

12 May 2009

**SUPPLEMENTARY SUBMISSION  
TO  
PRODUCTIVITY COMMISSION  
  
GAMBLING INQUIRY**

**From:**

Bruce N. Teague  
*HunterCoast Marketing*

## **ENOUGH, PLEASE!**

Although I have had one go already, the recent Tabcorp submission (229) demands further comment. This curate's egg proposal is more than a touch self-serving.

### **On Distortion**

Tabcorp claims market distortions have occurred as customers "jurisdiction shop". This happens because "wagering customers will seek out wagering opportunities that provide the best price" and "wagering operators will seek out a business environment that enables them to maximise returns". Hardly a surprise.

Of course, this revelation follows an era dominated by the various TABs' monopolistic regimes with their high pricing, all underpinned by protective state government legislation. Understandably, both traditional bookmakers and customers finally revolted, thereby prompting the emergence of new betting outlets.

That is, TABs themselves effectively caused any "distortion".

In any event, the market is not distorting, rather it is trying to find some semblance of its true or logical course. In real terms, it is also declining as business moves to other forms of gambling.

"We've always done it this way" is the theme underlying Tabcorp's proposal but this is not a good foundation for future prosperity.

### **The Betting Pie Make-up**

While, for the most part, TABs and bookmakers compete for the same market it is arguable that betting exchanges don't quite fit into the same camp. Claims that Betfair has caused diversions from TABs are based on circumstantial evidence at best, and occurred in a historical TAB/bookmaker market that was flat or declining prior to the arrival of Betfair.

The question of whether Betfair business is "instead of" or "as well as" could be established only by detailed, independent research into individual punters' habits, not by anecdotal reports (as were quoted by some respondents to the Cameron review of NSW wagering). To some extent at least, logic suggests that some or most Betfair business must be additional to traditional turnover, purely on the grounds of its novelty and simple makeup. It's also cheap to supply and to use. It may well be attracting customers who just don't like conventional betting products and therefore would be increasing the size of the pie.

In any event, the nature and availability of the respective products suggest that Betfair customers would tend to be bigger spenders and more knowledgeable while TAB customers are dominated (in number) by smaller investors with less knowledge.

The case, put by TABs and the racing establishment, that Betfair deductions should be the same as those for TABs is therefore shaky on these grounds alone.

## **On Competition**

Tabcorp, apparently, is now in favour of competition (p25). This claim contrasts markedly with past Tabcorp themes, most recently in December 2007 when its CEO called on the NSW Premier to “ban” Betfair. (UNiTAB’s CEO has made similar calls).

Concurrently, Tabcorp seeks controls over charges and fees paid by all operators, largely so that it is not disadvantaged.

While a few aspects of Tabcorp’s proposal are useful, its recommendations leave no avenue open to question the level of a TABs’ total takeout rate – ie not only the portion going to the racing industry but the remainder which goes to cover costs or ends up in the pockets of Tabcorp’s shareholders and employees. No test exists to validate the latter figure other than competition from operators not favoured by racing’s management – ie at the moment, corporate bookmakers and Betfair.

Tabcorp’s proposal therefore parallels the regime under which Ansett and TAA operated the notorious two-airline-policy, which utilised a controlled input (fixed capacity) and a controlled price (identical cost-plus fares). Naturally, a neatly controlled profit followed, just as it did for the old competition-shy banking sector. Like TABs, both these industries were expensive to use at the time.

A potential aid to future competition, and probably a necessary leveller for the TAB-dominant structure, is the prospect of licensing bookmakers to operate freely off-course. While phone and internet access are available to them now, both are accompanied by a number of restrictions which hamper their development. It is hard to see any fundamental reason why substantial liberalisation should not occur in this area.

Which leaves us with a critical question: which should carry the greater weight - what the TAB and the traditional racing establishment say or what racing public wants?

## **On Tabcorp Recommendations**

Tabcorp calls for national consistency, or even national control, in regulation, fees and taxes and a prohibition on “Tote Odds” betting by bookmakers.

It omits one change which would help considerably – a national betting pool.

Currently, erratic pools and dividends are of benefit mainly to professional punters who have the means to play off one against the other. The vast majority of TAB punters and the vast majority of race meetings do not lend themselves to that approach. Rather they lose out because modest bets can radically change the odds. Worse, for the racing industry, small pools encourage customers to divert to other or illegal channels to place their bets.

The prospect of a national pool also attracted attention from the NSW Minister when he released the Cameron report on NSW wagering (and also Minister Face during his earlier reign).

Otherwise, there is ample legal and administrative precedent available to underwrite a national structure for wagering. In some ways, it should be a good thing. However, it would need to be well clear of political influence, albeit established under broad guidelines set by government – like the Future Fund, for example.

The major barrier to a national system is the well-declared form of state governments and their captive state racing authorities, who have all jealously guarded their bailiwicks. Even the NSW Minister (above) was talking only about the cash pool, not anything more elaborate.

But let's note that the detail of Tabcorp's recommendations all heads towards a regime which lets TABs do what they wish with their fixed cut of the action – ie the difference between the 5% or so that goes to the racing industry and the total takeout of 16/18%. This is unacceptable.

It is true that a national betting pool would leave (at least until 2012) two major TABs to compete on price and service. Still, given that they operate in separate jurisdictions it is unlikely that sufficient competitive incentive would exist. Other betting operators would still be needed to provide the necessary needle.

