FEATURES

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MONER-BANET

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LAND-BASED RETAIL: THE FUTURE OF LOTTERY

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Features

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From the Publisher

By Paul Jason, Publisher, Public Gaming International Magazine

My goal this year is to sharpen our focus on issues that matter to performance and results in the near term, that is … next quarter and next year. Strategies for sustainable long-term growth are as important as ever. And it's vital that our short-term actions align with long-term goals, that our one-year business plan is shaped by three and five year objectives. But in the end, the results that count most are the ones we are making happen right now. And as the interviews in this issue testify, there is so much we can do right now to effect improved performance and results.

My discussion with **Kevin Gass** clued me into the notion that there needn't be trade-offs between short-term and long term goals. BCLC is one of the most progressive lotteries in the world, with many years of experience operating in all gaming categories, including internet games and i-distribution of traditional lottery products. And what is BCLC identifying as the biggest opportunity for the kind of innovation that they hope will "fundamentally transform its lottery business" and position Lottery for success in a *fifteen year* time-frame? Retail! We all know that land-based retail is what drives the business now. So how exciting is it to think that the actions to maximize short-term sales fit seamlessly within a progressive long-term growth strategy.

There are lots of ways to innovate at retail. But keys to retail success are focus on execution, and engaging the whole-hearted support and commitment of retailers. Neither the operator nor its commercial partners actually interact with consumers and sell lottery products on a daily basis. We depend on our retailers for that mission-critical function. So an inspired retail partner is key to achieving our sales goals. Our relationship with retailers has been challenged recently by confusion over the implications of Lottery's expansion into new media and channels of distribution. We know that such expansion is a necessary part of our future for the simple reason that the consumer demands it; and that expansion of the player base benefits everyone including retailers. Even if the percentage of internet sales is small relative to the traditional retail channel, Lottery can ill afford to cede it to other gaming operators which will take full advantage of any opening to crack the magical connection that lotteries have with the consumer. But this fact can be problematic if our mission-critical retail channel partners perceive expansion as negatively impacting them. Engaging and motivating our steadfast retail partners amidst the sea-change that is reshaping all industries begins with transparent and open communication. The surprising thing that comes across in my discussion with **Connie Laverty O'Connor**, though, is that this communication is not a one-way street with Lottery explaining itself to its retail partners. It's not just about defusing opposition by engendering trust and confidence in our retail partners. It is a genuine dialogue that taps into the most vital source of business intelligence we have: the retailers who understand their business and what it takes to make the business of selling lottery more efficient and effective. Most importantly, their face-to-face with lottery players informs their views in a special way and is the

basis for bonding over our shared goal of maximizing value to the consumer.

The best way we can help retailers to sell is to ensure that our products, strategies, and image evolve with consumer trends. **Pat McHugh** explains how the games, distribution, and promotional strategies are changing while retaining Lottery's fundamental appeal and value proposition to the consumer. For all the phenomenal longevity of the traditional games and the retail channel, there is huge potential to connect Lottery with the forward-leaning trends that will keep us relevant to consumers.

JCM has long dominated the market for transaction-processing systems and solutions. In the past, that primarily meant currency validating machines in the terrestrial world of casinos and other consumer-products and services vendors. Their mission has evolved to include virtual and paperless transactions. **Tom Nieman** describes the future of providing secure transaction-processing solutions in a world of internet, virtual wallets, and emerging technologies like Near Field Communication (NFC).

Our Smart-Tech theme is Globalization of Best Practices, so who better to speak to than one of the conference speakers who has made it his business to learn about how the industry operates within the world's second largest economy: China. **Terry Rich** describes his China visit and also discusses the changing state of the multi-state games in the U.S. Too, Mr. Rich, six other lottery directors, David Gale and the staff at NASPL sojourned to the U.S. capitol to meet with over 100 congressional legislators to open lines of communication and to stress the importance of preserving the historical rights of states to determine regulation and taxation policy relating to gambling and lottery.

We are so fortunate to be able to share the insights of the two top experts in the world when it comes to the politics of gambling and lottery regulatory policy. **Philippe Vlaemminck** keep us abreast of the confusing world of regulatory change within the European Union. **Mark Hichar** does the same for the United States. I find it to be fascinating that both mega-markets are being roiled by the same debate over who has jurisdiction. States in the U.S., just like Member States in the EU, are asserting their historical right to exercise dominion over this industry. Commercial casinos in the U.S., and i-gaming operators in the EU, are relentless in their push to take away those rights. Ironically, when it comes to the imposition of free and open market ideals, the supra-national authority in Europe (the EU Commission) is far more ideological and controlling than is the U.S. Congress. But, as Mr. Hichar cautions, operators in the U.S. should not be sanguine about these issues because everything can change overnight.

The unique thing about our business is the remarkable similarities that span across all cultures, languages, business climates, and regulatory environments. The World Lottery Association (WLA) is in the ideal position to help us globalize best practices, to identify and translate best practices from all around the world into forms and structures that help each individual lottery. **Jean-Luc Moner-Banet**, a global leader in this industry and the president of the WLA, shares his vision for the Association, the role it plays in the world-wide lottery industry, and the powerful benefits to inter-lottery mutual support and communication. We welcome Mr. Moner-Banet to New York, where he is a keynote speaker at PGRI's upcoming Smart-Tech event.

Thank you to all of our editorial contributors and interviewees! Your willingness to share your insights and experience helps all of us to understand this industry and hopefully apply that to improving the performance of our businesses.

