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EMERGING MARKETS PROVE FERTILE GROUND FOR REGULATED MOBILE GAMING

BY TERO TURUNEN, OSKARI KETTUNEN AND MIKA KUUSISTO

What are the changes shaping mobile gaming markets in the near term and the key success factors that will characterise the impending competitive race? Several long term trends are gathering momentum and beginning to create attractive opportunities for business growth. Given that forecasts for some regions' mobile growth – Africa and Latin America in particular – are near exponential, it is an opportune moment to address some aspects while keeping in mind operational adaptations and success factors critical to their realisation.



While mobile systems have long been expected to deliver great value for the gaming industry, many of the requisite environmental factors are only now beginning to line up. For an adapted product and technology, the emerging markets of Africa and Latin America are proving very conducive to accelerated growth of the mobile sector. Regulated lottery operators have an opportunity to gain a head start if they can get their licenses amended to allow mobile play. With text-based games the full installed base of mobile phones constitutes a significant market growth factor. Unlike Europe, there are markets that, beyond mobile, are otherwise unreachable since the physical infrastructure may not be available and Internet penetration is negligible.

Fast time-to-market and low capital expenditure are winning characteristics of mobile that can only gain in importance over the years ahead. Juniper Research, in their recent report, concluded that "mobile lottery services...will attain the highest adoption level, with nearly 400m users worldwide by the end of the forecast period."

BUSINESS MODELS AND OPERATIONS DRIVEN BY MARKET ANALYTICS

Agility and speed are essential in reliably launching services to one market after another in quick succession. Establishing a global footprint with a lean organisation from a European base requires careful and ongoing re-evaluation of opportunities and costs. A track-record of success elsewhere opens doors that were previously shut, so spreading operations too thinly would be unwise in an unreliable environment where politics may bog down a project unexpectedly.

A focused strategy takes heed according to the growth and size of complementary markets, ranking opportunities

appropriately. In the case of mobile gaming the obvious source data is mobile penetration, its growth and operators' Average Revenue Per User (ARPU).

For mobile to really have the competitive edge of course, relative Internet penetration needs to be lower. Eventually the service offering will encompass all available media as a seamless experience, but for expansion and growth it's best to head where mobile can best display its unique strengths. Combining these factors with a high population quickly leads to the growing profile of emerging markets.

In building a business case for the mass markets income simplicity is key. The target demographics have lower disposable income so individual wagers remain small. Where the audience also is not used to sophisticated technology or gaming concepts, barriers to entry and first-time playing must be minimised. In practice, this means simple text-based lottery games. The game needs to be based on a familiar concept and be simple enough to explain in the shortest radio spots and billboards – not forgetting word-of-mouth, which may be the most important marketing vehicle of all. The engagement and excitement of the game to the end-user is not through the interaction of gaming itself, but in the anticipation of winning. The brand-identity and appeal of games is entirely dependent on advertising.

The lucrative market outlook for mobile lotteries is driven by text-messaging in the first phase, not by applications and client solutions. With the slow uptake of mobile application downloads in even the most advanced markets, combined with the small installed base of suitable handsets in emerging markets, they are a non-starter for now. Even with the ongoing technological advances in simplifying the installation and configuration of the applications, there are still far too many clicks between the impulse to play and the active user-interface. Text-messaging is second nature to a majority of the world's population.

The license procedure is more flexible and costs less in the emerging markets compared to the very rigid EU and US legislation. Existing licenses are more likely to be extended to allow mobile and new ones may be granted in a shorter amount of time.

For governments granting licenses, mobile can create a very positive change in the gaming landscape. It is no secret how little of existing gambling happens on the right side of the law in Africa and Latin America. Paper-based lotteries are amenable to fraud and money laundering, for example. When played via mobile, each wager is individually recorded and linked to a player account. This underlying data makes it possible to build systems with full transparency and audit trails. Gaming regulators can ensure the game's fairness, the operator's social contributions and the government's tax income.

For launching mobile services, existing license-holders have the advantage. Since they have the existing brands and operational support, an expansion to mobile can follow very naturally. Having been restricted by lack of infrastructure and the resulting scarcity of points of sale, mobile gives them access to completely new customers. Mobile play represents genuine growth, not cannibalisation. Statistics on the volumes and revenues of existing lotteries are the second major indicator through which strategies can be focused. Even though greenfield licenses are also an option for entry to regulated gaming, a local partner remains key to a successful launch. As marketing plays such a central role, knowledge

of the culture must shape the product from early on. For the new business to gain a sustainable foothold, everything needs to be localised. Lottery games by their nature exhibit strong network effects: the value to an individual participant is increased by each new entrant.

Consequently, there is a certain 'critical mass' to a consumer brand and early stakes in the race for market share are the most important.

