

MarketWatch

Sports gambling apps target users as young as 13

By [Jeremy C. Owens](#)

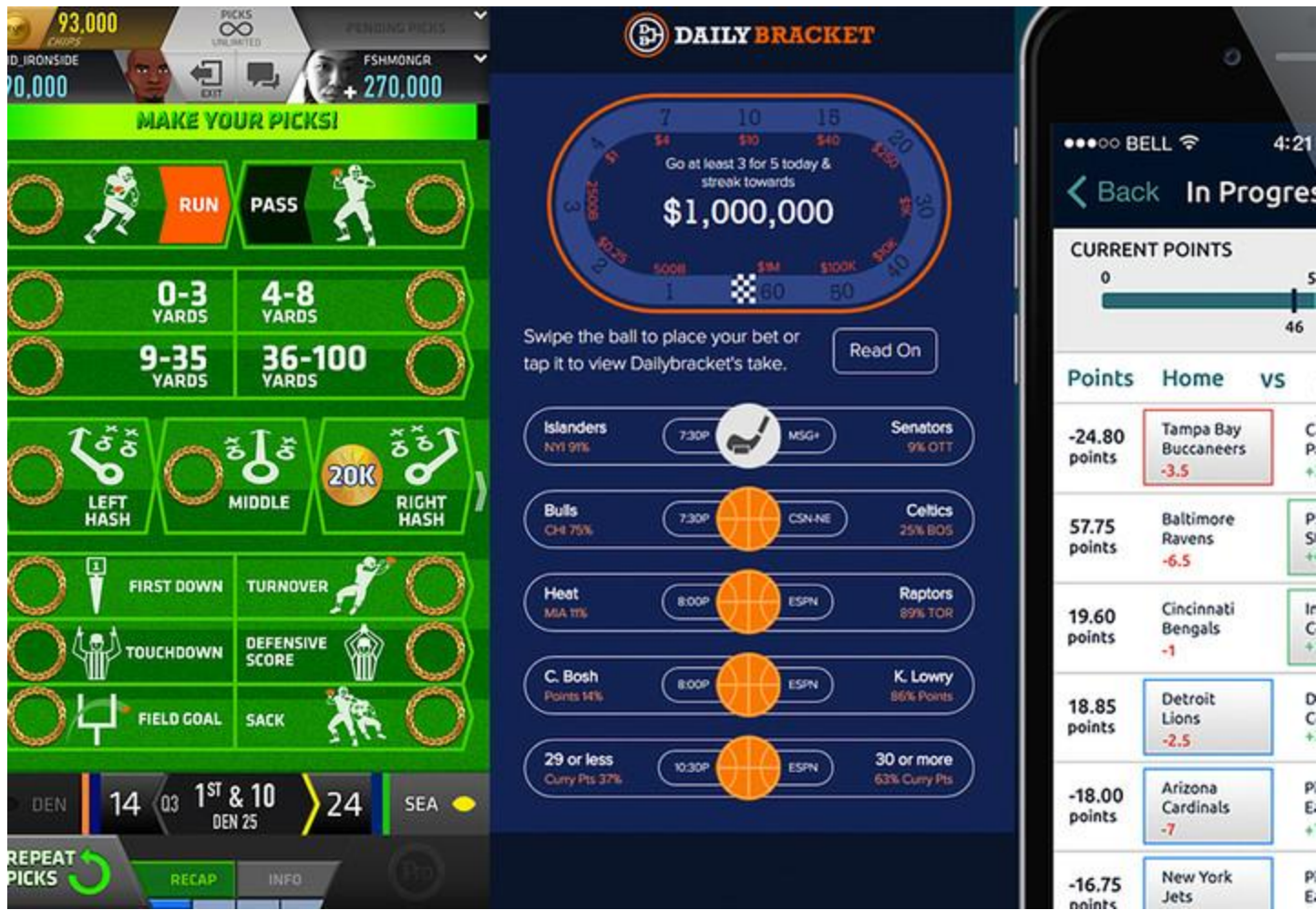
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Apps to use ‘freemium’ model, aim for young players amid daily fantasy stumbles

There seems little doubt that the guy who is always checking sports on his smartphone — eyeing scores and betting lines, watching fantasy results and tweaking lineups, texting with friends about games — will someday be able to gamble on his mobile device. A big question remains, however: How will it actually work?

