

PULLING IN THE SAME DIRECTION

Bally Interactive is forging its own path with a solution that seeks to support its casino customers, not compete against them

The interactive gaming sector has been operating within a protective bubble for many years, externalised from regional taxation and legislation, the market has been independently and directly serving customers irrespective of local rules, regulation and tax. This 'dot.com' sector, which saw online companies operating in an environment without borders and limitations, started to change five years ago as the recession began to bite. As countries increasingly sought to retain their own wealth and protect taxes, borders have been erected in an attempt to control a medium that was once thought untouchable.

This seismic change in the interactive sector is a shift from a 'dot.com' model to 'dot.country,' in which the ring-fencing of citizens by individual states is leading to a slow crippling of the interactive B2C business model. Increased taxation has raised the barrier-to-entry so high in many states that dot.coms are leaving markets as quickly as new legislation is being introduced. Until now, land-based operators have been disadvantaged by the dot.com boom, with legislation limiting their access to the market, while regional taxes have created an uncompetitive and uneven playing field. It had previously been unfeasible for land-based operators to try to compete with the dot.coms' marketing budgets and customer-acquisition spending, but the new dot.country model is resetting the balance.

dot.country presents a range of opportunities not only for land-based operators, but land-based suppliers too. Where the interactive sector has been very separate and distinct in the past from land-based suppliers, now every traditional gaming supplier has an interactive offer. Acquisitions have become commonplace as traditional suppliers have bought into the interactive

sector to create instant online offers, taking their recognised content into the digital realm. The problem with a large proposition of these acquisitions, is that while the traditional supplier sector has focused exclusively on B2B provision, the interactive sector has modelled itself on a B2C structure. Acquiring businesses within the interactive sector is fraught with danger for the traditional supplier as not only are the current high valuations under intense scrutiny, but the majority of the acquisitions put suppliers into direct

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competition with their land-based customers. The dot.com model of one-size fits all is not only under threat from the dot.country legislative shift, but it's also quickly becoming irrelevant as regards the needs of the traditional gaming sector.

In an interview that spreads itself across many of these topics, G3 spoke to Bally Technologies' John Connelly regarding its traditional business migration into the interactive sector and the problems the industry faces at this point strategic point of evolution.

"At Bally, we have essentially spent the last several years evaluating the interactive sector, studying its global change," explains Mr. Connelly of Bally's recent activity. "We started by



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benchmarking the key interactive offerings within the European market, meeting with the major online companies with the idea to possibly make an acquisition. This was also a period when there were a series of major partnerships announced between US operators and European suppliers. However, after a great deal of due diligence we didn't acquire any of the companies we scrutinised as the vast majority were, in one shape or other, involved in B2C activity. The predominant business model was very different from the traditional gaming world and especially that of Bally, which has a long history as a traditional gaming supplier in our sector."

Externally, Bally appeared to be dithering while the major groups jumped head-long into the interactive sector. However, from a strategic perspective the company was weighing its options to either follow the market into interactive acquisitions, as opposed to a future vision that Mr. Connelly describes as 'leap-frogging the rest to become a leader.' "We wanted an advantage over the competition and that

meant a move towards an open architecture approach with a technological solution integrating multiple distribution channels – wireless, Internet and the traditional casino," describes Mr. Connelly. "We could see that if we followed the market we would have been disregarding a 30 year philosophy within Bally to maximise our casino customers returns as a B2B supplier. "

Hindsight being 20/20, Bally's decision to abstain from the buying spree within the interactive sector has been justified. Not only is the B2C model under question, but company valuations within the interactive sector have fallen sharply, driving up the cost of acquisition for those businesses that were eager to make interactive announcements. However, abstinence does not mean inactivity and Bally has been focused in a different direction during this period, forging a

path towards "open" interactive architecture, as Mr. Connelly explains: "Acquiring B2C companies didn't make sense if in the long-term we'd simply be shutting them down. Our strategic advantage is in the creation of open architecture based solution on a solid technology and the Bally infrastructure that would create a 1 + 1 = 3 equation."

BALLY IS JOINING TECHNOLOGICAL PUZZLE PIECES AND ACQUIRING KEY TECHNICAL COMPANIES THAT TOGETHER ARE GREATER THAN THE SUM OF THEIR PARTS.

