

# *Online Gambling for Senior Citizens*

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## *Business Summary*

We plan to start a business offering online gambling catered to senior citizens. The business model depends on a friendly, simple and trustworthy service. Currently, there are not many well-known general gambling sites and none specifically targeted at senior citizens. Our target customer base is growing rapidly and has still to reach its peak. Key success factors in our plan include gaining the trust of seniors, differentiating from current online gambling sites, heavy marketing, partnerships with various senior groups, and creating a user friendly gambling site and program. Financially, a large initial investment is not necessary as we intend to start small, using a test phase to evaluate our progress. Most of the cost will be centered on hardware and personnel.

## *Market Analysis*

The overall market we will be positioned in is the gambling population in the United States. This general market can be segmented into categories by types of games played or player demographic. However, it is more revealing to divide the market based on age group. Currently, the bulk majority of online gamblers lies in the young to middle aged working class. This market has been heavily sought after and catered to already.

We intend to cater to the senior citizen population in the U.S. This market segment is currently one of the U.S.'s largest at thirty six million individuals, or thirteen percent of the total population in America. In addition, this market is expanding rapidly as the baby boom generation ages. In fact, according to the U.S. census in 2001, the

worldwide senior citizen population was expected to grow at eight hundred thousand people per month.

The senior citizen market is generally comprised of individuals with sizable disposable incomes. In addition, according to the *American Journal of Geriatric Psychology*, as many as seventy percent of senior citizens gamble.

In addition to age group, the overall gambling market can be further divided based on the type of access to gambling. Currently, most individuals still gamble in person at a casino. However, a rapidly growing segment of the gambling market is starting to migrate to online gaming.

The senior citizen market is also largely untapped in this regard since it is typically overlooked in online services. However, between 2000 and 2004, the number of senior citizens actively using the Internet grew forty-two percent to an approximate eleven million users currently. In addition, when the baby boom generation comes of age, an additional 34 million people, two thirds of whom are already Internet literate, will join the senior citizen market. According to Lee Rainie, director of the Pew Internet Project, "The 'silver tsunami' of older Internet users is gaining momentum. Internet users in their 50's who work, shop, and keep in touch with friends and family online will age into and transform into the wired senior population." (seniorjournal.com)

Senior citizens have a lot of disposable income, are looking for various means of recreation and entertainment, and constitute a large portion of current casino gamblers<sup>1</sup>. No online gambling site or poker site has launched any campaign trying to attract a senior citizen customer base.

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<sup>1</sup> For example, Indian Casinos in California look to the elderly for more than ½ their customer base. <http://www.fortwayne.com/mld/journalgazette/news/nation/10239583.htm>

Given a sizeable gambling population coupled with increasing access to the Internet, the senior citizen market is a highly desirable one for online gambling. On the other hand, many needs must be met to serve this market. Most importantly, the online gaming site must be trustworthy. Moreover, the site must provide an easy user interface and reliable money transfer. Furthermore, extensive customer support must be offered. When catering to senior citizens who are not necessarily familiar with gaming or computers, tutorials in each respective topic will be needed.

In addition to the needs outlined above, customer buying decisions must be taken into account. Most notably, senior citizens have the choice to gamble in person rather than online. Moreover, as the market becomes more targeted, senior citizens will have the choice to gamble on other sites.

### *Competitive Analysis*

A comprehensive analysis of Michael Porter's five forces (and R. Preston McAfee's 6<sup>th</sup> one) will show that the online gambling industry can be profitably entered at this time.

### Entry

Entry into the online gambling industry is not hindered by many significant barriers. The online gambling industry can support more than one profitable firm. There is no significant advantage to a firm that can operate at large scales. The marginal cost of adding an extra server to support more online gamers does not decrease significantly with more servers – a highly invested firm with large excess server capacity cannot leverage its extra resources to achieve a lower cost anymore than a small firm with just

a couple of servers and maintenance workers. This allows entry into the market as a small competitor to be feasible.

Established sites do have a switching costs' advantage since it takes effort for online gamblers to transfer funds between sites. Established sites also have the first mover advantages in reputation and customer lock-in. However, because there are little to no network effects in online gambling<sup>2</sup>, these advantages have reduced value.

Differentiation is difficult to achieve in this industry since there are so few things one firm can do that cannot be copied by another. Bonus codes, promotions, flashy graphics and easy-to-use interfaces, and other gimmicks are easy to imitate. Technological differentiation is ineffective since running a gambling site requires readily available and low cost equipment.

The U.S. government poses the biggest threat to entry. For example, the U.S. government forces online gambling headquarters to be forced offshore which makes the logistics of running a business targeting U.S. citizens difficult. The government also restricts collection of online gambling debts, restricting sites from lucratively allowing players to gamble on credit. It may even be possible that the government may pass a bill through Congress to make gambling online completely illegal.

