

# Gaming & wagering

## Pokie makers working on new machines to target gamer generation



By Nick Toscano

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\$12 billion - The amount Australians lose to pokies each year

\$715 million - The amount Crown Resorts reaped from pokies last year

\$661 million - The Star's pokie income last year

In a basement workshop in San Francisco, sometime in the 1890s, a young mechanic put the final touches on an intriguing new gambling device: coin-operated, lever on the side, three spinning reels. On each reel were symbols of diamonds, spades, hearts, horseshoes and bells. If two or three of the same symbols appeared in a row, the machine ejected coins. The best combination was three bells, paying out 10 nickels — 50 cents.

His creation, similar in size and shape to an old-fashioned cash register, was an instant hit. It was also one of the first recognisable variations of the now-ubiquitous modern slot machine, which spread from San Francisco's saloons to venues everywhere and, today, is the cash cow of the hugely profitable gambling industry in just about every corner of the globe.

### **A key problem for the industry is that pokies players are ageing.**

Few countries took to the slots as aggressively as Australia, where they are known as poker machines and more often just "pokies". Each year, Australians lose \$12 billion on them, roughly \$650 per adult, which goes some way to explaining why certain businesses are feeling increasingly nervous about a fast-approaching problem: pokies players are ageing. And young people have no interest in taking their place.

“The demand for traditional gaming products is waning, and waning relatively quickly,” warns Queensland’s Commissioner for Liquor and Gambling David Ford. “Unless the industry can counteract that, gaming machines may well finish up going the way of Bingo.”

It’s a problem that will draw little sympathy from the many who detest the pokies in Australia, where rising concerns of problem gambling are sharpening a community and political backlash. But with billions of dollars in pokies losses revenue at risk, the nation’s pubs, clubs and casinos are desperately after a solution. And now, the search to find one here has officially begun.

GameCo's new casino game machine, based on the movie Terminator 2, was recently launched at Caesars in Atlantic City.

Photo: Supplied

Fairfax Media has confirmed that the Victorian and NSW gambling regulators have received their first applications seeking to roll out a vastly new breed of poker machine — so-called “skill-based” gaming machines — which look and feel more similar to video games, determine payouts based on player ability as well as chance, and are aimed squarely at drawing in millennials.

The applications have been launched by Melbourne pokies manufacturer Wymac, whose founders are involved in a joint venture with James Packer’s casino giant Crown Resorts for the purposes of developing skill-based games. The move has already drawn problem-gambling concerns about how mixing an element of skill with a game of random chance might exacerbate an “illusion of control” punters feel over the game.

If the applications are approved, it would mark the most radical overhaul of gaming machines since they were legalised in Australia in the ’90s and, arguably, since their inception more than a century ago.

Of course, poker machines have transformed over time. Nowadays they are computerised rather than mechanical, they have buttons instead of levers, they accept bank notes and bigger bets and spin much faster. Unlike their cast-iron predecessors, today’s models come with high-resolution monitors, simulated audio and video effects and pop-culture themes, all intended to make the game as compelling as possible.

“But the proposition is about the same — put your arse on the seat, sit down and play,” says Neil Spencer, a former head of gaming at Crown Resorts and a prominent industry consultant.

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Packer's Crown targeting Millennials with gamer pokies

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“There will need to be an investment in a product that moves away from being a robot bolted to a bench with a chair in front of it.”

The introduction of skill-based or video gaming is considered one possible way to combat the pokies industry's existential threat. Designed to appeal to millennials who have grown up playing games on smartphones and computers, the new wave of products feature interactivity and reward players for skill. Some of the products are ordinary poker machine games mixed in with an element of skill. Others include casino versions of puzzles, similar to the popular mobile game Candy Crush, or the classic Pac Man, or sports games and shooter games. Many of them use joysticks or touchscreens and allow for multiple players at once.

“For casinos, the trend of slots revenue and usage going down while their average customer age is going up has been steady for years,” says Darion Lowenstein, chief marketing officer at Gamblit, a manufacturer of skill-based games in the US. “People under 50 generally grew up with video games and being rewarded for skill and interactivity. These trends will continue until new forms of gaming that target demographic actually enjoys are put onto the floor.”

Jurisdictions in the US states of Nevada, home to Las Vegas, and New Jersey, home to Atlantic City, have recently passed laws permitting the roll-out of the skill-based slot machines, and they now sit beside the rows of ordinary slot machines at the world's biggest and best-known casinos, run by the likes of Caesars Entertainment and MGM Resorts.

Gamblit's Tristation for skill-based gaming machines has been rolled out at several US casinos.

Gamblit says its hardware is now installed at more than 25 locations across the US. One of its popular products is a casino version of the hit mobile game Catapult King, which was developed with Australian developer Wicked Witch Software and has been downloaded 40 million times.

Based on 10,000 exit surveys with players of Gamblit casino games, says Lowenstein, the average age of customers is 36 in Las Vegas, far below the average age of traditional slots players, 58. “Secondly, nearly two-thirds of our player are uncarded — not using a player rewards card — meaning most casinos see us as a new revenue source,” he says.

