

The future of the British remote
betting and gaming industry

Adapting to a changing landscape ▶





Foreword

Welcome to this Deloitte report on the changing landscape of the British remote betting and gaming industry.

Adoption of and engagement with digital technology have fundamentally changed the structure of consumer markets over the last ten years. The betting and gaming industry has been transformed, first with online and more recently, mobile driving growth. These changes have challenged national governments in Europe and elsewhere to identify efficient and appropriate ways of regulating and taxing the growing remote betting and gaming industry. The current UK regulatory and taxation framework, which has come under some criticism for failing to adapt to the evolution of the industry, will change significantly in the next year.

We believe that in the medium term, the industry is likely to experience market share consolidation as taxation and the related compliance costs put pressure on operators' margins. As competition intensifies further and the take up of mobile betting and gaming grows exponentially, the ability to provide high quality mobile propositions becomes a key determinant of success.

The Future of the British remote betting and gaming industry identifies issues the industry may face in the next five years and how it might respond to those challenges. It is based on interviews Deloitte LLP carried out with 16 industry leaders and observers from betting and gaming companies, the regulator, a trade association as well as other organisations with specialist knowledge in the industry.

We hope this report gives you the insight you need to enhance your understanding of the changing landscape for the British remote betting and gaming industry, and we welcome your feedback.

Simon Oaten

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Foreword

[Executive summary](#)

Current state of play

The future of the British remote betting and gaming industry

Strategic drivers of success

The Deloitte point of view

Notes

Contacts



Executive summary

The British remote betting and gaming industry is likely to experience substantial change in the next five years, due to growth in mobile betting and gaming, and current Government plans to introduce a new approach to taxation and industry regulation.

Industry leaders and observers agree that the introduction of a 'place of consumption' (POC) tax combined with changes in the regulatory environment will increase the cost of operating in the British market. While larger operators may have the necessary financial flexibility to cope with this, smaller operators with tighter margins and less operational scale could struggle. Consequently, there is likely to be market share consolidation.

Operators are unlikely to pass on the full cost of the tax directly to consumers, if any. Some operators may try to compensate for increasing operational costs by reducing discretionary expenditures such as marketing and player promotions. Others might look for greater synergies between their British and offshore operations.

Industry leaders are still unsure to what extent illegal, unlicensed operators will try to enter the British market. Experience in other markets shows that the emergence of unlicensed competitors is likely to be determined by consumer perceptions of the value they are offered and the extent to which the new regulations are actively enforced.

Mobile betting and gaming will continue to be a significant growth area for the industry, with many seeing the growth to date as just the beginning. Therefore, the quality of mobile propositions for both smartphones and tablets will become a key driver of success in the next five years, if not the main driver.

Operators that continue to invest in product development will be in a better position to compete against possible new entrants that are attracted by the growth potential in the British mobile betting and gaming market. They could be new operators that, either on their own or with partners, develop mobile propositions that are very attractive to consumers and overcome the functionality and customer interface issues that encumber many current products.

The next six to 12 months will see increased levels of marketing spending as operators prepare for the introduction of the POC tax. After that, marketing spending is expected to reduce as smaller operators cannot sustain it and bigger brands benefit from significant critical mass and economies of scale in relation to marketing.

Retail outlets continue to be important in the betting and gaming sector. They increase brand awareness among consumers and play a key role in the development of the multichannel model. With betting in the retail environment unlikely to see much growth in the next five years, mobile betting is expected to be increasingly integrated into the betting shop experience.

The future of the British remote betting and gaming industry

Adapting to a changing landscape

Foreword

[Executive summary](#)

Current state of play

The future of the British remote betting and gaming industry

Strategic drivers of success

The Deloitte point of view

Notes

Contacts

As mobile propositions develop, consumers are likely to start choosing their favourites and gravitate towards fewer operators. In addition to creating attractive and user friendly propositions, operators need to prepare strategies to encourage loyalty. Because of the pressure on reducing discretionary spending, operators have to become more strategic in targeting their player promotions so they not only lead to greater customer retention, but also increase spending per active player.

Many industry leaders believe that in the medium term operators will need to become more strategic about their partnerships. They are also likely to require their suppliers to share the competitive pressures they face, including demanding higher quality, faster development and lower costs.

To prepare for the future, operators should explore how they can get their social media channels to generate continuous revenue. While real money gambling on social media might not take off on a large scale in the next five years, operators should look to develop capability in this area and prepare strategies for the longer term.

The success of operators in the future depends largely on their ability to offer high quality, innovative mobile propositions, which, by driving customer acquisition, retention and loyalty, will help operators cope with increasing pressure on margins.





Current state of play

The British remote betting and gaming industry continues to evolve as it faces regulatory changes, a new approach to taxation and the emergence of the mobile consumer.

Defining the scope of the UK remote betting and gaming industry

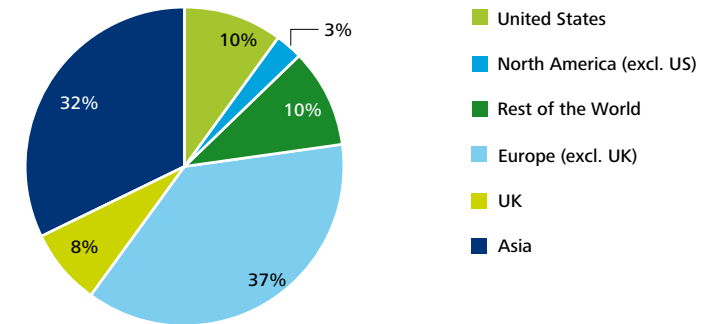
The real money betting and gaming industry globally was estimated to be worth \$417 billion in 2012, with online channels contributing \$33.8 billion, or eight per cent of total net revenue.¹ The UK market is often described as one of the most developed Western markets for remote betting and gaming due to its size and maturity (see Figure 1).^{2,3}

In 2013, total consumer expenditure in the UK market was expected to exceed £2.5 billion.⁴ With an annual growth rate of 12 per cent, the industry could reach nearly £4.4 billion by 2018.⁵

The supply side of the market is intensely competitive, with the five largest operators together covering half of the market.⁶ While the majority of operators are present in other international markets, inside and outside Europe, the UK represents a significant part of their revenues and is, in many cases, their 'anchor' market.

