

THE REGULATED INTERNET GAMBLING INDUSTRY IN ITALY: BUSINESS MODELS COMPARED

Paolo Calvosa, PhD graduate

Researcher in Business Management University of Naples Federico II, Italy

Abstract

The use of the internet as a direct gambling distribution channel, regulated by Italian legislation in 2006, has introduced a considerable change into the competitive dynamics of the regulated gambling industry in Italy, and has brought about a rapid development in a new business segment, namely that of internet gambling, which in 2012 reached a total amount wagered in gambling of some 15 billion euro and a gross gambling revenue of 749 million euro.

The possibility of reaching gamblers through the web has favoured a process of reconfiguration of the sector, which envisages a comparison with the model of the incumbent firms having operated for many years through the physical distribution network, that of specialized on line firms, who operate 'at a distance' through the Net.

The present work aims at analyzing the development dynamics and competitive logics of the regulated real money internet gambling industry in Italy, by examining the various business models adopted by firms operating in this specific business segment.

This work represents a first phase of a course of long-term research which has as its objective the validation of the theses proposed through the study of empirical cases.

Keywords: Internet Gambling Industry, Italy, business models

Introduction

Over the last few years the regulated real-money gambling industry in Italy has been marked by considerable growth. The total amount wagered in gambling (called "handle") in Italy, accruing in 2003 to around 15 billion euro, reached some 87 billion in 2012 (Aams, 2004; State Auditors' Department, 2013). The Gross Gambling Revenue (GGR) - amount wagered minus the winnings returned to players - which gives a true measure of the economic value of the gambling industry, amounted, in 2012, to 17.4 billion

euro (State Auditors' Department, 2013). These data make the Italian gambling market one of the world's leading markets.

For the most part regulatory and technological factors have been operating at the basis of the development of the regulated gambling industry in Italy. From the regulatory viewpoint, Italian legislation, starting from 2003, has introduced a number of interventions that have brought about an increased offer in gambling and a growth in the number of operators engaged in the sector. From the technological viewpoint, the development of new information technologies has led to the creation and supply of innovative gambling modalities which have intercepted new preferences of the players.

Among the technological innovations, the use of the internet as a direct gambling distribution channel, regulated by Italian legislation in 2006, has introduced a considerable change into the competitive dynamics of the sector and brought about a rapid development in a new business segment, namely that of regulated internet gambling, which in 2012 in Italy reached a total amount wagered of some 15 billion euro and a gross gambling revenue of 749 million euro (Aams, 2013a).

The present work aims at analyzing the development dynamics and competitive logics of the regulated real-money internet gambling industry in Italy through carrying out an examination of the various business models adopted by firms operating in this specific business segment.

The research under discussion is of an exploratory nature, and the general objective of the work is that of providing some initial indications for business managers and for business management scholar with regard to the most efficient managerial strategies for competing in the on-line gambling segment. The work, in fact, represents an initial phase of a long-term research course which has as its objective an in-depth examination, by means of a multi-case qualitative analysis, already in its development phase, of the micro dynamics lying at the basis of the various business models identified.

From the methodological viewpoint, the analysis develops in two phases.

In a first phase, in order to understand the main normative, technological and market changes that have given place, in the regulated gambling industry in Italy, to the birth and development of the on line gambling segment, utilization has been made of the information deriving from various specialized sources (academic journals, market research, specialized reviews, gambling press agencies, Milan Polytechnic Observatory of on line gambling, Aams – the Italian Agency of Customs and Monopolies -, Italian Ministry of Economy and Finance, Istat - the Italian National Institute for Statistics -, State Auditors' Department , etc.). In a second phase of the work the various business models have been analyzed adopted by the firms active in the on line segment, with the objective of

understanding whether and if so how their competitive strategies differ in relationship with their structural characteristics. For this purpose the information has been elaborated deriving from an in-the-field enquiry carried out through an analysis of on-line gambling sites of firms operating in the internet gambling industry in Italy in 2012.

The regulated real-money gambling industry in Italy

The regulated world-wide real-money gambling industry is estimated to have reached in 2012 a gross gambling revenue of 430,6 billion dollars compared with 331.1 billion dollars in 2006. The 30 per cent net revenue growth rate during the period 2006-2012, together with the estimates for 2013 which show a 4 per cent market growth, indicate the development trend which tends to characterize this sector at a world level. With regard to world geographical areas the main markets by the analysis prove to be Asia, the USA and Europe (Gtech, 2012, 2013). According to H2 Gambling Capital (2012), the Italian market in 2012 represented almost 6 per cent of the gross gambling revenue at a global level, occupying first place amongst the nations at a European level, and fourth position at a world level, behind the USA, China and Japan.

