

The importance of liquidity for the US states offering i-poker

Following the opening up of three US states for online poker over the past year, attention has fallen not only on the details of each state's regulations, but on how attractive each state's online poker offerings will be to players. In particular for online poker is the issue of liquidity: having enough players online to create an experience that retains customers and profitability. Jeff Ifrah, Editorial Board Member and Griffin Finan both of Ifrah Law examine the benefits of online poker liquidity and how it might be achieved in the US.

For online poker to truly thrive in the United States, online poker operators will need to ensure that they have enough players to create a good experience for the consumer and to make the operation of the room profitable. Three states are now offering live online poker and several more states are certain to consider online gaming legislation in the upcoming year, but the question for the three states already online and the states considering online poker is if they have enough liquidity to support a sustainable online poker room, and if they do not, how can sufficient liquidity be created?

Achieving liquidity through the formation of interstate gaming compacts

The industry sentiment is very sceptical that federal legislation to regulate online poker will pass any time in the near future, and as a result, the focus will continue to shift to the formation of interstate compacts between individual states that have legalised intrastate online poker within their borders. A key question that will arise as states begin to explore interstate online poker compacts is how large does the player pool have to be for the online poker rooms to be able to function profitably while offering a good user experience, all the while generating revenue for the state.

States have learned their lesson about the value of increased liquidity from lottery agreements, which have been enormously successful in leveraging shared populations to create bigger prizes that have led to an increase in the number of players participating and have increased the tax revenue generated.

The online gaming laws of the three states to go live with online poker all authorised the formation of online interstate gaming compacts. The first two states to go

live with online poker, Nevada and Delaware, both have populations that by all accounts are too small to sustain an online poker room on their own. After Nevada passed its online poker bill, at the urging of Nevada Governor Brian Sandoval, the legislature fast tracked a separate bill that was declared an emergency measure, to allow for the state to enter into interstate compacts for online gaming with other states. Delaware and New Jersey's online gaming bills also authorised their respective states to enter into online gaming compacts.

Lessons from Europe

Some European nations are currently struggling with finding enough liquidity to support their online poker rooms and there have been discussions of forming compacts in Europe to share liquidity. Sweden, with a population of just over 9.5 million people, provides an interesting example of the success of a closed online poker market. The country is home to a closed poker room, Svenska Spel, which only allows players from Sweden to participate. Svenska Spel is operating profitably, and continues to grow with profits increasing 4.2% in the first half of 2013. Although there are many other factors that contribute to profitability and the user experience in playing online poker, it is notable that Svenska Spel can operate profitably with this population base.

There are only ten states in the United States with a population larger than Sweden. New Jersey is the eleventh most populous state in the country with a population of just under 9 million people, but is also easily accessible from major population bases including New York City and Philadelphia. If government officials and operators are using the Swedish model as an

example and striving to create a player pool larger than Sweden's, then a compact with only a few states pooling their liquidity could achieve that.

The mechanics of negotiating these compacts could be quite difficult with higher population states able to exert significant leverage over the terms of any compact. There are several very large issues to resolve such as taxation, licensing, player dispute resolution, and revenue share agreements. Large states that are considering enacting online gaming bills, such as California, may believe that they have a sufficient population base to be self-sustainable and will not have nearly as much to gain as a small state would by entering into an interstate compact.

The value of liquidity for all actors

Increased liquidity makes sense from the perspective of all actors involved in online poker. From a player's perspective, liquidity offers the player the options that they desire. Players want to be able to log on and play the game they want, at the time that they want, without having to wait. Offering players this variety of choices requires having enough players online at any given time to support different types of games with different levels of buy-ins and prizes to appeal to a wide range of players. If players find that online poker operators are not offering the games that they want, then they may seek other options for entertainment.

From an operator's perspective, not only does increased liquidity allow for the possibility of generating more revenue and keeping players interested by offering them the options that they desire, there are significant other benefits. In both Nevada and New

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Jersey, online operators are land-based casinos or companies that operate in partnership with land-based casinos. The larger the player pools that play these games online, the larger potential audience there is for cross marketing and for generating buzz about the casino brand. Online tournaments could also create more buzz around tournaments hosted in the casino. Additionally, with a larger player pool, an operator can focus more on innovation in their products and offering a new and exciting range of games that appeal to sub-niches in the market, instead of just offering products that cater to the common denominator.

From a state's perspective it is also beneficial to enter into compacts to share liquidity and have a larger player pool. The larger the combined player pool is, the more opportunity there is to offer different levels of games to keep and attract consumers, which provides the formula for long term success for the site. More activity on the site means more revenue that can be generated by the operators, which leads to higher tax revenues for the states and the possibility that the industry will create more jobs in the state.

Other factors to consider in assessing liquidity in online poker rooms

One factor to consider in building liquidity for an online poker room is the number of hours during the day that the room will be able to operate profitably. Players will log on to play when they have free time, but if all players that can access the online poker room are based in the same time zone the player that logs on at off peak hours may not be able to find the game that they want to play at that time. It benefits all actors for the online poker room to be accessible by players based in different time

zones because it makes it more likely that the online poker room will have a higher level of traffic for more hours in the day.

However, when assessing the player pool that a potential compact would form, it is important to keep in mind that not all player pools are the same. First off, participation rates across different populations are not the same. Studies have shown a positive correlation between a higher gross domestic product in the jurisdiction, a higher rate of internet access in the jurisdiction, and cultural attitudes towards gambling and participation rates for online poker. Not surprisingly, lower gross domestic product, less internet access, and stricter cultural attitudes towards gambling correlated with lower participation rates for the population in online poker.

Liquidity is crucial for the sustainability of an online poker room and it is also in the best interests of all actors involved in online poker. Since it makes sense from the perspective of all actors involved to share liquidity, it seems certain discussions around forming interstate compacts will increase in the near future, but only time will tell how much liquidity will be needed in the United States to operate sustainable and profitable online poker rooms that work for all actors.

Jeff Ifrah Founding Member
Griffin Finan Associate
 Ifrah Law
jeff@ifrahlaw.com
gfinan@ifrahlaw.com
