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www.Betfair.com: World-Wide Wagering

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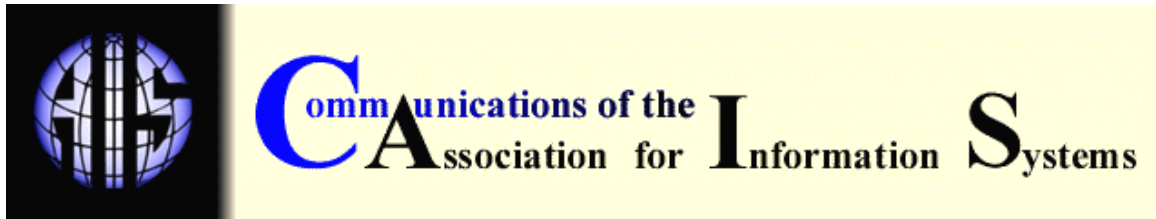
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WWW.BETFAIR.COM: WORLD WIDE WAGERING

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ABSTRACT

Many industries are being changed fundamentally as entrepreneurs discover how to use the Internet to create higher customer value. Betfair turned the gaming industry upside down with its exchange for gamblers. It found a very efficient and effective way to match those who want to make and take bets, and also made these gamblers 10 percent better off compared to betting via traditional channels. The case describes the development of Betfair, its business model, and addresses the problems it faces as it expands beyond the boundaries of the United Kingdom.

Keywords: gambling, globalization, entrepreneurship, Internet

Editor's note: A teaching note is available to faculty who are listed in the MISRC-ISWorld Faculty Directory (<http://www.isfacdir.org/>). Contact the second author at rwatson@terry.uga.edu.

I. INTRODUCTION

It's an age-old story. Two men in a bar arguing about the outcome of the U.S. presidential election. One believes the Republicans will win, and the other thinks the Democrats will do it this time. If they simply bet against each other, one will be at a disadvantage and the other will enjoy an edge, because the reality of the situation is that the outcomes of events such as elections are very rarely akin to flipping a coin. If they were in the United Kingdom, they could go to a high street bookmaking firm such as Coral,¹ William Hill,² and Ladbrokes.³ On October 26th 2004 the best odds that they could obtain from any of these would have been 8/11 on the Republican Party

¹ www.coral.co.uk

² www.willhill.com

³ www.ladbrokes.com

and 23/18 on the Democrats (and these odds would not both be offered by one bookmaking firm, they needed to “shop around”).⁴ If they logged on to Betfair,⁵ however, on the same day, they would have been quoted the equivalent of 78/100 Republicans and 128/100 Democrats, which a little arithmetic will show are slight, but significantly more favorable, odds to both players.⁶ Both might also notice that by the 26th of October, players on the Betfair web site traded more than GBP 2.9 million on the outcome of the U.S. presidential election – or around USD 5.5 million at January 2005 exchange rates.⁷

ANDREW BLACK'S BRIGHT IDEA

In the late 1990s, Andrew Black was making a decent enough living writing software, and as a professional gambler, concentrating mainly on playing bridge and betting on horses. He had developed some software for odds calculations for soccer, from which he made an acceptable return. But he was dissatisfied with traditional bookmakers, and started to think of an alternative business model [James, 2004].

“By the time they [the bookmakers] build in their margins, you've got to be 20 percent smarter to make money. And if [you] make a mistake, [you] can't trade out of it. I thought, there's got to be a better way.”

On a May evening in 1998, Andrew Black had one of those insightful neuron surges. While working at home on a contract for the U.K. Ministry of Defence, Black imagined building an Internet gambling exchange operating on similar principles to the U.S. stock exchange. As he commented in an interview published by *Scotland on Sunday* [Dey, 2005],

“The big jump was realising the numbers in the model didn't have to be a price. If you substituted these numbers for odds, it still worked.”

By 2004, Betfair was the world's largest betting exchange, with around 50,000 people placing bets each week on the many events the web site features. Elections, major horse races, golf tournaments, and soccer matches inevitably trade more than GBP 3 million at a time. Yet Black, co-founder Ed Wray, and the senior management of the firm face a number of dilemmas. Topics that dominate management meetings include:

- Who is our competition, how should we react, and where might new competition come from?
- How should we grow Betfair into a truly global firm, what challenges can we expect, and how do we deal with vested interests and governments in countries where betting exchanges are seen as a significant challenge to the status quo? Will experiences in some countries better prepare us for entering others?
- With whom should we align ourselves? Is there a standard procedure we can follow in entering a market, or must we to start again each time?
- How can we grow the Betfair business model? Are we a gambling and wagering company, or do our competences and processes allow us to grow into other markets and businesses as well?
- How do we deal with a diversity of governments that control gambling?
- Which countries and markets offer the best prospects for growth?
- Should we list the company on a major stock exchange, such as London, or should we hold on completely to what has become a very good business indeed?

