

**Submission
No 503**

INQUIRY INTO GREYHOUND RACING IN NSW

Organisation: Sportsbet
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Submission of Sportsbet Pty Ltd to NSW
Legislative Council Select Committee on
Greyhound Racing in NSW

8 November 2013

Inquiry into Greyhound Racing in NSW

Introduction

Sportsbet Pty Ltd (**Sportsbet**) welcomes the opportunity to make a submission to the Parliament of NSW Legislative Council Select Committee on Greyhound Racing in NSW (**Committee**) in respect of its *Inquiry into Greyhound Racing in NSW (Inquiry)*.

This submission focuses on Sportsbet's views regarding the most appropriate race fields' fee model to deliver the best long-term funding outcomes for the NSW greyhound industry in order to enhance and sustain the economic viability of the greyhound racing industry in NSW.

About Sportsbet

Sportsbet is Australia's largest online corporate bookmaker with over 1 million Australian customers and an estimated 20 per cent of the Australian online wagering market. NSW residents make up 303,122 accounts held with Sportsbet. Sportsbet is licensed in the Northern Territory and is wholly owned by Paddy Power plc, which is publicly listed on both the Ireland and London stock exchanges.

Sportsbet is an exciting and dynamic e-commerce business. Sportsbet employs approximately 550 staff across its Sydney, Melbourne and Darwin offices.

Sportsbet offers wagering products on a range of activities to customers across Australia on the internet on Sportsbet's home page (www.sportsbet.com.au) and via telephone operator. Sportsbet's major wagering product is racing (thoroughbred, harness and greyhound)¹. Sportsbet also offers wagering on a wide variety of sports (e.g. AFL, NRL, tennis, etc) and certain novelty markets (eg. the outcome of a reality television show).

IASbet.com is the trading name of IASbet Pty Ltd, which is a wholly owned subsidiary of Sportsbet. IASbet provides substantially similar wagering services to Sportsbet and operates the website www.IASbet.com.

Sportsbet is a member of the Australian Wagering Council, which represents the interests of seven prominent independently operating wagering companies which are licensed in Australia.

Submission – the existing race fields' hybrid fee model levied by Greyhound Racing NSW is the optimal race fields' fee model to deliver the best long-term funding to the NSW greyhound industry

The focus of this submission is to outline why the existing race fields' hybrid fee model levied by Greyhound Racing NSW is the appropriate funding model to deliver the best long-term funding to the NSW greyhound industry in NSW. Race fields' fees (also known as product fees) are fees payable by wagering companies for the right to publish race fields' information on races hosted by the major thoroughbred, harness racing and greyhound bodies.

1. The existing race fields' fee model levied by Greyhound Racing NSW should remain in place to deliver the best long-term funding outcomes for the NSW greyhound industry

For many years Sportsbet has paid product fees to Australian racing (and sporting) bodies and will continue to do so.

¹ Approximately 68% of the bets taken by Sportsbet are on racing, with the remaining 32% being on sports or other events.

For the reference of the Committee, following are brief definitions of the three primary fee models for charging product fees:

- Turnover model– the product fee is a percentage of the total amount in bets placed by punters (before wagering companies pay out winning bets).
- Gross revenue model (also known as gross profit model) – the product fee is a percentage of the gross profit (once bets are placed and winnings are paid out by wagering companies).
- Hybrid model – which ‘blends’ the turnover and gross revenue models, and typically comprises product fees being levied on the basis of gross revenue but with a minimum payment floor based on the bookmaker’s wagering turnover.

The gross profit model is generally far more equitable because it ensures a level playing field for all licensed and regulated Australian-based wagering companies. In contrast, the turnover model unfairly discriminates against lower margin wagering companies, such as corporate bookmakers, and benefits wagering companies with the highest margins, such as the TAB. It is also noteworthy that the Productivity Commission’s 2010 extensive inquiry into gambling independently recommended that a gross revenue model is in the best long term interests of a sustainable racing industry taking account of market dynamics.

In case the Committee is unaware, NSW legislation permits NSW racing bodies to charge product fees on wagering companies levied up to 1.5 per cent of their turnover. However, racing bodies are not compelled to charge according to this method. Before this legislation existed, product fee arrangements were negotiated directly between wagering companies and NSW racing bodies and this is still the situation with regard to Greyhound Racing NSW. Such direct negotiations to determine the formula for the payment of product fees is also the norm in the vast majority of the other Australian states and territories.

