

SESSIONS OF IFHA CONFERENCE IN PARIS BETTING / STIMULATING WAGERING TURNOVER - HONG KONG

Continuing with Session 4th of IFHA Annual Conference, which addressed betting and stimulating wagering turnover, we transcribe below the presentation given by Richard Cheung, Executive Director of the Department of Customer and International Business Development of Hong Kong Jockey Club, regarding the current situation in Hong Kong (HKJC) and the development of strategies in his country.



RICHARD CHEUNG WAGERING GROWTH DRIVERS FIELD SIZE AND COMMINGLING

“If today we were to talk about how to stimulate wagering, that could make a complete Conference on its own. So instead of talking about all factors, I would like to give an update of what HKJC is doing when it comes to the racing product quality and the commingling aspects.

Of course, there are many other factors when it comes to working side by side, hand in hand. And to allow racing to enable wagering via mobile devices (that is, via IP).



RACING PRODUCT QUALITY

When it comes to Racing Product Quality, he explains about fixture factors. What do we mean by that? Currently, HKJC has taken more than 2,000 races in HK in the last few seasons, and then they have run the econometric model on them in order to understand the underlying fixture factors that determine turnover. .

Historically, one of the reasons is that there's a lot of correlation amongst these factors, and – for example – usually you would have the lower-class horses running in the early of the day. As a result, many people won't know if the turnover is lower is it because of the class of the race or because it's too early in the day, where people are less familiar with the track conditions.

So then, by running all factors through the economic model, they have come to the following conclusion, shown in the following table, after having distilled all the correlation.



Micro-Fixture Factors that influence Turnover

Hong Kong data sets (2015-2018, 2000+ races)

Variable	Importance	Effect	Example	Example impact on Turnover
Race Number	1	Positive with later races	Race 9 to Race 10	5.33%
Field Size	2	Positive with Increasing	11 Starters to 12 Starters	4.79%
Weather	3	Positive for Good Weather	Bad weather to good weather	2.19%
On Form Starters	4	Positive with Increasing	1 On Form to 2 On Form	1.24%
Class	5	Negative with Lower Class	Class 3 to Class 4	-1.13%
Distance	6	Negative with Increasing Distance	From 1200 to 1400	-0.46%

Essentially, according to the Hong Kong experience, one the most important factors (one with the largest impact on turnover) is the race number. In other words, the later in the day, the higher the turnover. This is consistent with our understanding of the Hong Kong punters, who are very sensitive to the information. Punters in Happy Valley and other tracks in in Hong Kong look at all the data available, including track status, wind direction and, as a result, the more information they have, the more comfortable they feel on betting. As a result, we see a trend of larger race number along the day, and a higher volume of bets.

Another important factor is the field size. Then, there comes weather, On Form Starters (sometimes even professional punters rely a lot in reading and studying the previous forms, and sometimes the more horses with more forms with previous runnings turn to increase the turnover).

Class, on the other hand, tends to be a negative factor. The reason behind this is that, usually, there is the belief that higher class horses are generally more consistent performers, and that means that there are people willing to bet more money into them. Then, higher-class horses take more bettings as it is presumed that their performance will be more predictable.

Finally, there's the "distance" factor. In Hong Kong, it is noticed that sprint races usually have a higher turnover than stayer races. The difference is not big, and it is thought the reason for this may be that just that for sprint races in Hong Kong there is a larger field size and horses turn out to ride against each other more often. So, again, that gives more data and people feel more comfortable about that when deciding to wager.

The same phenomenon is observed casinos, and the clients tend to think if they have more data and rely on statistics, they can predict the outcome more easily.

