

Care in the community

Something is changing in the state of Denmark. Morten Kolle Christiansen of Certus A/S, examines the media trends currently affecting the Danish gaming sector

One of the drivers of today's modern gaming business is the aspect of community in both ensuring end-user satisfaction, and fostering long-term retention and acquisition platforms built to engender loyalty amongst players. The release of the Certus' new Gaming Community can be seen as the embodiment of one of today's most compelling industry trends.

In understanding the potency and relevance of this 'community' trend, we first need to put today's business and social landscapes into context.

The way in which people interact on both professional and social levels, has changed dramatically since the dawn of social media. There is such an untold amount of (often contrasting) statistics and figures available online as to the prevalence of networking sites such as Facebook and Twitter within the business models of companies and the social habits of web users, that it would take an entire article in itself to equate and fully digest the data and its relevance to gaming.

What we can draw from scratching the surface of today's web trends is that the gaming consumers we are targeting are far more evolved than many would give them credit for.

DEMAND AND SUPPLY

This is a basic business principle, but it has increasingly become more apparent for online gaming businesses that the

demands of all parties along the supply chain have evolved significantly in a short space of time.

That means that as the end-user becomes more tech-savvy, more aware of his/her options and, perhaps, younger, the demands of each individual component of the supply chain also matures (from the end-user demanding fresher more visually appealing content to the operator demanding a more flexible and robust back-end software solution that is accordingly set-up for seamless integration).

What social media trends have taught the gaming industry in recent years is that socially, web users bond naturally with community aspects, be they forums, blogs, chat rooms, etc. However, what the industry's dalliance with sites such as Facebook has also proved is that integrating community components within your gaming site, rather than merely using social media sites as a form of 'outsourced community' is a far more effective tool for the gaming demographic.

Indeed, the sense of 'community' has been a catalyst in honing gaming platforms to the demands of a much wider demographic, meaning that we are now seeing a more miscellaneous catchment of people playing at gaming sites.

Gaming products such as lotteries and bingo perhaps emphasise this best, but the role of community within all gaming





products, including poker, casino and even sportsbetting has increasingly become an important component in driving loyalty amongst existing players and, of course, acquiring new ones.

It is the cornerstone in building the type of compelling entertainment package that is expected by today's gaming operators – one that doesn't rely solely on gaming products alone, but incorporates elements of social media, chat and alternative game play (side/mini games, which are proving hugely successful revenue streams).

COMMUNITY WITHIN NEW MARKETS

An active example of the role of community in the gaming industry can be found with the recent launch of a new gaming community service for the Danish TV broadcaster, TV 2, which will be operated by Certus under the Spillekrogen brand name.

In many ways, this launch embodies the methodologies and business practices required within the modern-day gaming sector, merging two of the most prominent industry trends in 'community' and 'regulation in new markets'.

The new Spillekrogen at tv2.dk will encompass the principles mentioned above with regards to providing an all-encompassing entertainment package, rather than a mere gaming solution. The community solution will integrate card and board games, such as backgammon, chess and hearts, with vital social features, such as chat, forums and tournaments.

Morten Kolle, Managing Director of Certus, explained why this type of offering typifies the changing needs and demands of a growing gaming industry.

Through the liberalisation of gaming laws across Europe in the coming years, we will see more and more media companies becoming active in the gaming industry. However, this new trend dictates that these sites will be more rounded entertainment vehicles rather than what we would term as 'hardcore gaming' sites. Players who participate in real money games and tournaments are not high-roller players – they are merely in it for the excitement of playing and the feeling of inclusion from being part of a community, not to become rich.

The media companies are well aware of all this but it is also an area where they don't have the required expertise, therefore, they will seek agreements with solutions providers to acquire and/or integrate full gaming, white label platforms.

But why is this important? The importance centres on the market in which



this integrated community offering will be based – the emerging Danish market, and the significance of the cross-border nature of the role that community, and, in turn, a more immersive entertainment offering plays throughout today’s new and emerging markets.

GAMING IN DENMARK

The regulated online gaming framework in the European Union is in a transitional state, a patchwork, if you will, of regions liberalising their domestic markets through a variety of measured approaches. One such country is Denmark. As seen with many other Member States, the European Commission (EC) is pushing for further liberalisation of services in Denmark, so much so that the Danish government has announced its intention to open its online gambling market, likely in early 2011.

