



# Looking at Internet Gaming Demographics, Cross-Pollination and Overseas Operations

by Grant Eve

Internet gaming in the United States has made significant progress this year but still has a challenging road ahead to become legalized, especially with the heavy agenda Congress has before year end. On July 29, 2010, the House Committee on Financial Services (also referred to the House Banking Committee) took the first step in the legalization of online gaming by passing Congressman Barney Frank's (D-MA) sponsored Bill HR 2267 out of committee by a vote of 41-21. To summarize the Internet Gambling Regulation, Consumer Protection, and Enforcement Act (HR 2267), it prohibits any person from operating an Internet gambling facility that knowingly accepts wagers from consumers inside the United States without a license issued by the Secretary of the Treasury. This bill requires the Secretary of the Treasury or any qualified state or tribal regulatory body to prescribe different regulations and safeguards. During the markup of the bill, multiple amendments were made in which many suggested multiple improvements to help protect tribal sovereignty and even the playing field between tribes and possible commercial operators.

The hot question continues to be how this will affect Indian (and commercial) gaming facilities if Internet gaming is legalized in the United States? There have been several varied answers to this question based on different analysis. The result will depend heavily on the demographics of the consumer and if the brick-and-mortar facilities will cross-pollinate into operating Internet gaming operations.

### Demographics

The brick-and-mortar casino patron varies from big spending "whales" to the occasional gambler. As player tracking systems continually progress, operators are finding out more and more about the patrons that attend casinos. Data from the more complete player tracking systems show that slot players tend to be an older demographic than poker and table games players. Player systems have also found that females are more frequent slot machine players than males. This varies slightly by region and casino.

Internet gaming demographics tend to be more complex. Reliable data is skeptical, at best, based on the information that is retained and publicly made available from Internet gaming operators. Many experts believe that the United States Internet gaming demographics consist primarily of poker players and sports gamblers. If this is correct, the United States online gambler is a younger male, which fits the typical profile of brick-and-mortar poker players and sports gamblers.

### Glancing at Party Gaming's Results

To see trends that have already past, it is logical to look overseas to where Internet gaming is already a developed, legal business. Party Gaming, a publicly traded company, is the most widely known and largest Internet gaming operator on the London Stock Exchange and generates around \$400 to \$450 million (U.S. dollars) in annual revenue. In viewing the 2009 financial statements of Party Gaming, 44.3% of their revenue was generated from poker, 44.1% from casino games, 7.3% from bingo, and 4.3% from sports betting. Casino games consist of typical table games such as slots, blackjack, roulette, and many others.

In analyzing Party Gaming's revenue trends from 2006 to 2009, there was a significant increase in casino game play after the Unlawful Internet Gaming Enforcement Act of 2006 (Party Gaming moved out of the U.S. market when UIGEA) was passed. Casino game play increased from \$51M in revenue in 2006 to over \$196M in 2009, an increase of over 385%, while poker revenue decreased over 25% in the same period.

From this data, it appears that casino games increased revenue from a higher volume of play from new and current online gamblers. At the same time, poker revenue decreased from fewer players and players changing their game of choice. If this online casino games gambler is a brick-and-mortar player, it leaves the potential threat of having an adverse effect on land facilities that are not involved in Internet gaming. This is a real threat and is possible, maybe not in the immediate future (if legalized), but in 3-7 years as players begin to feel more comfortable with Internet gaming. In addition, online sites can typically offer better odds and payback percentages than brick-and-mortar casinos as they do not have the fixed costs associated with running a land based casino. As seen in the UK, casino games are growing faster than any other form of online gaming and are starting to capitalize on more of the market share (compared to poker, sports betting, bingo, etc.). If the United States follows the same pattern, it could impair brick-and-mortar casinos that do not cross-pollinate Internet gaming with their land based facilities.

### Cross Pollination Between Internet Gaming and Brick-and-Mortar

Internet gaming already exists in multiple venues with estimated annual revenues of over \$20 billion worldwide. Many tribal leaders are torn on whether they should proactively take part in segment and develop it further or let others continue to offer it, either legally or illegally, and see how the market develops. If tribal casinos develop an effective strategy

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to capitalize on the legalization of Internet gaming, the potential increase in revenue is substantial in such a big business.

A cross-pollination opportunity exists due to the fact that there are already over 400 tribal casinos in the United States. Cross-pollination between the brick-and-mortar casinos and Internet gaming would be attractive to the online gambler who also frequents casinos. The integration between the existing casino's player tracking system and the online casino player tracking system leave the possibility for multiple ways to market to the player. For instance, playing a certain amount online and receiving promotions to come visit the brick and mortar casino. Also, the brick-and-mortar casino could offer online gaming promotions to patrons who do not play online. This could generate more revenue from the player if the casino can entice them to play online and at the brick-and-

mortar facility. A key element would be to have a player tracking system that integrates between the brick-and-mortar casino and the online casino operations. The more queries and data an operation can create and effectively analyze, the more likely the operation would be to increase revenue.

### The Future

It is in the best interest for tribes to monitor the legalization of Internet gaming and play a proactive role in ensuring they are ready to capitalize on any opportunities that may arise in the near future. ♣

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