Fantasy companies DraftKings and FanDuel spent millions on marketing in 2015 only to find themselves in court, and their [legality is still being considered](#) in New York and elsewhere. But their struggles highlighted pent-up demand for mobile-ready sports betting, experts say, and startups are now bidding for daily fantasy’s core demographic of young males with cash to burn.

“Daily fantasy has ignited the torch paper on the discussion on sports betting, in the way that it underlined the potential demand” in the U.S., said James Kilsby, managing director of independent gaming industry research company [GamblingCompliance](#).



MarketWatch illustration, courtesy images

Ringit, Daily Bracket and Pick 'Em Pays, left to right, seek to leverage mobile sports gambling while avoiding regulatory issues faced by daily fantasy sports.

App makers hope to sidestep legal concerns while addressing Americans' growing desire to gamble from their phones. Some are tapping the proven mobile-gaming businesses of advertising and "virtual currency," while others are eyeing another legal battle — [a New Jersey lawsuit that could allow states to legalize sports gambling](#) — in hopes of attracting legitimate gambling revenue.

"There's not many industries now that don't allow you fully engage on the Internet," said Chris Sheffield, senior vice president of interactive for casino and racetrack operator Penn National Gaming Inc. [PENN, -0.43%](#) "The idea that there's a huge business here that could be available on the Internet, which is mostly not legal right now and is moving very slowly, is quite hard for me to understand."

Gaming for free, supported by ads

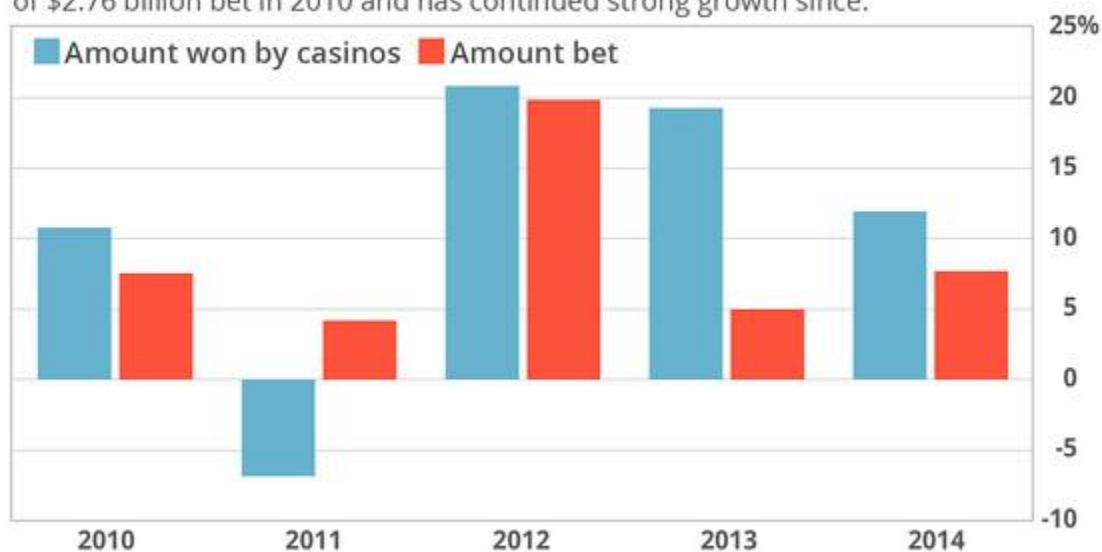
The U.S. sports gambling market is large and growing. Nevada casinos saw record sports wagering for the fifth consecutive year in 2014, reaching \$3.9 billion. They kept an all-time high

“win” of \$227 million. Daily fantasy and illegal gambling with offshore online outfits have also boomed, as [the New York Times recently wrote](#). (A co-produced [Frontline documentary](#) airs in February.) That, industry watchers say, suggests a huge market opportunity.

