

16 February 1999

The Stakes

First things first — why go online? Well, the notorious American gangster-era bank robber Willy Sutton was reported to have said that he robbed banks “because that’s where the money is”. <...> Online is where the money is – or will be. A recent report from Datamonitor is being quoted as saying that online gambling revenue is estimated at \$535 million in 1998, and projected to rise to \$955 million in 1999, \$2.3 billion in 2000, and perhaps as much as \$10 billion by 2002. The Financial Times has echoed that projection, and other analysts have made even more aggressive and optimistic estimates of the industry’s potential. <...> Forrester Research recently estimated that worldwide Internet commerce may go as high as \$3.2 trillion by 2003, and the ‘98 Casino & Gaming Business Market Research Handbook suggests that by 2005, the worldwide Internet gaming market could easily top \$100 billion. <...> The San Jose Mercury News reports that industry analysts estimate that online wagering on the Superbowl in 1999 exceeded that of all Superbowl wagering at all Las Vegas casinos combined.

GalaxiWorld (galaxiworld.com) just claimed revenues of \$3 million in December with a jump to \$7.37 million in January, but that sort of success doesn’t come without a significant investment, and commitment. GalaxiWorld is a good case in point. The site was originally slated to open last April 30th, GalaxiWorld reportedly has invested about \$20 million to date, and the site is slated for yet further development.

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Perhaps one of the first steps in contemplating such an undertaking is to recognize that what we are discussing is not “just a website”. It is a part of your global enterprise, and as such, it will contain components of virtually every part of your business. New client registration, odds quoting, bet taking, transactions clearing, settlements, record keeping, operations administration, logistics, entertainment, promotions, marketing, brand extension and revitalization, and more. What you will be creating is fundamentally a global-scale business operation which is deployed and accessed via the World Wide Web. And to do so, you will need at your disposal not only rock solid technological prowess, but also business process analysis, user experience design, graphical design and production, and marketing and promotional savvy. Without a solid understanding of all that this Web presence can and should be, and without a partner who shares and understands that vision, whether you spend \$20 million or \$2 million, you will not get good value for your money.

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Credibility

While the business of wagering is as old as time, the business of wagering on the Web is really still in its infancy. Yet even with its short history, we can already identify some of the key obstacles to success. One of the most critical is credibility: the credibility of the games, and the credibility of the gaming institutions themselves.

For the most part, the mainstream brands — the household names if you will — have so far stayed away from online gaming. Bally’s, Mirage, MGM Grand... they all have

websites, but only as marketing extensions to their brick and mortar casino properties. As a result, the vast majority of the online operations are virtual betting and gaming experiences with virtual brands; and in any e-commerce venture, that's a problem.

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The [-----] brand is one of your most valuable assets, <...> but you have other assets as well. You already have an established phone centre with trained operators available 20 hours per day, supporting multiple languages. You certainly want them spending more time taking bets, and less time helping customers who can't figure out how to put down virtual chips. Nonetheless, their very existence, and the fact that you can (and will) offer that level of customer service and support, will also go a long way towards establishing the credibility of your online gaming operations.

The credibility of the games themselves is a whole other matter — one that is very complex and which will need to be addressed simultaneously on multiple levels.

On one level, you start out with an advantage. You are an established presence in the business, you have a verifiable and referenceable history, and if there are any problems, you're not just some address in cyberspace; you have a real-world existence which is reassuring to people. Your marketing and brand extension efforts will play an important role here.

You start to build on that credibility with your emphasis on sporting events, where results are independently verifiable. There's no chance of cheating when any player can pick up a local newspaper and verify the results of a football match or race. Where it starts to get a bit more complex is with casino games in general, and table games in particular.

It's important to recognize that almost anything can be rigged, and with the amounts of money at stake, the cost of doing so is fundamentally insignificant. In an electronic environment, the quantity, value and frequency of winning combinations of numbers or cards can be completely controlled.

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The whole issue of machine versions of table games, as it relates to their perceived credibility, is an interesting one. While our expectation is that players will be suspicious, we have ample evidence that, in at least one context, they are not at all. Video Poker has become tremendously popular in casinos, while the number of traditional poker tables has gone down. There is no intrinsic reason to believe in a greater integrity of video poker games in a casino than online and yet people in casinos play them all the time.

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On a certain level, the player who will not think twice about tossing a quarter into a video poker machine is not so different from the player who works himself up to a \$250 bet at a table game. They both have become caught up in the play of the game, and the connection between the play and the risk and the potential reward while real and present, is not the most compelling factor. Fundamentally, they believe

in the game, in the real possibility of the win. Their perception of the credibility of their opportunity is secured, no matter what the actual reality.