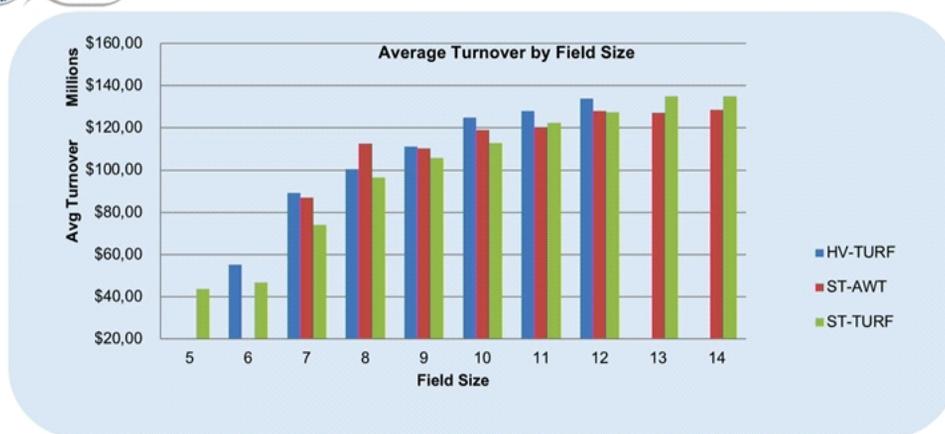
In racing, we know that the previous performance of jockeys and horses matters a lot and is real, it's not something made up, and people follow these data.

Cheung presents a slide that shows a chart comparing the relationship between average turnover per race by field size.

“On average, the turnover by field size in a Hong Kong race is about 13 million Euros. The graph shows races in Happy Valley racecourse, where we can see a trend of increase in turnover as the field size increases, and plateaus around 12.5 to 13 horses. It may not apply to every region, but this is what happens in Hong Kong. As the fields become more competitive, it allows for more opinion and more combinations in exotic bets, and that results in a turnover increase. So, increasing field size would be a way to optimize turnover.”



12-14 is the optimal range for Hong Kong



“How do we manage Field Size in practice, in Hong Kong?”

- **Overall Horse population management.**
- **Race Planning (using horse population as an input)** At a tactical level, we have to use horse population by defining class as an input to define race planning in terms to schedule which race and which distance.
- **Cooperation between racing and wagering operators**, so we know that we will have full field size in races where we deliberately put big jackpots
- **Trainer Relationship Management**, how they do their enrollments, how they do their entries.

Higher-class horses also improve turnover. We cannot make every day be like the Arc de Triomphe with Class 1 races in our tracks. So, how do we manage to turn this factor into our favor?

How do we manage “Class mix” in practice, in Hong Kong?

- **Horse population management.** We make sure there is a good pipeline for all the different classes, and to see where the good-class horses come from. In a place like Hong Kong, where there is no breeding, they import from breeding countries. Given the high price of racehorses, building a pipeline of owners become important.

- **Ownership strategy – quality of owners.** We cannot have effect on how horses are being bred overseas, but we can decide which owners we want to attract and make sure we choose the right ones, the ones with a passion and the capacity to invest in good racehorses, which in turn help us on the quality of the competitors and the turnover.
- **Assistance to owners to source high quality imports** - In some cases, some Hong Kong owners may not be as experienced when they attend auctions overseas, so the HKJC has been fostering the work being made inside a owners' clubs, offering assistance and guidance on how to assess good breeding markets, how to evaluate good horses when it comes to buying, how to handle import policies, etc.
- **Prize money strategy (regular prize money, special bonuses)**
- **“Rising stars” as turnover and followership drivers.** In the past 5 or 6 years, HKJC has been promoting – from the marketing aspect - more and more of their “rising stars”, because they know the reality is they cannot have G1 races every day, so - on a certain day, when they don't have these star G1 horses running - they create more followership by promoting the rising stars in their keynote races, like the Derby, and highlight how they move up the ranks and this creates more followers. These are also natural turnover drivers.

COMMINGLING

Fortunately, Hong Kong has had good foundation for carrying out successful commingling for over a decade, and achieved the government's support around 4 or 5 years ago.

Foundations for successful commingling:

- world class racing product in terms of quality, transparency and competitiveness (like field size).
- Deep local pools and bet-types to handle big volumes, which the punters find attractive.
- A rich racing information database that can be offered to customers to enjoy the fun of racing betting
- Tailor-made marketing and information for different markets overseas, with different preferences - like for example adjusting to the direction of reading in different countries (right from left, left to right, top to bottom, etc) for the punters to feel more comfortable with.

