



An Introduction to Online Gaming

by Andrew Klebanow

For over two decades the fundamental development strategy driving the growth of Indian gaming has been to improve the quality of the environments that house casinos and diversify the non-gaming amenities that support their gaming enterprises. The earliest forms of Indian casinos were housed in sprung structures, steel buildings, and re-purposed tribal community centers. These were replaced by attractive, purpose-built facilities. They were followed by a wealth of supporting non-gaming facilities such as restaurants, hotels, conference centers, entertainment venues, golf courses and various forms of nightlife. These development strategies diversified revenue streams and attracted customers that included gaming as part of other entertainment experiences. These strategies served casino operators well – until the pandemic hit and all revenue streams halted. After months of self-imposed closures, Indian casinos have re-opened but most non-gaming amenities remain closed or are operating at substantially reduced capacity.

The pandemic forced casino operators across North America to take a very hard look at their past development strategies. What were once considered important amenities, such as conference centers and entertainment venues, have suddenly become non-performing assets. What the pandemic revealed is not so much a flaw in most tribal enterprises' development strategies, but their distribution strategies.

Essentially, distribution strategies are the channels a firm may employ to get their goods and services to their customers. Walmart's distribution strategy is to build supercenters in communities throughout North America as well as smaller neighborhood stores, and also offer online shopping options to efficiently get their products to their customers.

Casinos have traditionally operated with a different distribution strategy. Customers had to visit a casino in order to avail themselves of gaming entertainment. In the past, that was never a problem. Customers took buses or hopped in their cars and drove to casinos. Now, with health and safety concerns, many customers are leery of crowded indoor environments. To better serve their customers, casinos should now develop new channels of distribution to get their gaming products to their customers. Those channels are through online portals.

There are a number of products that tend to get lumped into any discussion of online gaming. These include mobile sports wagering, online poker, social gaming, and free-to-play gaming. Online gaming, in its most simple description, is defined as a suite of products and services that allows a patron to conduct real-money Class III gaming via an online portal. It allows patrons to play digital versions of slot machines,

virtual table games, and live table games using a computer or mobile device.

Online Gaming and Federal Law

The first question that one would ask before developing an online gaming strategy is whether online gaming is legal. States are free to establish their own laws regarding gaming within their borders. Various federal laws, primarily the Unlawful Internet Gambling Enforcement Act of 2006 (UIGEA), essentially prohibit wagering across state lines by outlawing financial transactions involving online gaming service providers. The UIGEA exempts certain intrastate wagering and tribal gaming enterprises that operate under state regulations or compacts. To qualify for this exemption, a bet must be made and received in the same state; and comply with applicable state law that authorizes gaming and the method of transmission, including any age and location verification and security requirements. Most likely, a tribe would have to re-open compact negotiations with its state governor before moving forward with an online wagering program.

Online Gaming: A Global Perspective

Online gaming has been available in various forms in other countries since 1994. Most licensed online providers have settled in jurisdictions that offer favorable tax treatment and are relatively close to their primary markets with Malta, Alderney, and Gibraltar as the most prominent. They primarily serve patrons residing in the European Union.

Various forms of online wagering also emanate from countries in Asia. The Philippines has emerged as one of the largest hubs for online gaming with sixty licensed online casino operators. Although gaming online is illegal for anyone residing in the Philippines, these operations target and serve players in other countries, primarily the Peoples Republic of China. It is estimated that in 2019, Philippine online gaming operators generated over \$8 billion in gaming revenue.

U.S. States that Offer Online Wagering

To date, four states allow commercial casino operators to offer online gaming within their borders. Delaware was the first state to offer online wagering in 2012. New Jersey allowed commercial operators in Atlantic City to offer online wagering since 2013. It has evolved into a stable and mature industry that complements the brick-and-mortar casinos.

Pennsylvania's casinos launched in July of 2019, and West Virginia's online casinos started in July of 2020.

A person making a wager in any of these jurisdictions must first open an account, verify that they are of legal age, and must be located within the state's borders when placing a wager. They can place wagers using their mobile device or play from a computer. Geo-fencing assures that players cannot make a wager outside of the state that they are physically located in.

As would be expected, online operators in these four states enjoyed a spike in wagering activity during the lockdown. Nevertheless, even after their bricks and mortar casinos re-opened, online gaming activity continued to grow. Some players continue to stay home and enjoy the convenience and safety of gaming from home.

Types of Products Available

There are several types of gaming products available today. The most common are digital versions of slot machines. Major slot manufacturers now create content that can be enjoyed in a traditional slot machine cabinet or as an online product available through a licensed online casino operator.

Digital versions of table games are also available. These resemble computer generated blackjack, roulette, and craps where the player is essentially wagering against a computer. What is emerging as a very popular product is called live dealer/online. These consist of real table games, staffed by live dealers, and housed within the casino or a studio. Tables are equipped with cameras, special lighting, and hardware. A player logs onto a casino's online website, and views available tables and dealers. Once selected, the player makes a wager and the dealer deals the cards. When each hand is completed, winning wagers are paid. Common games include blackjack, craps, and roulette. Games such as baccarat, sic bo, and fan tan are more popular in Asia. Regardless, players enjoy wagering against a live dealer rather than a computer and live dealer/online offers them that experience.

Long-Term Outlook

Not too long ago, an entrepreneur developed a business plan whereby people could shop for books online rather than visit their local bookstore. That idea was called Amazon, and it quickly decimated the retail book industry and grew into the world's largest online retailer. Another entrepreneur came up with an idea where people could rent movies online, have them mailed to their homes along with a postage-paid return envelope, and send them back when they were done viewing. Eventually, internet bandwidth improved and those movies could be rented and watched online. Netflix

and other entrants subsequently led to the closure of Blockbuster Video and thousands of other local movie rental stores. In fact, there are dozens of industries whose collective demise was brought about by consumers' shift to online purchases.

The pandemic will continue to force Indian casino operators to devise new strategies to meet the needs of their customers. Creating new channels of distribution is essential if the industry is to serve players who are no longer comfortable visiting casinos. A thorough understanding of online gaming, the legal hurdles that must be overcome, and the opportunities and threats that it presents, is essential before deciding on the appropriate course of action. ♣

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The advertisement is a vertical banner split into two panels. The left panel shows a golden statue of a Native American figure holding a spear, standing on a rocky outcrop with a waterfall in the background. The right panel shows a large, stylized tree with red branches and gold lights, set in a casino environment with gaming machines and people in the background. The text 'THEME AND SPECIALTY CONSTRUCTION SERVICES' is at the top, 'YOU DREAM' is on the left, and 'WE DELIVER' is on the right. The COST logo and contact information are at the bottom.