Mark your calendars to attend PGRI's next conference: **SMART-Tech** in **New York City** on **April 8, 9, & 10**. For conference updates, please follow our news website, www.PublicGaming.com, and our conference website, www.PubicGaming.org. Thank you for your support. I welcome your feedback, comments, or criticisms. Please feel free to e-mail me at pjason@publicgaming.com. ◆

Jean-Luc Moner-Banet

General Director, Société de la Loterie de la Suisse Romande; President of the World Lotteries Association (WLA)

PGRI Introduction: The World Lotteries Association (WLA) serves a most vital role in advancing the interests of lottery operators all around the globe. Their website, www.world-lotteries.org, explains in detail the services they provide, how the lotteries can benefit by them, and how to get started in the certification processes and the many educational opportunities. It is a fabulous organization that is led by an executive committee and president who are lottery leaders themselves, and who generously volunteer their time in the service of the WLA membership. Check out their website to learn more about the WLA!

Paul Jason, Public Gaming: *The role that the WLA performs for our industry is invaluable. Let's start with the WLA certification process. What is it and why is it important?*

Jean-Luc Moner-Banet: Our mission is to serve our members. To that end, we try to identify those areas where we, as the global organization of lottery operators, could contribute the most. Included in that would be initiatives that require the engagement of the global community of lottery operators. The WLA certification process identifies areas of interest pertinent to all lotteries everywhere, and endeavors to help individual lotteries apply best practices as they are established on the world-wide stage of lottery operations. Presently, there are two areas that we focus on, Responsible Gaming and Security. These are two areas of operation that are mission-critical to all lotteries everywhere.

The mission of the WLA is to identify best practices, turn best practices into curricula and procedures that can be applied in individual lotteries throughout the world, and to update the programs on a regular basis. The industry is evolving constantly. Our member lotteries want to keep up with the consumer and hopefully assume a leadership role in the progress our industry makes. The WLA is committed to helping each of our members achieve that goal. For instance, the WLA Security Control Standard was recently updated to address the use and application of new technologies and business practices, most particularly as they relate to internet and interactive gaming. As with everything the WLA does, we make our efforts transparent to the membership and invite all the member lotteries to provide input and guidance. The revision of the Security Control Standard involved a great deal of time and effort on the part of the WLA committees involved, and took place over the previous two years. But in the end, the final version was made available to the membership for them to vote and approve the implementation of this revised Standard. I share this example because it illustrates one of our core values, which is that of a democratic process and leadership, inclusive of the input from all of our Association members.

The purpose of the WLA Security Control Standards is to help lotteries learn and apply the best practices to ensure security in all aspects of lottery operations. That is such a vital issue to all of our stakeholders – the players, the regulators and our political constituents, the general public. It is also vital to concrete business considerations, like preserving the reputation and brand value of the lottery itself. The certification process is very rigorous. It demands a deep commitment to learning and applying the very best practices as they exist on a global scale. And there are different levels of certification to enable the lottery operator to progress at a rate that works best for them.

All of the principles that guide our efforts in the certification process for Security also apply to the process for Responsible Gaming. The goal of the certification process is to systematize the application of best practices to elevate the performance of lottery operators. The community of lottery operators already sets a standard of excellence and integrity throughout the world. We want to help our members keep it that way. More than that, we want to

be the ones to raise the bar on ourselves, continually to raise the standards of performance so that the player, the general public, and the shapers of public policy recognize the value of their government-gaming operator.

The lotteries which have just moved up a level in the Security or the Responsible Gaming certifications are very proud of their achievement. When I ask them if their political constituents recognize the value of the certifications, they tell me that the real value of the certifications is that the process of earning it caused them to improve their operations, to improve their performance and be a better lottery.

J. L. Moner-Banet: The goal is to be the best operator we can be, to deliver the highest level of security, to protect the consumer with an effective Responsible Gaming program, and exceed the expectations of all our stakeholders. I believe that our political constituents, and all our stakeholders, will recognize and respect the achievements we make and the high standards we are setting. In the end, though, there simply is no substitute for peak performance. That is the ultimate competi-

tive advantage. That is what our stakeholders expect from us. And helping lotteries achieve peak performance is really what the whole certification process is all about.

I have talked to many lottery operators who have gone through the process. They speak so highly of the entire experience. I hope that someday all 300+ government lotteries all around the world will have taken the steps to put their operation to the test and upgrade their practices to the standards established by the certification process.

J. L. Moner-Banet: Again, I would want to commend all lotteries for the superior level of performance and reputation for integrity that they all deserve and have already earned. The WLA exists to serve its members, and to do so at the direction of its members. We respect that all jurisdictions are different and in fact we endeavor to learn from those differences. We value the diversity of our member organizations and see that diversity as a tremendous resource, something that we can all learn and benefit from. The WLA educational programs, seminars, and certification processes all operate to leverage the talent and

brain-trust of the global community of lotteries for the benefit of each individual lottery.

The concept of reverse innovation speaks to how much we all have to learn from each other.

J. L. Moner-Banet: And that is true precisely because of our differences. Reverse innovation refers to the flow of new ideas from emerging economies to mature ones. For instance, the WLA has always facilitated the flow of knowledge from lotteries in mature markets over to those in emerging markets, like those in Africa, Asia or South America. As a vehicle to transfer knowledge from the more advanced lottery operators to emerging lotteries, the WLA membership has helped the government-gaming industry expand and preserve its reputation for security and integrity. More recently, though, there has been a reversal of sorts. Lotteries in developing markets must make due with far fewer resources than the mature lotteries are used to having. They have to produce more sales without the benefit of an established brand and adequate resources to build the business. So, just as necessity is the mother of invention, new methods of operation are being applied more readily in some of these emerging markets than they could ever be in mature, established lotteries. For example, many of the lotteries in emerging markets are the early adopters of wireless technologies and interactive forms of gaming, partly because they are not as tied to legacy land-based communications infrastructure and retail distribution networks. When it comes to mobile, the consumers there are leapfrogging their counterparts in mature markets. Younger lotteries in developing markets do have much to learn from the mature and established lotteries, but the converse is true as well. So, you see, we can all learn from each other!

