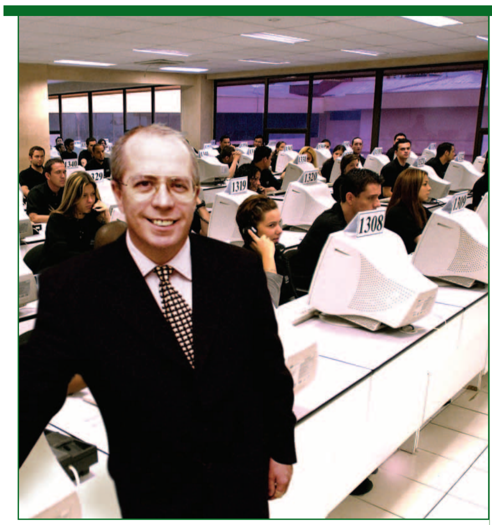
The 'New Prohibition'



David Carruthers, CEO of BetonSports, explains why the US' increasingly heavy-handed approach to egaming advertising is little more than an attack on free speech

Online gambling has exploded in popularity over the past five years – increasing at a rate of around 35% a year – for good reason. It's safe, private and convenient, and millions of people enjoy getting online to place a friendly wager from the location of their choice.

Unfortunately, a puritanical and zealous faction within the US Federal government is attempting to institute a hypocritical double standard and ban internet wagering. It is attempting to regulate morality by denying US citizens access to a form of entertainment no different than what's offered by land-based casinos, racetracks and state-run lotteries.

The latest strategy of this 'New Prohibition' is an effort to limit commercial free speech – a direct attack on the first amendment to the US constitution. Through a series of strong-arm tactics, the Department of Justice (DoJ) is pressuring American companies to cut ties with our industry.

I believe this heavy-handed approach will ultimately accomplish nothing. Previous attempts to tread on the commercial free speech rights of companies within the tobacco, spirits and pharmaceutical industries have all been struck down, and I'm confident basic US constitutional principles and values will prevail once again. However, in order to effectively counter the push, it's worthwhile to understand the nature of the threat.

Smoke, mirrors and threats

To help curb the popularity of online gambling, the DoJ has launched an aggressive intimidation campaign, threatening legal action against media companies, online search engines and other service providers that accept ads from wagering websites.

A letter sent to broadcast and media companies last year by Raymond Gruender, US Attorney in the Eastern District of Missouri, asserts these outlets "should know of the illegality of offshore sportsbook and internet gambling operations since, presumably, they would not run advertisements for illegal narcotics sales, prostitution, pornography or other prohibited activities".

How anyone can have the gall to compare a friendly wager (the average bet placed on BetonSports.com is US$51) with these types of despicable activities is beyond me.

I find it interesting the DoJ implies online gambling, and therefore advertisements for online gambling websites, are illegal even though they reference no statute or case law decision rendering it such.

To the contrary, there are two Supreme Court decisions (*Greater New Orleans Broadcasting Association Inc vs US* and *US vs Edge Broadcasting Co*) that establish gambling adverts as a form of commercial speech, explicitly protected by the First Amendment.

But this is of little consequence to the DoJ. In addition to the round of letters mailed last year, it has started issuing subpoenas and placing additional back-channel pressures on broadcast, outdoor and web outlets.

As a result, Infinity Broadcasting, Clear Channel Communications, Viacom Outdoor, the Discovery Networks, Google and Yahoo! have suspended activity with our industry and stopped running online gambling ads.

Regulation is key

The DoJ's efforts to censor our industry's right to free commercial speech is severely misguided. While it may take some advertising dollars away from media companies, it will not quell the US consumer's documented demand for a safe, private and convenient way to wager online on sporting events.

The US government could better serve the interests of its citizens by embracing responsible legislation that protects consumers, legitimises operators and generates substantial tax revenue. Numerous established models can be used as a template, including the UK and Antigua where regulated online gambling has been established as a respected industry for many years.

Allowing online sportsbooks and casinos to come onshore would result in millions of additional dollars in tax revenues, more US jobs and a boost to the US economy.

Voice of the people

As an industry leader, BetonSports.com has launched a petition and letter-writing initiative that gives online gambling enthusiasts an opportunity to voice their support for internet-based wagering.