Betting accounts for 45 per cent of the remote betting and gaming gross gambling yields and the market has grown considerably in the past few years.⁷ Similarly, some remote games have nearly doubled in gross gambling yields since 2009 (see Figure 2).

Figure 1. Net revenues for global online betting and gaming, 2012



100% = \$33.8 billion (£21 billion)

Source: H2 Gambling Capital Estimates

Figure 2. UK online segments – gross gambling yields

Segment	2009 (£ million)	2013 (£ million)	% change in market size (2009-2013)
Poker	287	329	14.6%
Bingo	242	380	57.0%
Casino games	347	683	96.8%
Sports betting	634	1,138	79.5%
Total	1,510	2,530	67.5%

Source: Mintel, October 2013

The future of the British remote betting and gaming industry

Adapting to a changing landscape

Foreword

Executive summary

Current state of play

The future of the British remote betting and gaming industry

Strategic drivers of success

The Deloitte point of view

Notes

Contacts



Currently online sports betting makes up a third of UK betting revenues with the majority of betting still taking place in betting shops. However, in the next few years most of the growth is expected to be in betting on mobile devices, such as smartphones and tablets.⁸ Some analysts believe this is because mobile betting has reached a tipping point where it begins to cannibalise retail betting (see Figure 3).⁹

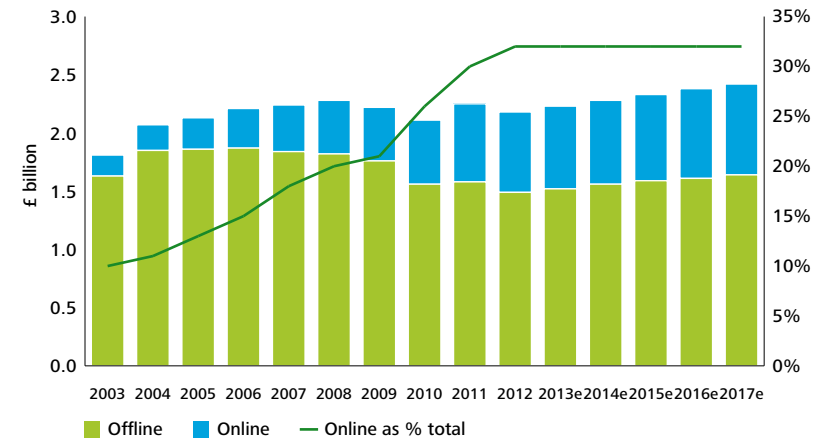
With smartphone penetration growing fastest among the C2DE socio-economic groups who make up the largest proportion of betting shop visitors, it is possible that in the next five years retail betting operators see more customers take up mobile betting (see Figure 4).¹⁰

Current regulatory landscape

Between the 1960s and the new millennium the industry experienced policy changes that, taken together, have gradually relaxed the regulation on betting and gaming in Britain. The most notable change came with the introduction of the Gambling Act 2005, which harmonised existing gambling regulations and for the first time regulated the growing online gaming sector.¹¹

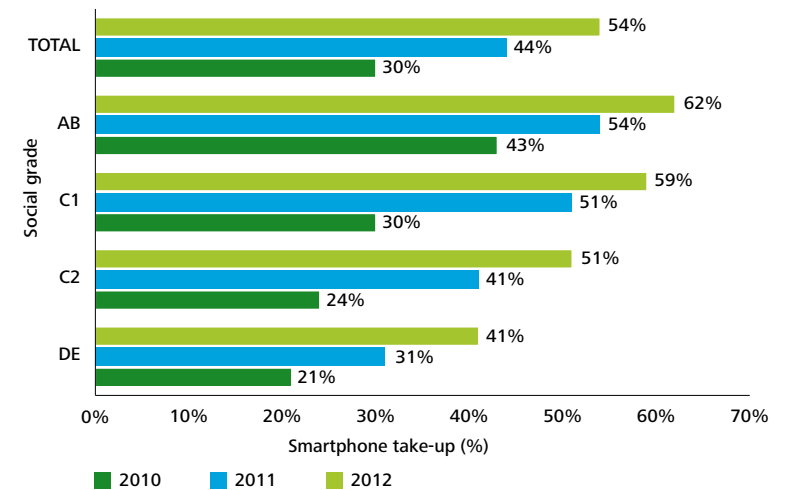
By defining remote gaming on a 'place-of-supply' basis, the Act obliged operators with a physical presence in Britain to be licenced by the Gambling Commission.¹² Offshore operators, however, are not governed by the same requirements but are still able to serve British consumers remotely.

Figure 3. UK sports betting industry revenues



Source: H2 Gambling Capital Estimates

Figure 4. Take-up of smartphones by socio-economic group, 2010-2012



Source: Ofcom, April 2013

Base: n = ca. 2,000 adults aged 16+

The future of the British remote betting and gaming industry

Adapting to a changing landscape

Foreword

Executive summary

Current state of play

The future of the British remote betting and gaming industry

Strategic drivers of success

The Deloitte point of view

Notes

Contacts

The Gambling Act 2005 has been criticised by some in the industry for failing “to create a fair system of regulation and a level playing field for the UK gambling industry either nationally or internationally”.¹³

The most recent policy developments are intended to address these concerns by introducing licensing arrangements that capture all operators whose remote gambling facilities are accessible by British residents.

Remote betting and gaming taxation in the UK

UK tax policy relating to the industry is complex.

Currently only operators supplying services from the UK are required to pay tax on their UK operations.¹⁴

Most mobile betting and substantially all mobile gaming operators are based outside the UK in jurisdictions with very low gambling taxes.