The government of your country, Switzerland, recently approved an amendment to the constitution, clarifying that the profits generated by games of chance, all games of chance including lottery and casino gambling and internet gaming, must be channeled back to benefit society, as opposed to private profit, correct?

J. L. Moner-Banet: Yes. This is what the people of Switzerland wanted. It was put to a popular vote and was approved by 87% of the Swiss citizens. The Swiss people are willing to have gaming activities developed, with the expansion of i-gaming and sports-betting and other new gaming categories. It's just that the profits need to be exclusively dedicated to benefit worthy causes that help society. That is now a part of our country's constitution.

How do the efforts of the WLA augment those of the Regional Associations?

J. L. Moner-Banet: A top priority for us at this time is to develop even closer lines of communication and further collaborative links with the Regional Associations. We all realize that there are differences between lotteries. The markets, the regulatory frameworks, the legacy gaming cultures, the operating structures and public policy agendas differ widely throughout the world. But that is the source of our strength and should be the source for tremendous learning opportunity. The fact is, for all the differences that exist, there are profound similarities among lotteries all around the world. We are all in the

Terry Rich
President and Chief Executive Officer of the Iowa Lottery Authority

PGRI Introduction: The theme of our next event is "Globalization of Best Practices". So, it is very exciting when one of our own gets to participate in a quest to strengthen relations and to learn from a visit to the biggest economic story of the last two decades: China. My discussion with Mr. Rich ended up touching on two other pressing issues as well: Political action to defend states' rights interests and leveraging the success of multi-state jackpot games.

ON GLOBALIZING OUR PERSPECTIVE OF THE INDUSTRY

Paul Jason, Public Gaming: *The theme of our next conference is the "Globalization of Best Practices". So your trip to China really caught my attention. What was the specific purpose of that trip?*

Terry Rich: My trip to China was part of an ongoing effort to foster more interaction and shared learning experiences, and also to develop mutually beneficial business relations between the state of Iowa and China. The Iowa/Greater Des Moines Partnership has built a great relationship with China over the years. The new Vice President of China has had a close relationship with the state of Iowa, visiting Iowa many times. Xi Jinping was the guest of honor at a state dinner event in Iowa last year.

One objective of my trip was simply to learn about another business culture and hopefully acquire a more global perspective that can be applied to the way we think and operate as government leaders. As CEO of the Iowa Lottery, I try to bring in ideas and best practices from outside of our state experience. Another objective was to see how the products and business strategies of our primary vendor, Scientific Games, are being applied in a completely different market and gaming culture in China. I visited their group in China and learned more about how the business operates in China.

How does consumer behavior or buying motives differ from those of the United States?

T. Rich: I can't presume to be an expert on that. But I would observe that the Chinese are fascinated with numbers. Numbers

and symbols have meaning beyond what they do in the West - almost a mystical or spiritual power. Then, combine that with the Chinese sense that everything happens for a reason. Winning the lottery is not just a result of happenstance or luck. For instance, we had a casual lunch with some small business merchants and they had charts up on the wall to keep track of the numbers, hoping that they could see patterns that might yield some predictive value. I don't think they think of it as a scientific method approach that Westerners might attempt – more a matter of discerning the underlying meaning behind symbols and numbers combined with the conviction that everything has a reason and higher purpose, even the possibility of winning the lottery.

What are some other impressions of China, not just as they relate to lottery?

T. Rich: In many ways, China is not so different from America, though our tour may have been arranged to create that effect. We toured the local produce markets, the agriculture communities, the major political center of Beijing, and the commercial hub of Shanghai. Shanghai is beautiful and modern. Beijing is 2,000 years old. But wherever you go, construction is going at breakneck pace, with hundreds of cranes visible in every direction.

One difference that I found to be curious is the Chinese people seem to have more trust and confidence in their government than we do. They love their country. They respect their government and believe that what the government tells them is true. It is part of the U.S. culture to be suspicious of authority in general and that colors our attitude towards government. It's not that way in China.

China's middle class is growing but is still much smaller than the lower class. Everyone I met feels strongly that their social welfare system, and their system for feeding people, is the best in the world. The population in China is over 1.3 billion, like four times that of the U.S. And yet they say they have no starvation. For instance, the government basically designates locations for each citizen to live and in turn cares for the people who comply with that system. There is an explicit policy to limit family size to one child, so it is very expensive for a couple

to have more than one child. The Internet is controlled, censored. I noticed Facebook was actually blocked when we were there. These are some freedoms that they give up in return for a social welfare system that would appear to have some progressive attributes. Trying to eliminate starvation in the most populous country in the world is quite an admirable goal. Now China is moving towards the creation of a robust middle class and more potential for individuals to advance and change their personal social and economic status. They encourage entrepreneurial talent from within their ranks, and they welcome technology and management skills from all over the world. Already, production that requires lower-skilled labor is being outsourced to Taiwan and other countries where labor is cheaper. The people I met in China are convinced that the trade-offs are for the best, and a necessary component to their rapid modernization. After all, in many ways, the Chinese rocketed into a first-tier economic power in less than 20 years. It is an astonishing feat.

