

CONVERSATIONS WITH A BOOKIE - PART 2

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In my last article, I recalled the start of a lucky day when I caught both a free first class upgrade for a long flight and the start of an education in sportsbooks. The education was courtesy of Andre, who was traveling on behalf of one of those companies that made a big splash promoting daily fantasy sports a few years ago. Andre occupied the first class seat at my elbow. His mission was to explain to state legislators how running a sportsbook differs from running a lottery. Consequently, he was well prepared with examples that were relevant for his audience.

As we crossed the continent, he pulled up archival web pages to show the betting propositions that were available just before Super Bowl 53 – that’s to say, probably the single biggest sporting event in the U.S. in 2019 in terms of betting. Certainly, a principal nexus of entertainment and other every other business, in terms of marketing and advertising. Another yearly installment of a spectacle that predictably generates even more buzz than a billion dollar lottery jackpot.

By the time we were over Montana, Andre showed me that his book lost money taking bets on that game.

As we continued eastward, he explained that this was not an unusual or disastrous outcome, but rather part of their normal operation.

As a lottery advisor, I am used to seeing the “house” make big money when a game briefly captures everyone’s attention. I struggled to assimilate the notion of accepting bets where the most

likely outcome is a loss to the house. As we crossed the Midwest, I kept hoping that Andre would reveal some trick by which the biggest betting spectacle of the year turned out to be a money-maker for his shop. Instead, by the time we began our descent, I had a better understanding of what we might call hedging, an increasing wariness about online influencers and a deep respect for the art of running a sportsbook.

I will try to convey here some of what I learned.

THE BASICS, REVISITED

You may remember that in Super Bowl 53, the New England Patriots played the Los Angeles Rams. The Patriots were favored to win.

Since I was starting low on the learning curve, Andre had to spend a fair amount of time just explaining the notation of the offers shown on the archival pages from that time. I recapped that part in my previous article. The essence of it is this: The Patriots were favored, meaning more money was bet backing them to win (even with a point spread). The book was accepting bets for the Patriots to win by three points or more, requiring Patriots backers to put up \$127 to win \$100. On the other side, Rams backers were putting up \$100 to win \$115. Given these conditions, the sportsbook would have been almost indifferent to the outcome of the match, if precisely 50% of the bettors had backed the Patriots. The book would have stood to lose no money on a

Patriots win, or to make a little money on an upset. The sentiment of the bettors, however, was such that about 67% of the money was bet on the Patriots to win. This put the sportsbook in the position of losing money on (what most agreed was) the most likely outcome of the match.

“So, if I understand this,” I said, “in all the excitement leading up to the kickoff, with millions of dollars pouring in every little while, you are taking bets that put you deeper and deeper into a hole if the Patriots win? Which you fully expect them to do?”

“Well, sure. We use the same sort of expected value calculation as any business: probability of an outcome times its value, summed over all outcomes. And as we watched the money come in, we also see where people think the probabilities are. No one really knows what’s going to happen. You could take a “wisdom of crowds” approach. That would suggest that since 67% of the money was on the Patriots, they had a 67% probability of covering. If the Patriots are really 67% likely to cover, then we are looking at a net loss on the event. I think our in-house people may have been a little more sanguine about the Rams. I remember a discussion about the difference between popular sentiment and actual probability of the Patriots covering, as if anyone could know that number. The number I remember is 58%. That is, given the way we took the bets, with 67% of the money on the Patriots, if the real likelihood of the Patriots covering were 58%, we

“HOW DO WE KNOW YOU WON’T BE PAYING PEOPLE TO SHIFT PUBLIC OPINION FOR THE BENEFIT OF YOUR SPORTSBOOK?”

would be at a breakeven point on the expected value of the match. That’s to say, no significant gain or loss for the house.”

“And did your in-house experts think the match was that near to even?”

“No, not really. That’s why we hedged.”

HEDGING THE BETS

Now, I suppose that like most people, I have used common figures of speech without a full appreciation of where they originate. “Batten the hatches” conveys “prepare for turbulence,” even though most of us have never handled a batten, let alone secured a hatch with it. “Hedge your bets” we understand to convey “don’t commit fully.” But just how to go about doing that to a bet, I did not know. So, I asked what I hoped would pass as an intelligent question.

“How did you hedge?”

“At minus 130 on the spread,” was the answer.

No doubt this was a good and succinct answer to an intelligent question. However, since my question was really “What in the world do you mean by a hedge?” masquerading as “How did you finesse this particular hedge?” it did not help me.

“I lost you there,” I confessed.

Andre, the smooth educator, quickly realized the true nature of my question. “You saw,” he reminded me, “that in terms of our public-facing action, we were in effect betting on the Rams, or betting on the Patriots not to cover. So, the upset would be profitable for us. Trouble is, it’s unlikely. To hedge, we need to find another party to bet with, where we can bet on the Patriots to win, or cover that spread. That way if the Patriots cover, we have some cash coming in to help with

what we are paying out. If the Patriots don’t cover, we have to pay off on our hedge bet. But we were flush in case of an upset, remember?”

“So you are making the likely outcome less costly, by making the upset less profitable?”

“That’s the deal we made.”

“With whom?”

