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

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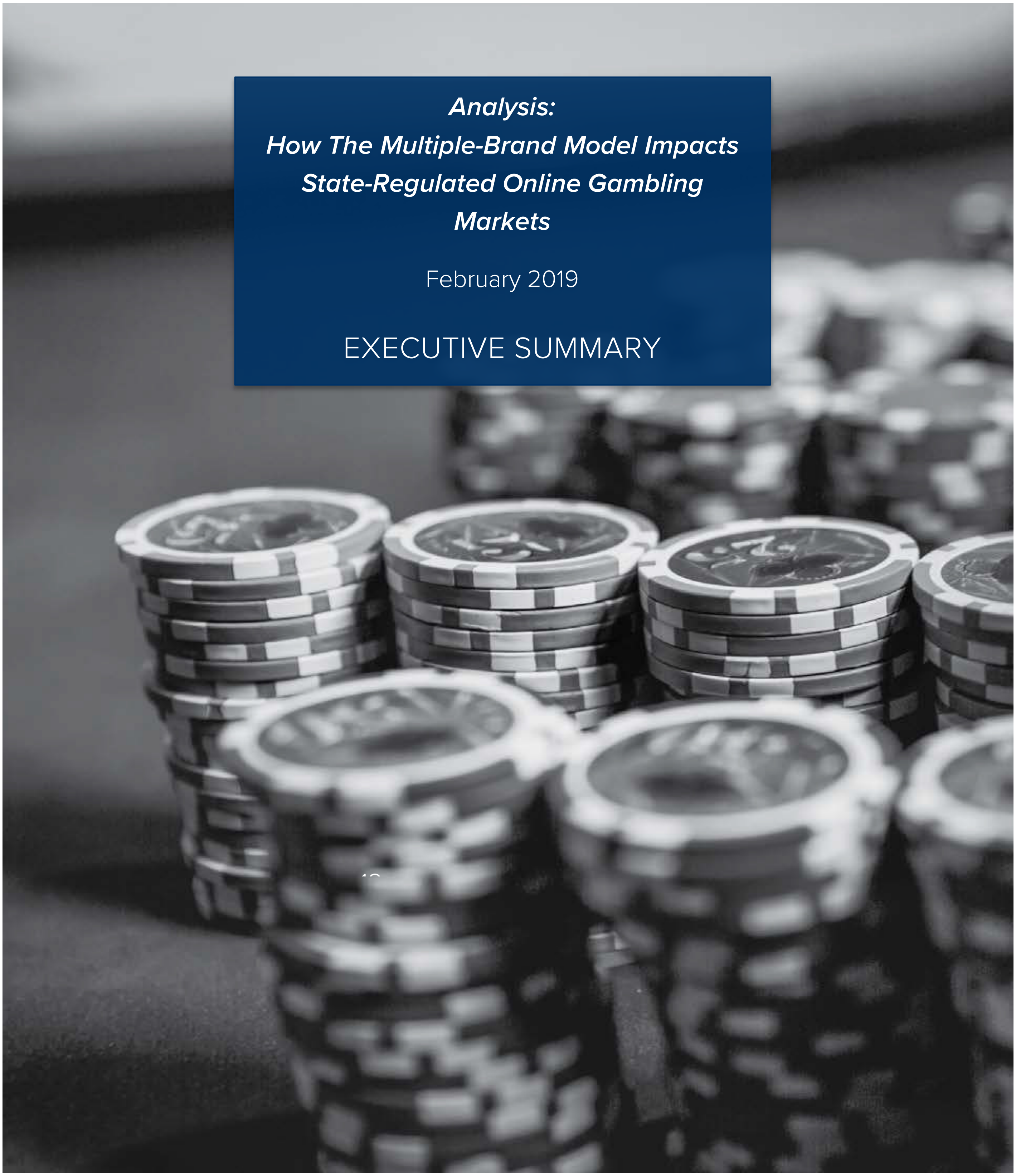
EXECUTIVE SUMMARY



IDEA Growth through regulated online gaming

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EXECUTIVE SUMMARY

Numbers to Notice

50%	$82.5 million	86,000
- The estimated boost the multiple-brand model provides to the revenue generated by a state-regulated online gambling market.	The estimated additional local marketing spend driven by the adoption of the multiple-brand model in New Jersey's regulated online gambling market.	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?

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.

Key Reasons Why States Are Considering Multiple-Skin Models

Market Size	A greater number of available online gambling brands can result in a larger overall market in revenue terms.
Tax Revenue	A larger overall market can result in a larger base of taxable revenue.
License Fee Revenue	The imposition of license fees not only on master license holders, but also on partner brands, can provide states with additional sources of revenue.
Competition	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.
Competitive Balance	A multiple-skin model can increase revenue parity between larger and smaller operators in a market.

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.

- New Jersey's online casino market is roughly 50% larger than it would have been under a single skin model.

- 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.

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.
- 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.
- 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.

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.

Eilers & Krejcik Gaming

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