

BETTING RANDOMLY ON SPORTS: NEW LOTTERY TERRITORY?

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By now you may have read dozens of articles responding to the May 2018 U.S. Supreme Court decision, which clarified that regulation of sports betting is the business of the individual states. There is much to be learned about sports betting from our peers in Canada and in Europe. Significantly, outside the U.S. a single regulatory body may be responsible for operating a lottery and regulating or operating all other forms of gambling within a jurisdiction. In the U.S. Delaware has similar broad authority. However, it is likely that the individual American states will go a few different ways. It may happen that sports betting, where it is legalized and regulated, falls outside the responsibility of the state's lottery. Still, there is undeniable excitement about betting on sports within the lottery industry. After all, there may be an opportunity here to let people bet on something that they actually care about: people and teams, rather than numbers.

Not to dwell on the obvious, but look a little closer at our social conventions: In many settings, it is more or less expected that everyone will care and know about at least one sport. Some who do not particularly care may be moved to fake it, just to get along. Even while (and maybe because) other forms of partisanship are frowned upon socially, it is OK to favor one

team above all others. Just as teams go head-to-head aggressively (but according to some set of rules), fans have license to banter about sports, as about little else.

We have read that backing up this banter with bets results in tens of billions of dollars changing hands (illegally) each year. With changing rules, maybe part of this volume will migrate to legal channels, and maybe the volume will grow. But clearly, the bets that comprise the current tens of billions are not like bets on lottery games, where pure chance rules. Rather, the focus is on the outcome of a single event, where expert judgment may outweigh chance or passion. Many non-U.S. lotteries (including our NASPL colleagues in the Canadian provinces) offer wagers compounded of several independent events (parlays). Among other virtues, parlay bets give a bigger role to chance. These colleagues report that even this form of sports betting is an exacting business, with lots of room for error and thin profit margins. That is, sports bettors have expectations shaped by the availability of "unofficial" or friendly bets, where there is no operator taking a substantial slice of the revenue for profit. The lottery offers an official channel that competes with the unofficial, and thus is constrained to return revenue to players at a high rate. The official lottery channel has the potential disadvantage of not being

able to offer single-event bets, perhaps partly offset by the ability to offer different value propositions through its parlays. In exchange for stepping up to some kind of betting on sports, lotteries get the benefit of an expanded player base: Players who have not been engaged by standard lottery games play the parlays, and may go on to use other lottery propositions too.

My purpose in this article is to discuss an alternative way that lotteries may be able to tap some of the enthusiasm that people show for sports, and also get the benefit of expanding the player base. This alternative is to get players to place a randomly-determined wager on the outcome of a sporting event. The randomly-determined wager is the player's 'pick.' The outcome of the sporting event takes the place of the 'draw' now conducted by the lottery. At this writing, I am aware of just one example of this kind of game: Win Place Show, as developed by EquiLottery Games, will launch next spring with the Kentucky Lottery. It is too early to speculate on its potential market success. Rather, I will discuss more generally the challenge of selling a lottery wager that involves a random 'pick' about the outcome of an event, to a player whose interest in the event is anything but random.

The Win Place Show game developed by EquiLottery sets a key precedent. Even

if the outcome of the race is known with certainty – even if it has already happened – that outcome will randomly determine winners, if the players’ picks are random. Similarly, being able to skillfully predict the outcome of a contest that has not yet happened provides no advantage, if the player makes a random pick. Thus, regardless of the sporting event used to determine the outcome, these are no-skill bets conforming to the strictest ideas about the exclusive role of chance in determining the outcome of a lottery game.

The first challenge in selling such a game is likely to be legislative. If the legislature is considering whether to allow sports betting, is this kind of game something they need to think about? Some would say “Yes, because a sporting event is determining the outcome of a wager. It belongs with sports betting.” Others would say “No, because the player has no control over the bet – who wins is pure chance. It belongs with lottery or other gambling.” Of these two propositions, the ‘Yes’ is very straightforward and refers to a familiar concept (sporting event). The ‘No’ refers to a concept of chance or randomness, that may be unfamiliar and subject to different interpretations. In the absence of a party speaking on behalf of the ‘No,’ my guess is that this kind of wager is at significant risk for being regulated with sports betting. Establishing that this is a lottery kind of game may require some advocacy.

