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Report 2018

US Sports Betting



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Introduction

Breaking the US

The EGR US Sports Betting report provides a range of insights into the world's biggest untapped sports betting market – which is now finally beginning to open up.

The repeal of PASPA in May 2018 paves the way for providers to make inroads into the US, and many companies are now readying their sportsbook offerings to go live in a number of states.

Some of the contributors share what they have been doing to gain a foothold in the market early on, and reflect on how partnerships with established sports gambling outlets, and close analysis of American gamblers' desires, will give them the necessary leading edge.

Overall this report serves to give our readers valuable insight into the way 'breaking the US' should be handled.

By Ross Law | *Report editor*

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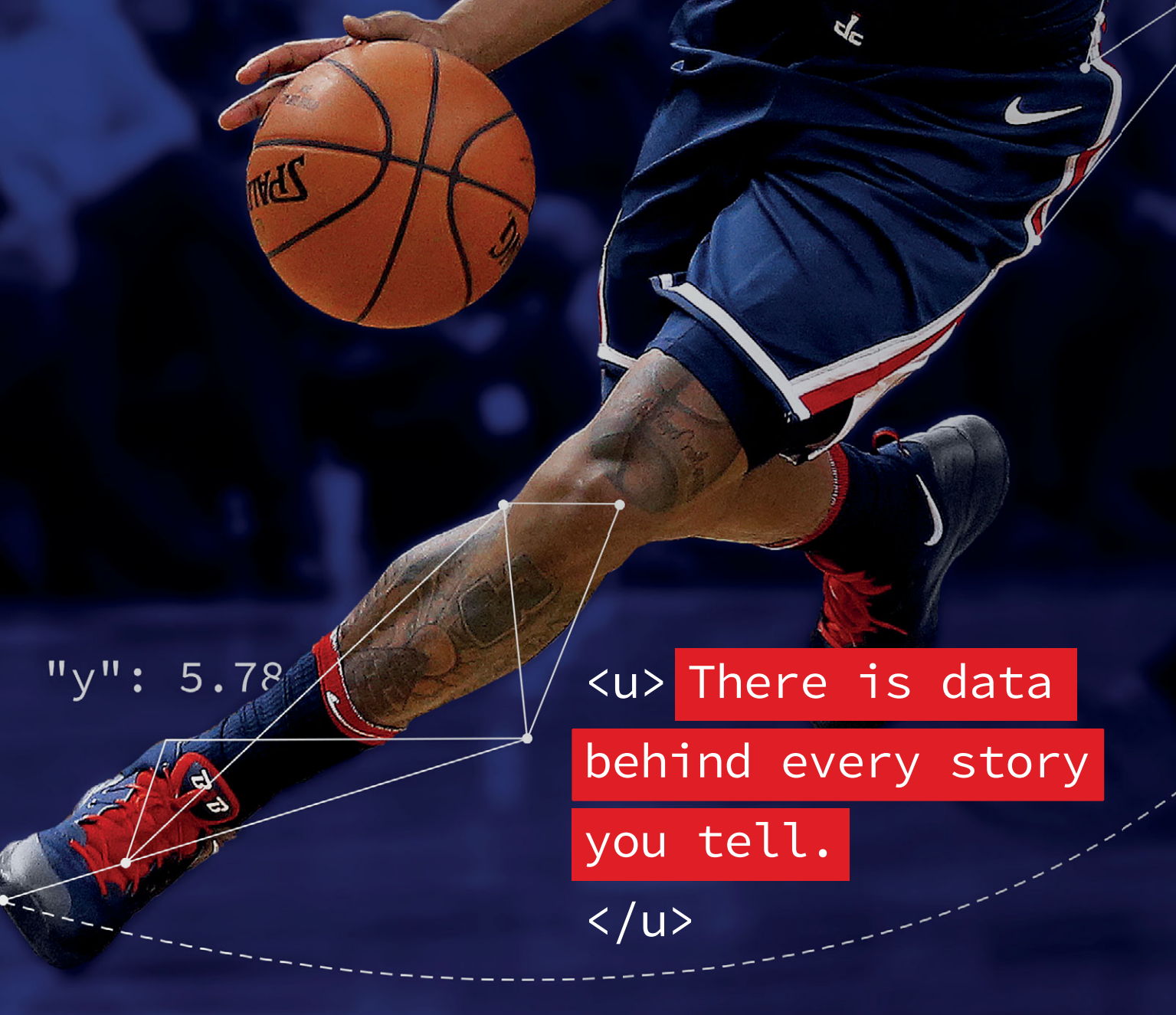
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Featuring: *SG Digital*

