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**Trans-Atlantic Cooperation Among Lotteries
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**Privatization, Government Monopoly,
and Free Market Competition**

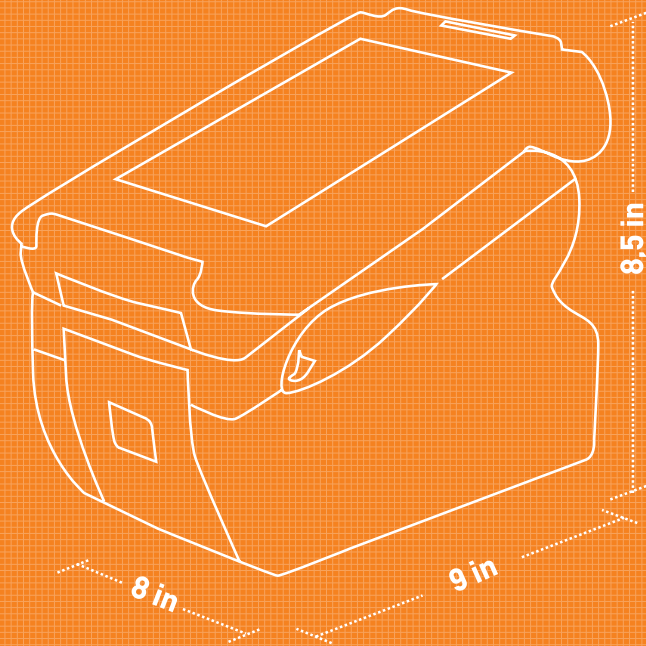


**An Interview with
Constantinos Antonopoulos,
CEO INTRALOT SA**

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PGRI's Morning Report is our weekly electronic newsletter. It is sent out to your e-mail address every Monday morning. This provides you with a brief synopsis of the previous week's industry news. In addition to the news items, our editor Traci Hukill follows up to get commentaries and quotes from the newsmakers themselves. Join your colleagues (15,000 of them) and subscribe to *Morning Report*. E-mail your request to subscribe to sjason@publicgaming.org.



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From the Publisher

Privatization, Government Monopoly and Free Market Competition

By Paul Jason, CEO, Public Gaming Research Institute

I would like to begin with an observation that I am confident enjoys wide-spread support: Lottery directors employed by the government, both in the U.S. and all around the world, are the most capable, dedicated, and experienced operators in the world. There really is nothing that a 'private operator' can accomplish that our current directors wouldn't accomplish just as effectively or more so. Whatever it might be, from expanding distribution to include new technologies to expansion of the types of games themselves, the directors employed by government-owned lotteries are the best qualified to do it. Furthermore, they absolutely are better at managing the business in a way that aligns with societal goals, i.e. integrating the sometimes conflicting agenda of maximizing financial objectives with societal goals for minimizing problem gaming. The challenge of working that strategic balance should not be underestimated.

It seems that in the U.S., there is much discussion about 'privatization.' But what does this mean, to 'privatize' the lottery? Does it mean to sell the ownership of the lottery for a large amount of money, like some states have sold the right to collect tolls on highways? Does it mean leasing the operation to a private company, while retaining actual ownership? How about outsourcing a portion of the operation to private companies; in which case all lotteries engage in 'privatizing' to some degree? **Guy Simonis** addresses the issue of 'privatization' and clears up some of the confusion.

In Europe, the talk is more about government monopoly versus free market competition. More specifically, do countries which are members of the EU and EEC have the right to regulate the markets in the way they see fit? Can they confer monopoly status on their government-owned lotteries? The European Union and European Economic Community are very committed to the vision of free, open, and liberalized markets and borders. Therein lies the challenge – preserving government control and regulatory powers over the gambling and lottery industries in spite of the push for liberalizing markets. **Philippe Vlaemminck** and **Geert Zonnekeyn** represent the European lotteries and their governments in their legal fight to retain the authority to determine how gaming should be governed within their borders. As Philippe and Geert say, this will be a hotly contested fight that is not likely to be easily or quickly settled.

We see consolidation happening all around us – typically large companies expanding horizontally through acquisitions. But how about suppliers becoming operators? **Constantinos Antonopoulos** explains how that works and why everyone really benefits by the synergies accrued to the operator who also develops and

implements the technology and games. Constantinos also speaks to the need to leverage technology to expand the industry, why more should be done to prevent the illegal operators from hurting our industry, and how competition can be a positive force to drive innovation and change.

We have included a brief synopsis of our SMART-Tech conference held in April. Also in this issue, you will find pictures of your friends and colleagues who attended the SMART-Tech conference. Some of the presentations will be printed in our next issue, in June. The June issue will also include an article based on the privatization panel discussion. Hearing the views of 8 prominent U.S. lottery directors on this controversial topic was truly riveting and you will want to see the follow-up article. We will also reprint the **Michael Shebelskie** presentation on how and why federal law supports states' legal rights to implement internet strategies, including selling lottery tickets.

Advocacy becomes a very interesting topic in the hands of **Martin Baird**. We all know there is no better advertising than having satisfied customers recommending us to their friends. Perhaps more important though, is the way in which the relationship is reinforced with that customer who recommends you. Martin contends that this is the metric to focus on because this is what drives sales – turning customers into advocates.

Next, a local celebrity musician, **Chuck Brown**, has teamed up with the D.C. Lottery to make some great music together. This collaboration seems to have legs that just won't quit as sales results actually continue to improve over time. And brand awareness for all of the D.C. Lottery's products has been extended in unexpected ways. The campaign breaks through the advertising clutter to create a wonderful sense of fun and entertainment and especially appeals to non-players who are fans of Chuck Brown.

Congratulations to INTRALOT for winning the "SMART-Idea of the Year" award. There were ten fabulous presentations and we all learned a lot from each of them. Read about the SMART-Ideas on page 28.

Thank you to everyone who attended our SMART-Tech Conference, and special thanks to our contributors, sponsors, exhibitors, speakers, and panelists. Of course, it is your participation that makes it a meaningful experience for everyone attending. I welcome feedback as to how we can improve the conference experience. And to those of you who are attending the EL Congress in Budapest in May, I look forward to seeing you there. ♦



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Constantinos Antonopoulos – CEO, INTRALOT

Paul Jason talks with Constantinos Antonopoulos about the management structure of the 21st century global corporation, the importance of innovating technology and content to drive growth, and replacing illegal underground gambling operators with regulated operators.



Constantinos Antonopoulos

Paul Jason: *It's not usually our focus to talk about stock prices and such, but your stock has more than doubled in such a short time; is there anything in particular that you would point to as the main driver to INTRALOT's success?*

Constantinos Antonopoulos: In my opinion, what the stock price as well as the confidence of our share holders reflect, is the fact that in the last 3 or 4 years we have won

several important contracts around the globe. This of course has also to do with the model we have been building for many years, which is more technology and operations oriented. This scheme is becoming the driving model in our industry. It's less about sales and marketing and more about a management structure that delivers great technology, innovative game development and executes well.

PJ: *Achieving this level of success in one or two markets, in such a short time, would be an impressive accomplishment. How do you*

conceived equilibrium between the central management and the peripheral/local units of a multinational company. It's about a combination of several control technologies and mechanisms and then the distributed environment of the client serving and marketing around the continent. And today we have established a HUB in every continent which takes responsibility for everything – sales, marketing, operations. Everything except technology, because it's being produced in the headquarters and it has been very well managed centrally.

PJ: *It seems like in the business press we can't read enough about "think globally but manage locally," but how many people are implementing this successfully? We can see why INTRALOT would be a case study for academic research into how a 21st century corporation really does execute globally.*

CA: That's correct. And, may I add also that as soon as the company finds its growth path, then it becomes easy to attract the best people in the industry. Our business model supports both rapid product development and central control mechanisms that facilitate a distributed global management structure. The success of this system attracted experienced professionals and motivated good managers from other companies in our in-

We are not just trying to convince the client to buy whatever the engineers are producing, because we, ourselves, are the client to our own engineers! And we are very tough clients because our operations side demands nothing less than the best from our product development side.

achieve such rapid success in such a variety of cultural and political and business environments all over the world in such a short time?

CA: That's a very good question. The truth is, I have been invited to speak at universities and institutes about our approach to managing the rapid expansion of a global enterprise. INTRALOT is becoming a case study from the international management point of view. As your question implies, accelerated revenue growth means that many things must happen simultaneously – rapid product development, operational excellence, diversification of geographic expansion in all five continents, recruitment of talented people. We have started using a well

dustry to join INTRALOT. This was not the case 10 years ago.

PJ: *And so knowledge of local markets informs your global management. But just as importantly, the resources and global perspective you have concentrated centrally would also enhance the effectiveness of your local operations as well.*

CA: Yes. It is not a coincidence that our motto is "A Global Leader, Your Local Partner." Although, we are a global technology leader driving growth and innovation in the lottery industry, we also focus our attention on customer support, on a local basis.

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Gambling in the European Union & the WTO

The Need for an Enhanced Trans-Atlantic Cooperation Among Lotteries.

