

COLUMNISTS

The right track



**David Carruthers,
CEO of
BetonSports,
says he feels the
path to US
regulation runs
through the
public markets**

Dramatic growth in the online gambling industry over the past five years has been accompanied by increased government scrutiny.

Specifically, the US Department of Justice (DoJ) is investigating the industry due to concerns about what it fears is illegal activity. Whether those fears will be realised remains to be seen, but many of the DoJ's actions seem misguided as it is a case of a legal authority trying to dictate cultural behaviour.

The time has come to address these issues. The saying 'you can't fight City Hall' may be true, but the principle of free speech means you can speak out and be heard. Our industry must fight back against efforts by legal authorities and lawmakers to sully our reputation.

The first important step we can take is to bring transparency into our operations. The best way to do that, as well as help grow both our businesses and industry, is to open the books or list shares on public stock exchanges.

Several exchanges around the world allow egaming companies to list, including the Alternative Investment Market in the UK as well as the Canadian, South African and Australian stock markets. However, of around 1,800 internet wagering sites in operation, no more than 50 have elected to go public.

What follows is a case for why I believe every properly-run online gambling company should be considering an IPO.

Credibility via transparency

One widely-held misconception about the egaming industry is it's populated by shadowy figures with something to hide: individuals who operate out of sites in the Caribbean or South America, cheating customers or laundering money. While our industry is not without its ills,

this is an absurd stereotype and one we must work to discredit.

The quarterly filing of audited financial statements is one such way to do that. By providing regulators and investors with an inside view of our operations, they will come to realise we operate reputable businesses no different than land-based casinos, bingo halls, lotteries and racetracks.

Being public will also have a self-regulating effect, as online operators will be held accountable by their shareholders. Ethically-run businesses that grow shareholder value will be rewarded with an appreciating share price; those that refuse to pay winning bettors and act nefariously will be held accountable and penalised.

Increased visibility

Given the scarcity of publicly-traded egaming companies, those that are public naturally receive more attention. They are more frequently sought out by the media to address online wagering issues and more likely to feature in industry round-ups. This attention can be used to drive customer acquisition.

And for an industry where the majority of customers are located in the US, many of the companies are located offshore, creating a sense of detachment. Going public can help bridge this gap, increasing not only visibility but also a sense of availability to customers, which can in turn foster greater customer satisfaction.

Last, there is a certain prestige associated with having a ticker symbol, and it can serve as a competitive differentiator when a bettor is choosing between a private and publicly-held online sportsbook.

Capital for growth

A more obvious reason companies sell shares to the public is access to potentially large sums of inexpensive financing.

For example, through the Alternative Investment Market float BetonSports executed in July this year, we raised around £54.6m, which we are using to fund a major Central and South American growth initiative.

We see an opportunity to add a significant 'bricks' component to our current 'clicks' foundation, opening betting shops in Mexico City and across the two continents.

The physical locations will, in time, be profitable and self-supporting, but will start supporting our online business as soon as they open. It would be considerably more difficult to pursue this growth opportunity without the advantage of public funds.

The growth we seek is not only for BetonSports, however – it is for the entire online gaming industry. As others continue to list and leverage the benefits of being publicly-held, the effect will be that of a rising tide that lifts every boat.

Once we achieve a critical mass of internet-wagering sites fully reporting audited financials, the DoJ will have much less reason to be concerned.

We will already be regulated by exchange commissions, as well as self-regulated by the interests of our shareholders.

This can only serve to help break down the barriers of US regulation, which would represent a huge potential opportunity for every online gambling firm.

This is definitely a case where what's good for the goose is good for the gander.

David Carruthers is CEO of BetonSports, one of the world's largest online sportsbooks with US\$1.6bn in annual revenue.

Since 2000 Carruthers has been responsible for spearheading a 300% increase in profits at the firm.

Big brand theory

Last issue I wrote about the value of a brand. I thought a logical next step would be to examine what it takes to get a big brand online.