Instead of looking to acquire complete solution providers in the online sector, Bally sought to join the pieces of a technological puzzle and has been acquiring key technical companies that together are greater than the sum of their parts. "We calculated that we were looking to build a wireless solution, feeling strongly that the future of wagering technology in the sector would transpire on handheld devices," states Mr. Connelly. "It's a calculated decision that we believe will see handheld access to gaming technology overtaking Internet PC usage. Having defined these principles, we prioritized the search for companies with the technology and platform architecture before we approached them with a view to acquisition."

Bally considered that open architecture would provide endless possibilities, but without a structured back-end they'd be heading down a cul-de-sac. The acquisition of Macro View Labs was key to creating a back-end that would recognise any type of hardware device, enabling Bally to singularly create content and then adjust the delivery depending on the channel - iOS, Blackberry, Android etc., "We believe this technology gives us a leadership position in relation to casino gaming in the US," claims Mr. Connelly. "The integration of Macro View Labs opened a channel into gaming for this technology by adding the elements of wagering and bonusing and integrating into Bally's core systems to provide not only the largest library of best-in-class content on handheld devices, but also the integration of world leading players' clubs and bonusing solutions."

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Opening the architecture

It's been a year since Bally acquired Macro View Labs and since that time 65 casinos have signed up to the solution that now incorporates over 125 features, with Bally content available across iOS, Android, Windows and other handheld devices. In taking this route Bally is by far the market leader in the US handheld gaming sector and is currently signing an average of one new handheld wireless customer every 10 days. Bally is also in the process of submitting its handheld wagering technology to the Gaming Board in New Jersey and Nevada.

One of the legislative issues with wireless gaming is that it becomes difficult to ensure that wireless content remains exactly where it's intended. Protecting Intellectual Property on wireless devices was another hurdle for Bally to clear and the solution formed part of the company's second acquisition and a significant investment in a gaming server house that could store all of Bally's content and IP, freeing the company from placing its IP on third-party platforms, where the content could be copied, or just as damagingly, used in unregulated jurisdictions. "We acquired a gaming service platform to store all of our content, flash, iOS, Android, third-party content etc., as a means by which and ability to support that technology, housing on our gaming server and streaming across all mediums online throughout approved, tested and licensed jurisdictions," explains Mr. Connelly. "We now have the capability to control and restrict the distribution of our content worldwide utilising this backend technology."

The third interactive acquisition was the establishment of a true iGaming platform that was again supportive of open architecture. Having scrutinised dozens of different solutions, Bally became interested in a French company, Chilligaming, whose platform demonstrated technology that worked in the highly regulated French online market. "Chilligaming showed that with limited licensing it had convinced many of largest online suppliers to integrate content onto their platform, which was not commonplace at the time," states Mr. Connelly. "The company had already created interfaces to sports-books, casino and poker, demonstrating a best-in-class philosophy and acquiring the company meant that we could contribute to Chilligaming's infrastructure, tie its back-end into our core system architecture, add player tracking and bonusing systems while providing the functionality our customers are looking for to position them for the future."



As a result of the acquisition and again seeking to avoid any operator conflicts, Bally closed Chilligaming's operations business prior to the purchase, effectively shutting down its B2C offer. The combination of these three acquisitions, each utilising Bally's established infrastructure, has created a dedicated division integrating onto a common platform designed to support three primary distribution networks - wireless, Internet and the traditional business casino. The final element, social gaming, is something of a flashpoint for Mr. Connelly, whose views in regards the integration of social gaming are not those commonly held by Bally's competitors. "Social is not a distribution network, rather it lays over the top of wireless and Internet to provide a service," underlines Mr. Connelly. "We acquired social capability with our wireless and Internet

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functionality and are able to offer social gaming on our own platforms, overlaid over the top of our wireless and Internet functions. As a result, we control every aspect of our distribution channel and our content."

Utilising its new distribution networks, open platforms and secure IP, Bally has put together a traditional casino supplier offer - a supporting solution for land-based casinos. It's the opposite of the business models that have formed and shaped the European online market to date. The Bally solution starts by placing the casino operator at the heart of the solution and, most importantly, doesn't seek to compete against them. It's also a fully realised offer in that it connects all the additional elements of a casino's business into the same system, utilising the same wallet and integrating key



considered approach. We could have made purchases at the top end of the market and made similar decisions to our competitors. However, in building the best possible infrastructure and architecture, I would have to say that no one within Bally would have done this any other way. We are now exactly where we wanted to be in terms of the product road-map and the integration of our solution with casino operators. We couldn't have asked for a better start."

