DraftKings' Sports Betting Model

Idea In Short

DraftKings started in 2012 as a way to compress traditional season-long fantasy sports into single-day and single-week contests, letting players draft a new lineup every time they wanted to compete. Founders Jason Robins, Matt Kalish and Paul Liberman built that idea into a company that now spans daily fantasy sports, mobile sports betting, online casino games and business-to-business technology licensing. The turning point came in 2018, when a Supreme Court ruling struck down the federal ban on state-authorized sports betting and let DraftKings launch a licensed sportsbook in New Jersey. A 2020 merger with SBTech and a special purpose acquisition company brought the technology and licensing infrastructure needed to operate at scale, and revenue has grown sharply since. This article covers how DraftKings built each of its revenue lines, what the 2018 legal ruling changed and how the company is positioning itself against a new wave of prediction-market competitors.

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A $100 Prize on Opening Day

DraftKings began in 2012 when Jason Robins, Matt Kalish and Paul Liberman, then colleagues at Vistaprint, decided to shrink season-long fantasy sports into single-day contests. Robins had played in more than 200 fantasy leagues and Kalish saw the opportunity to compress that format into a single game day, and the trio launched their first contest, a one-on-one baseball matchup with a $100 prize, on MLB's opening day.1 The company operated out of Liberman's Boston apartment before moving into an office on Franklin Street, and early venture funding from investors including Cambridge-based Accomplice provided roughly $1.4 million in the months after launch. Additional funding rounds in 2013 brought in more than $24 million from venture firms and an undisclosed investment from Major League Baseball itself, and the company had grown to about 1 million registered users.

Betting the Company on a Supreme Court Case

DraftKings and its rival FanDuel had operated daily fantasy sports for years under a legal argument that the format was a game of skill rather than gambling, a distinction that mattered because federal law otherwise barred most states from authorizing sports betting. That changed in May 2018, when the U.S. Supreme Court struck down the Professional and Amateur Sports Protection Act in Murphy v. National Collegiate Athletic Association, ruling that the federal ban on state-authorized sports betting was unconstitutional.2 New Jersey moved quickly to legalize betting, and DraftKings launched its first licensed sportsbook there within months, followed by Indiana, New Hampshire, Pennsylvania and West Virginia as more states passed their own legislation.

> The 2018 ruling did not create DraftKings' business, but it converted a legally contested fantasy sports operator into a licensed multistate gambling company almost overnight.

The SBTech Merger That Built the Infrastructure

DraftKings needed sportsbook technology it did not have in-house, and it found that in SBTech, an Israel-based sports betting platform provider. In April 2020, DraftKings completed a three-way merger with SBTech and Diamond Eagle Acquisition Corp., a special purpose acquisition company, in a deal valued at about $3.3 billion that took DraftKings public on the Nasdaq under the ticker DKNG.3 The deal gave DraftKings both the betting engine it needed to run its own sportsbook and a business-to-business unit that could license the same technology to other gambling operators, an arrangement that now earns DraftKings a managed-service fee of roughly 10% to 20% of the revenue those partners generate.

Three Ways to Lose, Three Ways DraftKings Wins

DraftKings runs three distinct wagering products that share a user base but generate revenue differently. Fantasy sports contests split entry fees between the company and the prize pool, with DraftKings typically keeping about 10% and distributing the remaining 90% to winners. The Sportsbook app generates revenue through the vigorish, the built-in margin

baked into betting odds that gives the house an edge regardless of which side of a bet wins, so revenue scales with betting volume rather than any single outcome. The iGaming casino product, offering more than 400 games including blackjack, operates on a similar house-edge principle but tends to produce higher margins than sports betting because the odds on casino games are more consistently favorable to the operator.

Selling Attention Back to Advertisers

Advertising has become a meaningful revenue line for DraftKings beyond the money wagered directly on its platform. Since 2016, the company has signed sponsorship and advertising partnerships with brands including Buffalo Wild Wings, Hooters and Jägermeister, arrangements that typically pay DraftKings to promote tournaments or events tied to its fantasy and betting products. The value of those partnerships scales with the size of the audience a given tournament draws, giving DraftKings an incentive to keep growing engagement across its platform independent of betting volume.

New Rivals Wearing a Different Regulatory Hat

DraftKings' most established competitor remains FanDuel, which operates under Flutter Entertainment and competes directly in both daily fantasy sports and mobile sports betting. BetMGM and Caesars Sportsbook compete for licensed betting and casino customers in overlapping states. A newer challenge has emerged from prediction-market platforms such as Kalshi, which operate under federal Commodity Futures Trading Commission oversight rather than state gambling licenses and have begun offering sports-outcome contracts that function similarly to a sports bet.4 Several states have pushed back against this arrangement, arguing that prediction markets are sidestepping the licensing fees and taxes that DraftKings and other traditional sportsbooks pay, a dispute the American Gaming Association estimates has already cost states hundreds of millions of dollars in lost sports betting tax revenue.