“From \$10 billion to \$150 billion is already being gambled in America offshore or illegally,” said Sheffield. “That isn’t being taxed, its not creating any jobs here, and the consumer doesn’t have any protection.”

Nevada sports gambling

Legal sports gambling in Nevada hit a record high, without adjusting for inflation, of \$2.76 billion bet in 2010 and has continued strong growth since.



Source: UNLV Center for Gaming Research

The universe of sports gaming apps is in some ways a Wild West, with dozens of apps of varied polish, quality and legality popping in and out of app stores. Some startups, meanwhile, are trying to distinguish themselves, crafting approaches they hope will avoid the pitfalls experienced by daily fantasy operators who are at risk of being shut out of important markets if they are ruled illegal gambling enterprises.

Ryan Chow, whose Pick ‘Em Pays app [launched in Apple’s AAPL, -4.82% app store Monday](#), wants to allow those interested in sports gambling — as young as 13 — to win cash by picking winners. His catch: No purchase is required, but users must view advertising to enter pools.

“People want free money,” said Chow, who shared details of his app with MarketWatch exclusively before the launch.

Pick ‘Em Pays offers pools in which competitors select the winners of a day’s action in a specific sport using point spreads. The three-person Burlingame, Calif., startup allows players two

entries, with users forced to view an ad after entering their first bracket, and a higher-value video advertisement for a second.

Top competitors will win triple-digit daily prizes at first, Chow said, with payouts to the best 500. One million-dollar jackpot is planned for correctly calling a full slate of 14 NBA games in a single night; the company may conduct others, perhaps around March Madness.

Chow was a vice president for Internet advertising company Quinstreet Inc. [QNST, -1.57%](#) his brother and co-founder Kevin worked in ad operations for social-gaming pioneer Zynga Inc. [ZNGA, -0.41%](#) giving them insight into mobile advertising and gaming.

The company has not taken outside funding, so they are paying prizes out of pocket. (They have, however, spoken with venture capitalists in Asia about potential expansion games focusing on Japanese baseball and Vietnamese soccer.)

Chow believes Pick ‘Em Pays will be regulated as an Internet contest, not gambling. Because players don’t pay to participate, according to attorney Adam Solomon of Michelman & Robinson, whom Chow hired to evaluate potential regulatory issues, they can have users 13 and up who are verified with Facebook [FB, -1.00%](#) logins.

Chow hopes the game will spread virally at high schools and colleges, key to the scale Pick ‘Em Pays will need to generate enough advertising revenue to sustain itself. Everyone involved with mobile sports gambling says they are targeting millennial males, but Chow said word-of-mouth is especially important to his company’s growth.

“We feel like the more users we pay out, they’re going to tell their friends that they made money off that app,” he said.

An in-game betting play waits for its break

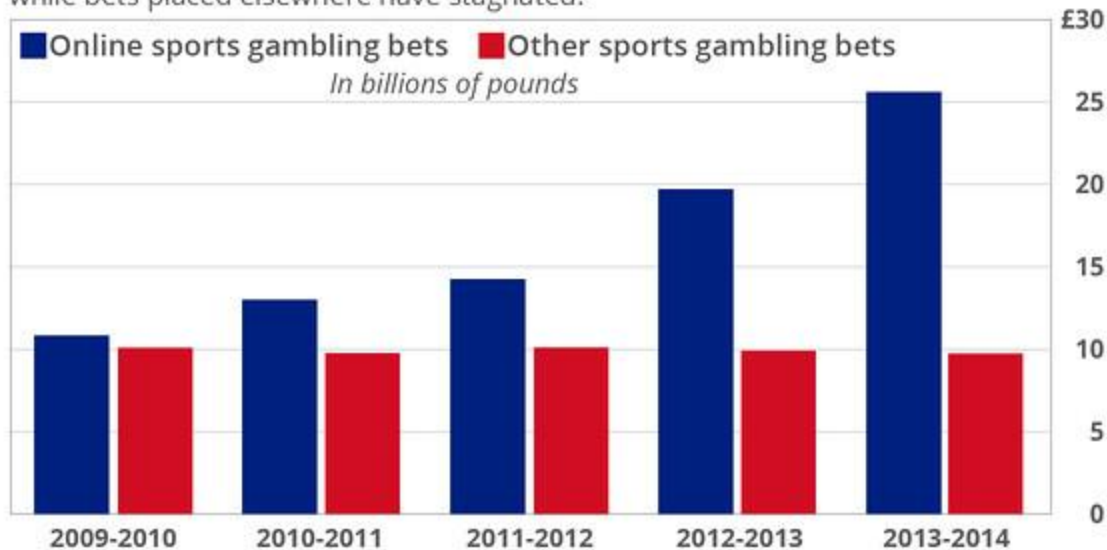
Sports gambling’s popularity goes well beyond millennial males in the U.S. In the United Kingdom, where sports gambling is legal, remote playing has boomed while bets laid at racetracks and betting parlors have stagnated.