The lean operational and marketing hubs in the selected high-yield markets can launch mobile gaming brands with very low capital expenditure. Break-even can be targeted in less than a quarter – based on real experience from various markets.

Emerging markets present an attractive growth area for gaming, especially mobile. The ever-changing environment makes them a moving target requiring adaptation. But in the selected high-potential areas, a company with the right product and ability to move fast while keeping costs in check can do very well.

PRODUCT DESIGN AROUND TECHNOLOGICAL CHALLENGES

The core of our value proposition is based on advanced technology, but it is never the first place to look for solutions. The innovations that enable the marketing of engaging games in environments with limited infrastructures come from taking the end-user's perspective and drawing inspiration from everyday practices on the ground.

In their study of the mobile gambling market, Juniper Research presents a list of hurdles to mobile gambling. They're all familiar to us and each has their particular solutions in the context of emerging markets.

Regulatory constraints are seen as a challenge in the mature gaming markets as stakes are high and legislation slow to acknowledge electronic media. For regulated gaming in the emerging markets, the situation is almost in reverse. As explained earlier: the full accountability of lottery operators to government oversight is a strong lobbying argument.

Trust is a key question for any business; more so for gambling. Where developed western economies build a lot on trust and enforce legal frameworks to support it – many developing economies assume no trust at all. The same can be applied to game design, it is best not to have to ask the customer to trust the game, but rather let them see for themselves. The biggest risk they're asked to take is the price of a single ticket. In practice the established brands provide a shortcut to credibility, but the essence is still to field as many small wins as early on as possible.

Payment processing can get technologically intricate and confusing to the user with the latest of technologies at hand. In areas where the majority do not have bank accounts, the current solutions are altogether useless. For the inbound payment, the simplest way will remain the premium-rate message charges from the end-users pre- or post-paid mobile subscription. For prize pay-out the transaction volumes are a fraction of the gameplays in lotteries, but can still be significant. Several ways, dependent on the size of the win, are used in parallel to maximise convenience. Partnering with existing networks of retailers and banks are important extensions to the reach of a gaming operator.

As inspired by the micro-entrepreneurship evident in the marketplaces of any developing nation, prize payouts can also beget an independent tier of business. We have devel-



oped an innovative way for allowing prizes to be borne as virtual electronic cheques that can freely be transferred under central coordination. Therefore anyone can offer to be a 'cashing agent' without any prior agreement with the gaming company or explicit trust between the individuals.

User interface challenges, network coverage and data cost are often mentioned when mobile gaming is envisioned as a porting of web-based games to the handset. As such, it definitely will remain a problem for a long time to come. For text-based games the user interface is whatever the users are already familiar with, combined with the media elements of advertising: billboards, print, radio and television. A televised draw is the cornerstone of reputability to a lottery.

The mobile operator's dominance in the value chain is a genuine concern for independent gaming companies. For downloadable applications and wap-portals the main concern are the 'walled gardens' of the operators, where access to the users is strictly controlled. SMS does not have the same content lock-in, but the billing commissions (revenue share of the text-messages with premium rate tariffs) of telco's can be even prohibitively high in some less competitive markets. In Northern Europe, however, there is the hope that competition can drive that cost down dramatically.

Acceptance of gaming in general is a cultural issue; not so mobile for the gaming industry. Again, with lotteries widely regarded as harmless fun instead of hard gambling, mobile will simply widen the accessible market. Age verification is an issue for all gaming, not particularly mobile alone. Of course, no waterproof mechanisms exist for any type of age-controlled consumer products. Requiring proof of identity for prize pay-out can curb underage gaming effectively by removing the motive.

There is a large element of uncompromising software engineering and use of leading edge technology that gives the business models envisioned earlier their cutting edge. Early R&D investment keeps delivering performance from less hardware on every install, while built-in fault tolerance

and fully integrated remote maintenance enable fast launches with a small core staff.

A traditional single-operation mindset builds systems under evolutionary pressure, without investing in product roll-out. Incremental costs creep in and processes lack repeatability. This may hamper many players in the field from moving into new markets as a technology provider. Experience shows that product-thinking needs to be integrated into a system from day one.

The cost factors of new system deployments – software licences, hardware, installation and maintenance – can all be considered in the initial design. Expenditure on third party software licenses can be entirely eradicated by judicious use of open-source alternatives. The investment in understanding the underpinnings of the system, i.e. top talent, also pays off in vastly superior performance and consequently smaller hardware costs. Hardware can also be selected with the life-cycle not only of a system but of the design in mind: using common off-the-shelf competitive hardware directly leverages ongoing technological advances in the price/performance ratio.