### Buyer Bargaining Power

Online gamblers have little bargaining power. As a scattered, disjoint, anonymous group of customers, they have no real means to collectively act against online gambling sites. One gambler's departure from a site does not encourage any

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<sup>2</sup> Poker sites are an exception since they have tremendous network effects. Players want to play where all the action is. So the more players on one site, the greater network value that site has. This is not the case with online gaming sites in which players play solely against the house.

other gambler to do the same. The issue of demand and its elasticity as a point of bargaining power is moot. Online gambling sites offer variable amounts for how much one wishes to wager, and any customer's "price" for gambling can be met. The house edge is fixed on any given game and the casinos do not compete on the basis of this edge.

The main substitutes to online gambling are live gambling and online poker.<sup>3</sup> However, live gambling is less convenient for some customers (travel costs) and online poker forces players to worry about other players' actions, making the game complex and less predictable and hence less attractive for some.

### Supplier Bargaining Power

The most important supply input for this industry is labor. This includes tech support, server managers, and customer service personnel. However, the suppliers have no real bargaining power. There are plenty of laborers readily available for hire. Hardware and software inputs are also easily attainable because of the heavy competition in those industries.

The suppliers with largest bargaining power are third-party transaction companies who transfer money from prospective gamblers to online gaming sites (NetTeller, PayPal, IGM-Pay, etc.). Without these companies, running around internet gambling regulations would be difficult since direct transactions are barred in the U.S.

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<sup>3</sup> Online poker is considered a substitute for online gambling because most sites that offer traditional games online do not offer poker and vice versa.

### Substitute Products

The lack of differentiation in this industry makes the threat of a blind-siding substitute minimal. Technological advancement in substitutes poses little threat as well since technology can be easily mimicked. Since the industry is heavily dependent on low cost supply inputs, firms can adapt to smaller changes that may pose threats. Obsolescence of internet gambling would have to take some sort of monumental change in another industry, e.g. radical alteration of the Internet as a whole.

### Rivalry

If one takes the house percentage on a game to represent the “price” of the product, then there is no price competition at all. A price war would be ruinous for the industry since firms would constantly be losing their edges up to a point where no site would profit. Hence, online gambling sites wisely do not compete on prices, making this industry non-rivalrous. Instead, online sites use quality of entertainment and advertising as their primary means of competition.

### Complements

Online gambling popularity has risen tremendously with televised gambling, especially in poker. There have been televised blackjack tournaments with celebrity players, documentaries about video poker tournaments, and other shows that glamorize gambling. Firms in the online gambling industry can ride this wave of popularity with targeted advertising campaigns to attract new players.

Any Internet attraction can also be seen as a complement. The more people use e-mail, online shopping, chatting, etc., the more opportunities Internet gambling sites have to advertise and attract players.

### Changes in the Industry

Currently, the industry is fragmented with many small gambling sites scattered across the web. It is possible that these smaller sites may consolidate with each other to form one mega gambling site. Doing so may build a reputation for that site and make entry into the market difficult.

### Strategy

Our entry strategy will rely on five key capabilities. The most important of these involves creating a trustworthy business. Among the senior citizen population fraud is the single biggest fear. According to a study by Financial Freedom, "When asked to rank a list of fears, Americans aged 62 to 75 ranked fraud ahead of a health crisis and terrorism" (seniorjournal.com). This fear is especially prevalent concerning online transactions, so our strategy to overcome this barrier involves a set of various actions. Central to our strategy is sponsorship by the American Association of Retired People (AARP). The AARP seal of approval will placate the doubts of senior citizens as the AARP is a well-established, trusted organization. Along the same lines, we will recruit a trustworthy and familiar spokesperson to confirm our credibility. This spokesman will appear in popular senior citizen periodicals and possibly television spots. To further comfort the population, we will enlist an outside auditor to confirm that we are operating

fairly. Finally, as a public showing of honesty, we will publish short monthly biographies of past winners, complete with pictures.

Secondly, our strategy involves creating an extremely user-friendly interface. A major reason why senior citizens are turned away from using the Internet involves the complex maze required to get a task done. We will provide a logical and quick interface for both signing up and using our gambling program. This will involve simple step-by-step screens along with audible instructions while installing and registering, perhaps in the voice of our spokesperson. While using the program, users will be presented with a clean and understandable interface for selecting and playing their desired games.

Thirdly, we will provide a means of player-to-player communication for senior citizens. Our program will provide a simple method for senior citizens to connect with others over the Internet. While playing games, seniors will be able to chat with fellow players in a designated chat box on the screen. In addition, communities and special groups of senior citizens can form on the main page and exchange email addresses for everything from socializing to organizing a group online gambling event.

As our fourth strategic element, we will pursue synergies with retirement communities across the United States. We will establish contacts and negotiate contracts with various communities. This strategy involves placing at least one new computer in the retirement community, preinstalled with our online gambling software. We will also provide a customer service representative to offer tutorials on how to use the computer and associated software as well as how to specifically use our program. Thus, we will be able to penetrate a large portion of our targeted market while also gaining trust. In addition, we will seek input from the market through a senior citizen

representative from each retirement community. As a result, we can further improve our product based on the needs and concerns of the market as well as improving our relationship with the senior citizen community.