Tax rates in the UK vary depending on different betting and gaming activities, creating a multi-layered taxation environment for businesses that operate in both the land based and mobile environment. For example, roulette is taxed at 15 per cent of the operator’s roulette profit if provided online by a UK based business, at 20 per cent if played on a gaming machine in the UK and between 15 and 50 per cent if played in a UK Casino.

VAT adds another layer of complexity and cost.

UK based betting and gaming companies pay VAT on many of their costs such as advertising but, unlike most other businesses, cannot recover this VAT. Operators that are based outside the European Union do not incur this VAT cost and this additional competitive advantage for non-EU operators will remain.

The UK Government has announced plans to reform remote gambling taxation to be on a ‘place of consumption’ (POC) basis, i.e. based on where the consumer is. The draft Finance Bill 2014, published in December 2013, confirms that from December 2014, all remote operators serving UK consumers will have to pay either remote gaming duty, general betting duty or pool betting duty, at the proposed rate of 15 per cent regardless of where the operator is located.¹⁵

The current proposals simplify the taxation system by ensuring that all gambling by UK consumers is taxed. The Finance Bill 2014 has focused on minimising changes in tax regulation to this main point with a few other minor changes. Other potential changes, such as harmonising rates and tax bases across all gambling activities have either not been considered or have been ruled out at this stage despite their possible merits.



The future of the British remote betting and gaming industry

Adapting to a changing landscape

Foreword

Executive summary

Current state of play

The future of the British remote betting and gaming industry

Strategic drivers of success

The Deloitte point of view

Notes

Contacts



International operators continue to be concerned about the divergence in tax policy across Europe for two reasons. First, complying with very diverse requirements adds to the operational complexities and costs they have to manage. Second, in the absence of clearly defined boundaries, certain countries have introduced punitive tax regimes that mean it is difficult for operators to provide services across all products in a profitable manner. However, as there are no imminent plans to harmonise either regulation or taxation of remote gambling on a pan-European basis, these concerns are likely to remain unaddressed in the short to medium term.

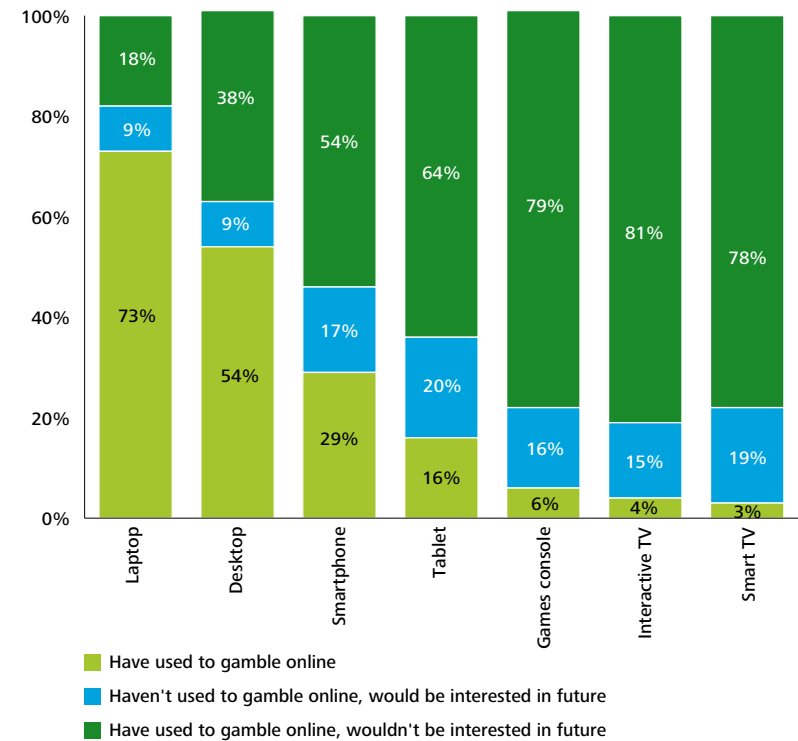
The mobile consumer

The increasing take up and use of mobile devices are transforming most industries. Smartphone penetration has now surpassed 60 per cent and tablet ownership more than doubled in 2013 to 36 per cent in the UK adult population. More than eight in ten 25 to 34 year olds have a smartphone and nearly half have a tablet.¹⁶

Currently almost a third of betting and gaming consumers have used their smartphone and 16 per cent have used a tablet to gamble online (see Figure 5).

Some of the industry leaders Deloitte interviewed believe that mobile not only provides a new opportunity to engage with existing players, but also to reach new customers. Existing players have embraced opportunities for more spontaneous gambling, especially in the evenings. They also value the use of such devices as second screens, particularly for in-play betting.

Figure 5. Devices used to gamble online (% of total population)



Source: Mintel, October 2013

Base: Internet users aged 18+ who have gambled online in the past 12 months

The future of the British remote betting and gaming industry

Adapting to a changing landscape

Foreword

Executive summary

Current state of play

The future of the British remote betting and gaming industry

Strategic drivers of success

The Deloitte point of view

Notes

Contacts

As betting and gaming has become a culturally more accepted leisure activity, the mobile channel has provided the industry with opportunities to widen their customer base. Consumers who traditionally might not have gone to a betting shop or bingo hall can now bet and play in a way that fits their lifestyle and preferences.

This change in attitudes has been highlighted in the increased revenues from mobile betting and gaming. William Hill reported in October 2013 that mobile wagering on Sportsbook was up 115 per cent and mobile gaming net revenue by 126 per cent.¹⁷ Similarly, Paddy Power announced in its 2013 interim results that 47 per cent of total online revenue came from mobile channels and nearly two-thirds of active customers transacted with it via mobile.¹⁸

However, some industry observers believe that compared to other sectors, the move to mobile in this industry has been slow.

“Betting and gaming companies have gone digital in a small way. Their investment in this area has been gradual and proportionally smaller than in other sectors, like retail.”

