

A black and white photograph of several stacks of casino chips. The chips are arranged in a grid-like pattern, with some stacks in the foreground being sharper than others in the background. The chips have a checkered pattern on their edges and some have numbers or symbols on their faces.

*Analysis:  
How The Multiple-Brand Model Impacts  
State-Regulated Online Gambling  
Markets*

February 2019

## EXECUTIVE SUMMARY

### Numbers to Notice

**50%**

- The estimated boost the multiple-brand model provides to the revenue generated by a state-regulated online gambling market.

**\$82.5 million**

The estimated additional local marketing spend driven by the adoption of the multiple-brand model in New Jersey's regulated online gambling market.

**86,000**

The estimated number of unique customers who would not have participated in New Jersey's regulated online gambling market in the absence of the multiple-brand model.

### Overview

Policymakers considering the issue of online gambling face a number of key decisions, including the question of how many unique brands (sometimes referred to as "skins") to allow under each individual online gambling license. To date, states participating in the nascent market for regulated online casino, poker, and sports betting have taken a variety of approaches to the multiple-brand question, with the majority of states (including New Jersey, Pennsylvania, and West Virginia) allowing some level of multiple-brand participation under each online gambling license.

Our research examined the impact of a multiple-brand approach on four core aspects of a regulated gambling market: Market size, state revenue, competitive dynamics, and the consumer experience. Following our analysis, we conclude that a multiple-brand approach to regulated online gambling is likely to generate materially positive impacts for the typical U.S. state

### Market Size

As part of our analysis, we performed a comprehensive evaluation of New Jersey's regulated online casino market. New Jersey allows up to five unique brands to operate under each online casino license. Only the state's licensed land-based casinos can acquire online casino licenses; those license holders can then partner with external companies looking to bring a brand into the New Jersey online casino market.

Our evaluation of the New Jersey online casino market revealed an overwhelmingly positive connection between the presence of multiple brands per license and market size. Drawing on public revenue figures, stakeholder

commentary, and our proprietary modeling, we estimate that the multiple-brand approach has resulted in a New Jersey online casino market that is roughly 50% larger in terms of total annual revenue than a New Jersey market where only one brand was allowed per license.

## State Revenue

A larger overall market obviously generates additional tax revenue for the state. The positive impact for state revenue is bolstered by two other forces we observed at work in New Jersey and in the early days of other state markets.

**The first:** States can derive additional license fee revenue in the multiple-brand model by charging external brands both upfront and renewal fees for participating in the state market.

**The second:** States can derive significant additional economic activity through the marketing spend generated by external brands. The typical ratio of marketing spend for an online gambling operator is .25 for every dollar in revenue, and marketing spend is almost entirely local due to the nature of state-based markets. In New Jersey, that has translated to an estimated \$82.5 million in additional local marketing spend generated by the multiple-brand model.

## Market Dynamics

One of the interesting knock-on effects of the multiple-brand model in New Jersey has been to promote greater competitive parity among the state's casinos. There are few direct parallels between land-based casino market share and online casino market share, a condition driven in part by the presence of multiple brands. Overall, the addition of online gambling revenue has resulted in a tighter distribution of total casino revenue across all license holders.

The multiple-brand model has further allowed land-based license holders to leverage their licenses in order to lower the cost of entry into online gambling, negotiate favorable supplier relationships, and secure valuable content and expertise.

Finally, the multiple-brand also provides land-based casinos with an alternative revenue stream from regulated online gambling, as partner brands typically pay both an upfront fee and an ongoing revenue share for the privilege of sharing a casino's online gambling license.

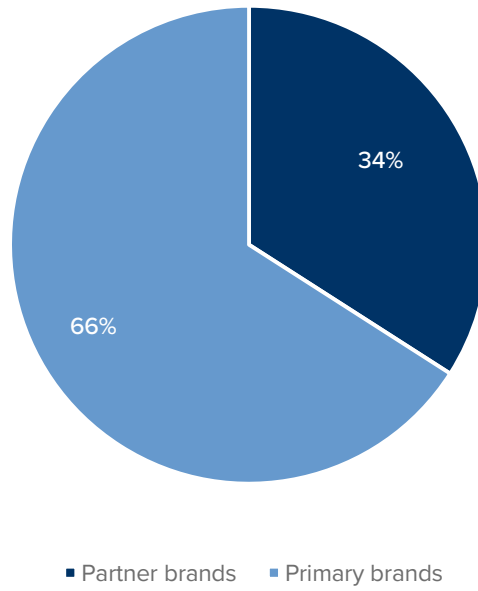
## Consumer Experience

Our analysis reveals clear and positive impacts from the multiple-brand model on the consumer experience. Partner brands in New Jersey have driven a more competitive promotional environment and a more robust selection of games and features than those available at endemic brands alone. We believe that New Jersey's generally favorable return-to-player rates for online slots and table games are supported by the competition fostered via the multiple-brand model.

The depth of the competitive landscape (20 unique brands and counting) in New Jersey has resulted in an environment where brands are highly incentivized to both optimize all aspects of the consumer experience (e.g., banking, customer support, retention bonuses) and to optimize the process of acquiring customers in the first place. We estimate that partner brands have resulted in the activation of some 86,000 unique additional customers in the New Jersey online casino market.

Should a state considering online casino, poker, or sports betting allow license holders to operate multiple brands (skins) under a single license?

### New Jersey Online Casino Revenue By Brand Type



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## Section 1. An Introduction To Multiple-Skin Models

This section provides an explanation of how multiple-skin models function from the policy and business perspectives, along with a survey of the varying approaches to skins considered by U.S. policymakers.

### Summary:

- A multiple-skin model provides master license holders with additional ways to generate revenue from regulated online gambling.
- States are looking to multiple-skin models as a way to increase tax and license fee revenue and promote a competitive marketplace.
- Several states have enacted – or are considering – multiple-skin models for online casino, online sports betting, or both.

### 1. Introduction To Multiple-Skin Models: What Are They?

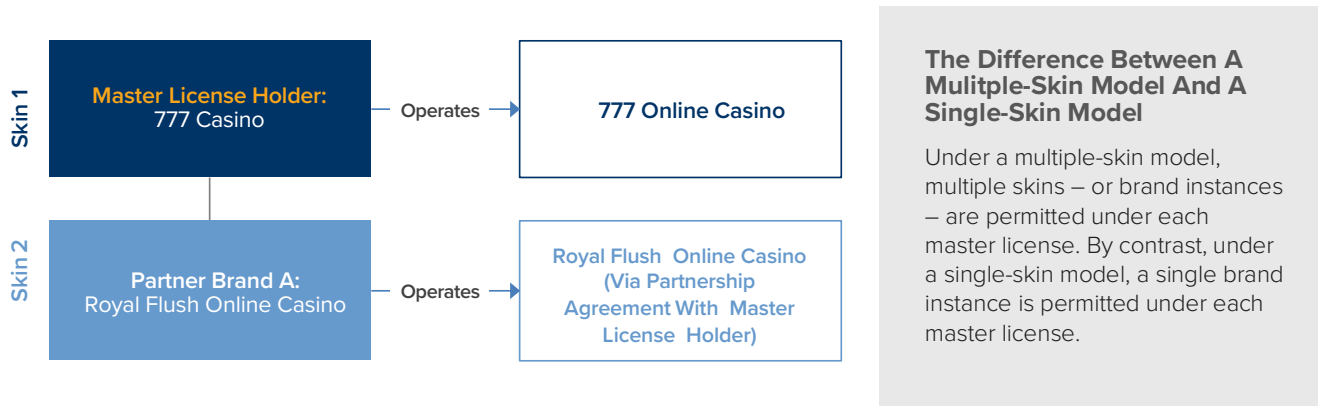
Within the U.S. regulated online gambling industry, “skin” is a term used to refer to a brand instance that exists under a master license. The term first came into play in New Jersey’s regulated online casino market.

