

Chapter 1

What is Betfair?

In This Chapter

- ▶ Understanding the Betfair idea
 - ▶ Realising the benefits of Betfair
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Betfair is the world's leading online betting exchange – www.betfair.com. It allows people with different opinions on the likely outcome of an event to bet against each other, thanks to the invention of some clever technology by a boffin called Andrew 'Bert' Black in the late 1990s.

But that's all you need to know about the technical side. This chapter covers what Betfair is, how it works, and why it's so popular.

Getting Your Head Around Betfair

I have sat through countless demonstrations at Betfair headquarters where people try to explain what Betfair is to slightly perplexed audiences. The demonstrator

usually starts by showing everyone the Betfair Homepage (www.betfair.com), selecting a sporting event to bet on, and then beginning an explanation of what the mass of moving numbers mean.

Around four years ago, I went to the Betfair Homepage for the first time and can still remember how confused and dazzled I felt – a bit like a learner driver having his first driving experience on a motorway. The homepage can seem exhaustively complex at first when all you want to do is have a bet, but when you get used to it, it's actually quite straightforward. I look at the homepage in more detail in Chapter 4.



The best way to understand Betfair is to forget about the Web site for the time being. You don't actually need it to understand what Betfair is all about.

Think of this example instead. You're in a bar with your friend, and there's a soccer match on television. AC Milan are playing Juventus. Your friend says to you, 'I bet you Juventus wins.' You disagree. So you offer your friend odds of 2.0 on Juventus winning (meaning he wins £1 from you for every £1 he stakes). He bets £20.

Despite being friends, you don't altogether trust each other to hold the money, so you agree that the barman holds the money until the match is over. Your friend gives the barman his £20 stake, and you give the barman the £20 of potential winnings.

If Juventus wins, the barman gives your friend all the money. If AC Milan wins or it's a draw, the barman gives you the money.



That's all Betfair is really – a barman in a global betting bar (see Figure 1-1), although Betfair isn't licensed to serve alcohol!



Figure 1-1: Betfair: a barman in a global betting village.

In my example, you have to be face to face with the person you disagree with to have the bet. With Betfair, you're matched up anonymously against people with different views from all over the world. If Margaret in South Africa thinks AC Milan will win, and Mike in Canada thinks they won't, Betfair holds the money until the result is known.

Revolutionising Betting

Opportunities for you to bet vary from country to country. I've heard that in some countries, betting is illegal. This piece of information upsets me, so I choose to believe that such places don't exist.

Before Betfair, there were two main outlets for you to bet on sports: pool-betting operators and fixed-odds bookmakers.

Pool betting operators

In countries where betting is legal, government run *pool betting* is often the main way of betting.

Pool betting works in much the same way as a sweepstake. A number of people bet on an event, creating a pool of money. The operator of the pool takes a cut (usually upwards of 20 per cent) and then gives out the rest of the money to the customers who chose the winning selection.

Pool betting has a couple of major disadvantages:

- ✓ The odds are completely reliant on how many other people choose the same outcome, and so you have no idea what odds you're going to get on the selection you're choosing.
- ✓ The transaction can't be changed and the pool closes when the contest starts, which means that you must place your bet before a contest starts and await your fate.
- ✓ Because the pool operator takes a large cut before giving out winnings, the odds you eventually get can be disappointing, especially on popular selections.

Fixed-odds bookmakers

In some countries, bookmakers are allowed to operate in this way. Bookmakers offer their own odds on any range

of sporting contests. In some cases, you will be allowed to *take a price*, meaning that you know what odds your bet will be settled at if it wins.

But bookmakers have this advantage over pool-betting operators, the actual price you get has a profit margin built in on the side of the bookmaker. (See Chapter 6 for more on how bookmakers build in a profit margin.)

Enter Betfair

For many years, betting with pool operators and bookmakers were your only two options. Then, in the late 1990s, Andrew Black, or Bert as he is known, came up with the idea of using the stock exchange model to operate betting markets. This model means that customers can buy and sell, or *back* and *lay*, the outcomes of sporting events in much the same way that people buy and sell shares.

Revenge of the nerd

Andrew 'Bert' Black's background doesn't immediately suggest that he would become arguably one of the most successful Internet entrepreneurs.

Bert was the grandson of an inveterate anti-gambling campaigner. After being thrown out of university at the end of his first year, Bert

had many jobs: a professional gambler; a professional bridge player; a derivatives trader; a golf caddie; and a software engineer. While in his last job at GCHQ (the top-secret UK government communications department), Bert began to work on the idea of the betting exchange.

Bert developed the idea into a working model and with his business partner, Edward Wray, launched Betfair in 2000. Just over five years later, the business now has nearly half a million customers, betting in 200 countries, in 17 languages, and 10 currencies.

Benefiting from the Exchange

The PR department at Betfair talks about lots of very honourable things including transparency, integrity, and honesty.

This is all very well, but I'm much more interested in what I get *out* of betting with Betfair. I'm going to tell you about four main benefits that Betfair offers over more traditional ways of betting. They are

- ✓ The confidence that you are getting better odds.
- ✓ The ability to back and lay.
- ✓ The ability to bet in-play.
- ✓ The knowledge that Betfair is not going to close your account down if you happen to win.

