

# The Daily: How sports betting came out of nowhere and how the writers' strike is influencing ad decisions

Audio



On today's podcast episode, we discuss why supercharged online sports gambling is now everywhere, what the ecosystem looks like, and some hard truths about gambling addiction. "In Other News," we talk about the latest on writers' and actors' strike negotiations and how it is influencing advertising decisions and studio revenues. Tune in to the discussion with our analyst Paul Verna.

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## Episode Transcript:

Marcus Johnson (00:00):

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Paul Verna (00:28):

They have gone on this splurge of trying to outdo each other by offering promotions and marketing to people and just trying to build up their user bases. So yeah, I think profitability is definitely going to be the next area of focus.

Marcus Johnson (00:49):

Hey gang, it's Monday, September 18th. Paul and listeners, welcome to the Behind the Numbers Daily: an eMarketer Podcast, made possible by Awin. I'm Marcus and I'm joined by our principal analyst who heads up our digital advertising and media practice based just above New York City, it's Paul Verna.

Paul Verna (01:05):

Great to be here as always.

Marcus Johnson (01:06):

Hey fella. Today's fact provided by one of my best mates, so shout out to Beth. She was listening to a podcast, I believe it was Today Explained, which is one of Vox's podcasts, and she was noting that private jets, something Paul will be familiar with-

Paul Verna (01:25):

Absolutely.

Marcus Johnson (01:25):

... Private jets account for 16% of US flights, 16% of US flights, but pay only 2% of the taxes according to the Institute for Policy Studies and Patriotic Millionaires. So for context, Farhad Manjoo of New York Times writes that per the analysis, "The median net worth of a private jet owner is nearly \$200 million. In other words, some of the richest people in the world are effectively being subsidized by Plebs like you and me flying Coach."

Paul Verna (02:04):

That's us. And by the way, when you introduced me, you said I live just above the city. I just want our listeners to understand that that doesn't mean I'm hovering over the city in my private jet. It just means I live just north of New York City. But I will have my butler just fine tune my private jet for a flight later today. I'm just going out to dinner downtown, but I figure you have the vehicle, you might as well use it.

Marcus Johnson (02:28):

You're the worst. Anyway, today's real topic, how sports betting in America came out of nowhere. In today's episode, first in the lead, we'll cover the world of sports betting. Then for "In Other News," we'll check in on the impacts the writers and actor strike is having on the TV and video worlds. We start, of course, with the lead. Paul, we're talking about sports betting. The NFL's opening weekend just kicked off the biggest sports betting season ever writes Dylan Scott of Vox in just a brilliant piece, Paul, in my opinion, titled How America Became a Nation of Gamblers. According to the School of Public Health and Health Sciences at the University of Massachusetts Amherst, over 70% of US residents participated in some kind of gambling. Over 70%. Whether the lottery or a raffle or blackjack or a sports wager within the past year, so back in 2022. A survey by the American Gaming Association showed that 34% of adult Americans had visited casinos in 2022 making for a noticeable increase of 6% versus the previous year. But Paul, how many folks are betting online? Our forecasting team estimates that nearly 30 million Americans, three zero million Americans do so. In 2019, it was just 10 million. So from 10 million, Paul, online sports betters in America to 30 million today. What supercharged this online sports gambling space?

Paul Verna (04:00):

Well, first let's just be clear that these are sports betters. So the number of total gamblers is almost certainly higher. But what supercharged it was a decision by the Supreme Court in May 2018 to repeal the PASPA, which is the Professional Amateur Sports Protection Act, which had been signed into law in 1992, which basically outlawed sports gambling. So what that decision did in 2018 is it allowed states to make their own decisions about whether to allow sports gambling, and many of them have done exactly that. It hasn't always been smooth sailing, and some have allowed some forms of gambling and not others. But the dominoes are falling and more and more states are coming online with sports betting and that's what's fueling certainly the growth in the number of people engaging in this activity, and of course, the money that goes with it.