One of the advantages of creating an interactive solution is that you're constantly refreshing and adding to it. In this respect the acquisition trail for Bally isn't cold, there are always additions to be made to the front-end content that means it's a constantly evolving and progressing process. Bally expects to be integrating and adding new technology for the foreseeable future, with partnerships and relationships to be announced in the coming weeks and months as new companies are added to the platform's content portfolio. "We will continue to evaluate other innovative technologies as part of an incubation phase worldwide relative to our strategy," states Mr. Connelly. "But I must underline that when Bally makes an acquisition, you'd be hard pressed to find that it is not

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strategic offerings of the traditional casino, such as the hotel, spa, restaurants and rewards programs. The open architecture allows Bally to connect to different systems and combine them into one integrated platform.

"This is the first time one integrated solution incorporating the traditional casino systems has been offered by the same company," describes Mr. Connelly. "This is the first time that this kind of structure has been created worldwide; this is a paradigm shift which we believe will have leap-frogged the competition and presented an innovative solution that makes so much sense from an operator's perspective. We believe that this is the future model for the industry and that if you're not currently developing an open and flexible back-end model, you're not going to survive."

Tortoise and the hare

While the model is undeniably intriguing from a casino operator viewpoint, Bally hasn't exactly gained the first-mover advantage by taking its step-by-step approach to acquiring the individual components needed to create its end-to-end solution. There has been a certain 'time to market' consideration that has advantaged other suppliers. "We felt that being a technology company we understand that sacrificing our technology infrastructure for the sake of time to market is short-lived," responds Mr. Connelly. "We are an 80 year old company in the gaming sector and have an obligation to our customers and our partners to deliver the best solution we can. We understand that this is a highly competitive market and that we've taken some tough decisions, but we've actually been fortunate in taking a more

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financially justified. We believe in making acquisitions that generate value for our shareholders in the near to mid term. If a strategic acquisition is required for the long-term, it must be tied to a calculated process with a series of matrix and SWOT analysis to ultimately enter our portfolio."

A key indication that the trajectory Bally has taken has put the company on the right path, is the support of the company's customers, the casino operators. Having embraced at G2E 2011 the launch of Bally interactive division, the award for best platform solution at G2E 2012 was in recognition of the new platform Bally has created, which is the first time Bally's core system has not been part of the equation. In the specific category of technology, the casino industry embraced the new solution from

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Bally, signing contracts and supporting the model. "We see major suppliers, even in competitive platforms, wanting to integrate with the Bally iGaming solution," states Mr. Connelly. "It gives us confidence that the industry is demanding an architecture that gives them the control. We have shown that we are making the decisions that are best for their organisations. We understand, more than anyone, the technology systems they want to use and that we must provide those features online. Operators in the US have done an amazing job of educating themselves in regards to online and it is this momentum that has fuelled our solution."

At a recent industry conference panel, John Connelly was surrounded as the debate drew to an end. His comments had reverberated with audience members eager to continue the discussion. "I've never had so many people approach me at the end of a panel discussion," explains Mr. Connelly, having frankly told delegates that he was seeing many of the companies within the gaming community worldwide forgetting where they came from and, confused by the almighty dollar, were seeking to increase value by competing against their own customers. "It's a short-term gain that will ultimately yield very little financial benefit," says Mr. Connelly. "Bally's opinion is that if you want to maintain long-term business, you have to help and support your customer, not compete in his backyard."

Bally's interactive backyard right now is the US. The company's emphasis and focus is undoubtedly its domestic market in which Bally is looking to achieve a market-leading position. The current track involves approvals with regulatory bodies and customer roll-out, though Mr. Connelly is very specific in defining the ultimate goal of worldwide expansion. "Once we have approved, rolled out and satisfied our customers in the US, obviously as a global company we are looking to take these systems into the international marketplace. I can say with confidence that we will be aggressively taking this platform and deploying it throughout global regions in the near future."

Social gaming conundrum

There are a number of issues concerning the established social gaming architecture that worries industry observers and who have major misgivings about the suitability of adopting and adapting existing models. The biggest concern is that of the platform, Facebook, onto which companies have built their structures and social offerings. Fundamentally, the issue is that none of

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the companies building atop Facebook own the underlying technology that drives them - that ownership lies with Mr. Zuckerberg. A host of developers have created tools and added servers that utilise the Facebook platform, maximising the hooks and tools for game content, but in doing so they have been customising their hotrod without ever actually owning the keys. There's a huge difference between a traditional gaming supplier creating and hosting its own content, as opposed to building content and hosting servers on a third-party platform. Bally contends that this is the reason that it has not entered the social gaming space, despite the momentum and traction that social gaming has been gaining.

of the key expenses and it's a cost from January till October, in just nine months, has risen, depending on the social company, between 100 to 400 per cent. It's a huge consideration when looking at return on investment relative to creating a true social gaming infrastructure and network."

