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Are fantasy sports operators betting on the right game?

With the start of the NFL season, football fans are measuring player performance and building virtual rosters for seasonlong fantasy sports leagues.

These commissioner-style games, in which players create fantasy "teams" with a roster of real-life athletes that "play" over the course of the sport's regular season, are offered on big platforms such as ESPN.com, Yahoo.com and CBSsports.com.

While none of these companies have detailed fantasy revenue or user totals, there is no doubt these operations make money — and lots of it — from these fantasy sports leagues. NFL fantasy contests offer million-dollar payouts on annual tournaments and partner with large brands such as Toyota, Snickers and Volkswagen.

According to the Fantasy Sports Trade Association, Americans spent \$11 billion playing fantasy football in 2013 alone.

And the numbers continue to grow. More than 33.5 million people play fantasy sports in the U.S. with that number projected to reach 41 million players by the end of this year.

So who is playing online fantasy sports? Interestingly, most players are in their mid-40s, and when tech-savvy 20-year-olds were asked why they weren't joining in, the most common response was that league or commissioner-style games "took too long."

For fantasy sports organizers, the task then became: How do we cater to a large segment of

society that seeks instant gratification? How do we take a product that people love and make it faster? How do we make every day draft day?

Enter daily fantasy sports contests. According to FSTA President Paul Charchian, dailies have "exploded in the last couple of years."

The two biggest daily fantasy sites are FanDuel, which controls 65 percent of the market, and DraftKings, which recently purchased rival DraftStreet in an effort to narrow the difference in market share separating it from the entertainment leader.

With daily fantasy contests, profits are easily made — the host usually takes about 10 percent off the top of every contest as an entry fee. The dailies generate additional revenue by selling display ads, native advertising and sponsorships for free games.

Weekly payouts average upwards of \$6 million, and users can win millions with an initial investment of under \$5. In fact, according to FanDuel's website, a normal week on the site has payouts reaching more than \$10 million.

With all this money floating around, even big companies such as Comcast want a piece of the action. In 2013, Comcast Vnture, its venture capital affiliate, invested \$11 million in FanDuel, which is expected to generate more than \$40 million in revenue this year.

FanDuel Chief Executive Nigel Eccles explains this market explosion by noting fantasy sports is a "very competitive market" with many people trying to innovate.

Offering the opportunity to

SPORTS MARKETING PLAYBOOK



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play on a daily basis is an innovation that has really taken off. The success of the dailies may be because, as DraftKings CEO Jason Robins has explained, the daily fantasy operators are not trying to displace the existing market for fantasy sports leagues. Rather, they are trying to give people who were already passionate about fantasy sports a different way to participate and to invite new, younger fans to the game.

The biggest sports websites in traditional fantasy haven't yet entered the paid daily market. But two publishing powerhouses have thrown their hats into the ring.

Sports Illustrated recently introduced a mobile application, FanNation, that "allow[s] users to take part in ... daily play, where participants select a new team each time they play and then square off against a friend or random competitor."

To develop the app, the popular sports magazine partnered with Topline Game Labs, which is led by David Geller, the former head of Yahoo's fantasy sports department. FanNation currently offers both NFL and MLB, and intends to offer NHL and NBA contests in the coming seasons.

To play for prizes, FanNation users put up an "entry fee," or a money bet, to win a contest. If they win, Sports Illustrated pays their money back — and tacks on

the opponent's bet — minus the relevant "contest management fee." Much like commissioner-style fantasy sports, FanNation has secured major sponsorships, including partnerships with BlackRock, Canon and New Balance.

USA Today also recently announced that it will rebrand its longtime KFFL as USA Today Fantasy Sports and team up with 20-year-old RealTime Fantasy Sports to create a daily fantasy sports gaming site, FantasyScore.

All of the platforms — both the new and the well-established — offer a variety of playing options, including head-to-head contests with a single other player or multiplayer contests, as well as the ability to invite friends to play. Other options include contests open to as few as two users and as many as 50 users, as well as team and league play, salary cap contests and private leagues.

The legality of fantasy sports contests that require an entry fee and pay out cash prizes varies by state. On the federal level, the Unlawful Internet Gaming Enforcement Act includes exemptions for seasonlong fantasy sports games that adhere to certain defined criteria. Pay-to-play fantasy sports contests are not legal in Arizona, Iowa, Louisiana, Montana and Washington and are questionable in other states.

The operators of daily fantasy

sports websites chafe at comparisons to online gambling such as online poker, which is illegal, asserting that their sites offer games of skill rather than illegal games of chance. Their terms of use reflect their awareness that these new forms of fantasy sports play have not yet been declared universally legal, however.

Sport Illustrated's FanNation offers users the ability to enter contests by paying an entry fee and playing for cash prizes (pay contest play) or without an entry fee and without prizes (free contest play). The terms of use of

FanNation also provide that users in certain states may play paid contests — and that all users warrant that they are legal residents or that they are physically located in and using the services from those states. Market leader FanDuel includes a section on its site discussing the legality of fantasy sports play in which it states it does not offer paid-entry games to residents of Arizona, Iowa, Louisiana, Montana and Washington. Under FanDuel's terms of use, residents of those states are not eligible to play.

A recent Illinois case challenged the legality of short-term and “daily” fantasy sports contests. The suit, *Langone v. Kaiser & FanDuel*, was dismissed on procedural grounds, so the underlying legal issue of whether short-term or “daily” fantasy sports games involve enough skill — as opposed to chance — remains unresolved.

And it's likely to remain unresolved — in Illinois and across the country — at least for some time. The fantasy sports industry is both popular and lucrative, with an estimated

revenues of \$4 billion overall (according to FanDuel's website). And the investors in and operators of daily play platforms are betting — heavily — that these new sites keep the interest of current players and attract a whole new generation of new ones.

It's likely that these new games and sites will see more legal challenges as they grow and evolve, however. Challenges that will need to be resolved before these investors and operators can declare a “win” and collect on their bet.