Marcus Johnson (04:58):

Yeah, that's definitely been a booster as of late because if you look at the short history of it, Mr. Scott's Vox article noticing that a few decades ago, all this gambling would've been unthinkable. The first state to establish a lottery was New Hampshire in 1964. And until the 1980s, there were really only two places in the country where you could walk into a physical legal casino and place bets, Nevada, Vegas and Atlantic City, New Jersey. And so the Supreme Court ruling in 2018 really gave it a boost. But Paul, it's been a perfect cocktail of events. This one was a huge unlock for sports betting, online sports betting, but the pandemic as well. Arthur Flatto, who works in problem gambling treatment, noting the isolating experience of the pandemic contributing to the increase in online gambling activity because people couldn't go out to place bets elsewhere.

Paul Verna (05:47):

The irony being that most sports shut down starting in mid 2020. So there was actually a downtick in sports betting revenues and sports betting activity that year by necessity, but if you erase that anomalous year that the trend lines are just going up and up and up. But the other accelerator, I think this is fairly obvious, but it's technology. It's the fact that as, again, to refer to that great article that you cited, we all have a mini casino in our pockets in our smartphones. So the fact that this is done digitally via an app and that it's legal, that's a long distance from what it used to be. Assuming it had been legal in say, I don't know, 1998 or 2005 or whatever, you would've basically had to go to a casino to do it or maybe call in a bet, which people wouldn't have done. So the fact that this is superpowered by these apps just makes it even easier for people to just do it at the touch of a finger.

Marcus Johnson (06:52):

Yeah, and with that, the popularity of fantasy sports as well, particularly daily games, DraftKings, FanDuel, have made it more commonplace to bet on your phone. And yeah, there's kind of this perfect cocktail of those three things, the Supreme Court ruling, the pandemic, popularity of fantasy sports, as you mentioned, technology, things like smartphones. It's also, Paul, we were talking about this before the recording, it's kind of a cheat code for politicians. They can tell voters gambling can create tax revenues for public services and new jobs instead of proposing tax increases on voters. And so this is a very easy thing for them to tout as a way to supercharge the local economy.

Paul Verna (07:30):

Yeah, with few exceptions, it tends to be a win-win for politicians and one of the few issues for which there is bipartisan support. And yeah, I'm glad you brought up about fantasy sports because I think that was also a precursor and a big contributor because fantasy sports were sort of a loophole in the otherwise illegal sports betting market prior to that Supreme Court decision. So the fact that some of these companies had a lot of traction in fantasy sports allowed them to then segue to a fuller suite of gambling services.

Marcus Johnson (08:03):

Yeah, they'd already had plenty of practice. So yeah, for a lot of reasons there, for one reason or another, Paul, the stigma of gambling, of sports betting, greatly diminished. A lot more people are doing it. According to last year's Massachusetts Gaming Commission report, one of the most extensive studies in the country, the share of folks who placed a bet on traditional sports bets grew in the US from 20% to 26% from 2018 to 2021. For fantasy sports gambling, that went from 17% to 24%. And Paul, there's plenty of options for people to choose from when it comes to platforms. We mentioned a few already, FanDuel, DraftKings, BetMGM, Fanatics, Caesars Entertainment. Fanatics actually just paid over \$200 million for US assets of Australian company PointsBet. And then you've also got ESPN Bet. You had casino company, Penn Entertainment, just inked a \$2 billion deal with Disney owned ESPN to rebrand its sports betting app to ESPN Bet. So lots of players, Paul. Who are the largest players?

Paul Verna (08:58):

FanDuel has 46% of the US market and DraftKings has about 25%, so they are by far the biggest two. Other big ones, BetMGM, 12% share, Caesars Entertainment, 6.7%, and then there are a bunch of other smaller players. You mentioned the Disney venture with Penn Gaming, so that's likely to grow because of the names involved. But yeah, there are a handful of others, but really it's a market dominated by these two big players, FanDuel and DraftKings.

Marcus Johnson (09:30):

And Paul, a lot of them on the precipice of profitability as well.

