28 September 2009

Mr Gary Banks AO
Chairman
Productivity Commission
GPO Box 1428
Canberra ACT 2601

By Email

RE: FURTHER SUBMISSION TO THE PRODUCTIVITY COMMISSION INQUIRY INTO GAMBLING

Dear Mr Banks,

Further to our recent discussions with Ralph Lattimore of your office regarding the issue of Server Based Gaming and its potential impact please find attached an assessment on the current state of play regarding the development of Server Based Gaming in Australia.

This assessment has been prepared for the Australasian Casino Association by Neil Spencer, our Technical Advisor and casino industry representative on the National Standards Forum. Neil is currently Senior Vice President Gaming Systems and Innovation for Crown Limited. As Neil's assessment concludes, market conditions around the world suggest that the roll-out of Server Based Gaming technology will be very slow due to the combination of the size of the capital investment and the "unquantifiable return on investment."

Interestingly enough a recent survey of 200 casino executives across the United States by Clear Seas Research found that 45% felt that the cost of implementation would further delay the onset or further development of Server Based Gaming at their facilities. When asked about what impact the state of the economy would have on any decision, more than two thirds (66%) indicated that the current state of the US economy had further delayed their plans to adopt Server Based Gaming without a specific timetable for the reconsideration of Server Based Gaming and another 20% had shelved any plans they were considering or might have considered regarding the adoption or further adoption of Server Based Gaming and had no plan to reconsider the issue.

The bottom line as set out in the assessment is that there is still a long way to go before Server Based Gaming becomes a reality. It is "an ill-defined value proposition causing only modest interest among operators with a long and uncertain path ahead before implementation."

If you or your staff require any further information please contact me.

Yours sincerely,

Chris Downy
Executive Director

Introduction
This paper studies the evolution of the gaming industry's Server Based Gaming concepts and the likelihood of widespread availability and implementation.

Despite being launched to the gaming industry some four years ago as the next generation gaming tool, development of this technology has been plagued with significant issues such as:

- A constantly evolving definition
- Very long development timeframe
- Inconsistent implementation
- Uncertainty in acquisition/operating models
- Poorly defined value proposition
- Capital constrained industry

Whilst most gaming operators have expressed an interest in some elements of the technology, there is concern about the commercial value of the technology.

It has been reported that when MGM Mirage, a company recognised for its investment in technology to support its casino operations, opens its Aria casino at the Las Vegas City Centre property in late 2009, it will only deploy a network based capability for player marketing – a far cry from the much touted server based and downloadable gaming technologies.

This reflects the very immature state of network based gaming and continues to reinforce the view that server based gaming still has a long and uncertain path to implementation.

Evolving Definition
A significant issue faced by the gaming industry has been the evolving definition of Server Based Gaming.

A technically correct definition reflects a gaming environment where the gaming machine is merely a terminal connected to a central computer system. Game results and credit balances are determined and managed by the central computer and the gaming machine simply plays the graphic animation to reflect the centrally determined result.

Examples of this definition are the so called "Class II" games from the Native American Casino industry and Internet based gaming systems where players use their home PC to play video style spinning reel games.

Unfortunately however some industry vendors had the view that downloadable games and game configurations were the real opportunity and put their development efforts towards that goal.

Downloadable capabilities are aimed at allowing either the gaming operator, or potentially a player, to change games without the need for a technician. In this model, the gaming machine continues to operate as per today's 'stand-alone' mode.

In the media the terms Server Based Gaming and Downloadable Games have been used interchangeably, despite the vastly different outcomes and gaming product/system technologies. This has lead to confusion amongst gaming operators and regulators in trying to assess technological change.

Today the industry has evolved this to a new term – Network Gaming – with yet another meaning.

Network Gaming is used by the majority of gaming system vendors to reflect, at a minimum, a faster communications interface between a gaming machine and a gaming system. Generally this means that gaming machines are being designed to support a direct high-speed network connection (eg Ethernet) rather than the typical low-speed serial interface to proprietary communications interface devices.

There continues to be a risk that this technology will morph into another definition before it is commercially available.

Very Long Development Period
The evolving definition of Server Based Gaming has had the flow on effect of delaying the launch of any workable system.

There have been some limited trials of specific technical concepts related to game download and changing operating parameters, but not on a scale that would indicate commercial availability of these technologies.

One of the key reasons for this protracted development is that gaming machines must be adapted to exploit network technologies as well as systems being developed to deliver these technologies.

In the USA an industry group known as the Gaming Standards Association (GSA) spent more than 3 years developing protocols for how next generation gaming machines would be interfaced to a network gaming system.

In parallel, GSA developed protocols for system interoperability (known as System to System, or S2S protocol) to facilitate standard methods for data interchange.

Unfortunately, unlike most other industries, Gaming has traditionally been recognised for maintaining a proprietary approach to systems and technologies. Instead of embracing an open systems approach to the development of network gaming (as was the basis of Internet technologies), the gaming industry typically follows a strategy of closely guarded, unique, internal development.