⁴ www.sportinglife.com/oddschecker

⁵ www.betfair.com

⁶ Odds of 8/11 equate to 73/100, and odds of 23/18 equate to odds of 127/100

⁷ GBP 1.0 = USD 1.88 on January 13, 2005.

II. BOOKMAKERS AND TOTALIZATOR SYSTEMS

Traditionally, those wanting to wager on the outcome of an event, such as the Kentucky or Epsom Derby, the SuperBowl, or Wimbledon, needed to resort to a pari-mutuel totalizator system or a bookmaker. Pari-mutuel systems (Figure 1) deduct a percentage of all bets (normally around

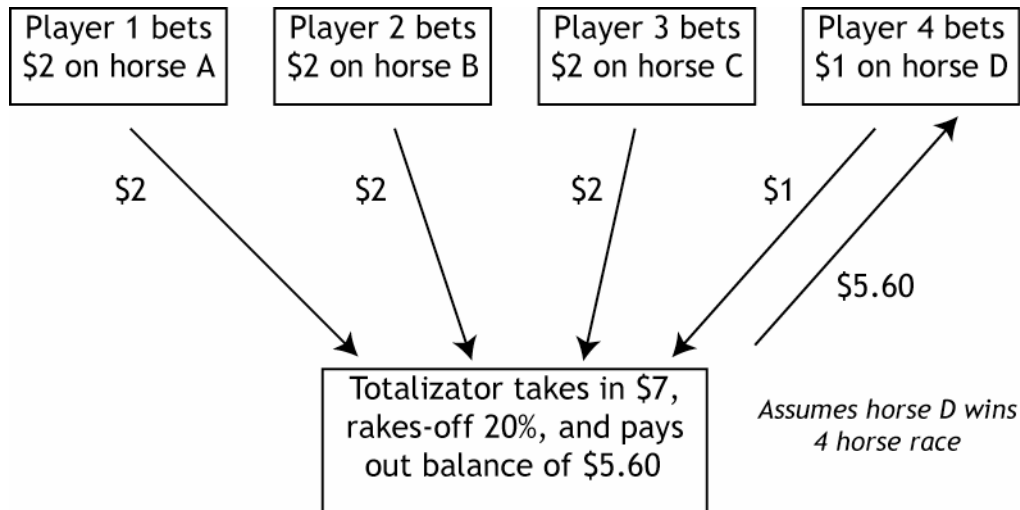


Figure 1. Totalizator System

15 percent), and winners are then paid as a ratio of the remaining pool to their stake. The disadvantage for bettors is that as the weight of money for their selection increases after they placed their bet, so their odds, or payoffs, decrease. This uncertainty means that it is difficult for players to use any kind of betting system to maximize profits or minimize losses. A player at a racetrack might, for example, be \$100 down by the last race, and place a bet of \$100 on the favorite in an attempt to recoup his losses. At the time of placing the bet, the horse is showing a \$2 payout for a \$1 bet on the totalizator board. At these odds, our player will indeed recoup losses if the horse wins. However, the subsequent sheer weight of money then reduces the payout on the horse to \$1.50 by the start of the race. If the horse wins, our player will still be \$50 down for the day, and there are no rewards for skillfully placing the bet early. The totalizator can never lose – much like a lottery; it simply takes as its income a fixed percentage of all funds wagered.

Bookmakers (Figure 2), like those in Las Vegas and in countries such as Australia and Great Britain, offer fixed odds on the outcome – odds of 6/1 (\$6 to \$1) for example, means that the bettor will be paid \$6 plus her \$1 stake should her selection win the event. The advantage to the bettor is that the odds are fixed, and will not be reduced by the subsequent weight of money for her choice, as in the totalizator case. On the other hand, however, if the bookmaker later increases the odds, the early bettor does not benefit from this change. The disadvantage to the gambler, in this case, is that bookmakers, like casinos, obtain a significant edge because they offer odds shorter than the true probabilities in order to profit in the long run – typically around 14 percent of turnover.