Sportsbet strongly considers that the existing race fields’ fee hybrid model levied by Greyhound Racing NSW which is set at 15% of a wagering company’s gross profit on the code, with minimum payment floor of 0.75% of the wagering company’s ‘wagering turnover’ (**existing fee model**) should remain in place as it is the appropriate model to deliver the best long-term funding outcomes for the NSW greyhound industry.

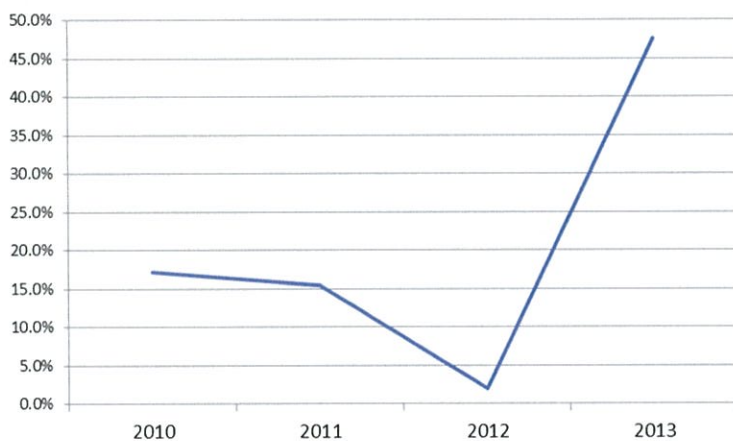
This is because it enables Greyhound Racing NSW to share in the upside of increased revenues being derived by Australian licenced wagering providers. In doing so, the existing fee model strikes the right balance to ensure that Greyhound Racing NSW collects significant revenue on behalf of the industry to fund infrastructure, integrity measures, prize money, animal welfare and more, while not compromising the desire and necessity to effectively grow turnover on NSW greyhound racing.

Greyhound Racing NSW’s decision to maintain the existing fee model (with its gross revenue focus) has had a positive impact on the growing revenue for the racing code. We commend the decision by Greyhound Racing NSW in having the foresight and courage to continue to apply the existing fee model, a move which has been strongly vindicated in hindsight, in circumstances where many other major Australian racing bodies (including NSW Thoroughbred Racing and Harness Racing NSW) moved to a purely turnover based fee model.

Margins on Greyhound Racing NSW have steadily grown at Sportsbet. The shift in consumer preferences to fixed odds and enhancements in technology have seen a sustainable increase in Sportsbet's margin on NSW greyhound racing. The existing fee model allows Greyhound Racing NSW to share in this increase in margin, a benefit not shared by a turnover only model.

By maintaining the existing fee model, Greyhound Racing NSW has ensured that corporate bookmakers can continue to offer consumers competitive prices and offers, which continue to grow the turnover on the racing code. Figure 1 (below) highlights the growth achieved over the past four years. In this competitive landscape and with consumers more inclined to bet on sport, 47% growth is a very strong outcome, something which the existing fee model permits and fosters.

Figure 1: Sportsbet Turnover Growth Year on Year on Greyhound Racing NSW



The existing fee model has allowed Greyhound Racing NSW to share in the upside of these margins and allowed the growth of turnover on the code to continue unrestrained and maintaining this model will allow revenue on greyhound racing to continue to grow.

Any move by Greyhound Racing NSW to move to a solely turnover-based fee model or to increase the existing fee model will have a significant detrimental impact and anti-competitive effect on licensed and regulated Australian-based online wagering companies such as Sportsbet.

The adverse impacts will have a negative flow-on effect for the NSW greyhound racing industry and will have a detrimental long-term effect on total wagering turnover on NSW greyhound racing, and therefore reducing returns from product fees to the industry. The reasons for this are outlined in Section 3 below.

2. Key customer preferences and trends as they relate to wagering and their impact on the selection of the appropriate race fields' fee model for Greyhound Racing NSW

The past few years has seen major changes in the way customers prefer to bet. Each of these changes fundamentally impacts upon the selection of the appropriate race fields' fee model. The major customer preferences and trends in recent years as they relate to wagering can be summarised as follows:

- An ongoing shift of wagering spend from traditional offline betting channels (i.e. retail or TAB outlets, on-course bookmakers and with bookmakers over the phone) to online channels (internet, mobile, tablet)

- A move of wagering spend from totalisators to corporate bookmakers and the betting exchange, Betfair and in particular, the shift away from pari-mutuel and pari-mutuel derivative betting to fixed-odds betting
- Growth of sports wagering in contrast to racing wagering which has seen existing customers substitute betting on racing with betting on sport and a strong preference by new customers (18 to 30 years) for wagering on sport over racing
- Increased price elasticity (sensitivity) of racing punters (i.e. where punters can find the most attractive betting odds)

We can provide the Committee with more detailed information about these customer preferences and trends and their impact on the appropriate product fee model for Greyhound Racing NSW, if that would be of assistance.