The European Court of Justice (the ECJ) and the Court of the European Free Trade Association (the EFTA Court) have recently been given the opportunity to rule on a number of questions related to the provision of gambling services in the European Union. Some self-declared “experts” were expecting a radical move in the case law of the ECJ and had already announced the demise of the state monopolies in the European Union even before the ECJ had been given the opportunity to pronounce itself on the case brought to its attention. The “March judgments” rendered by the ECJ and the EFTA Court clearly indicate that these Courts have been more prudent in their approach and that there is an evolution in the case law, but it is obvious that the judgments did not instigate a revolution. This contribution will explain why the judgments will lead to a consolidation of the restricted markets, rather than a liberalisation.



Philippe Vlaeminck

The Judgements: Strengthening State Monopolies

The judgment rendered by the ECJ in the notorious Placanica case concerns the Italian legislation on the organization of sports betting activities. Placanica, Palazzese and Sorricchio are three Italian nationals who fulfilled the role of intermediary for Italian customers wishing to place a sports bet with the UK based company Stanleybet. They were faced with criminal charges

because the acceptance of sports bets was carried out without having the required government authorization. Stanleybet had applied for such a license in 1999 but could not obtain one as it is a stock-exchange listed company. Such companies are prevented, under the Italian legislation, from obtaining a license. The Italian criminal courts reviewing this case decided to submit a request for a preliminary ruling to the ECJ.

The ECJ recalls the most important aspects of its Gambelli ruling, i.e. that restrictions imposed upon intermediaries as at stake principally constitute a prohibited restriction under the provisions of the EC Treaty. However, the ECJ recapitulates the basics of its standing case law established in the Schindler judgment and further elaborated in Läära, Zenatti and Gambelli, that is that “a certain number of reasons of overriding general interest have been recognised by the case law, such as the objectives of consumer protection and the prevention of both fraud and incitement to squander on gaming, as well as the general need to preserve public order.” The ECJ also reaffirms that national authorities have a large margin of discretion to determine what is required in order to ensure consumer protection and the preser-

vation of public order. In addition, the ECJ repeats that such restrictions must satisfy the conditions laid down by the existing case law.

Very pertinent is the analysis made by the ECJ of the Italian situation and the licensing requirement imposed by Italian law. The ECJ considers, in line with Gambelli, that Italy cannot invoke the first reason, i.e. the reduction of gambling opportunities to justify its restrictive policy. Nevertheless, the ECJ admits that Italy can legally invoke the second type of objective, that is preventing the use of betting and gaming activities for criminal or fraudulent purposes by channelling them into controllable systems. The ECJ recognises, as advocated in the European Court by the undersigned attorneys acting together with the Belgian government agent and French representatives, that



Geert A. Zonnekeyn

The judgement of the ECJ does not therefore dramatically change the landscape of betting and gambling in the EU. To the contrary, it consolidates and enhances the practise of restricted markets.

for such purpose Italy is entitled to have a policy of “controlled expansion”. The ECJ also agrees, and this for the first time, with the argument developed by the Belgian and French governments

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Guy Simonis On Privatization

First President of the WLA and former CEO of British Columbia Lottery Corporation

Following is a presentation made by Guy Simonis at the PGRI Smart-Tech Conference held in Las Vegas in April 2007.



Guy Simonis

I was asked to be the lead-off in a discussion on the flavor-of-the-month: *"Borrowing a huge sum of money through privatizing state lottery operations."* Although the proposals currently reside in the State of Limbo it still might be interesting to discuss what could be or what might have been.

On the money issue, all I can say is that a State may do with its money what it sees fit. But some might ask: *"Is it proper to borrow a huge amount of*

money today to fund a political objective and expect our grandchildren to gamble enough to meet the payments?" Many say yes; it is moral. Personally I find it unpalatable, irrational and impractical. Unpalatable because it places a burden on future workers who will be asked to gamble for benefits exhausted long ago. Irrational because if a state needs money today it can get it a lot cheaper than by privatizing the lottery for decades to come. And impractical because it cannot be implemented without causing problems.

In Texas, the state currently earns one billion dollars profit a year; about fifty dollars per capita. If I understand the proposal correctly, it says *"If Texas lets you operate the Lottery for 35 years, will you pay the State \$14 billion NOW and also pay us the \$ 1 Billion per year we now enjoy. You, the bidder can earn your \$14 Billion back through better management of what our lottery does now but not by launching other games, increasing advertising or adding more terminals."*

Let's leave aside whether the amount is too high or too low or

Before the Indiana proposal for privatization was swept off the table for the current session of the legislature, Lindel Hume, an Indiana Senator asked: *"Why would anyone in their right mind pay us a billion-plus dollars to operate this thing for 30 years, with all the restrictions we have built into it?"* To which an administration official responded: *"Who do you want to take the risk of not being able to repay this loan; the state or the private operator? We'd rather take our money upfront and leave the private operator to be responsible."* This raises the specter that some officials might think of privatization as putting one over on the vendors.

This borrowing on future lottery earnings must be politics at a level I don't understand. Why borrow expensive money and give up an important asset? Is it because lottery revenue is not considered tax revenue? Are these different dollars, somehow?

The practical problem with the proposal of privatization with an upfront payment is that no one knows what the future will look like in 30-35 years. It is just too distant a horizon. It might be possible to privatize the collection of toll roads. Projections in traffic seem a lot easier to make than the migration of our entertainment product where games come into fashion, die out and indeed come back again. Where an evermore sophisticated player base tires quickly and demands more excitement. Ask those who were around in the early seventies if they had any idea how big the market would be in 2007?

From a bidders' perspective I'd have to ask... How good is government's word and for how long? Thirty-five years? Can a government even guarantee that the next administration will accommodate this deal? We must remember the old business adage; neither God nor Government ever had a partner.

If it is a political necessity to gain access to a huge sum of money now, it is far better for the state to borrow the money and repay it from future lottery earnings.

why a loan should be connected with privatization at all. What about the restrictions of *"No additional games"* and *"No additional advertising?"* To ask the question is to answer it. If the purpose of 'privatizing' is to tap the entrepreneurial spirit, how is that accomplished when conditions such as no additional games and no increase in current advertising are imposed? If the purpose of 'privatizing' is to increase innovation, then how can one then turn around and stymie innovation?

Let us now assume that these proposals would go further than just the trial balloon stage. Surely it must be clear that 30-35 years is too long to commit to a static management of current games. On the other hand, in return for advancing billions of dollars to the state, the operator would want a multi-decade contract. But then again, in order to judge the performance of an operator, the state would want intermittent options to obtain better performance. These objectives cannot easily be

reconciled. It would prove necessary to chop up the future in manageable periods of 5-7 years which makes it possible to adjust to market conditions and perhaps the appointment of a more competent operator.

If it is a political necessity to gain access to a huge sum of money now, it is far better for the state to borrow the money and repay it from future lottery earnings and then change to an organizational model that will improve the bottom line. What stimulated the respective Governors' ideas of privatizing their lottery is the conviction that the lottery – as presently administered – will produce better results in a different environment. They have recognized that lottery operations conducted by the state are handcuffed by administrative restrictions and therefore cannot function as smoothly as a market-driven sales force should. A director of a government owned lottery might protest that the problem does not lie with the organizational model. *"Let me work under the same terms and conditions as a privatized operation and I will show you*

the same or better results. There is no need for privatization; just remove my handcuffs."

The trial balloons for private operation maybe floated by the need for money now; but at the same time there is a clear recognition that other organizational models will do better than what exists today. That in itself is good news. Before discussing some of these models I would like to digress for a minute to see if we can't agree on what to call this change from direct government operation.

It is not Deregulation because deregulation is the elimination of government control and implies wide-open competition in the market place. No one – anywhere – is considering such a step. Governments will retain control.

The headlines read: *"Indiana selling the lottery"* but the proposal is it might accept a bid that pays \$1 billion up front and \$200 million a year. Indiana isn't selling the lottery; it retains possession. 'Selling' is not the word.

...continued on page 26

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Highlights of the PGRI SMART-Tech Conference

- Tuesday Night Reception attended by over 120. What better opportunity to see old friends and get introduced to people you've been trying to meet.
- Presentation on Retail Models by **Linh Nguyen**, Chief Deputy Director, California Lottery. Linh details some of the obstacles to penetrating the 'big box' retailers like WalMart, Costco, CVS, and other large national retailers, talks about ways to overcome those obstacles, and why expansion of the retail channel is such a rich opportunity to increase sales.
- **Larry Montgomery**, first director of the Kansas Lottery and consultant to countries around the world who are starting lotteries, presents the main components to an RFP and talks about some of the issues and challenges to constructing an effective RFP.
- RFP and bidder evaluation process. **Larry Montgomery** and **Paul Jason**, CEO of PGRI Inc., lead a panel of vendors to discuss the challenge of introducing innovations and new product ideas into a system that requires a 'successful track record of performance.' Other RFP issues are also discussed, like the challenge of measuring intangible attributes and qualifications, creating a more dynamic environment of shorter contract terms and multiple vendors for instant/scratch-offs, forging a more cooperative relationship between lotteries and suppliers, and much more.
- **Tom Little**, CEO of INTRALOT USA, describes a truly innovative approach to retail compensation, a simple method to incentivize and engage the retailer to actively promote lottery sales. Tom discusses new media, how it will transform our industry, and why it is so important to begin now to integrate these new channels into our distribution systems.
- **Guy Simonis**, former CEO of British Columbia Lottery Corp., gives a memorable tribute to his good friend Vic Poleschuk.
- **Vic Poleschuk**, CEO of British Columbia Lottery Corp., talks about his career, his friends, the rewards of public service, and why this is the most exciting industry in the world.
- **Ed Trees**, Executive Director of Pennsylvania Lottery, on how to change and adapt to a shifting competitive environment; and why it is so important to anticipate the ways in which our industry will evolve so we take action now and position ourselves for success in the coming years.



