Business Models of Gaming and Gambling and how they Converge

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Funding information

- Funding provided for this study by Hamburg's Ministry of Health

- No funding ever received from the industry

Gaming and gambling in the past

1979:

Atari 2600

1987/1994

Zelda

1996/1998

Pokémon

# Different regulation is key to understand gaming and gambling

- Gambling highly regulated in nearly all jurisdictions, gaming not
    - Gambling usually limited to a few, often state-owned, operators; gaming is a free market
    - Offering gambling without a license is liable to legal prosecution
    - Gambling is highly taxed, gaming is taxed like any other product.
- Reason for different regulation: gambling leads to social costs, gaming does not
- Is this still true?
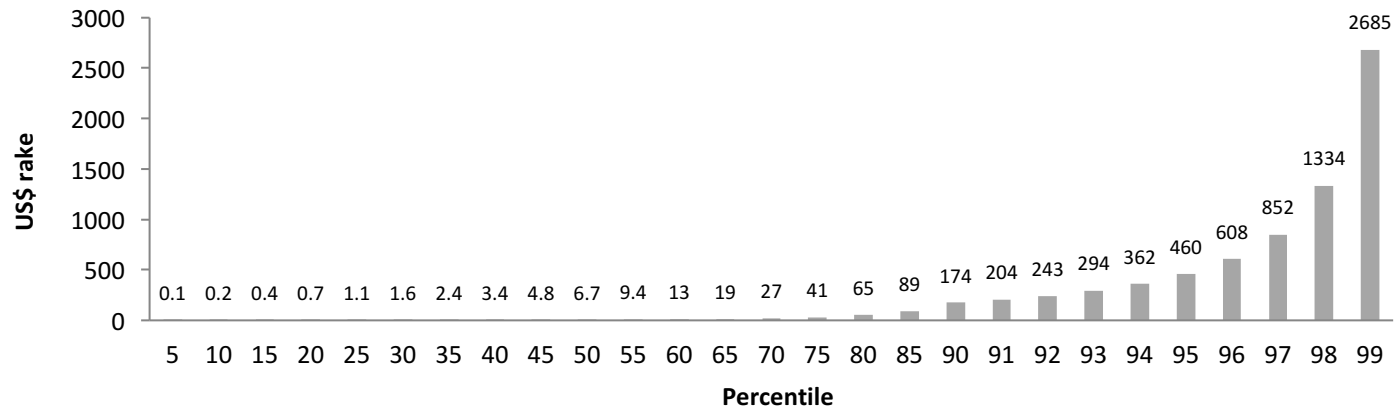
Revenue mechanics of gambling
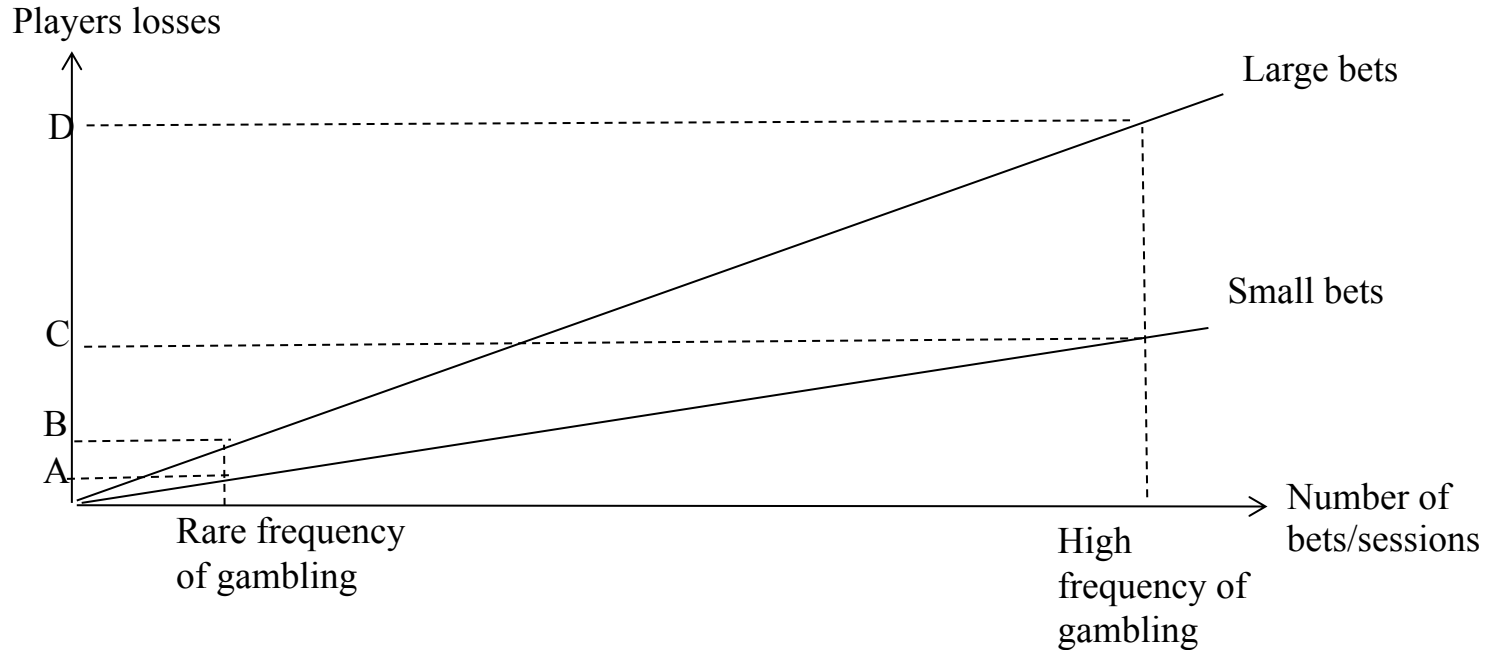
A: Infrequent gambler with small average bets
B: Infrequent gambler with large average bets
C: Frequent gambler with small average bets
D: Frequent gambler with large average bets

