

# SKILL GAMING



SKILL GAMING IS BEING BILLED AS THE NEXT POKER, SO IGAMING BUSINESS ASKED **ANTON KASZUBOWSKI**, MANAGING DIRECTOR OF FUN TECHNOLOGIES PLC, TO SHARE HIS EXPERIENCE IN THIS PROMISING SECTOR...

## History of skill gaming

“Skill gaming is based on many of the traditional games, such as Bridge, Chess and Checkers, that have been popular for decades or even centuries as well as newer card and arcade games, such as Solitaire and Bejeweled. Internet based peer-to-peer cash skill gaming began emerging in 1999/2000 in the US with the creation of companies, such as SkillJam and Worldwinner.

The business is popular in the US and it is this region that currently represents the major commercial market for skill gaming. There are a large number of US focused operators reflecting the larger size of the player base in the region. Those who have been around longest and built up large liquidity pools of pay-to-play customers are the established market leaders. For example, since its inception in 2000, SkillJam has developed a registered customer base of over 7 million players.

Europe is much more early stage, but it is definitely growing fast and is becoming the next clear major growth market for the product. Asia represents a huge but relatively unknown quantity. Asia’s very developed video gaming industry suggests that it has great potential to be

a leading skill gaming market. However, the market remains virtually untapped. With Asia’s gaming market being dominated by global players, such as Shanda, NCSOFT, Webzen, Nintendo and Sony additionally concerns and payment issues make it too early to cast a reliable estimate on Asia’s potential.”

## Legal issues and why it’s legal under US law

“Firstly, it is important to understand that in the US there is nothing that explicitly precludes skill gaming at a federal level.

The legal status of skill gaming is therefore determined at the level of State law and the key question is whether an individual State’s law defines gambling as skill or chance and, if a combination, whether the element of skill is disregarded if an element of chance is present, and further, the degree of skill required to counter the element of chance. Without going into laborious detail on this point, suffice it to say that skill gaming is expressly legal in the vast majority of US states

The position under current and proposed UK law is that pure skill games fall outside the ambit of any betting and gaming legislation. Skill

gaming does not comprise ‘wagering’ akin to bookmaking because there would not be a bilateral ‘risk’ between the promoter of the games and the customer participating.

Across Europe, skill gaming is relatively accepted. Some of the Scandinavian markets as well as some of the Southern European markets, such as Italy, either only permit diluted non-cash prize based versions of the skill gaming model or remain grey areas.”

## Why has it taken so long to catch on

“Skill gaming is a mass market entertainment product based on simple, accessible, fun pay per play games, versions of which are shipped with every new PC, the potential addressable market is extremely large and diverse. The breadth of games available means that there is something for everyone.

However, skill gaming is a high volume business, and a positive user experience is definitely highly correlated with scale and the player liquidity you are able to offer across all games and tournaments.

It has taken time to build liquidity across major distribution partners, who are now increasingly



### What Should Partners Look for in Skill Gaming Software?



**Kevin O'Neal**  
GameAccount  
koneal@gameaccount.com

Kevin co-founded GameAccount in 2001 and is in charge of Sales & Marketing. He has a background in management consulting and advertising. Kevin holds an MBA from London Business School and a B.A. degree from Haverford College, PA

**"Skill gaming is a compelling product, proven to increase time spent online as well as average customer value. Partners should be looking for a fully white-labelled solution with seamless login and account integration, preferably from a supplier with a proven track record. Crucially, you need access to a sophisticated back office system tracking exactly how your customers are spending on skill-based tournaments or multiplayer wagers. Real-time, transparent reporting of all key operating metrics is crucial to understanding how Skill Gaming sits with your existing product offerings and how they respond to your promotional initiatives. In addition, your first-line customer support team needs access to a comprehensive suite of online tools to support and retain your customers engaging in your Skill Games."**

**"Partners benefit from the network effect by offering instant liquidity to your customers and guaranteed matching against opponents within the network. Your customers benefit from a fair and transparent skill rating system applicable to all single-player games and a unique skill rating system for multiplayer games where money changing hands approaches levels equivalent to that in online poker. This consistent level of fairness across all competition tournaments and multiplayer wagers must be accompanied by a robust and dependable system for verifying results posted by players. Tournament integrity is of paramount importance to any efficient, fair and transparent Skill Gaming offering."**

**"Skill gaming is a powerful tool to build and maintain your community, giving you a reason to communicate with your players and them a reason to return to your site."**

#### ABOUT GAMEACCOUNT

GameAccount is the first choice for eGaming operators seeking a single-wallet Skill Gaming solution. The balanced portfolio of games appeals to the existing customer base of recreational gamblers as well as providing a vehicle for attracting a broader audience. GameAccount's service supports multiple currencies with real-time exchange rates and operates in multiple languages. Multiplayer games include Gin Rummy, Golf, Pool and Backgammon. Tournaments include unique knockout tournaments, progressive jackpots and large-scale BigCash tournaments.

beginning to see the commercial potential of the product and promote it accordingly. For the first time, in its relatively short history, skill gaming is receiving the profile and distribution that is required for the product to reach a critical mass of qualified customers.