Tom Little gives Keynote Speech.

- **Michael Shebelskie**, Law Firm of Hunton & Williams LLC, on federal law and the UIGEA and what it all means to state lotteries. Specifically, how and why federal law and the UIGEA support the legal rights of the lotteries to implement an Internet strategy, including selling lottery tickets over the Internet.
- **Guy Simonis** on why the notion of 'privatization' has become a poorly-conceived political football, and how we should get clearer on what we're trying to accomplish. See Guy's presentation printed on page 10 of this issue!
- **Larry Montgomery** emphasizes that privatization of government assets is not a new or novel concept and lays out a framework for analyzing the costs and benefits of privatizing a lottery. Larry asks is this really about public or private ownership or about monopoly vs. competition.
- **Gordon Graves** talks about the importance of integrating the entrepreneurial energy and creativity of private enterprise into the lottery industry. The drive to implement new technology is so vital to the health and prosperity of the lotteries that the contributions of entrepreneurs is needed. So Gordon asks if the state-owned lotteries might not be poised for a paradigm shift, introducing private capital into the government controlled lottery world.
- Lottery Privatization Panel led by **Dr. Ed Stanek** and including **Arch Gleason**, **Wayne Lemons**, **Jeanette Michael**, **George Parisot**, **Ernie Passailaigue**, **Tom Shaheen**, and **Rick Wisler**. Look for the article based on this fascinating discus-

sion in the next issue of PGR Magazine!

- Wednesday Night Reception – another great evening of meeting, greeting, visiting with friends, and making new friends.
- **Linh Nguyen** on branding. How do we want our lottery to be perceived by our players, by the public, by our different constituencies? What do we want our lottery to stand for? How can we 'brand' our lottery, and how should that brand image evolve with the changing demographic profile of our target markets?
- **Len Lorenz**, Director of Sales for Cole Systems, on how to tap into the wealth of information locked in the minds of your sales force. Give them the tools they need to turn that data into powerful insights that drive sales. Take out the guesswork – Pinpoint how to get exactly the right product with the right promotion into the right stores at the right time.
- Smart-Ideas Presentations, 10 of them. This is the mission of Smart-Tech – giving us all an opportunity to see and hear about the newest and most innovative ideas that are shaping our industry. Look for more on these presentations in upcoming issues.
- **Lynn Becker**, Vice-President Business Development INTRALOT USA, defines the requirements of the next generation lottery terminal. INTRALOT won the Smart-Idea of the Year, for the Coronis MicroLOT. (Voted on by 7 objective judges selected from among lottery staff and directors).
- **Clint Harris**, President of NASPL and Executive Director of the Minnesota State Lottery, on the newest initiatives by NASPL that will impact our industry. RFP Standards and Best Practices initiatives are nearing completion. Also, how NASPL is setting its sights on leading our North American lotteries forward in these times of change.
- T.V. Advertising. Nineteen Lotteries submitted examples of the best T.V. commercials promoting our lotteries and games. We are working on making these available to everyone, either on our website (publicgaming.org) or in the form of a DVD.
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Pictures from PGRI SMART-Tech 2007 Conference





1. Arch Gleason, CEO, Kentucky Lottery
2. Duane Burke, PGRI and Arch Gleason, Kentucky Lottery
3. Clint Harris, Director, Minnesota Lottery, President, NASPL
4. Tom Little, CEO, INTRALOT, USA & "Carnac the Magnificent"
5. Tom Little, "Carnac the Magnificent," Lynn Becker, (Humble Assistant – Winalot)
6. Doris & Duane Burke, Co-Founders, PGRI
7. Dr. Edward Stanek, CEO, Iowa Lottery
8. Ernie Passailaigue, Executive Director, S.C. Education Lottery
9. Chuck Strutt, Executive Director, MUSL
10. Irena Szrek, Alan Boyd, Walter Szrek and Larry Montgomery
11. Greg Ziemak, Michael Shebelskie and Tony Yacenda
12. Mark Zetmann and Walt Hawkins
13. Tony Molica and Don Sweitzer
14. Diane McCool, Publications Specialist, and Dr. Edward Stanek, CEO, Iowa Lottery
15. Vic Poleschuk and Guy Simonis
16. Herbert Sander and Heinz Grillmayr, Keba
17. George Parisot, Director, Montana Lottery
18. Gordon Graves, CEO, Aces Wired, and Larry Montgomery, Former Director, Kansas Lottery
19. Vic Poleschuk, Lifetime Achievement Award Winner 2007
20. Cal Tigner, CEO, Take-A-Ticket, and Teresa Immel, Sales Director, Schafer Systems
21. Larry Montgomery, Former Director Kansas Lottery, and Alan Aahac, President, ESI Integrity
22. Tom Shaheen, Executive Director, N.C. Education Lottery
23. Kathryn Densborn, Executive Director, Kansas Lottery
24. Jeanette Michael, Executive Director, DC Lottery
25. Jim Vance, CEO, Connecticut Lottery
26. Wayne Lemons, Director, Delaware Lottery
27. Larry King, Rebecca Paul Hargrove and Jere Hargrove
28. Paul Jason, CEO, PGRI
29. Chuck Keller, Chuck Strutt, Jeanette Michael and Norm Lingle
30. Max Goldstein, Business Dev. Manager, Carmanah Signs, and Andy Amada, President, Relationship Marketing Systems
31. Walter Szrek, Systems Architect, Szrek2Solutions and John Pittman, V.P. Marketing, INTRALOT, U.S.A.
32. Don Sweitzer and Larry King, GTECH
33. Paul Jason, PGRI and Alan Boyd, Development Rep., GLI
34. Jeff Anderson, Lynn Becker and Tom Little
35. Vic Poleschuk and Duane Frahm
36. Ed Trees, Executive Director, PA Lottery – Keynote Speech

D.C. Lottery Seeks an Encore Sales Performance with a Local Legend

"If it ain't broke, then don't fix it," is the old adage that the D.C. Lottery and Charitable Games Control Board is adhering to for its latest product line campaign. To get that almighty boost in sales and increase awareness about the Lottery, senior management decided to capitalize on its successful partnership with local D.C. music icon, Chuck Brown.

Known as the godfather of Go-Go, Brown is a star in the Washington, D.C.

Metropolitan Area. Generations of families have grown up listening to his music. He wrote the theme song and starred in the commercial of the agency's five-digit, rolling jackpot game, ROLLING CASH 5™. With its catchy tune, head-bopping beat, and flashy musician, the ROLLING CASH 5 commercial was an overnight hit. It started in December 2005 to kick off the hard launch of the new game. And, in the very competitive Washington, D.C. market, Brown became asso-

ciated with the D.C. Lottery brand.

During the promotion period in January 2006, sales increased by 16.5% or \$2,633,282. The interesting thing was that although the campaign was in support of ROLLING CASH 5 it did not necessarily provide a sales lift to RC5. Rather, the campaign helped to raise sales of all games across the board. The 16.5% number does not include POWERBALL® sales. Since the primary driver of POWERBALL sales is the size of the jackpot, POWERBALL sales are not included in our promotion analysis.

This success exceeded the agency's expectations. "With the first

"It was the hub. That's where everyone went." "It was exciting. There was always a line." "It was the Mecca for Black music, and just that." "The Howard Theatre - it was 'the place to be.' The creative heart for Black musicians in the heart of Washington, D.C.'s U Street, N.W." On August 22, 1910, the Howard Theatre, located at 630 U Street, N.W., opened its doors with the "Black Broadway" emerging as "The Street," was known as the U Street Corridor. From the 1920's through the 1960's, some of the finest Black entertainers in America showcased their talents at the Howard Theatre. During its early years, vaudeville acts, plays, and circus drew crowds to the Howard Theatre, but the 1930's, U Street was thriving and the Howard's popularity grew as jazz grew. Billie Holiday, Sarah Vaughan, Count Basie, Ella Fitzgerald, Charlie Parker, and Duke Ellington - performed there. Its success staged the opening of other great venues to open in Black Communities: Harlem's Apollo Theater, Philadelphia's Cotton, Baltimore's Royal, and eventually Chicago's Regal. Yet, in spite of its success, the Great Depression forced the Howard Theatre to close in 1938. The stage was silent for two years before reopening under new management on September 29, 1941. Washington, D.C.'s own Duke Ellington was the headline, and for one week, he performed to an audience of standing room only.