Demand for Gambling in general is highly concentrated
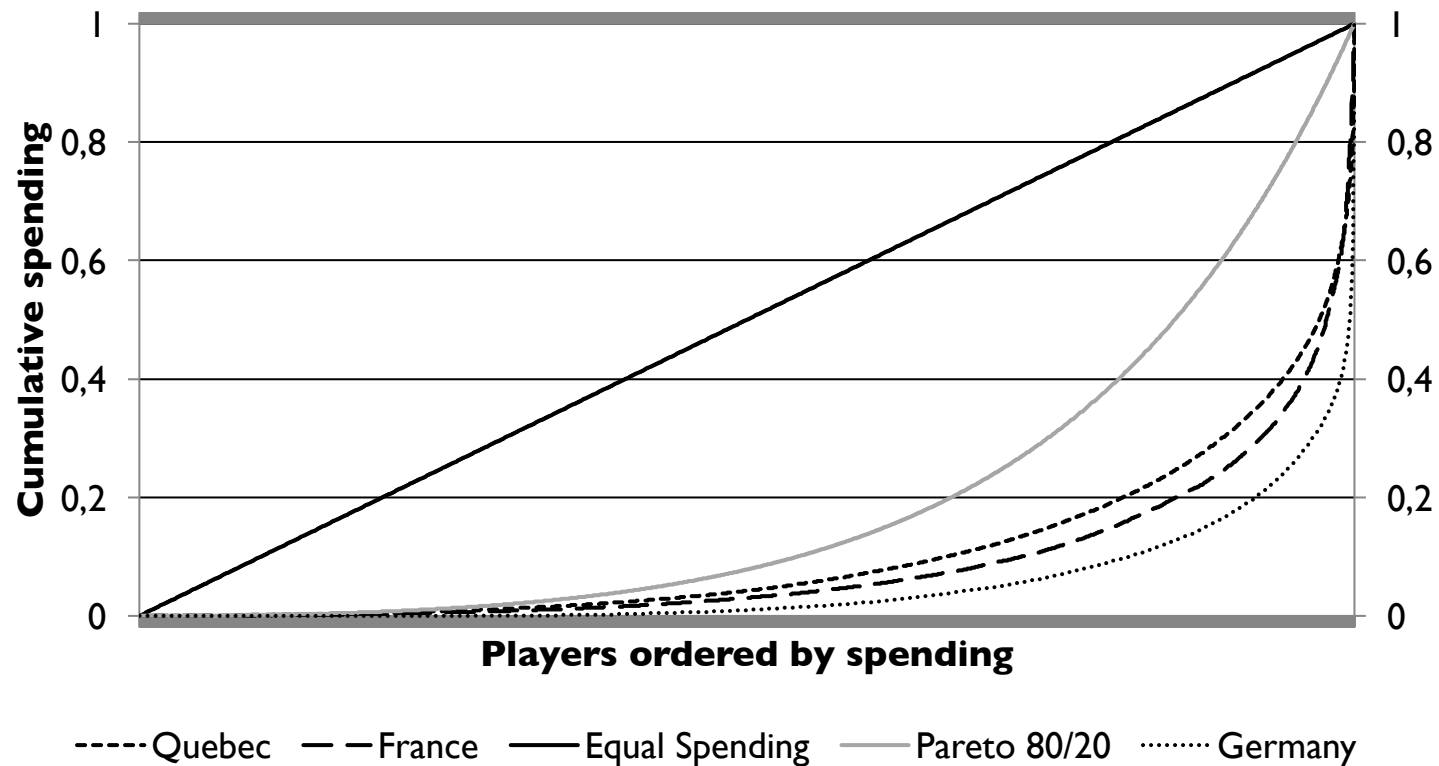
Demand for specific gambling is even more concentrated
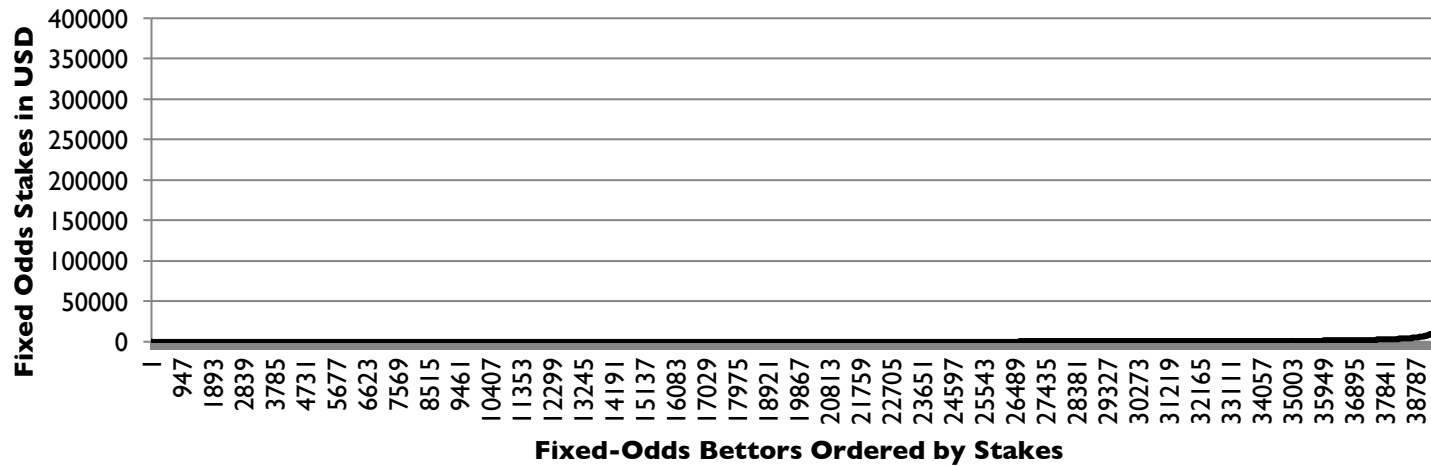## Online poker (OPD-UHH dataset, n=2,127,887)