US sports betting: a beginner's guide



Keith O'Loughlin

◆ Senior vice president
◆ SG Digital

As senior vice president of sportsbook and platform at SG Digital, Keith O'Loughlin is responsible for delivering product management, direction and project implementation for sportsbook, lottery, bingo and casino platforms across the group. He has previously held senior positions at some of the industry's leading sports betting operators, including sportsbook director at Ladbrokes Coral, as well as CEO and CTO of BoyleSports.

Keith O'Loughlin, of SG Digital, provides a beginner's guide to sports betting in the U.S.

Following the U.S. Supreme Court's ruling on the Professional and Amateur Sports Protection Act (PASPA), newcomers to the industry are seeking ways to level-up their offering in preparation for jurisdictional regulation. It's a transformational time, so a sharp understanding of the sports betting world can set operators apart from the competition.

With countless opportunities on the horizon for our company and our partners, Scientific Games looks to set the standard for knowledge and expertise in the sports betting industry. When a change with so much potential comes along, it's easy to ask the big questions and forget the smaller ones that can actually make a huge difference. In some circumstances, knowing the difference between a parlay and a round robin bet can be just as important as having a firm grasp on the technological requirements of setting up a sportsbook. From our perspective, establishing a baseline of universal sports betting expertise is crucial. Here, we explore the fundamentals of the industry, including the elements that will give operators and players a head start as markets start to open.

The implications of the PASPA ruling

The Supreme Court's recent ruling on PASPA set the stage for rapid growth in the U.S. market, but it's not an instant, sweeping change. Instead, legalization rests in the hands of individual states.

When PASPA was initially enacted, four states – Nevada, Delaware, Montana, and Oregon – were exempt from the federal ban on states' offering regulated sports gaming. To date, these four states now offer regulated sports betting or have in the past.

While the repeal of PASPA deepens the well of opportunity, full legalization progresses on a more

granular level. There's a lot to be done, and suppliers are already working with operators and regulators to seize the opportunities that arise.

Understanding the current landscape

The vast majority of U.S. sports betting occurs in one of three distinct ways. First, Nevada. Simple as that. Most Vegas casinos have a sportsbook in-venue, attracting seasoned bettors and those looking to learn. The Las Vegas model is so powerful that many states are expected to reflect it in their own regulatory structures.

The state of Delaware previously offered legal sports betting on professional football, but has expanded its offering to include single-game bets on pro basketball, soccer, football, hockey, golf, and auto racing. In-game wagers are not permitted.

Most prevalent in the U.S. is horse racing. More than 90% of legal land-based sports betting currently takes place on horse racing. With the markets opening up, the States' favorite big sports such as football, basketball, baseball, hockey, and soccer are expected to gain popularity among bettors.

Online, illegal sports betting currently dominates. The American Gaming Association estimates that \$150bn is wagered illegally on sporting events by the U.S. annually. An estimated 5% margin (comparable to Las Vegas sportsbooks) implies revenues of \$7.5bn. Players are keen to wager on sports – so much so that they do it illegally. When the regulatory landscape changes, providing a safe, regulated space for players to bet on sports will be crucial for any operator looking to build an audience. Integrity and player protection remains a key pillar for suppliers and operators alike.

Nevada, Delaware, and the global experience have provided a great foundation, but there's so much ahead of us. With the landscape expanding, we'll see mobile and online betting gain popularity while land-based properties create innovative in-venue experiences. As in slots, land-based and mobile technology will eventually lead each other through



future evolution as operators learn more about players. In other words, the landscape may look familiar today, but it will change at lightning speed as legislation passes.

Learning from seasoned players

While it's new in many ways to the United States, sports betting has a colorful history in the U.K. and Australia. Understanding the successes and opportunities for improvement there can provide an excellent foundation for stateside suppliers and operators.

Our U.K. and Australian peers earn substantially higher returns than U.S. operators, suggesting margins in the U.S. could be significant. Of course, this is contingent on widespread regulation and, subsequently, the adoption of sports betting. Over time, if those contingencies are met, the U.S. sports betting market could generate up to \$60.8bn in GGR, according to Goldman Sachs.

