Does Lottery Gaming have a **Server-Based Future?**

By Michael Koch, CEO of ACE Interactive

Michael Koch

The global gaming marketplace is eagerly awaiting a shiny new model – a video lottery terminal-powered concept known as server-based gaming (or SBG).

Two key factors are apparent in the recent and predictable growth of video lottery terminals (VLTs) in Europe, Canada and the US – a desire to boost government revenues and the growing acceptance of responsible gaming programs. SBG provides greater potential for enhanced revenues (as players enjoy increased flexibility in game content) and more informed control of the gaming experience (benefiting player and operator alike).

SBG is certainly creating a buzz, but the industry is beset with confusing information and wrong assumptions. Our aim in this column will be to explain and demystify the subject, touching on as many topics as possible.

Our first article introduces SBG and explores its potential impact on the world of video gaming. Let's begin by looking at VLTs.

In its most common form, a VLT is an increasingly popular breed of gaming machine that allows players to bet on the outcome of a video game – often casino-style games like spinning-reel slots, blackjack or poker. However, one size doesn't fit all…

In the US, for example, VLTs in Rhode Island must be video games that can't use mechanical reels or dispense coins/tokens; in Delaware, they can be video or mechanical-based machines; whereas the New York Lottery video gaming machines (VGMs) can't contain a random number generator (RNG) but merely display the outcome of an electronic instant lottery game.

Typically, VLTs are located in venues where traditional casino-type gaming is not authorized or not the primary attraction, such as pari-mutuel racetracks ('Racinos') or age-controlled environments, like bars and restaurants. VLTs may be stand-alone units, but more commonly – and this is where the 'server' fits in – they interface with a central monitoring system computer.

These central computers can offer downloadable server (DLS) gaming, where the game outcome is determined in the individual gaming machine (the VLT), or 'true' SBG, in which the game outcome is determined centrally in the server (the New York Lottery VGMs are a form of this.)

SBG technology provides a growing alternative to stand-alone machines. So, what's the difference between these systems?

With stand-alone VLTs (the more traditional type of individual machine gaming), the game content resides in a computer chip (or 'EPROM') in each terminal. The VLT also contains the RNG, which calculates the game outcome. If an operator decides to offer a different game on the machine, a technician must physically swap the game chip for another.

In DLS gaming, the RNG remains in the VLT but the software for a specific game is downloaded to the machine from a central server. If the player wants to play a different game, the new game has to be downloaded to the terminal by the operator before it's available to the player. In this way, venue operators retain control over which games are played at which machines and at what times.

With SBG, by comparison, the RNG and all game software are located not within the gaming machine but at a central server site. The player can instantly choose from a predetermined menu of games; no download is necessary. SBG allows the operator to control, remotely, everything displayed on a game terminal – games and outcomes and advertising messages, customer service functions, promotions and so on.

DLS and SBG can capture more information, via the server, about a player's gaming session. Presented in an easy-to-interpret way, the information helps players make informed decisions: to continue play, take a break, self-exclude or access screen-based counseling information.

Removing an operator's dependence on the traditional styles of venue-based hardware and chip-based software is key to the future of VLT gaming. It's a revolutionary development that, in my opinion, provides great potential for all three major stakeholders in the video lottery business:

Lottery – Increased access to games, plus better and more flexible gaming options, means higher yields from terminals and venues. Add to this a decrease in operating costs (such as reduced staffing requirements), and the result is improved profits and more net proceeds to good causes.

Player – Easy access to popular games within an informed and responsible gaming framework creates a flexible and enhanced gaming experience.

Regulator – Improved regulatory control and oversight features create new opportunities for responsible gaming and increased player protection.

__Michael Koch__ was appointed CEO of ACE Interactive in 2006 to lead Aristocrat Technologies entry into the Server Based Gaming arena. His background in engineering and business drives him to look for the latest trends and stimulates his desire to explain these in simple terms to an executive audience. Michael has over 14 years experience in the gaming industry initially with the lottery division of Wincor Nixdorf and then with GTECH.

So, will SBG sweep across the gaming world? Its appeal will certainly extend to a wider range of player types. SBG is more user-friendly for current gaming customers. It's more attractive, too, for a new generation who're more at home with the action and graphics of PlayStations, Xboxes and Wiis than with stepper-reel slot machines.

I'd say that DLS and SBG technologies, once market tested in mid-2008, will be ready to enter the mainstream gaming arena by 2009. Most developers predict big changes over the next three to five years, but the acceptance of DLS or SBG is as much a decision for the operators. The marketplace will drive the technology – if DLS and SBG products are embraced by the operators, the developers will surely follow.

In future articles, we hope to create healthy debates about developments in the video lottery sector, including such key issues as responsible gaming, regulatory frameworks, business models and the potential for SBG. I hope you'll join us every month. ◆

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brand awareness is so high that 98% of the population knows the brand Sazka and Lotto. So anybody who would like to penetrate the market, he would have to develop the same. So I had thought 10 years ago that what is important for us is to have terminals and to have penetration of terminals nationwide. At that time it was important; now the brand is more important. This is the first reason why we are successful. Of course, market penetration via terminals is still important too. A second obstacle is that there are conditions given by legislation. They are relatively strict. You need to have some registered capital. You have to pay some performance bond to the government and meet a number of further requirements and conditions stipulated by the law and this is judged by the Minister of Finance. And according to the law, the Minister of Finance is collecting the good cause money which is calculated by a relatively simple formula, which applies to the whole gaming market in this country. So we take revenues, subtract payout wins and we pay 20% from the difference, regardless of other costs. There is a table in which it is calculated. The same structure applies to other games. For example, in sporting games there are about five entities on the market, and we are in fourth position. That means in some other segments of the market, the competition may be stronger. Slot machines are the strongest and most competitive segment. But the trick is that anybody who has to pay a 20% levy is not able to compete, because there is no possibility to return invested capital, pay out wins, pay the levy, and still have adequate cash-flow left to cover all your costs.

PG: *It would seem to me that someone with adequate capital would be able to duplicate almost everything that you do except for brand.*

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