From the demand viewpoint the regulated real-money gambling industry in Italy has been characterized by a propensity towards gambling which is among the greatest in the world and by a constant high growth in gambling revenue over the last ten years. This growth is essentially the outcome of the process of a ‘regulated’ opening up of the sector begun in 2000 by the gambling regulating body, namely the Italian Agency of Customs and Monopolies, which draws up guidelines for a rational development of the market. From the normative viewpoint, in fact, the functioning of the regulated gambling market in Italy makes provision for the state control of the distribution network and entrusts the commercialization of gambling to several subjects acting as concessionaires. According to this system, therefore, before the state reserve, the authorized dealer acts as representative of a public service and, it being his function, is subject to the control of the Public Administration (Sbordoni, 2010). Control by the Public Administration aims at protecting the consumers from illegal gambling proposals, as well as at a correct market development which, in 2012, created a fiscal gambling revenue of 8 billion euro (State Auditors’ Department, 2013).

More specifically in 2012 the Italian market data showed a total amount wagered in gambling of some 87 billion euro, with a 7.1 per cent increase from 2011. Between 2003 and 2012 the nominal value of the total amount wagered in gambling increased almost six-fold. The per capita wagered in gambling in 2012 increased to 1,400 euro (Agimeg, 2012), 900 euro more than in 2004 (CsePragma, 2012).

The statistic relating to the gross gambling revenue of 2012 of 17.4 billion euro recorded a 4.1 per cent fall with respect to 2011. This fall, which follows ten years of continuous growth, is mainly the outcome of a shift on the part of the players towards gambling modalities with a pay-out – that is to say the value in gambling percentages which are paid back in the form of winnings – which is higher. With the passing of time, in fact, a change has been seen in the players’ choice of new gambling typologies which assure them of a greater redistribution percentage of the sums gambled and which imply a limited time lapse between the moment of gambling and collection time of winnings. This is confirmed by the data which show how in the last few years, before a decreasing trend in gross gambling revenue of ‘traditional’ betting (e.g. Lotteries, Lotto and ‘Superenalotto’), characterized by a more restricted pay-out, the expenditure in games has increased exponentially which provide for higher winning rates. More particularly, reference is here being made to the “Video Lotteries”, which in 2012 registered a gross gambling revenue growth rate of 79.5 per cent, and which, together with the “New slot machines”, represent 54.3 per cent of the gross gambling revenue in Italy (State Auditors’ Department, 2013). Among the new gambling typologies towards which the preferences of Italian consumers are shifting, the constant growth in total amount wagered and gross gambling revenue relating to the on line games is to be noted. In Italy too since 2006, the year in which legislation was introduced to regulate all gambling opportunities through the internet, the regulated real-money internet gambling industry has now developed.

The development of the regulated Internet gambling industry in Italy: market data, segments and advantages of on line gambling

The regulated real-money internet gambling industry includes the type of gambling in which it is possible to participate utilizing internet access sites to the game, in place of the traditional network of the betting agencies, in the sphere of a state-regulated gambling.

The internet gambling industry first started to take off in the late 1990s, being empowered through the growth of internet usage generally and through a natural demand for gambling products (H2 Gambling Capital, Obodo, 2013). The possibility, through the internet, of reaching the player by means of a direct channel which allows an in-depth full form of communication, has in fact, on the demand side, led to a profound change in the customer gambling experience, while on the supply side, just as in other sectors, a process of commercial disintermediation occurred where one of the main reasons for the existence of a commercial intermediary become less relevant.

Before the growth in the on line gambling demand by the consumers, most governments evaluated the opportunity of regulating the internet

gambling, in order to reduce to the consumer the risks of illegal gambling and to exploit the returns in terms of revenue on the game. With the passage of time, “some jurisdictions adopted a hands-off approach and did not enact legislation regulating the industry, some attempted to actively prohibit online gambling, while some passed a variety of forms of basic regulation pending a more detailed strategy for this dynamic and fast-growing new industry” (H2 Gambling Capital, Obodo, 2013, p. 3). More recently the on line gambling has been increasingly regulated, giving place to a regulated internet gambling industry which in 2012, at a global level, was estimated at about 38 billion euro in terms of gross gambling revenue (Gtech, 2013).

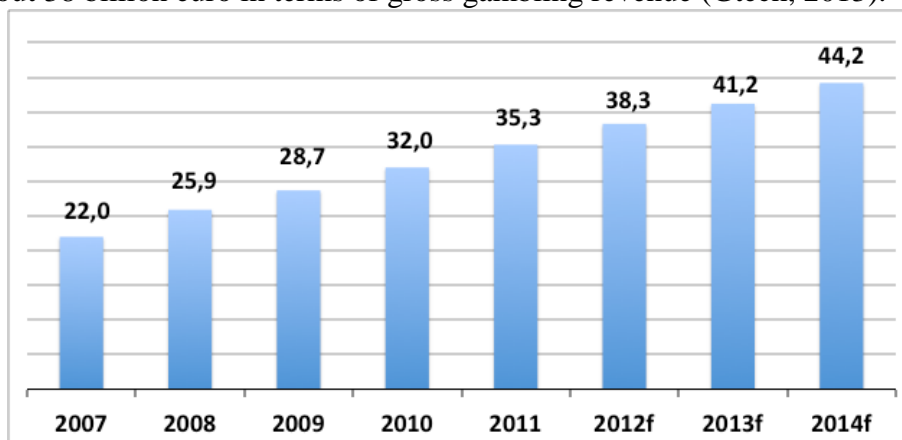


Figure 1. Internet gambling industry: trend of world market for gross gambling revenues (Years 2007-2014). Billions of euro

Source: Gtech, on GBGC Analisis data, 2013

As is shown in Figure 1, in which data are reported relating to the gross gambling revenues made in the world for the period 2007-2011, and to that estimated for the period 2012-2014, this business has been characterized by a constant growth which will also continue for the next few years. This is confirmed by the H2 Gambling Capital analyses (2013), which measure, at a world level, an annual average increase of 14.12 per cent in gross gambling revenues during the period 2003-2012.