Head of Digital Strategy, Deloitte MCS

Many operators have so far focused on adapting existing propositions to the mobile environment, rather than designing products specifically for this channel. Some of the industry leaders and observers interviewed felt that consumers still find many of the apps and mobile interfaces clunky and difficult to use, because their developers have not considered sufficiently the technical constraints mobile devices have compared to desktop and laptop computers. Therefore, there are still plenty of opportunities for operators to disrupt the market by developing more innovative approaches.

“There is a tendency to look at mobile in isolation... One challenge for the [remote betting and gaming] industry is to change its thinking and not expect products for laptops or PCs to work the same way on smartphones and tablets.”

Industry observer



Foreword

Executive summary

Current state of play

[The future of the British remote betting and gaming industry](#)

Strategic drivers of success

The Deloitte point of view

Notes

Contacts



The future of the British remote betting and gaming industry

In the next five years market share consolidation is likely to change the shape of the industry. Larger operators that have the financial flexibility to cope with increased operational costs are likely to emerge as winners.

Market share consolidation

The planned changes in the regulatory environment will have a significant impact on the cost of operations in the British remote betting and gaming market.

While the POC tax will become a direct, additional, cost for most operators, regulatory changes will also impact them indirectly through higher compliance and monitoring costs. Although the regulator has been praised for communicating the future changes and preparing the sector for what lies ahead, the industry expects these changes to have a significant impact on profitability, and viability of some businesses.

The increase in costs will put immediate pressure on margins and highlight the importance of operational scale. Smaller operators will struggle due to a reduction in already tight margins. Those with larger operating scale are likely to emerge as winners due to their ability to absorb, at least temporarily, the increased cost while continuing to invest in product development.

However, achieving scale by operating internationally will not be a natural advantage. The increasing divergence in regulatory approaches across different countries means that back-office compliance and other systems have to be increasingly tailored to each market. This makes operating in multiple markets more complex and increases costs.

According to Deloitte research, as cost pressures increase, larger operators could grab market share from smaller, more cost-constrained companies. This could happen both through market exits as well as opportunistic and strategic acquisitions.

Pricing and promotions

Looking ahead, one key question is whether the POC tax will affect the prices of betting and gaming products for consumers. Will operators pass on the additional cost directly to consumers or will they try to compensate for it in other ways? The industry believes operators are unlikely to pass on the full cost of the tax directly to the consumer. They acknowledge that consumers would react negatively to such pricing changes and that some operators would be unlikely to pass on the costs, thus inhibiting others from doing so.

Most industry leaders believe that operators will be defensive and maintain current prices as much as possible to avoid losing market share but others do not think the smaller operators could afford this. Instead of passing on the full cost of the tax to their customers, some smaller operators might initially try to test consumer price sensitivity by experimenting with prices or odds they offer to recover even a proportion of the higher costs.

The future of the British remote betting and gaming industry

Adapting to a changing landscape

Foreword

Executive summary

Current state of play

[The future of the British remote betting and gaming industry](#)

Strategic drivers of success

The Deloitte point of view

Notes

Contacts

While many operators think it would be risky to change the betting odds offered, especially as betting on major events is very competitive, a few operators have identified in-play odds as an area where some of the cost might be passed on to the consumer, as these are priced dynamically and are hence less transparent. For some games, like poker, the overall cost structure might offer some opportunities to increase consumer prices. Nonetheless, with casino games the direct manipulation of prices is considered difficult as the nature of the game determines much of the pricing.

However, any adjustment in prices is expected to be marginal and short term because of the competitive pressure from operators that have the necessary financial flexibility to keep their prices constant.

Most industry leaders believe that to offset the impact of the tax in the longer term most operators will look to reduce their discretionary expenditures, such as marketing and player promotions. Operators have ramped up marketing expenditure in advance of the introduction of the POC tax in an attempt to gain market share. This spending is expected to reduce over the next five years as smaller operators cannot sustain it and those with stronger brands will benefit from significant critical mass and economies of scale in relation to marketing.

Player promotions, including free bets and games, are an opportune area to cut costs as the pressure on margins grows. However, it is possible that some operators will seek to differentiate themselves by continuing to award free bets and games to both new and existing customers at current levels, hence undermining the competitiveness of those who decide to cut back.

Betting and gaming companies with operations in both Britain and offshore might also try to reduce costs by increasing efficiency across the two businesses. This could be done by sharing more internal functions such as IT or human resources, but could ultimately result in some offshore operations being consolidated with the British business. This could achieve some cost savings as certain activities, such as hiring quality graduates and retaining them, are comparatively expensive offshore. However, any savings would have to be weighed up against any potential increases in tax costs, particularly VAT.



The future of the British remote betting and gaming industry

Adapting to a changing landscape

Foreword

Executive summary

Current state of play

[The future of the British remote betting and gaming industry](#)

Strategic drivers of success

The Deloitte point of view

Notes

Contacts



Emergence of illegal operators

Much of the debate concerning the introduction of the POC tax has focused on the risk of illegal operators entering the market or increasing their current market share, and distorting competition by offering lower prices than licenced operators. Deloitte research suggests that industry leaders are still split on how material this threat is. Many are unsure whether unlicensed operators will try to enter the market and the extent to which they will succeed in capturing consumers. The industry acknowledges that a proportion of consumers, potentially at the high spend-end, might find their way to the illegal sites. However, most believe that if there is effective enforcement this proportion should remain fairly small as such operators would have limited visibility to consumers.

“If they get no airtime on the Internet, no airtime on Google and no airtime on Facebook, how are consumers supposed to find them?”

Betting and gaming operator

Many also argue that consumers will be concerned about playing with unknown companies and would avoid taking risks with their credit card details and possible winnings. To protect their market share from illegal companies, most operators intend to highlight their licenced status in their wider brand and marketing activities.

Nonetheless, experience in other regulated markets, such as Spain, has shown that when consumers do not get the value they expect they seek out alternative operators. Therefore, the emergence of unlicensed competitors may be determined by both consumer perceptions of the value they offer and the extent to which new regulations are actively enforced.

