Indian Gaming 2028: *Getting Ready for the Future*

by James M. Klas

A lot can happen in 10 years, much of it unpredictable, cataclysms or revolutions (natural or man-made), that can cause dramatic changes in unforeseen and perhaps unforeseeable ways. In reality, despite the possibility of unpredictable events, most change is evolutionary rather than revolutionary, something that can be anticipated, for which good leaders prepare to adapt and exploit.

In the thirty years since the Indian Gaming Regulatory Act (IGRA) passed, the Indian gaming industry has experienced tremendous growth beyond what most, if not all of us, envisioned. While the need to guard the legacy, asset and underpinning sovereignty behind Indian gaming remains and always will, we have moved past the days of wondering how long it can last: 10 years? 15 years? Try 30 and counting. And what about reaching 40 and moving beyond that?

Who's on First?

Since IGRA passed, the majority of the leadership in tribes and in the industry have been Baby Boomers and younger members of the Silent Generation, those who were alive but too young to fight in World War II. By far the most important customers were the members of the Silent Generation and some from the Greatest (or G.I.) Generation, with older Baby Boomers close behind. Much angst has been expressed and much energy expended trying to anticipate what will happen when Millennials move to the fore. By 2028, the day of the Millennial will have arrived – sort of.

In 2028, the Greatest Generation will be gone (indeed it nearly is already) and the Silent Generation will no longer be a major factor. Baby Boomers will no longer dominate leadership, but they will still be the primary source of casino demand. Sure, the oldest will be 83 or so, but the youngest will still be only just reaching traditional retirement age. With the most time and still plenty of money to spend, they will remain the dominant demand segment for the next 10 years and beyond that.

By 2028, the oldest Millennials will be 48 and the youngest only 28. While they won't be the most important customer segment, they will be taking over leadership of the industry. Ultimately, that's the good news. By the time Millennials really are the most important demand segment (not until 2038 and beyond), they will also be the ones in charge. They will know how to attract Millennials because they are simply attracting themselves.

Where does that leave our often overlooked Generation X? They will be on both sides of the table, much as Baby Boomers have been to date, both leading and providing key demand for the industry. The oldest will already be amongst the key demand sources for Indian casinos and the youngest will still be running the show.

PERCENTAGE OF HOUSEHOLDS AND TOTAL INCOME BY AGE BRACKET - 2028

18-24 = PM'S; 25-44 = MILLENNIALS; 45-64 = GEN X; 65-84 = BABY-BOOMERS; 85+ = SILENTS
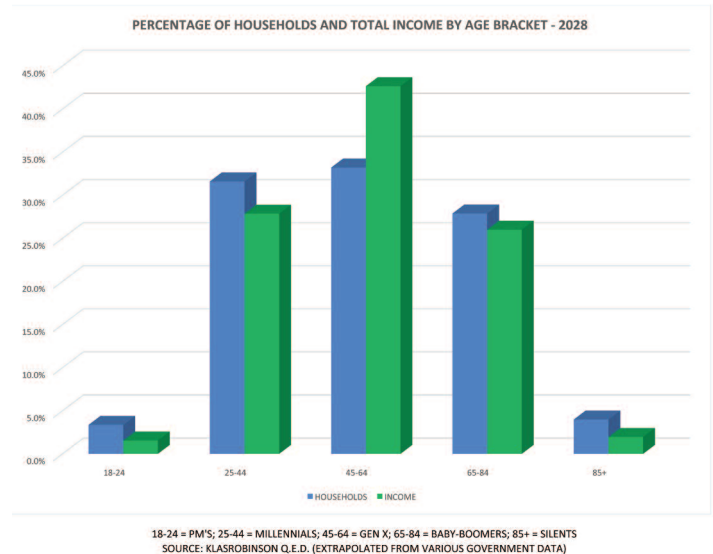SOURCE: KLASROBINSON Q.E.D. (EXTRAPOLATED FROM VARIOUS GOVERNMENT DATA)

Figure 1 above shows the percentage of total households and total household income by age bracket for the year 2028. While Generation X and even Millennials will account for higher percentages of population and income than Baby Boomers 10 years from now, most of their time and much of their income will be tied up in day-to-day life, work and family. The little pair of bars to the left are the Post Millennials or PMs. They are the ones that the Generation X and Millennial industry and tribal leaders will be obsessing over in terms of preferences and lifestyle by the time 2028 rolls around.

Through the Looking Glass

While virtual reality is creating the biggest buzz, the most important and probably the most pervasive trend will be augmented reality, a mix of the "real" world and technological enhancements that can significantly alter the way that world is experienced. How does that affect the Indian gaming industry? Imagine a table game where you are playing at a real table with real people and real cards/dice/balls but you have wearable technology and the player next to you doesn't even have to see the same thing.