Under multiple-skin models, you can only operate online gambling if you are a master license holder or a partner brand. Master license holders are typically existing gaming entities in a state, such as casinos. Partner brands are entities that have partnership agreements with master license holders.

In figure 1.1 at right, we illustrate the hierarchical relationship between a fictional master license holder and its partner brand under a multiple-skin model. The chart shows that Partner Brand A has an agreement with the master license holder allowing it to operate its own online gambling site.

Note that each brand operating under the master license holder – 777 Online Casino (the master license holder’s own brand) and Royal Flush Online Casino (controlled by Partner Brand A) – is considered a skin.

**Fig. 1.1: Illustration Of A Master License Holder-Partner Brand Hierarchy Under A Multiple-Skins Model**



### 1. Introduction To Multiple-Skin Models: Why Are States Considering Them?

*Multiple-skin models can have significant impacts on core facets of a state-regulated online gambling market. Those impacts are summarized in figure 1.2 below.*

**Fig. 1.2: Key Reasons Why States Are Considering Multiple-Skin Models**

<b>Market Size</b>	A greater number of available online gambling brands can result in a larger overall market in revenue terms.
<b>Tax Revenue</b>	A larger overall market can result in a larger base of taxable revenue.
<b>License Fee Revenue</b>	The imposition of license fees not only on master license holders, but also on partner brands, can provide states with additional sources of revenue.
<b>Competition</b>	A greater number of available online gambling brands can increase competition in a market, which can create benefits for consumers including better product variety and quality, and better product prices and promotions.
<b>Competitive Balance</b>	A multiple-skin model can increase revenue parity between larger and smaller operators in a market.

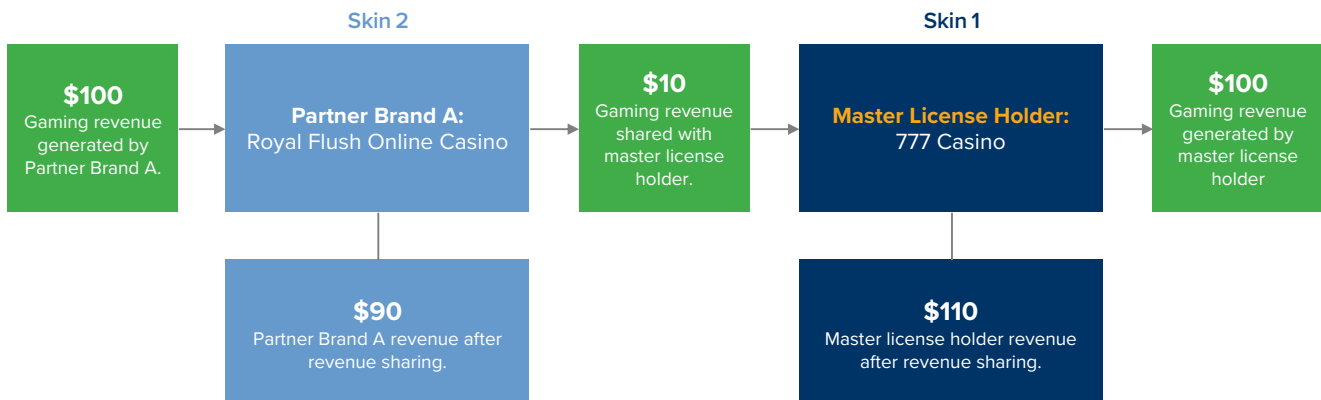
## 1. Introduction To Multiple-Skin Models: What Do Master License Holders Get From Partner Brands?

*Multiple-skin models provide master license holders with additional ways to generate revenue from regulated online gambling.* Partner brands typically pay the master license holder some sort of fee in exchange for access to the license. The fee is often, but not always, some share of the revenue that the skin generates.

A typical deal between a partner brand and a master license holder likely involves a revenue share payment of between 3% and 10%. The revenue sharing percentage depends on the strength of the brand attached to the skin, the marketing budget for the skin operator, and the supply and demand dynamics in a given market, among other factors. In figure 1.3 below, we illustrate a revenue sharing arrangement between a master license holder brand and a partner brand under a multiple-skins model.

**Fig. 1.3: Illustration Of A Revenue Sharing Agreement Between A Master License Holder And A Partner Brand Under A Multiple-Skin Model (Assumes 10% Revenue Sharing Rate)**

The diagram below shows how 10% of the \$100 in gaming revenue generated by Partner Brand A (or \$10) flows to its master license holder partner.



## 1. Introduction To Multiple-Skin Models: How Do States Benefit From Them?

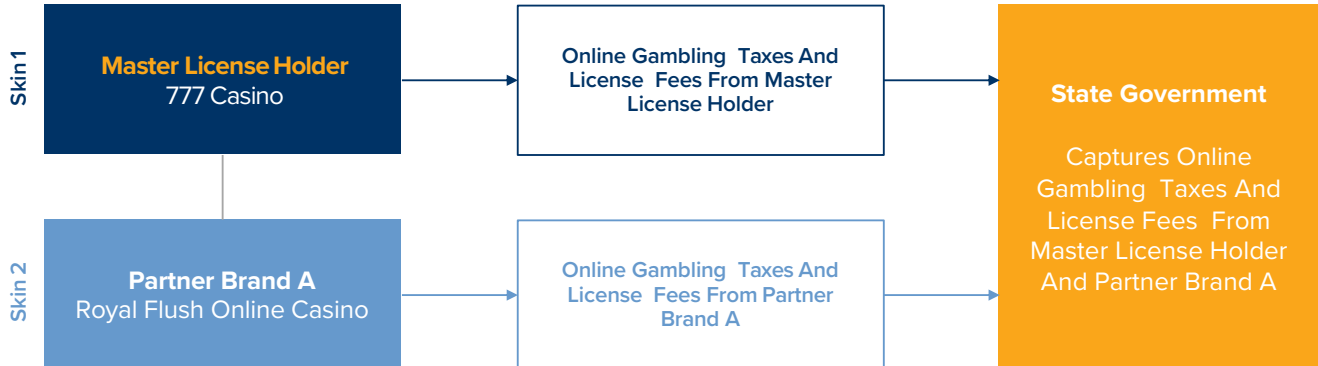
*States are looking to multiple-skin models as a way to increase tax and license fee revenue.* That is because partner brands, just like the master license holders with which they are partnered, pay taxes on their gaming revenue and licensing fees.

Taxes vary by state but are generally applied to a partner brand’s gross gaming revenue, or the amount it holds after paying out winning wagers to players. Licensing fees also vary by state but are typically composed of an upfront fee and a renewal fee. In figure 1.4 below, we illustrate how tax and licensing fee revenue from online gambling brands operating under a multiple-skin model flows to state governments.



**Fig. 1.4: Illustration Of How Tax And License Fee Revenue Flows From Brands To A State Government Under A Multiple-Skin Model**

