

Time for change: Bringing liquidity to the smaller markets with Longitude

Story by KEITH MCCALMONT



In many ways, racing has made great strides in how we wager on the sport.

The introduction of simulcasting helped put more eyes on the product and increased wagering.

In the past decade, with the expansion of internet wagering, racetrack operators have access to their customers virtually 24/7.

And yet, as technology has made vast growth, the opportunities on the wagering menu for the average horseplayer have essentially stayed static, with multiple pari-mutuel pools fragmenting the total handle.

The larger racing outfits, like Woodbine Mohawk Park, are thriving, but there is room for further growth. Conversely, there are smaller markets, with lesser handle, struggling to keep pace while making their product as attractive as others available online across the world.

Total handle for the Saturday, April 13 card at Century Downs of \$77,283 cannot compete with the \$1,737,959 wagered on the same evening at Woodbine Mohawk Park. The Pick-5 pool alone on the Woodbine Mo-

hawk Park card (\$94,763) drew more money than the entire Century Downs card.

Longitude, an enhanced pari-mutuel wagering system, offers to help racetracks solve the liquidity issues within their pool, while expanding the wagering menu to attract more players.

Already successful in Hong Kong, one of the largest wagering markets in the world, Longitude is soon to be deployed by Tab-Corp in Australia where wagering on racing is thriving.

The concept is simple enough: Longitude allows for all the money wagered on a race to be combined into one pool with the software providing calculations to generate fair and accurate odds by assigning probabilities to combinations within each race based on



wagers made into the pool.

Scott Shechtman, the President of Longitude and a longtime racing fan, brought the concept to life when he recognized an opportunity to transform a trading product.

“I was working at an exchange called ISE and dug up some patents we had around what was Longitude. It was a technology and mathematical model that had been developed for a particular type of trading in the financial world. It had been sitting on the shelf and I thought it would make a lot more sense to use it for horse racing because it was pari-mutuel by nature,” said Shechtman.

ISE was eventually bought by Nasdaq and Shechtman followed along to run the Longitude business.

Liquidity – the volume of bets placed – is the key to the system. At small tracks, liquidity is a problem as pools are often not large enough to absorb even a \$50 win wager that could essentially render the choice an instant 1/9 shot.

The same issue applies to all the separate pools for exactor, triactor, and so on.

A \$10 straight exactor at a smaller harness track such as Truro would dramatically lower your expected will-pay as all of that money would go into a pool with only a few hundred dollars in it. An exactor payout that realistically should pay \$500, could end up paying \$250.

Longitude allows the racetrack operator to merge every single bet into one pool and use a mathematical formula to determine how money should be allocated. Now, that \$50 win wager will be absorbed into the win, place, show, exactor, triactor and superfecta pools and distributed more fairly.

“Liquidity is so fragmented at the moment in traditional pari-mutuel models across the various pools,” said Shechtman. “The broader the array of betting product, the more fragmented the liquidity is on the race and the worse the betting experience is.”

Some smaller tracks will look to add new

wagers, such as multi-race opportunities, to compete and keep pace with the markets available at larger tracks, and they ultimately fail due to pool size.

“Ironically, you launch a new product and you do make it better to some degree, but the trade-off is cannibalizing the strength of the pools that existed before. As the betting menu gets too broad you have too many shallow pools, instead of a smaller number of bigger ones,” said Shechtman. “That’s the sort of math that was behind this, along with the pari-mutuel nature, that we figured out we could launch a wide range of bet types while aggregating these pools instead of fragmenting them further. It all started to blossom from there.”

Sean Pinsonneault, the former Executive Vice President of Strategy and Wagering for Woodbine Entertainment, and current President of Bluslate, is working closely with Shechtman to help bring Longitude to market in Canada.

“My focus with Bluslate is management consulting with racetracks to improve their business, but it dovetails quite nicely with new products and innovations because I don’t think the industry is going to have long term success if it doesn’t change the way it’s doing things,” said Pinsonneault. “The realities are that racetracks do not have a lot of resources, both financial and human, so how do we get these innovative products that are out there into market within the infrastructure we have.”

In 2014, the Hong Kong Jockey Club [HKJC] announced it was relaunching its Quartet wager [superfecta] using the Longitude technology.

