

White Paper

 The virtual arena: next wave of growth for sports betting
Gextech - October 2006



The match is about to kick off. Spectators place their last minute bets, studying the bank of data, statistics and gossip on screen. The stadium reverberates with the chants of fervent fans. It's hard to believe that it's the tenth match that's taken place that evening, or indeed that the entire league will conclude before midnight. Amazingly spectators will be able to follow all of the matches, check their bets and collect winnings, all from a single screen – whether it's their television, their computer or even a mobile phone. Gone are the days of the closed season, pay per view or unsympathetic schedules. As much spectacular football as you wish, delivered to you where and when you want. This isn't incredible: it's virtual.

The sports betting industry has grown at a spectacular rate over the past few years. Millions of punters are now betting on anything that happens in the globe, no matter where they are from. It has become a mainstream, ubiquitous, user-friendly experience.

But the market is becoming more and more competitive: margins have been squeezed and the adoption curve is turning flat. Punters have a myriad of choices about how to place their bets, with most having multiple accounts across several operators. There is legal uncertainty about key markets for online betting, especially USA and those European countries with strong state-owned monopolies.

In addition to that, the sports betting business suffers due to its dependence on real-life events. Premier League football is restricted to two or three live matches per week and it doesn't happen at all over the summer, unless there is an international tournament. Greyhounds and horseracing are on almost every day throughout the year, but certainly not at any hour... except if you don't mind betting on Australian or Cypriot races!

Another inconvenience is that real sports can become predictable and even boring: by analysing results from 1947 to the present day, observers have

identified an overall decline in the competitive balance of sports, which hit an all time low in 2005. Phenomena like Chelsea, Schumacher or Armstrong provide poor betting excitement, in addition to making the bookmaker's business less profitable. Even more disquieting is the increase in scandals, which can undermine the integrity of sports altogether.

Operators take control

Virtual sports use the latest life-like 3D graphics and breathtaking multimedia resources to re-create the excitement of a real sports event in a "perfect" world. A random number generator creates match or race outcomes, ensuring that no two events are ever the same. An advanced graphic engine renders the game play, providing the excitement of live betting while the special effects turn a simple draw into the most electrifying spectacle.

Simulated events don't have problems of predictability or integrity. They are also totally independent of real-world events, so significantly decreasing exposure to the volatility of the sports book product. Not only should this appeal to what punters want in terms of enhanced betting opportunities: the random factor built into the virtual game could also make it more profitable for the operator than a Premiership dominated by Chelsea, for example.

Virtual sports fulfil the long-yearned objective of providing around-the-clock betting opportunities. By simulating the events, operators highlight the key moments of every sport and make them available for betting at any time, with no dependency on schedules or weather conditions. The games also introduce new features for punters (i.e. instant messaging with other users) and provide operators with additional income opportunities such as in-game advertising.

The entire concept of virtual simulations offers vast possibilities: by partnering with creative video gaming companies, operators can invent betting markets on virtually everything one can imagine – even Harry Potter's Quid ditch!

Growing the customer base

Online poker has demonstrated the cross-selling and conversion rate potential of sports betting audiences, with leading operators such as Ladbrokes and William Hill running successful online gaming sites. Offering punters more entertainment opportunities to gamble in-between placing bets, as well as more ways to recycle their winnings, leading to higher profits for operators, can leverage this pattern.

Not only that, but virtual gaming eliminates many of the social barriers that have traditionally stopped some sections of the population from participating in more public forms of gambling. Software-based entertainment does not have the cultural stigma sometimes attributed to casino games, slots or sports books. Large numbers of both recreational gamblers as well as traditional computer players would watch and bet on virtual games, without ever venturing into a betting shop. Computer-generated games also connect with a new generation of Internet-literate, game-playing consumers which only have a few minutes to spare and have grown up expecting direct and immediate access to everything – including betting.

Virtual sports games are also able to reach inexperienced users, who have minimal knowledge, both of betting and computer interfaces. When faced with the familiarity and immediate accessibility of virtual sports, users who do not appreciate complex features and options standing in their way may be more likely to play. This absence of intimidation is also an opportunity to reach women and other groups who suffer from a shortfall in sports understanding and do not feel comfortable spending any amount of time in traditional betting shops.

The Internet goes social

The online betting market is reaching saturation, with profit margins squeezed considerably and customer loyalty limited as odds comparison services and Internet forums have increased price sensitivity. The popularity of alternative betting products, such as spread betting and exchange betting, means that competition for punters will only increase. In addition, anticompetitive threats

may be stalking around the industry in the near future as the market matures, entry costs rise and the dominant players entrench their boundaries.

Further Internet penetration should not capture many more punters, as most people that want to bet on the Internet now have the means. Hence, delivering profits growth from the Internet for sports books will occur as a consequence of increasing punters' loyalty and spending to a particular operator.

Online sports books have been looking to embrace content-rich strategies to keep people on their sites, in example by partnering –with not much success– with sports portals. Virtual events represent a compelling and low-risk content diversification choice. The games cater for a variety of tastes and preferences and can be customised according to specific target audiences. Operators can provide punters with a full live sports experience including match or races in real time, video downloads, daily news and stats updates as well as historic research tools. This breadth and depth of up-to-date information is extremely valuable to the sports enthusiast and drives further interest and excitement in placing bets. Interaction between users can be promoted by means of chats, forums, contests, rankings and viral marketing tools to attract and bring people together. Communities are the foundation stone of successful online economics.

