital investment
 - Tourism promotion
 - Purchases of goods and services

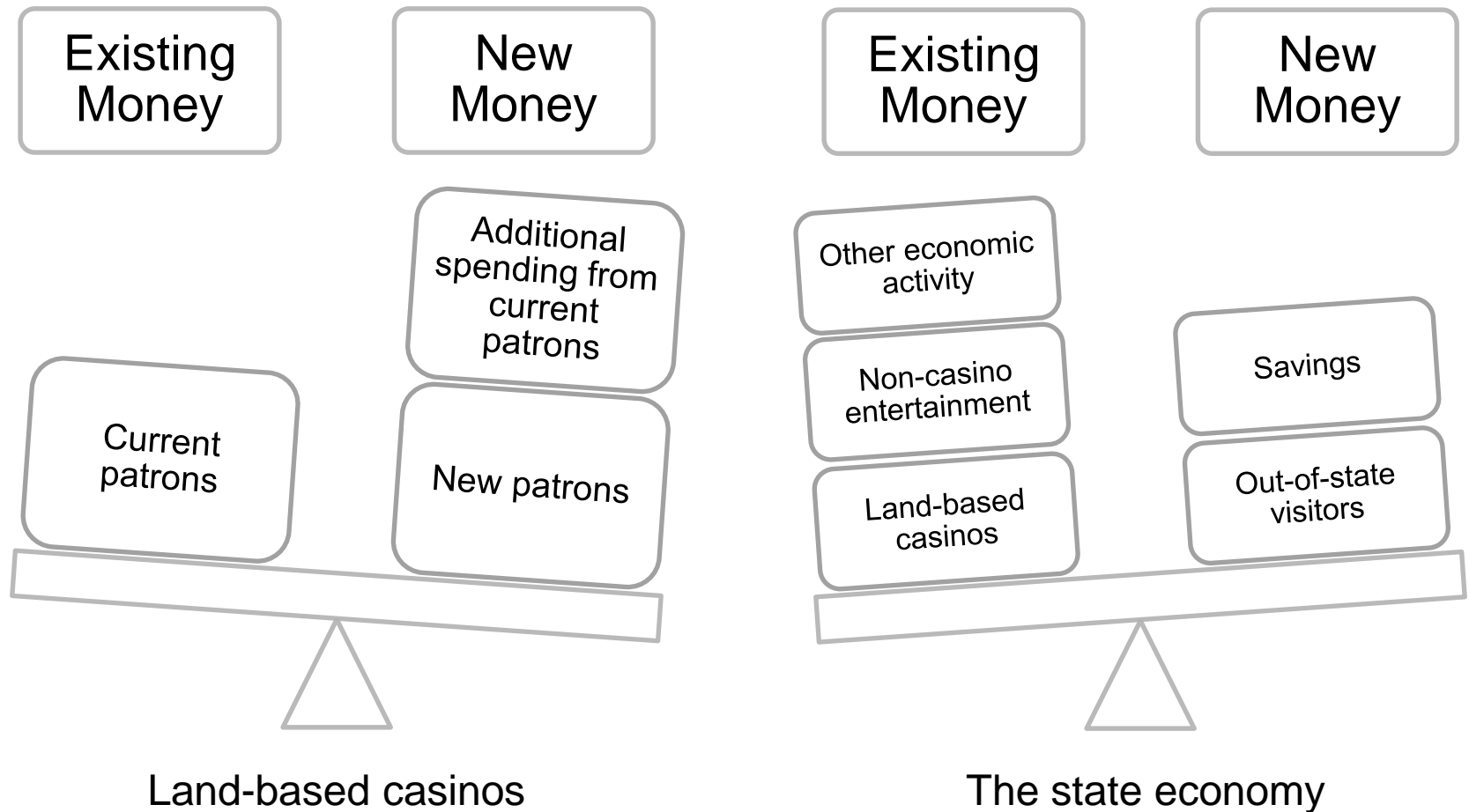
The unknown future

- Gaming's various elements will converge in unexpected, unprecedented ways:
 - Commercial and Indian gaming
 - Lotteries and land-based
 - Pari-mutuel
 - Suppliers, operators
 - New players
- New, unanticipated forms of gaming will emerge
- Similar issues, concerns will arise with sports wagering