It would appear that the Chinese are fully embracing the culture of capitalism.

T. Rich: Certainly in many ways. But the markets have fewer competitors and so are likely to be less efficient than in the U.S. The entire system of accountability of public officials is totally different than in the U.S. Individuals vote to elect their local representatives who function like aldermen. Those representatives then vote to elect mayors, the mayors vote to elect regional senators, the senators vote to elect governors, and governors vote to elect the president and national officers. My terminology isn't precise, but the idea is that government is not accountable directly to the people but to itself. The positive aspect of this is that it can act more quickly and tackle the ambitious task of modernizing this country in a dramatically compressed timeline. And the different levels of government do impose a system of checks and balances. But when the prime minister gives a green light, it's full-steam ahead.

Business is much more open and freer than I anticipated. Perhaps ironically, they have more flexibility to assess the value of a commercial relationship than

we do in the U.S. In the U.S., it seems that every aspect of a vendor relationship must be quantified mostly by price. There are good reasons for that, but it does impinge on the ability of all of us to innovate, to try new things and take calculated risks that have uncertain outcomes. I do not presume to have the solution to that. And I am certainly not saying that I would trade our system for theirs; just that observation and understanding of how other systems operate might stimulate insight into our own situation.

How does the Chinese market and the regulatory system work?

T. Rich: The Chinese government does all of the online or terminal lotto business. It's my understanding that lotto outsells scratch-offs by a 3 to 1 margin. Lotto has existed in different forms for centuries. Scratch-offs are a newer game for the Chinese but are rapidly gaining in popularity and is the faster growing category.

What does the retail network look like?

T. Rich: The lottery has many "exclusive" stores where they sell only lottery products. The dominance of lotto-style games over a robust instant-scratch business creates an opportunity on which the U.S. lotteries have capitalized. Interestingly, high-frequency games (10-min. keno), sports betting and VLT's are all rapidly growing games in China and have put some pressure on the instant games as the newest games in the market.

There are distributers who manage a vast network of small retailers in the markets that are mostly opened up in the morning and shut down at night. In fact, many are called "wet markets" because they vend everything including food so the tables are all cleared off and hosed down at the end of the day. They do not seem to have big chain stores that sell lottery products.

It sounds like there is a huge potential to increase sales just by improving distribution. What about Internet and Mobile?

T. Rich: The penetration of mobile is very high and continues to grow rapidly. But I can't say that I saw any evidence of lottery products being bought over digital media.

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Kevin Gass

Vice President, Lottery Gaming,
BCLC, Canada

PGRI Introduction: BCLC has the longest-running i-gaming offering in the Western Hemisphere. Now into its tenth year of internet lottery sales, BCLC also offers sports betting and all varieties of casino style games online, including i-poker. BCLC recently let an RFP for "Retail Optimization Services", the objective of which is so interesting for its focus on the importance of land-based retail. (It closed on November 19, 2012.) Below is the excerpt that caught my attention for its statement that "the retail environment as the main distribution channel and driver of sustainable growth for the next 15 to 20+ years." For all of its progress in internet gaming and distribution, BCLC identifies land-based retail as being the key sales driver for the next two decades!

"The purpose of this Negotiated Request for Proposal (the "RFP") is to receive proposals from one or more consulting firms that can look at BCLC's lottery retail experience vision and strategic goals, work with key stakeholders and identify core capabilities and requirements to drive transformation. The successful proponent(s) will help develop a technology and systems architectural framework and implementation plan.

"BCLC is investigating the potential to fundamentally transform its lottery business and is considering all aspects of the business such as players, retailers and our central gaming system. BCLC's lottery division is positioning the retail environment as the main distribution channel and driver of sustainable growth for the next 15 to 20+ years …

There is a need to look at the impact of changing demographics, key trends in consumerism and retail along with technology advancements and secure payment mechanisms before new systems or hardware are acquired … BCLC is seeking one or more firms that can lead, inspire and facilitate strategic thinking about the total customer experience and how gaming transactions can be integrated into the future retail experience and technologies."

Kevin Gass now leads the lottery gaming division for BCLC, and is spearheading the push to transform its approach to retail. Mr. Gass began his career with BCLC on the corporate side of the business including establishing and marketing new casinos. That was nine years ago. He also led the implementation of BCLC's Internet initiatives up until the middle of 2010. And as Mr. Gass explains, he was not put into this position to be a curater of a valuable but aging brand. His charge is to build a foundation for lottery gaming business that will sustain significant growth well into the future.

Paul Jason, Public Gaming: *BCLC is charged with controlling all forms of wagering and games of chance in British Columbia, correct?*

Kevin Gass: Yes, with the exception of hospital raffles, BCLC's mandate includes traditional lottery products, casino games and all other games of chance. And it applies to all channels of distribution including the Internet, retails stores, self-serve kiosks, gaming venues, or POS's of any kind. That does not mean there are no underground markets in British Columbia, just that BCLC is the only legally authorized operator.

What percentage of lottery tickets are purchased online?

K. Gass: We've been selling lottery tick-

ets over the internet now for eight years, and today it accounts for 2- 3% of our business, which means that more than 97% of our sales come at retail. While it is vital that we make the products available through multiple channels including the Internet, our lottery players continue to gravitate to our retail network. So, even though we had envisioned a higher rate of growth for internet sales, we are perfectly happy to adapt to the consumer play styles and preferences. The potential to enhance the consumer experience at retail is huge and that is where we are focusing now. But we are also exploring the ways in which the internet can be integrated into the broader consumer experience of interacting with BCLC, and the ways in which it can be used to complement and augment the retail shopping experience.

