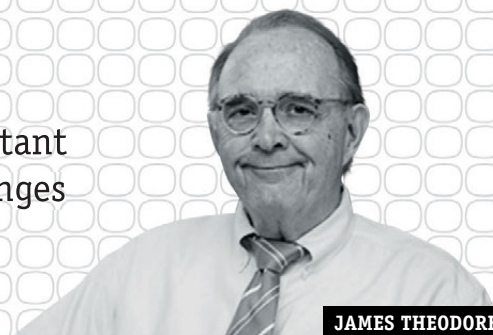


# States of play

James Theodore, a leading executive search consultant in the gaming field, looks at the resourcing challenges facing a fledgling US i-gaming industry



JAMES THEODORE

**OVER the 10-year period from 1996 to 2006, the US online gambling industry grew to around 2,000 sites, generating an estimated \$6bn in revenue at its peak.**

A figure that was dwarfed at the time by the commercial casino industry, which generated \$32bn in revenue. Even so, the bricks and mortar operators vehemently claimed that they were operating on an uneven playing field (particularly in relation to tax) compared with the online gaming companies, forcing the government to take action.

In 2006, the Unlawful Internet Gambling Enforcement Act was passed, effectively killing off the virtual casino industry. Eight years on and new laws across the US are beginning to change the rules, with lawmakers believing they remain holding all the aces.

Earlier this year it was reported that UK entrepreneur Richard Branson's Virgin Group had teamed up with the Tropicana Resort in Atlantic City and online game maker Gamesys to bring online poker, blackjack and slots back to New Jersey.

With New Jersey following the lead of Delaware and Nevada in fully legalising online gambling, it has been claimed that around 12 other states are aiming to pass legislation that will allow online gambling. And herein lies a conundrum.

As additional states gain online gaming approval and commercial casinos ramp up their activities in a bid to fend off competition, there is mounting concern in the gaming industry relating to the increasing shortage of experienced, domestic management talent required to capitalise on the opportunities that lie ahead.

With more than \$4bn in global online gambling revenue (almost 15 per cent of total revenue and growing rapidly) coming from mobile technology, this requires a new set of management abilities - expertise that is in short supply.

CEOs readily accept that if they are to gain a sustainable foothold in the developing US market, they need to be acting now not only to identify the talent their organisations require but also to identify what it takes to secure these people, particularly if they are from outside the US.

Some organisations are already looking at the UK as a source of management expertise. One of the key reasons is the maturity of the UK and the wider European gambling sector and the relevant experience of management talent. However, on the surface, even though the remuneration packages can be very lucrative in the US, the

market is not overly attractive to European executives given that the i-gaming industry is still in its infancy and the regulatory framework is not yet stabilised.

That view may change. The UK government's introduction of place-of-consumption legislation (effective December 1, 2014) is, according to industry pundits, going to have a major impact on players and, as a result, on the online casinos.



Industry sources argue that POC is not sensitive to market forces, and it will simply reduce the revenue and profits of licensed operators to a point where they cannot compete with unlicensed operators in the extremely competitive online environment.

Additionally, current operators lawfully supplying the UK market from countries such as Gibraltar, Malta and other reputable jurisdictions may face substantial dual or additional regulation, compliance and licensing costs. If they are unable to recover these costs, this could leave a number of people looking for work if online gambling firms close shop.

That said, UK-licensed operators such as Paddy Power, one of Europe's largest bookmakers with (reportedly) more than two million customers worldwide, already has a beachhead in the US, waiting for the American online market to open up. Establishing its online casino business back in 2004, Paddy Power has amassed considerable experience in online gambling, expertise that puts the company in a strong position to expand rapidly in the US.

Like Paddy Power, William Hill, the UK's largest betting house, has identified online gambling as critical to its future growth. The company saw online gaming turnover rise 12 per cent to £400m in 2013. Internet business now accounts for almost a third of William Hill's total revenues.

Founded in 2002, 32Red is another UK online casino that is rapidly making a name for itself. Listed on the AIM market, 32Red's internet

customers are reportedly able to access more than 500 casino games online, playing for a number of different currencies including sterling, US, Canadian and Australian dollars as well as Japanese yen. With projected earnings growth of around 80 per cent this year and 30 per cent in 2015, the company has become a major attraction for investors.

Few doubt the enormous growth potential from the tablet PC and smartphone markets and this is a key area in which US-based organisations need to concentrate their HR drive. Disruptive technology expertise will certainly play a vital role in human capital strategies given the huge emphasis being placed on data and social engagement.

Having significant experience in online marketing will also be crucial since online gamers differ from the traditional casino players. They tend to be younger for a start (some commentators suggest the average ages are 30 and 50 respectively), online game formats need to change reasonably frequently to retain existing gamers and attract new customers, and increasingly more women are playing online.

Online gamers have grown up to have online gamer kids. Families are also gaming together, although not at online casinos. That said, however, there is a very definite trend to online gaming in all formats globally, and this is not a trend that will fizzle out any time soon.

Provided US-based companies can get around the issues of work permits for experienced European executives, there should not be too many problems attracting the right talent. However, this does raise the issue of a "brain drain" from the UK and other European markets.

Even with the looming changes in online gambling regulation, UK gaming companies cannot afford to lose their talented executives. The US online gaming market is shaping up to be very big and very attractive.

Senior executives of European companies will need to be alert to the possibility that their ranks of middle and senior managers may well become depleted - not by the hand of the politician, but by an albeit slowly developing market that sees huge profits on the horizon from online gambling and is inexorably steaming towards it.

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