



Why Standards are Important

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Gaming Device Standards Save Money, Increase Competition, and Create a Better Marketplace

Since its inception in 1998, the Gaming Standards Association (GSA) has been operating with one goal in mind: To bring the concept of protocol standards, common to numerous other industries, to the rapidly expanding gaming industry.

The question continually hovering over GSA's activities has been, "Why."

The answer is actually very simple: To allow for the increased expansion of gaming, unencumbered by the pitfalls of communication protocol failures. When the goal, the question and the answer are considered simultaneously, it makes perfect sense that the organization's membership is comprised of a cross-section of the industry's leaders, and includes operators and manufacturers alike, as well as representatives from virtually every aspect of the gaming industry.

Why?

Because gaming protocol standards make financial sense. Consider this: What manufacturing business could continue to operate in a fiscally sound manner if it were unable to sell its products to all of its potential customers, not because of a lack of innovation or customer demand, but simply because the plug on the machine's cord didn't fit into the electrical outlet on the customer's wall.

Such thoughts are ludicrous in today's world, simply because the problems do not exist, most manufacturing industries operate with specific standards. Imagine if every piece of electrical equipment in your office environment had a unique electrical plug, and each piece required specific wiring and outlet. It simply would not be fiscally responsible to accommodate for such a wide range of demands. Yet for years, the gaming industry operated without such guidelines, resulting in frequent collapse of communication between gaming machines and systems, which, ultimately, resulted in lost revenues.

As casino marketers became increasingly sophisticated, casino management systems followed suit, increasing the capacity to track and reward players. This built loyalty, and increased revenue for the casino, both in terms of repeat visitors, and in a reduction in the cost of seeking new customers.

However, as these systems grew technologically, so did the demand for the systems. At the same time, the technological capabilities of individual gaming devices grew. The result was an influx of technologically superior games and systems, each operating separately. The consequence, as any operator will attest, was an increase in the communication failure rate between machines and devices. This failure prevented operators from consistently and efficiently tracking their customers' play, resulting in lost potential revenues.

As departments across the casino prepare to submit their annual forecasts, each envisions the justifiably skeptical eye of the general manager and the CFO, in particular when considering the line item of capital expense. The question looms large – how will this cap-ex deliver an increased ROI, and in what timeframe?

Year after year, slot directors have had to justify cap-ex line items for new systems and/or system upgrades because the brand new, top-of-the-line system the property just bought six months ago for more than \$1 million does not communicate properly. It is difficult to imagine another industry where putting millions after millions would be justifiable. Yet, that is how the gaming industry has been operating, resulting in a loss of potential revenue savings.

Some in the industry have taken a position against standards, arguing that standardization will decrease competition, resulting in a lack of innovation, in games, systems and peripheral devices. However, the gaming industry can look to countless other industries to see this argument simply does not make sense.

Consider again the example of office equipment illustrated above. With countless protocols guiding the industry, computer and software manufacturers have not suffered with a lack of competition or innovation. To the contrary, they have flourished. Dell Computers reported FY04-Q3 revenues up 16 percent over prior year, to \$10.6 billion; Apple reported net income of \$110 million, and IBM reported in its Q2-2003 report that income from continuing operations grew 288 percent over prior year.

These outstanding earnings reports come from an industry regulated since its inception by protocol and other standards. As these dramatic earnings figures clearly illustrate, these companies did not suffer under the strain of standards; rather, the companies used the standards as a guide to become more innovative.

The ultimate beneficiaries, of course, were consumers, who had more freedom of choice, more innovation and increased competition among manufacturers competing for market share.

The scenario is the same for the gaming industry. As standards become adopted, the operator can configure the gaming floor as they choose, in a manner that best suits the player, the revenue source. By increasing available options to players and by supplying games that perform within the casino environment, operators can expect to increase revenue and gain competitive position.

Further, by insisting upon standardization of communication protocol between games and systems, operators can invest capital expense money more wisely, basing their expenditure decisions on which systems have the best features that maximize the casino's return on investment from players, instead of continually chasing systems expenditures with additional money to fix communication protocol problems that should not exist.

As an example, in its Form 10-Q filings for the quarterly period ended July 31, 2003, Mandalay Resort Group listed casino expenses for the six months ending July 31, 2003, as \$321,234,000 and revenues of \$612,162,000. Comparing the same period prior year, casino expenses were \$321,720,000 and casino revenues were \$613,851,000. Assuming systems purchases and/or upgrades were a consistent part of the multi-property expenses, it can be also be assumed revenues would notably increase with the adoption of standards, and the elimination for continuous upgrade expenses, due to protocol communication failures.

GSA's goal, to bring the concept of protocol standards to the gaming industry, fits perfectly with operators' objectives of expanding revenues, by maintaining dollars and lessening expenditures. GSA's goal also blends with manufacturers' aspirations of increasing sales. When casino operators eliminate recurring expenses, such as systems protocols, that revenue can be invested into existing casinos, or of even more value to manufacturers, to expanding operations with new casinos. The manufacturers are then free to fill the new space with machines and systems they are confident will perform and communicate, thereby increasing market share and revenue.

As has been proven in the computer, telecommunication and other industries, protocol standards will benefit the gaming industry by allowing greater freedom of choice, providing a forum for increased innovation and increasing competition, all of which will ultimately result in shared increased revenues.

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