3. Adverse impacts of any upwards variation to the existing fee model by Greyhound Racing NSW in the medium term will significantly adversely impact on the long-term revenue growth and sustainability of the NSW greyhound industry

We consider that any change the existing fee model in the medium term which see either the implementation of a turnover only based model or an upwards variation to the existing fee model will have a significant detrimental impact and anti-competitive effect on licensed, Australian-based online wagering companies, including Sportsbet, and ultimately result in reduced returns from wagering to the NSW greyhound racing industry.

The adverse impacts (highlighted below) will have a negative ‘flow-on’ effect to consumers, directly resulting in lower total wagering turnover on NSW greyhound racing. These adverse impacts include, but are not limited to:

- a) The inability of Australian-based wagering companies to service high volume, low margin customers (because it would be uneconomic to do so) under a turnover-based race fields’ fee model, with the principal consequence of this being they will switch to betting on NSW greyhound racing with unregulated (and sometimes illegal) overseas-based operators.
- b) Corporate bookmakers are increasingly focusing on growing sports betting as the product fee models are far more commercially attractive (typically around 5%-10% of gross revenue), the corollary of which is increased wagering on sports to the detriment of racing. In effect, the introduction of turnover-based product fees has handed the sporting codes a significant competitive advantage over racing in terms of attracting increased wagering spend.
- c) A significant risk to the integrity of racing, because consumers will increasingly use unlicensed or unregulated offshore wagering providers or illegal SP bookmakers that offer better (higher) odds than licensed and regulated Australian online companies like Sportsbet.

The internet is a global market and Australian consumers can and readily do access thousands of unregulated and, in some cases, illegal overseas-based websites to place bets on Australian racing. Such risky sites pay no product fees to Australian racing, pay no taxes in Australia and have no obligations to work with Australian racing bodies to assist them to maintain high levels of integrity. It is compulsory for Sportsbet, together with other Australian-based online wagering companies, to do this and of course for the betterment of the racing industry.

- d) As mentioned above, a turnover model disproportionately hurts lower margin online wagering companies and so distorts competition because it:
- reduces their ability to continue to invest in new and innovative betting products that are of value to punters; and
 - results in a reduction in the level sponsorship and marketing for the benefit of the greyhound racing industry undertaken by wagering companies.
- e) All Australian-based online wagering companies (specifically corporate bookmakers like Sportsbet) are forced to focus on the retail segment of the market, thus accelerating the 'cannibalisation' of 'retail' betting and restricting growth from new customers.
- f) A pure turnover model does not capture the natural and sustainable increase in margins which corporate bookmakers have been and will continue to experience, driven by the:
- increase in turnover on racing fixed-odds products;
 - increase in the penetration of wagering on mobile and tablet devices; and
 - ongoing gain in market share by corporate bookmakers of the higher margin retail segment of the market.

We can provide the Committee with more detailed information about these adverse impacts, if that would be of assistance.

4. Other avenues to enhance the financial viability of the NSW greyhound industry

It is obviously vital for the ongoing viability and success of greyhound racing in NSW that the industry continues to seek new and varied revenue streams away from the traditional TAB funding model. This is particularly true given that payments to Greyhound Racing NSW from the TAB under the Racing Distribution Agreement have not increased compared to other racing codes, despite the significant proportional uplift in wagering on greyhound racing.

Sportsbet and most other licensed Australian-based online wagering companies presently purchase information and form analysis relating to NSW greyhound meetings from various third parties to assist with framing betting markets.

An option for Greyhound Racing NSW to consider which is likely to enhance the financial viability of the NSW greyhound industry would be to develop 'in-house' form analysis capabilities with a view to making that data available to wagering companies for a commercial fee. Sportsbet would be interested in purchasing such data directly from Greyhound Racing NSW if this were to occur.

Conclusion

Sportsbet would welcome the opportunity to discuss any of the matters raised in this submission with the Committee.

Sportsbet.com.au