Player group	Share of rake	Hypothetical Pareto 80/20
Top 1%	59.59%	6.55%
Top 5%	83.10%	24.87%
Top 10%	91.06%	42.63%
GINI-Coefficient	**91.67%**	**60%**

Demand for specific gambling is even more concentrated

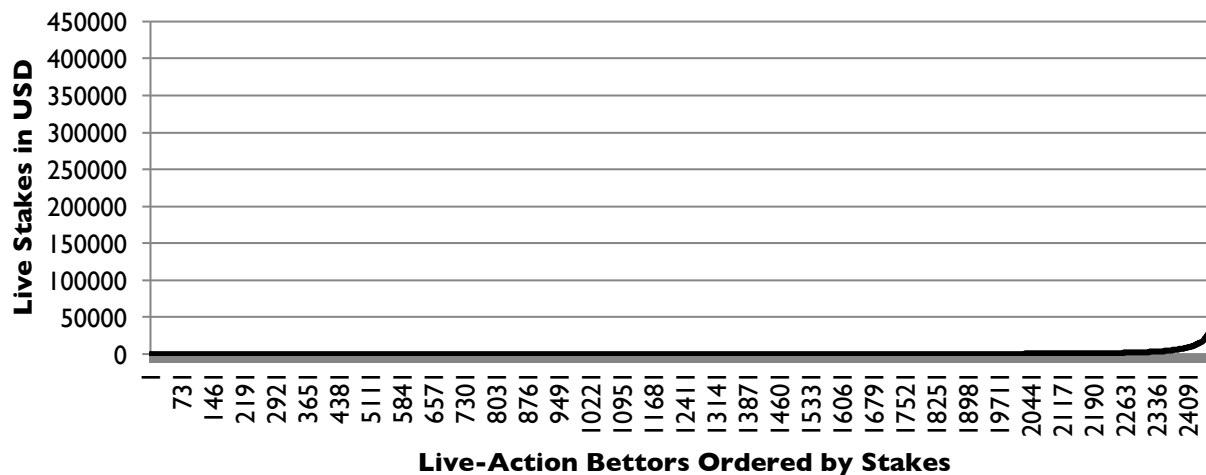**Fixed