

# Connections: Exploring Gaming's New Frontiers

## Video Lottery — Behind the Technological Curve?

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“Why are there numerous and diverse gaming machine suppliers for the casino industry but only a handful that develop products for the Video Lottery market?” That’s a question I’m often asked when discussing public gaming opportunities and challenges the world over. My answer is blunt, but truthful — Size, Maturity and Free Market Economics.

The maturity and sheer size of the U.S. “traditional” slot machine market translates to more opportunities for gaming manufacturers. Many firms believe there is too much potential business in commercial (corporate-owned and Native American) casinos to devote resources to the smaller — and much more restrictive — Video Lottery markets.

Market size is not the only factor. Legislative constraints and strict regulatory environments make selling to government a much more difficult proposition than to commercial customers. Government-sponsored gaming almost always employs proprietary communications protocols — another element that increases the cost and complexity of game development.

Using the United States market as an illustration, there are approx. 770,000 gaming machines located in 37 states — the equivalent of one machine for every 395 residents; yet, only about 120,000 of those machines operate in the so-called ‘public gaming’ or government-sponsored sector as central system-controlled Video Lottery Terminals (VLTs).

To put it another way, a ‘standard’ slot machine can be sold to more than 85% of the potential marketplace...the remaining 15% of the market is divided up among a dozen or so states, each a compartmentalized entity with its own unique design requirements. Is there any wonder why the “standard” slice of the gaming machine pie receive the most attention?

Video Lottery legislation is usually a compromise crafted to conciliate a number of constituencies. The result is that every “public gaming” jurisdiction is governed by its own set of regulations, communication protocols, central computer system requirements, maximum bets/top awards, pay-back percentages, tax rates and even what type of gaming device does and does not constitute a “video lottery terminal.”

This lack of uniform standards for VLTs — or a technology standardization body for lotteries — creates a vast matrix of conflicting definitions between jurisdictions. Specialized design requirements force manufacturers to literally create a dozen mini-models of gaming machine networks each one custom-designed for a specific jurisdiction.

A good analogy would be a General Motors building one model of car that could be

sold in 25 states while also having to build 12 additional distinct models — one that could only be sold in Delaware, another to be sold only in New York, a third solely in Rhode Island and so on. In a nutshell... building that 25-state stock car would be more profitable and recoup development costs much quicker than a customized model that could be sold only in West Virginia.

Customization drives up development costs, drives down return-on-investment, reduces profitability and, ultimately, limits the pool of potential vendors to just a handful possessing the financial resources and large development teams essential to participate.

Government-issued Request-for-Proposals (RFPs) are by their very nature tightly defined, usually written to protect the interests of the jurisdiction (i.e. scandal-proof) but leaving little room for innovative solutions. Additionally, most Video Lottery legislation requires gaming machine suppliers to finance the full upfront costs of development, production, installation (and often maintenance). This is obviously a safe deal for the government, but it also serves as a competitive barrier to new or unproven vendors because few can afford such levels of capital investment.

These factors are in no way the fault of a Video Lottery jurisdiction... but they do explain why their much more restrictive environments make it very difficult to incentivize the same type of performance-based innovation and entrepreneurialism found in commercial markets.

In contrast, commercial casino markets tend to be at the forefront of technological advances and innovation because of widely accepted protocols and an industry-sponsored standardization body — the Gaming Standards Association, or GSA, — that is promoting an open standards approach. Technology convergence is enhanced by the adoption of these open standards protocols, such as G2S and S2S, running over high band width networks. These networks allow the casinos to support both downloadable games and true Server Based Gaming (SBG) hardware and systems.

How can Video Lottery enter the world of “open standards”? The GSA protocols are designed for high bandwidth environments and at the moment there are no GSA standards for a wide area network, or WAN. Can G2S or S2S be the solution to satisfy the future demands of downloadable content for the WAN based Video Lottery markets, or is there a better solution with the more compact SBG technology? Maybe the best answer is a compromise between the two? The GSA Board has promised to consider this matter within their Technical Committees over the coming months.

Hard questions with no simple solutions, but Video Lottery jurisdictions need only to look at their competition in the commercial and Native American casinos to see the benefits of widely adopted standards, entrepreneurial ventures and competitive pricing structures. ♦