Filling the gaps

A glossary of sports betting jargon could undoubtedly fill volumes. On top of that, sports betting presents unique challenges of user interface and experiential design. There's a vast pool of knowledge that doesn't immediately translate to even veteran gamblers, let alone first-time bettors.

Add in-play betting to the mix, and you have loads of potential confusion. The onus is on industry experts to teach the new market how everything works. The fun factor is there, and players have shown time and again that they want fully fledged sports betting. But new players will need that helping hand, that extra push, to amp up the performance of U.S. sports betting.

Jargon terms such as 'Juice' or 'Vig' (a bookmaker's commission) are uncommon in everyday American English. Or 'Parlay,' meaning one or two wagers linked together.

Listing all the relevant sports betting terminology here would expand this piece to unreadable lengths, but it's important to note that the sports betting audience will need support from operators and suppliers alike to get a firm grip on how everything works.

At Scientific Games, we're eager to explore opportunities for audience engagement, and we're working on tailoring our product to the U.S. audience.

It's a whole new ball game

Even in these early stages, the opportunity for the sports betting industry in the U.S. cannot be understated. With the illegal market so prevalent and profitable, regulated providers tend to gain massive audiences in legal markets.

Sports betting sits right in the center of the entertainment industry, and the discerning U.S. customer is expected to seek high-quality, entertaining betting experiences. Existing sports fans want the added thrill of betting on the underdog or the extra incentive to cheer on their college team, and providers must examine the best ways to fulfill that need. Reliance on player statistics and supporting information will be critical not only to bookmakers but also to bettors; especially in an environment where statistics are used so widely across sports.

The players are falling into place, and this fresh opportunity permeates the industry. Right now, the need is strong for a beginner's guide. But soon, we'll welcome new sports betting experts every day. ♦

Featuring: *Kambi*

The price is right, or at least it should be



Tom Daniel

◆ Head of risk and player analytics
◆ Kambi

Graduating from Oxford University with a degree in mathematics, Tom Daniel has worked all his adult life in the sports betting industry, initially carrying out trading and risk roles at Ukbetting and Unibet. He is now head of risk and player analytics at Kambi, where he has pioneered an automated, machine learning-based approach to risk and player management.

Tom Daniel, head of risk and player analytics at Kambi, explains why taking a global approach to managing risk is key to operator growth

As the U.S. sports betting market begins to open up, and casinos, racetracks and other U.S.-based companies survey their sportsbook options, an interesting discussion around trading and risk is beginning to surface. I say ‘interesting’ as it sees some making the case for trading and risk to be managed at state level in a totally bespoke way – essentially that odds shouldn’t be informed by a larger, global pool of data.

At Kambi, we are firmly of the belief that every single bet should be struck at the right price – a price that reflects the potential outcome’s true probability. At the correct price, with house margin built in, we’re prepared to take as much volume from recreational players as each of our customers are comfortable with, and as each of their uniquely configured liability limits allow. The laws of probability, as well as over 20 years of experience in the sports-trading business, tells us we’ll continue to come out on top in the long-run.

What we certainly don’t do is lay bets at the incorrect odds. It would appear some operators are being advised that they should have the ability to fully manage odds and liabilities at a local level, enabling prices to be moved to reflect the increased volumes they see on local teams, for example. To illustrate, this would mean a casino in New York shortening the Yankees money-line price on the back of local support. This, in our view, is a sub-optimal way to manage liabilities.

Avoid the trap

While odds should be moved on the back of sharp business, books shouldn’t allow themselves to be influenced by volume alone. Taking the Yankees

example, shortening the price on the back of recreational money will only generate incorrect and inflated odds on the opposing team. Offering those incorrect odds, even for a brief period, leaves the operator exposed to sharp punters and syndicates – those constantly monitoring the market for inefficiencies.

Ducking the price on a popular local team is actually the worst of all worlds – recreational players are short-changed by having to take odds with excessive margin built in; sharp players who act across regions are able to exploit inefficient odds; and by offering uncompetitive prices, operators create a space for competitors to steal customers and increase market share.