There are undoubted value and competitive advantages of the brand in online gaming, but this month we will look at some of the costs and challenges.

First, you have to consider the customer. One needs to understand one's core proposition. In a market characterised by oversupply, me-too propositions offering homogeneous products and promotions have saturated it. Merely having a strong brand does not automatically give you a strong product.

When creating the site, just as with creating a brand, you need to ask yourself is it distinctive, compelling and relevant?

Virgin prides itself on identifying markets that are ripe for a differentiated proposition and leveraging its values in that industry. Virgin Atlantic's slogan 'First-class travel at business class prices' is a good example.

At Virgin Games we sought to do the same. By focusing on entertainment and reward, we hope to occupy a differentiated and relevant space in players' minds.

Getting the message across

The second crucial element is delivery. You need to decide what functions you are going to perform – and what you are not.

In any business, big brands tend not to be equally good at everything. It is often tempting to keep everything in house, but this can be risky. Stretching the brand into new areas can create core incompetencies! So ensure you focus on your competencies and either

outsource the gaps or bring in talent to fill them.

You will not be able to do everything better than the competition. Virgin excels at sales, marketing, branding and customer service so we set out to hold onto these functions, but sought a partner who was equally competent in the areas of technology provision, game development and regulatory compliance.

Getting the right regulatory environment should not be underestimated. The right jurisdiction is crucial for both brand and economic reasons. Brands have reputations and images to protect. Businesses have economic imperatives. And you need to balance the two.

Location, location, location

Your choice of jurisdiction should weigh up three important considerations, which inevitably leads to a balancing act, but it's critical to get this right.

First, you need to know the nature of the investment environment – what gaming tax, corporation tax and VAT levels apply, and what about profit repatriation?

Second, you need to understand the business environment, taking into account choice and cost of infrastructure, connectivity and hosting and reporting requirements. And finally you have to consider the regulatory framework.

This last factor is the most complex and intangible. You must decide if there is a clear legislative framework, and whether the jurisdiction is responsive, flexible and knowledgeable enough for your needs. Other factors come into play such as software testing and anti-money laundering requirements.

Many choices you make will have a direct impact on your brand image. A strong brand attracts attention and social responsibility must be at the heart of what you do. Big brands can, and should, set standards.

At Virgin Games it is imperative we operate in this industry with the highest levels of social responsibility. GamCare's certification of our site is a good example of that commitment and intent.

The final piece

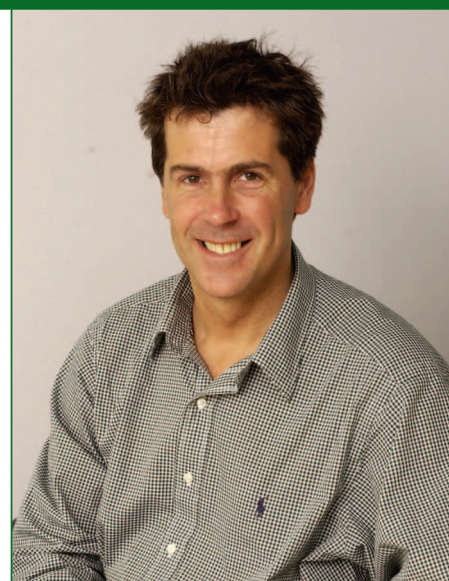
The last piece of the puzzle is in many respects the most important of all. You may have a strong brand, but without sustainable access to customers it is all a bit academic. So make certain you get your marketing and distribution spot-on.

In a market where supply outstrips demand, one needs to balance the requirement to target and poach existing users with the need to also grow and convert new users. Big brands ought to be able to achieve market share and market growth ambitions.

In summary taking big brand online brings with it large advantages but they also bring costs – as you have to go the extra mile in certain areas. Ensuring that the brand image is protected and making sure that the brand promise is reflected throughout all customer contact points will be the key to success.

Easy to say.

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.



Taking a big brand online is fraught with danger. Oscar Nieboer, managing director of Virgin Games, explains what it takes to make the leap from good in theory to good in practice