The technology allowed a real-time odds display for all available combinations in exotic pools, which represents a significant benefit for the sophisticated bettors in Hong Kong, who recently reported handle in excess of \$11 billion (USD) for their 88 days of racing across Sha Tin and Happy Valley.



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Winfried Engelbrecht-Bresges, Chief Executive Officer of the HKJC, recently stated that the Longitude technology provided significant handle.

“We see around \$6 billion (HK) [\$765 million USD] now generated by this new bet type and that, I think, is due to the wagering technology,” said Engelbrecht-Bresges.

Perhaps more importantly, Engelbrecht-Bresges was open to taking advantage of the technology to also grow and understand the habits of its customer base.

“Wagering technology is based on relatively old technology, and we were looking at how we can use new technology, used for example, in exchange financial markets, and with the Longitude engine we put in a way to practically use this capability to predict the outcome of all potential combinations,” said



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Engelbrecht-Bresges. “That helped us, in a way, to create merged pools, which helps to deepen the liquidity, and we could increase the bet offerings into the Quartet, but the major advantage is that we can show odds/data, and data drives customer behaviour.”

In March, TabCorp, Australia’s leading wagering operator, announced it was launching its new Trio betting type for pari-mutuel customers using the Longitude merged pool technology. The Trio requires players to select three horses to finish first, second and third in any order.

With Longitude allowing for multiple bet types to be merged into one pool, which in this instance will see the Trio merged with the Triactor pool, it will aggregate liquidity while also providing customers the ability to see will-pays for their wagering combinations.

If two of the largest wagering markets in the world are adopting this technology, shouldn’t the lesser markets be rushing to be the first to adopt the opportunity in North America?

“We’ve talked about the biggest track in

the world, from a pool perspective (HKJC), seeing huge benefits from Longitude, and that goes exponentially higher for smaller tracks that have no liquidity,” offers Pinsonneault. “I’ve seen many of them across Canada and there are two digit numbers in some pools, but they wanted to offer different products and feel like they have to compete with the simulcast market and run triactors, exactors, quinellas [etc] and it dilutes it too far.

“This is a perfect opportunity for those tracks to say, ‘I’ll take all the liquidity we have and offer all these bet types,’” continued Pinsonneault. “We’re not limited by bet types and diluting the pools, you’re encouraged to offer more bet types because it’s all in the same pool and that’s where the benefit comes in.”

In the previous example, where a small pool can see a significant win wager render a horse an unattractive wager at odds of 1/9, Longitude has the capability to work around the market and provide more playable options.

“Let’s do different bets. You could try something new like bet without the favourite, and if the favourite comes in you still get paid. Or bet a horse to finish exactly second, not place [first or second], but exactly second,” said Pinsonneault. “You could try betting odd/even for the new players. You don’t struggle with liquidity. All these products can be supported so you can deal with core customers but also new customers and try to make it more fun for them to play.”

Shechtman adds that even the current standard of pools cannot be offered at some of the smaller tracks.

“If you look at any betting operator in the racing industry and look at the betting menus, it’s surprisingly short. There are many races on which superfectas aren’t offered, occasionally triactors aren’t offered. The reason it’s not offered is not because it costs more to light it up, but because if you

offer it there wouldn’t be enough interest as the pool wouldn’t be big enough to be viable,” said Shechtman.

Shechtman, thanks to his experience with the HKJC, knows the product works. And after a decade in the business, he’s keen to see Longitude adapted in North America where the racing industry needs change and can offer greater transparency to the growing segment of digital bettors.

“One of the nice things about Longitude is that an operator using our technology has an opportunity, and the flexibility to offer something to each of the customer segments,” said Shechtman. “It’s obvious for the more casual retail customer that adding new bet types is a great thing as long as there is liquidity for them. The more sophisticated, digitally orientated online player with his own statistical model and maybe even a team crunching numbers, there’s a lack of data in pari-mutuel horse racing. You don’t see the [probable] price of a tri or super at any given moment.

“In Hong Kong, where we launched the Quartet, you can pick a combination of horses and hit a button and it will tell you based on the state of the pool at that moment, what the [payoff] price is,” said Shechtman. “In Australia, where we’ve just launched a merged Trio/Trifecta pool, you can now see the probable indicative payout of each trifecta combination.