Revenue Growth Since the Betting Expansion

DraftKings' revenue has grown substantially since sports betting became a core business line. The company reported $4.8 billion in revenue for fiscal 2024, up roughly 30% from the prior year, and revenue climbed further to about $6.1 billion in fiscal 2025.5 That growth has come primarily from sports betting and iGaming rather than daily fantasy sports, which now

represents a smaller share of total revenue than it did before the company's sportsbook expansion, even though fantasy contests remain the product that built the DraftKings brand.

Key Partners

DraftKings' most important partners are the professional sports leagues and organizers, including MLB, the NHL and various soccer competitions, that grant licensing rights to use official data and branding in fantasy and betting products. Licensing partners in individual states provide the regulatory approval DraftKings needs to operate legally, since sports betting remains licensed on a state-by-state basis in the U.S. A network of marketing affiliates drives customer acquisition, while corporate sponsors such as Buffalo Wild Wings and Hooters pay for advertising placement across DraftKings' platform and live events.

Key Activities

Product design and games development span DraftKings' fantasy contests, sportsbook and iGaming casino, each of which requires ongoing feature updates to stay competitive. Legal and regulatory work is a continuous activity given the state-by-state licensing structure of U.S. sports betting, along with the ongoing dispute over how prediction markets should be classified. Advertising and sponsorship management, along with IT maintenance to support live in-game betting, round out the company's core operations.

Key Resources

DraftKings' daily fantasy sports and sportsbook platforms represent its central technical resource, built out through internal development and the technology acquired in the SBTech merger. Historical sports performance data feeds both the fantasy scoring engine and the odds-setting process behind its sportsbook. State gaming licenses function as a resource in their own right, since acquiring them requires time and regulatory relationships that a new entrant cannot easily replicate, and the company's network of affiliates extends its customer reach without a proportional increase in marketing spend.

Value Propositions

For players, DraftKings offers fantasy contests on flexible daily and weekly timeframes rather than requiring a season-long commitment, along with sports betting and casino

games available through the same account and app. For advertisers and sponsors, DraftKings offers access to an audience of engaged sports fans who are already primed to respond to sports-related promotions. For sports leagues and event organizers, the platform provides a distribution channel that can generate incremental fan interest and revenue around live events.

Customer Relationships

DraftKings maintains customer relationships primarily through its daily and weekly fantasy contests, which encourage repeat engagement between game days. Social media channels support community building and promotional campaigns tied to major sporting events. Customer service teams handle account issues, deposits and withdrawals, and responsible-gambling support, an increasingly important function given regulatory scrutiny of the sports betting industry.

Channels

The DraftKings website and mobile apps are the primary channels through which customers place fantasy entries and bets. A network of marketing affiliates directs traffic to the platform in exchange for referral fees, while co-branded promotions and in-venue advertising at marquee sporting events extend the brand's visibility beyond its own digital properties. Partnerships with media platforms, including sports content distributors, provide additional channels for reaching sports fans directly.

Customer Segments

Fantasy players and sports bettors form DraftKings' core customer segment, spanning casual users placing small weekly entries to high-volume bettors wagering regularly on the sportsbook. Advertisers make up a second segment, paying to reach an audience of sports-engaged users through in-platform promotions. Sports event sponsors and organizers form a third segment, using DraftKings to generate fan interest and incremental revenue around tournaments and live events.

Cost Structure

Customer acquisition is one of DraftKings' largest cost categories, reflecting the intense

competition among sportsbooks for new bettors in newly legalized states. Advertising and sponsorship spending, along with the licensing and legal costs tied to operating in multiple state jurisdictions, make up a significant share of expenses. Employee salaries, office costs across its Boston, New York and London locations, and the bandwidth and technology costs of running live in-game betting round out the company's cost base.

Revenue Streams

Sports betting generates revenue primarily through the vigorish built into betting odds, which gives DraftKings a structural edge on wagers regardless of individual outcomes. Fantasy sports contests generate revenue by retaining a percentage of entry fees, typically around 10%, while distributing the remainder as prize money. Additional revenue comes from iGaming casino games, advertising and sponsorship deals, and business-to-business licensing fees earned through the technology platform acquired in the SBTech merger.

- 1Wikipedia Entry On DraftKings Covering Its Founding And Early History
- 2Reuters Coverage Of The Supreme Court's 2018 Sports Betting Ruling
- 3Business Wire Announcement Of The Completed DraftKings, SBTech And Diamond Eagle Merger
- 4Stateline Report On State Challenges To Prediction Markets Offering Sports Wagers
- 5DraftKings Fourth-Quarter And Fiscal Year 2024 Results Release

Summary

DraftKings has moved a long way from the one-on-one baseball contest with a $100 prize that launched the company in 2012. Sports betting and online casino games now drive most of its growth, with daily fantasy sports contributing a shrinking share of a much larger business. The 2018 Supreme Court ruling that opened U.S. sports betting to the states was the single event that reshaped the company's trajectory, and DraftKings has since built a licensed presence across dozens of states through its combined sportsbook, casino and fantasy platform. Newer competition has emerged from federally regulated prediction markets such as Kalshi, which some states argue offer sports-adjacent wagering without the licensing costs DraftKings has to carry. How that regulatory dispute resolves will likely

shape how much further DraftKings can grow within the traditional state-by-state betting framework it has spent over a decade building.