When I consider where the skill gaming market is in its current stage of development, it feels akin to where the online casino market was in the mid 1990s and where the online poker market was in 1999. The market is nowhere near mature, but I am excited that we are in the midst of a crucial 'tipping point' for the industry in terms of its mass market commercialization."

#### Player lifecycle

"The biggest challenge for skill gaming operators is that if a player is not skilled at a game they will consistently lose and are unlikely to remain a long term customer. That is why it is important to have a wide selection of games to suit the different skill sets of different players. This is also an area where liquidity is vital, as the more players you have in the system the easier it is to rank and handicap them in more sophisticated ways. By having a critical mass of player liquidity, the leading operators are able to offer their users more equal chances of winning across many different types of games. At SkillJam we strongly believe that by delivering greater choice and more chances to win, the user experience is significantly enhanced. While the average skill gaming player has a lifetime of 4 to 6 months, clearly happy customers stay and play longer."

#### Player migration

"The compelling nature of skill gaming player demographics, and the fit

## Sound Advice. Practical Solutions.

"These are our guiding principles. Before and after obtaining the license. That's why all our clients, including first tier operators, are still with us today."



**Olga Finkel**  
Partner, GFT  
(ofinkel@gftflex.com)

Services include: licensing assistance, company formation, tax planning, accounting, IPR protection

**GATT FRENO TUFIGNO**  
ADVOCATES  
MALTA

66, Old Bakery Street, Valletta VLT 09, Malta  
Tel: (+356) 21242713 Fax: (+356) 21242714  
Email: gaming@gftflex.com Web: www.gftflex.com



**Toby Rowland** is the COO and Co-Founder of Midasplayer.com. Previously he was VP Marketing at uDate.com, and COO and Co-Founder of clickmango.com.

**WHAT IS THE PROJECTED GROWTH OF THE SKILL GAMING MARKET?**

"I'm expecting global sector growth of around 200% this year, and a higher rate in 2006. Geographically, growth will be strongest in Europe, where conversion rates and customer values are better. In fact, based on current new customer acquisition numbers, I'm anticipating that Europe will be a larger market than the US for skill gaming by the end of 2005. Anecdotally, Midasplayer alone is adding more than 10,000 new customers per month. Another factor underlying the stronger growth of Europe is the trend in online penetration: Europe will have as many households online as the US by the beginning of 2006. Of course, skill gaming is still in its infancy with probably less than US\$100m in global revenues in 2004, and sector revenues have a very long way to go before they catch up with more established forms of gaming. However, I genuinely think the potential is there to achieve this within 4-5 years – it's just a question of getting the product right."

"The promise of skill gaming has always lain in its ability to appeal to the enormous casual gaming audience. While chance gaming will always be the preserve of a small percentage, there are several US / Europe casual games sites that host between 15 to 20 million unique users a month. If skill gaming sites can continue to develop the product and appeal to this audience in a meaningful way, hitherto unimagined revenues are possible. In the early days, the industry was held back by the quality of the games, and up until 2004, skill gaming was basically solitaire-for-money. Now, customer values have been boosted by multiplayer games and community. Gamers build their own avatars and compete in 5 player quizzes or play multiplayer pool. They vie for glory rather than cash. Distributors are getting on board and driving quality traffic to skill gaming sites, and the traffic is beginning to understand the skill gaming concept. We're on the cusp of a big consumer movement: People who enjoy playing games increasingly recognize that playing competitively for small stakes is even more fun. Sites that capture the imagination of those consumers will do well and build their revenues exponentially."

**ABOUT MIDASPLAYER.COM**

Launched in August 2003, Midasplayer.com is the world's largest skill gaming site, with 18 million games played monthly. The company is based in London with a development facility in Sweden. Midasplayer turned profitable in January 2005, when the site paid out more than US\$3m in prize money.



between skill gaming product/experience and online gambling products, means that we are increasingly working with partners, such as Golden Palace and 888.tv, to integrate our platform into their portfolio of offerings. We are constantly working with major partners in the space to optimise the skill gaming platform as part of a killer gambling/gaming portal strategy.

Skill gaming offers both an alternative product and revenue stream as well as a clever acquisition tool new customer groups. By introducing skill gaming, SkillJam's white label partners are able to target new customer groups with a wide range of less sophisticated, popular skill based games. Once an individual becomes a regular skill gamer, they are a much more qualified lead and clearly have the potential to be migrated across to try online gambling products."

**Cost per acquisition**

"Owing to the fact that there are few major competitors within the skill gaming sector, securing online marketing and advertising remains relatively easy. Additionally the potential addressable consumer market is probably only 2-3% penetrated. Acquisition costs per customer therefore remain low. Skill gamers can be acquired for between \$15-\$50 (depending on how targeted the campaign) per depositing customer in the US and the sterling equivalent in the UK."

