



by Valerie Spicer

## ***It's Time to Rethink Class II Gaming***

When tribal communities first looked to gaming as a solution to offset decades of economic isolation and chronic unemployment, bingo tents started popping up all over the country. From these humble beginnings, Class II gaming was born. Today, Class II retains some of the stigma of those old, analog games. Despite this reputation, Class II has become the bedrock of many Indian gaming operations, especially in Oklahoma, even after tribes were able to negotiate a compact with the state and place “compact games” on the floor. To the surprise of many at the time, tribes in Oklahoma did not take their Class II devices off the floor, and, perhaps even more surprising, the allure of the new machines did not outshine them. The technology of Class II and its requirement to be a bingo-based game has launched some of the best advances in game devices, from a linked system (later promoted as server-based) to the cashless devices now utilized throughout the industry. As it turned out, patrons had an affinity for certain games and didn’t care or know what class of game they operated under.

The games that players had been playing for years were in as much demand as ever. Even now, years after sharing the casino floor with new compacted games, Class II games have held their own, and in some key places, have surpassed the compacted games’ performance. In spite of predictions they would become obsolete, these games have endured and are regenerating.

In the last five years, the Class II industry has grown substantially as manufacturers have dedicated resources and focus on their development. This growth has also been fueled by several Class II manufacturers being acquired by large Class III companies. These developments are good for operators and players, as expanded Class II offerings give properties more and better choices to include in the mix on the floor. The title options are as enticing – graphics have gone from dull and monochromatic, to vibrant and appealing – with game play that is active, promoting longer time on each device. In assessing gaming floors for optimal revenue retention, player experience and variety, the inclusion of Class II devices is a must.

Looking ahead, the gaming industry is expected to continue its growth. Market share between the commercial market segment and Indian gaming is nearly at a 50/50 split. In states where tribes maintain exclusivity, the challenges to grow and retain that position are confronted by a myriad of industry advances, such as sports betting, fantasy sports, and online gaming. In this environment of diversification and increased

competition, the ability to retain and increase revenues from machines becomes essential. In some rural communities for example, it is becoming increasingly harder to compete with the concentration of urban areas’ many gaming offerings. Having the advantage of higher revenue retention is helpful, and a Class II mix can especially make the difference during the offseason or when urban competition swells. The advancement of game play for these devices adds to their viability and patron acceptance.

The need for the revenues that Indian gaming provides does not subside with continuing market expansion, and increases with the reduction of federal cutbacks. This is especially true now as tribes face yet another potential reduction in funding to critical programs, in the upcoming budget proposal, a proposal whose impact will be immediate and far-reaching. For those fortunate to have gaming as an economic resource, every dollar retained will be a much-needed dollar for community programs.

Since the very beginning, tribal governments have counted on their investments in gaming to strengthen their governments, promote self-reliance and stimulate economic diversification. As such, gaming revenues will remain essential to the well-being of tribal communities and the many that directly or indirectly benefit from their enterprises. The potential to grow their immediate economy and develop a sustainable future is in many ways directly tied to the retention and maximization of revenues.

To reach these ends, Indian gaming enterprises are wise to create a well-balanced floor of Class II and Class III as an essential part of ensuring those healthy revenues. Tribal leadership and their executive teams should not overlook Class II as part of their future compact negotiations, and consider its value in challenging times.

Looking ahead, the industry will continue to birth new products and gaming offerings that can grow your enterprise or in some cases challenge its exclusive position. We can’t forget that this unique system, in its simplest form, set the stage for key advances in gaming devices that are still in use today. Class II was born out of Indian gaming, and as such, will remain an integral part of its destiny, providing tribes a unique advantage to retain much needed revenues today, tomorrow, and into the future. ♣

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