Paul Verna (09:35):

They have focused mostly on acquiring customers, yeah. I mean, they've spent a ton of money on marketing. They still do, and anyone who watches sports broadcasts I'm sure has noticed that a great percentage of the ads are for sports betting services. So they have gone on this splurge of trying to outdo each other by offering promotions and marketing to people and just trying to build up their user bases. So yeah, I think profitability is definitely going to be the next area of focus, not unlike the streaming media world where you saw all these companies focus first on user growth, and then when the Piper came calling, they had to really focus on the money, which is I think where those companies are heading right about now.

Marcus Johnson (10:19):

Yeah, we've seen a lot of companies, whether that's social media platforms, whether that's ride hailing apps, whether that's streaming services take quite a long time, even Amazon, take a long time before they even remotely close to anything that resembles profitability. But you know that FanDuel was the first to report profitable quarter Q2 of last year. DraftKings and BetMGM predicting profitability for late this year, 2023. So it seems, Paul, like there's a fair amount of money going around here. What number will total US sports betting revenues reach this year?

Paul Verna (10:51):

This year sports betting revenues to service providers will be just over \$10 billion or almost \$11 billion. What's interesting about that number though, is that is the money that those companies get to keep after all the payouts to the winning bets. But the total amount of money wagered on sports gambling in the US is over \$136 billion this year. So bottom line is that, and that's called the handle in sports betting terminology. So that's basically how much money people shell out of their pockets for bets, \$136 billion.

Marcus Johnson (11:32):

So 10 times as much.

Paul Verna (11:33):

Yeah, more than 10 times as much as what the sports betting companies ultimately get to keep. And of course, that money that they get to keep is just their revenue, and I mean, you were just talking about profitability. So whether or not the companies are profitable is a whole



other story. But in terms of that math between what they take in and what they have to pay out, they end up with somewhere in the 10% range of the total.

Marcus Johnson (11:59):

And so \$11 billion, the American Gaming Association has already totaled up \$5.6 billion from January to July. So it's well on its way to getting to that \$11 billion that we forecast this year. It's come out of nowhere, Paul. In 2020, sports betting, in terms of revenue, was a \$1.5 billion industry in terms of revenue. It was about a \$20 billion take, but \$1.5 billion in revenue has now ballooned to \$11 billion in a couple of short years. Other sources also expect a similar amount of dollars to be made. Eilers & Krejcik Gaming, an industry consulting firm, expect just under \$12 billion. And growing rapidly, Paul. In two years, we expect the US sports betting market to be about \$20 billion. That's about one third the size of the linear TV ad market, so it's moving quick.

Paul Verna (12:46):

Yeah, it's almost going to double between 2023 and 2025. So in those two years, it's going to nearly double.

Marcus Johnson (12:53):

So Paul, there are about 1000 casinos across America. As Mr. Scott points out, Americans can now gamble on anything, anytime, anywhere, because most of us have smartphones. But in how many states can Americans place a bet?

Paul Verna (13:08):

Right now, in 34 states plus the District of Columbia. It is a patchwork in terms of what states allow what type of gambling. It's also a patchwork in the sense that it's a moving target and some states are in limbo with their legislation and the prospects are better than others depending on the state. So it's a lot of states and it's a lot of people. Notably though, the three most populous states are not currently on board with sports gambling for different reasons, and they're kind of at different points in the journey, but those are of course, California, Texas, and Florida.

Paul Verna (13:48):

So in California, there was a ballot initiative that would've allowed sports gambling, but it failed in November of 2022, and nothing is on the immediate radar for new legislation. In Texas, the prospects for legislation are not very good right now, and that's mostly for political reasons because they have a divided state government. And in Florida, sports betting is technically legal, but has not launched because it's undergoing legal challenges that will probably hold it up in the courts for a while.

Paul Verna (14:22):

So you have these big states where if those were to come online, it would obviously greatly expand the market and the opportunities, but it's not looking like any of those three states is going to allow it or put it into the market anytime soon. Then you have other states like Pennsylvania, Illinois, Michigan, where sports gambling is essentially legal, but in other states like North Carolina, it's only active in tribal casinos. So, again, that restricts how much betting activity is going to happen, especially through apps. So it is definitely a different story in every state, that's going to remain the case for a good long time. I would expect that at some point, that 34 number is going to go up well into the 40s maybe. It could take a while.