Imagine gaming machines where your perception is not of sitting in front of the machine looking at a screen, but inside of the mythical or fictional environment with your movements and choices causing changes that generate the outcomes. Imagine also that you and your friends are all in the same environment even though you are at different machines, perhaps even in different casinos in different parts of the country, and can compete against each other or work collaboratively in real time.

The technology to achieve these and related experiences is

not ready from a user or operator perspective yet for large scale casino deployment. However, it is close enough that within 10 years, it will almost certainly be well into the initial testing and roll out stages with actual versions in use.

A Particular Set of Skills

The advent of skill-based gaming has been discussed and anticipated for more than a decade but is still just that, an advent to come. While a primary driver of the interest has been the desire/concern for Millennial customers, the recognition of the potential value goes beyond generational and techno fads. There is obvious money to be made. However, the old bugbears of monetizing, speed of play, security and house advantage remain troublesome.

As the discussion of augmented reality implied, the need/opportunity is not going to go away. Rather, it is likely to intensify. Figure 2 below shows the percentage growth in revenue from 2011 to 2016 for the U.S. video gaming industry versus Indian gaming. While the video gaming industry is still smaller than Indian gaming and will remain so for at least the next ten years, the gap is shrinking and the money to be made is obvious. Furthermore, the evolution in augmented reality will hit video gaming much faster than casino gaming, indeed, it is already in place in early form. Skill and competition are inherent in video gaming. The pressure to move them into the casino mainstream will only increase.

GROWTH IN REVENUE 2011-2016

SOURCE: KLASROBINSON Q.E.D. FROM DATA PUBLISHED BY NIGC AND PwC
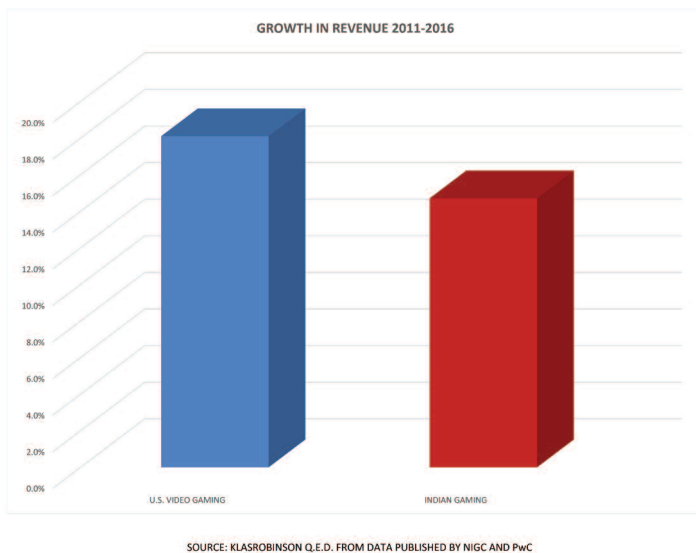
Fortunately, the casino industry has always included games that involved direct competition between players and that lacked the intrinsic house advantages of today's slot machines and (most) table games. Poker and bingo are but two examples. What those games have in common also provides the most likely means of addressing the skill-based gaming issues in the long run. The house makes its money not by playing directly against the player with a built-in advantage, but on a pari-mutuel basis or, in some cases by seat rentals. It is likely that as skill-based

gaming moves from concept to reality, the model will involve some form of pari-mutuel or seat/entry/time fee with the players winning or losing to each other and the house as the service provider/enabler.

Aside from pari-mutuel models, the focus on skill-based gaming is also likely to result in a trend toward greater emphasis on table games in general. While players are still competing against the house, the competition and, to some degree skill, is real and the comradery and mutual excitement is every bit as present. Table games were once the drivers of casino revenue with slot machines merely a side show, however those days will probably not return. A shift in floor capacity is reasonable to expect from the more current version of 1-3 tables per 100 machines back toward five or more.

It's Not So Hard

A corollary to the impact of video gaming technology and popularity on casino gaming will be a change in the way machines attract and serve the guest. Although changes to machine technology over the past 30 years have resulted in much greater flexibility for the operator in adjusting game titles to changing customer preferences, those changes are nothing compared to what is coming in the future. Remember when computer companies like IBM were the dominant tech players and were all about building machines? Nowadays, the dominant players are all software companies and even the old-line hardware manufacturers are focusing on services rather than products. If you think about the way video gaming consoles work, it's not hard to see the future for gaming machines. A video console itself is a completely non-descript piece of equipment. All of the excitement is in what's on the display and that can change at the whim of the player. If a player gets tired of first person shooters, they can switch to a questing game, or video football, or driving a stock car. By switching games, they don't have to leave the machine.