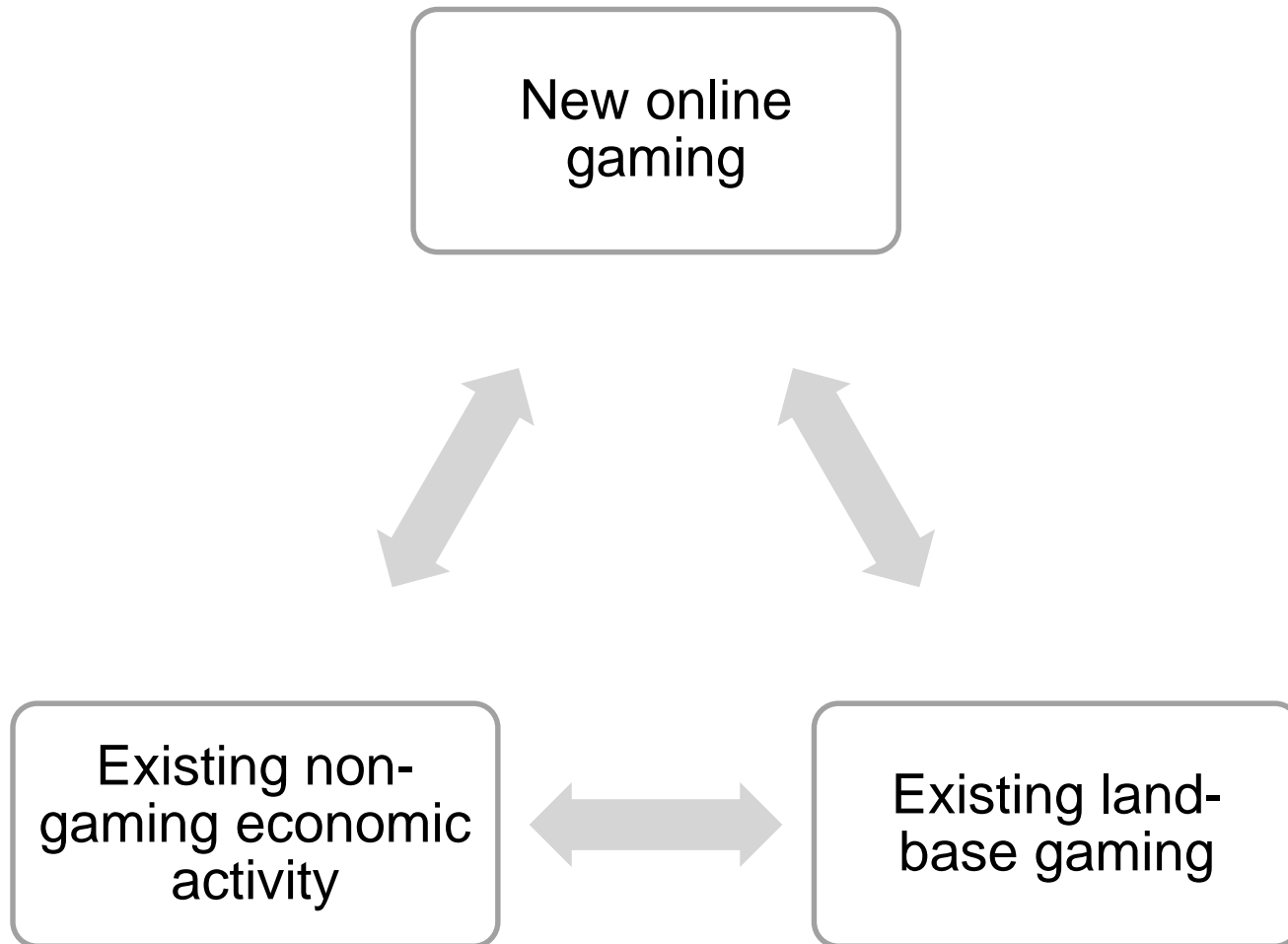
Introduction

- The UMass Donahue Institute is the civic engagement arm of the UMass system. The Economic and Public Policy Research group is an economic, public policy, and demographics consulting team within UMDI.
- I'm Rod Motamedi, research manager at EPPR. My background is economic and policy impact modeling.
- What are the factors that determine effective economic modeling?