During the last season, the turnover achieved from Commingling by the HKJC was 1.6 Billion Euros, which means more than 15% of their overall turnover. They are currently working with 40 BtoB partners, covering Hong Kong racing that is reachable for racing fans all over most regions of the World, in 11 jurisdictions. The numbers in the yellow circles in the map show the number of partners in each of these countries.





Our Global Wagering Media Network



Equally important, not only the number of partners, but it is also to build and count with a **strong global wagering media network**. Hong Kong also invests in cooperative initiatives, such as having dedicated articles in the major wagering media.

For example, an article in the Racing Post is important to the race fans in the UK (the potential punters in that country), but not the local ones. The local ones prefer to see information in numbers rather than reading a

description.

This is how they tailor the information to fit different populations overseas.

Likewise, online they also rely on the various **social media (twitter, Instagram, Facebook)**, which help familiarize with, for example, newly arrived jockeys.

The HKJC also produces **educational videos of races**, to teach consumers things such as what “Quinella” means. There is general advertising also supporting the Hong Kong punters, making sure that they don't fall into illegal betting websites.

Hong Kong also builds many **infographics**, like for example the ones below, which allows UK customers to see how their jockeys are performing when they travel to compete in Hong Kong, as this kind of information makes it another thing for the fans to follow. This is more relevant for them.

Infographics on Hong Kong Racing



Infographics on Hong Kong Racing



Hong Kong has also built alternate channels with Live Chinese TV programs for Chinese living overseas, just for that target. These channels do not only broadcast racing, of course, but also news, Chinese shows and soap operas, and other matters that Chinese living abroad like to follow up on.

So, the five Key Strategies for the ongoing development, are:

· **Implementing a World Pool:** in commingling in Hong Kong, they have overseas customers which have been betting in Hong Kong races and this money commingles to Hong Kong. They have partnership with Totepool and have enrolled Ascot, where they have a great relationship. But they have found is that there's a feeling that there's a lot more they can do when it comes to the tote product in the UK, because in Hong Kong, per race at Royal Ascot, there is a total turnover of 2.5 to 3 million pounds. That figure is very sizeable, and

- there is a lot Royal Ascot is taking in their big race day. So, the idea is - as from June 2019, and thanks to the current set technology - the grounds will be given so that the Pari Mutuel betting commingled to the Hong Kong pool will allow for a turnover of 5 or 6-million-pound pool per race in Royal Ascot, and this will also help to create more exotic bettings. In Hong Kong, they're looking to find other potential partners.
- **Further expand exotic bet types.** In Hong Kong, they're looking forward to continue developing exotic bet types, because compared to fixed odds, exotic bet types is a unique proposition for Pari Mutuel. In the past, they thought that in Commingling, only overseas punters can bet on the pools that they have in Hong Kong, like for example "Quinella" (they don't have "Exacta"). So, US fans should bet on Quinella, and that was the paradigm. But since they began working with LONGITUDE technology, they're finding a way to allow customers from overseas to still be able to bet on Exacta in Hong Kong, and that can be merged into a joint pool of Exacta/Tierce/Trio, increasing the pool liquidity and therefore enlarging the offering that suits naturally to overseas customers preference.
- **Creating next generation commingling protocol** – In Hong Kong, they still believe that the global commingling standard has room for improvement, as it is becoming more important to the racing world.

There are unresolved issues in the current commingling protocol:

- Adoption of latest ITSP version by different operators varies
 - Bet by bet protocol vs collation (zero-out, pool integrity): It's still a collation protocol, and this doesn't give the operator a complete visibility of what is happening
 - Difficult to identify computer wagering groups
 - Varied bet type availability across partners
 - Some exotic bet types are still missing in the commingling protocol
- **Exploring Two-Way Commingling: Outbound to France, Inbound to HK.** Hong Kong is in the last stage of negotiation. In the racing world there is much that can be harmonized, but even though everybody speaks about commingling, the betting world is handled differently. There are different betting rules in the different jurisdictions and the consumers might not get used to different betting types. With the two-way commingling, there will be a need to educate the customers about the reciprocal betting types. Harmonizing of betting rules would be important at this stage.

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