

Slot machines in the picture

Executive Summary

Assignment Aims

Under the authority of the Netherlands Gaming Control Board, an investigation has been carried out into the nature and scope of the slot machine market in the Netherlands. The aim of the research has been to establish the quantitative and financial scope of slot machines and slot machine operators in 2001, distinguishing between the various places where slot machines are located, i.e. amusement arcades and locations in the hotels and catering sector. The report has been produced on the basis of desk research, quantitative data collection and analysis of the (registration) details of the organisations and bodies in question, and qualitative data collection involving (detailed) interviews with key players in the market.

Legal and Policy Framework

The research has been conducted in the light of the changes to legislation governing slot machines (Gaming Act) which took effect on 1 June 2000. A transitional period of one and a half years was provided for in order to allow those involved in the industry to adjust to the legal requirements. This transitional period came to an end on 1 January 2002. The new law governing slot machines involved regulations concerning both locations where slot machines may be placed and what types of slot machines (including the so-called Nijpels machines) may be located in them. This involved a new legal definition of locations in the hotel and catering industry where slot machines are found (namely – ‘high and low barrier locations’ instead of so called ‘wet and dry locations’). In amusement arcades multiplayers and linked jackpots are allowed. The policy goals of the law are as follows: protecting of the consumer, tackling crime and preventing gambling addiction.

Nature and Scope of the Slot Machine Sector

In 2001 there were 47,000 slot machines located in the Netherlands. 36,000 of these were gambling machines, 11,000 offered games of skill. The machines were to be found in 18,000 hotel and catering sector locations and 278 amusement arcades. 21,500 (60%) of the gambling machines were located in hotel and catering sector locations, 14,500 (40%) in amusement arcades. Of the total number of games of skill machines 9,500 (87%) were located in hotel and catering sector locations and 1,500 (13%) in amusement arcades.

Following the changes to the law, a maximum of two gambling machines may be located in high barrier hotel and catering sector locations. Only games of skill machines may be placed in low barrier locations. As 2001 was a transitional year, gambling machines were still to be found in low barrier locations. Just over a quarter (29%) of the gambling machines were located in such low barrier locations; just under three quarters (71%) were located in high barrier ones. In a number of locations three or four machines were found. Most however (63%), had two gambling machines, whilst 37% had just the one. In 2001 only a very small number of Nijpels machines were to be found.

Just over half (59%) of amusement arcades have only gambling machines located on their premises. A third (35%) have both games of skill machines and gambling machines. The remaining 6% are made up of seasonal amusement locations where games of skill machines are located. The size of amusement arcades vary considerably: seasonal centres are smaller entities involving on average seventeen machines; in the other two sorts of amusement arcades on average respectively fifty four and sixty one are found.

In 2001 only to a limited degree has the most been made of what the new law offered: a degree of product differentiation has, however, taken place in nearly all amusement arcades with slot machines. On average one multi-player machine has been located.

The Slot Machine Operators/Proprietors

The operators and proprietors of slot machines can be divided into three groups: (1) traders and importers, (2) proprietors of amusement arcades, and (3) owners in hotel and catering sector locations. Ten producers and traders of machines can be identified. Of these, six provide the majority of machines in the Netherlands. In total there are approximately 300 operators of slot machines. Four fifths (80%) of these operate machines in the hotel and catering sector, one in six (16%) operate machines in amusement arcades. 4% are active in both sectors.

In the hotel and catering sector, there are about 250 operators of slot machines. Approximately half (54%) of these operators have up to five locations where machines are located. Two fifths (42%) have between six and fifty locations and 4% have over fifty locations. The biggest operator has around 4,000 location throughout the Netherlands. The profits from slot machines used to be divided 50/50 between the operator and the proprietor of the hotel and catering sector location. Lately however, this division has moved towards 60/40 in the favour of the hotel and catering sector proprietors.

About 60 operators have slot machines in amusements arcades. Almost half (47%) of these operators have just one arcade, a third (34%) have between two and five, and the rest (19%) have more than five. The biggest operator has thirty-four arcades.

In order to operate slot machines a licence is necessary. Approximately 1,000 of these licences are issued by the Ministry of Economic Affairs. Those operating amusement arcades have the most licences: eight per operator on average. The frequency of mergers and acquisitions in the sector and a degree of spreading risk can explain the reason for this. Each year the operator is investigated to determine whether or not he/she is meeting the terms of the licence. Should it be found that this is not the case, then ultimately the licence can be withdrawn. By having more than one licence such a situation can be avoided.

The average yield and use of slot machines is difficult to determine. By law, yield is limited in 2001 to f 50 (€ 22.69) per hour based on continual playing for 100 hours. The actual use of various types of machines is therefore a determining factor behind average turnover. This has, however, proved very difficult to ascertain. A number of factors are important here and these differ per operator. Machines are used in different environments with varying degrees of competition. Social factors also play a role. The same is true in the case of so called 'top locations': reasons why a location can be defined as a 'top location' can vary from operator to operator. Whether or not an amusement arcade or hotel and catering location can be regarded as a good profiting making location is not only dependant on what types of slot machines are located there, but also on what type of customer base a location has, its competitors, the permitted opening times, its personnel and general ambience.

Financial Scope of the Slot Machine Sector

The slot machine sector is not a transparent one. Financial data are provided on a summary basis and as a result a clear picture of the true financial situation in the sector is hard to come by. Turnover from gambling machines is estimated as being € 500 million to almost € 1,300 million per year. The figures should be interpreted with great caution.

Trends and Developments

The slot machine sector is a sector in transition. Both the introduction of the euro notes and coins in January 2002 and the changes to the law governing slot machines which came into

effect in June 2000 have been key factors. The number of slot machines has fallen sharply since the changes to the law. The redefinition of 'wet and dry locations' to 'high and low barrier' locations has had a significant impact. Numerous 'wet' locations in the hotel and catering sector have become 'low barrier' locations, meaning that gambling machines must be removed from the premises. As the transitional period came to an end on 1 January 2002, the steady fall in the number of slot machines is expected to come to an end.

The number of hotel and catering locations and amusement arcades with slot machines has also fallen, the result of increasing competition. After a gradual increase in the number of licences issued up until 2001, since then this has fallen considerably. This has been largely the result of mergers and take-overs within the sector.

Total turnover in the industry has also decreased in recent years. The introduction of euro notes and coins led to extra costs for operators, less usage of machines and less being spent by customers when they do play them. At the same time, as mentioned earlier, the total number of slot machines in use has also fallen. The market is now entering a recovery phase.

Finally, new technical developments also present a threat to the slot machine sector in its traditional form. Illegal Internet gambling and telephone gaming are examples of such new developments. Some of the most recent wishes for change however, have come from the slot machine industry itself; for example machines with 'bill acceptors', on-line driven slot machines with downloadable games and the privatisation of casino gaming. In this way, the slot machine sector continues to renew and reshape itself.