Foreword

Executive summary

Current state of play

The future of the British remote betting and gaming industry

Strategic drivers of success

The Deloitte point of view

Notes

Contacts



Strategic drivers of success

To succeed in the medium term operators will continue to improve the quality of their mobile propositions, strengthen their brands and be more strategic in developing relationships with partners and gatekeepers.

Quality of mobile propositions

The consensus view is that mobile will continue to be the biggest growth area in remote betting and gaming. However, while some operators think mobile is just one of many channels, others predict it will be the single most important one.

“The future is entirely mobile, with the desktop being dead in five years.”

Betting and gaming operator

The new generation of betting and gaming consumers might skip the traditional desktop or laptop channels completely, and begin directly on mobile. These mobile savvy consumers expect a seamless, satisfying experience and this can present a challenge for many established operators as their mobile propositions are still not as user friendly as they could be.

This offers opportunities for a few new, innovative market entrants, particularly in the gaming sector where barriers to entry are lower. Big media brands that understand mobile consumers well and have developed effective propositions in other areas are well placed to capture consumers.

By partnering with a leading product provider such brands have the opportunity to enter the industry solely through the mobile channel and disrupt the market with innovative approaches.

The most important driver of success in the medium term will be the mobile proposition and, specifically, the consumer interface. Consumers will also expect operators to offer them new and exciting products to keep them engaged, so offering the same as everybody else is not going to win market share. True product differentiation can be achieved by identifying new game formats or features that are specifically developed for mobile and that take into account the way in which consumers use and interact with their mobile devices. For instance, this could include developing apps that use location specific data in tailoring content to players, or new games that are based on using the swiping motion instead of traditional cursor clicking.

It will be challenging for operators to continue to invest in new product development while absorbing additional tax and compliance costs. However, those who do so will stand a better chance of success.

The future of the British remote betting and gaming industry

Adapting to a changing landscape

Foreword

Executive summary

Current state of play

The future of the British remote betting and gaming industry

Strategic drivers of success

The Deloitte point of view

Notes

Contacts

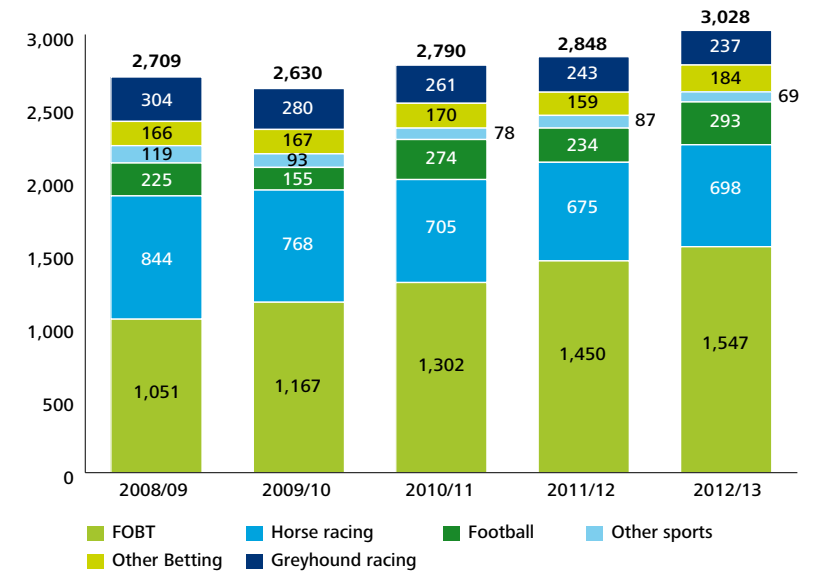


Convergence between retail and remote betting and gaming

The emergence of mobile betting has already had an impact on operators with a retail presence. Horse race betting has decreased and moved increasingly online due to operators offering promotions and attractive mobile propositions, such as functionality to stream races on mobile devices. Betting shops have seen an increase in sports betting, boosted by biennial football tournaments and other recent major sporting events. B2 machines are increasingly popular among regular betting shop visitors, and in 2012 they became the best performing offering for the betting shops (see Figure 6).¹⁹

There is consensus in the industry that betting shops will continue to play a key role for two key reasons. First, most of the operators with a retail presence in Britain have a strong brand name, which they will continue to benefit from both online and offline. Second, so far there has not been any significant evidence of mobile gambling cannibalising betting in the retail environment. Previous research shows that over a quarter of betting shop visitors also gamble online, thus suggesting that there is potential for some 'cross-fertilisation' (see Figure 7).²⁰

Figure 6. Retail Gross Win by product, 2008/9-2012/13 (£m)



Source: Gambling Commission, company accounts, Deloitte estimates

Note: Year shown represents March of the latest year e.g. 2008/09 refers to the year ended March 2009.

Figure 7. Online gambling habits of betting shop visitors



Source: Mintel, February 2013

Base: n = 219, adults aged 18+ who are betting shop visitors

The future of the British remote betting and gaming industry

Adapting to a changing landscape

Foreword

Executive summary

Current state of play

The future of the British remote betting and gaming industry

Strategic drivers of success

The Deloitte point of view

Notes

Contacts



The popularity of B2 machine games, most of which are available online, also suggests that many consumers still enjoy the in-shop betting experience and feel it offers something that cannot completely be replicated online.

While the majority of industry leaders believe that although retail betting and gaming plays an important role in brand development and to some extent in 'cross-pollinating' remote gambling, it will not see substantial growth in the next five years. The future of B2 machines remains uncertain due to potential regulatory changes in response to concerns over problem gambling. Given the current profitability of these machines, regulatory changes could have a significant impact on operators with a retail presence.