Building quality assurance into the product development routines and having a clear release process shortens feature cycle times without letting the product diverge. Fully automated installation procedures pay off in the headcount, allowing the core of the team to focus on what they do best. Similarly, the ongoing operations and maintenance of the system can build up considerably high HR costs in relation to the geographical expansion unless the tools are built into the product. With centralised monitoring of solutions a support team can handle a new system with very little incremental workload.

Mobile is most often regarded as one concept, while it can refer to a wide range of services and technologies used to implement them. When the mobility and ubiquity are true value-added while elaborate user-interfaces are not a requirement – using text messages simply passes by the problems

often discussed.

When building text-based services, the technology is entirely at the back end. Such a system needs to support a marketing-driven organisation while not exhausting R&D for rapid expansion to be possible. The requirements are met by designing a 'system product', something that can be installed by a technician with generic understanding and remotely supported by a centralised organisation.

STRATEGIC POSITIONING FOR MOBILE GAMING

Africa and Latin America are clearly the top growth areas, specifically for regulated mobile gaming. The governments are more flexible in the definition of the licenses, partly due to the lack of control of existing players. The existing lotteries have mainly been constrained by the physical medium: although potential players, large rural populations are too sparsely spread to be reached. Mobile will maintain its edge over the Internet in those areas. Governments have a vested interest in the VAT income they collect from calls and text messaging, and therefore keep initiatives for mobile expansion higher on their agenda.

Europe, sooner rather than later, will start to adapt from the east. A contributor to that change may be strong business cases in the emerging markets. Prior to that, games designed around the existing legal constraints may gain a foothold and serve as market research. Systems built for mobile gaming will gain recognition and acceptance into existing service networks, most notably ATM's that already allow mobile top-up will soon offer prize-cashing.

Although some circles have discussed mobile for so long they have become pessimistic about its potential, the recognition of its importance is only now filtering into the offices of lottery operations around the world. Being a close-knit industry, they are likely to move en masse as soon as some early adopters start presenting results.

On the supplier-side, the radically reduced capital expenditure needed to set up the mobile-specific service infrastructure and time-to-market of mobile lotteries enables very fast and scalable growth. This may upset the current balance of 'the big three' – the technology vendors controlling a majority of the traditional lottery infrastructure around the world. By going mobile, the business turns into a telecommunication service with new media thinking, which is very different to the traditional mindset of running a lottery. A strong product and efficient project execution is key. For the success of the consumer brand, marketing is just as important as ever – if not more.

The mobile phone is only a part of the future converged offering that will unlock the whole scenario. Given that it is always on and invariably in everyone's pocket, its very mobility is the fabric around which more sophisticated services will start to build.

National gaming monopolies will be broken up around the world and gaming deregulated at an accelerating pace. While governments may continue to oversee and mandate social responsibility, more licenses will be granted and more lotteries launched. This shift will attract large players from the current unregulated or offshore-licensed Internet gaming industry.

When these players get into the markets they will bring a massive knowhow of Internet-based sales and marketing, allowing them to launch wide ranging new product offerings. Entry of online specialists and the rapid growth of mobile lot-

teries will definitely modernise the regulated gaming industry that has been somewhat set in its ways. The question is how fast will this happen and who will take the key roles in the new value chain.

PARTING WORDS

There is at least one clear conclusion to be drawn from the current market outlook. The confluence of trends and environmental shifts is easy to pinpoint. Juniper Research, for one, did not mince words about their recommendation, picking this as one of three main points in their press release regarding the study: "Gambling service providers should deploy text-based gambling services in developing markets to encourage mass adoption". **CGI**

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TERO TURUNEN, OSKARI KETTUNEN AND MIKA KUUSISTO



Tero Turunen, Executive Chairman of the Board of Directors has a proven track record with more than 15 years of senior management experience in international business, working as an executive in the fields of mobile technology and content, Internet, consumer finance, and international trading. Before joining MGS, Tero served as CEO of Minick Group AG in Zurich.



Oskari Kettunen, Chief Technology Officer has extensive experience in designing and rolling out mobile services and telecommunications solutions across the globe. He has worked on software, product and business development at iobox Oy, Krocus Communications Oy and Tecnomen Corp. Oskari is an expert in carrier grade mobile solutions with state-of-the-art open source platforms. He has established and coached highly productive development teams with agile processes and methodologies.



Mika Kuusisto, Chief Operating Officer is in charge of MGS operations and focuses mainly on rolling out MGS solutions and services globally. He comes from seriously focused telecoms background, having spent more than 10 years in building new business in the areas of mobile services, telecommunications and software. Prior to joining MGS, he has been driving new business initiatives and key strategic partnerships for companies such as MINICK, Nokia, Comptel and Fujitsu.