As we’ve seen in the most recent market opening in France, gauging the potential of a newly regulated market is a difficult practice but what is certain is that the domestic market in Denmark will significantly change. In addition to Danish-based gambling providers, foreign operators will be able to obtain a Danish license to offer online gaming to the Danish market. What is also important is

that foreign operators are unlikely to face the same restrictive approach to product offering as in France (only poker and sports offerings are permitted at present) whilst the government also seems set to open up the retail/land-based market.

The market also boasts some impressive figures where it concerns accessibility to Internet-based products. According to a report from the Media and Entertainment Consulting Network (MECN), Denmark has an Internet penetration rate of around 80 percent, coupled with one of the world’s highest broadband penetration rates of 40 percent, with the report claiming that Denmark is “practically predestined to become a leader in the online gambling market”.

As a strategic proposition, the gaming market in Denmark is very advanced and modern where the incumbent operators seek to be leaders in interactive gaming.

IN SUMMARY

Having contextualised the landscape in which the modern day iGaming industry carries out its operations, it is hoped that this article has, in some way, provided some clarity as to the role, and importance of community-based principles in creating



Morten Kalle Christensen,
Managing Director,
Certus A/S.

Taxes on individuals in Denmark are among the highest in Europe with, up until recently, income tax ranging from 42 per cent up to 63 per cent for income over €40,000 approximately. Capital income is taxed up to 59 per cent and share income is taxed at between 28 per cent and 45 per cent for income over €15,000.

a sensitive and relevant online gaming offering.

In addition, the role that new regulated markets will play in the progression of this industry cannot be emphasised enough. Markets like Denmark open up new possibilities to put tried and tested customer acquisition and retention principles into place in tandem with innovative solutions that adhere to the standards of localisation that have been such a key factor in the global expansion of the industry.

The community concept will play a vital role in future game development. We at Certus hope we will be able to make a progressive but sensitive difference in a market that is ready to fully open to the wider industry.

In a regulated future that potentially allows for penetration into a number of international markets brimming with opportunity, the ability to understand the key drivers and trends that will engender loyalty amongst your players, value for you and your partners, and a prosperous longevity for the wider industry will become more important than ever.



THE WIDER PICTURE

All eyes have been focused on the Danish market recently due to the proposed new legislative changes announced at the beginning of this year.

Danske Spil has enjoyed a virtual monopoly of the Danish gaming sector for the last 60 years despite a number of disagreements with the European Commission.

The monopoly situation has been well documented over the years and back in 2003 Danske Spil's control of the market started to come under particular threat.

As online gaming began to take shape around the world in the early part of the last decade, Danske Spil was one of the first state operators to offer lottery and sports betting games online.

This prohibited outside companies from freely competing in the Danish gaming market and thus for the last decade Denmark has been in a battle against the EU over free trade agreement violations.

At the moment foreign gambling providers are prohibited from directly or indirectly targeting Danish players through marketing

methods which includes internet gaming. The Danes have for years skirted around the monopoly situation and it is estimated that the Danes spend DKK350m at foreign online casino sites whilst there are said to be around 5,000 compulsive gamblers in Denmark.

The Danskespil.dk site sees around 800,000 users per month and each year transactions total DKK25m. By the end of 2008 some 410,000 gamblers had an account on this particular website.

In May last year Ladbrokes launched a campaign under the slogan 'Danish Games-British Odds' and Danske Spil brought an action against Ladbrokes for violation of the Danish Marketing Act and Danish Trademark Act.

Nothing really changed until 2008 when Denmark shocked the gambling nation and announced that it would open its doors to outside gaming vendors and put a free-trade online gaming practice in place within the next two years.

It all reality the monopoly was under increasing attack from the European commission and the 200,000 plus Danish players who were gambling on unlicensed

The combined shopping centre industry across the Nordic countries has one of the highest shopping centre densities in Europe. The first purpose built enclosed shopping centre in the world was actually opened in Sweden back in 1955.

sites which were advertising illegally via the Danish media. In addition Danish politicians and TV broadcaster TV2 all wanted a piece of the Danish gaming market pie. State owned broadcasting company TV2 had already launched its own website offering games of skill such as poker, Ludo, chess and sudoku. Players can set up accounts and deposit money and use it to play.

And so Danish Tax Minister Kristian Jensen proposed a bid for opening the gaming market with the aim of regulating and taxing the gaming activities. The proposal was met with enthusiasm.