odds sports betting (bwin dataset, n=39,719)**

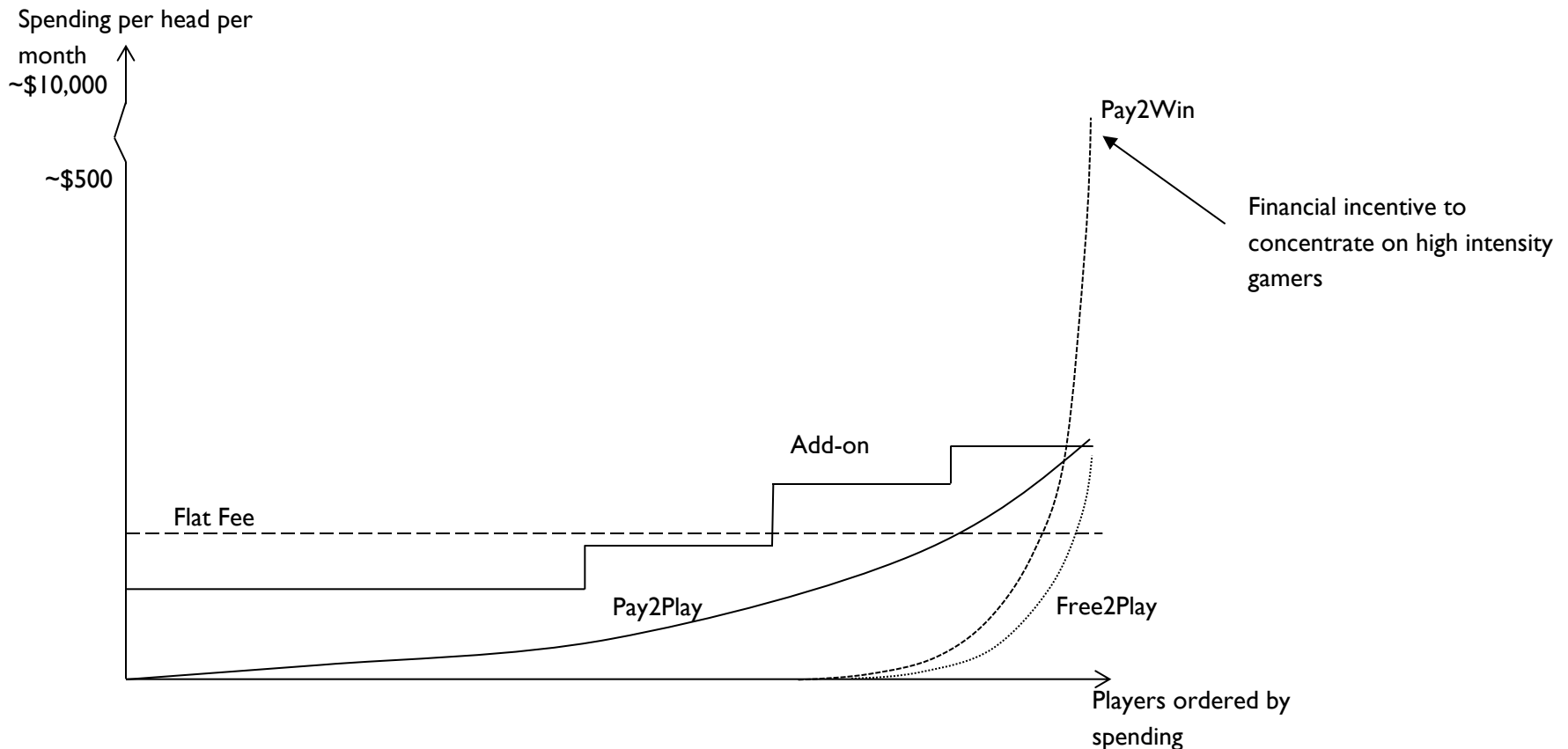| Player group	Share of betting	Hypothetical Pareto 80/20
Top 1%	31.41%	6.55%
Top 5%	58.49%	24.87%
Top 10%	71.25%	42.63%
GINI-Coefficient	**79.82%**	**60%**