**Player profiles**

"The casual skill games market definitely has a female skew and is older than the PC and console gaming market. SkillJam's average player demographic is +60% female and is 30+ years old. However, the customer demographic is changing as new partners



**SOCIAL RESPONSIBILITY IS THERE A DIFFERENCE BETWEEN GAMBLING AND GAMES...**

Micheal Smeaton formerly of Gamcare

There is a huge difference, I really don't know that there is evidence that suggests that one leads to the other. However, when we look at the soft games being put in the same location as hard gambling, either in the bookmakers or online, you have to be wary of the exposure of gambling opportunities to young people.

A darts game isn't a problem on its own. But, if that game is promoted to young or venerable people it becomes a problem. Advertising that game to places that young people visit is a problem. Advertising your casino games to adults and including darts in your games portfolio isn't a problem.



**Anton Kaszubowski**  
**Managing Director, Europe,**  
**FUN Technologies Plc**  
**+44 (0)20 7868 2235**

Anton Kaszubowski is Managing Director of FUN Technologies plc

and is responsible for the Company's European operations. Prior to joining the FUN group, Anton worked as an adviser to The Gambling Consultancy Limited. Before joining The Gambling

Consultancy, Anton specialised in providing mergers & acquisitions and financing advice to communications, media and gambling companies. Most recently he worked for a JP Morgan-funded

corporate finance advisory boutique, LongAcre Partners. He also worked for both Robertson Stephens' and JP Morgan Chase's European media and telecom corporate finance department.

are being signed within the gambling and casual gaming verticals. We are finding that the breadth of the game offering does mean that a wide cross section of players is attracted to the product and I expect the demographic profile of our players to become more evenly spread over time.”

**Conversion to gamblers**

“In terms of conversion rates from free players to cash depositors, the average range is between 3% and 5%. However, there are inevitably positive and negative outliers and it will depend on how committed and sophisticated a specific partner is in targeting and marketing the product to customers. Our partners within the gambling vertical tend to perform at the higher end of the range. Without giving away too much, we have seen instances of significant double digit conversion rates from skill gamers to depositing poker and casino customers.”

**Cannibalization**

“It is early days, but we and our current partners in the online gambling vertical believe there are great cross selling opportunities between skill gaming and online gambling. I personally see skill gaming as highly complimentary to soft gambling products. The quick play, quick win nature of our skill games means that our players experience a very similar psychological experience to instant win, slots and bingo games. Across the board, I would also say that our customer demographics are most similar to that of online bingo. However, this customer mix is evolving as we bring on new licensees for the product.

Online poker has been a major area of recent focus for us. The peer-to-peer nature of the skill gaming experience as well as the fact that many of our most popular games are card based also means the skill gaming is phenomenal pool of potential customers for poker operators.

Skill gaming should be viewed as entertainment as opposed to gambling, as that is how the majority of customers perceive it. Skill based games do not have the social stigma that is sometimes attributed to casino games or sports books. Consequently, skill games will always attract a much wider audience. With increasing awareness amongst players and an increasingly compelling product offering, I see no reason why skill gaming cannot reach or exceed online casinos or even poker in terms of number of cash players.

At the same time, as the product is focused on providing fun and

**About FUN Technologies plc**

FUN Technologies plc, formerly known as "CES Software plc", is focused on facilitating fun, efficient, high-quality gaming and betting experiences for its customers and is a leading provider of person-to-person skill-gaming and exchange-betting technology, as well as online sports information services. Incorporated in England and Wales and founded by the original management team behind Cryptologic Inc., FUN is a public company quoted both on the Alternative Investment Market (AIM) of the London Stock Exchange and the Toronto Stock Exchange under the symbol 'FUN'.

Through its skill gaming website, SkillJam.com, SkillJam offers free games (for users to improve their skills), cash games and competitive tournaments on its site. SkillJam offers the largest selection of cash skill games on the Internet and currently has over 60 games available across its network in many different formats, including Arcade, Card & Tile, Word, Trivia and Fantasy Sports. To date, SkillJam has served over 120 million tournament-enabled skill games and has acquired over 7 million registered users.

In addition to managing its own portfolio of diversified online gaming destinations, SkillJam develops and hosts private-label gaming solutions for a broad network of destination sites including major portal partners such as MSN, AOL, Disney, Excite, iWon, as well as online gaming and gambling operators, such as Golden Palace, Real, Shockwave and 888.tv. Since inception, SkillJam has been responsible for completing over 40 white label partnerships and has developed over 150 online distribution partnerships.

entertainment, hardcore gamblers and major punters looking for big wins are unlikely to focus on skill games as their principal product of choice. I would contend that it is considerably easier to transform regular skill gamers into regular gamblers than vice versa. Casual gamblers are likely to skill game as an expansion of their overall online gaming experience, while hardcore punters may occasionally use the product as an entertaining intermission between core gambling activities.” ●