In many countries, bookmaking is banned. In those in which it is not illegal, bookmaking is strictly controlled and licensed, because of instances of unethical bookmakers influencing the outcome of sporting events for personal gain. For example, bookmakers have been accused of fixing races, bribing jockeys, and other corrupt actions, and this is not in the ordinary player's interest. It is difficult enough to find a winner without the odds being unfairly stacked against one by cheating. Where bookmaking is legal, jurisdictions often taxed winning bets as a form of state or provincial revenue, thereby increasing the odds against players. In some cases authorities tax the stake, which creates a further disadvantage.

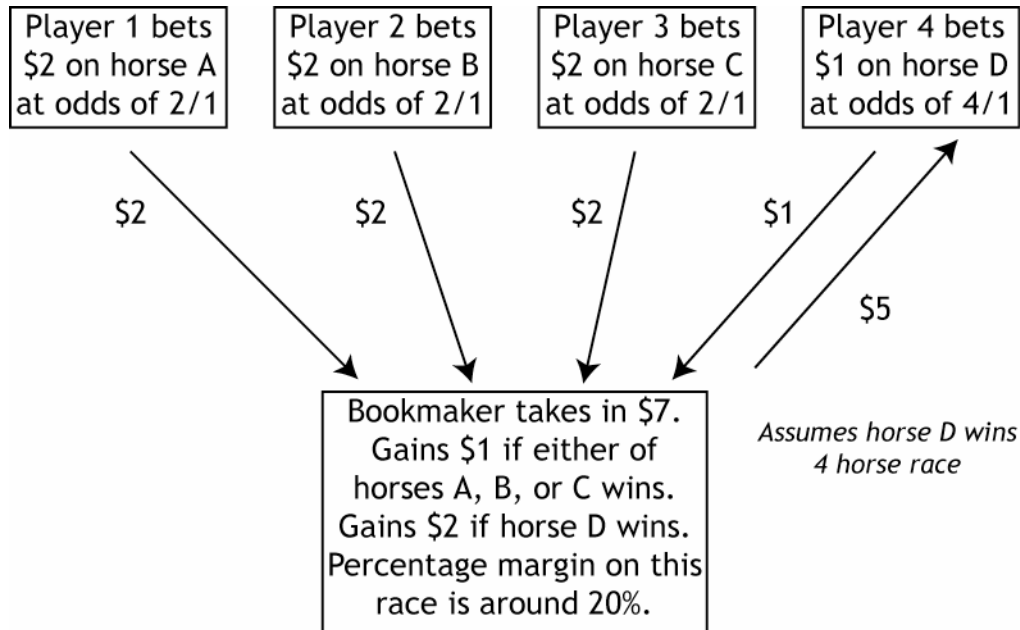


Figure 2. Bookmaker

Unlike totalizator systems, bookmakers can and do lose on some events. For example, when they misjudge the probabilities and the odds that they offer are too generous, or when some of the potential outcomes do not attract the anticipated volume of bets.

While the models for the totalizator and bookmaker differ in many ways, their basic premise is the same. Use the money taken from losing bets to pay winning ones, and allow for a percentage "rake-off" before doing so.

III. BETFAIR

When Betfair launched in 2000 with GBP 1 million raised from Black's and co-founder Ed Wray's (a former vice-president of JP Morgan) network of contacts, it was taking less than GBP 50,000 a week in bets. This number began to climb gradually and within nine months, Betfair exceed GBP 1 million a week in turnover. Significant investors began to acquire stakes in the business, including Benchmark Capital, UBS Capital, and JP Morgan Chase.

Betfair.com, located in the United Kingdom, turned over GBP 1.5 billion⁸ in 2002, and won a Queen's Award for Innovation in 2003. To give a better indication of the volumes of cash being turned over by mid-June 2004, Betfair did a bigger turnover on the Kentucky Derby than the totalizator on the track at Churchill Downs,⁹ the race venue. More than GBP 4 million was wagered on the 2004 U.S. Open golf tournament, simply on the final outcome (and not taking novelty bets into consideration, such as would Tiger Woods make the cut, and who would be the top European player). A week before the Men's Final at Wimbledon in 2004, more than GBP 3 million had been wagered on the overall outcome, and wagering on each individual match inevitably exceeded GBP 200,000 (more than GBP 1 million was wagered on the third round men's singles match featuring Briton Tim Henman).

⁸ Because it is a British firm, most financial figures on Betfair are quoted in Great Britain pounds sterling (GBP). However, players in different countries can choose to see and play in the currency of their choice – e.g., Americans can see markets in USD, Australians can see markets in AUD.

