

TIG INN-SIGHTS | An Analysis: The Industry's First Steps in a World Without PASPA

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In the nearly four months since the Professional and Amateur Sports Protection Act (PASPA) was struck down by the U.S. Supreme Court, we've seen operators, legislators, tribes, and vendors work hard to forge partnerships, understand and shape legislation, and start to realize the potential of opening the sports betting market. The following summarizes key themes The Innovation Group (TIG) has seen emerge in this short time and serves as a jumping off point for operators thinking of making the leap into sports betting.

A Time for Advocacy

I was honored to join the "Gaming" panel at the Oklahoma Sovereignty Symposium earlier this summer. The Symposium (and indeed, even the panel) focused on several important tribal issues, and National Indian Gaming Commission Chairman Jonodev Chaudhuri referred to the present as "a time for advocacy." He was speaking very broadly, but this is an important idea that applies to today's sports betting landscape. **Operators and legislators need to be aligned on how sports betting operations will work to ensure success for all parties and to meet all expectations.** Notably, as of this writing, only Parx has applied for a sports betting license in Pennsylvania – a state with 12 casinos, one of the first states to legislate sports betting, and a state with tremendous competitive pressure from neighboring jurisdictions. Sports betting is operating in New Jersey and Delaware, while West Virginia and New York have legalized sports betting and are working through their regulatory frameworks. Clearly, the operators' lack of enthusiasm is a response to Pennsylvania's \$10 million licensing fee and 36% effective tax on sports wagering – most states are enacting tax rates around 10%. And tax rates are not the only meaningful issue. What are permissible events to wager on? Will states commit to enforcement against black market operators? What will be the treatment of online skins? Who will be allowed to have licenses? What's the plan for mobile rollout? Operators and legislators must come together to develop a framework that works for everyone.

How Big is Your Market?

TIG has a long history of demand forecasting and market sizing, which has included work in eight states' potential sports betting markets. As such, we've had many conversations with clients and prospective clients ranging from operators and vendors to legislators and lotteries. In these conversations, the most striking issues have been the **misunderstandings around the direct revenue upside from sports betting and the indirect revenue upside that sports betting will drive** in gaming, food and beverage (F&B), and other ancillary areas of the business. In some cases, particularly those with non-operators, we've heard estimates ten times or more than current forecasts for total revenue. It's incredibly difficult to align legislators, operators, and vendors when expectations are this mismatched. Before moving forward, we recommend having a good understanding of the range of financial outcomes and key legislative components that could impact revenues.

Integration

While sports betting will provide a meaningful revenue stream, it is still small compared to traditional forms of gaming. In Nevada, sports revenue made up only around one percent of total gaming win until the mid-2000s. More recently, coinciding with the introduction of mobile, that number increased to only around two percent. Thus, **operators must carefully consider how sports betting integrates into their property and market.** Are you a destination, hoping to attract high-worth sports bettors for a weekend, capture their slot and table play, and drive additional F&B and hotel revenue?

Your sports book experience and marketing will differ significantly from a high frequency, locals-dominant, low average daily theoretical (ADT) facility, where they're trying to push a high volume, low-bet, very transactional experience. In the former case, you may want to invest in a luxury sports book, sharp lines, and a liberal comp beverage policy. In the latter case, maybe you're a kiosk-based book with an extensive offering of high-margin proposition and parlay bets, and a tight comp beverage policy; or maybe you're pushing bettors to your high-margin sports bar offering instead of providing them a lounge-like experience in the book.

Customer Experience

The addition of sports book operations will drive endless questions. Who will own the sports betting customer experience? Are you able to offer a differentiated experience for VIP sports bettors? For VIP slot/table players? If you establish a \$20,000 limit on NFL regular season games and have a VIP looking to wager \$100,000 on the Cowboys, can you facilitate that? Will sports betting integrate into your loyalty marketing program? What are the technology hurdles? If, as most operators are choosing today, you opt to partner, these are important questions to address. But before you do that, **do you know what your existing patrons want from the sportsbook experience?** How do they feel about kiosks? Do they want mobile on-premise? Are your existing patrons even your target sports betting market? Understanding your customer is imperative to directing your operation. It is relatively inexpensive to solicit customer feedback via survey on many of these issues and build goodwill in the process (not to mention, surveys are a great way to get out there with a \$10 freeplay incentive and perhaps drive some additional visitation).

Getting Started

Some of the most frequently asked questions that we get from prospective sports betting operators are "How do we get started?" and "What should we do first?" We believe that operators that are mindful of the following points will be best-positioned for long-term success.

- **Know where your interests lie.** There is a lot of information out there, but very little is customized for specific stakeholders. It is important to understand not only what revenue and impact can be generated in a market, but to focus on how best your company or property can leverage the opportunity.
- **Find like-minded stakeholders.** Once you understand how sports betting can work best for you, find others with aligned incentives. These can be your regulators, your competitors, or even a new strategic partner waiting to happen. An aligned group with good government relations support can most efficiently and effectively promote its agenda through the legislative phases.
- **Talk to your guests.** As you make decisions about if and how to proceed in sports betting, ask your guests how it fits into their potential experience. While sports betting margins alone can be thin, upside in ancillary business areas may make the case.
- **Analyze your options independently.** It may be tempting to partner with a turn-key sports betting operator, but take the time to compare options and solicit input from multiple companies and neutral third-parties. The best partner **for you** may not be the least expensive or have the quickest time-to-launch; rather, seek out the partner who creates the most strategic value and best aligns with your operating goals.
- **Be mindful of your social and online positions.** Sports betting can integrate well with your social and online strategies, so the introduction of sports betting may be a great time to reevaluate your social and online plans – or to introduce these plans if you are not there yet.