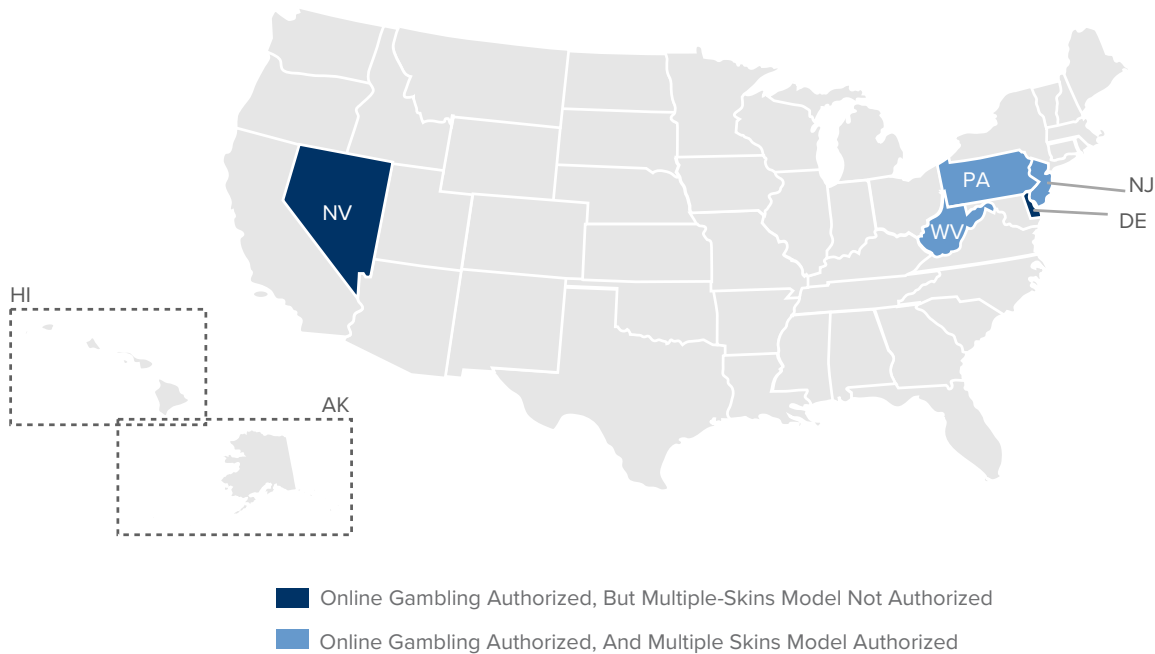
The diagram below shows that a multiple-skin model creates additional opportunities for a state to capture licensing and tax revenue from online gambling.



### 1. Introduction To Multiple-Skin Models: Which States Have Authorized Them?

Several states have enacted – or are considering – multiple-skin models for online casino, online sports betting, or both. As of this report, online gambling was legal and regulated in five states, three of which – New Jersey, Pennsylvania and West Virginia – have authorized multiple-skin models.

**Fig. 1.5: States Where Multiple-Skin Models Are Authorized**



## 1. Introduction To Multiple-Skin Models: How Are States Approaching Implementation?

*It is still early days for regulated U.S. online gambling, and no true consensus has yet emerged around how best to implement a multiple-skin model.* In figure 1.6 below, however, we have summarized how New Jersey, Pennsylvania and West Virginia – the only states where such models are currently authorized – have approached key facets of implementation.

**Fig. 1.6: How States Are Approaching The Implementation Of Multiple-Skin Models**

	<i>New Jersey</i>	<i>Pennsylvania</i>	<i>West Virginia</i>
<b>No. Of Skins Allowed Per Master License Holder</b>	Online Sports Betting (3); Online Casino (5)	Online Sports Betting (1); Online Casino (Unlimited)	Online Sports Betting (3)
<b>No. Of Skins Allowed / Operational Statewide</b>	Online Sports Betting (42, 8 Of Which Operational); Online Casino (45, 22 Of Which Operational)	Online Sports Betting (13, None Of Which Yet Operational); Online Casino (Unlimited, None Of Which Yet Operational)	Online Sports Betting (15, None Of Which Yet Operational)
<b>Tax Rate (Applicable To Master License Holders And Their Partner Brands)</b>	Online Sports Betting (14.25% Revenue); Online Casino (17.5% Revenue)	Online Sports Betting (36% Revenue); Online Casino (16% or 54% Revenue)	Online Sports Betting (10% Revenue)
<b>Revenue Sharing Rate Between Master License Holders And Their Partner Brands</b>	Privately Negotiated Between License Holder And Skin	Privately Negotiated Between License Holder And Skin	Privately Negotiated Between License Holder And Skin
<b>Licensing Fees For Master License Holders</b>	Online Sports Betting (\$100k [1-Year Term]); Online Casino (\$400k [1-Year Term])	Online Sports Betting (\$10mm [5-Year Term]); Online Casino (\$10mm [5-Year Term])	Online Sports Betting (\$100k [5-Year Term])
<b>Licensing Fees For Partner Brands</b>	\$5k (5-Year Term)	\$50k or \$1mm (5-Year Term)	\$1k (1-Year Term)
<b>Notable Restrictions For Partner Brands</b>	Partner brands enjoy considerable flexibility under New Jersey law and regulation. They may operate and market using their own brands, exclusively.	Under Pennsylvania law and regulation, online casino partner brands are not permitted to operate and market using their own brands, exclusively. Rather, such brands must operate and market using both their own brand and the brand of their online casino license holder partner.	Partner brands enjoy considerable flexibility under West Virginia law and regulation. They may operate and market using their own brands, exclusively.

## 1. Introduction To Multiple-Skin Models: Key Takeaways

**Multiple-skin models provide states and master license holders with additional ways to generate revenue from regulated online gambling:** States can capture new license fee and tax revenue, and master license holders can capture new revenue by sharing access to their license.

**Several states have enacted – or are considering – multiple-skin models for online casino, online sports betting, or both:** Since New Jersey became the first state to implement a multiple-skins model for online casino in 2013, two other states – Pennsylvania (2017) and West Virginia (2018) – have followed suit.

## Section 2. Multiple-Skin Model Case Study: New Jersey Online Casino Market

This section provides an in-depth examination of the New Jersey regulated online casino model. New Jersey enacted a multiple-skin model at the launch of regulated online casino in 2013. The state provides the best available analogue for appreciating the impact a multiple-skin model would have in other U.S. state-regulated online gambling markets. Our examination spans a walk-through of New Jersey's multiple-skin market, the relationship between multiple skins and market size, and the connection between multiple skins and competitive balance.

### Summary:

- New Jersey's online casino market is roughly 50% larger than it would have been under a single skin model.
- Revenue generated by partner brands appears to be largely additive, and the presence of partner brands has not precluded growth at primary brands in New Jersey.
- The multiple-skin model has had a significant impact on competitive balance in New Jersey's online gambling market, and a smaller – but still measurable – impact on the broader competitive balance of the state's total gambling market.

## Section 2a: Multiple-Skin Model Case Study Introduction To the New Jersey Online Casino Market

This subsection provides a brief, top-level overview of the New Jersey online casino market.

### 2a. New Jersey Multiple-Skin Model Case Study: Introduction To The Market

#### What Is An “Internet Gaming Permit?”

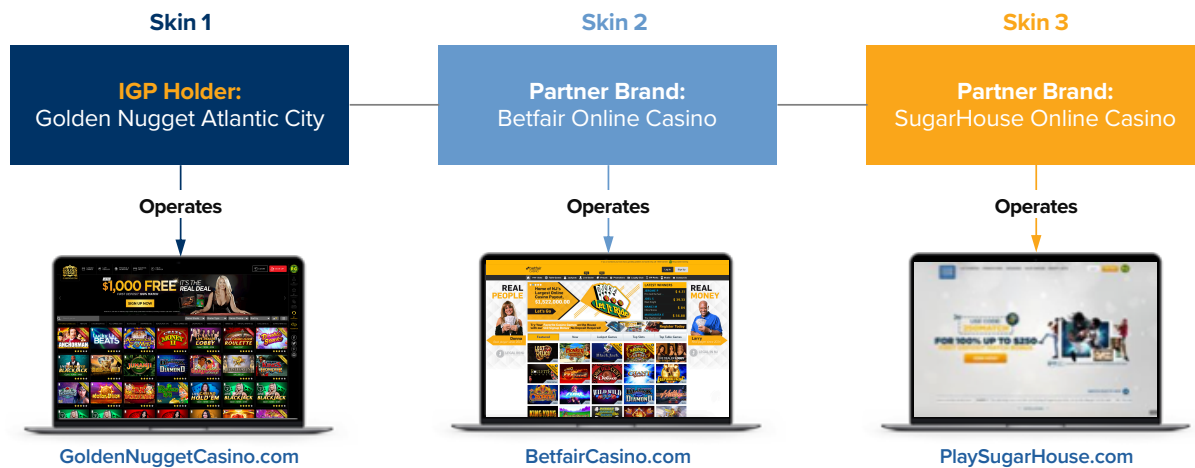
An Internet Gaming Permit (IGP) is the top – or master – level of licensure in New Jersey’s online casino market. It is reserved for land-based casino license holders.