⁹ www.churchilldowns.com

Betfair provides an opportunity for speculators to bet on events that range from the more conventional sports such as horse and greyhound racing at tracks around the world, football, soccer, baseball, golf, and tennis to more exotic activities such as hurling, darts, and snooker. The firm also offers the opportunity for wagers to be laid or taken on non-sporting events such as the outcome of presidential and political elections, Big Brother competitions, and the Oscars. The company also offers a range of financial bets on most of the world's major markets (turning over more than GBP 100,000 daily simply on whether the FTSE¹⁰ will rise or fall). A particularly popular event in 2003 turned out to be the California Governor election, featuring movie star Arnold Schwarzenegger, and more than USD 1 million was wagered on the nomination of the Democratic Party's candidate for U.S. President in 2004.

THE BETFAIR SYSTEM

Unlike conventional bookmakers, and like totalizator systems, Betfair is not really interested in the outcome of an event. It simply provides a market for opinions and for trades to take place. Unlike totalizator systems, and like bookmakers, the odds offered on Betfair are fixed, and Betfair also doesn't take a percentage of the money wagered. Rather, its income is derived from a small percentage commission (ranging between 2 and 5 percent, depending on a player's turnover) on a player's net winnings on an event (Figure 3). So for example, if a player backed two horses in a

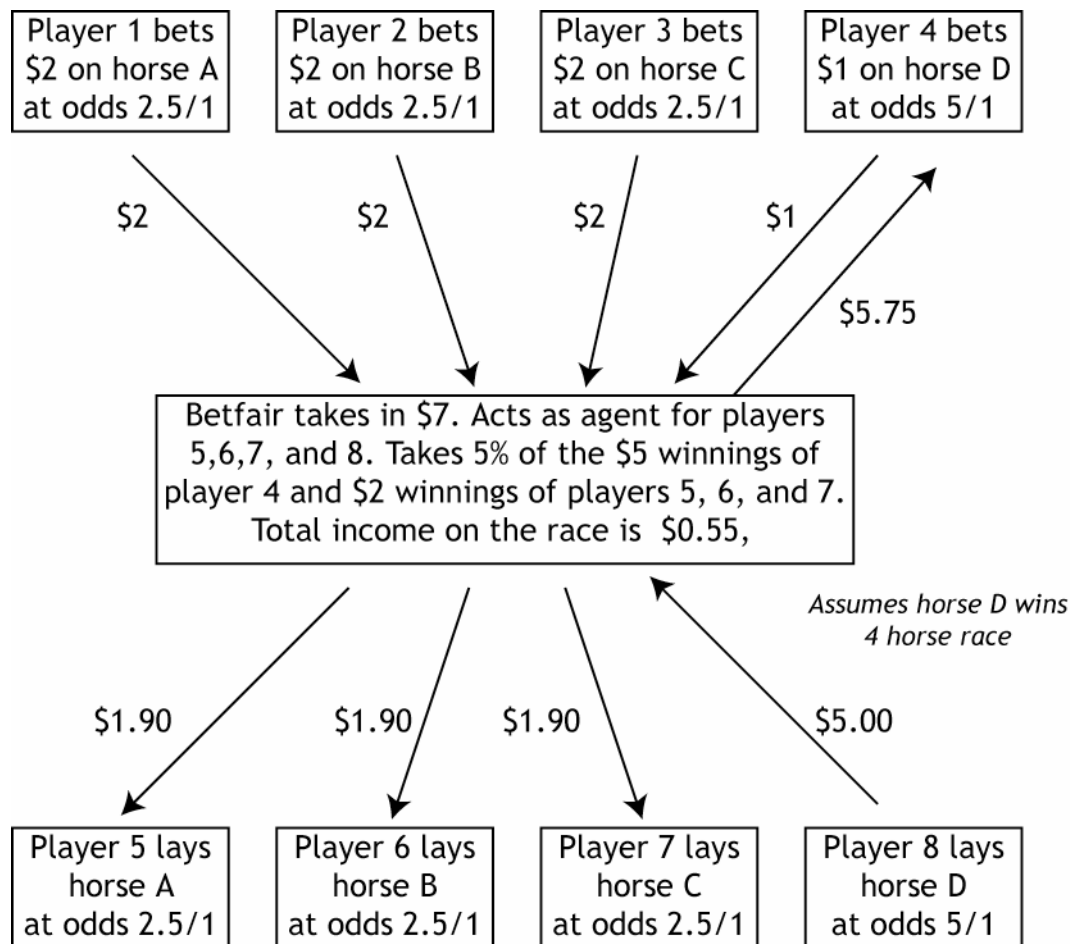


Figure 3. Betfair

¹⁰ www.ftse.com. FTSE stands for Financial Times and London Stock Exchange. It is an index, similar to the Dow-Jones Industrial Index in the United States, that provides a single number for the trades on the London Stock Exchange.

race, lost \$5 on one and won \$20 on another, then a commission would be taken on the net winnings of \$15. Similarly if a player accepted a bet of \$5 against Tiger Woods winning the 2003 U.S. Open, and laid him at odds of 3/1, the player would have won \$5 (because Tiger Woods lost) and paid a small percentage commission to Betfair accordingly.