Generations of Jazz on the U Street Beat

Duke Ellington
The Duke
In 1941, Ellington was the headline act at the Howard Theatre. He was the first Black musician to perform at the Howard Theatre. He was the first Black musician to perform at the Howard Theatre. He was the first Black musician to perform at the Howard Theatre.

Buck Hill
The Duke
Buck Hill was a prominent figure in the D.C. jazz scene. He was the first Black musician to perform at the Howard Theatre. He was the first Black musician to perform at the Howard Theatre. He was the first Black musician to perform at the Howard Theatre.

Ronnie Wells
The Duke
Ronnie Wells was a prominent figure in the D.C. jazz scene. He was the first Black musician to perform at the Howard Theatre. He was the first Black musician to perform at the Howard Theatre. He was the first Black musician to perform at the Howard Theatre.

Davey Yarborough
The Duke
Davey Yarborough was a prominent figure in the D.C. jazz scene. He was the first Black musician to perform at the Howard Theatre. He was the first Black musician to perform at the Howard Theatre. He was the first Black musician to perform at the Howard Theatre.

campaign, every game grew. Anecdotally, it shows that Brown was able to grow the business and appeal to non-players," said Saundra Mitchal, the D.C. Lottery's chief of marketing. "We are looking to grow play among our light and infrequent players; yet, we want people to play within their means," Mitchal said. And with the current campaign, the D.C. Lottery also wants "to recreate the magic of the ROLLING CASH 5 campaign," Mitchal said. "It was the embracing between Chuck and his fans that helped the D.C. Lottery. It's amazing... the passion between Chuck Brown and his fans," she said.

So, it was a natural progression for the D.C. Lottery to team with Brown again. In an industry where it's always a challenge to provide players with new and exciting games, particularly, when fighting jackpot fatigue, D.C. Lottery and Chuck Brown seemed to be a good fit – for everyone. "It made sense based on the success of the first campaign," said Kevin Johnson, the D.C. Lottery's director of communications and marketing. "We knew shortly after the first campaign that we would be looking for another opportunity."

For the second promotion, the D.C. Lottery decided to take more of a branding opportunity approach. "In the first campaign, we were marketing a new game and the push for a new product evolved along with Chuck's popularity to engross the entire product line," Johnson said. Therefore, the agency decided to use the same music bed as the ROLLING CASH 5 commercial and work with the words. "We had a formula that worked, and it worked well. We had local flair, regular folks, and recognizable places in the city. The words are the only thing that really changed."

On April 1, the D.C. Lottery launched the commercial featuring Chuck Brown via TV, radio, print, POS, and the Lottery's website at www.dclottery.com. "D.C. I'm about to explain, the D.C. Lottery games are not all the same," Brown sings, as he's seen at Union Station and China Town. He's also spotted playing his guitar and singing atop the Big Chair, a 20 plus foot chair that is a historical landmark, located in front of the D.C. Lottery's headquarters in Anacostia. He mentions every on-line game and instant too before ending the tune with, "Quit your job and tell your boss man that you just bought the company. Anything can happen playing the D.C. Lottery."

Agency Executive Directory Jeanette A. Michael is looking to the current campaign to generate as much, if not more excitement than the first. "The public likes Chuck Brown. They love the sound of Chuck Brown and associate it with the Lottery," she said. "I want people to be excited about the D.C. Lottery."

To gin up that excitement, the D.C. Lottery had a Chuck Brown Giveaway exclusively for its Player's Club members in

...continued on page 28



What does it mean?

With more sales than ever coming from instant games, choosing a supplier to support and manage this *critical product category* has never held more promise for today's lotteries.

Likewise, the need has never been greater for flawless synchronization and execution of the myriad integrated marketing and logistical components that drive sales of this fast-action product.

This mission-critical category requires *serious suppliers* willing to make *serious investments* and Scientific Games is doing just that.

Our latest investment in our **6th** in-line press means we now have the four newest and most modern presses in the lottery industry.

But presses – while important – are but the middle link in a complex, interrelated process. Today's instant category demands a supplier that can also contribute to the *marketing* on the front end and *just-in-time distribution and retailer support process* on the back end.

And it's here where Scientific Games sets itself apart.

> We are now the only major producer of instant tickets in Europe.

To access a special web presentation on our new **Servo press**, go to:

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Delivering Serious Fun!

Customer Advocacy Is the Key to Boosting Lottery Sales and Growing the Ranks of Enthusiastic Players

By Martin R. Baird

Imagine if there was a way to spur the enthusiasm of your lottery customers so that they patronized specific retail outlets to buy tickets and then recommended to their friends that they get in on the action.

To make this happen, only three things are required. First, embrace the concept of turning lottery customers into advocates for the game. Second, track the number of players who are advocates and express that data as an index. And third, take steps to make the buying and playing experience better and better so that the index goes higher and higher. The higher the index, the greater the sales and revenue.

Lotteries routinely do satisfaction surveys, hoping to find the magic bullet that will allow them to increase revenue. Unfortunately, satisfaction surveys don't give them the data they need because they don't measure advocacy. The word "advocate" is not a euphemism for "satisfied." Lotteries that do customer satisfaction surveys are not engaging in advocate research. Advocate research is a statistical method. Satisfaction surveys really measure how fickle people are, not whether they will continue to play the games. Advocacy is the key.

Predict the Future through Growth Strategies

Research among various industries has shown that of typical questions asked of customers, the "likelihood to act as an advocate" question clearly has the strongest link to tangible consumer behavior. Plainly put, if customers are willing to act as advocates for a lottery with friends or colleagues, these same customers are also likely to actually buy tickets, as well as generate new business via word-of-mouth advertising. Advocates risk their own personal reputation to endorse a lottery. That generates new business that, in turn, can create new customer advocates. And advocates do all this of their own free will. No one asks them to be advocates.

Industries outside the lottery world realize that to survive they have to fight in the relationship dimension with the customer. Leading companies have refocused their customer relationship strategies on the rising of the credibility curve of the customer. Companies like General Electric, Harley Davidson, Intuit and Symantec have created a huge customer base which is not just loyal; it is, in fact, the unpaid sales force for the company. Customer loyalty is great but customer advocacy operates on an even higher level.

As in traditional industries (appliances, technology and motorcycles), lottery players have choices. They can choose

other gaming venues. They can spend their entertainment dollars on recreation or other forms of entertainment such as movies or shopping. While other sectors have started refocusing their customer relationship management toward creating great customer relationships and moving to partner with customers to bring in more customers, lotteries still invest time, money and energy on advertising in hopes of growing their business. There is no process in place to move the customer to become an advocate.

A Little Research and Many Opportunities

Determine more precisely what customers find attractive about playing and that opens the door to improving the buying and playing experience to the point that players become advocates. What would do it? Faster sales lines? Smiling retail employees who also say "good luck" after a player buys a ticket? Retail employees who say a heartfelt "hi" when they recognize a repeat player? Politely helping first-time players buy their tickets?

Discovering what can turn a customer into an advocate offers many opportunities for the lottery and the retail outlets that sell the tickets. Customer advocates who feel there is value in the time they spend playing the game might buy multiple tickets instead of one. They might play more often. They might enjoy the experience so much that they lower their minimum jackpot threshold and start buying when it reaches \$2 million instead of holding out until it climbs to \$10 million. Customers might even decide they want to buy all their tickets at one particular retail location because they like buying them there so much. That increases the odds that the retailer will sell "the" big winning ticket. All that foot traffic also can boost sales of other items such as food and drinks.

Customer Advocacy As An Operational Tool

Quality customer service drives advocacy and that drives future growth. But how does one manage all this? Customer satisfaction surveys are not the answer. In fact, there is zero statistical correlation between customer satisfaction and the future growth of any business. Is customer satisfaction important? It's critical, but a statistic reflecting satisfaction is not the number that tells the real story. Nor does it provide a tool for predicting future growth.

Very satisfied customers do generate profit but knowing

how satisfied they are is not an indicator of the future. Some lottery customers are satisfied only as long as they win. They may be satisfied the day a satisfaction survey is conducted and then dissatisfied a week later. People are too fickle when it comes to “satisfaction.” Measuring loyal customers, the ones who continue to buy tickets, win or lose, can get a lottery closer to an accurate picture of the future, but that’s still not nearly accurate enough.

However, loyal customers who voluntarily recommend a lottery to other people and become advocates for that lottery not only create profit, they also generate new business and they are a highly accurate indicator of future growth. Express the degree to which a lottery has customer advocates in the form of the index mentioned above and one has a measuring rod that will help the lottery manage its growth. It’s the only number that shows a direct correlation to a lottery’s future.

Thus, the ultimate goal of the lottery should be to make an advocate of every customer. Operational excellence will come only with the resolve that each player will risk their most valued possession, their reputation, for the lottery.

But the index is not a marketing tool. It is an operational tool in which practices and policies are aligned to achieve higher index scores. The targets are not only set in terms of the number of customers buying tickets and the revenues, but also in terms of a stronger customer relationship reflected in a higher index score. This score measures how far the relationship with the customer has been nurtured by the lottery and, in turn, affects customer retention as well as multiplication of customers. Here’s the beauty of customer advocacy and its statistical index equivalent: it’s

up with retailers to implement them at the retail level. Here’s an overview of the kinds of practices they should consider rolling into the advocacy process.