In the sphere of the global market, Italy is assuming an important influence also in the segment of on line gambling, albeit only few years have passed from regulating the market, which took place, as already shown, in 2006 with the main objective of countering the illegal on line forms of gambling.

In 2012 in the regulated Internet gambling industry in Italy the total amount wagered reached 15.4 billion euro, with a growth rate of about 50 per cent compared with 2011 (State Auditors' Department, 2013), whereas the gross gambling revenues was equal to 749 million euro, with a 1.9 per cent growth compared with 2011 and 141.6 per cent compared with 2008,

the first year of the effective operativeness of on line gambling in Italy (Aams 2013a). The different growth rates of the total amount wagered in gambling with respect to the gross gambling revenues are reconnected to the players’ preference towards game typologies with a higher payout, in keeping with what happened as described in the previous paragraph for off line games.

The incidence of the total amount wagered in on line gambling on the total wagered in gambling in Italy (both off line and on line) in 2012 was greater than 17 per cent¹, while that of gross gambling revenue was equal to 4 per cent. Still in 2012, 2.8 million users took part via the internet, at least on one occasion, in games with monetary wins, even if most of these users were occasional gamblers (Milan Polytechnic Observatory of on line gambling, 2013).

The sustained growth in business in Italy in the last few years, as summarized in table 1, is primarily associated with certain advantages which the player perceives in using the virtual distribution in substituting the physical one.

On line gambling modality advantages	On line gambling modality disadvantages
Gambling speed	Perception of less security in on line transactions
Gambling convenience	Development of forms of pathological gambling
Fewer monetary and non-monetary costs for access to gambling	Costs and instability of on line connection
Space-time extension of gambling possibilities	
Perception of gambling as a moment of entertainment and a pleasant leisure-time occupation	
Possibility of Gambling on mobile devices (Smartphone, Tablet,etc.)	

Table 1. Impact on the gambling experience of the on line distribution channel: a comparison with the off line distribution channel

In order to have a better understanding of the nature of these benefits, it is expedient to examine them in relationship with the various gambling typologies supplied through the internet. In fact on line gambling appears to have a different impact on the consumption process according to the game segment chosen. This is confirmed by the data relating to the gross gambling revenue of the Italian market for 2012 and 2011, classified by the gambling segment (table 2).

In table 2 a preference is shown of the on line players towards the segment “Skill games, Card games, Casino games”, which includes tournament poker and cash poker, which in 2012 represented about 68 per cent of the total on line gross gambling revenue.

¹ Our processing on data State Auditors’ Department, 2013, Aams, 2013a.

On-line gambling segment	GGR 2011	% on total	% accumulated	GGR 2012	% on total	% accumulated	% variation 2011-2012
Skill games, card games, Casino games	433.529.315	58,90%	58,90%	507.517.700	67,80%	67,80%	17,07%
Sports Betting	208.838.935	28,40%	87,30%	166.896.563	22,30%	90,00%	-20,08%
Bingo	54.934.425	7,50%	94,80%	42.815.467	5,70%	95,70%	-22,06%
Horse-race betting	11.925.085	1,60%	96,40%	11.949.018	1,60%	97,30%	0,20%
'Superenalotto' + 'Win for life'	11.154.005	1,50%	98,00%	7.312.481	1,00%	98,30%	-34,44%
Scratch and win	7.292.104	1,00%	99,90%	6.538.242	0,90%	99,20%	-10,34%
National + International Horse-racing	6.845.087	0,90%	98,90%	5.217.153	0,70%	99,90%	-23,78%
Forecast gambling + BIG	920.945	0,10%	100,00%	836.044	0,10%	100,00%	-9,22%
TOTAL	735.439.900	100,00%		749.082.667	100,00%		1,86%

Table 2. Gross gambling revenue for gambling segment. Italy, years 2011/12 (data in euro)
Source: Aams, 2012a; 2013a

This preference is confirmed by the data in terms of trend which show that, in 2012, this segment has grown by 17 per cent in terms of gross gambling revenue, unlike the other game segments, which, with the exclusion of horse-race betting, have witnessed a considerable fall in gross gambling revenue.