The internet will always be a prime customer acquisition tool and a key contributor to customer management relationship goals and the development of the multi-channel players. But we are now very much focused on innovating in all areas of the business, and not thinking of the Internet as the only way to reaching the next generation player. The next gen' player will be shopping at retail; it's just that the retail experience will likely be much different than it is today. And that is why we are taking the extra step now to really study the consumer experience at retail, understand how it is going to evolve, and position lottery to be the leader in progressive retail strategies.

That would seem to be exciting news for your retail partners. You see retail as not only being the primary sales driver right now, but the source of future growth?

K. Gass: We definitely view retail as the channel with the potential for significant growth. The rate of growth may not be as high in retail as newer channels like the Internet or mobile, but the growth in absolute dollars will be far higher because the baseline is so much higher. BCLC's land-based retail is a billion dollar revenue stream today and that's a business we want to grow.

What are some of your current retail initiatives?

K. Gass: Consumer trends towards self-serve is combining with new technologies to open lots of doors. Self-serve lanes in grocery stores are a major consumer trend. In some grocery stores, the percentage of self-serve purchases has climbed to over a third. And that trend is accelerating as consumers become familiar with the self-serve procedures and appreciate its speed and convenience. In fact, within 10 months, in

British Columbia, consumers will be able to purchase lottery products at the self-serve lanes in certain grocery stores. They already purchase lottery at the cashier-manned lanes in these stores.

How do you control for age-restriction in a self-serve environment?

K. Gass: Traditionally, the self-serve terminals are installed in age-controlled hospitality environments like pubs and bars. In these environments, no ID check is required because the physical environment is gated, in other words age-controlled already. Our cashier-manned in-lane terminal is called Lotto Express and it is up and running very successfully. There, the age-control is just as it is in a retail store, with the cashier checking ID's.

Next up is to enable the purchase of lottery in the fully self-serve line in grocery stores. Stores already have a protocol in place for age-restricted items like tobacco so our product would fall into that category. Self-serve lanes are monitored by a customer service manager to assist the customer and also to monitor and prevent the sale of age-restricted items to minors. The key is that stores already do this for certain products; adding lottery does not require anything additional or burdensome to the store. We still need to make some changes to the technology to eliminate the need for cashier involvement. But that development work is on our end, not at the store. They're ready. They are pleased with the performance of Lotto Express in their manned lanes and confident that the self-serve terminal will work well for them as well.

How does Lotto Express work exactly?

K. Gass: Lotto Express uses the same PIN pad you use to pay for your groceries with a credit or debit card. Special purpose software on the PIN pad allows it to communicate between the cash register and our lottery system so that the lottery ticket actually prints directly from the PIN pad device.

While the cashier is scanning your groceries, you use the PIN pad to select the lottery tickets you wish to buy. It's limited to our two major lotto products, 6/49 and Lotto Max, but there are different ticket combinations. It's simple – you just follow the prompts on the screen.

The PIN pad terminal will print a bar code; the clerk scans this slip, which adds the value of the ticket to your total purchase. You pay your grocery bill, which now includes the lottery ticket, as you normally would. Once payment is complete and verified the lottery ticket prints directly from the PIN pad. It's as easy as that.

How long does that take?

K. Gass: We've got the whole process from point of purchase to print out of ticket down to 2 seconds, 3 seconds max. The customer then takes that ticket out of the PIN-pad, takes the groceries, and away they go with their live lotto ticket. They then wait for the draw to see if they won.

Where is the winning ticket redeemed?

K. Gass: That is the great thing about the whole process. The ticket is not redeemed at the grocery check-out, but at any one of our other retailers. This is the most efficient process for the grocery store because their involvement ends with the sale; our existing retailers like it because they have a potential new customer who would not have otherwise come into their store; and we like it because our research is showing that these are largely incremental sales, sales that neither we nor the retailer would have had. The Lotto Express tickets are slightly smaller than the standard ticket sold by the retailer, so the retailer can see that this is a new customer.

The retailer doesn't see this as a lost sale but as a gained customer.

K. Gass: Lotto Express is all about convenience and market growth, not creating a competitor for existing retailers. Retailers recognize the Lotto Express ticket, see that they have a potential new customer, and ideally that customer will buy other products from them. Also, most of the wins are smaller amounts which the players often re-invest in lottery purchases at that same time.

This is a good example of innovation at retail, the kind of thing that BCLC's RFP for "Retail Optimization Services" will hopefully reveal much more of.

K. Gass: It is. Creating a better retail experience, making it more convenient for the consumer, getting in step with trends like self-serve ... these are the kinds of innovations that really will be transformational and add significantly to our bottom line and the funds we transfer to our beneficiaries. The technology of Lotto Express is working flawlessly and customer adoption has been faster and smoother than we anticipated.

At what point do you invite input and feedback from the retailer community? To put it bluntly, I would think that you would need to decide to develop and implement something like Lotto Express without inviting input from the retailers because that would create a lot of uncertainty and confusion. I would think that you need to just do it and then communicate to the retailer community why it is a

good thing for them.

