

HIGH TECHNOLOGY

The owners of the Stratosphere Casino in Las Vegas will be first out of the interactive gaming blocks in the New Year. G3 spoke to ACEP's Alec Driscoll about the next stage of US online evolution

The Nevada Gaming Commission approved the corporate parent of the Stratosphere Casino, Hotel & Tower in Las Vegas, American Casino & Entertainment Properties (ACEP), to operate an online gaming website in September 2012. ACEP Interactive, LLC was granted an interactive licence as a gaming provider with plans to launch a free-play poker site around the end of 2012 and a real-money poker website sometime into 2013 with additional approvals.

In addition to operating the Stratosphere, ACEP also owns two Arizona Charlie's casinos in Las Vegas and the Aquarius Casino Resort in Laughlin. Alec Driscoll, Director of Gaming Development at ACEP spoke to G3 about the company's launch into the interactive sector, the decision to appoint Bally Technologies as its technology partner and the future of the online industry in the US market.

A HISTORY LESSON

ACEP started seriously looking at online gaming back in 2008-09, but the US economic downturn proved impactful and having looked to implement a fun, progressive online offer, the company decided to refocus attention on the health of bricks and mortar business. In the period prior to Black Friday (April 2011) ACEP was again looking at online as becoming a core component of casino operations.

The surprising turn of events instigated by the FBI investigations shifted the balance of power, creating an opportunity for US operators to take control of the online space. It's interesting that while companies in Europe saw Black Friday as a closing down of the US market and the end of a cash-cow for services helicoptered into the States, ACEP took the opposite view. "We saw opportunity," explains Mr. Driscoll. "When the biggest online operators, each with massive advertising budgets, benefiting from US wagers that they did not pay taxes on or meet regulatory requirements on departed, we saw a real opportunity. They had great offerings, but it was not

something easily challenged as a small operator in Las Vegas. The interesting thing about 'Black Friday' is that while the Full Tilt scandal left the sector confused, it opened the door for us."

ACEP approached two dozen different potential partners in the wake of Black Friday, most with international expertise, but in the end the company's inquiries came full circle. "We see a great opportunity working with Bally Technologies to promote our four casinos in Nevada in conjunction with a renowned and reputable supplier," states Mr. Driscoll. "Hoping to avoid any probity issues at the international level, working with a US company that has hundreds of established gaming licences provides instant access to the Nevada market and

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the ability to scale up beyond our state borders should the opportunity arise. However, the primary factor was speed and Bally provided the fastest route to our target market and that was our priority."

THE MOST IMPORTANT STEP

The partnership with Bally has been the right decision for ACEP. Having been back and forth with its concerns and needs, Mr. Driscoll explains that the conversations between the two companies has put ACEP on the right path. "It's been a two-way process as we've covered all the issues together," he says. "A year ago everyone came to the States looking to do a deal with a US operator and we learned



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"A year ago everyone came to the States looking to do a deal with a US operator and we learned an awful lot from the European model; how to construct a back office, integrate player databases, utilise best-of-breed technologies etc. However, when we looked at the ideology of the companies, the vision they had for the business, we saw that we had the best chance of growing our business in the right direction with Bally. We liked the open architecture model, the best-of-breed service and solutions, and the fact that they really listened to us and responded to our needs."





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Progress since signing with Bally has been swift, with ACEP expected to be in a launch position at the beginning of 2013. "In terms of a pipeline, we are somewhere in the middle of the startup lifecycle with an expectation that we will begin testing in the New Year," confirms Mr. Driscoll. "We are pretty happy with how things have progressed to date. We did speak with dozens of providers. From those conversations it was Bally that was able to define what we were looking for and what we needed. Set-up has been easy, integration with our back-office and the poker solution itself has been efficient and simple. We are at the pre-launch stage, but so far everything has gone to plan - though you'll need to call me back after the first year to make sure!"