Marcus Johnson (15:17):

Yeah, I mean, California, Texas, and Florida account for about a quarter of the population just in those three states. It's some 90+ million folks, nine zero million. So a lot of folks there. When those three states turn the taps on, you could see a real big surge. Paul, final question here. What are some of the largest threats to sports betting?

Paul Verna (15:39):

Well, probably the biggest one is the risk of gambling addiction, which of course has been an issue long before sports betting. It applies to gambling in general, but I think it's accelerated by this influx of this type of gambling. I think there are also some issues around colleges and universities partnering with gambling companies. And I think what's also happening is that a lot of players, a lot of NFL, NHL college sports players are engaging in this. I mean, they're consumers like the rest of us and they're subject to all of these marketing messages, and a lot of them are doing it and getting penalized by their teams or schools, which is almost hypocritical in a way because those schools and those teams are forming all these partnerships and spending a lot of money and making a lot of money from this activity, and yet punishing the athletes when they violate the policies.

Paul Verna (16:40):

I know it's not as clear cut as that and there need to be restrictions around gambling, certainly among athletes and especially in your own league or in your own team, but I think what's starting to happen is mixed messages really by a lot of the entities that are very heavily invested in sports gambling and yet punish people within their orbits who do it. So there's no shortage of issues. I know the UK is a much more mature market when it comes to sports betting, and they have banned or scaled back a lot of gambling sponsorships and ads. So for example the English Premier League will phase out gambling sponsorships on the front of team jerseys by the end of the '25-'26 season, and there are other activities that are being taken across different territories to restrict the marketing activity.

Marcus Johnson (17:39):

Yeah, they've had their own issues with gambling back in the UK, and as Mr. Scott of Vox points out in this incredible article, he talks about gambling addiction in the states. And so problem gamblers, the definition according to the California Department of Public Health defines problem gambling as the uncontrollable urge to gamble despite negative consequences in a person's life. And he sites Rachel Volberg, a UMass Amherst professor who studied gambling prevalence and behaviors for well over 30 years, saying in around 2013, she found that 2% of the US population could be classified as problem gamblers. That's 5 million US adults, or the population of Rhode Island, Delaware, South Dakota, North Dakota, Alaska, Vermont, and Wyoming combined were defined as problem gamblers. Another 8% would be considered at risk of becoming problem gamblers. And so that would be if you added the seven states that I just mentioned, plus Montana, Maine, New Hampshire, Hawaii, West Virginia, Idaho, Nebraska, New Mexico, and Kansas. And that's 20 million extra adults who were considered at risk of becoming problem gamblers.

Marcus Johnson (18:50):

So it's a lot of folks, and it's growing. Risky gambling behaviors growing from 2018 to 2021, according to surveys commissioned by the National Council of Problem Gambling, the share of folks who said they sought financial help due to gambling went from 2% to 6% 2018 to 2021. And Paul, as we mentioned it being a cheat code for politicians, will the government help? There's no incentive for the government to try and help prevent gambling addiction because the more people bet, the more the states and the federal government stand to gain financially.

Paul Verna (19:18):

Yeah, I mean, the states are the house, as Dylan Scott mentioned in his article. So there is very little incentive for them to curtail it when it's a big source of revenue for them.

Marcus Johnson (19:29):

Yeah. Finally, how much is the government currently helping? Mr. Scott points out the US spends about \$1 per capita on treatment for problem gambling for every \$320 it spends on substance abuse treatments according to Keith Whyte, executive director of the National Council on Problem Gambling. While there are federal agencies devoted to drug and alcohol abuse and related research, there is no federal institute for problem gambling research. Neither the census nor the CDC ask about gaming in the national surveys that track trends in other mental health issues or drug and alcohol use.

Marcus Johnson (20:05):

That's all we've got time for for the first half. Skip the halftime report, but if you want to read Paul's full report on US sports betting, it's called US Sports Betting 2023, Digital Services Roll Past Obstacles and Thrive in the States where they are legal. You can head to [insiderintelligence.com](https://insiderintelligence.com), or if you want to read it on your smartphone screen, you can click the link in the show notes if you're listening on your smartphone.