For events, Betfair shows the possible outcomes (for example, horses or dogs in a race, the players in a golf tournament, or the two teams in a game, which may also include a draw or tie), and columns entitled "Back" and "Lay." The "Back" column shows the odds available to a player who wants to back an outcome and how much money a player can place on those odds. So for example, if the "Bet" column showed a price of 4.00 and \$100 available, then a player will get odds of 3/1 (the price represents the payout plus the stake). By wagering \$100, a player would receive \$300 plus the stake of \$100 back if the selection won.¹¹ Likewise, the "Lay" column shows what players want as odds, and how much they wish to bet. So a "Lay" price of 3.00 and amount of \$200 means that someone who thought the outcome might lose could take up to \$200 on the outcome at that price. For example, if one took \$10 of the \$200 (leaving \$190) at these odds, one would keep the \$10 if the outcome lost, and lose \$20 as well as forfeiting the stake of \$10 if the outcome won (for a net loss of \$30).

Even for those not inclined to gambling, but nevertheless interested in the mechanics of markets, it is worth visiting Betfair just to see how narrow are the differences between the "Back" and "Lay" columns on the larger markets (such as horse races and golf competitions). Prices are inevitably made and taken, and the margins are minuscule, much smaller than those of even the most generous bookmaker. It is worthwhile observing the "book percentage" on the "Back" and "Lay" sides of each event that is displayed. For an example see the screen capture (Figure 4) from Betfair for betting on the 2005 Super Bowl.

The book percentage is an indication of how much net profit or loss a player would achieve if he either backed every outcome or laid all. A percentage higher than 100 percent means that an odds maker would make a profit by laying every outcome up to a given amount, and that a taker would lose by backing all the possibilities. A percentage under 100 percent would mean the opposite. When one considers that traditional bookmakers bet to a percentage of around 114 percent, that means that the player is facing a book of only 86 percent (in simple terms by backing all the possibilities he would be returned 86 cents on the dollar). The percentages on major Betfair events rarely exceed 105 percent for odds makers (and they are not guaranteed of laying bets at these prices), and are almost always under 100 percent for the backers (although again, they are not guaranteed of getting these odds). The betting on the Super Bowl (Figure 4) is at January 17 2005, and one might speculate that by the time of the final game, the "Back" percentage would reduce to just more than 100 percent, and the "Lay" percentage to just under 100 percent, as more money is wagered on the event. In simple terms, this means that players can generally obtain better prices on Betfair than they can from either bookmakers or a totalizator.

¹¹ The \$100 available indicates how much can be wagered in the outcome of odds of 3/1. If a player wagered only \$20 then there would still be \$80 remaining. Once this amount is taken, the next (shorter) odds in the "Back" column would move forward, and so forth.

NFL Season 04/05 - SuperBowl Winner							Refresh
<input checked="" type="checkbox"/> View P&L	[Settings]	[?]	101%	99.5%			
Total selections:(4)	USD		Back	Lay			
New England Patriots	2.72 \$42	2.74 \$17	2.76 \$140	2.78 \$1025	2.8 \$1291	2.82 \$1038	
Pittsburgh Steelers	3.45 \$50	3.5 \$4219	3.55 \$330	3.6 \$296	3.65 \$1060	3.7 \$840	
Philadelphia Eagles	3.95 \$8	4 \$4623	4.1 \$1161	4.2 \$2007	4.3 \$706	4.4 \$196	
Atlanta Falcons	7.8 \$5	8 \$2096	8.2 \$617	8.4 \$159	8.6 \$187	8.8 \$13	

Figure 4. SuperBowl (as of Jan 17, 2005)

Rather than profit by taking a percentage of losing bets, Betfair profits by taking a small percentage of net winnings. Therefore, the greater the turnover on events, the more revenue Betfair will generate. It is successful if it can assemble large numbers of customers – and provide a market for them to interact with each other.