- Quality customer service is critical and that means retail employee training and coaching are vital.
- A successful customer service improvement program takes more than good intentions and training. Lottery leadership must support it and embody it.
- For a program to have long-term success and not be viewed as the solution du jour, it must be connected to goals and metrics. Otherwise, it’s nothing more than a dream.
- Retail employees will need incentives that reward them for doing what’s expected of them. Incentives will spur everyone to pull together as a team.
- An action plan will be required because very little will happen without it. Each step in the action plan will move the lottery to the next level.
- Give customers and retail employees closure by bringing the advocacy process full circle. At some point, communicate with customers and employees and let them know what you are doing and why. Issue a progress report so people will know what has happened and what will be happening going forward.

Conclusion

Advocacy works. Ten years of research in the United States, United Kingdom and Korea covering a spectrum of industries shows that this is the management tool of the future. A similar methodology has even been written up in the Harvard Business Review. Many highly respected companies that are

If customers are willing to act as advocates for a lottery with friends or colleagues, these same customers are also likely to actually buy tickets, as well as generate new business via word-of-mouth advertising.

simple to communicate to retail employees, the very people who make it all happen. Once advocacy and the index are understood, all anyone has to do is track the store’s or retail chain’s index over time to know where it stands. The higher it goes the better. Lottery officials could even establish a statewide index as a tool for generating future growth. The failure or success of internal practices and policies adopted to boost the index should manifest themselves in a timely manner. It doesn’t get any simpler than that.

Moving Forward through Improvement

Lotteries are behind the curve when it comes to creating a customer advocate culture. To be sure they are doing their utmost to reap the rewards of advocacy, they will need to adopt best business practices from other industries and team

considered leaders in their category use a growth management system based on advocacy and indexing advocacy. Now is the time for lotteries to embrace this powerful system for management and growth. ♦

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Constantinos Antonopoulos – CEO, INTRALOT ...continued from page 6

PJ: We've already been sort of addressing the synergy question. You operate as both a supplier but also as a lottery operator. How do the competencies and skill sets and operational knowledge acquired in the one area, say as a lottery operator, inform your approach to the other areas, say product development?

CA: I think that the crucial thing and the secret behind the success story of INTRALOT is the combination of the technology solutions' provision and the operational know-how. It's about a synergy. Our technology is much more user-friendly because we are also using it ourselves. We are not just trying to convince the client to buy whatever the engineers are producing, because we, ourselves, are the client to our own engineers! And we are very tough clients because our operations side demands nothing less than the best from our product development side. Our solutions are flexible, user-friendly, comprehensive, safe, reliable and technologically advanced, because we are the user and the supplier at the same time. That's why the engineering and product development has a free built-in R & D department in our opera-

CA: B-On has already been installed in various countries, such as in Turkey and Israel and we have identified opportunities in other countries as well, i.e. Malta. I believe that these platforms will become popular and necessary in the gaming industry in the coming years. The reason for their slow introduction and acceptance is mainly because of their limited content. The platform itself may not be so attractive; the interesting part is the content. New, exciting, content-rich games that feature fast-paced action and 3-D animation. Simple, user-friendly, yet challenging games with enhanced play-value and Entertainment value. In INTRALOT we have already identified that crucial need and we are now developing new games that suit the different player groups and new distribution channels, as well as the new mobile way of life and the emerging gaming culture.

PJ: How will regulatory policy and public policy impact your product development, and doesn't the fact of these policies varying so much throughout the world pose a difficult barrier to meeting and fulfilling all these different regulatory and public policy constraints?

There are many examples in the global industry that prove that there is no problem having a private operator and the government regulator work well together to address all issues of social responsibility required of a lottery operator.

tions divisions. This not only informs product development in a way that accelerates the implementation of innovative ideas, it also enhances profitability. And we become better operators because of this positive feedback cycle as well. As the capabilities of the technologists and engineers in our systems' division get integrated into operations, this yields not only operational excellence but also increased efficiencies and profitability. This synergy results in two sources of profitability and it is common knowledge that profitability is really the driving force for the economic progress that benefits everyone.

PJ: Does it seem that your role as a supplier would enhance your ability as an operator because as a supplier you appreciate the importance of testing new ideas that might not yield short term profit? Then, too, as an operator, you can realize that it's worth the investment to test new ideas even though it won't be the most profitable thing in the short term.

CA: Yes, exactly.

PJ: The future of distribution and looking at the product of B-On, where is it being implemented now and how might that product evolve?

CA: That's a very serious issue for our industry. Today, there are different approaches around the world. For instance, there is a strong momentum towards privatization of operations, even in the United States, which is contrary to the state controlled and operated type of model of lottery. Then, we also have a strong movement towards liberalization, removing monopoly control and freeing up the markets to allow some competition. We saw that in Italy and also in Spain, the market in sports betting is opening up. So, there is a very big and ongoing discussion in the global industry about the new legislation and regulations that will govern the lottery sector in the future. We closely monitor these emerging issues, which directly affect the business model we, as vendors, develop and the industry itself.

PJ: Is it the case that Europe has evolved into a more dynamic marketplace that is more responsive than the U.S. operators to changes in player game style and motivation and life style and manner and methods of social interaction and the like?

CA: That's true. We should understand that Europe is a more multicultural region than the United States. In the United States, state-controlled lotteries operate on a somewhat similar model in every state. In Europe, different models and approaches

The issue is not whether to have a private operator or to keep the government monopoly. Society's needs will be served in the best way by putting the illegal operators out of business, making everyone conform with the laws and regulations.

exist. For instance, we go from having a totally open market in the U.K. to a very closed and protected monopoly like France. In Greece, the state lottery is a public company listed in the stock exchange. There are Scandinavian lotteries that sell poker over the Internet, which is a very new and advanced development in our sector. Therefore, I think the European market is more dynamic because the jurisdictions operate on a wide variety of different models. And they all watch each other so that they are progressing faster because of this exchange of experiences. I think that some states in the U.S. are looking at the possibility of privatizing because they have realized some of the restrictions of the government controlled model, and maybe they wish the operator to be more independent and apart from the regulator.

PJ: *It seems like an obstacle to turning over the operation of the lottery to a private corporation is the concern over corporate social responsibility. Advocates for preserving government control might contend that there's a conflict between corporate social responsibility and the profit motive that lies at the heart of free market capitalism. So, the question is: Can regulated private operators deliver the same level of protection against problem gambling and the same level of integrity in every other respect as a government operated system?*

CA: The answer is very clear. There are many examples in the global industry that prove that there is no problem having a private operator and the government regulator work well together to address all issues of social responsibility required of a lottery operator. One example is Camelot in the U.K. It's a private operator and they have very good results and are highly respected for their record of corporate social responsibility. Another example is the national lottery in Malta, which has been operated by a private company for the last 3 years. There's no problem in having a private operator and at the same time protecting what we would like to have in terms of social responsibility.

PJ: *Isn't it the case that technology can do a lot more to help to address societal needs like problem gambling and prohibiting offshore operators from entering controlled markets?*

CA: There are a lot of technological improvements in terms of online systems, which provide the lottery operators with the necessary tools to safeguard players from overspending or frequent playing. But, allow me to point out that lotteries provide soft games. They should not be considered in the same way with casino gambling. It's hard to imagine somebody spending his or her

life savings on scratch tickets or by playing Powerball or Mega-millions. There's no proof that there's a problem with compulsive lottery playing. Doesn't it seem that people who want to protect the government monopoly in lottery are comparing playing the lottery with casino gambling when these two really are quite different in terms of gambling? Corporate social responsibility is such an important priority that we all must embrace, but we must not exaggerate the alleged problem of excessive lotto and scratch playing by mixing it with casino gambling.

PJ: *Are there particular examples that illustrate how a gaming market can grow and prosper and yet serve societal needs in an exemplary and responsible way?*

CA: There are several cases in Europe. The big issue in the lottery world is the illegal gaming, gambling, and lotteries. If someone goes to Asia, there he will realize how big the illegal market is. The issue is not whether to have a private operator or to keep the government monopoly. Society's needs will be served in the best way by putting the illegal operators out of business, making everyone conform with the laws and regulations. For instance, if new lotteries could be set up in a way that all would adhere to the same rules and government regulations in order to keep the illegal operators off business, wouldn't that be a great thing for the society? Not only because of the income that would be reinvested back to society, but also because this would stop businesses and players from breaking the law. If private operators, held to the highest standards of accountability and social responsibility, were more effective than government owned monopolies at competing with these illegal operators, maybe the society would be better served by allowing private operators to compete for the business. Instead of arguing about whether we should privatize, outsource, lease, or keep the government monopoly, we should stop fighting each other regarding such issues and instead concentrate our efforts to fight against the illegal markets and operators.

PJ: *So you are saying that a vital part of any plan to defeat illegal operators would be to engage the creativity and ingenuity of private enterprise because that's where the ability exists to compete and be creative and clever and think of new and innovative ways to take over the markets from the illegal operators?*

CA: Well, I see that something different is needed to be done. And I think that private operators could be more effective in attracting the new generation of players. We have some very good

examples around the globe. But let's look back at the United States. Sports' betting is an enormous and by law illegal market in the United States. Taking into account that we're talking about the most developed country in the world, little has been done in practice to deal with this illegal market. As far as I can tell, nobody is really even discussing this problem in the United States. So, I think these are the issues that we should start discussing.