To illustrate the importance of true odds further, we only need to look at casinos. Sit at any roulette table in the western world and you’ll see more chips being stacked on number seven than you will on number 13. Seven is, of course, considered by many to be a lucky number and therefore attracts a higher percentage of turnover than the ‘unlucky’ 13.

With larger liabilities on the occurrence of seven than other numbers, do casinos mitigate the risk by lowering the odds on seven and increasing the odds on other numbers? Of course they don’t, and neither should they. The fact more cash is being wagered on seven doesn’t make the roulette ball more likely to stop on that number. In a similar vein, recreational sports bettors backing their home team doesn’t make that team more likely to win, no matter how much the combined total wagered.

Power of the network

Unlike roulette, the probabilities relating to sports outcomes are subjective, however they can be estimated accurately. To do so, Kambi carries out all odds compiling in-house, using skilled odds compilers and traders, sophisticated models and algorithms, and rich and official data sources. We don’t scrape odds from other books – we are solely responsible for the odds we produce.

To consistently produce the correct odds and manage liabilities effectively, it's imperative there is one single team in charge – not one trader per operator each generating different prices, potentially throwing up arbitrage opportunities and inefficient odds. It is also essential this single team of traders takes into account all available data.

Over the years, Kambi has built a large and powerful network of bettors – millions of players situated across the globe whose bets and betting patterns are continuously monitored. This sophisticated monitoring enables us to categorize players into different categories, one of those being players that are proven to damage margin.

The activity of these sharp bettors and syndicates are extremely valuable sources of information. For example, someone may have access to a trainer, a kit man, or a club doctor, and be presented with data that may give them an advantage over an odds compiler. To ignore their business would be costly. Therefore, while we don't move prices or lines on volume, we do alter probabilities on the back of action from highly informed bettors, whose stakes are carefully managed.

Taking this approach ensures strength in numbers, with each of our operators benefiting from the scale of the Kambi network. It means sharp business in one area of the network strengthens the whole. This will become even more effective when Kambi customers such as DraftKings, Rush Street Gaming and Unibet expand into multiple U.S. states. Furthermore, it enables us to improve our models, algorithms and automations, something from which all our operators will profit.

Essentially, operating in this way allows us to be increasingly confident in our prices, and so too can our operators. So while we of course monitor our operators' liabilities and player activity at a local level, in order to ensure long-term profitability, it is our data-rich network which provides the edge our operators need to compete.

Network in practice

To illustrate, let's say LeBron James is a doubt for the Lakers due to a hand injury, causing the Lakers' price to drift for the following game. How should Kambi act when a player we believe receives injury information ahead of the market then attempts to back the Lakers at a Kambi operator? Should we just move the price at that one book? Or given this information should we alter the price for all our operators to ensure they all reflect the true probability?

The visibility of players our network gives us is a powerful tool and one that shouldn't be ignored.

This isn't to say operators don't have the ability to influence and guide how Kambi carries out their risk management. As highlighted earlier, every single Kambi customer has the ability to set their own liability limits and receive alerts as and when those liabilities are close to being reached. Our price differentiation tool also gives operators the flexibility to adjust the margin offered, depending on their strategies. For instance, we currently have an operator in Spain which, through this tool, reduces the margin on La Liga soccer matches in order to acquire players.

“This sophisticated monitoring enables us to categorise players into different categories, one of those being players that are proven to damage margin”

Tom Daniel | Kambi

Furthermore, we also manage individual customers in a bespoke way if, for instance, they are valuable casino players, while for certain events operators can select the markets and events which are offered, depending on their risk appetite.

For the Floyd Mayweather versus Conor McGregor fight last year, we saw unprecedented action for the outsider, McGregor, which resulted in large liabilities being built up. As a result, we gave operators the ability to switch to a more slimmed-down bet offer to help manage risk. In addition, when operators' max liabilities were reached, they were given the opportunity to switch to a shorter McGregor price, yet the large bulk wisely chose to keep the more aggressive, attractive and ultimately accurate McGregor price. At all times, Kambi was happy with its McGregor risk, knowing it had been built at the right price.