Under New Jersey’s multiple-skin model, you cannot operate an online casino in without an IGP, or without a partnership agreement with an IGP holder. In figure 2.1 at right, we have provided an example of a typical IGP structure in New Jersey.

Golden Nugget – or the master license holder – operates the Golden Nugget online casino under its IGP. Golden Nugget struck deals with Betfair and SugarHouse – or partner brands – that allow each to operate its own New Jersey online casino under the Golden Nugget’s IGP.

Note that each brand operating under the IGP is considered a skin.

**Fig. 2.1: Illustration Of A New Jersey IGP Structure**

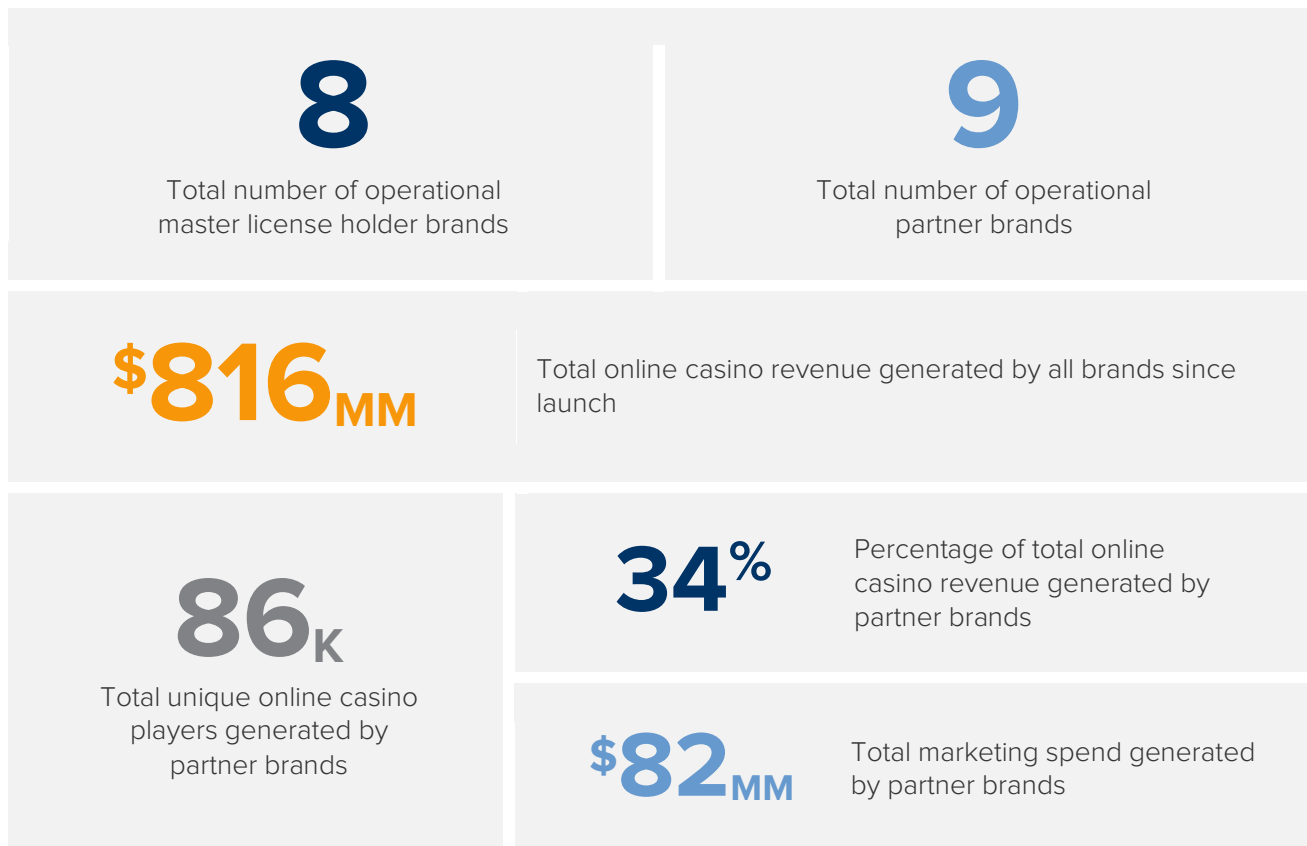


**Fig. 2.2: New Jersey Online Casino Market Performance By Year**

Calendar Year	Total No. Of Operational Master License Holder Brands	Total No. Of Operational Partner Brands	Revenue Generated By Master License Holder Brands	Revenue Generated By Partner Brands	Total Online Casino Revenue	Year-Over-Year Growth In Total Online Casino Revenue
2013	5	4	\$3.3mm	\$1.7mm	\$5.1mm	
2014	5	5	\$67.1mm	\$26.6mm	\$93.8mm	1719%
2015	6	6	\$88.0mm	\$37.0mm	\$125.0mm	33%
2016	6	8	\$114.2mm	\$55.9mm	\$170.1mm	36%
2017	6	9	\$143.0mm	\$78.2mm	\$221.3mm	30%
2018	8	9	\$165.2mm*	\$100.8mm*	\$266.1mm*	+20%*

Note: 2018 figures are estimates.

**Fig 2.3: New Jersey Online Casino Market By The Numbers**



**Fig. 2.4: New Jersey Online Casino Market: Master License Holders And Partner Brands**

Master License Holder	Master License Holder Brands	Partner Brands
Borgata	Borgata	Party
		Pala
		MGM
Caesars	Caesars	888
	Harrah's*	
Golden Nugget	Golden Nugget	Betfair
		SugarHouse
Hard Rock	Hard Rock	N/A
Ocean Resort	Ocean	N/A
Resorts	Resorts	Mohegan Sun
		PokerStars
Tropicana	Tropicana	Virgin

Note: The Harrah's brand, and Harrah's Resort Casino Atlantic City, are controlled by Caesars. Caesars operates the Harrah's brand under its master license.

## Section 2b: Multiple-Skin Model Case Study The Impact Of Partner Brands On Market Size

This subsection analyzes how partner brands have impacted the size of the New Jersey online gambling market in revenue terms.

### 2b. New Jersey Multiple-Skin Model Case Study: Partner Brands And Market Size

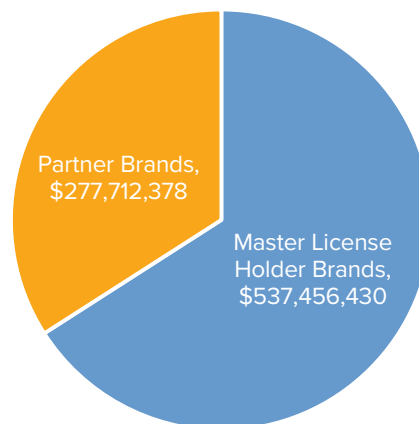
*What percentage of total New Jersey online casino revenue have partner brands historically accounted for?*

Since the New Jersey online casino market opened in November 2013, we estimate that partner brands have generated approximately 34% of total revenue, with master license holder brands accounting for the remaining 66%.

#### Key takeaways:

- Partner brands have collectively generated significant amounts of revenue since launch, suggesting they are unlocking unique market demand that master license holder brands are unable to unlock.
- The multiple-skin model in New Jersey has attracted a wide array of partner brands, including international online gambling brands, commercial casinos from other states, tribal casinos, and media brands.
- A wide variety of partner brands, and the innovations brought by those brands, has made the market more diversified. That diversity has been key for New Jersey's growth, as the diverse landscape of operators has brought with it unique approaches to product, promotions, and marketing – all of which have broadened the appeal of regulated online gambling in New Jersey.