Robert Melendres is taking lessons learned there and bringing them to the U.S., while joining with a legitimate gambling enterprise. His app, Ringit, offers something that has long fascinated sports gamers and gambling companies: in-game betting.

Using real-time information in a football game, the app allows gamblers to wager on whether the next play will be a pass or a run, gain or lose yardage, or be a score, using dynamic odds.

Online gambling boom in UK

In the United Kingdom, where sports gambling is legal, online bets have taken off while bets placed elsewhere have stagnated.



Source: U.K. Gambling Commission. Periods run April-March and figures include pool betting

[Ringit](#), part of Melendres's 60-person iPro startup in Seattle, plans to offer real-money daily fantasy and sports wagering in territories where it is legal, with geolocation to deduce which games users can to access. All users are offered virtual currency to wager on in-game outcomes, and the company is exploring games based on reality television outcomes and other nonsports events.

“Having that ‘freemium’ model, which now is a multi-billion-dollar industry and business, using all the social channels to attract players, is kind of the default mode for us,” said Melendres, who launched his app in October. He was formerly chief legal officer of gaming giant IGT [IGT, -0.35%](#)

Investor and partner Penn National Gaming will market the free virtual currency-based app at its casinos, though Sheffield said Penn National is aware of the potential for real-time casino betting as well.

”There’s a huge demand for this type of product,” Sheffield said. “It makes sense that when people are watching the game and they’ve got a mobile device with them, they want to engage with the game through their mobile phone.”

In-game betting is changing the economics of sports like [tennis, which just sold its real-time data rights for \\$70 million](#) to the same company, SportRadar, that supplies Melendres and his iPro startup. Even in Europe, Melendres said his platform can offer more than is currently available, including wagers on specific players’ actions.

“There is a tremendous opportunity to bring more cutting-edge technology in gaming, both on the regulated (sports gambling) and social gaming sides,” Melendres said.

Growth after a move to free play and virtual currency

Some companies that launched before the daily fantasy leaders attracted the attention of New York courts have seen user growth as they shifted to other approaches.

Jake Sutker developed his app, [Daily Bracket](#), while in college, launching it in late 2014. The app, like Chow’s, offered the chance to pick real-money winners without putting money in, but pushed players toward accepting virtual currency that could be used in real-money daily fantasy games.

“The platforms that are approaching the problem with a solution that is flexible...will be very successful if in fact the market moves to the U.S. legalizing sports betting.” *Daily Bracket creator and Chief Executive Jake Sutker*

He shut down his app’s real-money daily fantasy option after the New York news, but says his free offering has boomed in response.

Sutker cut off the ability to wager for real money in states where the legality of daily fantasy is in question, and aims to leverage advertising and partnerships that will provide prizes in exchange for his app’s virtual currency.

“We’ve actually grown by 2.5 times to 3 times in terms of daily users playing our free game,” Sutker said.

Through the experience with his game — with a “freemium” version is similar to a long-standing contest from Disney Inc.’s [DIS, -0.85%](#) ESPN.com, Streak for the Cash — the chief executive of his five-person New York startup says that the ability to make moves depending on the quick-changing environment is key.

“The platforms that are approaching the problem with a solution that is flexible...will be very successful if in fact the market moves to the U.S. legalizing sports betting,” Sutker said.