The regulatory environment in which gaming is conducted has also contributed to delays in the development of these new technologies.

Most jurisdictions required the development of new technical standards for machines and systems in support of network gaming. There is no common set of regulatory standards for gaming and thus system developers were required to establish minimum criteria across multiple jurisdictions.

Inevitably, standards for network gaming impacted on standards for gaming machines, and this further added to delays in the technology development cycle.

Inconsistent Implementation
Unlike the intuitively obvious functionality of Ticket In Ticket Out systems, it cannot be assumed that all server based/network gaming systems offer the same capability and functionality.

Already there appears to be inconsistencies between the marketing/promotion of server based gaming and what is, or planned to be, available in the short to medium term.

Not all suppliers are following the same development path – with different levels of emphasis on player marketing, game configuration and floor control.

This will likely lead to quite different levels of functionality being available for gaming operators depending on which supplier they acquire their network gaming system from.

As systems become commercially available there will increasingly be a need for gaming operators to thoroughly investigate and understand the extent of capability and functionality being offered as part of the acquisition process.

The one consistent factor applicable to all system vendors is that the short term strategy is based on the delivery of player marketing content. This avoids the need for resolving gaming software interfaces as well as the cost burden on operators who would otherwise be faced with massive capital expenditure to purchase next generation gaming machines.

Uncertainty in Acquisition/Operating Model
As engineering teams struggle with the development of network gaming systems, the commercial model for acquisition and operating network gaming systems is far from clear.

There is an expectation within industry circles that vendors of network gaming systems are looking for a licensing/operating fee based on data transmission rates – similar to mobile telephone or internet contracts. Speculation also tilts at fees for delivering new games, configuration changes or marketing content.

All of this stems from the fact that unlike an Open Industry or Internet approach that relies on the value proposition of the product to dictate an operating cost, the Gaming System vendors seem to be looking at the network itself as a significant revenue source and a measure of market dominance.

Unfortunately, due to the lack of clarity about the true value of network gaming (meaning delivering a positive impact on gaming revenues), most gaming operators are taking a cautious "wait and see" approach to investment decisions in the network gaming space.

Poorly Defined Value Proposition

Most of the hype about Server based or Network based gaming has come from the supplier side of the gaming industry that see these technological developments as the path to major system sales.

In 1999 when Ticket In-Ticket Out capabilities became commercially available in the USA there was common agreement amongst the operator community about the value of this technology. TITO became a vehicle for significant reduction in operating costs and increased revenues through improved player mobility across a gaming floor.

Despite the universal acceptance of TITO by gaming machine players, the industry uptake of the technology was slow – driven mainly by the cost of gaming machine hardware replacement and system upgrades.

For new casinos the introduction of TITO was an obvious given and the incremental implementation costs were low. For existing large casinos, the transition to TITO took more than 6 years.

In contrast, Server Based/Network Gaming does not have a clearly defined value proposition that urges operators to invest in new machines or systems.

The vendor side of industry promotes benefits such as faster game changes, yield management, improved marketing – but none of these have yet offered a tangible business case that supports an investment decision. This is resulting from the fact that the technology remains at an immature level and delivery times are open ended.

First adopters of this technology are likely to be operators who have an internal resource base to develop concepts, work in partnership with vendors and be part of the journey of evolving these technologies into commercial value.

Implications for Non-US Operators

Outside of the USA, there appears to be little, if any, development underway for Server Based/Network Gaming systems.

This means that international access to this technology has an even longer lead time.

On top of the time taken for the core technologies to be bedded down in the USA before international deployment, there will also be a need for local country/State modifications to cater for local jurisdictional requirements.

In Australia for example, some regulators prescribe unique gaming machine interface protocols, different to other markets. Queensland mandates its own QCOMM protocol and New South Wales mandates its own X-Std protocol. This means that the gaming machine interface aspects of a network based gaming system need to be adapted for the local protocol.

Exacerbating this is the different jurisdictional requirements relating to responsible gaming initiatives and player information that must be available through gaming machines. These local features must also be incorporated into the base USA versions of network gaming systems.

Capital Constrained Industry

Adaptation of Server Based or Network Gaming requires a significant capital investment in new gaming machines, networks and back end computer systems.

In most gaming markets gaming operator spend on new technology is at record low levels – a reflection of the underlying state of the market.

As was clearly demonstrated with the launch of TITO, the real value of Server Based or Network Gaming technologies only comes once the majority of gaming machines are capable of utilising the technology.

Market conditions around the world all suggest that roll-out of Server Based or Network Gaming technologies will be very slow due to the combination of the size of the capital investment and the unquantifiable return on investment.

The Bottom Line on Server Based Gaming

- Immature, and evolving definition
- Immature in development status
- Ill-defined value proposition causing only modest interest in the operator community
- Inconsistency across the vendor community
- Extra effort for non-US implementations
- A long and uncertain path to implementation