

New York State Senate Racing, Gaming and  
Wagering Committee

*Subject: "To Discuss the Future of Online Poker  
in New York State"*

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Good afternoon, Senator Bonacic, and thank you for providing us with the opportunity to discuss online poker and its effects on the gaming industry in New York State. My name is Richard Schwartz, and I am the head of Rush Street Interactive. Rush Street believes that, if implemented properly, online gaming represents an opportunity to promote and strengthen/protect the health and financial performance of the Racinos, Native American facilities, and newly authorized Commercial casinos in New York State while at the same time generating incremental tax revenues for the state. Given the large capital investment and job creation of the New York brick-and-mortar casino and Racino industry, we strongly believe that if the New York State legislature legalizes online gaming, it is vital to the public interest that online gaming licenses should only be awarded to the brick-and-mortar casino and Racino operators in the state of New York. All three states that have legalized online gaming have tied the issuance of the online gaming licenses to the existing brick-and-mortar gaming facilities in those states.

Although the regulation of iGaming provides a sizable market opportunity in its own right, we will focus today more on the opportunities that iGaming will provide to the New York brick-and-mortar casino and Racino industry.

First, the New York casino industry is currently disadvantaged compared to the Atlantic City brick-and-mortar casinos because only the NJ brick-and-mortar casinos are promoting iGaming services to players living within the state of New York. For example, Atlantic City casinos are enticing players living in the New York metropolitan area with offers to visit Atlantic City casinos (and join their loyalty programs) when otherwise the players might have planned visits to New York-based casinos. By regulating online casinos in New York, New York can even the playing field and counteract the aggressive marketing and player acquisition initiatives by its New Jersey brick-and-mortar competitors.

Second, regulating iGaming will enable brick-and-mortar casinos and Racinos to broaden both the reach of and appeal of both the existing and under construction New York Casino brands in the region and to acquire a new and expanded player base for these brands. It is clear from the New Jersey operators that iGaming has enabled the Atlantic City-based operators to introduce their brick-and-mortar casino brands to new players in the region. In fact, during a legislative hearing in Pennsylvania 3 months ago in support of online gaming legislation that would award online gaming licenses only to brick-and-mortar casinos in Pennsylvania, senior executives from Caesars asked the Pennsylvania legislature to not only

“protect our casinos from unhealthy competition and over saturation” but testified that from their experience in New Jersey, online gaming has the ability to grow total brick-and-mortar revenues and create cross-marketing opportunities to strengthen the performance of brick-and-mortar casinos.

Specifically, Michael Cohen of Caesars testified that 80% Caesars online players were new or inactive players, and 15% of those players THEN visited one of the company’s New Jersey casinos.

This further validates that online gaming has introduced and re-introduced these players to brick-and-mortar casinos and Racinos and provided a strong marketing tool for holders of land-based casino licenses. We will submit an article about that hearing into the record today along with this testimony.

Third, iGaming services are having a materially positive impact on the revenues generated from existing brick-and-mortar casino players in New Jersey. After a recent analysis of its business, the Golden Nugget AC has publicly shared that when land-based Golden Nugget AC players register for online casino accounts with the Golden Nugget, those players subsequently increase their brick-and-mortar casino spend at the Golden Nugget AC by on average 11%. There are few other "marketing programs" in the casino industry that share this same capacity to grow the performance of the brick-and-mortar casinos and Racinos in the state.

As a result of this and other compelling data points, we believe that online gaming represents a long term opportunity to increase the health and financial performance of the brick-and-mortar casino and Racino industry in the State of New York.

At this time, we’d support the New York Legislature’s efforts to legalize BOTH online casino and poker in the state – but not poker only. However, we’d only support these efforts if the online gaming licenses are issued exclusively to the holders of brick-and-mortar gaming licenses in the state of New York for the following reasons:

First, connecting online gaming licenses to brick-and-mortar casino and Racino licensees is consistent with both the precedent that has been established in all three of the other states in the United States that have already legalized online gaming.

Second, recent online gaming legalization introduced in other states that are also considering legalizing online gaming, such as Pennsylvania and California, also connect online gaming licenses to the holders of the land-based gaming licenses in those jurisdictions.

Third, the land-based casinos and Racinos in New York are best positioned to safeguard the integrity of the online games, develop trusted consumer-facing brands, and ensure accountability by enabling players to visit a physical property to discuss in-person any problems they encounter with an online gaming services.

Fourth, land-based casino and Racino operators in New York are the only entities positioned to use online gaming as a means to further enhance and compliment the benefits delivered by casino gaming to the communities in which they operate, including the effective cross-marketing benefits that the New Jersey brick-and-mortar casino industry has experienced since online gaming was introduced into the jurisdiction.

Fifth, and lastly, the legalization of brick-and-mortar gaming in New York has delivered substantial benefits to the state, including not only tax revenue for education, but in the future our casino in Schenectady will be delivering property tax relief to residents of both the City of Schenectady and the County of Schenectady. Additionally, to date, the land-based gaming industry in New York has invested billions of dollars in general economic development, generated many thousands of jobs, and made significant contributions to the horse racing and agricultural industries. It's vital that these investments are considered and protected, especially considering that the online gaming investment and job creation will be immaterial and insubstantial compared to the brick and mortar gaming investments.