Customers place funds with Betfair by making an online deposit through a credit card (or by check or bank draft through special arrangement), and Betfair then maintains a record of the account’s balance and transactions. The balance is reduced every time a customer makes a bet (e.g., backs a horse), and is also reduced on reserve every time a customer lays a bet (i.e., incurs a potential liability by laying an outcome at odds). When a player wins, the net winnings are credited to her account. Customers with a positive balance can withdraw at any time and request all or part of their positive balance re-credited to their credit cards or bank accounts. The company also allows customers to make payments in advance by check, or to receive checks by mail or by deposit into their bank accounts by prior arrangement.

A feature of Betfair is that it permits players to bet “in the running” – that is, after a race starts until a winner eventually crosses the finish line. In the event of a very close photo-finish, or an objection, Betfair will also reopen in-play betting so that bets can be taken on the outcome of the photo-finish or the objection. Players can also bet on games and matches while these are “in play,” a particularly popular feature in sports such as football, soccer, golf, cricket, and baseball.

IV. GROWTH IN REVENUES AND BUSINESS

Betfair continued to grow rapidly. Its turnover in 2003 was substantially higher than in 2002. By the end of 2004, weekly turnover was in excess of GBP 50 million a week in matched bets, about 13 percent of the estimated USD 35 billion global annual online sports-betting industry [James, 2004]. From April 2002 to April 2003, Betfair’s pretax profits rose from GBP 1 million to GBP 11.9 million. As a private company, Betfair is not required to open its financial accounts to public scrutiny, but it did so as part of its efforts to gain an Australian license [2004a]. The financial statements revealed that Betfair returned 30 percent of its profits to the British horseracing industry. As a Betfair spokesman noted:

"The perception out there is that we are making hundreds of millions of pounds a year and we are contributing nothing. But the results show that we are in fact giving away a high percentage of our profit."

The site serves registered users in 85 countries. On an ordinary mid-week horse race in the UK, the web site was regularly matching bets exceeding GBP 400,000. On Australian and American races, the site averaged around GBP 25,000 a race, and even in smaller centers such as South Africa (on which the site provides betting on races on a daily basis), the site averaged around GBP 9,000 on a race.

By the end of 2004, Betfair had more than 300,000 registered customers, of whom some 50,000 were regular punters¹² betting every week. Major events could attract up to 12,000 wagers per minute. About 10 percent of its business was done via the phone, to cater for traditional gamblers who were not comfortable with the Internet. Furthermore, an independent study of 4,000 races published towards the end of 2004, reported that punters were about 10 percent better off dealing with Betfair compared to a bookmaker [Hannan, 2004].

For horse racing enthusiasts, Betfair enables around the clock racing coverage because of the differences in time zones. When racing in Europe and South Africa finishes for the day, racing in the U.S. (from coast to coast and usually at about 8 or 9 venues) is in full swing. About an hour after the last race in California ends, racing begins again on Australia's east coast, progressing west. By the time the last race finishes in Western Australia, bettors need to wait only an hour before racing begins in Europe and South Africa again.

V. THE INCUMBENTS RETALIATE AND COMPETITORS ENTER THE MARKET

Historical records and archeological evidence show gambling existed throughout the ages and cultures of most civilizations. For example, gambling artifacts have been recovered from ancient China (2300 BCE), India, Egypt, and Rome. A set of ivory dice dating from before 1500 BCE was salvaged from Thebes, while specific writings mentioning gambling were found on a tablet in the Pyramid of Cheops.¹³ The Book of John in the New Testament¹⁴ describes how the Roman soldiers gambled for Christ's garments at the time of the crucifixion. Not surprisingly, gambling is a huge industry worldwide, and the incumbents don't take lightly to insurgents attempting to take a share of the pie. Gambling is also a highly regulated industry, and even within countries, the legislation differs markedly from state to state or province to province [Dey, 2005].

"Geography is an absolute priority," says Black. "It's a land grab right now. If we don't go after geographies then someone else will. We're working pretty hard in Australia. - that's our biggest push. And we're meeting some pretty staunch resistance."

In the United Kingdom, Betfair has been the focus of lawsuits by the major British bookmaking firms such as Coral,¹⁵ William Hill,¹⁶ and Ladbrokes.¹⁷ They charged that by allowing individuals to lay bets, they are acting as bookmakers, and are not licensed to do so. Graham Sharpe, spokesman for William Hill, argues [James, 2004]:

"If you have a bet on an exchange, you don't know who it's with; if [the person] is offering extravagant odds, you don't know why."