The 'Right to Wager' campaign was initiated to show policymakers the US public demands the right to choose whether or not online gambling is permitted. We have a feeling our 1.2 million registered American customers aren't the only ones who feel responsible regulation is the right choice.

Once the dust settles, I believe the DoJ will realise the futility of its ways. Demonising our industry wastes government resources, leaves consumers unprotected and sacrifices a huge potential economic opportunity. Once the New Prohibition is abandoned, the country, our industry and US citizens will reap the benefits.

David Carruthers is CEO of BetonSports, the world's largest online sportsbook with more than US$2bn in annual revenue. Since 2000 he has been responsible for spearheading a 300% increase in profits at the firm.

Big brand theory

Branding is a vital, but not essential, aspect of egaming companies' marketing strategies, says Oscar Nieboer of Virgin Games

Like many readers I tire of articles (and conferences) that pay the token homage to the role of the brand in egaming.

We have heard the rhetoric so often we are becoming deaf to the issue.

I am not a brand evangelist, but I am a believer in economics. And in this industry brand value does indeed translate into economic value. Why? Here are a few considerations.

The next phase

Industries evolve. And as they do they exhibit an evolving user profile – one that changes dramatically as the industry moves from the realm of the early adopter franchise to the sunlit uplands of the early majority. The transition from early adopter to early majority is fraught with risk and many casualties abound. Geoffrey Moore termed the transition 'crossing the chasm'.

Crossing the chasm and breaking into the mass market is where the real economic prize lies: genuine economies of scale, market penetration and sustainable profitability emerge. What was once an emerging innovation becomes a mainstream tool everyone buys and uses. But to cross the chasm you need to reframe your marketing and positioning.

If the early adopter responded to features and functions, the early majority respond to brands and bundles. The former are visionaries. The latter are pragmatic and inherently conservative – they gravitate to low-risk, legitimised products/activities that have market acceptance and enhancement written all over them. No longer is the end game about product attributes but about experiences and benefits. What carries this in a language the mass-market understands? A brand name.

The egaming industry is on the threshold of making the transition to the early majority. Fuelled by emerging technology and new regulatory frameworks, egaming has the opportunity to become a safe, rewarding leisure experience for the many. That transition will inevitably be led by brands.

Spend money to make money

The second economic element of the brand relates to awareness and positioning.

- Awareness: spending millions creating a brand is costly and time-consuming. It takes years to create and sustain a brand and the money you spend doing so is not spent elsewhere. Without the burden of creating brand awareness, a brand can focus on more direct revenue and demand drivers and enjoy a better return on investment.
- Positioning: brands are more than their product offering. Increasingly they are undefined by product or geographic footprint. One of the main roles for branding is to help a product rise above commodity status so it occupies a competitive market position and can charge a premium vs the competition. To sustain a competitive market position and premium-pricing point, brands must evolve. And our industry is no exception.

The retail and leisure industries have long seen brands this way. The brand as an 'experience' characterises much of the high street: Starbucks, Nike, Woolworths and Gap. How can Starbucks survive on the high street, while firms such as UK electrical retailer, Dixons, are forced to close many stores? Because Starbucks' margins are higher. Why? Because it is selling an experience, not goods or a commodity.

The third relationship between brand value and economic value I see is in relation to the current oversupply in our market. Any market that promises vigorous growth attracts many new entrants. We have seen the numbers of egaming sites grow year-on-year. Such oversupply runs ahead of consumption (witness increasing pricing pressure and player promiscuity).

In a market where supply outstrips consumption, brands become beacons, destinations that stand above a world dominated by search and EPG listings. Such gravitational appeal is hugely valuable.

Great expectations

But brands are not without cost: by being different and relevant to one customer-type you inevitably rule out others. Brands have expectations levelled at them. And there is a cost attached to delivering that expectation – whether it is customer service, product innovation or even reputation.

But as our industry moves towards the early majority life stage, fuelled in large part by emerging technology and deregulation, and as supply continues to run ahead of consumption, that brand value will increasingly yield economic value. But I would say that, wouldn't I?

Oscar Nieboer is managing director of Virgin Games, the new egaming site from the Virgin group due to launch in July. Prior to working at Virgin Games, Nieboer was vice-president marketing for MGM Mirage Online in the Isle of Man.