For the operators of Australian pubs, clubs and casinos, the cost of inaction could be immense. Although just a fraction of Australia's adult population — about 4 per cent — plays pokies more than once a week, the 200,000 machines flashing and singing in venues across the country are major money-makers and, in many ways, the backbone of the entire gambling business.

Even for top-end casinos, revenue from pokies accounts for nearly as much as all the ritzy main-floor table games combined. James Packer's Crown Resorts reaped \$715 million from pokies last year alone. At The Star, it was \$661 million.

“The vast majority of people don’t play pokies in Australia, but people who do gamble on them regularly lose a lot, and the industry relies heavily on them,” says Samantha Thomas, a public health expert at Deakin University.

The pokies industry — having failed to find widespread appeal among younger people, who consider them mindless and boring and are acutely aware of the social harm they can cause — is approaching a “tipping point”, Thomas explains.

“So we really shouldn’t be surprised to see the industry looking at innovations that make gambling seem like it’s fun and have a higher level of skill or challenge but is ultimately designed for the house to win,” she says.

“We’ve seen the same thing with other dangerous industries: when we highlighted the harm associated with cigarettes, the industry brings out new products like e-cigarettes that claim to be safer. Even with soft drinks, there are new products that claim to be healthier.”

For Australian regulators, there are question marks which will need to be closely scrutinised. Some experts, including Thomas, have expressed concerns that skill-based gaming could give players a heightened perception, or illusion, of the control they have over the outcome of a game, a factor that could encourage prolonged gambling and heavier losses.

## **Gambling**

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Officials from Liquor & Gaming NSW, who are considering the issue, caution that there is a “lack of research on the potential risks of skill-based gaming”, and plan to commission studies in the coming months before a decision is reached.

“We need to better understand issues such as risks around illusion of control and game returns for players with varying skills before any decisions are made on skills-based electronic gaming machine applications,” a spokesman for the regulator says.

Treating these concerns seriously, another leading manufacturer of skill-based games, GameCo in New York, is undertaking research of its own, “because no one has any data yet”. In conjunction with a team led by Sally Gainsbury of the University of Sydney Gambling Treatment and Research Clinic, GameCo is running an online survey of 232 gamblers who have played skill-based machines in the jurisdictions where they have been rolled out, including Nevada, New Jersey, Connecticut and California. Gainsbury’s study is seeking to gauge whether players “overestimated” the role of skill.

GameCo chief executive Blaine Graboyes thinks “skill-based” gaming is a less-than-ideal name for the new style of slot products, because it risks misinforming consumers into believing skill-based means skill-only, when the games still have random-number generators in them.

'A little bit of magic': The pokie that took over the world

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"I think it's better to use the term 'video game gambling'," he says, "to better educate players and reduce what we often call a mismatch between the mental model of the player and the maths model of the game." But also, the term "skill-based" gaming is too confusing, Graboyes says. "Video game gambling combines video games that are fun, with gambling that is thrilling ... it actually describes what it is."

Despite take-up in the US casinos, manufacturers like GameCo caution that the new gaming machines are still in the "testing phase". Casinos have previously been disappointed with the "coin-in" rates, says Graboyes, as returns were lower in skill-based gaming due to the longer playing time between bets, compared to ordinary pokies, which spin more quickly and take bets more often.

One of its latest gaming titles, Nothin' But Net 2, a virtual basketball-shooting game, seeks to lift betting speed more closely in line with slot machines - "about 10 times per minute", he says.

Some figures in the Australian gaming business say the problems facing the industry are no different to many other sectors, such as transport and retail, which are up against the threat of digital disruption and pressure to keep pace with the more tech-focused needs of younger customers. "Any industry is in danger of dying if it just sits down and does nothing," one pokies manufacturing insider said. "Ours is no different."

The problem, many in the sector say, is the level of government red tape, putting restrictions on just about every aspect of poker machine design and function. As our economy becomes increasingly cashless, will slots be able to accept electronic payments? "The Reserve Bank of Australia has said that by 2026 no one will be using cash ... well that's eight years away," says international gaming industry consultant Neil Spencer. As well, he says, there is "nothing in any law" that says a gaming machine has to be bolted to the floor. "Why can't a gaming machine transition to a mobile device in a venue?" he asks. "If we don't start addressing the technology, things will dry up."

As Queensland's gambling commissioner, David Ford, candidly puts it, regulators across Australia have something of a dilemma on their hands. They have a duty to exercise caution before approving any new pokies features, and governments would face certain community backlash if they "rush off" and rolled out new technology when problem gambling consequences were unknown.

Yet with an estimated \$5.5 billion in pokies taxes flowing into state coffers every year, and additional funding into sports and community clubs, regulators also had a duty to promote the sustainability of the industry.

"There will always be a challenge between what the industry might want to do because they believe it's going to make the machine more profitable and what governments might have reluctance to do because of their concerns for problem gambling," Ford says. "But every regulator would be willing to have a robust discussion."



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