**Fig. 2.5: Partner Vs. Master License Holder Brands: Distribution Of New Jersey Online Casino Revenue Since Launch**



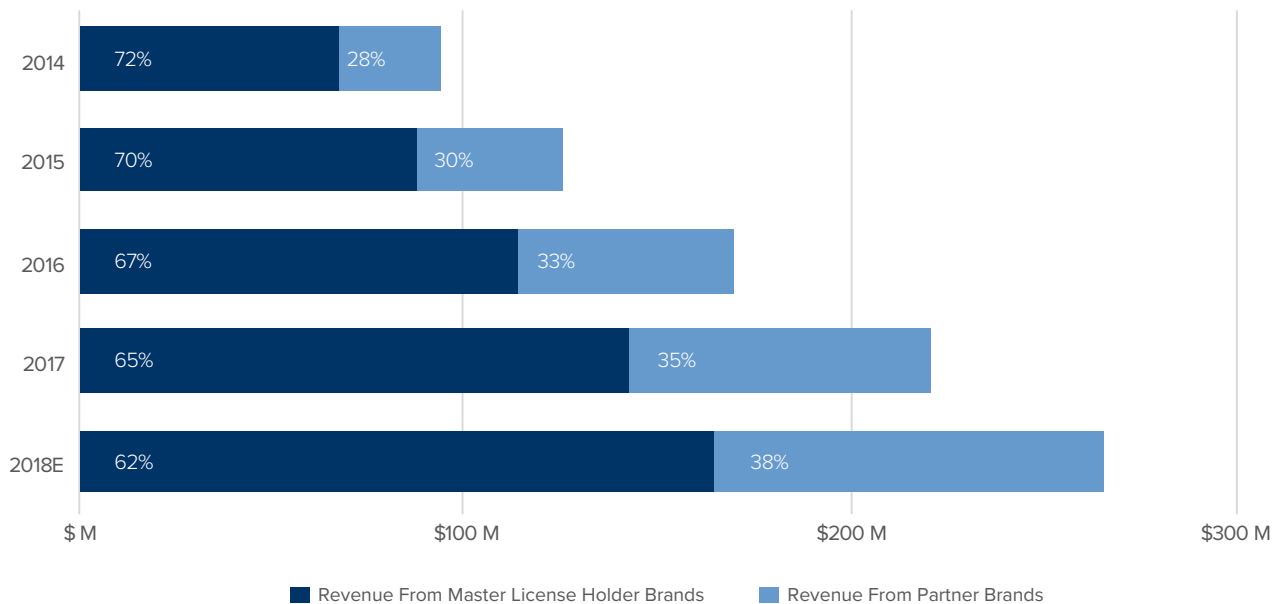
## 2b. New Jersey Multiple-Skin Model Case Study: Partner Brands And Market Size

**How has revenue from partner brands grown over time?** Revenue from partner brands has grown at an average annual rate of 29%, and has increased – in absolute dollar terms – in every year since launch. Revenue from master license holder brands, meanwhile, has grown at a 24% average annual rate and has likewise increased in absolute dollar terms year-over-year.

**Key takeaways:**

- Revenue from partner brands and master license holder brands has increased in tandem in every year since launch, a trend that suggests there is still room for all brands to grow in the market.
- Concurrent, sustained increases in partner brand revenue and master license holder brand revenue also suggests that both brand categories are contributing in unique ways to the market’s overall growth.
- Given those observations, we believe that partner brands have generated significant additive growth for the New Jersey online casino market. Partner brand revenue does not appear to have come primarily at the expense of master license holder brands. In sum, the New Jersey online casino market is significantly larger than it would have been under a single-skin model.

**Fig. 2.6: Partner Vs. Master License Holder Brands: Distribution Of Annual New Jersey Online Casino Revenue**



**What role do partner brands play in the revenue mix for master license holders?** Partner brands play a material role in the overall revenue of all master license holders.

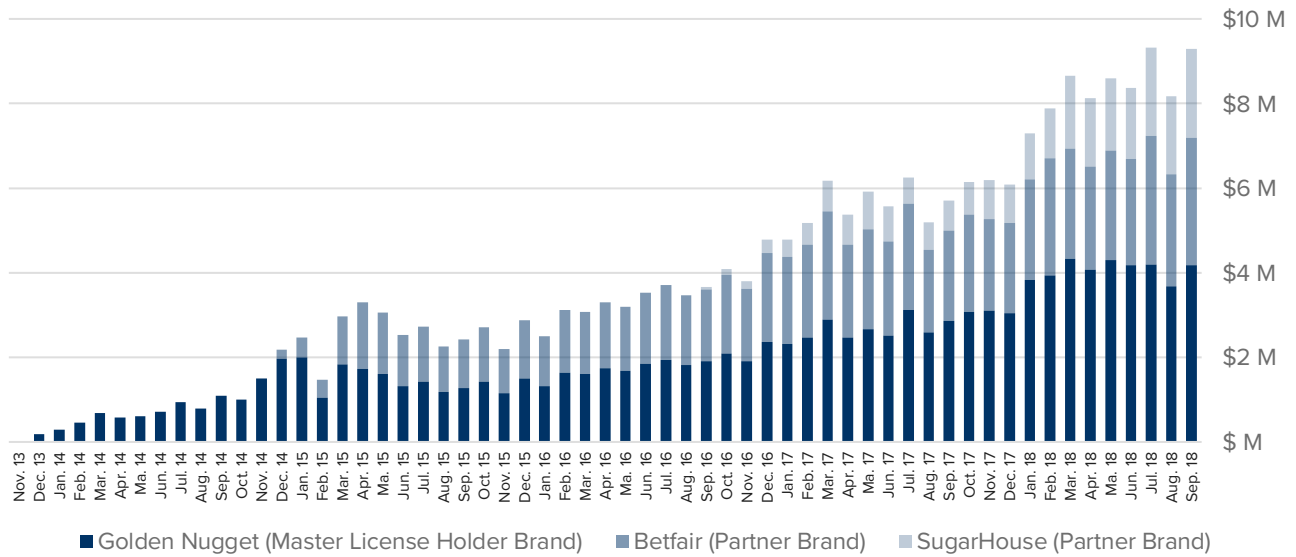
**Key takeaways:**

- All master license holders in New Jersey have associated partner brands. The two master license holders not displayed – Hard Rock and Ocean Resort Casino, both of which opened their land-based casinos in the summer of 2018 – have announced or are expected to announce online casino partner brands in the coming months.

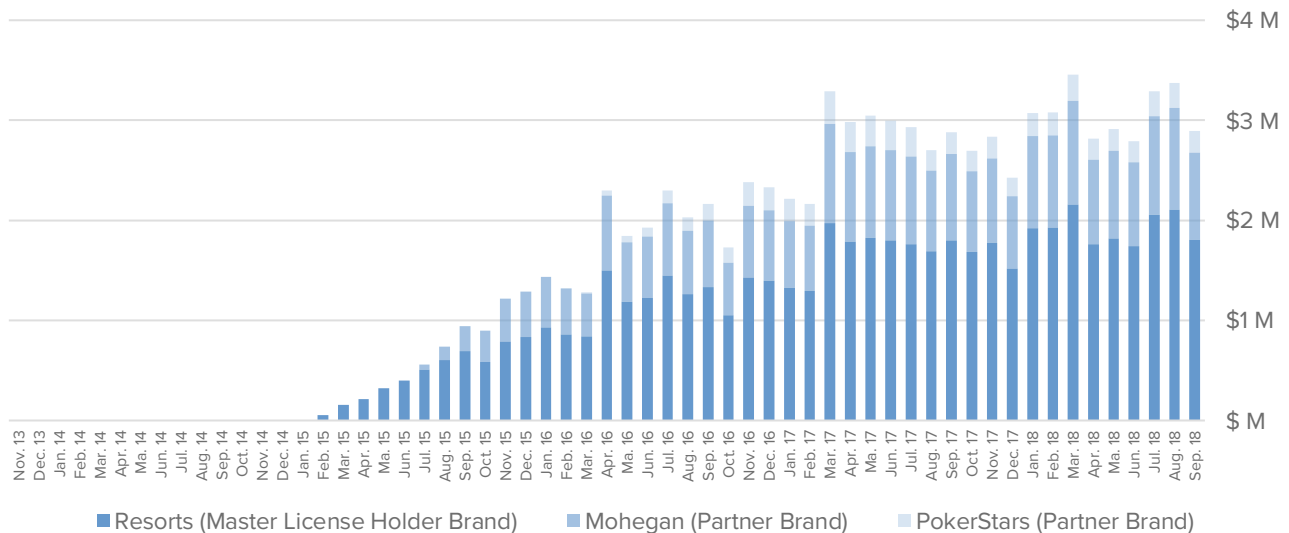


- Partner brands launched well after the start of the market (e.g., MGM in July 2017) show no obvious signs of interfering with the performance of the associated master license holder brands.
- The Golden Nugget IGP is home to not only largest master license holder brand (by revenue), but also the two biggest partner brands. We note that the Golden Nugget made the decision to add an additional partner brand (SugarHouse) several years after launch. The market leader in New Jersey sent a very clear signal with that decision: Partner brands – even those who are likely to be strong competitors – are good business for master license holders.

