



## **The poor development of the online gaming market in France Figures, causes, effects and revitalisation initiatives**

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## 1- What are the figures for the online gaming and gambling market?

### 1.1- Overall online gaming and gambling figures:

#### Online gaming and gambling market statistics:

- Revenue: 1, 473 billion euros
- Horse race betting market: 450 million euros
- Sports betting market : 450 million euros
- Poker market: 573 million euros

#### Online gaming and gambling player statistics:

- Before the market opened, there were 2 million illegal players
- 14 million French people play terrestrial (as opposed to online) PMU and FDJ games on a regular basis, while 30 million play in casinos
- Some 400,000 of the players who previously played on illegal sites have not entered the French online gaming market

### 1.2- Market breakdowns: online sports betting, poker and horse race betting

#### ▶ *Market breakdown online sports betting:*

##### ➤ **Online sports betting player statistics:**

- Number of sports betting players who gambled on illegal sites before the market opened: 700,000

##### ➤ **Football betting player statistics:**

- Football betting has a potential market of some three million players.
- Players bet very little on the French football leagues, but place significant amounts on big competitions and major foreign teams.
- 56% of football bets in 2010 were a result of the FIFA World Cup

##### ➤ **Figures for other 'sports betting':**

- Tennis: 23% of the sports betting market
- Basketball and volleyball: 4% of the sports betting market
- Rugby: 2% of the sports betting market. The percentage should have been around 8%. This poor result reinforces the notion that major events are responsible for kick-starting online betting, so we are looking forward to the Six Nations Championship...

#### ▶ *Figures from the 'online poker' market:*

- Number of players who played on illegal sites before the opening: 600,000
- Potential poker market in France: between 2.5 and 3 million players
- A 35% market share loss can be attributed to the restrictions imposed on online poker
- Between 100,000 and 200,000 poker players who are not satisfied with what they are offered in France, have settled for illegal sites, at the expense of the French poker market and, as a result, of French operators.

#### ▶ *Figures from the 'online horse race betting' market:*

- Potential market for online horse race betting in the future: around 3 million gamblers
- Number of terrestrial horse race gamblers: 7 million
- PMU generates 70% of online horse race bets

## 2- An overview of the 'online gaming and gambling market', six months after opening

### 2.1- Market overviews: online poker, sports betting and horse race betting

#### ▶ Overview of the 'online poker' market

Online poker is a significant market leader in online gaming, with a 38,5% market share. As in other countries, it should occupy second place, behind sports betting. Poker has benefited from certain favourable conditions: young people's passion for the game, excessive media coverage of poker with televised terrestrial tournaments, generally successful marketing campaigns and appropriate methods of familiarising potential players with play. However, this market could have been around 25% larger than its current level. In short, the highly restrictive legislation has led 100,000 to 200,000 players who are not satisfied with what the French market has to offer to play on illegal sites (as a result of a limited ability to block illegal sites). This market share loss is damaging to operators, of whom there are consequently too many in a market that has been deprived of an important share of its potential.

In Italy, poker legislation that, like France's, was ill-suited to the reality of the market has recently been changed. Like Italy, France urgently needs to make the necessary changes to its poker legislation, in order to benefit from the market's economic and fiscal returns.

#### ▶ An overview of the 'online sports betting' market: very poor

Sports betting has a much lower market share than predictions indicated – it is in fact some 35% lower than forecast. It occupies second place in online gaming. Sports betting should have led, with a result slightly above that of poker, as in other countries. The particularly poor results for football betting, which accounts for 57% of online sports betting, have dragged the market down.

This situation is caused by a number of factors: the opening of the gaming market taking place at the same time as the start of the FIFA World Cup, the fiasco surrounding the French team's campaign in South Africa, the lack of a traditional sports betting culture, operators' marketing mistakes, the force of legislative constraints, especially as regards the ban on certain sports and sports events and, finally, the rate of return offered to players, which is limited to 85%.

The problem for sports betting is not so much its poor results as the fact that there are no reasons for the current situation to improve. The only ways of kick-starting the online sports betting market would be through a major football event or relaxed legislative constraints. **It is, therefore, imperative that the ban on certain sports and types of matches be lifted.**

#### ▶ An overview of the 'online horse race betting' market: a pleasant surprise

The horse race betting results are satisfying – it has been *the* pleasant surprise after the opening of the market. Horse race betting currently stands at roughly the same level as sports betting! The market here has developed unobtrusively, with practically no marketing expenses. All operators have benefited from this: the PMU, but also newcomers. In addition, unlike with sports betting, development prospects are good. Horse race betting benefits from a potential market of 7 million terrestrial horse race gamblers.

## 2.2- An overview of the overall 'online gaming and gambling market': poor, if not very poor

The overall 'online gaming' market overview:

- On the basis of authorised gaming, the market operates at a level around 20% lower than forecast.
- If this figure is to include unsatisfied players of authorised games who choose to not play in France but on illegal sites, the market deficit is some 25% below forecasts.