Bally continues to assess the social sector and in light of the recent falls in valuations is aggressively evaluating the market. However, the company sees Facebook as one mechanism within the social gaming landscape and is in favor of utilizing multiple methods by which to offer sound solutions, Facebook being just one of them. Having developed its own



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"The valuation of social companies is unsustainable," claims Mr. Connelly. "The valuation of acquisition prices versus revenue was not something that Bally was willing to invest in based on the trending of the social market at the time. It's a market that's been evolving and changing so quickly, those valuations need much more stability. Having taken a calculated approach, if we look at the current valuations as compared to 12 months ago the cost of player acquisitions is one of the highest relative to the social sector. In general, player acquisition has been one

distribution channels on handheld devices that are able to push HTML5 or flash native content to consumers, utilising Bally's own social distribution channel within a gaming environment, is another area for Bally to utilise.

"We recognise that the social environment is evolving dynamically, but we need stability to make a more calculated decision," states Mr. Connelly. "The valuation of the companies has dropped significantly, which means that we are now able to create modelling

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that's accretive and will allow certain technologies to feed through to our customers. There is significant data showing growth coming from handheld devices, with Facebook usage growing to 20 percent or more, on handheld devices, of total revenue for many social gaming companies. Right now the cost of acquiring a player is much less and spend per player is higher on handheld devices. From a Bally perspective, if we make a social acquisition, such as adding support for virtual credits, it's from the standpoint of acquiring additional tools for our customers. If we make that investment it's to add more tools from the B2B perspective while ensuring that our customers maintain their own player

that allows operators to tap into Facebook, adding social elements from within the Bally integrated platform. "We are enhancing our platform to provide a social offering for our customers," states Mr. Connelly. "What we're not doing is sending our customers' players to a competitive site where the database belongs to someone else. If you do that you might as well let your competitor open a casino in your parking lot."

As the statistics show, with the cost of acquiring a pay-to-play customer so high, the value of retaining a land-based player in the online environment becomes hugely important - and valuable. If a casino is to tap into the social gaming space then creating a social outlet is going to be a key element in meshing together the widening gap between player demographics, however, the cost of this integration can't be the loss of control. Relative to wagering, the value of social

social is negatively impacted. However, as the intrastate expansion of online slowed, some of our customers became interested in offering their patrons an additional social service. We said, from a priority standpoint, that we would invest our initial energies in wagering and continue to evaluate social with a view to there being some stability in that business model. Having sourced companies with global standards and global metrics, things are starting to happen. On a monthly basis we are seeing major transformations in the gaming sector relating to social. It's becoming more complicated to try to provide the best possible service due to this evolution of the social sector as valuations are

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dramatically dropping on a quarterly basis. We are, however, witnessing a paradigm shift in the risk reward scenario in which there's now much less exposure, even though the market is still changing. Prices are now at a reasonable level to take a certain amount of risk as opposed to those multiples last year. Companies can now make calculated decisions in what remains a volatile sector."

The right path

The rapid uptake of Bally's interactive offer by Mohegan Sun, Golden Nugget and The Stratosphere shows that operators are recognising the benefits immediately and with future major announcements in the pipeline, slow-and-steady looks to be winning the race in the US. Just as individual countries have realised that they must protect their borders and retain their tax revenues, casino operators are also tuned in to the fact that they must protect their databases, retain their players and keep their potential revenue for themselves. Sharing may have been the founding principle of the Internet, but games without frontiers is just a song lyric. What's mine is mine is the mantra in gaming.



gamers has to be weighed and measured appropriately. Bally's development of its interactive solution has started at ground level, but it's been built on its core competencies that it must support B2B and must add value for its customers and their wagering players. The company has created bridges into online that are innovative and independent in their own right. Bally has stayed close to its core business, providing games and systems around a core B2B framework and in doing so has reduced its risk and exposure.

"Fundamentally we wanted to focus on the future of wagering," underlines Mr. Connelly of Bally's interactive gaming division. "Social is a component of wagering; but it is important to consider that when wagering enters a market,

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database. We're not in the business of pushing our customers' players to another company's architecture, to someone else's platform where they control that data. Our solution will be designed in such a way that our casino customers control their own player database."

Developing the infrastructure to provide social gaming to its customers is a current Bally objective, while at the same time the company is evaluating those organisations that can add value to its platform. It's a platform-centric approach