K. Gass: We obviously have a number of initiatives in development, some will make it to market, others will not. At the appropriate time we start dialoguing with key stakeholders such as our retailers. And clearly we are committed to our retailer channel. The RFP is all about optimizing our sales through that channel for their benefit and ours. The retail industry is changing; BCLC and its retail partners have to either lead that change or be left by the wayside. We need to acquire insight into how the world is changing, how the retail experience is changing and turn that into long-range strategic plans. At this point I don't know exactly what that future state will look like but I know it will be consumer-driven and technology enabled. Interestingly, the lag-time between early adopters and mainstream acceptance is being dramatically compressed. We are enlisting the services of expert retail and technology consultants to help us strategically think this through and create an action plan. While we absolutely need the total support of our retailers, it would be impractical to insist that they be a part of every aspect of the strategic planning process. So we do ask our retailers to think long-term, to be open-minded to the ways in which consumer behavior is changing and how that is impacting the retailing experience, and to be willing to change and adapt to the demands of a changing marketplace. And, we will work closely with our retailers and all our channel partners in the implementation process, inviting feedback and making modifications to the plan as needed.

Our retailers are very clear on the fact that we are committed to evolving with the consumer, and innovating to keep up with the changes in the market-place. They are also very clear on the fact that we are committed to their success and can assure them that by working together, we will not only accomplish our lottery specific objectives, but hopefully help them to be a more successful retailer. The retailer community needs to evolve not because we are changing but because the consumer and the markets are changing and demanding that we change with them.

Too, it's up to the retailer to execute well. They need to service lottery customers well, promote our products well, get the signage and the jackpot amounts right. I do a lot of my own "mystery shopping". I will tell our sales people which stores are not delivering a shopping experience that will cause the consumer to come back, and that they should talk to these store managers and owners not just for our benefit but for the benefit of their whole operation. I want to help our retail-

ers succeed. But we are not going to have our plans determined by retailers who resist change and innovation. We're building strategies for the retailers who want to succeed in the consumer-centric and technology-enabled world of the future.

Your RFP speaks directly to that. "BCLC is challenging its thinking by looking outside of the gaming industry for inspiration, insights and best practices to deliver a customer centric experience. There is a need to look at the impact of changing demographics, key trends in consumerism and retail along with technology advancements and secure payment mechanisms." This kind of research and analyses will enable you to help your retailers better understand consumer trends, improve the operation of their entire businesses, and position themselves for success in a world that is changing with or without their permission.

K. Gass: That's exactly it. We're building a map of the future that first looks at the big picture of how retail trends will change over the next 10-20 years. Then we look at how lottery fits into the new world of retailing. Then we build the detailed implementation plan and acquire whatever technology is needed to accomplish it. The thing is, we are resisting the temptation to simply replace or upgrade our technology and tools of the trade and instead taking this opportunity to rethink everything, to reassess all that we do and the way we do it. The retailing experience is going to change significantly over the years ahead; so we need to prepare to operate much differently than we are operating now.

Some will point out that you need to walk a fine line because you must continue to appeal to the traditional core players. I would think that the much bigger concern should be inertia that impairs your ability to evolve quickly enough.

K. Gass: The entire retailing experience needs to evolve for the next generations of consumer. And it will. The question is whether lottery will change with it. The steps we are taking are not driving the change. They are simply adapting to the change in a timely manner. But to your point, of course we will continue to provide the products that appeal to the traditional core players as we transition the business.

What is the role of the internet and digital communications in this new world of retailing?

K. Gass: It's a vital component, not just as a channel for distribution, but as a channel for communications to market, promote and con-

nect more to our customer base. Ultimately we will move from an anonymous player-base to loyalty programs and account-based play. But it's a mistake to think of this as internet-driven. It's consumer-driven and the consumer is tied to the retailer and will be for many years to come. That consumer-retailer connection is evolving and we need to redefine the role of the player at retail, redefine the role of the retailer for the player, and redefine the role of BCLC in the whole equation.

What will it all look like in 10 years?

K. Gass: Obviously we don't know the full answer to that question, but we know pieces of it. It will be an end-to-end digital experience. Paper will go away. Personal consumer devices will be a big part of that digital infrastructure. Self-service and convenience will be a critical part of the picture. The most effective retailers will integrate entertainment and excitement into the shopping experience. Consumer "engagement" will be a big theme. There will be whole new categories of product. Product life-cycles will shorten and turnover accelerate. We will know many of our customers individually through their personal accounts with us. And (in British Columbia) we will see convergence with our gaming facilities and internet channels.

So even for the core player at retail you will need to speed up the rate at which you refresh and change the product?

K. Gass: We're pushing into new territory here and won't know exactly how it will transpire, but yes to that question.

Do you think of lottery more as a game or more as a consumer product?

K. Gass: I would have to say that we really do not frame the issue that way at all. We ask simply whether it is fun for the consumer, what makes it fun, and how can we make it more fun. For us, the more relevant question is whether the business is product-driven or player driven. The player would never frame the issue as to whether it is a game that is played or a product that is purchased, and so neither do we. The player either enjoys the experience or not and that is what we focus on.

For all of my talk about change and innovation, lottery products in fact have held the attention of the consumer for decades. I can't think of another consumer product with that kind of longevity. So, as we think about refreshing the games, we should probably also think about what might be the product attributes that are fundamental and