Brand strength

Unsurprisingly, another key determinant of success will be the brand. Advertising and recommendations are among the most important influencers on online betting and gaming brand preferences (see Figure 8).²¹

Since the Gambling Act 2005 relaxed regulation on betting and gaming advertising in the UK the industry has seen large increases in marketing and advertising expenditure. The next five years will show who has succeeded in spending their money well. In a crowded market where various companies are promoting their apps and mobile sites, consumers are likely to choose operators they recognise. However, new operators with strong brands in other sectors, such as media, might be tempted to enter the remote betting and gaming market using their well-known brands. Some industry leaders believe that as long as their propositions meet consumer expectations, they can succeed.

Figure 8. Influences on online betting and gaming preferences



Source: Mintel, October 2013

Base: n = 485, internet users aged 18+

Encouraging loyalty

Although minimising player promotions would be an effective way of reducing costs and coping with pressure on margins, the major operators cannot drastically change their promotion strategies or significantly reduce free bets or games as they play a key role in customer retention and brand awareness.

Consumers enjoy having product choice and mobile devices offer them the ability to have an overview of the market. They provide on-the-go access to odds comparison sites and consumers can easily download numerous betting and gaming apps. Customer loyalty is currently perceived to be low, and if the app does not offer the quality or price consumers want, they have little reason to continue using it.

The future of the British remote betting and gaming industry

Adapting to a changing landscape

Foreword

Executive summary

Current state of play

The future of the British remote betting and gaming industry

Strategic drivers of success

The Deloitte point of view

Notes

Contacts

However, over time as consumers identify those apps and operators that cater for their preferences they feel less need to shop around and will start to stick with their favourites. As mobile betting and gaming propositions develop, consumers are likely to become more selective and gravitate towards fewer operators.

Over the next five years, as consumers choose their favourites, it will be vital for operators to put in place strategies that encourage greater consumer loyalty. Because of the pressure to reduce discretionary spending, many operators will need to target their marketing and player promotions so that they not only lead to greater customer retention but also increase spending per active player.

“Operators will have to be more original and cleverer with their marketing spending as there is more pressure on the discretionary side.”

Industry observer

While operators with a retail presence continue to converge their online and offline channels, they should also focus on building capability that allows them to improve customer retention through an integrated consumer offering. The next five years is likely to see further development of targeted loyalty rewards, more use of shared wallets, player accounts and profiles, as well as other loyalty tools that link customer profiles across different player platforms.

The benefits of having a more holistic view of players and their playing habits across different platforms go beyond increasing loyalty. Such information could also be used to tackle problem gambling. Developing systems that help operators to understand the betting and gaming habits of individual players will allow them to fulfil their duties to ensure socially responsible gambling.

Partnerships and relationships with gatekeepers

The increase in mobile betting and gaming also creates challenges in terms of partnerships and ‘middle men’ that are part of this channel. The role of software providers is already changing, and in the future even greater emphasis will be placed on them sharing the competitive pressures operators face in developing their mobile presence. Operators are likely to demand more from their partners in terms of quality and pace of development.

“The role of the software supplier is going to become a bit trickier...Operators are going to demand from their suppliers real speed to market and real quality all the time. People historically would update their propositions biannually, maybe annually. Now in the mobile world it will be done on a bimonthly or monthly basis. Staying ahead of the curve will be critical.”

Betting and gaming operator



The future of the British remote betting and gaming industry

Adapting to a changing landscape

Foreword

Executive summary

Current state of play

The future of the British remote betting and gaming industry

Strategic drivers of success

The Deloitte point of view

Notes

Contacts



Operators will also expect their partners to share the increased costs. With scale, some betting and gaming companies might move software development in-house to protect their margins and reduce the cost of using third party suppliers. In addition, in-house technology development offers better opportunities for product differentiation.

Some operators see the changing role of other gatekeepers such as app store providers as an increasing risk over the next five years. App store providers do not have to be transparent about the criteria they use in deciding which betting and gaming apps are made available to consumers in their stores. One industry leader said that these decisions sometimes seem arbitrary but as operators do not always have strong relationships with the gatekeepers, they cannot influence them. With mobile betting and gaming becoming more widespread, these gatekeepers could gain power. Unless operators become more strategic about building effective relationships, their routes to market could be threatened.

Influencing betting and gaming behaviour through social media

The increase in mobile devices has driven the use of social media and it is now seen to be an important influencer in consumer decision-making. Betting and gaming companies have gradually increased their presence on social media sites because the industry believes that over time social media will play a greater role in consumer decisions to bet and play.

Although the first real money betting and gaming apps were launched on Facebook in July 2013, most industry leaders do not think that such apps will take off on a large scale in the next five years.²² However, if social media becomes increasingly influential in shaping consumers' betting and gaming habits, operators are likely to focus more on creating a bigger social media presence to engage a wider group of consumers. Many industry leaders acknowledge that to be competitive and take advantage of opportunities in the long term, operators should explore different models to monetise their presence on social media in the next five years.

Foreword

Executive summary

Current state of play

The future of the British remote betting and gaming industry

Strategic drivers of success

The Deloitte point of view

Notes

Contacts



The Deloitte point of view

We believe that in the next five years the British remote betting and gaming industry should continue to focus on creating high quality, innovative mobile products while also developing models for monetising their social media presence.

In the next five years the British remote betting and gaming industry will experience substantial changes. Based on Deloitte research, we believe that the British industry is likely to be dominated by fewer and larger players. Operators will have to revise their strategies to manage rising operational costs. While profitability, customer acquisition and retention will remain as the main strategic priorities, operators are likely to face new challenges in deciding their approach to proposition development, the optimum marketing mix and the emphasis they place on relationships with other partners.

Figure 9 outlines our view on the business issues facing the industry in the medium term, how operators are likely to respond and the implications for the market as well as consumers.