At the end of the day, if structured properly, we believe the regulation of Gaming represents a win-win for the both the state and the New York casino and Racino industry.

## This Is The Pitch Regulated Online Gambling Supporters Should Make To Casinos And Lawmakers

During a hearing in front of the **Pennsylvania** Senate CERD Committee, **Richard Schwartz**, speaking on behalf of the **SugarHouse Casino**, performed some rhetorical sleight of hand when he deftly pivoted the away from online gambling expansion being **merely a new revenue stream** and towards iGaming's potential **to protect and promote** brick and mortar casino revenue.

This is a **paradigm shift** in the way supporters are advocating for online poker and online gambling regulation.

What Schwartz is implying is that online gambling's impact cannot and should not be measured by **mere revenue dollars and cents alone**.

Instead, online gambling's impact has to be looked at with a **much wider lens to see the full impact it can have**, and what benefits it can bring to land-based properties and the gaming industry as a whole.

Schwartz wasn't the only representative on the panel making the case for online gambling's potential advantages for brick and mortar gambling. **Melissa Richards from Harrah's cited iGaming's ability to grow total revenue and create cross-marketing opportunities.**

Interestingly, these “online gambling is beneficial” arguments are corroborated by recent research from gaming researcher **Kahlil Philander**, who concluded that far from cannibalizing brick and mortar casinos, online gambling would benefit its land-based counterparts.

## **Can this argument work?**

As crazy as it sounds, telling potential operators that they **may lose money** running an online poker or online casino site could be a winning argument.

The reason? First and foremost, casino operators are interested in **protecting and strengthening** their brick and mortar establishments.

During the hearing in Pennsylvania, Schwartz was selling online gambling as something resembling a **loss leader** – a way for the state’s casinos to improve their brick and mortar businesses while at the same time opening up a potential revenue stream.

He made some strong points that **should resonate** with casinos interested in online gambling as well as casinos that are apprehensive about it.

And Schwartz isn’t alone in Pennsylvania. **Eric Shippers**, SVP for Public Affairs and Govt Relations at **Penn National**, told PA lawmakers at a May 6 **House Gaming Oversight Committee** hearing that Internet gaming “is another vital tool to enable our industry to continue to evolve and protect what we’ve built here.”

## **The best \$50 million marketing campaign of all-time?**

According to **Golden Nugget’s** Head of Online Gambling, **Thomas Winters**, **New Jersey** online gambling operators spent in the neighborhood of **\$50-\$60 million** in marketing in 2014.

So, what did they get for their \$50 million?

According to the **New Jersey Division of Gaming Enforcement**, over **660,000** iGaming accounts have been created since November of 2013 (these are total accounts and not *unique* accounts), and the industry generated \$123 million in gross gaming revenue in 2014.

Yes, most online gaming operators were in the red throughout 2014 (Borgata is the only company that seems to have started to turn a profit by the end of the year).

But that is only half of the profit and loss story, as all **New Jersey operators also have land-based casinos – land-based casinos that benefitted from online gambling.**

## **How iGaming bolsters B&M casinos**

Based on on-the-record and off-the-record information from several New Jersey operators, around 75% of online gaming accounts were created by players who were either:

- New to their reward's program databases; or
- Players who have been inactive for several years.

**According to Michael Cohen of Caesars, data suggests 80% of Caesars online players were new or inactive players, AND 15% of those players THEN visited one of the company's New Jersey casinos.**

What this seems to indicate is that online gaming introduced/reintroduced these players to casino gambling.

## **How many new B&M players is online gaming attracting?**

Even if we reduce these numbers, using 66% as the percentage of new/inactive players, and 10% of these players then visited land-based casinos, this equates to **13,200** new customers if just 200,000 of the online gambling accounts created are unique.

Using the higher-end figures of Cohen, and assuming half of the 530,000 accounts created are unique, around **32,000** new or inactive customers have visited an Atlantic City brick and mortar casinos thanks to iGaming.

This factor alone would allow casinos to operate online gambling at a negative margin and **still profit from iGaming**, as even casinos losing money on their online gaming platforms are reaping massive rewards from the new visitors to their property.

I wonder what it would cost a casino to conduct a marketing blitz that resulted in 13,000 to 32,000 new patrons and adding **five times as many names** to its marketing database? My guess is it would cost a lot more than New Jersey's casinos lost on online gambling in 2014.

And keep in mind Borgata's online gaming site is **already in the black** and generating additional revenue for the company. The same will hold true for most other operators as the industry continues to mature.

Looking at online gambling from this point of view, online gambling is essentially one of the **most effective marketing campaigns** a casino can run.

## **Filling a void in casino demographics**

In addition to being a cheap marketing tool, online gambling is also landing the right type of player for Atlantic City's casinos.

Over 60 percent of online players are 21 to 39, according to Cohen, a demographic that accounts for **less than 30 percent** of players in the company's brick and mortar casinos.

This isn't surprising **as research has shown** online gamblers tend to be younger, predominately male, well-educated, and well-heeled.

## **Upshot**

In conclusion, not only does online gambling have the potential to be a **profitable revenue stream** in its own right, but it also brings new people to the parent company's brick and mortar casino.

Furthermore, online gambling brings in a demographic casinos have struggled to appeal to through traditional marketing campaigns.

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