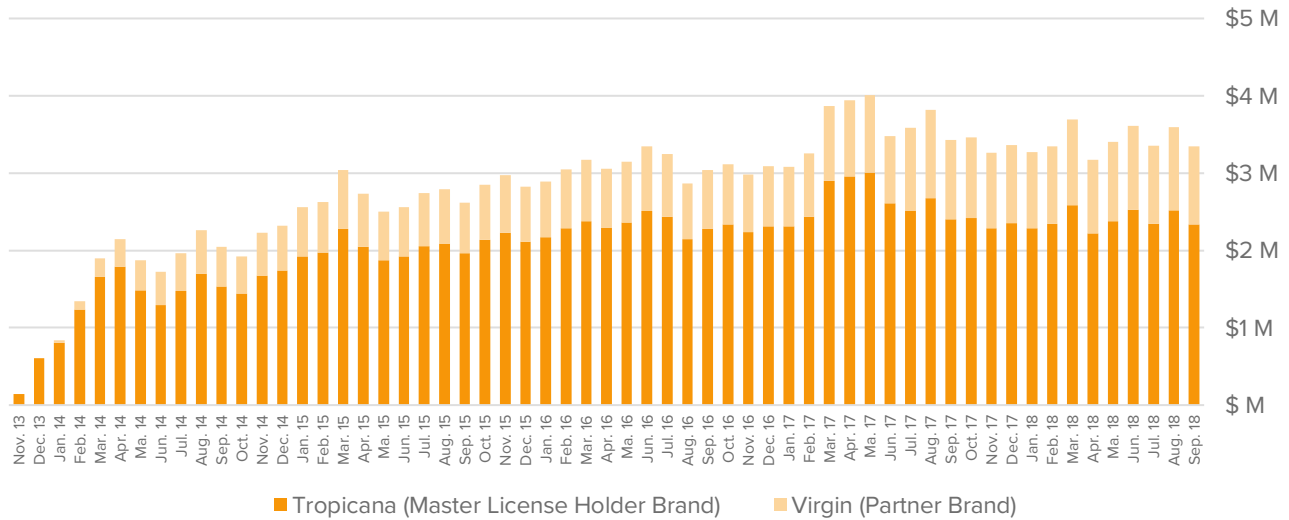
**Fig. 2.7: Golden Nugget IGP Revenue By Brand Since Launch**



**Fig. 2.8 Resorts IGP Revenue By Brand Since Launch**

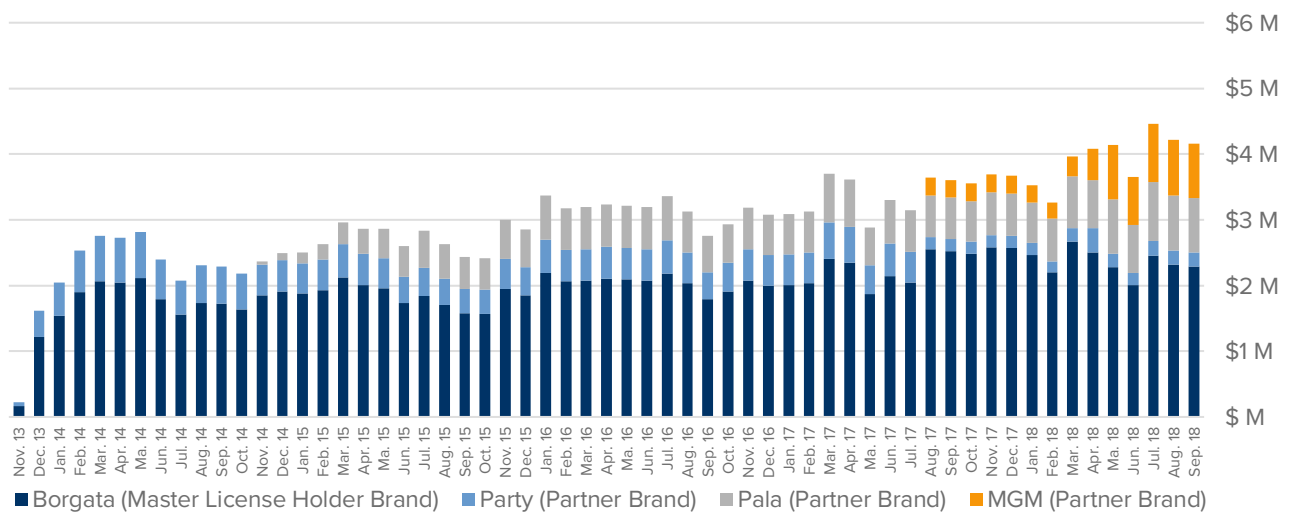


**Fig. 2.9: Tropicana IGP Revenue By Brand Since Launch**

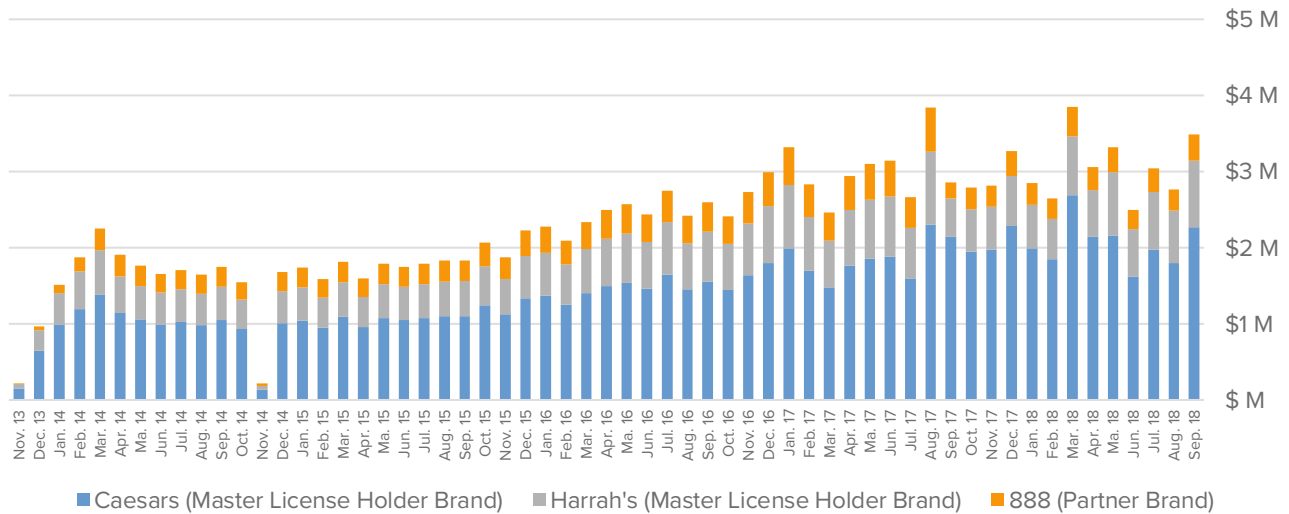


- There is no clear pattern regarding how much an individual partner brand contributes absolutely or relatively to an IGP’s revenue. That lack of uniformity suggests a market that is functioning well and being won by merit. In other words, robust competition appears to be breeding a healthy market that’s producing multiple winners.
- Partner brands come in all shapes and sizes. There is no “one-size-fits-all” description of partner brands in terms of revenue. That diversity ensures that partner brands are pursuing unique marketing strategies, unique content strategies, and unique retention strategies.
- The relatively stable distributions of partner brand revenue and master license holder brand revenue suggest that the presence of partner brands does not impede or diminish the willingness of master license holder brands to spend money on marketing.