Demand for specific gambling is even more concentrated
Live betting (bwin dataset, n=24,794)

Player group	Share of bets	Hypothetical Pareto 80/20
Top 1%	48.99%	6.55%
Top 5%	80.14%	24.87%
Top 10%	89.40%	42.63%
GINI-Coefficient	91.87%	60%

Concentration of demand in gaming (theoretical, no data)

Spending per head per month

~$10,000

~$500

Pay2Win

Financial incentive to concentrate on high intensity gamers

Add-on

Flat Fee

Pay2Play

Free2Play

Players ordered by spending

What is Pay2Win?

- Pay2Win are usually also Free2Play, but to succeed and get good results, players need to pay
- Payments often yield temporary and sometimes enduring advantages
  - that make an avatar stronger,
  - make the player access the next level or
  - simply reduce an artificial waiting time for the player
- Especially relevant in multiplayer games with clans (peer-pressure)
- Examples: Candy Crush Saga or The Hobbit: Kingdom of Middle Earth

Financial incentive of operators: focus the whales

- Most gamers do not pay

- Most of those who pay, pay small amounts

- A small number of players – the whales – pay much more than the average gamer, up to $10,000€

- Whales are main income generators for operators

- There is a huge financial inventive, even a necessity, for operators to target the small group of whales → „key account management"

Convergence of gaming and gambling

1. Convergence gambling → gaming
   - By eliminating monetary component to create play money gambling (simulated gambling) that is legally considered gaming and used for training and advertising purposes
   - By introduction of skill components, potentially as much to be considered gaming, e.g. so called skill games or Dailly Fantasy Sports

2. Convergence gaming → gambling
   - By introduction of chance elements, e.g. to receive ingame-items or for gambling games within the game
   - By introducing Pay2Win that variabilzes the per-head spending

Discussion and hypotheses

- From the perspective of the business model, Pay2Win gaming is closer to gambling than to gaming

- Blurry boundaries between gaming and gambling
  - eSportsbook Betting
  - Game-mediated betting
  - Daily Fantasy Sports
  - Skill-games
  - Head-to-Head Betting
  - Simulated gambling
  - Pay2Win gaming

- Concentration of revenue/players losses as an indicator of identifying potential harmful and thus to-be-regulated games

Thank you for your kind attention!