### ➤ **Regarding the popularity of the different forms of online gaming and gambling:**

- **The poker market:** this is the market leader with a 39% market share, which, while a strong performance, is one that could have been 35% better, as I have suggested, had legislation been less harsh.

- **The sports betting market:** this occupies second place, far behind the poker market with only a 28% market share. Online horse race betting is hot on its heels. The sports betting market, especially as regards football betting, occupies a lower position and market share than predicted (some 35% lower). This is the biggest disappointment in the wake of the market's opening, as it should have been in first place – the potential is there, but as a result of the reasons outlined, the market has not taken off.

- **The online horse race betting market:** a pleasant surprise for the newly-opened market, online horse race betting has a market share of 25% and is just behind the sports betting market.

## 3- A detailed analysis of the reasons for the poor development of the 'online gaming market'

### 3.1- Causes of the poor development of the 'sports betting' market

#### ▶ **The market opened at a time that provided few opportunities to benefit from the effects of the FIFA World Cup:**

Within a particularly short time frame, ARJEL (France's online gaming regulatory authority) successfully put measures into place to enable the French market to open in time for the FIFA World Cup. Unfortunately, though, the opening took place at the same time as the start of the World Cup – in order for operators to have benefited fully from the returns afforded by the competition, they would have had to begin their marketing campaigns at least four months prior. As a result, they would have been able to attract a significant proportion of potential gamblers. In an earlier study, I had indicated that the short time frame between the market opening and the FIFA World Cup would benefit established operators who could exploit the wide recognition and trust that they received – this is what happened.

#### ▶ **The French football team catastrophe:**

The second - and by no means least - significant factor in limiting the market's success is the fiasco that was the French football team's campaign at the World Cup. As a result, a shocked public became disenchanted with football, with a correlating decrease of around 30% in betting amounts and a fall in gamblers of 60%. The competition represented a powerful launching pad for sports betting (of which football was predicted to account for 70% of stakes). In fact, the event acted as a further check on the progress of sports betting. Unfortunately, in addition to lost revenue, the true drawback is that the players who did not register are now uninvolved in football betting.

▶ **Harsh legislative constraints, especially as regards the ban on certain sports and certain matches:**

One of the paradoxes of the French legislation is that while some sports and matches have been banned, purportedly due to a risk of fraud, the Internet is the best tool for detecting fraud. Fraud is easily identified online, because it leads to huge fluxes in finances or, more straightforwardly, abnormal financial activity that operators detect and then inform federations so that they can begin inquiries.

The sports betting market, already in bad shape, really had no need for such bans, which severely limit the market's progress.

▶ **The lack of a traditional sports betting culture:**

The reasons that encourage players not to gamble online are twofold: on the one hand, apprehension linked to the dangers of the Internet, especially as regards online payment; on the other, the lack of a traditional betting culture. It should be noted that poker and, even more so, horse race betting, both of which benefit from being part of traditional gambling culture, have obtained good results.

▶ **'Sports betting' operators' marketing mistakes:**

Some operators have struggled to appreciate the specifics of the football betting market, especially the drawbacks imposed by the need to play on the Internet and the lack of a traditional sports betting culture. These factors have not always been taken into account when considering marketing.

Operators should have:

- Developed more marketing and communication techniques to overcome the drawbacks
- Concentrated on familiarisation and guidance strategies for online sports betting
- Used social networks much more: the young people who form the main target market for online gaming are socially orientated. Social networks that encourage shared information are well suited to reassuring and winning over potential players.

### **3.2- Reasons for the 'online poker' market share loss:**

Legislative constraints imposed on the online poker market are extremely limiting:

- A high tax rate: 2% of stakes for online gaming
- Player can only play on .fr sites against other French players
- The range of poker variations is limited
- The rate of return offered to players is limited to 85%, compared with 92% in other countries

As a result, a significant number of players continue to use illegal sites.

### **3.3- Reasons for the poor development of the 'online horse race betting' market**

The reasons for the poor development of the horse race betting market are linked to:

- The fact that a large proportion of traditional horse race gamblers that form the potential online horse race betting client base are not familiar with using the Internet. This limits the development of online horse race betting
- The rate of return offered to players being limited, as in sports betting and poker, to 85%, as opposed to 92% in other countries.

### 3.4 – Reasons for the poor development of the 'online gaming market' in general

#### ► Reasons that relate to online sports betting, poker and horse race betting directly:

- **'Sports betting':**

We have seen that the reasons for the poor development of sports betting were:

- The market opening at a date that provided few opportunities to benefit from the effects of the World Cup
- The French football team fiasco
- Harsh legislative constraints
- The ban on certain sports and certain matches
- The lack of a traditional sports betting culture
- Sports betting operators' marketing mistakes
- The rate of return for players being limited to 85%

- **'Online poker':**

We have seen that poker players who are unsatisfied with restrictive legislative regulations continue to play on illegal sites, which represents a market share loss of around 35%.