Better odds



You get better odds on Betfair because you are betting against individuals and not a bookmaker. Bookmakers have to make a profit because they have wages to pay, shops to run, and shareholders to satisfy. This means that every time a bookmaker offers you odds on something happening, a profit margin is built into those odds. I explain how this is done in Chapter 6.

On Betfair, you're matched up against an individual who disagrees with you. That person wants to win, but is less cautious in the odds they offer than a professional bookmaker and so doesn't build in a big profit margin.

A good example is betting on the outcome of the toss of a coin. If you toss a coin and ask a bookmaker to give you odds on the coin showing heads, you would expect him to say 2.0 (you make £5 profit for every £5 you stake). If he is following the exact probability of heads showing, that's what he would offer you (because there's a 50 per cent chance of it being heads). But if the bookmaker did that, he wouldn't make any profit, because in the long run you'd win half the time and the two of you would just keep handing £5 notes to each other.

Instead, the bookmaker offers you odds of 1.8. This means that if you bet £5 and won you would make £4 profit, but if you lost, you would lose £5. You would expect to win every other bet, but the bookmaker knows that in the long run, he will make money from you.

On Betfair, on the other hand, you're much more likely to get odds of 2.0, or at least very close, because it's just two people taking opposing views.

Sweeping statements are difficult to make about exactly how much better the prices are on Betfair compared to traditional bookmakers. Betfair's marketing literature talks about 'on average 20 per cent better odds.' This percentage is probably about right, but it depends greatly on what you're betting on.



A good general rule is to count the number of outcomes in a particular event and suppose 2 per cent an outcome. So if only two outcomes are possible, like a tennis match

for example, the odds on Betfair would probably be around 4 per cent better on average than with a traditional bookmaker. In a race with 30 horses on the other hand, that figure could rise to as much 60 per cent.

Back and lay

Unlike a bookmaker, Betfair allows you to *lay* a selection (predict that it will not win) as well as *back* it to win. This ability is a key factor in you becoming a winning gambler. For example, you can study a contest for ages, understand it inside out, and identify a number of competitors that won't win, but can't necessarily say who will win. Being able to lay gives you an opportunity to bet in circumstances where betting wasn't available before.

1,900 per cent better odds

Occasionally, when betting, particularly on long shots, some massive odds are available on Betfair.

In January 2003, a horse called Gig Harbour was running at Lingfield Park racecourse. The bookies thought he had very little chance of winning and so they offered odds of 26.0 (meaning that the horse would be expected to win once in every 26 times the race took place).

On Betfair, a customer thought Gig Harbour had a chance and

managed to back the horse at 500, because another customer was prepared to lay these odds, which were a massive 1,900 per cent better than the bookmaker's odds!

Unfortunately, this kind of thing doesn't happen everyday, but it's a good example of how individuals on Betfair often take much more aggressive positions than bookmakers and lay selections at much bigger odds than you can get elsewhere.

In financial markets, traders talk about operating on ‘both sides of the market’, meaning that someone is buying and selling. In this way, people can take part in trading and *arbitrage* – where low-risk profits are guaranteed by buying-low and selling-high (or the other way round). Being able to back as well as lay on Betfair allows you to do the same thing in betting markets (see Chapter 8).

The flexibility to back and lay opens up many more betting opportunities for you now than before.

In-play betting

Betfair has pioneered in-play betting. As the name suggests, *in-play betting* is betting while an event is in progress. Betfair offers a range of in-play opportunities – soccer, cricket, tennis, horse-racing, and more – allowing you to bet right up until the end of the contest.

In the case of horse-racing, you can bet right up until the first horse crosses the line. And if it’s a photo finish, you can keep betting on which horse has won until the stewards make their decision. This is sometimes many minutes after the race has finished!



The ability to bet in-play is another key factor in you winning. You might fancy a tennis player to win a match but know that they can only win if they serve well – something that can’t be guaranteed. Being able to bet in-play means that you can now watch a few service games and make a decision. If the player hasn’t got their serving shoes on, you might decide to leave the bet well alone or even change your mind altogether and lay, rather than back the player.

A strange in-play story

At Southwell racecourse in January 2002, a horse called Family Business fell early in the race. A fast Betfair customer was able to lay the horse at 1,000 (the longest odds available on Betfair). Unfortunately for this

layer, the other five horses also fell. The jockey remounted Family Business and went on to finish the race and win. Showing that there's no such thing as a certainty.

Winners always welcome

Bookmakers want to make money because it's how they make their living. They don't like you to consistently win money from them. Most bookmakers regularly review the accounts of all their customers and do one of two things: either start limiting the customer's bets or close the account down altogether.

Bookmakers are amazingly serious about this. A famous high street bookmaker once closed my account after I'd placed three winning bets with them in a month. Ironically, these bets were my only winning bets of the month – I'd placed a number of other bets with other bookmakers and lost far more than I'd won with this particular bookmaker. It just so happened that my only three winning bets were with this one operator.

Some people get very irate at the practice of bookmakers closing accounts down. They think it goes against the spirit of betting. After all, the argument goes, if bookmakers

can't accept that you are going to win, they shouldn't be in the game.

I'm actually pretty relaxed about the practice. If I were a bookmaker, I'd do the same thing.



You do have a choice. On Betfair, accounts are never limited or closed just because you happen to be a winner.

