

Abstract:

As states look to create policies to legalize and regulate sports betting, some lawmakers in states with commercial casinos have expressed concerns that online sports betting will cannibalize existing gaming revenue. However, the opposite appears true - gaming revenue at brick-and-mortar casinos increases significantly in correlation with the expansion of legal online sports betting. In addition, the framework adopted by most states requires that online sports betting operators either obtain a gaming license or partner with existing gaming license holders, thereby creating an entirely new source of revenue for casinos. Finally, online sports betting allows brick and mortar casinos to expand their marketing reach to a demographic of that would not likely seek out casino gaming organically.

Sports Betting Operators and Casinos are Natural Operating Partners

Since May of 2018, state legislatures have been moving very quickly to pass legislation to allow online sports betting. In states with commercial casinos, the legalization of online sports betting has been a welcome addition to the gaming market, despite concerns to the contrary.

“There was a fear, concern, expectation or whatever you want to call it that people would walk out of the casino and go home and play on their phones, never to return. What we have found is that exactly the opposite has occurred.” - Melanie Gross, VP of online casino and sports, Caesars Interactive Entertainmentⁱ

As of January, 2022, 23 states have passed laws to authorize online sports betting. In the majority of those states, sports betting operators obtain market access through a local licensed gaming entity, typically a commercial or tribal casino.¹ In these states, a casino may offer one or online sports platforms, depending on the parameters of the state’s legal and regulatory framework. For example, casino licensees in New Jersey, Indiana and West Virginia can offer up to three unique online sportsbook platforms, while Iowa allows each of its 19 commercial casinos to offer up to two. In Colorado, which boasts 35 casinos,ⁱⁱ each casino is allowed a single platform.ⁱⁱⁱ

Sports Betting Revenue Sharing Benefits Casinos

Sports betting operators in these states have successfully sought partnerships with brick-and-mortar casinos in order to satisfy the state legal and regulatory requirements² necessary to offer online sports betting. This relationship benefits the casino license holder, who gets a relatively turnkey foothold in the online sports betting marketplace and is compensated for the use of their license, typically in the form of a sports betting revenue sharing agreement with the sports betting operator^{iv}. Under operating agreements between online sportsbook operators and casinos, the casino benefits directly from revenues generated by their online sportsbook partners. This is typically done through a

¹ Some states, including Arizona, Virginia, Ohio, Illinois, also allow sports betting operators to partner with local professional sports teams or facilities for market access.

² Sports betting operators must also obtain a specific online provider license or register as a casino industry supplier.

revenue sharing agreement, in which the online operator pays a percentage of revenue directly to the casino. While contracts vary significantly, the key components of a typical contract cover topics such as revenue share, marketing and co-branding, and certain operational expectations. The casino typically relinquishes day-to-day operations of sports betting and therefore must do very little to benefit from this passive income stream – as the holder of the gaming license they simply grant the online sportsbook operator the rights to use the license for the duration of the agreement.

In 2021, New Jersey sports betting operators generated over \$815 million in sports betting revenue. Over 90% of this, \$739 million, has come from online sports betting.^v In addition to direct revenue sharing profits for casinos, online betting translates to other forms of revenue for casinos, as discussed below.

Online Sports Betting Brick and Mortar Casino Revenues

The Covid-19 pandemic has certainly had a major impact on all forms of retail gambling. Not only did Covid force the temporary closure of casinos across the nation, casinos have also suffered from decreased attendance, reduced hours, and health and safety protocols that have in some way compromised the casino experience. For that reason, it is very difficult to draw any definitive conclusions based solely upon revenue numbers from the years 2020 and 2021. However, increased casino revenues in states with sports betting prior to the Covid-19 pandemic, as well as figures showing a strong resurgence in casino activity in 2021, indicate that sports betting on the whole has had a positive effect on revenue from brick-and-mortar casino operations.

New Jersey, again, provides an illustrative example.³ In 2019, New Jersey brick and mortar casinos generated \$2.68 billion,^{vi} but in 2021 the casinos saw comparable revenue numbers, drawing \$2.54 billion in gross revenue,^{vii} despite the negative impact from the ongoing Covid-19 pandemic.

Colorado has also seen casino revenue growth attributable, at least in part, to sports betting. In the pre-pandemic months of July through December of 2019, Colorado's casinos generated a total of \$420 million in adjusted gross proceeds.^{viii} Colorado began offering sports betting in May of 2020, a year in which casinos were greatly impacted by Covid-19, as reflected by diminished revenue. However, in July through December of 2021, Colorado casino revenue had grown to \$521 million, a 24% increase as compared to the same period in 2019.^{ix}

Online Sports Betting Allows Casinos to Diversify their Product Stream

The appetite for casino gaming remains strong and has largely rebounded as the worst impacts of Covid-19 appear to be fading. However, Covid-19 did offer valuable lessons, specifically that online offerings provide an alternative revenue stream that is not susceptible to changes that affect physical locations. In the years 2020 and 2021, online sports betting, and for those few states that had it,⁴ online casino (I-Gaming), was an absolute lifeline when all other forms of casino gaming were restricted or entirely shuttered. Even in normal times, this additional product channel has proven to be a significant asset that will play an increasing role as entertainment options migrate to digital delivery systems. It

³ 2020 data has been disregarded, as casino closures and travel restrictions during that year render such data questionable for comparison purposes.