Despite the government's defence of the monopoly the Danish were still continuing to gamble on illegal sites and the concern over lack of control had been growing.

Finally in April 2009 the Danish government (Liberal and Conservative party), the Social Democrats, Danish People's Party, Socialist People's Party, Liberal Party and Liberal Alliance put forth a draft legislation to partially liberalise and modernise the Danish gaming market.

The idea was the give players a choice between several game companies with the



aim that the competition between the new providers would create better products for the players.

It wanted Danish games to be channelled into a regulated and controlled environment and put more focus on player protection. The new legislation proposes that internet casino games can now be offered in a free market competition to commercial gaming operators with a Danish licence. In doing so, the government is aiming to put a stop to illegal marketing and game supply from foreign providers without a licence.

The government felt that the number of people playing foreign online gaming sites was growing and because it was not regulated could have an adverse effect on its society. The gambling reform should provide a profit for the Danish state and 'non profit' organisations equal to the level it currently provides. Online gaming will be taxed at 20 per cent

It seems both private operators and Danske Spil are pleased with the new changes permitting Danske Spil to now operate poker and online gaming. In addition the company was hoping its 30 per cent of its intake payable to the state

would be reduced if deregulation went ahead. Meanwhile the charities have seen declining revenues over the last couple of years and welcome a long term solution to reform the market.

It has been suggested in the proposals that gaming operators will pay a total application and authorisation fee of between DKK650,000 to DKK1m for authorised betting and online gaming whilst licensees will then pay an annual fee of around DKK2m.

Meanwhile under the new proposed regulations Danske Spil will still have its monopoly within the lottery, horse and greyhound racing market.

Organised racing has been happening in Denmark since 1820 and there are currently eight trotting tracks. These lanes attract between 350,000 and 400,000 spectators per year. Two of the major horse racing tracks are located in Copenhagen and are a huge tourist attraction.

Danske Spil has an agreement with ATG (Swedish provider of horse racing) so players have access also to Swedish racing. The government wants to keep the racing under the monopoly fearing if it was an

Tourism is a major industry in Copenhagen with the number of overnight stays in hotels in the city reaching 5.3 million in 2008. The city offers around 13,000 rooms.

Total turnover in 2008 for the Danish gaming market (not including casinos or online casinos) amounted to DKK25bn according to Skatteministeriet (Tax Ministry). The gross gaming revenue is estimated to be around DKK7.7bn in 2008 which includes land and online casinos whilst each Danish person spent approximately DKK150 per month on gaming.

open market more 'professional' players would be attracted to play on foreign racing games rather than the Danish horseracing and its revenue would be reduced.

A draft bill for the new legislation was submitted to the European Commission in July last year. Initially although the draft text of the law was notified to the European Commission and made public the Danish government later invoked the confidentiality procedure.

However the draft law was finally published on February 12 and if all goes to plan via Parliament it will come into force on January 1 2011. It can be viewed in full at: www.skm.dk/public/dokumenter/hoerings_svar/spil.pdf (in Danish only).

It includes the following provisions:

- The provision of the lottery licence is still given to one company, Danske Spil, for an indefinite period of time.
- Horse and greyhound racing betting licence is also given to one company (Danske Spil)

- Betting permits are offered for a period of five years these cannot offer horse/dog/pigeon racing and lotteries. Only land based betting.
- Online casinos maybe authorised for the provision of combination bets and roulette and AWP permits offered for up to five years.
- Permits for games providers can be given to Danish or foreign EU companies
- The Gaming Authority will ensure compliance with the law regarding regulations and licensing conditions and can revoke any licences.
- The Ministry of Taxation will set the fees for costs associated with the administration of licensing and permit holders etc.
- A tax rate of 20 per cent of the GGR for betting and online casino games.

In a bid to stop non-licensed companies entering and operating within the Danish online gaming market the government is proposing to introduce a system of ISP and financial transaction blocking and a marketing ban for non-licensed operators.

This is aimed at preventing non licensed operators from attracting Danish customers and a prohibition for non Danish residents to participate in Danish licensed game.

Online poker over the last few years has become increasingly popular and is the most popular online game played at the moment in Denmark.

Because poker cannot really be played in a closed network with just Danish players, it is now authorised to offer poker via an open network even though operators are controlled by Danish law and must pay tax on that game.