Further complicating the “nationalisation” process is the fact that betting exchanges, whether operating locally or from overseas, may well expand in number and size and are extremely flexible in their operational patterns. Similarly, too, with corporate bookmakers, as past experience with Fiji- and Vanuatu-based bookmakers has shown. Over time, regulators will be less and less able to micro-manage this part of the industry, if, indeed, they wish to.

The most effective and efficient approach to unwanted or non-fee-paying betting operators is likely to be the creation of a national system which is more attractive than outsiders can offer.

Tabcorp has skated around the critical point that nothing in the past, present or future can avoid the key economic issue for the racing industry – it can no longer rely on a fixed rate of remuneration and certainly not on a return to past glories. And, while it has not happened yet, racing management structures need reform, too.

Having said that, I have no problem with a significant bet deduction ending up with the producers – ie the raceclubs. Just how big that deduction should be is a moot point but certainly the need for significant rewards to racing participants (owners, trainers, etc) warrants sympathetic treatment. However, the other side of this coin is the potential for improved efficiency via (a) the creation of a bigger betting pie and (b) a tighter or more productive cost structure amongst betting operators.

Tote Odds

The question of bookies using “Tote Odds” is now before the courts and will raise interesting questions. Customers must find this a boon yet Tabcorp is claiming infringement of intellectual rights. The industry at large should find it beneficial as it undoubtedly enhances turnover. However, let’s note that the dividend figures are set by the customers, not by Tabcorp, so the judge will have an obscure challenge. While Tabcorp is the owner of the operation, it has no effective influence on the actual prices, so how is it possible to “own” them?

But is Tabcorp crying wolf? The same corporate bookmakers being sued by Tabcorp contribute significantly to Tabcorp turnover (as do conventional bookmakers) by betting back into their system when the need arises. Whether some of that money serves to manipulate prices is for separate review. Either way, the cash helps Tabcorp’s bottom line as well as that of the raceclubs (indeed, it is money turned over twice so the industry achieves a double benefit).

In any event, the judge might note that “copying” odds is customary in the racing industry now and always has been. Traditional on-course bookmakers do it every day, one from the other and from the local TAB, in order to remain competitive. Is that to be illegal, too? If so, where would the boundaries lie?

Tabcorp’s angst about the corporate bookmakers’ tack is surely a dog in the manger issue. It is simply trying to stop a competitor improving his business (not by competing harder but by enlisting government fiat). Whether the competitor succeeds or not will probably have no huge influence on Tabcorp’s core business, nor on its profitability. In any event, Tabcorp is in that field itself – via its Luxbet operation in NT.

### **Isolating the Problem**

The monolith which comprises the TABs, state governments and the racing establishment has been showing serious cracks for some time now, for two major reasons: it resists change or modernisation and the industry structure is unsuitable for today’s society. This is not to denigrate contributions from any particular sector but more to question how the industry is put together and how decisions are made.

Indeed, those aspects of racing which do not concern its direct management have shown remarkable advances, technologically and in other ways. Breeding, veterinary services, drug testing, feed supplements, training techniques, communications, remote race viewing, stewardship and transport are examples of fields where major advances have been made – often achieving worldwide leadership. Of course, most such areas are subject to normal market forces and are highly accountable, in stark comparison to the industry’s top management and its organisational structure.

### **Miscellaneous**

1. The Lucy’s Light scam at the Gold Coast dogs (p23) hit not just an SA bookmaker but also two in the Northern Territory. The latter two were unhappy but paid up straight away. The SA bookie argued the toss via government appeal channels before finally having to pay up himself. This scam would have been difficult if not impossible to bring about were the industry able to work with national (ie larger)

pools. Logically for him, the scammer used a Queensland pool because it was the smallest of the three on offer and therefore the cheapest to manipulate.

(I should say that, in an amazing coincidence, I happened to be on the Gold Coast track for this race. I watched Lucy's \$1.10 suddenly spear out to \$12.00 and rushed over to the tote window. Alas, the race closed as I reached there. It was beautifully done – if dubious in its philosophy).

2. Tabcorp's comment about costs for SKY and other services (p17) omits to mention that TAB betting outlets and most raceclubs are up for significant fees and charges for hosting the service.
3. A Tabcorp chart (p20) claims its takeout rate is 16%, which omits extra bonuses such as the rounding down of dividends and raises the figure closer to 18%.

### **In Short**

Tabcorp is seeking a highly regimented, tightly controlled wagering system. That would help preserve its dominance and guarantee its profitability. It is also less likely to stimulate innovation and future development. Since Tabcorp has long viewed the wagering market as "mature" and devoted much of its resources to casinos and other forms of gambling that shortcoming may not worry it too much.

The racing establishment has generally adopted the Tabcorp line, which emphasises its glued on approach to traditional betting with its high commission levels – something which still persists, regardless of the customer stampede to greener pastures.

In both cases, maintaining the empire is clearly the major objective.

Neither of these attitudes is in the racing industry's best interests. Major reform is not only needed but is overdue. An essential element of that reform must be to acknowledge the customers' demands for greater involvement of non-TAB betting operators.

### **A Disclaimer**

For a variety of physical reasons – and I am only a modest punter – all my current business goes to Tabcorp, albeit to very limited areas of Tabcorp's product list. Effectively, I have no choice. I have not dealt with either corporate bookmakers or Betfair. Not yet, anyway.

\* \* \* \* \*