Net Monetary Flows of I-Gaming: Whose Point of View?



Monetary Flows in the Economy



Sources of Economic Impacts

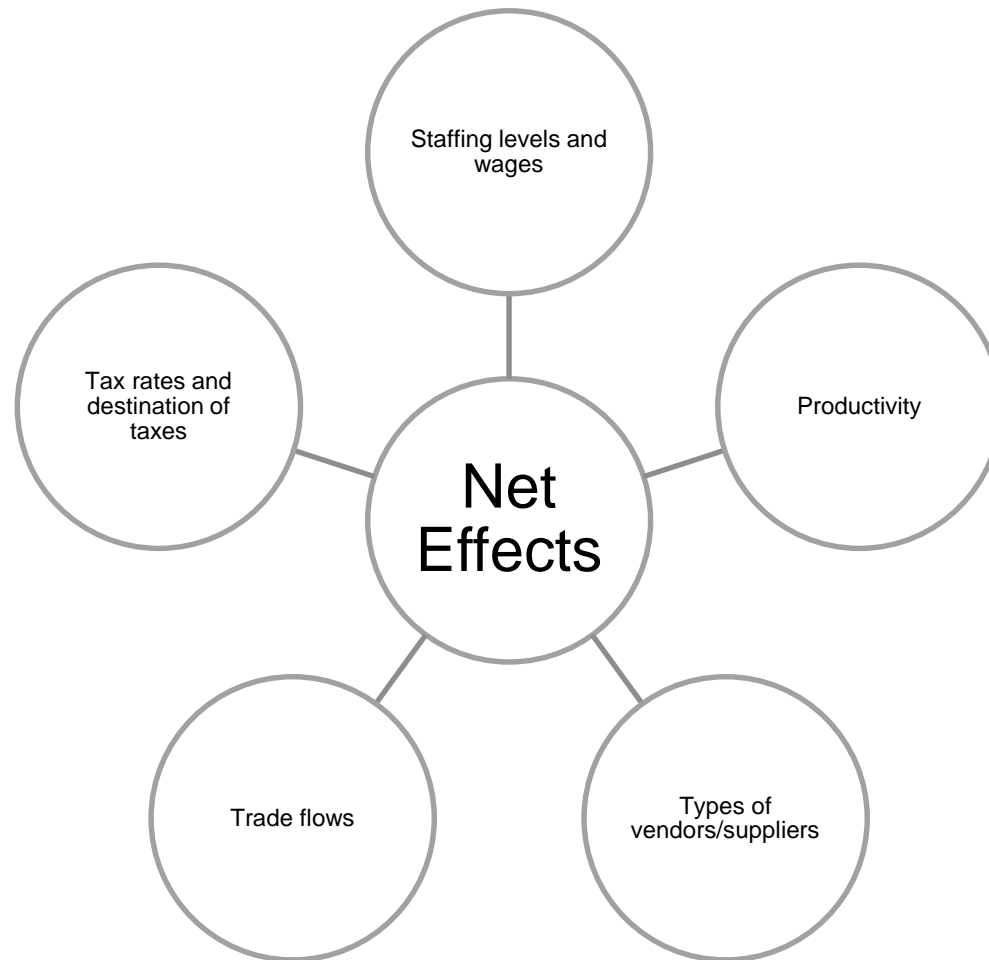
Direct hiring
and spending
by the business