Utilising interactive systems within the live casino environment, ACEP is to provide a solution that encompasses not only the Stratosphere, but its entire four casino estate. Integrating four databases is critical to a programmed roll-out, as is the ability to utilise that data online to drive business to each of ACEP's properties. "Our short-term goal as we start to develop is to use bricks and mortar to push online registrations and drive bodies into properties," explains Mr. Driscoll. "Most of what we are doing right now is to get a free-play offer to players to expose our brand and build the database. There is a different focus to real play as we are establishing ourselves in the interactive sector with a brief to acquire and retain players before launching into legal wagering. At that point we're going to see the expenditure of a lot of advertising dollars with exposure and education of the brand as a huge component as we seek to drive players from online to our properties. Our established database will enable us to limit the speed bumps and start with an established audience familiar with us and our offer. We understand that creating numerous points of exposure and avenues to drive registrations is going to be the core of the success of this. As such, we are going to combine our expertise in casino marketing and marketing directly to the gamer with a strong affiliate and digital strategy. We need to engage with

a lot of different people with expertise in this field such as Income Access. "

FIRST MOVER DIS/ADVANTAGE

Not having the luxury of entering an established market, understanding the key traffic drivers and the market in detail is going to be a tricky proposition, but arriving late to the market was not an option for ACEP. "It would be much less fun and much more expensive if we're not out of the blocks with that first group," says Mr. Driscoll. "Our entire offering is based around moving early as we do not believe we have the luxury of sitting and waiting for the market to establish itself. Speed is of the essence and working with a provider that knows not only what is legal, but how it works, is critical to our success. Partnering with great companies like Bally means that while there's no roadmap to follow, heading first into this market means that we can take an early advantage and really gear towards legalised wagering. We're presently preparing our free-play site, though filling registrations and marketing this type of offer is a costly endeavour while we await legalisation."

The Stratosphere is an iconic Las Vegas brand and is an internationally recognised building with an excellent reputation for fun, value orientated gaming. The free-play offer will hit all ACEP databases, with a lot of international travellers included amongst its widespread local influence. "The free-play strategy is one of driving bodies to our properties as even with legalisation allowing wagering, we still want people to visit our locations," states Mr. Driscoll. "We want guests to enjoy the buildings while they are in them and to go home, international or local, and play on the site in the leisure time."

As for social gaming, "we see the larger Facebook user group as a very small proportion of our core audience. Putting our name into this space is pointless if we're not driving legalised bodies into our properties. It's great to offer as a port-on, creating a good experience for those players and an association with our brand, but it's not all about the numbers of players, but rather the type of player," outlines Mr. Driscoll. "I'm also not sure how much reach social gaming will have for the audience outside of Nevada. I think it's great that people will download the app, play some of the games and have a good experience, but how valuable that is for us starting up... I'm not sure."

Social gaming is currently a buzzword within every international conference programme, but the value to land-based operators remains hotly debated. Instigating a programme in Nevada before

the launch of full-scale wagering, ACEP puts the development of social gaming in perspective. "I think social gaming is ultimately part of everyone's strategy," says Mr. Driscoll. "However, right now social is one piece of the gaming offer and it's not a major piece. We all have database issues catering for a larger demographic and we see with the younger demographics a high level of engagement that peels off after 40-50 days. It's a tiring cycle trying to keep a Zynga poker type model on the boil. For us, the use of social marketing means that we have a level of engagement that continues to be fresh and it's absolutely necessary to reach those younger demographics. However, social gaming is a small component of the overall interactive offer - and right now it's an expensive labour intensive piece."

POKER-FACING REALITY

Liquidity is a frightening concept in a state of three million. If you imagine that at least half of that number are ineligible to play, factor in over 30 gaming providers all competing for those players and the window of opportunity in Nevada narrows to a sliver. "We have spent a lot of time articulating the network that we're looking to build, as

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liquidity is something that we all must work to achieve," states Mr. Driscoll. "To be successful means that you must ensure exposure across similar networks. A major focus for ACEP is looking at who can come and play in our sandbox. Our plan is to offer a great poker product and then see what is allowed next. I'd love to see a lot of the liquidity issues melt away. Ideally I'd like to see casino bank games, it's a fact that games such as black jack make it easier to run a business - and I'd like to see how we can work with other states to eliminate this inter-/intra- issue. Poker is a very difficult game without the popular states participating and getting their players into the liquidity pool."