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THE REID ONLINE POKER BILL OF 2012 – REPORTS OF ITS DEATH MAY BE EXAGGERATED

by Mark N. G. Hichar,
Partner, Hinckley, Allen and Snyder, LLP and
Chair of its Gaming Law Practice Group
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On December 14, 2012, Senator Harry Reid (D-NV) conceded that the "Internet Gambling Prohibition, Poker Consumer Prohibition, and Strengthening UIGEA Act of 2012" (the "Reid Bill" or the "Bill") was dead for 2012. The Bill, which Senator Reid had drafted in collaboration with Senator Jon Kyl (R-AZ), had never been formally introduced, but in September, 2012 it was leaked, and Senator Reid and his Nevada colleague, Senator Dean Heller (R-NV), were pushing to have the bill passed before a new Congress would be sworn in at the start of the new year. Senator Reid had run out of time and not found appropriate "must pass" legislation to which the Bill could be attached. (As was widely reported, it was never Senator Reid's intention to push the Bill as a stand-alone piece of legislation. Rather, he intended to attach it to some other "must pass" bill.[1]) States and state lotteries breathed a sigh of relief, because, although the Bill would have allowed poker to be conducted online by licensed operators, it would have limited such licenses to large land-based casinos, race tracks and card rooms, and large providers of slot machines. Most state lotteries would not have been eligible for licensing for at least the first two years. Worse, the Bill would have ended state efforts to implement online gaming, even on an intrastate basis, unless the wagering:

(1) was authorized under the Interstate Horseracing Act (the "IHA");[2]

(2) was "authorized, licensed and regulated" prior to the Bill's enactment; or

(3) consisted of "Qualifying Intrastate Lottery Transactions, " defined under the Bill to include only those wagering games in which (a) winning is determined no more frequently than daily, (b) game play does not actually occur and winning is not determined on the Internet, and (c) a tangible ticket is printed in order to claim a prize.

Announcing that he would no longer push the Bill in 2012, Senator Reid stated: *"As much as I would prefer a different outcome, the reality is that we have simply run out of time in the legislative calendar to pass an internet poker bill."*[3] Reid added that he was *"disappointed, but Senator Heller and I remain committed to this issue and it will be a priority for us in the new Congress."*[4] Thus, although the Bill is dead for the moment, it or a substantially similar bill is likely to appear again within the next two years.

The defeat of the Reid Bill in 2012 was due in large part to the efforts of states and state lotteries. Over the past two years, letters opposing federal regulation of online gaming were written by the Governors of Idaho, Maryland, New Hampshire and Utah, and by the National Governors Association. Even stronger letters in opposition to federal regulation were penned by the Chief Executive Officers of the lotteries in Iowa and Kentucky and by the North American Association of State & Provincial Lotteries ("NASPL"). Finally, in December, 2012, during the "lame duck" period of the last Congressional Session, representatives of state lotteries and of NASPL descended upon Washington D.C. to personally and directly give voice to state opposition to federal regulation of online gaming. The effect of these efforts is perhaps best reflected in the statement of David Krone, Senator Reid's Chief of Staff, who said:

"I do think there's a lot of people that didn't grasp fully at the

1) See, for example, "Reid Sounds Pessimistic Note on Poker Bill," by Steve Tetreault, Las Vegas Review Journal, December 11, 2012; and "Senators Push for Bill to Advance Online Poker," by Alexandra Berzon, Wall Street Journal, December 5, 2012. 2) 15 U.S.C. 3001, et seq. 3) "Finger-Pointing Turns to Gaming Industry as Hopes Dim for Online Poker Bill," by Karoun Demirjian, Las Vegas Sun, December 14, 2012. 4) Id. 5) "Internet Poker Bill Effort Dead, Reid Says," by Steve Tetreault and Howard Stutz, Las Vegas Review Journal, December 14, 2012, quoting David Krone, Chief of Staff to Senator Harry Reid, 6) "Federal Online Gambling Legislation Needed Now More Than Ever," by Frank J. Fahrenkopf, Jr., American Gaming Association, February 1, 2012, at http://www.americangaming.org/newsroom/op-eds/federal-online-gambling-legislation-needed-now-more-than-ever (last accessed January 7, 2013). 7) See "The Department of Justice's Reinterpretation of the Wire Act Does Not Create an Urgent Need for Federal Legislation Governing Internet Gambling," by Mark Hichar, Public Gaming Research International Magazine, August 2012.

time the urgency of getting this [the Reid Bill] done sooner rather than later … They were never fully prepared for the state lotteries and the states and the tribes that were going to come up and take this on."[5]

However, if this victory is to remain permanent, states will need to implement intrastate online gaming systems and show that they can be well-regulated on a state-by-state basis, avoiding the consequences predicted by those arguing that regulation of online gaming would only be effective if done under a federal scheme. For example, the American Gaming Association argued that federal regulation of online gaming was necessary to "keep minors from gaming online, prevent fraud and money laundering, address problem gambling and ensure players aren't being cheated."[6] While such arguments were rebutted by many, including last year in this magazine,[7] states must now demonstrate that state-regulated online gaming can provide assurance that the games are fair (i.e., that the stated odds prevail and player-cheating and collusion are prevented) and honest (operator cheating and collusion are prevented), that underage and out-of-state persons are blocked from playing, and that problem gambling is adequately addressed. Unless states move forward in this regard, and do so quickly, it is likely that momentum again will build for federal legislation that could regulate online gaming so as to make the Internet – as would have the Reid Bill – of only marginal utility to states and state lotteries.

Some states are already moving forward. The Illinois Lottery has been selling online tickets to certain of its lottery games since March, 2012. Similarly, the Georgia Lottery began selling certain of its games online in November, 2012 and plans to expand its online offerings in 2013. In Minnesota, lawmakers approved pull-tab gaming via mobile devices (e.g., iPads), and such online gaming has been in operation since September, 2012. Delaware passed a law in June, 2012 that will allow the lottery to conduct online lotteries and casino games. Online games are expected to be operational there starting in July, 2013. In addition, the New Jersey legislature passed a bill on December 20, 2012 that would allow Atlantic City casinos to offer casino games online to persons located within that state. As of this writing, the bill is awaiting action by New Jersey Governor Chris Christie. Finally, other states and state lotteries either have legislation pending that would authorize online gaming or are studying the issue. These states include California, Maryland and Massachusetts. This is in addition to the state lotteries that sell lottery ticket subscriptions online – i.e., the lotteries of Minnesota, New Hampshire, New York, North Dakota and Virginia.