In order to understand the reasons for these on line gambling preferences, it is useful to analyze separately the betting dynamics of the macro-group 'Skill games, Card games, Casino games', with respect to the other gambling segments:

1) relative to the macro-group 'Skill games, Card games, Casino games', internet has permitted the creation of a practically new betting market for Italy. The network through which such games - especially skill games and card games - were exclusively supplied was constituted by the Casinos. The gambling volume of this business was therefore somewhat contained, in view of the presence of only four Gambling Houses on the Italian territory, concentrated in North Italy, which obliged players to incur high costs (in terms of time and money) in order to reach the Casino and stay overnight. The use of the web-based technologies, which bring the distanced players into contact with each other within the sphere of virtual casinos, has granted gaining benefits in terms of convenience speed of game and reduction in monetary and non-monetary costs for access to gambling. Furthermore, the possibility of playing on line against other people in skill games and card games², has changed the perception of gambling, that is increasingly becoming moments of entertainment and pleasure. Aams

²The most important card games are tournament poker and cash poker.

(2012b), in describing the peculiarities of internet gambling, observes in this regard that “the Italian regulations set out to give to the remote gambling the character of entertainment, socialization and a pleasant employment of one’s leisure time, differentiating it fundamentally from other games based essentially on individual forms of behavior and on distance, both physical and temporal, between the moment of betting and that of winning”. All this has transformed a niche business, only accessible to a limited number of people commanding a high income, into a business en masse. To this aspect is added the effect of the shift of the players’ preferences towards forms of it with a higher payout. The games of the segment in question, in fact, on average make provision for a percentage of players’ winnings which are much higher than those of others game segments;

2) in relationship to the other game segments shown in table 2, which collectively represent about a third of the total on line gross gambling revenue, the use of the internet has mainly allowed shifting part of the gambling carried out through the physical distribution network towards the virtual network. These games, in fact, had already been supplied prior to the advent of digital distribution through betting agencies and other authorized physical structures. Many customers have therefore chosen the new game distribution channel as it is more convenient and rapid compared with the off line distribution channel. To this is added the advantage of one’s being able to play 24 hours a day, not having to respect the opening hours of the physical distribution network. For the customer this also translates into a reduction in monetary and figurative costs which are incurred when one goes to the agencies, and in a simpler comparison between game modality and prize quotas offered by the various operators. The transparency produced by the internet technologies reduces, in fact, the information asymmetries, facilitating the user in his choice of supply which is more in keeping with his own preferences and with his own objectives. On line gambling for these game segments has therefore prevalently assumed a function of integration of the traditional sales channels within a vision of multi-channel distribution.

Apart from the gambling typology, a further benefit for the on line players, compared to the off line modality, derives from the possibility of utilizing, in addition to the personal computer, new terminals for real-money betting in mobile games, such as the smartphone and tablet. These appear to lend themselves more especially for live modality bets, for which the moment of playing counts significantly, and for some skill games for which an improvement in the web customers’ experience is achieved. An investigation carried out by the Milan Polytechnic Observatory of on line gambling (2013) shows that in this regard, by March 2013, more than half of the on line operators in Italy had made available enterprises (Mobile sites and Applications) which in most cases allow the real-money gambling

through the smartphone and tablet. To these channels is to be added the possibility of being connected up to players by means of the social networks. This channel has moreover a different function from the mobile terminals, in that, not being able to be used by the firms of the sector as sales instrument of the games, it plays a role for promoting the brand, for the development of the interaction between players and attracting new customers. The investigation carried out by the Milan Polytechnic Observatory (2013) shows that 60 per cent of the on line operators in Italy by 2012 were present on the main social networks (Facebook, Twitter, You tube, Google+).

For the benefits of the on line gambling there, as can be evinced from table 1, certain disadvantages correspond, compared with the traditional off line game modality. Reference is primarily being made to the perception of there being less security in transactions, associated with the use of on-line payment instruments such as credit cards. The problems relating to costs and stability in on line connection have been almost completely overcome in view of the new flat rate tariffs envisaged by the net operators and by the improvements in stability and data transmission capacity of the connections via internet. To these aspects is added the risk of preferring forms of compulsive buying. The possibility of immediate reiteration of the betting without solutions of continuity, facilitated by the on line game, is exacerbating a distortion of the gambling, into the form of pathological gambling (Wood, Williams, 2007; Bastiani et al., 2011). The incidence of pathological gambling among adults in Italy in fact in 2011 affected between 1 and 2 per cent of the entire population (Department of Antidrug Policies, 2011). Moreover certain market operators are responding to this aspect by arranging policies of responsible games directed towards preventing and limiting the forms of pathological on line gambling.

The Internet gambling industry in Italy: business models compared

In 2012, about five years after the introduction of the regulated internet gambling industry in Italy, the total number of on line operators was 143. In fact in 2012 a high reduction was registered in the number of operators which in 2011 numbered 274, as many of these did not reintegrate the concession. Thus a process of adjustment of the sector was witnessed which follows a period of high growth in the number of firms active in the business. This growth was nurtured also by a ‘mode effect’ which had driven in the past few years various operators, who later abandoned the sector, to enter the market without having planned a clear business model. Despite the fairly high number of firms, the market of the on line gambling is still rather concentrated, as shown by the data which point out how by 2012 the first 10 operators in Italy had generate three quarters of the total gross gambling revenue (Milan Polytechnic Observatory of on line gambling, 2013).