Everything starts with game content and poker is the only offer anyone is



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discussing in the US right now, but it's in the wider range of casino games that real profitability lies. It's not a road-map that's been laid out in any legislative detail, but it must surely be a goal for each operator. "I think the introduction of online poker legislation in the US is an encouraging start and something we hope will build into additional offers such as bingo and slots," says Mr. Driscoll. "However, right now I'm happy with the product offer in Nevada. We have put a lot of resources into our interactive player offer and we're very excited to get everything up and running. Beyond this launch we will have other regulatory discussions with our regulators to gauge when expanded offerings may be a reality. "

The adoption of interactive gaming in the

US continues to move slowly thanks to a lack of federal law, but ACEP is very much a fan of a Nevada first and state-by-state model. "The Nevada Gaming Board & Commission have done a great job," underlines Mr. Driscoll. "Considering the patchwork of regulation that exists across the US, it's important that states like ours take the lead and then work with other states to become legalised. In Nevada we have been working towards an interactive solution for over a year, while at the same time making allies in other markets. We saw a lot of lobbying at the start of the year that has now petered out. We've not seen a lot of movement outside of Nevada and while state-by-state legislation could prove interesting, federal regulation wouldn't benefit us at all."



PICKING THE RIGHT PARTNER

In choosing its interactive offer, ACEP considered a multitude of established international solutions, however, while the major companies offered robust and comprehensive models, most had a B2C component, something that proved unpalatable for the operator. "We believe that the prevailing offer in Nevada is not one that would ultimately see ACEP competing with the people providing our solution. Right now that's a deal killer," says Mr. Driscoll. "On top of that, we needed to take wagers in Nevada, but discussions involving state licences proved problematic as most did not want to be licensed in Nevada, but would rather wait for the bigger fish in the larger states, such as New York and Florida."

According to Mr. Driscoll, many of the European online providers approached the US without a plan. They didn't know how the business should be structured and were not interested in licensing. "In the state of Nevada there's not much we can do if our providers don't want to follow a licensing route," explains Mr. Driscoll. "We had a series of piecemeal offers in which we'd be expected to pay for everything while they used our licence. They didn't understand that we're not looking to outsource our interactive offer, that was never an option. There are lots of great companies in the European market, but none could describe a clear vision of the US state model. A real issue was also liquidity, as poker in Nevada was just not attractive to them. We were being asked to invest a lot of capital,

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which was confusing to us as we were not acquiring anything, this was just to get an offer up and running. We have seen a lot of local guys buy or build their software, but ultimately we were not interested in a path that included such heavy capital expenditures while the market was going to be capped."

It seems obvious that proposals from international online operators should be dismissed by ACEP, since participation in such relationships with some could have placed the company's land-based licence in jeopardy. However, the assumption that US operators would roll over, handing the 'keys to the shop' to external online operators smacks of real naivety. "There was an expectation that they'd be given a free rein to offer their product direct to players and have a casino group pay for their licence," comments Mr. Driscoll. "It was a poor expectation - perhaps a 2005-06 expectation, but these are new rules. Those companies that were really excited about entering the US have seen the market opportunity close in the last year and it's going to be a challenge for them to reopen that door in the future. The factors that drove our decision were domestic and it's a domestic company that had the right offer."