So if anyone tells you trading and risk should be carried out at a local level, ask the question: “What does that mean from day one?” Any price movement on volume alone will create opportunities for sharp players and syndicates on the other side, sharp players and syndicates that in a new market may not yet be factored. Instead, the focus should be on offering the right price at all times. Follow this rule and the odds to earn a long-term profit will be stacked heavily in your favor. ♦

Featuring: *SBTech*

SBTech makes immediate impact in US



Richard Carter

◆ Group CEO
◆ SBTech

Richard Carter is group CEO of SBTech. He previously ran the highly recognized and respected Deutsche Bank European gaming franchise in London, has over 10 years of experience focused on the global land-based and online gaming sector and was instrumental in helping create the European quoted online gaming sector.

Richard Carter, of SBTech, reflects on what SBTech has been doing in the U.S. sports betting market since the repeal of PASPA

Less than three months have passed since the U.S. Supreme Court overturned the Professional and Amateur Sports Protection Act (PASPA), but the American sports betting scene is already almost unrecognizable from how it looked prior to the 14 May decision.

The repeal of PASPA gave each of the 50 states the authority to legalize online and land-based sports betting within their local jurisdictions and, unsurprisingly, many have been keen to get in on the action as quickly as possible. While New Jersey was expected to be the first state to go live, Delaware managed to pip its East Coast neighbor to the post by nine days with a swift 5 June launch.

For anyone doubting the American public's appetite for legal sports betting, initial figures showed Delaware handled over \$7m in sports bets in the first three weeks, while an impressive \$16m was wagered in New Jersey in the 17 days following its launch.

Of course, this is only the start, and with a wealthy, sports-centric public, the U.S. is clearly the world's largest untapped betting market.

Pennsylvania, West Virginia, Rhode Island and Mississippi are all expected to legalize sports betting before the end of 2018 and U.S. operators are rushing to team up with the more experienced European sportsbook solution providers to ensure they can offer the best and most competitive betting services.

The value of experience

SBTech's vast experience in regulated markets around the world has already proven to be a significant factor for American betting companies looking to take advantage of the wealth of new opportunities.

Just two days after PASPA was repealed, SBTech became the first Europe-based technology company to announce a long-term agreement with a major U.S. operator when it launched its partnership with Churchill Downs, the horse racing behemoth which operates courses around America and runs the largest online horse race betting business in the U.S..

SBTech has subsequently announced two more major U.S. deals – with Golden Nugget and Resorts Casino Hotel – cementing its position as one of the leading online and on-property sports betting solutions providers in the U.S.

These recent agreements underline the company's readiness to enter the U.S. market and followed a long period of preparation in anticipation of the Supreme Court's decision, during which SBTech became deeply involved in shaping the local landscape. As a core member of the American Gaming Association's sports betting taskforce, SBTech has played a key role in advising on the best possible legal frameworks for sports betting regulation across the country.

While there are many similarities between regulated European markets and the U.S. states, there are also clear legal and cultural differences, including the focus on American sports, varying terminology and niche regulations such as the requirement that players be automatically logged out of mobile sports betting sites when crossing state lines.

The companies which have invested in understanding the complexities of the local arena and which offer the greatest flexibility, as well as innovative product solutions, are therefore most likely to achieve success in the States; and SBTech clearly falls into this category.

The adaptability of SBTech's products has been demonstrated by the varying approaches of the group's new U.S. partners.

Churchill Downs will utilise SBTech's Chameleon360 iGaming platform to power its U.S. online brands with advanced player management services, high-end analytics, anti-money laundering protocols and a host of responsible gambling features.

empowerment*

* we deliver it.

With full access to our open APIs, Kambi-powered operators have the unique ability to differentiate and innovate upon our scalable Sportsbook platform, enabling them to tailor their product for specific audiences.

Resorts, one of the most recognizable brands in New Jersey, has opted to seamlessly integrate the SBTech sportsbook solution into its current egaming platform.

Golden Nugget, meanwhile, is taking advantage of SBTech's flexibility to implement different models in its New Jersey and Mississippi casinos. The SBTech sportsbook will be integrated with the operator's existing egaming platform in New Jersey for online and land-based operations, while the full platform solution will be provided to its land-based business in Mississippi, ready for impending legalization.

Delivering differentiation

As in any market, differentiation will be one of the keys to success in the U.S. SBTech is providing Golden Nugget with a bespoke trading strategy and non-pooled risk management, allowing the casino company to offer unique pricing across all U.S. sports. Golden Nugget will also benefit from a uniquely designed and fully customizable front end.