“Our partners are strategic assets whom we decline to identify,” he said with a tight-lipped smile. “That’s our regulation answer. But what I said earlier, the number? With this partner, compared to the mass market, we put up a bigger bet to back the Patriots -130 instead of -127. And this was just between us, see? So if the Patriots cover, our partner pays us 100; if they fail to cover, we pay them 130. We both felt it made sense.”

“And you negotiate a volume of bets that also makes sense for you?”

“Right. You want to think of these as prices, not as dollar amounts. The dollar amounts would have a lot more zeroes.”

“Is this the sort of thing you talk about with legislators?”

“Not usually. It depends. Some of them are more concerned about match fixing. Now that’s an easy one for me, advocating for legalization. When people try to fix a match, they generally back it up with a lot of money, and if we can see the money we have a better chance of catching the fix. If we can agree to get it out in the open, with agreements about data sharing, then we’re way ahead.”

“Yes, I recall hearing about that at one of our lottery conferences. And you know, it makes sense that they would have concerns that way. In movies and such the bookie is always the shady character who is looking to rig a fight, or something. They are probably relieved to hear you coming out for some kind of transparency. So, no surprises for you, in talking with legislators?”

THE IMPACT OF INFLUENCERS

Andre considered. “Actually,” he said, “there was something new this trip. I think people who run for election are very tuned in to the power of social media. And the potential scamming that can happen there. You know, the practice of paying people as ‘online influencers,’ and so on. You’ve got people sharing what appear to be independently considered opinions and real experiences, where in fact they are being paid by someone to manipulate their followers.”

I acknowledged that I was familiar with the practice.

“And then you’ve got the exposure of all this echo-chamber stuff, where you can have really active accounts that are nothing but bots built to amplify a chosen message... legislators maybe have seen some of this. They are alert to it.

“So now they look at sports betting,” he continued, “and you’ve got any number of people who are potentially influencers, who like to post stuff, who love having followers, who live on their phones... and [legislators] look at me, and I’ve just told them that we knew we were likely to lose money on the Super Bowl because too many people were favoring the Patriots... and they say, ‘How do we know you won’t be paying people to shift public opinion for the benefit of your sportsbook?’”

Andre opened his eyes wide and raised his eyebrows, replaying the scene for me. “But these are independent posters and bloggers and so forth. We have no control over them. They are not on our payroll, or anyone else’s, so far as I know.”

Andre glanced around to see that no one appeared to be listening in to our conversation.

“And they come back with: ‘Surely we both know that it is not a matter of people on the payroll. In a web-enabled business, it is not uncommon to trace web traffic. You will know where those bettors were, just before they came to your site. If they bet the way you would like them to, you know who to thank. And potentially who to pay.’ Affiliate Marketing: They are absolutely up on it! I was amazed. Some of these legislators would know exactly how to set up a scam like that.”

“SOMEHOW,” I REFLECTED, “IT DOES NOT INSPIRE A LOT OF CONFIDENCE WHEN SOMEONE SAYS ‘I AM NOT A SHILL.’”

“Would it be a scam?”

“More than the rest of what goes on, you mean? Maybe not. And when you get right down to it, what do we really know about the motivation behind the stuff people put on the web? I do know that some of the guys who blog about sports and betting go out of their way to say they have no connection to any bookie. I suppose they are acknowledging the obvious temptation. So, I guess if they claim to be pure and are not, they’re scamming. Certainly not good for their credibility if they are thought to be paid influencers. Or shills, as they were called in an earlier age.”

“Somehow,” I reflected, “it does not inspire a lot of confidence when someone says ‘I am not a shill.’”

“Still,” said Andre, “I don’t see this being a killer for web-enabled sports betting. There are going to be lots of opinions out there in the runup to a match. Over the long run, the folks who make the most accurate predictions are going to thrive, and the others will fade. If the odds-setters get it too wrong, there’s no way paid influencers are going to turn it around for them. So, some of that may go on, and legislators are smart to be wary of it, but that’s all part of the new information economy. Everybody can publish their opinions, there’s no gatekeeper, and who do you trust? I don’t think there’s any way to legislate better behavior here.”

As our plane docked at the gate, I thanked Andre for the interesting

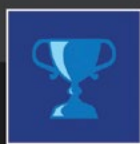
conversation. In those few hours, I feel that I got a start at understanding the complexities of managing a sportsbook. The notation of single-event betting makes sense to me now. I think of the sportsbook as sort of a daredevil enterprise compared to a lottery. As a bookie, I would be riding the edge between likely and unlikely in order to make the business work. I would want to have a network of peers who might be amenable to high-volume hedge bets. I would need to maintain an understanding not only of the game and the competitors, but of changing public opinion, and how it might be shaped. It would surely be engaging; it might be exhausting.

Looking at single-event sports betting from the lottery perspective is like watching surfers from the shore. I am comfortable admiring the spectacle. If the spectacle draws a crowd, maybe the lottery can make products that play on the sports theme – even beyond the parlay bets that have been explored. Where there’s an excited crowd, there’s probably a way to sell them something that gives them a feeling of participation. Watch for innovation in that space! ■

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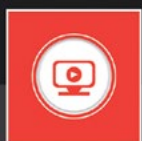
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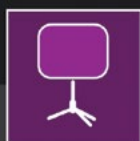
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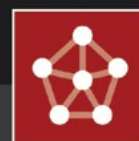
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