Marcus Johnson (20:30):

Let's move now to the second half of the show today. "In Other News," we look at the impacts the writers and actor strikers having on the TV and video worlds. So Paul, just one story today "In Other News," we're talking about the strikes. So let's start with helping the listeners understand what's the latest on the strike negotiations between the Association of Motion Picture and Television Producers, AMPTP, at one end of the table and the Writer's Guild of America, WGA, and Screen Actors Guild, SAG, at the other end.

Paul Verna (21:06):

There hasn't been a lot of progress. I mean, I think the two sides, the two sides meaning the writers against the studios and then the actors against the studios, really have not made, as far as I know, any significant headway. I think they're still at odds over all of the issues that are dividing them, which range from money to the structure of residuals to the use of AI in movie and TV show production and benefits. I mean, it's just a long laundry list, and I think they're still

at a standoff. As of today, the writers strike has been going on for 139 days, the actor strike has been going on for 66 days. Now, I think the conventional wisdom was that if the writers strike went on for more than 100 days, then we were going to start to really get into problems as an industry.

Paul Verna (22:02):

That was before the actors went on strike. We haven't had a combined writers and actor strike since 1960 prior to this. So it's a double whammy, and both have been going on for an uncomfortably long time and are now really starting to encroach on fall seasons and on ad spending, which had mostly been shielded because advertisers, especially ones that committed money during the upfronts, what they planned to do was basically shift that money that they'd already committed from, say, a scripted show that is no longer airing to a reality show that is airing in its place or more news or more sports or more of the things that are still happening. But I think at this point, we're now going to a whole other cycle, and we haven't updated our ad spending forecast. When we last did it, it was right before the writers strike happened. So even though we knew it might happen, we really weren't able to take it into consideration. For the update that we're working on for Q4, we will have to take a hard look at where we are and how it's affecting advertising.

Marcus Johnson (23:13):

Yeah, there's some research on how hard this is hitting TV ad sales, the strike that is, and Chris Wood of MarTech just wrote a piece saying things are likely obviously to get worse if there's not a settlement and fast. He was noting that according to MediaRadar, talk shows, soap operas, and sitcoms saw ad sales fall 5% in the first half of this year versus the first half of last, and primetime TV programming saw a 15% drop this year versus first half of last. He was saying because ad slots are often bought months in advance, the full brunt of the strike is still to come.

Paul Verna (23:50):

Yeah, and Chris's article, I mean, since Chris published that article, things have certainly not gotten any better just by the fact that the strikes continue with no end in sight. So I think everything he expressed in that article is things are probably worse than what he expressed in that article.

Marcus Johnson (24:07):

Yep, yep. Ad spending on reruns has gone up as Daniel Constantinovich, one of our briefings writers, notes as well because of a lack of original contents. And Warner Bros. Discovery saying that Hollywood strikes will cost it \$500 million in revenue this year. The company had saved about \$100 million in Q2 because of reduced costs from the strike, but is now starting to feel the long-term impacts on earnings as the strikes persist. And Paul, as you mentioned, there's that kind of critical fall TV production window which is closed, meaning that folks are not going to be able to produce enough contents for a full spring 2024 season, let alone a major theatrical releases for next summer's blockbuster season. So it's not just if they resolve this tomorrow that all of a sudden you'll get a flurry of new content. That just starts the engines up again, and you're still going to have to wait many months, it's looking really like at least six, maybe nine for them to work themselves out.

Paul Verna (25:06):

Absolutely.

Marcus Johnson (25:07):

Anyway, that's all that we've got time for for today's episode. Thank you so much to Paul for hanging out today.

Paul Verna (25:11):

Always a pleasure.

Marcus Johnson (25:12):

Yes, sir. Thank you to Victoria who edits the show, James who copy edits it, and Stuart who runs the team. Thanks to everyone for listening in, we'll see you tomorrow hopefully for the Behind the Numbers Daily: an eMarketer Podcast made possible by Awin.