The British courts threw out all the cases and rejected the bookmakers' arguments. Betfair was allowed to proceed with its business. While bookmakers might not like the idea of the site, it is

¹² Punter is British slang for someone who bets.

¹³ See <http://www.gamblingphd.com/historical-information.htm>

¹⁴ Chapter 19, verses 16-18

¹⁵ www.coral.co.uk

¹⁶ www.willhill.com

¹⁷ www.ladbrokes.com

evident that many of them are using it, either to buy back bets at advantageous prices, or to lay bets for which they might otherwise not be able to find takers. The substantiation for this assertion is the significant amounts of money that are available to be traded on many events.

In Australia, not only did bookmakers object to the site and attempt to close it down through legal action, it was also the focus of an aggressive advertising campaign by TABCORP,¹⁸ a listed company that is the world's fourth largest gambling and entertainment business. Its advertising attempted to cast Betfair in a negative light by claiming that betting on exchanges encourages dishonesty in sporting events and racing, a similar argument used in the United Kingdom by bookmakers. Betfair disabled certain features on its Australian site to comply with Australian gambling legislation (for example, Australian players are not able to bet "in the running" – that is, after an event started or a race is running). Gambling is more a matter of state than federal legislation in Australia. While the legislation is not quite clear whether it is legal or not for Australians to bet on betting exchanges or online casinos outside of Australia, no legislation prohibits players in one state betting on operations in another. News reports in September, 2004 indicated the various state operated totalizator agencies considered establishing betting exchanges as well as licensing Betfair. In December 2004, the Australian Federal Government rejected the efforts of the local racing and gambling industries to ban Betfair. As a result, the various states were jockeying to sign a deal with Betfair. An anonymous source told the national newspaper [Hoare, 2004]:

"Betfair would provide enormous revenue and none of us would want to see it lost to other states."

As would be expected, a number of competing online betting exchanges were established in countries such as the United Kingdom, the U.S., and South Africa, with variations on the Betfair business model. Some of the major operators are listed in Table 1. By January 2005, none of these offers the selection and range of wagering possibilities that Betfair does. Tradesports¹⁹ tends to concentrate on sport and racing in the U.S., and also runs markets in political events, prominent issues such as the Michael Jackson trial, and whether Osama Bin Laden will be captured.

VI. THE WAY FORWARD

MANAGEMENT APPOINTMENTS

Black and Wray realized early on that their business was growing at a rate where mere enthusiasm and hard work were no substitutes for professional management. Among the many appointments the firm made, the two regarded as strategically most important by Black and Wray and industry observers alike were those of Ian Winton and Stephen Hill. Winton, an ex-advertising agency executive, was appointed as director of marketing communications in 2004. Hill joined the firm during 2003 as Chief Executive, after resigning as CEO of the Financial Times Group to take up the position. One of the reasons Hill got the job was because of his experience with international growth from his days at the helm of the Financial Times, when the firm expanded successfully into Germany and the U.S.

Table 1. Betfair's Competition January 2005

BETDAQ	Revamped its site to offer new features. For example, a bettor, when laying a selection, can now enter the backer's stake he/she hopes to win as
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¹⁸ www.tabcorp.com.au

¹⁹ www.tradesports.com

www.betdaq.co.uk	opposed to his/her liability. Maximum commission rate of 3 percent.
GGBet www.gg.com	Horse racing betting exchange from GG.com. Standard commission is 5 percent, but can reduce to 1 percent based on bets placed.
iBetX www.ibetx.com	International person-to-person betting exchange. Provides coverage for U.K. and U.S. horse racing. In addition to normal betting exchange features, it allows bettors to upload a text file to place multiple bets simultaneously. Commission charges range from 1 percent to 3 percent. Free GBP 20 bonus for new customers.
Sporting Options www.sportingoptions.co.uk	Functionally similar to Betfair. Went into receivership in November 2004. Betfair bailed out the 5,000 customers.
Tradesports www.tradesports.com	Person-to-person betting (mostly on American sports). Deposit and trade USD 50 and receive a USD 50 free bet. Frequently quoted in respected magazines such as <i>The Economist</i> as a source of indication of probability (e.g. "According to Tradesports.com, the current probability of Bush winning the Presidential Election is 58 percent").
Trading Sports www.tradingsports.net	Not a betting exchange, rather it provides the technology to enable web sites to offer branded person-to-person betting exchange. Used to power sites such as Tradbets, betfanatic, and matchedbets.
SABookmaker www.sabookmaker.co.za	Allows licensed South African bookmakers to both take and lay bets, and players to ask for bets (but not to lay bets)

ISSUES

Many issues confront the Betfair group, including potential corruption, aggressive conflict with incumbents, technology, international growth, and the possible expansion of the business into other areas. All demand the attention of top management, whose problems are compounded by the diversity of national and state jurisdictions and their varying support for Internet gambling [2005].