In the theatre, it's called the suspension of disbelief, and it happens every time the house lights go down and we choose to forget that we are in a room with actors on a stage, or flickering light projected on a screen. As at the tables, and the slots, and the video poker machines, and on into the cybercasinos, it is that perception of credibility which is really all-important.

As such, everything you do on your site can and must support that positioning, so that a halo effect of credibility extends from the absolutely verifiable core of your business in sportsbook wagers, on through the highly plausible games of chance, and then to the games of skill where that leap of faith becomes most critical. In fact this is so important that your effort should go above and beyond your online gaming environment. We would recommend that your online games and operations be subject to regular independent audits by a major outside firm. Your and our prior associations with, for example, [Big Six Brand], allow us to appreciate just how potent that stamp of independently verifiable validation can be.

Confidentiality/Security

The technologies of security are clearly a critical component of a major online gaming venture. Over time, you will be handling sensitive financial and personal data related to easily tens of thousands of clients, scores of millions of transactional events, and perhaps hundreds of millions of dollars. On the front end, every one of those transactions, whether a registration, a transfer of funds into an account, the placing of a wager or the request for a card, must be handled with absolute security and data integrity. Unfortunately, unlike at the back end where we can scope out a banking-grade security environment, the front end is dependent in large measure on what your clients have on their local computers. And in the security department, all too often, what they have is all too little.

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Digital Certificates allow for a much higher level of confidence in the validity and security of the transaction for both you and your client, by adding verifiability of identity to the transactional process. Digital Certificates combine the analog world functions of a key ring and an ID bracelet. As a key ring, they provide a mechanism for both sides of a communications transaction to unlock each other's messages, and as in the analog world, the larger and more complex the key, the greater the degree of attainable security. As an ID bracelet, a certificate provides information about its holder. How much information, and of what type, depends on the certificate's intended use. The more crucial the function the certificate is to support or validate, the more detailed the information should be that is gathered and contained within the certificate itself.

Of course there are complexities — and costs — associated with establishing an effective, secure, online environment. And as you might imagine, the process of issuing certificates which carry what amounts to a security clearance must be done in a highly secured process itself.

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In addition to their role in general transaction security, these private certificates can effectively be used as electronic [-----] membership cards, and can be created at any number of security levels. As with any privately branded card in the physical world, digital “silver”, “gold”, “platinum”, and, in the case of your Far East accounts, “red” certificates can be issued, each with its own unique set of associated privileges and benefits in the world of [-----].

For your clients, it will add a new standard of privacy, security and flexibility to their transactions with you. For [-----], it can also mean receiving reduced credit card clearing rates from an online-savvy processor, due to the lowered risk of fraud, as well as savings resulting from the lower incidence of chargebacks and repudiation claims.

User Experience

We’ve talked a little bit about one-to-one marketing, about personalization, about some of the possibilities of special access privileges using digital membership cards, but what, in the final analysis, will make [-----].com the site where players choose to go for online wagering?

There is no single right answer to that question, but unquestionably a very important component of it is the client’s actual gaming experience. For most people, gambling is in some significant measure a form of entertainment, and a social experience. In fact, a straw poll at casino.com indicates an 81% preference amongst players for multi-player games. So finding a way to recreate that sensory and psychological environment is of great value.

First of all, the environment must offer a rich, sensory experience. We are creatures of our senses, and the environment should seek to engage all of the players’ senses as much as the technology will allow. Ideally we would give them feedback of the sound of the room, the background buzz of the other players. <...> But in the end, the result — the goal — is to create a client experience which is exciting, stimulating, engaging and entertaining.

<...> One of the drawbacks of machine-generated environments is their predictability, which leads quickly to boredom. In an online gaming environment, there is the play — but what, when the players get tired, will keep them there? We have all learned from Disney the value of “safe chaos”, seemingly random surprise events which are carefully designed and structured to add just that enjoyable little buzz of new excitement, without distracting from the main focus of the visitor experience. Many of the mainstream brick and mortar casinos have adopted this principle with their extensive theming. How might this work online? Any number of ways. Randomly injected free hands or slot pulls, surprise bonuses (e.g. ‘win this hand and you get a free shot at the progressive which is now X dollars’) or non—wagering ones, such as minor celebrities just “showing up” in sports bar chat rooms. The point is not to just give away a lot of freebies, but to create an atmosphere of fun and excitement. That way the players will always be slightly anticipating, almost unconsciously waiting for, the next little bonus or surprise.