**Fig. 2.10: Borgata IGP Revenue By Brand Since Launch**



**Fig. 2.11: Caesars IGP Revenue By Brand Since Launch**



Note: The Harrah's brand, and Harrah's Resort Casino Atlantic City, are controlled by Caesars. Caesars operates the Harrah's brand under its master license.

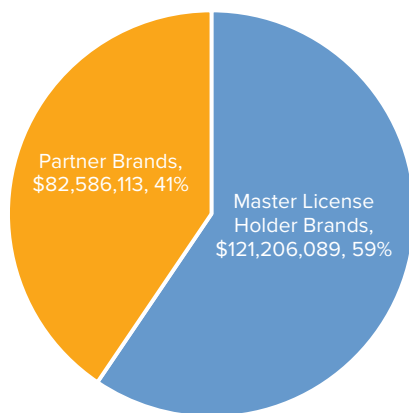
**How have partner brands impacted market penetration?**

Market penetration is a simple measure of how widely online casino gambling has been adopted in New Jersey. It is the result of dividing the total number of unique online casino players in New Jersey over a given period by the state's total gambling-age population during that same period.

Many factors, ranging from quality of product to ease of access, influence market penetration. But marketing spend – or the amount of money spent by online casino operators to acquire customers and to otherwise promote their offerings – is among the most salient drivers of market penetration.

We believe that in New Jersey's online casino market, partner brands have played a critical role in driving market penetration. We estimate such brands have generated marketing spend of nearly \$83mm since launch, and that spend has helped generate around 86,000 unique players.

**Fig. 2.12: Partner Vs. Master License Holder Brands Distribution Of New Jersey Marketing Spend Since Launch**



**86k**

No. of unique online casino players generated by partner brands since launch

## Section 2c: Multiple-Skin Model Case Study The Impact Of Partner Brands On Competitive Balance

This subsection analyzes how partner brands have impacted competitive balance in the New Jersey land-based and online casino markets.

### 2c. New Jersey Multiple-Skin Model Case Study: Partner Brands And Competitive Balance

Figure 2.14, at right, compares the land-based market share of New Jersey’s casino operators with their share of the online casino market (inclusive of all revenue generated by partner brands).

We note *that land-based market share has not been predictive of online market share in New Jersey*. The multiple-skin model has been one of the major factors (alongside differences in operational expertise and organizational commitment) that have allowed smaller casinos to overperform in the online gambling market.

We further note that the *New Jersey online casino market is more evenly distributed across all operators than the state’s land based market*. While the online casino market still has a clear winner, there is far less disparity between the next tier of operators.<sup>1</sup> That level of parity is enabled by the multiple-skin model.

<sup>1</sup> Note: Standard deviation of 1.77 for the online market vs 9.79 for the landbased market when the market leader is removed (2018 YTD revenue).

**Fig. 2.13: New Jersey Casinos: Land-Based Vs. Online Market Shares In 2018 YTD**

Casino	% Of Land Market	% Of Online Market
Borgata	28.91%	18.46%
Caesars Properties	33.01%	15.41%
Golden Nugget	9.10%	35.06%
Hard Rock*	4.93%	0.68%
Ocean Resort*	2.82%	0.44%
Resorts	7.36%	15.69%
Tropicana	13.87%	14.25%
Total	100.00%	100.00%

\* Denotes casino that operates online casino under its own brand, only.

Figure 2.15, at right, shows the impact that online gambling revenue has had on overall gambling market share in New Jersey (i.e., land-based casino revenue plus online casino revenue).

We note that *online gambling has had a measurable impact on overall market share*, albeit a relatively limited one. Again, the presence of a multiple-skin model is a key force behind these shifts, as a meaningful amount of revenue for the two largest gainers (Golden Nugget and Resorts) comes from partner brands. It is worth mentioning that the primary Golden Nugget and Resorts online casino both outperform their landbased peers relative to land-based market share.

We further note that *the impact of online gambling on the distribution of overall market share will increase over time*. New Jersey’s online casino marketplace is continuing to grow. The addition of sports betting – a product we expect to be dominated by online betting – will tip the scales even further. And the broader macro shift of consumers to mobile devices will push a greater amount of all gambling activity through online channels.

**Fig. 2.14: New Jersey Casinos: Land-Based Vs. Overall (Land-Based + Online) Market Shares In 2018 YTD**

Casino	% Of Land Market	% Of Overall Market
Borgata	28.91%	27.84%
Caesars Properties	33.01%	31.21%
Golden Nugget	9.10%	11.76%
Hard Rock*	4.93%	4.49%
Ocean Resort*	2.82%	2.58%
Resorts	7.36%	8.21%
Tropicana	13.87%	13.91%
Total	100.00%	100.00%

\* Denotes casino that operates online casino under its own brand, only.

## 2. New Jersey Multiple-Skin Model Case Study: Key Takeaways

- *The multiple-skin model has grown the market in New Jersey:* In absolute terms, the presence of multiple skins has resulted in a 50% larger online casino market.
- *The multiple-skin model has been utilized by, and benefited, all casinos in New Jersey:* All master license holders in New Jersey utilize partner brand skins. Master license holders benefit via direct revenue, defrayed marketing costs, and improved supplier access.
- *The multiple-skin model has promoted competitive balance in New Jersey:* New Jersey’s online casino market is far more balanced than its land-based market. Additionally, online gambling is starting to drive greater parity in overall market share, a trend likely to accelerate over time.

## Section 3. Cost-Benefit Analysis Of A Multiple-Skins Model

This section contains a generalized cost-benefit analysis of adopting a multiple-skin model in a typical state-regulated online gambling market. We consider the cost-benefit question from the state, consumer and operator perspectives.

### Summary:

- States gain additional license fee revenue from a multiple-skin model and additional tax revenue thanks to the expanded market size. States also benefit from increased economic activity (e.g., increased marketing spend). On balance, these gains outweigh the additional costs and risks from a multiple-skin model.
- Consumers benefit from the increased pricing competition, product quality, and variety of product driven by a multiple-skin model. There are no material drawbacks for the consumer stemming from the multiple-skin model.
- Master license holders (i.e., current land-based gambling license holders) face the most complicated balance of benefits and costs. Many will find that the economic opportunities and competitive balancing made possible by a multiple-skin model appealing. Some will determine that the threat of disruption to the market share status quo outweighs the upside.

### 3. Cost-Benefit Analysis Of A Multiple-Skin Model: State Governments

#### Benefits Of A Multiple-Skin Model

**Additional license fee revenue:** States can not only collect license fees from master license holders, but also from partner brands. States where demand for online gambling market entry is higher will likely be able to impose higher license fees on partner brands than states where demand for entry is lower. Tier one first-wave sports betting states, in particular, are well positioned to impose higher license fees on partner brands.

**Additional tax revenue:** A greater number of available brands tends to result in a larger overall market in revenue terms (although that relationship is eventually subject to diminishing returns), directly increasing the tax take under typical structures.

**Economic development opportunities:** States can require that partner brands establish an on-ground presence within their borders. Such requirements can have positive economic impacts for states, such as the creation of new jobs. States where demand for online gambling market entry is higher will likely be better positioned to establish on-ground requirements for partner brands than states where demand for entry is lower. States also benefit from the additional economic activity generated by partner brands (e.g., marketing spend).