As the undisputed leader of in-play betting, SBTech provides the industry's widest range of events and markets along with a range of unique live betting features. These include Action Betting, a quick-fire bet suggestion feature, which offers bet recommendations to users based on live events. For example, when the bases are loaded in a baseball game, players can be prompted to bet on whether the batter will hit a grand slam.

SBTech's patent-pending innovation Pulse Bet is also set to make a big splash in the U.S. Inspired by the dynamic of casino betting, the feature offers rising jackpot wins on in-running sports bets – the longer the bet is active, the higher the potential rewards.

These features might not be all offered on day one to all players, with many operators expected to provide limited versions at the outset, considering that online sports betting will be an entirely new proposition for vast numbers of Americans. However, once players become used to the new concepts, these betting options will be used as key acquisition and retention tools.

With the rush towards legalization in multiple states, many operators are looking to launch as early as possible to make inroads into what will quickly become crowded marketplaces. Speed to market and configurability are therefore prized attributes when it comes to selecting a platform provider.

Having launched tier 1 partners in more than 15 regulated markets around the world over the past decade, SBTech has developed deep knowledge and



Featuring: SBTech

“Early success for operators in New Jersey and Delaware has proven that U.S. consumers are ready to embrace regulated sports betting”

Richard Carter | SBTech

experience when it comes to delivering increasingly complex projects and its modular architecture helps to minimize the challenges presented by the ever-changing regulations in this dynamic marketplace.

Looking more long-term, the future is very encouraging for the U.S. industry. Early success for operators in New Jersey and Delaware has proven that U.S. consumers are ready to embrace regulated sports betting. States such as New York, California and Florida could very well become some of the biggest markets in the world if they follow suit, while the midwest could also provide significant opportunities in 2019 and 2020 as the U.S. takes its rightful place at the pinnacle of the sports betting sector. ♦

Featuring: *Sportradar*

End-to-end opportunities in state-by-state US



Dr Laila Mintas

◆ Deputy president
◆ Sportradar US

Dr Laila Mintas is a global thought leader on sports betting legislation, regulation and sports integrity. A lawyer by trade, Mintas previously worked several years at the international law firm White & Case LLP in Berlin, Germany and specialized in Sports Law and Gambling, Compliance and Litigation. She wrote her Ph.D. in Betting via the Internet which became a well-recognized book in its field.

Dr Laila Mintas, deputy president Sportradar US, considers the opportunities which exist in the world's largest untapped sports-betting market

We are already well on the way to understanding what the U.S. sports-betting market will look like in its initial stages. Bets are now being struck in New Jersey: \$16.4m from a standing start for a short period from mid- to the end of June and the Meadowlands taking \$3.5m in wagers from its first nine days of operation in July.

Although we should avoid concluding too much from any of the early revenue returns, it is still a promising start. Moreover, what we can say for definite is that the expansion of sports betting in the U.S. outside of Nevada and three other pre-PASPA states is now under way. A new era has begun.

The focus now turns towards process. What is important from the point of view of both suppliers and the operators in the U.S. will be how each state develops from here. We know that there are sure to be wide differences between how each market proceeds, first with the regulation and subsequently in the implementation.

For instance, from New Jersey to New York is but a short hop across the Hudson, yet there may well be stark differences between the neighboring states over what form of sports betting will be allowed in the latter. Other states will likewise present differing challenges and, indeed, challengers. Opportunities are likely to be as diverse as the states themselves.

The point is that the politics of gaming in each state across the U.S. differ markedly and this patchwork quilt will be reflected in the shape of each individual market.

Indeed, the proliferation of supply deals announced across the sector in the months following the striking down of PASPA points both to the scale of the potential across the U.S. but also the dispa-

rate nature of each potential market opening. From existing gaming entities, whether that is racetracks operators or casinos, through to fantasy sports operators and start-ups, the spread of potential market entrants is extensive.

But regardless of state or putative operator, experience and prior market knowledge will count in the U.S. as with anywhere else. The individual markets may be new to sports betting but it doesn't mean we are ploughing completely virgin territory.

An ongoing dialogue

Companies such as Sportradar have been working with the U.S. sports leagues on data and other aspects of content provision for many years. Metaphorically the leagues may have been on the other side of the courtroom during the PASPA hearings, but in many other respects they already play an important part in the existing global sports betting supply ecosystem.