PJ: *In the United States, you've won some very important contracts. Is there anything interesting that you could share about what might be happening next in the United States market or perhaps as it relates to INTRALOT in particular?*

CA: We are pleased to have won these contracts and to have established our credibility in the United States much faster than expected. For the next round we are preparing ourselves to go to the big state lotteries and fight for successes there, but also we are concentrating now on the new privatization projects which have been initiated first in Indiana and Illinois. We expect several other states to follow this path. We are extremely interested in these opportunities because we feel that we are very well qualified to help the states build a new path in the way that lotteries and gaming are operating. As you know, we are very good at all aspects of technology because that has been our focus and mission since we established INTRALOT. But now we have a tremendous operating experience as well. We have been implementing games and managing operations all around the globe, in all five continents, within different regulatory environments, public licensing requirements, and I would speculate that nobody else has this depth of proven successes and experience. We would be very effective at integrating the needs of all the different stakeholders – the government, the regulators, the citizens of the state, the players...

PJ: *Do you feel a need to get into the business of printing scratch-offs?*

CA: Not for the moment. Scratch tickets are a commodity business. We are focusing on the total solutions. If we are the operators, we can buy the tickets, or we can leave our clients to buy tickets from any supplier they want. We want to stress our attention and resources where we can add more value.

PJ: *With respect to product and content development, is the industry changing at a rate that is keeping up with its customers, or where is it lagging, and how can it catch up?*

CA: I think lotteries are making more progress now, especially since some of them are implementing an Internet gaming strategy. Game content technology moves very fast... Much faster than lotteries actually deploy. Vendors develop new games and try to persuade lotteries to utilize them, not as distribution channels, but as a total solution. We hope lotteries would understand this, because we are ready to provide new games, new technology

and overall we have the ability to implement these.

PJ: *It seems like a reason for the success of casinos is the exciting social environment of a casino. The next generation is, to some extent, deriving that sense of community and interacting with others from the internet. The success of Internet poker could be seen as an example of that. How can we integrate some of these lessons into our game development initiatives?*

CA: Of course, the Swedish lottery has introduced Internet poker to Swedish citizens. I don't encourage activities that bring casino style games into the lottery world because of the social responsibility matter we talked about earlier. Instead, I think that the lottery should stand for something different than casino style games. Games of skill and entertainment provide a very promising potential and a new business environment for lotteries to expand. Casinos are mostly about luck and less skill, and they are developed in a fast-paced gaming environment that provokes aggressiveness, so that the player may lose too much money, too quickly. I think lotteries could stand for a game that is made soft with a focus on entertainment and games of skill which bring entertainment. I think that this approach is more consistent with the need for social responsibility. On the other hand I think that these kinds of games are what the players want and consequently it is a very profitable way to grow the lottery.

PJ: *I hadn't really thought of it that way – that compulsive gambling becomes an addiction to that element of luck which is what casinos are about, as opposed to a game of skill. Are you proposing that a game of skill would be engaging and fun, but it would have a less addictive element to it than a game of luck?*

CA: Undoubtedly! But after all, if we assume that a phenomenon of addiction emerged in skill games too, this would not be as harmful as in games of luck, because it is not so much about winning money, but winning the game. And if it is not so much about the compulsive desire to win money, the player is less likely to gamble and spend money lavishly and irresponsibly.

PJ: *Do you see some differences between Europe and the U.S. with respect to the R.F.P. process and the way vendors and service providers are selected? I'm asking that because it seems like European jurisdictions differ so much from each other and there's a lot bigger variety of suppliers and ways of meeting the demand in Europe than there is in the United States.*

CA: I figure that nowadays the main difference between most of the European lotteries and the American ones is that the Europeans buy the technology, whereas the Americans lease the technology. I personally think that the American model is more advanced, because the lottery operator is better to let the vendor put everything in place and then share a portion of the profit on top for capital costs. This model is becoming more and more successful. European lotteries are becoming aware of that and are no

longer buying the terminals and technology as much as they used to. On the other hand, Europeans are used to outsource more parts of their businesses to private operators, which has not been the case in the U.S. Sport betting is a good example. But as our industry becomes more global, everyone sees what works well and what doesn't. And in the near future, we will begin to see a more uniform environment as operators everywhere pick up on the things that work well and stop doing the things that don't work so well.

PJ: *With product life cycles getting shorter, it would seem like a benefit of leasing is that it outsources the cost of changing to keep up with the rapid turnover of product life cycles, and that since the rate of change is accelerating that means the benefits of leasing versus owning are going to increase in the coming years.*

CA: Correct. Games, technology solutions and also distribution channels will be changing and it is better to let the vendor assume the cost of keeping up with these changes.

PJ: *I saw that INTRALOT was the first company to win a one hundred percent approval score from MUSL for your Idaho implementation. That would point to aspects of execution and other types of capabilities that would seem to me to be very hard to measure. Do you have any solution or any thoughts on how the process of evaluating bidders could be improved in order to integrate things like the ability to innovate and collaborate and execute. How can these things be measured?*

CA: This is difficult to answer. Keep into the mind that it took us ten years to prove that we are a credible vendor. So, it's not an easy answer. Every lottery must evaluate all the aspects - as the capabilities, the reliability, the experience - that will make the lottery operator realize how much the chosen vendor is able deliver the best systems and overall support.

PJ: *Is competition resulting in better performance, better products and service from the industry's suppliers?*

CA: Well, there has been observed some consolidation in our industry, partly because the revenues in the global lottery industry have not been increasing quickly enough. So now, there is a small number of vendors, each being capable of supplying the systems and services in demand to the industry.

I am now optimistic that the income potential will increase because of the upcoming privatizations and liberalizations, especially in Europe. The focus should be placed on the positive potential that our industry has, instead of being so intensely competitive over existing business. The only thing we accomplish by

this way is to hurt the industry itself. There are some recent cases where the competition became so intense and fierce, where the result was the "freeze" of the local games. As everyone can understand, this kind of implications are bad not only for the lotteries, the vendors and the players but for the whole gaming industry – not to mention the local economy.

PJ: *The situation that you describe would seem to happen if there is increasing supply going after a shrinking demand or contracting market. But that's not the way it is, is it? Isn't the market expanding? Why shouldn't there be enough opportunity for aggressive, ambitious growth on the part of all well-run commercial enterprises?*

CA: The truth is that our global market will not expand but it can grow further within its threshold. Most of the lotteries operate in the traditional, time-tested fashion, offering products and services that overlook the changes made in the technology, media or even the way of life of people nowadays. We let, for instance, Internet be exploited by the non-state operators – illegal or not-where state-of-art content can be displayed. I think that the driving force and the agent of change within the lottery industry will be technology and content, which will create intense competition and at the same time will favor the players and the market itself. Investments in innovation, research and development are needed in order to identify the new players' profile and offer customized products and services to expand the existed players portfolio and therefore to create new opportunities of growth. To do so, there is also the need of cooperation with providers of alternative or complementary products/services (i.e. Internet providers, telecom, content providers, even educational institutes etc) in order to develop new dimensions in the offering products.

The Lottery Industry is reaching its maturity. If we all don't take the necessary measures and we let ourselves be self-delusional that the market as it is can be productive, the loss of profits, players and chances in general, will be inevitable.

PJ: *This is a very positive and optimistic vision for our industry. Doesn't it seem like the easier or safer path for managers to achieve their numbers is to try to improve on what's already being done, go after already existing business?*

CA: The more challenging path is for the leader of a large enterprise like INTRALOT to create a culture that is forward looking, willing to take risks and invest more time and creative energy in helping to develop new business and helping the market expand in a responsible and intelligent way. ♦

I think that the driving force and the agent of change within the lottery industry will be technology and content, which will create intense competition and at the same time will favor the players and the market itself.

...state monopolies will be in the line of fire for another few years and the consolidation of these restricted markets, as accepted by the ECJ in Placanica, will be the object of a fierce debate in the near future.

– although the European Commission did vigorously oppose it
– that in order to achieve that objective, authorised operators must represent a reliable, but at the same time attractive, alternative to a prohibited activity. This may necessitate, according to the ECJ, “the offer of an extensive range of games, advertising at a certain scale and the use of new distribution techniques.” According to Mrs Annick HUBERT, the Belgian government agent of the Department of Foreign Affairs at the ECJ, this is the innovative element in the judgment of the ECJ and a giant leap forward into the direction of a consolidation of the restricted markets. The argument based upon a selective reading of Gambelli and used by several remote gambling operators that monopolistic environments cannot be maintained when the concerned operator does expand, advertise, etc... is hereby totally abandoned.

The ECJ therefore considers that a [national] licensing system may constitute “an efficient mechanism” enabling operators active in betting and gaming sector to be controlled. The ECJ does, however, refer the question of the total number of licenses back to the national court which needs to verify whether the limitation of licenses contributes to the objectives pursued.