The operators active in 2012 adopted various business models, which are based on different competition levels. More specifically, their competitive strategies seem to be differentiated in relationship with the following strategic and structural characteristics:

- the degree of specialization of the firms in the on line gambling business: incumbent/traditional firms vs entrant/on line specialized firms;
- the breadth of the product range offered via internet: diversified vs specialized firms;
- the geographical extent of the market: international vs domestic firms;
- the relational approach for the supply of on line gambling products: independent vs networked firms.

In the subsequent paragraphs are analyzed the various strategies just described.

The degree of specialization of the firms in the on line gambling business: incumbent/traditional firms vs entrant/on line specialized firms

The regulated gambling industry in Italy has been characterized, for a long time, by an oligopolistic supply structure, in that the entry of new operators had been made difficult by normative characteristics and by the necessity of arranging for a physical intermediation network, indispensable for developing direct distribution with a very high number of customers. The possibility of reaching the players through the web by means of a direct remote distribution channel has favoured a process of reconfiguration of the sector, which envisages a comparison with the model of the incumbent firms having operated for many years through the physical distribution network, that of specialized on line operators, who operate ‘at a distance’ through the Net. In exploiting the disintermediation process by the use of the internet as distribution channel these operators have succeeded in overcoming a relevant obstacle to the entry into the business, represented by the need to have access to a network of agencies for the sale of the games.

Incumbent/traditional firms	Entrant/on-line specialized firms
Implementation of multichannel strategy	Overcoming industry's barriers to entry associated with the physical distribution network
Reduction in distribution costs	Strategies focused on the on-line target
Introduction of new products associated with on-line game modalities	High information technology competencies
Adoption of <i>customer relationship management</i> techniques	Adoption of <i>customer relationship management</i> techniques

Table 3. The main opportunities created by on line gambling: a comparison between incumbent/traditional firms vs entrant/on line specialized firms

A relevant consequence of the introduction of on line gambling in the Italian regulated market is thus the affirmation of two different business

‘macro-models’: the one adopted by the incumbent firms and the one adopted by the entrant firms, specialized mainly in on line gambling. As set out in table 3, for the two different firm typologies the advantages offered by the use of the virtual distribution channel are different and impact differently on the competitive strategies.

The ‘traditional’ firms, or incumbents, such as Lottomatica, Sisal, Snai, for years leaders in the regulated gambling industry in Italy, have added to the off line distribution carried out through the physical network of agencies, the on line one. Through the adoption of the internet technologies:

1) they have increased the number of sales channels, within a multi-channel distribution perspective;

2) they are currently reducing the distribution costs of the games already supplied through the physical distribution network (mainly ‘games of chance’³ and bets), thanks to the transfer of part of the sales from the physical channel to the less expensive virtual one;

3) they have increased in the customer’s experience in terms of comfort, speed and convenience, when compared to that achieved through the physical network;

4) they have introduced the sale of skill games, card games and casino games, that cannot be supplied through the physical distribution network;

5) they are currently distributing a new long-term relationship with the customer, through the adoption of customer relationship management techniques (Grönroos, 2000).

The business model implemented by these firms in the on line segment is closely interrelated with that adopted in the off line games segment. For the incumbent firms, in fact, the core business still remains the ‘physical’ market, in that the virtual one is, for its size, less relevant, as shown by the 2012 Italian market data, which show an incidence of on line business on the amount wagered in gambling (both off line and on line) of 17 per cent, and on the total of gross gambling revenues (both off line and on line) of 4 per cent.

In sum, the incumbent firms are exploiting the potentialities of the Internet mainly within the multi-channel distribution and ‘extension’ spectrum of the activities already carried out in the off line segment. In this way they can obtain relevant returns: 1) in terms of efficiency of the transactions, through the passage of volumes of transactions relating to ‘games of chance’ and ‘betting’ segments from the physical distribution network to the virtual one, characterized by extremely reduced running costs;

³ These games are thus defined since being based on the extraction of numbers or coupons the probability of winning is a consequence of exclusively chance factors.

2) in terms of increase in revenues thanks to the greater convenience and speed of the game and to the introduction of new betting typologies (tournament poker, cash poker and some casino games) peculiar to the game modality via the internet.

For the incumbent firms, to the positive effects just described, corresponds the increase in the competitive pressure determined by the entry into the sector of the new operators specialized in the sale through the virtual distribution channel.

For the most part the entrant firms come from converging sectors (Yoffie, 1997). The regulated gambling industry in Italy is in fact affected by a convergence process brought about by technological drivers (development of internet technologies), normative (the regulated opening up of the market) and relating to the demand (the perception of the gambling business as part of the wider sector of entertainment), which favoured the entry into the business of firms belonging to converging sectors such as those of software, web services and publishing.