**Promotes competitive parity:** New Jersey shows that a multiple-skin model can support competitive parity. Parity is of special concern to states where neighboring-state competition is threatening the viability of individual properties.

Diversification through online gambling may well be the life vest for smaller casino operators facing a rising tide of land-based competition.

### Costs Of A Multiple-Skin Model

**Regulatory cost:** Allowing multiple skins will increase regulatory cost. Policy approaches that include a multiple-skin model must allocate a proportional amount of resources to accommodate that increased cost.

**Regulatory complexity:** Allowing multiple skins will, in most jurisdictions, raise new regulatory issues. Policymakers must tread carefully to avoid triggering unintended consequences through the approval of a multiple-skin model. Enabling legislation that limits regulatory flexibility is especially susceptible to this cost.

### CONCLUSION

A multiple-skin model brings a number of direct, tangible benefits to a state, along with a number of indirect benefits. But multiple skins also trigger regulatory costs and complexity, issues that must be carefully considered when shaping online gambling policy. On balance, we conclude that a multiple-skin model brings significantly more benefits than costs to a state.

## 3. Cost-Benefit Analysis Of A Multiple-Skin Model: Consumers

### Benefits Of A Multiple-Skin Model

**Increases competition:** Generally speaking, the more brands there are in an online gambling market, the higher the level of overall competition is in that market. And a market in which overall competition is higher tends to be more favorable to consumers. Competition not only improves product quality and product variety, but also product prices and related promotions.

The New Jersey online casino market is an apt example of a highly competitive online gambling market. Players there have 17 brands, a fast-expanding base of hundreds and hundreds of unique online slot machines, and a growing stable of niche products – such as live-dealer table games and virtual sports – from which to choose.

**Improves pricing and promotions:** The presence of 17 brands in the New Jersey market ensures that some brands will resort to better pricing as a way to attract customers, a phenomenon evidenced by the low-hold blackjack and video poker variants available at some New Jersey online casinos.

The promotional environment in New Jersey is similarly favorable to consumers thanks to competition; online casinos attract customers with no-risk free bets, deposit bonuses, cash back bonuses, and land-based crossover offers.

Notably, the pricing and promotional environments have both steadily improved over time.

### Costs Of A Multiple-Skin Model

We do not see any material costs to the consumer arising from a multiple-skin model approach to regulated online gambling. We are unaware of any specific incidents or trends in the New Jersey market that suggest a cost to

consumers from the presence of online casino brands above and beyond the land-based casino brands in Atlantic City.

We do acknowledge that increased marketing spend for gambling may intersect with problem gambling but are not aware of any research that has concluded the presence of multiple skins generates any incremental increase in problem gambling issues above and beyond increases stemming from the presence of regulated online gambling.

## CONCLUSION

Given the wealth of obvious consumer gains resulting from increased competition, and a lack of any meaningful costs, we conclude that multiple-skin models are, on balance, a clear benefit for gambling consumers.

### 3. Cost-Benefit Analysis Of A Multiple-Skin Model: Master License Holders

#### Benefits Of A Multiple-Skin Model

**Additional revenue streams:** Master license holders typically receive a share of each partner brand's online gambling revenue, often accompanied by an upfront, lump payment. Further, not all master license holders may wish to pursue online gambling aggressively. But a multiple-skin model provides the means for master license holders to passively benefit from online gambling regardless of their level of interest or expertise.

**Offset market-entry costs:** In some states, the cost of master licensure may be quite high. A multiple-skin model could allow master license holders to share the cost of master licensure across partner brands. Master license holders can also leverage their license to secure technology and services at reduced rates, shortening the distance to profitability.

**Better platform pricing environment:** Some partner brands, in addition to operating online gambling, also supply online gambling platforms to master license holders. A multipleskin model, therefore, tends to create markets with greater competition among platform suppliers, driving a more favorable platform-pricing environment for master license holders.

**Innovation with reduced risk:** Through multiple skins, master license holders also gain multiple potential points of entry into an online gambling market. Master license holders may wish to use their own sub-brands to test out-of-the-box or supplemental products, new marketing concepts, or brands designed to capture unique customer segments.

#### Costs Of A Multiple-Skin Model

**Market share disruption:** While greater parity may be in the best interest of the state, altering the market share status quo is only of interest to those operators who gain from the disruption. A multiple-skin model certainly has the potential to bring greater benefits to some operators than others, especially operators who are on the minority side of market share.

**Fragmented customer base:** A multiple-skin model ultimately results in a marginally more fragmented customer base for regulated online gambling over time. This may dampen the ability of land-based operators to realize maximum long-term cross-sell between land-based and online products. This cost is somewhat offset by the



number of new gamblers minted by partner brands, as some of those gamblers will inevitably migrate to the land-based product they would have otherwise ignored.

## CONCLUSION

A multiple-skin model will favor some operators more than others. But the ability to launch multiple skins under a master license ultimately brings more benefit than cost to the greatest amount of stakeholders in a typical regional gambling market.

### 3. Cost-Benefit Analysis Of A Multiple-Skin Model: Key Takeaways

- **Cost-Benefit Analysis Conclusion – State Governments:** A multiple-skin model brings a number of direct, tangible benefits to a state, along with a number of indirect benefits. But multiple skins also trigger regulatory costs and complexity, issues that must be carefully considered when shaping online gambling policy. On balance, we conclude that a multiple-skin model brings significantly more benefits than costs to a state.
- **Cost-Benefit Analysis Conclusion – Consumers:** Given the wealth of obvious consumer gains resulting from increased competition, and a lack of any meaningful costs, we conclude that a multiple-skin model is, on balance, a clear benefit for gambling consumers.
- **Cost-Benefit Analysis Conclusion – Master License Holders:** A multiple-skin model will favor some operators in a market more than others. But the ability to launch multiple skins under a master license ultimately brings more benefit than cost to the greatest amount of stakeholders in a typical regional gambling market.

## Section 4. Notes And Methodology

### 4. Notes And Methodology

## Appendices

Eilers & Krejcik Gaming was retained by the iDevelopment and Economic Association (iDEA) to construct a comprehensive analysis of the question of “skins,” or individual online gambling brands that operate underneath a single regulated online gambling license.

This report focuses specifically on the impact of a state enacting a “multiple-skin” model that would allow master online gambling license holders to operate multiple brands underneath a single online gambling license.

Our analysis draws on publicly-available data from U.S. markets and other jurisdictions, privately-collected data sourced from regulated online gambling operators, and our professional judgment.

### About Eilers & Krejcik Gaming



Eilers & Krejcik Gaming, LLC is a boutique research and consulting firm focused on servicing the gaming equipment, technology, and interactive gaming sectors within the global casino gaming industry. Our products and services include market research, company research, and advisory and consulting services designed specifically for casino operators, equipment and technology suppliers, online and social gaming operators and suppliers, gaming regulators, and investors.

## Glossary Of Key Terms

<i>Skin</i>	A brand instance that exists under a master license.
<i>Single-Skin Model</i>	Model under which a single skin is permitted under each master license, and under which you can only operate online gambling if you are a master license holder, or if you have a partnership agreement with a master license holder
<i>Mutiple-Skin Model</i>	Model under which multiple skins are permitted under each master license, and under which you can only operate online gambling if you are a master license holder, or if you have a partnership agreement with a master license holder.
<i>Master License Holder</i>	The holder of a master license to offer online gambling directly to consumers.
<i>Partner Brand</i>	A brand that operates under a master license via a partnership agreement with a master license holder.
<i>Online Gambling</i>	Any form of gambling conducted via the Internet and / or mobile devices.
<i>Online Casino</i>	Casino-style gambling – slots and table games, for example – conducted via the Internet and / or mobile devices. For purposes of this report, poker has been excluded from the definition of online casino.
<i>Online Sports Betting</i>	Sports betting conducted via the Internet and / or mobile devices.



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