If the answer is “Yes, it is sports betting, and we are not going to do that here,” then there is not much to be done. If the answer is “Yes, it is sports betting, let’s talk about how to regulate it,” then the legislature may be relieved to hear that it is so much like a lottery game, they already have – in the state lottery – a model for how to deal with it. Likewise if the answer is “No, this is a pure game of chance.”

Supposing that the legislative challenge is met one way or another, and this kind of game can get to the market, there is a second challenge: Will sports fans buy random wagers on the outcome of an event?

This is exactly the sort of question that is best answered by a real-money, real-market test. Although the random-pick principle implemented in Win Place Show applies to any sporting event, the market performance of this game in Kentucky may depend somewhat on the particular form of the game, and on the particular sport of horse racing. It would be easy to generalize

too broadly from the Kentucky experience, once it is known. Still, it speaks to the key question: Will sports fans buy random wagers on the outcome of an event?

There are good reasons why the answer may be yes. Spectators enjoy the spectacle of sport, and may feel even better about it if they risk a little wager that connects them to the spectacle, even if it

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does not express their sentiment about who is going to win. That is likely a driver behind the appeal of Win Place Show – call it the feeling of participation.

The feeling of participation may be an especially potent driver where the important connection is to the event, rather than to the competitors. Horse racing is probably a great example of a sport with very few ‘stars,’ and a great number of possible outcomes for an event. Having few ‘stars’ may make it more likely that a casual player would be willing to bet on any three horses to win, place, or show. Having many possible outcomes makes it possible for the lottery to define prizes that reach interesting size. For example, the EquiLottery web site explains that if a random pick identifies the first three finishers among 14 horses, the player wins \$80, while if the random pick names these three in correct order, the player wins \$1,800. (It would be possible to define higher prizes for naming more finishers in exact order, but this may not be compatible with the revenue goals of the game.)

Is the random-pick idea a natural fit only when the player cares more about the event than the competitors? This may be a question that bears on the broader applicability of this kind of game. A random pick potentially puts the player’s money against his heart. This would seem to thwart the natural impulse to “put your money where your love is,” potentially unlocked by legalized sports betting. The more passionate people are about the contest, the more reluctant they may

be to potentially profit from their team’s misfortune.

One way around this issue would be to develop ‘picks’ that are of a form irrelevant to the players’ sympathies – that is, neither matching nor contradicting them. With respect to racing, for instance, the players’ sympathies are expressed in the order of finishing, and a ‘natural’ bet would identify the racers in order of finish. An ‘irrelevant’ bet could (for instance) assign the racers not to a linear order, but some other, non-linear geometric arrangement – a grid, for instance. I have recently studied a gaming method based on making a ‘pick’ having this extra dimension, while the ‘draw’ remains linear¹.

While the details of the method and the results of my study are beyond the scope of this article, I am confident that games of this type have many valuable properties. The most important of these properties is that players of a draw game built on this basis potentially experience lots of near-wins, and wins of a frequency and size similar to our most successful instant games. And as the growth of the instant category tells us, nothing succeeds like success. The winning- and near-winning experience delivered by this gaming method may have the ability to sustain engagement of players who try it. It may be possible to build lottery games that borrow on the excitement of ‘tonight’s game,’ and the sustaining properties of proven prize structures.

Are there other ways of framing the players’ wagers so they are irrelevant to (and thus inoffensive to) the players’ sympathies? At this point I must say “I don’t know.”

To summarize: Because legislatures may be taking up the definition of sports betting, lotteries may have an opportunity to gain as their own (or lose to some other body) the operation of games in which the player buys a random pick whose value (loss or win) is determined by a sporting event. The first such game is getting a market trial in Kentucky in the spring of 2019. Whether alone or combined with a ‘natural’ sports bet, this kind of game may develop into an important diversification of gaming offerings. ■

Note:

1) <https://lotterymanagementconsulting.com/kenolinka-the-new-and-better-keno/>