We believe the following six challenges will be particularly important for betting and gaming companies to monitor in the medium term:

- **market consolidation** – Today’s major operators are likely to exist in five years’ time, but some smaller operators with tighter margins may have faltered or refocused on other markets. A few new entrants with existing strong brands could pose a challenge to incumbent operators by entering the market and appealing to consumers with their well-known name.
- **marketing spending** – The next six to 12 months will see increased levels of marketing spend as operators prepare for the introduction of the POC tax. However, the level of marketing and other discretionary spending will be reduced gradually due to overall cost pressures and an increasing focus on using free bets and games as a more targeted tool for increasing loyalty.
- **proposition quality** – As competition intensifies, the quality of consumer offerings and particularly the mobile propositions become key drivers of success. Mobile products have not reached their full potential yet and the industry tends to be over-confident about the quality of propositions they currently offer, especially when comparing them to those available in other sectors.

The future of the British remote betting and gaming industry

Adapting to a changing landscape

Foreword

Executive summary

Current state of play

The future of the British remote betting and gaming industry

Strategic drivers of success

The Deloitte point of view

Notes

Contacts

It is likely that the next five years will witness product innovations that help some operators leapfrog the industry. These operators could be new market entrants that, either on their own or with partners, develop mobile propositions that are very attractive to consumers and overcome current functionality and customer interface issues. Existing operators should continue to invest in product development and use the knowledge gained from successful mobile innovations and propositions in other sectors such as retail, media or travel.

- **convergence of retail and mobile offerings** – Retail betting and gaming will continue to be important, with some consumers favouring this channel. However, as mobile device penetration among the retail betting customers increases, there is scope to integrate mobile betting fully into the retail experience. The multichannel approach can help to increase loyalty and engagement with both online and offline customers.

- **influencing betting and gaming behaviour through social media** – Social media has had an impact on consumer behaviour, especially among younger age groups. In our view, social media presence and marketing will become a crucial part of the marketing mix for remote betting and gaming operators, not just in Britain but globally. However, opportunities to make social media a major revenue generating channel are still largely unexplored. Operators who manage to exploit these opportunities early will be able to strengthen their competitive position.
- **merging social gaming and real money gaming** – While gaming on social media sites will continue to gradually mix with real money gaming, there will be much more interest and scrutiny on how these two converge in the longer term. Thus, established operators should look at options to develop capability in this area and prepare strategies for the longer term.



The future of the British remote betting and gaming industry

Adapting to a changing landscape

Foreword

Executive summary

Current state of play

The future of the British remote betting and gaming industry

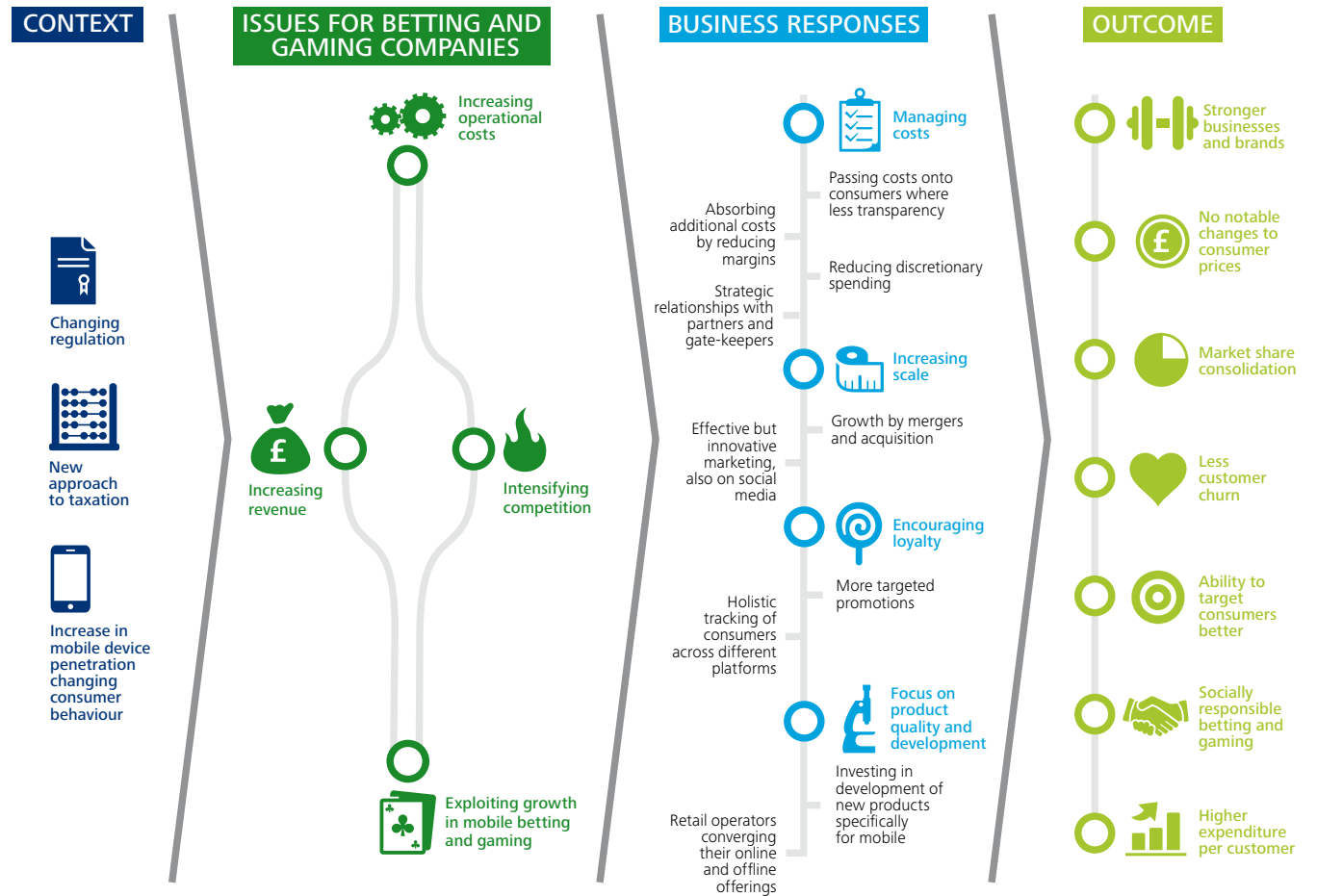
Strategic drivers of success

The Deloitte point of view

Notes

Contacts

Figure 9. Strategic issues facing betting and gaming companies and likely business responses in the next five years