A DIFFERENT PERSPECTIVE

It's difficult for an international operator to view the US at a state-by-state level. California presents a market equal to Italy or Spain, but Connecticut or Delaware's aren't models offering the scale and reach that fits a European model. As such, European interest in the US has definitely waned. As a regular conference goer, Mr. Driscoll has seen a noticeable drop-off in European involvement in US online debates. The expectation of federal legislation has diminished along with European opportunities and as a state-by-state conservative approach has been adopted it's to the advantage of a Nevada operator, such as ACEP. "We can concentrate on the Nevada market and worry about the other states as and when there's something to discuss," says Mr. Driscoll. "It's a simple model to understand that's maybe not ideal for the international operator, but for us, it has met expectations and can only get better."

One of the problems with the European offerings was a lack of understanding of the emerging US interactive market. Having established a market model in Europe, the expectation that this could be ported wholesale into the US was fundamentally at odds with land-based operators. "We thoroughly understand our market, the deep data dives, the trends, what people are going to do next - that's our business," explains Mr. Driscoll. "We have a four casino database, which



means that we are not starting from scratch. Conservative models show those starting from zero and reaching out to players equates to a conversion rate per campaign of 1-3 per cent. We will start with email campaigns to our database and direct mails to households. We aren't starting from a standing still position, we are reinforcing our existing offer and we will use all the metrics at our disposal to achieve our goals."

Comparing the tied-online licence in the US, driven by land-based operators, to the European independent model is 'apples to oranges.' The requirement to have a bricks and mortar licence slowed the interactive process in the US, leading to numerous complaints from international companies that regulation was killing the speed of adoption, but according to Mr. Driscoll, that's to lose perspective. "You have to live in this market to understand

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THE FUTURE DIRECTION

It was never an option for ACEP to sit on the sidelines and wait to see how the market would pan out. The philosophy of the company is to drive, learn and teach. It's a decision that Mr. Driscoll says drives all ACEP decisions. "We did not want to watch someone else create something new in the market. However, our expectations are realistic. I would love to say that online is going to a game-changer, but we actually expect incremental growth. The free-play offer is part of the total marketing spend, helping to expose what we are doing and prepare for legalised wagering. Nevada is not New York or Illinois, we only have a million

and a half potential players, while those visiting Vegas are here to play on the floor - not the PC. However, we wouldn't be heading down the rabbit hole if we didn't think this was a great growth opportunity. For us this is a really, really long-term, institutionally owned proposition, not a quick flip gaming solution."

Ultimately, the economics work for ACEP as the operator is not changing its business model to fit the new opportunity. ACEP is not buying companies or building software internally, but instead utilising the skills of a trusted technology partner to supply everything it needs to achieve its goals. "We have partnered with Bally to speed through the process and remove as many barriers as soon as possible," concurs Mr. Driscoll. "We have a huge advantage working with Bally in terms of probity and the swift manner in which we're up and running. This is a long-term



investment and a smart investment. We have tapped into all this great software and service without having to build a tech company ourselves. I think this is a great model that bring together all the primary pieces 100 per cent around what the player wants and needs - and it works on our balance sheet too."

"We are going to really start the churn process and set a new standard as to how you galvanise your player base and work with them through the process," continues Mr. Driscoll. "Our core competency is relating a great experience to our guests, in round one that is through poker content. Round two, working with strong traffic driving affiliates, actually started before round one. The cost per acquisition process will come later, as I believe being an influencer now, rather than waiting six months to a year, is a cost benefit that

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will work in our favour. Greater levels of promotions on the site will then follow as we establish a robust programme that will stand out in a really competitive environment."

The immediacy of the solution chosen means that ACEP can establish a beachhead in the online poker sector in

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Nevada, where marketshare is going to be an all important factor. "We're facing a small liquidity pool and if you look at the precedent set in Europe, in Spain and France for example, there are actually four to five operators with decent offerings and the rest fighting over slivers," states Mr. Driscoll. "It's not just about being up and running, you have to maintain and grow market share - and we certainly don't want to be holding onto a sliver. Bally was the company that understood that and has done a great job partnering with the major content providers to meet our customers' expectations. The great advantage we have is that although online is a new market, we are not coming out of nowhere. We know what pieces work, we know what our players want, slot games, social games and content - and we can implement everything within the Bally structure."