The business model for such firms is distinct from that of the incumbent firms in that for them the on line gambling segment is the prevalent competitive activity sphere. The main strategic aim for these operators is to acquire a high basis of on line clients in order to guarantee both turnover and an adequate profitability, as well as to render the game experience satisfying, especially with regard to the new types of betting (tournament poker, poker cash and casino games) which require the simultaneous on line presence of a high number of players for its distribution.

The critical success factor of these firms is represented by the possibility of focusing one's strategies on an on line target, characterized by a specific profile of behavior. Unlike the other goods and services markets in which the repetition of negative experiences would bring about dissatisfaction and a refusal of reacquisition, the gambler continues to play despite his failures and loss of capital (Gandolfo, De Bonis, 2011). This aspect is particularly evident in the segment of the on line gambling, where the game repetition is facilitated by the continuous openness of the betting room and by the extremely low monetary and non-monetary costs for access to gambling. The real value of the customer is thus expressed, even more than in other businesses, in the continuity of on line gambling, and not in individual transactions. Therefore customer loyalty strategies assume a key role and, from this viewpoint, the possibility becomes determinant, through web-based technologies, to trace at very contained costs the different customers' behaviour, in order to redefine continuously the products on offer with regard to their preferences. In this regard, it is precisely the firms specialized in the on line channel, which have high competences in the field

of information technologies at their disposal, in most cases coming from convergent sectors of web services and software, to be able to exploit better the potentialities of the Net with the aim of acquiring and of retaining the on line customers.

Opposed to this aspect are naturally the position advantages held by the incumbent firms which, having operated for many years in the sector, can exploit the customer base and the greater capacity of investment for acquiring market quotas in the internet gambling segment, through strategies which aim to ‘shift’ customers from the off line world to the on line one.

The 2012 data show that the two different business models tend to divide the market up between each other. More specifically, among the first 10 operators of the regulated internet gambling industry in Italy, which as pointed out accumulate three quarters of the total gross gambling revenue, 4 are operators specialized in the internet gambling segment, while 6 are incumbent firms, which have already operated in the past through the physical network (Milan Polytechnic Observatory of on line gambling, 2013).

The breadth of the product range offered via internet: diversified vs specialized firms

A second difference which tends to distinguish the business models adopted in Italy by the firms operating in the internet gambling segment regards the extent of the product range offered via internet. On one side, in fact, some firms supply a very wide range of games, which included Skill games, Card games, Casino games, Sports betting and House-racing betting and the other ‘games of chance’ (Bingo, Scratch and Win, Superenalotto and Win for Life); on the other, certain operators are focused on the supply of specific gambling typologies.

In terms of prevalence, the incumbent firms adopt the first product range strategy, in that for them the on line distribution channel has chiefly taken on a function of integration of the physical sales network, within a vision of multi-channel distribution. They therefore supply via internet the same gambings already sold physically (Sports Betting and House-racing betting and the other ‘games of chance’), to which they have added those of the segment of skill games and card games, which it was not possible to supply off line.

The entrant firms, specialized in the on line segment, tend in contrast to have a more diversified orientation in the product range choices. Unlike the incumbent firms, many of these focus exclusively on the supply of ‘Skill games, Card games, Casino games’. As shown in fact the use of web-based technologies, which link up with players distanced from each other connection in the sphere of virtual casinos, has granted creating a practically new gambling market for Italy. In this segment, therefore the entrant firms

gain the competitive advantage which the incumbent firms exploit in the other gambling segments, in which they have been acting for many years. Moreover in supplying this typology of gambling, these can exploit the greater advanced information technology competences regularly possessed.

The market data confirm these differences. In 2012, for example, in the sporting bets segment there were still the incumbent firms such as Snai, Lottomatica Scommesse and Sisal, that hold the market leadership. As time passes moreover the entrant firms are gaining some important positions, as shown by the market quotas in 2012 in the sporting bets segment of some operators specialized in the on line gambling such as Microgame and Bwin, which occupy sixth and eighth position in the classification, with a market quota of 5.9 and 3.1 per cent, respectively (Aams, 2013b).

The data relating to the ‘Skill games, Card games, Casino games’ segment envisage in contrast a more equally shared leadership between incumbent and entrant operators, with an advantage in favour of the latter. In this regard the data relating to the market quota of amount wagered in gambling in the month of December 2012 in the main on line card game⁴ - Poker in cash modality - (which represents almost 50% of the total amount wagered of the on line gambling), show that the market leader of this segment, with a quota of 36.49 per cent, is PokerStar.it., a entrant firm focused exclusively on a specific segment of on line gambling, namely that of poker (Pokeritaliaweb, 2013).

The geographical extent of the market: international vs domestic firms

A third difference among the strategic approaches followed by the firms operating in the on line segment in Italy regards the choices in terms of extent of the market served.

Up to the introduction of on line gambling, in the sphere of the regulated gambling industry each nation was affected, normally, by an oligopolistic competition restricted to few national firms, in that the entry of new operators also from abroad was rendered difficult by the various rules and regulations adopted at the level of each individual country and by the barrier to entry represented by the high costs to be borne in order to organize and manage a physical intermediation network, indispensable for developing a direct distribution of gambling with a high number of clients.