Virtual sports also represent an interesting offering for those online gaming operators looking to diversify their customer base by attracting sports bettors. With fixed-odds games, the operator's exposure is limited and they don't require the expertise, legal licensing and big pockets needed to run a real sports book.

Opportunities on the iTV space

Interactive television is an unparalleled platform for virtual sports, marrying as it does the public's familiarity with televised sports and the technology to offer the very latest betting opportunities. Although interactive TV games were initially targeted at children, their unforeseen acceptance around the world has provided evidence of their potential to generate usage and revenues through their appeal to a broad demographic.

With the spread of digital TV services and the eradication of technical limitations of set top boxes, TV live programming and interactive betting will converge to form a whole package. Entertainment and gaming will meet to create an environment of complete acceptability, often in a family setting, to bet via the set top box on what will happen next. Sky's recent purchase of broadband Internet provider Easynet confirms this inevitable next step. Another approach that should be monitored is the merging of TV with PCs and gaming consoles.

All these new opportunities linked to iTV will require compelling, cost-efficient content; part of which would be computer-generated. The power of the link between interactive TV and betting has only just been started to be realised.

Fitting the constraints of mobile users

Bearing in mind the need amongst mobile service providers to enrich their revenue streams and enhance customer loyalty, betting is progressively finding its way onto mobile devices. Despite the plethora of technical and regulatory challenges, trusted brands including Victor Chandler and Paddy Power have already launched mobile betting services. The most common approach is to provide punters with access to their betting accounts via their mobiles whilst travelling, during breaks at work or whilst sitting at home in front of the television with no access to digital services.

With the constant improvements in wireless bandwidth and handset technical features, virtual sports will become a key part of the mobile betting portfolio as they offer a brief, intense and rich experience fitted to the time and viewing constraints of the mobile users. In addition, their cost-effectiveness is attractive for those betting operators faced with the prospect of handling up to 50% of any value billed to the carrier according to the usual mobile revenue sharing structures.

Betting shops look to the future

The industry is acutely aware of the mortality of the current betting shop demographic and is looking to attract others to ensure a long-term future. The popularity of Fixed Odds Betting Terminals (FOBTs) has been a key driver in turnover growth in recent years, whilst also demonstrating that betting shop devotees are not technophobic. As more and more betting premises are reaching the full capacity of FOBTs per shop, bookmakers are now looking for ways to keep interest in the machines growing.

The introduction of virtual sports will create further choice for machine players, as well as provide them with more events on which they can take part between betting on real-life events. Virtual games are also attractive for younger bettors, who are familiar with computer interfaces.

Virtual future is now

Initially derided as 'cartoons', following its launch in 2002 virtual horseracing has proven to be hugely popular with the UK betting public, with average weekly takings of over £1,500 per shop unit. William Hill has added a virtual reality racecourse to capitalise on the success of computer-generated racing in its high-street outlets. Alongside its virtual racecourse, Victor Chandler also operates virtual soccer betting 24-hours a day. Youbet, the US online horse-betting site, launched a virtual horse racing game in association with VIS iTV. Subscribers of gambling channel Sky Vegas Live use their digital remote to play computerised horseracing and will enjoy 24 hours of virtual football betting later this year.

These early adopters are examples of how computer generated events are finding their place in the industry by addressing new targets and maximising and extending betting opportunities. Unfortunately, it still remains a mediocre batch of wrongly called "virtual sports" - rudimentary Flash-based animations or games that show no action but the results. This disappointing "first generation" will be swept away by videogames leveraging state of the art technology.

Considering the intense level of competition that betting and online gambling operators are subject to in order to acquire and retain customers, the inclusion of virtual contents represents a clear source of differentiation. While delivering rich, functional, real-time content that is both interesting and useful, the barriers to entry for launching virtual sports still remain low.

The days of smoke-filled betting shops and hurriedly completed betting slips may be numbered. The industry has changed dynamically and it is no longer just about offering the best sign-in bonus, far from it. As leading operators look to position themselves as entertainment-led players, they need partners with the ability to deliver innovation along with the values of trust, security and easy integration across the entire value chain. Customer confidence is an invaluable and easily broken asset and experience has shown that, in the early stages of the rollout of new technology, it is of vital importance that this asset is protected.

1. About Gextech

Gextech is a leading provider of compelling interactive gaming content for betting and lottery operators, across multiple delivery channels. By fusing our creative talents with cutting-edge technology, we offer our clients new opportunities for betting and entertainment and additional channels to market. This allows them to expand their customer base and maximise the revenues they get from our games.

Gextech's unique and innovative games combine interactive gaming content with realistic game play and are available on interactive TV, Internet, Mobile Phones and Gaming Machines. People can play our games wherever they are, whenever they want, in whatever medium they like.

Fantastic League™ is the new virtual football fixed odds betting game available on Interactive TV and Internet, specifically designed to increase gaming revenues from customers who are interested in betting on sports events such as football, horse racing or greyhounds. The Fantastic League™ offers a wide variety of betting markets based upon the possible events and outcomes of football matches and the leagues the teams are in.

With over 1 billion mobile phones around the world, mobile gaming offers one of the potentially richest, but as yet untapped markets. Gextech can help gaming operators reach this market through a range of mobile lottery, betting and gambling games that can be offered in both branded and white label formats, along with high levels of customisation as appropriate.

We are working with a number of leading bookmakers, lottery operators and technology suppliers, including GTECH and SkyBet, who will launch our products in 2006.