The ECJ continues by addressing the questions of the tendering procedure used by Italy to allocate the sport betting licenses in the past. The issue remains important for Stanley Betting from the perspective of the penal sanctions, but is no longer relevant since Italy did in the meantime replace its licenses allocation system whereby many non Italian operators did get licenses. Again the ECJ starts by recalling the Gambelli judgment insisting upon the fact that access to licenses must be available for all EU based companies on a non-discriminatory basis. The ECJ adds that “the blanket exclusion of companies quoted on the stock markets, goes beyond what is necessary to achieve the objective pursued by Italy.” There are indeed better alternatives to control such companies. As regards the consequences flowing from the unlawful nature of the exclusion of a certain number of operators from the tender procedures, the national legal order must lay down detailed procedural rules to ensure the protection of the rights of those operators derived by direct effect of Community law.

The ECJ further admits that operators active in the betting and gaming sector are subject to an ex-ante control as well as to ongoing supervision as this clearly contributes to the objective of preventing the involvement of those operators in criminal and fraudulent activities. This appears, according to the ECJ, entirely commensurate with that objective.

The ECJ also rules that a Member State cannot impose criminal penalties for a failure to complete an administrative formality where such completion has been refused or rendered impossible by the government in question. This does not imply, however, that Member States can no longer apply penal sanctions to illegal operators. Only under the specific circumstances that a company is excluded without a valid reason under EU law from participation in a licensing tender process or any other available license allocation process, it is not acceptable to apply penal sanctions to such company for not having obtained such license.

The judgment of the ECJ does not therefore dramatically change the landscape of betting and gambling in the EU. To the contrary, it consolidates and enhances the practise of restricted markets.

But the Race is Far from Over

Some of the recent cases that have been brought to the attention of the ECJ and the further initiatives taken by the European Commission in some of the infringement cases clearly indicate that the race is far from over.

The first case is related to Germany and deals with the question whether in case an infringement has been found to exist by a national court, a Member State can be given the time necessary to bring its legislation and policy in conformity with EU law, without essentially having to give up the restrictive regime. The second case concerns Belgium and is about the EU compatibility of restrictions and sanctions that prevent the organization of group participations in lotteries on a commercial basis. The last case concerns Portugal and is about the EU compatibility of sanctions following an agreement between the Portuguese football league and private operator BWin for bets on football matches which violates the monopoly of the Portuguese state operator.

These cases are very important for the future of European state operators and will pave the way for further developments in the gambling sector within the European Union.

The European Commission has also taken further actions to put an end to the alleged obstacles to the free movement of sports betting services in Denmark, Finland and Hungary. The European Commission has formally requested these Member States to modify their legislation further to their responses to the letters of formal notice sent in April last year. The Commission con-

siders that the restrictions in question are not compatible with EU law and that the measures taken by these Member States to restrict the free movement of sports betting services are not necessary, not proportionate and discriminatory. Furthermore, the Commission argues that existing national operators cannot be regarded as non-profit operations, given that they are subject to strict annual revenue targets and often rely on commercial retail outlets to market their various gambling services. It is clear that the signal given by the ECJ in Placanica will have an impact on these cases.

The Commission's decision to inquire into the compatibility with EU law of the measures in question is based on complaints made by a number of service providers and on information gathered by the Commission. The complaints concern restrictions on the provision of sports betting services, including the requirement for a state concession or licence (even where a provider is lawfully licensed in another Member State). In some cases, restrictions also extend to the promotion or advertising of the services and to the participation of nationals in the Member State in question in the games.

The WTO: Another Battlefield?

It is very likely that Geneva, and more in particular the WTO, will be the battlefield where the future of internet gambling will be fought for the years to come. In March 2007, a WTO "implementation panel" issued its report in the conflict opposing Antigua versus the United States. Pursuant to the report, Antigua seems to have won its latest effort to force the US to open its market to offshore gambling. The report concludes the US "has not taken the necessary steps" to resolve the long-running dispute between the US and Antigua.

The WTO allows countries to keep services, including gambling, off their list of free trade obligations to other WTO members as long the country bans those services at home.

Antigua contends the US is not consistent in its application of laws banning internet gambling since it permits interstate online horse racing gambling. The WTO agreed with Antigua in a report issued in 2005. In that report, the WTO acknowledged the US would have to amend the discrepancy in its legislation.

Last year, Congress adopted the so-called "Unlawful Internet Gambling Enforcement Act." The law prohibits US banks, financial institutions and other third-party money exchange operations from processing payments to offshore gambling sites located outside of the US jurisdiction. The law, however, specifically exempts state-sanctioned online gambling on horse racing and lotteries. Antigua, claimed that the apparent inconsistency serves as a basis for US citizens to legally gamble through online, offshore gambling casinos based in Antigua.

Conclusion: State Monopolies Will Continue to be in the Line of Fire

The developments at EU level and to a lesser extent at international level clearly indicate that state monopolies will be in the line of fire for another few years and that the consolidation of these restricted markets, as accepted by the ECJ in Placanica, will be the object of a fierce debate in the near future.

A stronger Trans-Atlantic cooperation between Lotteries will be required to find common solutions to stop the further growth of illegal remote gambling. ♦

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As one director puts it “Let me work under the same terms and conditions as a privatized operation and I will show you the same or better results.”

It's not leasing either. In leasing the lessee can treat the property as if it were his own but while a jurisdiction can delegate authority to conduct a lottery; it cannot escape responsibility for its conduct.

Contracting-out is a frequently-used term. Contracting-out relates more to piece-meal doling out of service contracts but doesn't express what's being considered. U.S. Lotteries are already contracting substantial portions of their operations. Let's not confuse people.

Privatization is the most frequent expression yet it is lacking in clarity for there are different kinds of privatization. Complete privatization is the outright transfer of a government asset to the private sector. This type of privatization not only transfers assets but responsibilities of ownership as – for example – the generation and distribution of electricity. The Czech Republic has given a unique slant to complete privatization. When the freely-elected government rid itself of its former communist-run Sazka Lottery Company it sold shares in the New Sazka which are now traded on the stock market. In the process government kept a minority shareholder interest. The new organization, still called Sazka – earns a commission based on sales as income. The balance goes to government purposes as dividends. Sazka has now widened its scope and operates wineries and a world-class ice-hockey arena. But other than Russia and a few former East Bloc lottery companies few have opted for a joint-stock model.

Privatization of Operations is a better term but is not adequate to describe what we are talking about. In the U.S. this type of privatization is frequently used with respect to collection of toll roads and bridges. Such operations are a static, mechanical thing, not subject to the whimsies of the market place such as lotteries.

To my view – the appropriate terminology is 'Licensing.' As in licensing an operator. Licensing, in public law, means the authorization to engage in an activity for a certain period and subject to restrictions. A corporation so licensed is under no illusion that it owns anything and is well aware that retaining the license requires toeing the line with respect to all the rules and regulations.

The two important features of a license are; first, that it has a relatively short term and therefore the licensee remains responsive because it is subject to renewal. And secondly there is flexibility because the terms of the license can be altered when a new game is launched or the next bidding cycle comes around. This allows for keeping pace with developing markets; something

quite impossible with a 35-year static deal.

Now about those organizational models: In the United States we are familiar with lotteries being administered directly by the state; not all but most. There is no need for me to tell you about the Corporations of Connecticut, Kentucky, Louisiana, Tennessee and others like Iowa; you know more about them than I than I do. But I do know they are not as free to operate as lottery corporations elsewhere. With slightly differing nuances here and there; two other models are found throughout the lottery world: A Corporation with the government as the sole shareholder runs the lottery without a specified time limit and a privately held Corporation, licensed for a period of time to manage the lottery.

Both models operate in a very similar environment. They are governed by a Board of Directors appointed by their respective shareholders. They are free of civil service restrictions and safe from direct meddling by the legislature. (Indirect meddling remains a legislative toy.) The companies are not subject to political changes in administration. They pay taxes and file annual reports.

But it should be clear that neither the private corporation nor the government entity escapes the regulatory arm of government. With these models neither the legislature nor the government exercises direct control but instead use the Office of a Regulator to ensure that government guidelines are being observed. The Regulator (or any other name for this function) is charged with formulating lottery policies and the enforcement thereof. It is more than just oversight. It is micro control and enforcement of the policy reins. The Regulator's office does not exercise control over matters of business, such as wages or other office minutiae. They will haggle about the use of the logo, quibble about promotions, niggle about minor details but they cannot dismiss the operator. However, in several jurisdictions they can assess fines for trespasses.

The most important difference between the two models is that the government-owned corporation turns all its net revenue over to government. The private operator remits its revenue to government too; BUT not all of it. Just as a lottery retailer withholds his commission on ticket sales, the private operator withholds its percentage of commission based on sales.

According to their annual report (roughly converted to US dollars for this presentation), Camelot, the licensed operator of the National Lottery in the UK, earned around 11.75% in commissions on sales of \$10 billion, or \$1.2 billion from which it had to meet all operating expense. Of that income retailers received

43%. After other expenses the company netted 8.3% out of their commission income or \$96 million in profit before taxes.

