

COLUMNISTS



**David Carruthers,
CEO of
BetonSports,
explains why,
despite the best
efforts of the
government,
everyone in the
US is talking
seriously about
online gambling**

Pushing an elephant up the stairs

Who would have thought it possible? In the US, people from all sorts of backgrounds are getting together to talk about online gaming. And despite the efforts of some to undermine this dialogue, it seems many are delighted to take advantage of the opportunity for discussion and are finding they agree on many aspects of the debate.

Yes, it's definitely been an interesting few weeks. I've been travelling across the US having some of the most interesting conversations I can recall on the issue of online gaming. Anyone who's read my previous columns is well aware of my interest in stimulating a dialogue in US on the issue of online gaming. This dialogue is central to achieving the industry's goal of regulated legalisation of online gambling in US, a goal I have compared to pushing an elephant up the stairs.

The arguments are familiar ones – many of us involved in this industry have often pointed out the rapid increase in the popularity of online gaming in recent years. Some have suggested that more than US\$100bn is wagered illegally each year on sports events in the US alone.

Many have made the point the internet gambling industry is eager to join the US business community as responsible corporate citizens. Increasingly, however, it is becoming difficult to raise these issues in the context of the US Department of Justice's intimidation campaign against the gaming industry, consumers and online media outlets.

I've been on the road the past few weeks, hosting a series of lunchtime summit meetings in

New York, Washington, Chicago and Los Angeles, which featured panel discussions on the future of online gaming in America. We wanted a real and meaningful dialogue on the issue, so we invited people from a variety of backgrounds – including the legal, academic, government, law enforcement and non-profit communities. We had people such as Frank Catania, a former director of the New Jersey Division of Gaming Enforcement, and Keith Whyte, national executive director of the National Council on Problem Gambling.

I expected lively discussion, and the summit meetings delivered that and more. But what surprised me most was the issues on which we agreed vastly outnumbered those on which we disagreed.

Hypocrisy and contradiction

We all agreed nobody is being served by the policy vacuum on this issue. The majority of US politicians, so reluctant to navigate the perceived tightrope between individual liberty and 'moral' imperatives, will do almost anything to avoid taking a position on these issues. In effect this is ceding the debate to a handful of fringe politicians representing their own narrow perspectives.

We all agreed that gaming policy in America appears to be dominated by hypocrisy and contradiction. It has created a society where state governments, Native American communities and religious and charitable organisations generate enormous revenues through gambling, yet an individual is breaking the law by betting one dollar on a football game.

Most significantly, we all agreed that the only sensible

policy framework for online gaming is through legalisation and regulation. The US's prohibition of alcohol in the 1920s drove Americans to illegal 'speakeasy' bars in much the same way that millions of Americans today are defying their own government by participating in online gaming.

A promising future

As I write this column, I'm preparing for the next step in our effort to stimulate this dialogue – a series of debates on online gaming issues, which will take place in the coming weeks on college campuses across the US. No doubt we will engage in some lively debates that will include issues of government, industry and customer responsibilities, as well as the puritanical campaign by the NCAA against legal and illegal sports betting. After these debates, and after the presidential election, we'll be advancing the issue even further, by releasing a white paper to offer some of our key findings and observations, and putting forward some tangible, constructive solutions.

It's exciting, because for the first time in a long time people are beginning to feel it is possible to sit down and discuss these issues. People from all walks of life are realising that online gaming has the potential to provide a safe, convenient and private way to participate in a form of entertainment that the majority of Americans already enjoy. With any luck, US legislators will follow our lead and join the discussion.

David Carruthers is CEO of BetonSports plc, operator of BETonSPORTS.com, the world's largest online wagering service.

Learning from launching

This month I was asked to give some thought to the lessons learnt from our launch. I will try not to duck the question entirely!

Having been through several start-ups, it never ceases to amaze me how team dynamics and skill requirements change pre- and post-launch, and how the relationships with your partners and suppliers change. The pre-launch world is full of the bravado of world domination, followed by the inevitable trade-off between cost, quality and timing. Speed to market and avoiding scope-shrink become daily debates the nearer you get to launch date.

Keys for success

Equally important is the team. In the twilight pre-launch world it is easy to sound enlightened and omnipotent. But come the reality of trading, one quickly identifies the strategies that are working and those that are not. You need people with the confidence to accept that sometimes plans do not work out – and the strength and resourcefulness to continually explore new avenues.

Then there is marketing. Someone once told me that in online gaming “it’s not what you think, but what you know” – and there’s a lot of truth in that. Without wanting to give too much away, we have been surprised at what marketing channels and levers have worked for us – and what have not!

We have found advertising on sites you might think are bankers has proved less productive. The trick is to optimise as you go but retain focus and strategic intent. One of our core assets is the Virgin Network, which includes Virgin Mobile, Virgin Atlantic, Virgin Wines and numerous other internet retail assets. Each has a distinct franchise and compelling CPA

dynamics, and we continue to benefit from our association with the distribution and brand power of the Virgin Group.

A further observation is business development. In this market one can never stay still for too long and it is vital that one balances the imperative to nurture the existing business with the need to identify adjacent and complimentary opportunities.

With a brand such as Virgin, one can expect to get a bit of attention from potential suppliers and I have been amazed at how many great proposals we have received since launch. It is vital you have a clear strategic blueprint to help you navigate your way through these – otherwise you will end up being overly deal-led rather than strategy- or customer-led. My key questions are:

- Is this an economically attractive sector/vertical channel (for example, is there growth ahead, is there room for a plethora of new entrants or a few, do suppliers or customers hold excessive power, what is the competitive picture etc)
- Do we/they have the skills, time and resources to create a position of sustainable advantage?
- Does the venture fit and support the Virgin brand?
- Is it scalable and saleable?
- Is it just an idea or is it a real opportunity? Why?

The next component is courage! When I asked my team what they thought was important in launching into this market, the answer was ‘Don’t be afraid to push the boundaries’.

Although that is a typical Virgin attitude anyway, I think it is a key issue for the industry as a whole. As an industry we like to think online gaming is highly innovative – but in fact there are plenty of me-too business models and

products out there topped up with a strong dose of risk aversion.

What has worked?

I would argue that there have been only three significant innovations in recent years: betting exchanges, P2P poker and FOBTs. Why do I say that? Because they are the only three I can think of that combine genuine technological and regulatory innovation, and have created significant value as a result. I estimate the contribution of FOBTs to the big bookies’ takings to be at least £350m of gross win annually. Although hard to estimate, Betfair alone is rumoured to be valued in the £500m-£800m range. And the big poker sites are no less valuable.

There are, of course, other examples (we are entertaining several here at Virgin) but my point is that unless you are willing to push the edges of regulation and technology you are unlikely to create much value, either for your owners or your customers. Ultimately a business is a function of how it organises its assets (its business model) and how it manages relationships with its customers. The two together create value.

It is interesting to consider how many innovative business models there are out there. And how many of these are actually underpinned by strong brands? Not many, I suspect. Most have one without the other. Some have neither. But what is clear is that there is plenty of upside for the brave-hearted.

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



The reality of running an egaming site is different to the theory and some harsh lessons need to be learned, says Oscar Nieboer, managing director of Virgin Games