Danske Spil has also recently partnered with online gaming provider Party Gaming to prepare for upcoming competition. The two companies signed a five year agreement in January this year.

Meanwhile UK based wagering operation, Ladbrokes, has already indicated that it would be prepared to submit to regulations if the Danish market opens to the online gaming industry.

However it is thought new licences offered by the government could prove too expensive for some with notoriously high taxes on players' winnings derived from online poker and casinos.

For example, the 2008 World Series of

In 2008 Danske Spil's online games began under the Zezam Multiplayer Games brand which was launched on the danskespil.dk website where players can compete against each other in real time online. A series of multiplayer games have been launched since then such as Whist, Hearts, Yatzy and Ludo.

Taxes on individuals in Denmark are among the highest in Europe with, up until recently, income tax ranging from 42 per cent up to 63 per cent for income over €40,000 approximately. Capital income is taxed up to 59 per cent and share income is taxed at between 28 per cent and 45 per cent for income over €15,000.



TURNOVER IN THE DANISH GAMBLING MARKET IN 2008 (SKAT.DK)

CATEGORY	DEPOSITS (DKK millions)	GROSS GAMING REVENUE
Danske Spil		
BETTING		
Tipping	165	85
Odds	2,225	620
Horses/greyhound racing	610	160
LOTTERIES		
Lottery Games	3,870	2,130
Joker	530	295
Keno	185	75
Scratch card	905	425
Bingo	130	45
Other games	125	40
TOTAL	8,745	3,875
OTHER DANISH PROVIDERS		
Lottery	655	220
Agricultural lotteries	175	65
Humanitarian sweepstakes	405	245
Bingo	420	190
Slot machines	12,425*	2,235*
Casino	n/a	425
TOTAL	14,080	3,380
FOREIGN GAME PROVIDERS		
Bookmaker Spil	2,100	180
Online casino games/poker	n/a	350
TOTAL	2,100	430
TOTAL OVERALL GAMING MARKET	24,925	7,685

* Approx SKK2,200m in deposits and DKK395 in GGR is from Dansk Automat Spil.

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Poker champion was taxed at a 45 per cent rate for the first \$4m he won and then a whopping 75% for the remainder of the money leaving him just US\$2.5m from total winnings of US\$9.1m.

The problem is prizes won via EU licensed operator sites are not taxed however prizes won on non-EU operator sites are taxed with the income tax rate – around 50 per cent.

It is thought non-EU companies who want to offer online poker will have to jump through hoops to get on the government's exclusive non-tax list permitting players to remain untaxed on certain sites.

Hollywood Poker is one such site which has a no-tax status whilst Danske Spil's upcoming poker venture will have the same privilege.

Land based poker tournaments have been permitted under the new draft legislation since January this year. It means that individuals, companies and associations

can now apply for authorisation to arrange public poker tournaments for up to a two year period, enabling them to host tournaments for up to five times a week. Total prize pool will be limited to DKK15,000 with a maximum buy in of DKK300.

Meanwhile the regulation of the gaming sector has been simplified and grouped under the Ministry of Taxation and the regulation and control will now be carried out by the Danish Gaming Board. In the future this could see a positive effect on changes in AWP legislation.

Some operators are talking about possible changes for the AWP sector which could see AWP's not only operated in different locations in the future but the stake could be doubled to DKK1 with a maximum payout of DKK600 whilst also offering DKK4,000 payouts via jackpot games. However the Danish Ministry of Taxation (Skatteministiet) says there are no concrete plans for any changes. There is also a rumour that VLTs could also begin to enter

Although relatively small the Danish gaming market is still a very attractive one and around DKK11bn (around US\$230m) is spent on gambling each year whilst state profits amount to DKK2.8bn of which DKK1.6bn goes to charitable organisations.

the market in the near future.

One such company interested in the changes in the AWP market is Jack.Pot operations which has some 1,800 AWP's in restaurants and arcades throughout Denmark and its own operations.

Jens Uldall Pedersen of Jack.Pot said: "Previously it was per specifications in the law how the machines should operate and that has been taken out and given to the authority to make the decisions. So we do not need to go to parliament each time to change the specifications.

"This could be a significant change over the next few years. Our machines are very different than those in other European countries. We have no double or features and it is possible now the authorities will look outside of Denmark to see how other machines work. "I think next year the gaming authority will come up with new specifications and we will see some changes that will be very interesting and positive for our industry."