“The more sophisticated the player is, the more they tend to wager, or want to wager, if the pool can handle it without them pushing the odds around or betting against themselves,” continued Shechtman. “When you start to aggregate the pools, one of the things I think you find is you take the pools the retail customers are interested in, and by letting those share liquidity with the pools the more sophisticated customers are interested in, now you have a more healthy ecosystem where a customer like me, just betting for en-



joyment, is offered more bet types while the customer that is betting for value is getting more value because the pool is bigger, and they can deploy more capital into that pool and see data and know what they're buying."

Providing more information to the bettor is key. The lack of data available to the horseplayer is a longtime grumble from the punters.

"From a financial background," added Shechtman. "That's a very odd thing to think about buying or trading something when you don't know what the price is. Granted, in pari-mutuel model you don't know the final price until the pool closes but, in most cases, we don't even get to see triactor probables."

So, if it all makes so much sense why hasn't Longitude been rolled out across the continent?

Surprisingly, the first hurdle to clear is incentivizing the racetrack operator to invest in itself. Not all racetrack operators are as forward-thinking as Engelbrecht-Bresges and the HKJC.

"Specific to North America, the totes aren't exactly thriving at the moment, nor are they typically emphasized by the companies that own them as opportunities for further investment and innovation," said Shechtman. "You don't tend to find operators that are willing to spend money to invest in new technologies. I see smaller innovations that are more incremental than what the industry might need. I think of Longitude as more transformational than incremental in terms of what it can do for the business."

The second hurdle is regulatory, although

Shechtman is right to point out that Longitude has received approval in Hong Kong, New South Wales, and Victoria [Australia] and has managed to change the law in New Jersey where win bets no longer have to go only into the win pool.

"Because the regulations around horse racing in North America were written so long ago, and this is the same issue we had in Hong Kong and each Australian state, we keep running into the same problem, which is the rules around betting are written around the old-style pari-mutuel model," said Shechtman. "Win bets must go into the win pool. Place bets must go into the place pool. That was written because it was the only way anyone ever imagined doing it at the time, but now that we have a technology that has a different way of handling bets, it's not a big change, almost no change, to the customer that doesn't want to see the change. It's only the customer that cares to see the new bet type, the new data or cares about the extra liquidity that actually experiences a difference."

Pinsonneault's familiarity with the rules and regulations put forward by the Canadian Pari-Mutuel Agency (CPMA), which abides by the Association of Racing Commissioners International (ARCI), are instrumental to the potential implementation of Longitude in Canada.

"We've had a discussion with the CPMA on this. We've worked with Woodbine on it through early stages. The CPMA, in their regulations, rely on the ARCI model rules,"

started Pinsonneault. "When those model rules get passed through ARCI they automatically get adopted in Canada. So, we're going through a process with ARCI and went through a process last year that got us through the first stage, and now we're trying to get it to a full model rule which we hope will happen this year. CPMA has been involved in that process. It's just about making sure everyone understands it.

"It's not that people aren't willing to do it. We've not had a single regulator say, 'this is crazy, this is never going to work,'" continued Pinsonneault. "They've been interested and yes they have to understand it and they need to work through some changes and go through a process. It's about a process and a willingness and trying to get it over the finish line. It takes stamina. Thank God the Longitudes of the world have stamina and are willing to work with the industry to get it done. It takes time and persistence."

For larger racetracks looking to innovate and for the smaller tracks seeking to leverage their liquidity and attract new customers, adopting change is fast becoming a necessity. Longitude already boasts more than \$15 billion wagered through its system, and Pinsonneault urges interested racetrack operators to reach out to him.

"Canada has an opportunity to lead because it's national and not state-by-state as we see in the U.S. and elsewhere," said Pinsonneault. "If we can get this passed through the CPMA, all the harness tracks across the country can do this instantaneously. That's what can really make a difference in overall wagering.

"Putting in a request to the CPMA would be helpful. But, call me, and we can do a concerted effort to pull this together and make sure that the CPMA understands there's a groundswell of interest to make this happen. That's where we need to start, and that push will help the CPMA truly understand the changes that are necessary." ■

HKJC comments courtesy of: www.youtube.com/watch?v=ljNHZOUrcek&t=17s