From this it is clear why governments employing this system of remuneration are not overly concerned with the licensee's cost for online procurement, salaries or advertising budgets. It's not their money. Just like any direct commission salesman, the boss doesn't care whether he drives a Porsche or Honda as long as he operates within his commission income. I do not mean to imply that governments do not care; I mean they aren't so intrinsically involved in business expenses as US state operations are.

Yet, despite this relative freedom to operate, Camelot – likely due to a more liberated gaming market in the UK – is not in the top ranks of industry leaders with respect to per capita profit. Last year \$2.5 billion was transferred to Her Majesty's Government as Camelot's net profit from lotteries. But with 60 million people that is about \$41 profit per capita, slightly more than Indiana but less than either Illinois or Texas and not even a third of Massachusetts. But then all they are allowed is to run their own lotto 6 from 49, a Euromillions lotto bloc game, instant scratch tickets and the internet as a distribution channel. Should a game such as 5-Minute Keno ever be allowed as part of their portfolio, the rate of their remuneration will most likely be adjusted.

So you ask "Which of the three organizational models is better?" The direct operation of lotteries by a department of the government has clearly fallen out of favour in the industrialized world. But countries with a record of unstable or corrupt government have very good reasons for continuing to keep the lottery as close as it can.

In the Western world about half of the jurisdictions feature an organizational model where the state has authorized a structure of its own. You'll find Spain, France, Belgium and most of the German state lotteries in that column as well as all of Canada most of Australia, all the Scandinavian countries, Belgium and Switzerland. The five highest-ranked per capita profit earners in the world come from this group.

Licensed private corporations include: Rhineland Westphalia in Germany where the State Bank's license has been renewed, term after term for many decades. Banks are licensed to conduct the lotteries in Japan Taiwan, Korea, Brazil and Uruguay.

Victoria is the only Australian state with a private company now after many years as a licensee. (This presentation was written prior to Tattersall's being licensed as the lottery operator in Queensland) There is not much doubt that Camelot in the UK will receive its second licence renewal in June. Peru has licensed INTRALOT.

The post office is the licensee in Ireland.

Austria has licensed a corporate partnership of Casino Austria, the lottery and the national broadcaster.

Italy and Greece continue to defy any attempt at pigeon-

holing. They have all three models of organization in their respective countries.

It is better not to discuss the problems of South Africa where the first term and successful licensee – Uthingo, was not renewed and South Africa today is threatened with dire consequences for stability and continuity.

As a personal preference I would like to have been employed by the private corporation. The salary and bonuses would have been a lot better. That makes sense. When the boss gets paid for every dollar in sales he's quite keen to pay well for performance. From a government perspective it doesn't really matter, I think. It depends on the culture of the country. When I was involved in the early establishment of the British National Lottery, I espoused the model of a government-owned corporation. It didn't fly because Britain had just come out of a horrible experience with state owned companies in telephones, mines and railways. A state corporation was politically unacceptable.

So if any of this should come to pass; who might be licensed to operate a lottery in the US? The most likely licensees are those companies that already operate a big part of the state lottery; the vendors. GTECH, INTRALOT, and Scientific Games (listed in alphabetical order as to avoid favoritism) are prime and ready candidates. Knowing how much profit there is in being a vendor for online and offline lotteries you can be sure that if they were licensed, they will not employ a vendor. They will become integrated companies that do as much in-house as they profitably can, just as most corporations owned by government do. There is a lot of money to be saved.

But it should be clear that neither the private corporation nor the government entity escapes the regulatory arm of government.

Taking this thought of vendors as licensed operators a step further. Wouldn't you like to be a fly on the wall at a NASPL Directors Meeting? Vendors would need to bring two hats to the meeting; one as a licensed lottery operator and the other as a suppliant to provide services to the rest of the room.

So what will happen? Predictions are difficult; especially about the future. The approval of the proposals for privatization by Texas, Indiana and others is not a given. But if the idea of 'privatization with money up-front' is defeated I hope it will be remembered that – at one point – governors believed that an operator free from the inhibitions of administrative taboos would raise more money, more efficiently. The U.S. lottery directors are very competent people who would relish using their abilities in a freer setting than they now enjoy. They will be the first to be sought out to lead the way. For them, the thought of private operations brings no fear but great expectations. ♦

2007 SMART-Idea of the Year

Public Gaming Research Institute is pleased to announce that INTRALOT's new on-line lottery terminal, *microLOT*, has been named PGRI's "SMART-Idea of the year 2007."

The *microLOT* was chosen by a set of independent judges from among ten SMART-Idea presentations made by lottery and company representatives at SMART-Tech 2007 at the Wynn Las Vegas, April 17-20, 2007.

The SMART-Idea judges were chosen from among the SMART-Tech 2007 attendees. The judges were **Susan Golightly** of the Hoosier lottery, **Chuck Keller** of the North Dakota Lottery, **John Tarr** of the Montana Lottery, **Guy Simonis** formerly of British Columbia Lottery Corp., **Alan Boyd** formerly DC Lottery, and **Duane Burke** of PGRI. The judges awarded the top three presentations, assigning 4 points to their choice for best product, 3 points for second best, and 2 points for third best. The product that accumulated the most points from the judging was designated "SMART-Idea of the Year 2007." The independent tabulator of votes was **Dr. Ray Thomlison**, Dean of the School of Social Sciences at Florida International University. Dr. Thomlison also announced the winner after the SMART-Tech luncheon on April 19.

PGRI presented the "SMART-Idea of the Year" award to **Lynn Becker**, Vice-President Business Development for INTRALOT and the presenter of the *microLOT* SMART-Idea.

Two products tied as runner-ups for "SMART-Idea of the year." They were Cole Systems' *Order Pad* to enhance sales force productivity and Relationship Management Systems (RMS) *Pooling Plus* to pool on-line bets to improve the odds of winning.

Following is the list of SMART-Ideas and their presenters for 2007:

- Super Value Holiday Gift Pack
California Lottery – Susan Kossack
- Smart Signs that Display Jackpot Values
Carmanah Signs – Max Goldstein
- Order Pad Automated Sales Force Software Solutions
Cole Systems – Len Lorenz
- Anti-Fraud System Auditing Software
ESI Integrity – Alan Ahac
- Using Photos, Audio & the Web for Greater Vendor Awareness
Iowa Lottery – Diane McCool
- Using RSS Technology to Better Communicate with the Public
Iowa Lottery – Diane McCool
- Next Generation Retailer Terminal
INTRALOT – Lynn Becker
- Using the Website to Communicate Value in Lower Powerball Jackpots
Minnesota Lottery – Clint Harris
- Rebuilding Value in On-line Games Through a Pooling Option
RMS Relationship Marketing Systems – Andy Amada
- Automated Audit for Draw Integrity & Transaction Security
Szrek2 Solutions – Irena Szrek

As winner of the 2007 SMART-Idea of the year award, INTRALOT is authorized by Public Gaming Research Institute to use this honor and distinction in the promotion of its SMART-Idea, the *microLOT*.

Public Gaming Research Institute congratulates INTRALOT for its prize winning SMART-Idea of the Year for 2007. ♦

D.C. Lottery Seeks an Encore Sales Performance with a Local Legend ...continued from page 17

the beginning of April, which was the first in a series of events in which players will have a chance to meet Brown and get an autographed copy of the CD, which features a track, 'Party Roll,' with the ROLLING CASH 5 theme song. The other activities include hosting Brown at the D.C. Lottery's Claim Center in April, as well as three agent locations in May. In addition, Brown and his band are scheduled to perform outside of the Lottery's headquarters in mid-May.

Although it's too early to determine the overall success of the full product line campaign, year-over-year sales are up 4.2

percent, and the mood is positive that the trend will continue. "So far, people are already taking about it," Mitchal said about the commercial. "To be able to break through the clutter is a phenomenal achievement, and the new commercial has done that," she said. "Chuck Brown is enhancing the communication of the Lottery's entertainment value."

Is there a possibility of a third D.C. Lottery/Chuck Brown branding opportunity? Maybe. Michael said, "If it continues to increase sales and bring a level of excitement about Lottery, then I'll support the campaign until it no longer does that." ♦



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Under the guidance of Guy Simonis himself, a hypothetical lottery organization is presented down to the last detail. Every possible area affecting a lottery is defined and examined, including the demographics and political situation of the equally hypothetical country.

EREWTHON Described

Over the last sixteen years, the World Lottery Association's case-study course EREWHON has entertained, amused and educated over 800 lottery staff and management from across the world. Every one of these exciting learning marathons had a totally different atmosphere and character from any one EREWHON seminar that preceded it. Without exception they were all a great success. The mix of the participants from lottery companies from far-flung corners of the world find themselves challenged to give group advice to the fictitious but much troubled EREWHON State Lottery.

With each of the 30 or so case studies that follow each other in rapid fashion, the newly-minted consultants must dig deep into their own background and experience only to be met with astounded glances from their study partners from other parts of the world who have a totally different perspective on how to deal with a given problem. Often it is the newcomer to the lottery industry and who has little experience who provides the most rational solution, thereby proving that common sense is often equal to experience.

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For Details: Contact Thomas Buechler at tb@world-lotteries.org

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