The introduction of internet gambling has partly modified this situation. The exploitation of the potentiality of the web in fact grants replicating the gambling distribution in new geographical market at much reduced costs compared with those necessary for the management of a physical distribution network.

⁴ See Table 4 reported in the following paragraphs.

This has facilitated the entry into the Italian market of several foreign operators specialized in the on line business, as witnessed by the data relating to the gross gambling revenue of the regulated Internet gambling industry in Italy during 2012, which show how among the first 10 operators for the gross gambling revenue, who generate three quarters of the total GGR, 3 are foreign operators specialized in on line gambling (Milan Polytechnic Observatory of on line gambling, 2013).

In some cases the foreign firms have made their own entry into the Italian market through the acquisition of Italian companies already operative. In this regard the acquisition is to be pointed in 2009 of one of the first operators of the regulated Internet gambling industry in Italy, namely ‘Gioco Digitale’, with an investment of about 90 million euro, on the part of an Austrian firm namely Bwin, leader in the market of on line gambling in Europe.

A competition is thus being affirmed, which passes the national confines and which in the next few years will be ever more characterized by large-scale operators who act transversely in various national contexts.

Moreover there are still a few Italian firms which have decided to enter other markets through an on line distribution. This has transpired, for example, to one of the leading firms on the on line internet gambling scene in Italy namely Microgame, which in 2012 received authorization to enter the French market with the objective of replicating the complex business model based on the sales specialized in on line games. The firm subsequently failed to start its activities in France because of various series of normative problems characterizing the transalpine market. This bears witness moreover to the fact that the barrier to entry connected to the different fiscal gambling rules and regulations adopted by each country, may still limit the process of internationalization of the firms.

In this regard it is useful to show that it is at the moment a project is being studied at a European level in order to coordinate better the norms regulating gambling in the different EU countries, with the aim of facilitating greater integration among the national markets, from the viewpoint of the future development of a community market (European Commission, 2012).

The relational approach for the supply of on line gambling products: independent vs networked firms

A further strategic choice which tends to differentiate the on line operators in Italy concerns the type of relational approach with other firms selected for the supply of on line gambling products.

In the internet gambling industry, next to an independent approach followed by some operators, a ‘network’ business model is becoming established. Both the incumbent firms, as well as those entrants, in order to speed up entrance into the on line business, have in fact in many cases

created some gambling circuits which share the same software application provided by a specialized service provider, which brings into contact with each other the gamblers of the various operators belonging to the circuit. In the network take part both the firms which have at their disposal the direct connection of the Aams, as well as those which are called 'skin'. Skins are game operators of on line sites affiliated to an authorized Aams agent and backed by a network, with its own independent brand. Thus they always depend on the main license of the house gambling partner (www.aams.gov.it).

This model permits reducing the obstacles to the entry into the on line gambling segment. The first obstacle is represented by the high costs and lengthy times necessary for the development and management of a secure software (to guarantee the money invested by the gamblers) and 'robust' (to support thousands of users connected all at the same time on the gambling platform). A second obstacle regards the attraction of a sufficient number of users who can guarantee a satisfactory gambling experience, especially with regard to the segment of skill games and card games.

The network approach therefore consents to: 1) the gambling operators to have immediately at their disposal the most sophisticated software and the necessary software updated for selling on line forms of gambling at contained costs, and for reaching a 'critical mass' of players necessary for creating a satisfactory gambling experience; 2) the manager of the network (supplier of on line gambling software platforms) to obtain a return both in terms of sale of the licenses of the software, which, in some cases, of commission on the gambling revenues of the operators. It is interesting to note, in this regard, that the management of the network is realized by making use of the internet-based technologies, through which the various nodes of the web are connected in remote modality at contained costs. This shows that, in the on line gambling industry, internet has had a relevant impact not only on the management of the relationships with the final customer-gambler, but also on the development of the collaboration relationships among the firms.

Denomination Operator/Network	Market Quota December 2012	Business Model	Some examples of Affiliated Concessionaries /Skin
Pokerstars.it	36.49%	Independent Operator	
I-poker.it	16.29%	Network	Eurobet; Sisal; Snai; Titanbet.it
Lottomatica	14.45%	Network	Lottomatica, Totosi, Izi Play poker
People's Poker	13.06%	Network	Agile; Fivebet; IgameLab; Totoit on line
Active's - On games	12.16%	Network	Bwin.it; Gioco digitale; Winga
Skill poker-Labgame	3.58%	Network	ScommessellItalia, Stanleybet
Gioco Online Italia	2.62%	Network	Big poker; Misterbet
Gioca7	0.74%	Network	Isibet; MerkurWin
Total	100.00%		

Table 4. The market quota in terms of amount wagered in in the on line cash poker business: a comparison between independent operators and gambling network. Data December 2012.

Source: our processing on data Pokeritaliaweb, 2012, 2013; Agicos, 2012.

