Euro Pacific Asia Consulting Ltd

Online Gaming In SE Asia - Understanding The Way Forward

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Introduction

Due to the situation land based casinos are facing as a result of Covid - 19 many in the industry are asking the question can online casino platforms play a role in assisting stalled revenue lines to move forward and beyond in these difficult times.

As an early mover into the online space in 2000, first as a consultant then as an operator, I have seen the industry change beyond recognition. Launching an online casino today is not for the faint hearted, you will need deep pockets, be smart and take knowledgeable advice from experienced industry experts and have an iron will to succeed. The good news, there are alternatives.

Challenges

Let's park for now the obvious question, will China and like minded Asia jurisdictions finally approve their citizens to gamble online. When working with clients interested go move into the online space, the first question I ask is why do you want to get into the online space closely followed by what deliverable's do you expect to see from your online casino platform?

There are a number of key challenges today for incoming operators, as I indicated earlier your budget will need to be significant. Developing your own software means a timetable to roll out of at least two years, budget at least $10 Million with ongoing costs around $5-$8 Million a year. Assuming your not going down the build your own platform path, finding the right fit software provider should be your next step. Most regulated software developers only provide licensee's a one size fits all model. This means if you want additional features and functionality that you feel will better meet your business needs, it's likely not going to happen.

Finding a licensing jurisdiction that meets your needs and then working through difficult ring fenced regulatory requirements can be very challenging. Licensing is location specific, time consuming and costly.

Unlike a land based casino, with an online business there is no walk by traffic. The market today is very competitive with player acquisition costs upward of $4K a player. The online casino business is a high volume model which means you need to drive substantial traffic to your site. To achieve the amount of traffic needed means allocating 80% or more of your operating budget to marketing spend. Today main stream media providers like Google, FB and the like just don't deliver the right traffic and are incredibly expensive. As marketing spend can be upwards of 80% of your operating budget, media buys must be targeted and focused on getting users to not only visit, but then to register and the ultimate goal is getting them to deposit.

Payment solutions are expensive and full of risk from chargebacks. Hassle free instant deposit and cash out solutions for players is absolutely paramount in today's online environment, in Asia as we know, this is a huge hurdle to surmount. As is the norm in Asia today, dealing with dodgy agents in the multi tiered networks these people work through will just not meet any KYC or AML requirements.

An Alternative Online Solution

Building, launching and operating an online casino platform to deliver much needed revenues will be difficult, time deficient and costly; its not the direction I would recommend. The better option is to take a look at a gaming model which can deliver significant revenues, upwards of $150 Million a year, is growing at a rate of 250% YoY throughout Asia, where the regulatory process is minimal and in first world jurisdictions does not currently require the operator to be licensed. The market segment I am talking about is *Social Casino Gaming*.

In 2017 the global social gaming industry generated $106 Billion in revenues, with the social casino gaming segment generating $4.5 billion in revenues. China, Japan and Korea generate 90% of the games revenue in the region. Asia is the second largest social casino market after North America with revenues of around $900 Million, and that number is growing with an eye popping 250% YoY growth. JP Morgan estimates in the coming year we will see 8% - 10% revenue growth in the Asia pacific region.

The most popular games are slots, bingo and poker which are easily played on mobile devices. Over the past couple of years there has been a definite and pronounced shift to mobile platforms, this reflects a move away from PC based platforms where social media giant Facebook, which in 2012 and 2013 was estimated to have 59% market share, today has an estimated 23% market share.

In terms of game development over the past 5 years there really hasn't been any new game innovations or additional game upgrades. Slotomania although being the social slot game on the market is today still the most popular offering with more than 20 million likes on FB. In terms of publishers, Playtika remains the largest social casino publisher and the most popular of the social casino portals with around 29% market share, closely followed by Double Down and Scientific Games at 8%, with Zynga and Madfish coming in with around 7% market share each.

In terms of regulation there isn't any as social casino gaming with no prize or payout schedule is not considered to be gambling. In the U.S. gambling requires the presence of three elements: consideration, chance and some sort of prize. Players bet on the outcome of an uncertain event to win a larger amount. Social games are not gambling, if they eliminate one of the three elements.

Because the games are not regulated, operators are free to set the odds at any level they want. In fact, these games are almost never truly random. Game developers don't want players to get bored, so the game becomes easier if a player is stuck at one level, or on the other hand harder if the player is winning too quickly. This Dynamic Game Balancing ("DGB") is done automatically, because game designers want players to be hooked and these games are addictive as a result.

So if it's not gambling how do social casino game providers generate the large revenues we see today?

There are basically three revenue models:

FREE, WITH IN-APP-PURCHASES (IAPs) – The most common and lucrative model. Distributing a free, entirely open-access game attracts players to download. Once captivated, IAPs offer additional credits, discounts and incentive chances to skip ahead or enhance the playing experience.

FREEMIUM Apps - Freemium apps involve some form of 'upgrade', perhaps to unlock exclusive levels. Non-game apps, particularly media providers, often use this model in the form of a 'paywall' protecting premium content.

PAID / PREMIUM - Pay your money and get your game. The old fashioned way. Parents, many of whom have decried IAPs as honey- traps rate this model.

Savvy and successful operators optimise trigger activities and focus on micro data detail for example, what prompts a player to purchase an IAP? Trigger activities like getting stuck on a level, or having to wait 30 minutes for some seeds drive IAPs. Understanding how these trigger activities work, and analysing individual or macro-level data is critical for showing the right paid products to the right players at the right time.

So in this time of defining crisis where operators need to look outside of the box to solutions that can deliver. The best way forward is to take the path of least resistance. Given the cost, time to market and challenges online casino games present, our advice to clients is to take a look at social casino gaming as in our view it is a much better option and one that will deliver significant branding and revenue opportunities to a properties bottom line.

Next Steps

Casino floors are not going to open any time soon, and when they do eventually allow players back, ramping up business levels to pre Covid 19 levels will take time.

Smart land based casino companies are already looking to get into social as they recognise easy cost effective branding opportunities with excellent cross over promotions, the opportunity to build out their database whilst at the same time generating significant revenues.

If you are considering a move into either social or online casino gaming, would like to learn more about either platform, talk to us today about first steps and preparing a market feasibility study.

Euro Pacific Asia Consulting has written and delivered online gaming feasibility studies to clients around the world. Not only does EPA have the development and operational experience to write and deliver your study, we are also able to prepare and execute the associated business plan.

Use EPA to map out critical strategic operational planning from project commencement through to the successful roll out of your platform. Contact us today for a detailed proposal at *info@europacificasia.com*