- **'Online horse race' betting:**

The causes of the poor development of the horse race betting market

- People who gamble through bricks-and-mortar establishments are generally not familiar with using the Internet
- The rate of return that is offered to players is, as with other gambling and gaming, limited to 85%, compared with 92% in other markets.

#### ► Reasons for difficulties in blocking 'illegal sites':

- **What difficulties are encountered in blocking illegal sites?**

In an earlier study on 'the impact of illegal sites on the online gaming market', I observed that no country had managed to block illegal sites, notably the thousands registered in exotic foreign countries. 50,000 operators are currently listed internationally and even the United States has not been able to block illegal sites. In the earlier study, I gave no fewer than ten ways of bypassing the barriers set up to block sites, that have been used primarily in Italy. The issue of blocking illegal sites remains a topical one, with the European Commissioner in charge of online gaming, Michel Barnier, prioritising the fight against illegal sites in his green paper.

- **The effects of the limited ability to block illegal sites on players who are not satisfied with what French sites have to offer and on players looking to play games that are not authorised in France:**

It seems that a significant proportion of the 2 million people who played on illegal sites in France before the market opened then switched to authorised French sites. But what do you think the 400,000 online casino game and bingo players who played on illegal sites do now that these games are banned in France? What do you think poker players who are not satisfied with the constraints imposed on poker now do?

• **The collateral effects on operators of the limited ability to block online games:**

The limited ability to block illegal sites results in unfair competition for operators with licences in France, who are taxed at a higher rate and have significant financial constraints imposed on them, especially as regards ensuring online game security, as well as facing high marketing costs and being obliged to pay a fee to sports rights holders. Illegal operators only need a small amount of funds and, furthermore, are able to offer a full range of games and are not limited in the rate of return that they give players.

That operators with licences in France are unhappy with the particularly harsh constraints imposed by legislation is quite understandable. They were justifiably expecting the legislator to be able to protect them, but the limited ability to block illegal sites has, in fact, resulted in a significant loss in revenue that damages their economic stability.

▶ **The relevance of the ban on certain games: a market loss of 40%:**

As can be seen in other countries, offering a comprehensive range of games has a synergic effect across the online gaming market, especially because the multi-game players form the majority.

France has banned the largest number of games and types of game, purportedly as a result of the games' addictive characteristics. The paradox is that, as we have seen, because attempts to block illegal sites have not been successful, the ban on these games on the grounds of their supposed addictive nature leads some 600,000 people to continue playing on illegal sites that provide no addiction or fraud protection or means of protecting young people. The cure here is worse than the disease.

As a result, an appropriately objective study of the suitability of the ban on certain games seems warranted. With this in mind, we should acknowledge the disparity between the ways in which online gambling and terrestrial gambling are treated.

Some online games are banned even though they benefit from the best addiction protection in the world:

- Capping stakes, limiting accounts and capping player accounts
- Notification of time elapsed and losses suffered
- Options for self-exclusion
- Retrocession of any amount of up to 10 million euros for INPES (French National Institute of Health Education) to treat addiction problems
- Advertising limitations

In bricks-and-mortar establishments, the same games offer only minimal protection (such as underage bans and casino bans), even though they can be played by 45 million French people!

▶ **The rate of return offered to players:**

The setting of the rate of return offered to players at 85%, compared with 92% in other countries, may be a factor that leads some players to visit illegal sites.

#### 4) What measures should be taken to revitalise the online gaming market?

The online gaming market in France is 20% smaller than predictions indicated and, if factors that have prevented the full development of the poker market are included, 25% smaller.

Legislative measures are largely responsible for the poor development of the online gaming market:

- restrictions on the market's authorised games – we have seen the effects of these on the poker and sports betting markets;
- the ban on certain games, purportedly as a result of their addictive characteristics – we have seen how this has led to players putting themselves at risk on illegal sites. The ban on certain games deprives France of the significant economic and fiscal returns that benefit other countries.

The current problem is not so much the poor results of online gaming, but rather the fact that, given the constraints in place at present, the market will continue to stagnate and the situation will get worse. In these conditions, operators' financial stability will continue to deteriorate.

The only way of revitalising the French market is, as in Italy, to make changes to the current legislation.

The legislator included a review clause, but this only comes into effect after eighteen months after the opening of the market, i.e. a year from now. This time frame is too long and measures need to be taken quickly in order to avoid devastating consequences. The paradox lies in the fact that the constraints imposed by French legislation mainly damage French operators as the latter are unable to compensate their finances by activities in other markets. **As a result, it seems ineffective and economically dangerous to wait a year before reviewing the law.**