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There are a number of things that can be done to create a sense of “place”, a sense of excitement, to cross-promote games, and to encourage broader play. Some are simple extensions of tried and true techniques from the brick and mortar world, such as free slot pulls, or free hands at table games, to promote exploration and new game play. Winners must, of course, be posted and promoted. Games can be tied in to special promotional events, such as tournaments, or “clinics” where an expert at a particular game gives instructions over the Web, and then the “students” play off against each other, or themed tie-ins to major sporting events, such as the Superbowl.

Other activities will be either tailored to, or unique to, the Internet environment. For example, any number of games can support progressive jackpots. But in addition, there could be floating jackpots, which literally move from game to game and table to table. You might get lucky and have it just appear at your table while you’re playing. For example, if you happen to get a blackjack during the 5 minutes when the floating jackpot is at your table, you win a bonus. This would also promote faster play, and more turnover of hands, as players tried to get the maximum number of hands in while the jackpot was at their table. Or you might have to move around from game to game trying to find it, like a treasure hunt. Another concept is special complimentary “e-chips” which are coded to be valid only for certain games, and given to members for free play at games they have not previously tried.

We tend to think of the Internet as sort of a magic carpet for the players, electronically winging them from their desktops in Detroit or Helsinki or Hong Kong to the virtual sportsbooks and casinos of [place-1] and [place-2]. But what about the promotional attractions? What if you had a video feed from a private gaming room at the Casino [-----] of a table, with an actual dealer, actual decks of cards, but the players — all absolute tops in their game — were scattered around the world? They could log in from every continent, to play a global tournament of champions. Sponsored and hosted by [-----], for a limited amount of time each night, every night for a week, members could log in and watch and wager on the elite of their chosen game.

We’ve talked about the importance of creating a rich, sensory environment, with the sound of the “buzz” of the casino, and high-quality graphics and animation. We’ve talked about adding excitement and verisimilitude with live video feeds from casinos, and creating a sense of a social environment with chat rooms. What else can we do to create a sense of being in a place filled with action and activity, to create a sense of community and belonging?

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Right now, as this industry evolves, everyone is looking to simply emulate traditional gaming on the Web. This is the same historical model that all media evolutions have followed, such as early television shows being essentially radio shows on TV. And that’s fine — for now. But over time, the special characteristics of this new medium

will lead to the development of new and unique games offering new and unique opportunities.

Systems

You will also need sophisticated content management tools, to support the ability to frequently modify and update your offerings. Certain types of data such as sports results will, in fact, have to be delivered in near real-time, and will have to be automated. Other types of media, such as tip sheets or video clips, will have to be moved on and off the live site as the content gets refreshed. As the number of channels through which your clients can wager grows from telephone to include Casino and Internet, it will become increasingly important to maintain centralized control over certain critical data, such as odds quoting. You will need the ability to make changes in one place, and have them disseminated throughout your various systems, so that all outlets are quoting the same odds. Member registration, funds transfers and bet management — operations which are at the heart of your business — will have to be managed and tracked with the utmost in accuracy, with automated backups and recording of all transactions for dispute resolution. And of course all financial transactions between you and your clients, and between you and the banks and/or credit card clearing agencies, will have to be managed in a totally secured environment.

As with your current sportsbook operations, your global gaming site will need to handle not only multiple betting systems, but also multiple currencies. <...> In fact, given the level of automation anticipated in such a system, you may end up wanting to tie your existing operations into the new systems, say for credit card clearing and funds transfers.

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We can offer the knowledge and expertise to spec out and design an infrastructure solution to meet all of your requirements, and then either build it for you to own and operate, evaluate third party offerings on your behalf, or provide it to you directly in association with our strategic partners. We are all well aware that there are a number of providers of packaged online gaming solutions. Licensing an off-the-shelf package is almost certainly your fastest route to market, and is certainly worth considering for that reason, but only as a part of an overall strategy. In the long run, such a solution will be far more costly as the revenue sharing fees add up. As well, even with some degree of "customization", such packages offer little opportunity for [-----] to distinguish itself with any truly unique competitive offerings.

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Our own experience with large-scale interactive media projects and online e-commerce solutions, combined with the experiences of GalaxiWorld and others, tells us that multiple millions of dollars and lead times well in excess of a year are not out of line for an online gaming operation with the kind of scope and scale we've been discussing. However, experience also tells us that it is not only possible, but also often more prudent, to take a phased approach to development and implementation of such a large-scale project. Interactive media development is, by its nature, an iterative process for all involved, and a good plan allows room for new insights and perspectives to be rolled back into the process.