Notes

Foreword

Executive summary

Current state of play

The future of the British remote betting and gaming industry

Strategic drivers of success

The Deloitte point of view

Notes

Contacts

1. H2 Gambling Capital estimates, as cited in Leisure and Hotels – UK Bookies: All About Online, Morgan Stanley, July 2013.
2. The remote betting and gaming industry can be defined in many ways. The definition outlined in the Gambling Act 2005 describes it as “gambling in which persons participate by the use of remote communication including: the internet, telephone, television, radio or any other kind of electronic or other technology for facilitating communication”. While this report adopts the definition of ‘remote’ in line with the above definition, we distinguish between remote betting and gaming. Remote betting is considered to be real money, odds-based gambling on sports, horses and other outcomes while remote gaming is playing real money games such as bingo, casino games and poker remotely.
3. This report focuses on the future of the British betting and gaming industry as the rules and regulations enforced in Northern Ireland differ to those in England, Scotland and Wales. Some of the market data presented in this report refers to the UK and thus includes Northern Ireland.
4. Online Gaming and Betting – UK, Mintel, October 2013.
5. Ibid.
6. Ibid.
7. HM Revenue and Customs defines Gross Gambling Yield (GGY) to consist of the “total value of the stakes, minus players winnings, on games in which the house is the banker and participation charges, or ‘table money’, on games in which the bank is shared by players”. Thus the GGY is money gambled minus any winnings paid.
8. Leisure and Hotels - UK Bookies: All About Online, Morgan Stanley, July 2013.
9. Ibid.
10. Adults’ media use and attitudes report, Ofcom, April 2013. See also: http://stakeholders.ofcom.org.uk/binaries/research/media-literacy/adult-media-lit-13/2013_Adult_ML_Tracker.pdf
11. The Gambling Act 2005: A bet worth taking?, First Report of Session 2012–13, House of Commons, Culture, Media and Sport Committee, 2012. See also: <http://www.publications.parliament.uk/pa/cm201213/cmselect/cmcomeds/421/421.pdf>
12. The Gambling Act 2005 made operators with at least one piece of equipment located in the UK used to provide gambling services liable to hold licences granted by the Gambling Commission. This is in contrast with offshore operators, which by virtue of their location are not governed by the same requirements as their UK-based counterparts but can still serve UK consumers remotely. The Act also relaxed the UK advertising regime by allowing TV advertising by operators licensed by the Gambling Commission and operators from the European Economic Area, and other whitelisted jurisdictions. According to the Gambling Commission the whitelisted jurisdictions include Alderney, Antigua and Barbuda, Isle of Man and Tasmania.
13. The Gambling Act 2005: A bet worth taking?, First Report of Session 2012–13, House of Commons, Culture, Media and Sport Committee, 2012. See also: <http://www.publications.parliament.uk/pa/cm201213/cmselect/cmcomeds/421/421.pdf>
14. The Gambling Act 2005 specifies that operators with at least one piece of equipment in the UK used to provide gambling services must comply with the regulator’s licensing arrangements and pay UK tax on their operations. Remote betting is taxed under General Betting Duty or Pool Betting Duty while gaming activities are all taxed individually depending on the type of game.
15. Finance Bill 2014: indirect tax, HM Treasury and HM Revenue & Customs, December 2013. See also: <https://www.gov.uk/government/publications/finance-bill-2014-indirect-tax>
16. The Deloitte Global Mobile Consumer Survey 2013, The UK cut, Deloitte LLP, June 2013. See also: <http://www.deloitte.co.uk/mobileuk/>
17. Q3 Interim Management Statement, Good growth in key areas but sporting results less favourable, William Hill, October 2013. See also: <http://www.williamhillplc.com/~media/Files/W/William-Hill/media/releases/2013pr/q3-ims-03-10-13.pdf>



The future of the British remote betting and gaming industry

Adapting to a changing landscape

Foreword

Executive summary

Current state of play

The future of the British remote betting and gaming industry

Strategic drivers of success

The Deloitte point of view

Notes

Contacts



18. Interim Management Statement, Good underlying performance; unfavourable sports results, Paddy Power plc, November 2013. See also: <http://www.paddypowerplc.com/uploads/documents/2013-h2-ims-final.pdf>
19. Category B2 machines include gaming machines known as fixed odds betting terminals (FOBT) where the stake and prizes from an individual game can be rolled over into the next game up to a maximum stake of £100 for each game (or £15.00 for each chip) and a maximum prize of £500. These machines will only be available in casinos and licensed betting offices. The licensed betting offices are restricted to making four machines available for use.
20. Betting Shops – UK, Mintel, February 2013
21. Online Gaming and Betting – UK, Mintel, October 2013.
22. Gambling comes to Facebook with Paddy Power real money sport app, The Telegraph, 11 July, 2013. See also: <http://www.telegraph.co.uk/technology/10173072/Gambling-comes-to-Facebook-with-Paddy-Power-real-money-sport-app.html>

Foreword

Executive summary

Current state of play

The future of the British remote betting and gaming industry

Strategic drivers of success

The Deloitte point of view

Notes

Contacts



Contacts

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About this research

The research featured in this report is based on 16 qualitative, semi-structured industry interviews with senior leaders and industry observers in the betting and gaming industry, carried out by the Deloitte Consumer Business Insight team. The interviews were conducted by telephone and face-to-face between 7th November, 2013 and 6th January, 2014. The participating organisations include 8 betting and gaming operators, the regulator, a trade association as well as other organisations with specialist knowledge in particular areas of the industry, including finance, law, tax, and corporate and digital strategy.

A note on data

This report considers the potential impact of the future changes on the British remote betting and gaming industry. However, the market data included in the report covers the whole of the UK, thus presenting it in its wider context.

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Consumer Business Insight

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