The establishment of this collaborative approach is borne out by the data reported in table 4, relating to the market quota in the on line cash Poker business (which represents almost 50% of the total amount wagered of the on line gambling) for the month of December 2012. It emerges from the table, in fact, that in this specific segment the operators organized in network form control all in all a 63 per cent market quota, and hence a greater amount than that covered by the independent operator.

Finally it is expedient to show that in the sphere of the new internet software gambling platforms, in some cases the service providers are evolving from simple suppliers of software to partners for the co-definition of the business strategies. The gambling operators are in fact ever more frequently entrusting, to outsourcing, not only the development and management of the information technologies, but also the administrative activities, analyses of customers' behavior and network promotion. This allows the operators to focus their own resources on the core activities, made up of the search for new users for their own 'gambling room' and of the development of the customer loyalty strategies.

Conclusions and future research directions

The analysis carried out throughout the work has granted making a description of the main normative, technological and market changes that have given place, in the regulated gambling industry in Italy, to the birth and development of the on line gambling segment.

In this segment different business models tend to co-exist, more especially because of the entry into the sector of firms specialized in the supply of on line gambling, which have gone on to join up with incumbent firms, already having operated for years in the sector through a physical distribution network. As has been shown in the course of the work, the

strategic approaches of the firms operating in the internet gambling segment tend to be differentiated in relationship with various competition aspects.

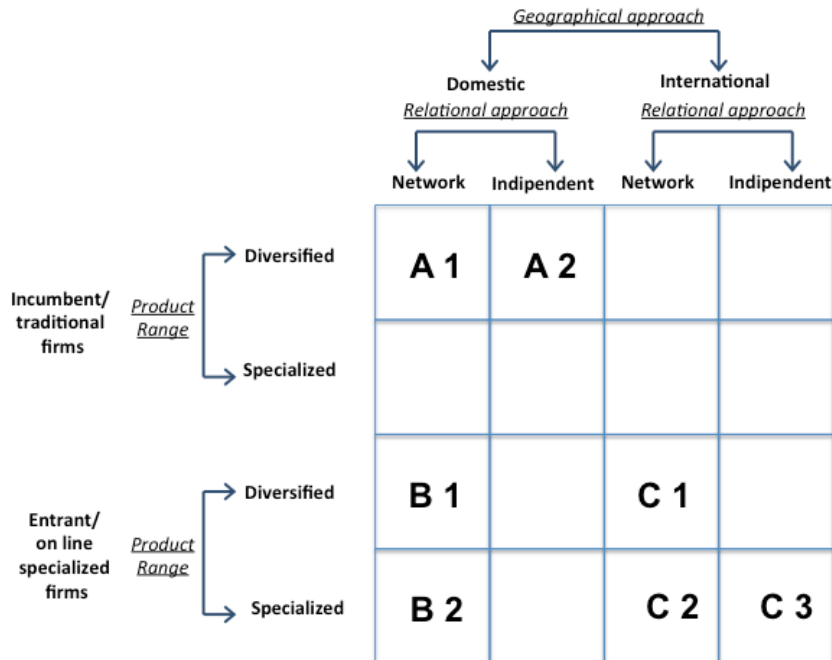


Figure 2. The prevalent business models in the regulated internet gambling industry in Italy

As shown in Figure 2 - in which are represented, in matrix form and in terms of prevalence, the strategies adopted by the firms operating in the on line gambling segment in Italy – three ‘macro- business’ models have now been established, sub-divisible in their turn in keeping with the decisions about the extent of the product range supplied and the typology of relational approach to be adopted for the distribution of on line gambling:

- A. Incumbent firms with a domestic approach: the incumbent firms chiefly adopt a domestic market approach - performing their own normal activity exclusively in Italy – based on the sales via internet of a vast product range, and tend to be differentiated amongst those more numerous ones, which have adopted a network approach for the supply of most on line gambling products (A1), and those which have chosen an independent model (A2);
- B. Entrant firms with a domestic approach: some entrant firms adopt a domestic market approach – performing their own activity exclusively in Italy – based mainly on the adhesion to a network for the supply of most on line gambling products, and tend to differentiate among firms which supply a vast product range (B1), and those which focus their own supply on specific gambling segments (B2);

C. Entrant firms with an international approach: many of the entrant firms adopt an international market approach, operating in various geographical contexts. Most of these have adhered to a network for the distribution of on line gambling products, supplying either a wide product range (C1), or a supply focused on specific gambling segments (C2). Other firms, and amongst these the market leader in the ‘Skill games, Card games, Casino games’ segment, in contrast adopt an independent approach for the supply of on line gambling products, focusing their supply on specific gambling segments (C3).

The observations just made open up to an in-depth analysis aimed at understanding the most efficient managerial strategies for competing in the on line gambling segment. This work, in fact, represents an initial phase of a long-term research course which has as its objective an in-depth examination, by means of a multi-case qualitative analysis, already in its development phase, of the micro dynamics lying at the basis of the various business models identified.

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