Finally, if the first four strategies succeed we would gain a first mover advantage. Not only does this factor improve our credibility and image, but it also serves as an entry barrier for potential rivals. While the gambling senior citizen market is potentially a sizable one, it most likely will not support more than a small number of competitors. In order to protect our position, we will form partnerships with popular specialized gaming sites. For example, users on our site who wish to play poker could be directed to a special section of the largest online poker site, PartyPoker. Our strong partnerships not only improve our position but will also help deter competitors from imitating our product.

### Implementing the Strategy

In order to implement our strategy, we will begin with a small trial. We will start off with a limited number of servers and offer a basic version of the gambling program. In addition, we will only establish ourselves in select high profile retirement communities. Once we have created a base, we will begin to pursue contacts with the AARP as well as a spokesman. After this has been achieved, we will begin to expand until all five keys are met.

### Threats and Risks

If the AARP is unwilling to cooperate with us, then establishing trust among senior citizens would be a huge hurdle to overcome. We would also lose the ability to use AARP's sponsorship as a differentiating factor.

We also require the cooperation of retirement homes. In the same sense, not having their commitment to our business plan makes differentiation difficult, as well as drastically reducing our potential customer base.

Another threat is that other sites might imitate our product; however, the danger of this occurring is reduced by our first mover advantage and our relationships with various groups.

### *Product and Services*

The primary service that we are providing is a medium through which people can gamble online. This service will center around a website and software allowing the user to gamble online. The program will feature a friendly and easy to learn user interface. For example, installation will require a minimum number of easy to follow steps. During use of the program, users will be guided by subtle hints and a welcoming voice. Through the experience of using the software, we aim to genuinely recreate the casino experience using realistic sounds and vibrant images. An auxiliary feature of our program will allow users to communicate with other users via chat boxes or email lists.

We will position our service at the gambling senior citizen core in the United States. Our goal is to position the product in a market segment that has yet to reach its peak. Once the baby boom generation joins the senior citizen population, we will be well established in the market. In order to place our product in this ideal market position, we must gain the trust of senior citizens.

While our product and service are not new to the industry of online gambling, our features will differentiate us from competitors allowing us to target a different market

segment. Existing sites and software are generally geared toward users and gamblers who are more familiar with computers. Thus, our easy-to-use product and extremely generous customer service will make our gambling site especially conducive to attracting the less computer-savvy senior citizen market.

As we expand, future products and services will include new games and promotions. For example, we will host live tournaments on cruise ships for loyal customers and senior celebrity tournaments. Once we have captured a good portion of the senior citizen market, we will begin to target other neglected market segments such as women.

### *Marketing and Sales*

Our marketing plan centers on demonstrating that we are a trustworthy online alternative to gambling in casinos. Implementing this plan involves publicizing a sponsorship from the AARP. In addition we will enlist a well-known, trustworthy spokesman for our site.

To promote our site, we will use traditional means of advertising through print and televised media. In order to better target our market, we will cater our advertisements to magazines and television shows popular to the senior citizen population. Furthermore, we will advertise through information provided by the AARP, such as brochures and their online directory of sponsored businesses. Representatives sent to selected retirement communities will also provide a form of marketing by locally publicizing the site.

In addition to advertising, our sales tactics will involve using representatives to demonstrate our product and service. By offering retirement homes computers and periodically sending representatives, we will encourage senior citizens to become comfortable with the technology. As a result, more of the community will be equipped to use our product. We will also provide incentives for new users. Such incentives include small vouchers for signing up and free computer classes for those in retirement communities.

To further publicize our site, we will host live site-sponsored tournaments. We can also organize senior celebrity tournaments and events in which loyal users and jackpot winners can participate. Finally, we will announce winners of various games on the site to show that real people actually win.

### *Operations*

The execution of our plan will be based on an organizational structure in which four key operations will be managed by separate divisions.

First, we will create a technology division to handle all hardware and software necessary for running the site. Initially, this division will be responsible for setting up servers and machines to establish our site. In addition, they will create the gaming software and a secure way to offer existing electronic transaction services on the site. After our site is first created, this division will be responsible for maintaining the hardware and software. It will also prepare individual computers to be sent out to retirement communities.

Another division will control all marketing aspects of our business. This division will build contacts with entities such as retirement communities, spokespeople, and the AARP. Furthermore, the marketing division will be responsible for all advertising.

Once we have begun operation, we will need a customer support division. This division will be comprised of two branches. First, we will have twenty-four hour support over phone or email. The second branch involves personal support in the form of local representatives in retirement communities. Both branches will provide everything from technical help to answering the concerns of our users.

Finally, we will implement a management division, which will oversee all other divisions. This division includes the executive board and will make decisions regarding the business direction. The management division will also handle all financial responsibilities of the business, including enlisting an outside auditing firm to verify the fairness of our games.

Our business will utilize two facilities for these different divisions. The technology division, which houses all the servers, will be based overseas out of legal necessity. We will have another facility for daily operations, including marketing, support, and management, in a legal location near the United States to minimize travel and transportation costs.

### *Vision Statement*

Our site will provide safe and secure online gambling entertainment for senior citizens while allowing them to network and connect with others. Milestones demonstrating growth include reaching a target number of senior citizens on our site, as

a percentage of the total senior citizen population in the United States. Additionally, we will gauge our expansion by the number of retirement communities who subscribe to our service.

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