⁴ As of January, 2022, New Jersey, Pennsylvania, West Virginia, Connecticut, Michigan and Delaware offer online casino games, and Nevada allows online poker only.

remains to be seen how much of this increase in I-Gaming is attributable to customers looking for a casino substitute during the pandemic, but it is readily apparent that the audience for online sports betting has also bolstered I-Gaming.

To use New Jersey, I-Gaming jumps 40% year-over-year in 2021, generating a total of \$1.35 billion in revenue and more than making up for any minor decreases in brick-and-mortar revenue. This coincides with a year-over-year increase of 104% for sports betting. This shows how customers who come for sports betting end up exploring other online gaming options. In order to capitalize on this, sports betting operators integrate casino functionality into their platform or provide prominent links to associated I-Gaming offerings.

Casinos Benefit from Marketing Opportunities through Sports Betting

The demographics of sports betting and brick and mortar casinos are different in significant ways. While traditional casino offerings such as slot machines remain popular with an older demographic, there are widespread concerns that younger generations do not have the same affinity for casino games and slot machines.^x Casinos are actively looking for ways to attract the next generation and compete for their entertainment dollars.^{xi}

Market research shows that the sports betting demographic is younger, more educated, and higher income than the general population,^{xii} which makes it a very valuable target market for casino operators. By reaching these players online and through their engagement with sports betting apps, casinos have a momentous opportunity to reach this new customer base. Sports betting platforms can be used for cross marketing and promotion to incentivize millennial sports bettors to visit the brick-and-mortar casino, where they will partake in additional entertainment spending including food, beverage and other casino games.

Conclusion – Casinos Win with Online Sports Betting

Sports betting is happening all across the country already and states seeking to protect consumers and reap the economic rewards of business growth and taxable revenue should take note of the trends in successful sports betting states like New Jersey, Colorado and Michigan. Over the last three years of rapid sports betting expansion, it is clear that concerns that brick and mortar casinos would suffer as a result of online sports betting have been unfounded. As states study this issue, they must look not only at the direct revenue potential of online sports betting, but how online sports betting complements and enhances the revenue potential of existing forms of gaming.

ⁱ Tony Batt and James Kilsby, Numbers Show New Jersey Casinos Thriving From Sports Betting, *Gambling Compliance*, June 13, 2019. Available at https://gamblingcompliance.com/premium-content/insights_analysis/numbers-show-new-jersey-casinos-thriving-sports-betting [Accessed December 18, 2019].

ⁱⁱ <https://www.americangaming.org/state/colorado/>

ⁱⁱⁱ See Colorado Revised Statutes 44-30-1501 et seq.

^{iv} James Kilsby, Penn National Offers Skins In The Game For U.S. Sports Betting, *Gambling Compliance*, August 1, 2019. Available at https://gamblingcompliance.com/premium-content/insights_analysis/penn-national-offers-skins-game-us-sports-betting [Accessed December 18, 2019].

^v <https://www.nj.gov/oag/ge/docs/Financials/PressRelease2021/December2021.pdf>

^{vi} <https://www.nj.gov/oag/ge/docs/Financials/PressRel2019/December2019.pdf>

^{vii} <https://www.nj.gov/oag/ge/docs/Financials/PressRelease2021/December2021.pdf>

^{viii} <https://sbg.colorado.gov/industry-statistics-gaming>

^{ix} <https://sbg.colorado.gov/sports-betting-monthly-reports>

^x Elizabeth Kulas, Casinos' Demographic Problem: How To Replace Older Slot Players, *NPR Planet Money*, December 16, 2016. Available at <https://www.npr.org/2016/12/16/505811899/casinos-demographic-problem-how-to-replace-older-slot-players> [Accessed December 18, 2019].

^{xi} Chris Sieroty, Will Skill-Based Games Change U.S. Casinos? Executives Say It's Too Early To Say, *Gambling Compliance*, June 14, 2018 https://gamblingcompliance.com/premium-content/insights_analysis/will-skill-based-games-change-us-casinos-executives-say-its-too [Accessed December 18, 2019].

^{xii} Fantasy Sports Gaming Association, Understanding the National Fantasy/Sport Betting Market, June, 2019