“The message needs to be made again and again; shining a light on corrupt activity means it can be uncovered, dealt with and stamped out”

Dr Laila Mintas | Sportradar

The sports bodies will now play a crucial role in determining how each state rolls out any prospective legislation. We have said before that it will obviously be up to others to determine the stance on integrity fees and other aspects of the relationship between regulated gaming entities and the major leagues and college sports associations.

We are encouraged here that the AGA looks set to take a leading role in working with the stakeholders to reach suitable conclusions. We know from previous experience with the sports bodies and politicians that negotiation is the best way to forge an understanding.

This is especially the case when it comes to the area of sports integrity. For the wider provision of

regulated sports betting in the U.S. to succeed, this issue is of paramount importance.

In this regard, the industry can point to the example of Europe and further afield to show how via licensed and regulated gaming match-fixing can be confronted. The message needs to be made again and again; shining a light on corrupt activity means it can be uncovered, dealt with and stamped out.

Regulated gaming brings with it an integrity dividend. Elsewhere, Sportradar has played an important role. The work being done on education on integrity issues is a vital element of the argument in favor of regulation and we can point to our track record in this regard in order to help win over doubters.

Consumer concerns

It is also important to address other areas of concern. A vital element of the industry's message must involve reassurances around responsible gambling. Again, the example set in key regulated markets in Europe can prove to those that are fearful of the impact of regulation that a proper licensing system can and should provide the necessary safeguards.

In understanding the opportunity within the U.S., we must acknowledge that the public have for many years been consuming sports-betting offerings, albeit from offshore locations and often without the system of checks and balances that comes from regulated entities.

This prior consumer experience also poses operational challenges. It means that prospective customers will be coming to newly regulated offerings already primed and well-versed in what an attractive sports-betting offering looks like. For any given regulated market to work, the consumer won't want to feel they are being short-changed.

This has important implications for suppliers and operators. As much as individual states are a new opportunity, the prospective audience will be demanding. This will necessitate the full deployment of the all the tools available in terms of data, content, betting offering and marketing in order to make each launch a success.

It will be fascinating to see which names emerge as contenders in the U.S. as the various markets move beyond the starting line. We are sure there will be new names to add to the list of runners and riders, such as BetChicago, who Sportradar will be working with, providing our Managed Trading System (MTS) product in readiness for the market to open up in Illinois.

New names such as these will be pushing all market participants to truly engage the audience.



Featuring: Sportradar

Having said that, much of the audience will be aware of previous sports-betting offerings from elsewhere, and will also be there to be won over by the new regulated players.

Marketing will play a big part. Experience from other transitioning grey markets proves that the opportunities that open up to promote betting and gaming offerings can be transformational. Ensuring the capability of the offering matches the claims of the marketing is vital.

The rush to market in the U.S. will be challenging for all concerned. Expectations are high on all sides, yet as much as it is obviously good news that the era of expanded U.S. sports-betting opportunities is finally upon us – in New Jersey at least – it is still very much early days.

Ensuring that each market reaches its full potential will take every stakeholder pushing in the right direction, whether that is on integrity, social responsibility or any number of other important issues that will almost certainly crop up state-by-state.

The history of sports betting in the U.S. is checked to say the least, but the industry can now seize the chance to write a new chapter. There really is all to play for. ♦

Online gaming industry intelligence and networking community, accessible wherever you are.

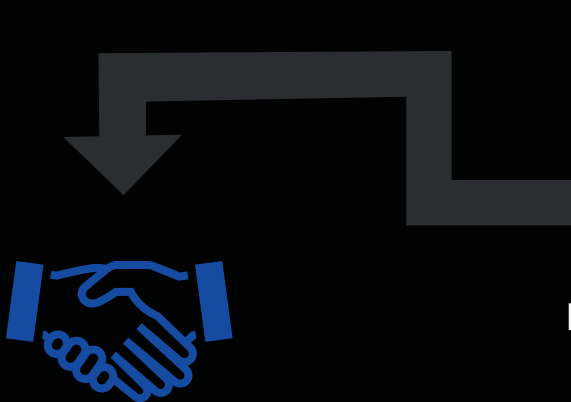
EGR is the leading intelligence and networking community dedicated to the online gaming industry. Whatever your role and its challenges, our specialist networks will give you the tools to improve customer acquisition and retention, benchmark against peers, comply with regulations and guide decision making.



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