The likely future for gaming machines is comparable. Individual machines will be even less tied to specific titles. In fact, they may not have any predesignated title or affiliation at all. They will effectively be gaming stations where the customer can sit down, strap in (augmented reality) and switch from one enhanced skill or luck-based game after another. Software will be the golden product for both casino operators and machine (software) vendors. This will have implications for the design of the gaming station. No longer a stool or seat in front of a screen, the stations will need to be more comfortable and more immersive so the customer stays comfortable in the same place for extended periods. One of the answers to speed of play issues with skill-based gaming will be cutting down lost time wandering around the gaming floor looking for another favorite game. Each station can offer every game. With the customer remaining in place even longer than they do now, not just drink service but food service can come directly to them.

This, in turn, is how brick-and-mortar casinos will be able to maintain popularity as Internet gaming increases. The model

most fear is movie theaters versus DVDs and streaming. The better model for the casino industry is the bar/nightclub or restaurant versus the liquor or grocery store. We have been able to eat and drink anything we want in our own homes forever. Why go out to eat or go clubbing? Because the broader experience – socializing, energy and quality level – is better than what we can get at home. No home gaming experience, even with augmented reality, will be able to fully replace the full range of sensory and social input you can get from being in an actual casino, provided of course that casinos emphasize comfort, quality, service and cutting edge technology.

Post No Bills

Remember coin hoppers and stacks of plastic buckets? There was a time when coins and slot machines were inseparable. To this day, machine payouts still make the sound of clanking coins. But the day of coin-operated machines is long gone. The greenback will be the next to fall. Already the process of transferring money between machines has moved to tickets. However, someone still has to put paper currency in to get the game started. But in the broader world, currency and even traditional credit cards are fading. The day is clearly coming when using smart phones will move from just paying at the coffee shop to putting money into and taking money out of gaming machines and even table games. While the transition may not be completed by 2028, it will be in full swing and probably becoming dominant. There may be some vestigial machines that accept paper currency and table games will likely still accept it. However, the demand for using paper currency itself will be declining rapidly.

The fascinating and daunting aspect of a move to all electronic "coin-in" is the ability to tap into the customer smart phones to track and gather ever greater data on preferences and patterns. As paper currency goes, the player's club card will not be far behind. What will streamline the wagering and paying process for the customer will provide a gold mine of increased data and opportunities for tailored contact and offerings to casinos that are prepared.

It will also bring dramatically increased risks to both sides of the transaction for tampering, hacking, cheating and other forms of exploitation. Security for and from the customer and their personal technology and data will be ever more critical and will absorb a larger part of the time and resources of casino security, surveillance and gaming floor management.

Good Sports

Sports betting is by far the most popular form of online wagering. There are remarkable indications that the attitudes toward sports betting in the U.S. are changing, even amongst the major sports leagues. It is certainly possible that by 2028, sports betting in the traditional sense will be legal in the U.S. wherever casino gaming is, perhaps even in places where it is not. It is also still possible for it to continue to be restricted. However, even if it is, we already have an alternative form that is exceptionally popular and is being successfully monetized – fantasy sports. While even for fantasy sports, there are unresolved legal issues, it is very possible that fantasy sports will be the American version of sports betting that can gain widespread and clear legal approval. Either way, for Indian casinos, the key will be a combination of favorable odds and rules, superior service and viewing/participation experiences, and the building and branding of a unique culture for patrons, whether they are present or online. Why does someone in Vegas choose one sportsbook or racebook over another? They like the odds. They like atmosphere. They want to go where everybody knows their name.

Seeing Clearly Now

Indian gaming, with some exceptions, has been aided by its ability to allow smoking indoors where others cannot. They have also been aided by the ability to tax tobacco sales as sovereign governments. However, the days of indoor smoking, even in its last bastion – the casino – are numbered. It is already evident in some parts of the country. There are Indian casinos in places where smoking is more actively frowned upon where the non-smoking gaming floor is as large and more successful than the smoking section. Most likely, not all Indian casinos will be smoke free by 2028, however, there will almost certainly be a shift toward more and more space devoted to non-smoking areas and greater need to segregate and purify the air in and around the smoking sections of the casino.

So What?

What does all of this mean if you own or manage an Indian casino today? For that matter, what does it mean if you are a machine vendor, casino architect or a feasibility consultant? Watching casino and gaming machine design trends is more important than ever. Attending conferences and tradeshows, following articles, blogs and other online industry discussions, networking with fellow tribal leaders and casino managers around the country, visiting other operations to see what works and what doesn't – all of these things are necessary to catch the wave at the right time. The first ones in will not necessarily be the winners. However, the last ones in will definitely be the losers.

It also means that there is great hope for the industry. There may be forces beyond the industry's control that could dramatically change the environment, however, catastrophes are remarkable not just for their tragic consequences, but also because they are rarer than we think. The future of this industry over the next 10 years will depend far more on anticipating, preparing for and exploiting the trends and evolutionary changes we can see, than on the never completely avoidable but extremely rare cataclysms that we can't. ♣

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