- Employees
- Vendors/suppliers
- Taxes

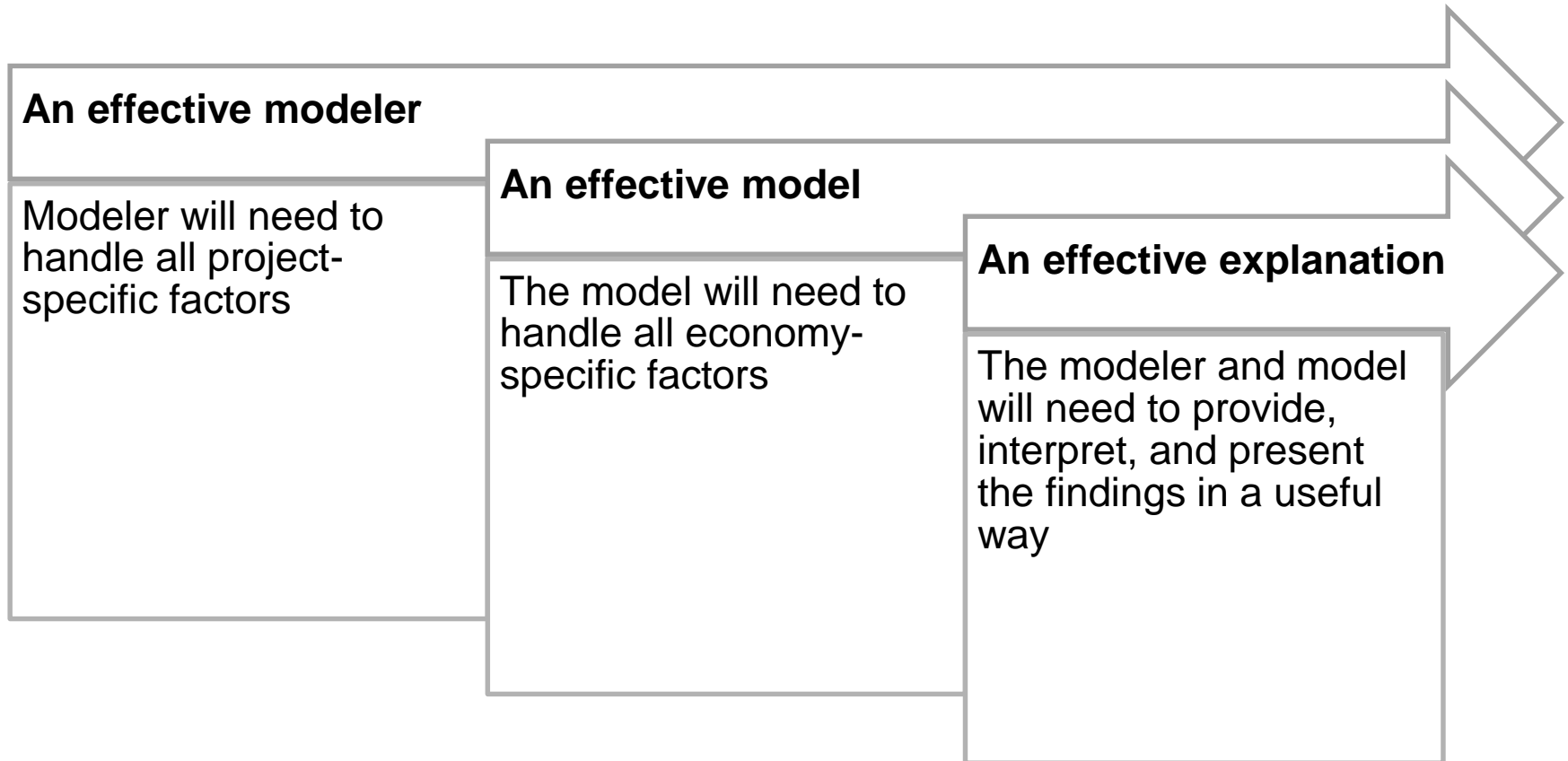
Spending by
recipients of
direct spending

- Employees' household spending
- Hiring and spending by vendors/suppliers
- Government spending

Factors that Influence Net Effects of Shifts in Spending



An Effective Economic Impact Analysis



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