In July 2004, Betfair was dragged into the spotlight when it reported suspicious betting patterns on its exchange to the Jockey Club²⁰ in the United Kingdom just before the Lingfield race in which leading jockey Kieren Fallon, riding favorite Ballinger Ridge, lost to Rye after seemingly easing up before the finishing line. *News of the World* alleged Fallon had told an undercover journalist that Rye would win [BBC News, 2004]. No proof was found that the race was fixed, but Ian Winton was quoted as saying:

"We are putting a searchlight on the sport and helping it clean up its act. There is a clear paper trail on our site that doesn't exist in high-street [betting] shops. We are entirely transparent. We have no vested interest in the outcome of a horse race."

In resisting the advance of betting exchanges into China however, Asian Racing Federation²¹ chairman and the Hong Kong Jockey Club²² CEO, Lawrence Wong, had this to say on exchanges:

"We fundamentally object to betting exchanges because they threaten the integrity of racing. It provides opportunities for insiders with privileged information - such as owners, trainers and stable staff, to bet against their own horses."

²⁰ www.thejockeyclub.co.uk

²¹ www.asianracing.org

²² www.hkjc.com/english/

Stephen Hill counters:

"We know who all our customers are. During the latter half of 2004 we have required every customer to supply us with a copy of their passport, banking details on the credit card or account they are using, home address proven by a utility bill, and other details. It is impossible for a bookmaker or a totalizator to have that kind of detail about customers, honest or dishonest, for the great majority of their customers bet in cash."

TECHNOLOGY

Betfair continues to make news. On the technology front, Gary Nugent, iForce²³ Partner and Mid Market sales director at Sun Microsystems, regards Betfair as one of the most technology-critical firms he has encountered [2004b]:

"Technology is critical to the success of Betfair.com. It required a highly scalable infrastructure that could provide optimum customer security."

At peak times, the exchange matches up to 12,000 bets a minute and over one million bets per day – three times as many trades a day as the London Stock Exchange.

In April 2004, the firm announced a mobile version of its product, Betfair Lite,²⁴ which allows customers to catch up on betting odds and prices over their mobile phones or PDAs. While initially users are not able to place bets wirelessly, such a capability is in development. The service, provided via the lite.betfair.com web site, works on PDAs and mobiles with HTML or XHTML browsers, but not on WAP phones.

Technology is also a downside for Betfair. In July 2004, web-based criminals attacked the firm's site. A malicious denial-of-service attack prevented a server from functioning properly by flooding it with traffic. The attack prevented some customers from accessing Betfair. Several complained on Betfair's forums that they were unable to view or place bets and some claimed that they had lost money. This type of situation does have the potential to be financially disastrous to large players – for example, if a player exposes himself to a bet with a large potential downside, and the system goes down and the player is then unable to trade to mitigate the risk, losses can be substantial. The player retains little control over the situation.

THE E-Bay ANALOGY

Some observers compare Betfair to the online auction company eBay²⁵ – "eBay for gamblers." Both sites provide venues for those who want to trade. Both firms are essentially market makers, charging small commissions on successful transactions, with no favor to buyer or seller. Others disagree and argue that in the case of eBay, both parties to a trade benefit, for the seller receives cash and the buyer receives an item of value at a good price. In the case of Betfair on the other hand, for there to be a winner, by definition, there must be a loser. They contend both parties do not benefit.

MANAGEMENT'S VIEW OF THE FUTURE

Stephen Hill was elected to silicon.com's²⁶ Top 50 Agenda Setters' List in 2003,²⁷ a directory of the most influential figures in online business. Interviewed in the publication *New Media Age*, he said [2003]:

²³ www.sun.com/executives/iforce/

²⁴ lite.betfair.com

²⁵ www.ebay.com/

²⁶ www.silicon.com

²⁷ www.siliconagendasettlers.com/agenda_lists.html

"I want to take Betfair into whole new business areas. This is primarily a technology company, not a betting one. I don't think of Betfair as a gaming company, but more of an Internet technology company. I see no reason why the technology can't be used in other areas."

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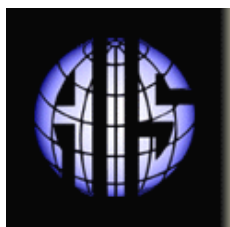
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