States implementing online gaming also should consider entering into interstate compacts with each other, not only to expand the player base (increasing liquidity, in games such as poker, and to increase jackpots in other games), but also to establish uniform standards relative to, among other things, licensing, geo-location, age control, detection of fraud and dishonest play, and addressing problem gaming. Uniform standards in these areas would increase efficiency and ensure that games in each participating state were run at the same high standard and were equally protective of players.

In sum, the time is now for States to act. Had the Reid Bill become law, it would have significantly weakened long standing precedent allowing states to decide for themselves what types of gambling could be offered within their borders. If states intending to regulate online gaming do not take it upon themselves to do so quickly, they may again be faced with the possibility of losing that right. ◆

Pat McHugh
President,
North America Lottery Systems,
Scientific Games Corporation

PGRI Introduction: Industry changes are being driven by the consumer. Lottery operators and their commercial partners are adapting to new consumer trends towards self-serve, multi-channel buying, longer-play games, loyalty programs and all new interactive products. But operators and their commercial partners can also play a role in shaping the evolution of consumer behavior. "Technology changes everything" but only insofar as it is applied to our industry and converted into benefits that truly add value to the consumer experience. As Pat McHugh explains, the process of deciding what to do and when to do it is part science and part art.

Scientific Games is in the business of innovating ahead of consumer trends and positioning its customers to meet the needs of changing markets. In the end, combining the science and art of visionary strategic planning depends on execution of those plans. With over 20 years of lottery experience directing large-scale projects and operations for leading gaming and government service providers, Mr. McHugh leads Scientific Games' Lottery Systems business unit serving their customers in North America and the Caribbean. His responsibilities include sales, business development, game design, marketing, project implementations and operational services.

Paul Jason, Public Gaming: *Congratulations on your promotion to president of North America Lottery Systems. You're assuming this pivotal role in a period of rapid change and innovation.*

Pat McHugh: Thank you. It's really formalizing a role that's evolved over time. I see my position within our Lottery Systems business as not just the technology operator, but as a business partner who helps our customers maximize proceeds to good causes. The diversity of our products and services makes Scientific Games very unique. I'm fortunate to be in a position to leverage creative solutions from all of our business units to help our systems' customers grow their business. The results have been very positive – the sales growth of our systems customers has generally outpaced the industry. It's an exciting time in the lottery industry with so many products converging, and that's certainly true within Scientific Games.

Is lottery a consumer product that is purchased or is it a game that is played? It would seem that Poker and Zynga® social games function more like actual games. Lotto is about purchasing the "hope and dream" and as such seems to function more like a consumer product than an actual game. Instants might be somewhere in between, but more like a consumer product than an actual game. Insofar as the goal is to deliver the optimal consumer experience, wouldn't traditional lottery products perform better if we could integrate an element of play, or an element of social experience, into the fabric of the game? And isn't Scientific Games' Zynga partnership an important move in this direction?

P. McHugh: Your reference to instants being "somewhere in between" is very appropriate. Think about the popularity of extended play instants. It can take 10 minutes to play a bingo or crossword

game. Yet, there is a large group of players who will scratch every bit of the scratch-off coating before turning in a game ticket for the winnings or tossing the non-winning ticket – even though they could have cashed the ticket immediately and never even had to "play" the game. Extending the game element to a new generation of digitally savvy consumers is what our Zynga partnership is about. Converting Zynga players who play for fun, and may or may not purchase virtual goods, will be one of the keys to the success of this partnership. We are working with lotteries to build a robust lottery game play based on the play inherent in the Zynga brands like Farmville™, Zynga Poker™ and Words With Friends™. Leveraging the social experience and virtual goods and combining that with a "hope and dream" should solidly position the Zynga brands as a key lottery category in the middle ground that you mentioned. This can be applied to instant or draw games whether purchased at retail or on the internet. In this way, it becomes a game and a consumer product worth dreaming about.

What accounts for the incredible longevity of lotto? There is much talk about the need to refresh the traditional games to make them more appealing for the next generation of consumers. But the fact remains that sales of traditional lottery products have weathered the economic recession much better than other gaming sectors and the category appears to be bouncing back faster than others in the recovery period. What are some of the fundamental attributes of the traditional lottery products that we can expect to have enduring consumer appeal and so we should leverage them and not attempt to change them? And what are some attributes that may be more malleable and subject to change and updating as with the Zynga model?

P. McHugh: You're correct, the longevity of lottery products – and the performance through these tough economic times compared to that of other consumer products – has been outstanding. Many of our customers saw record sales in 2012. However, consumer purchasing habits have been changing dramatically with the proliferation of ecommerce in all industries. As well, they now have many more entertainment choices. Clearly, lottery needs to adapt to stay relevant to consum-

ers while maintaining the core attributes that have made the product appealing.

Leading up to the record-breaking jackpots in March and December, it seemed like everyone was playing the game – including the under-30s, non-players and even the skeptics! The excitement of chasing a big jackpot will continue to have appeal but lotteries need to find ways to bring those infrequent players back more often. Our survey responses from all U.S. lotteries last year indicated the 'Numbers' products produce consistent sales and represent approximately 37% of draw sales. And the diversity of instant games and price points has continued to grow instant sales. I believe these product categories and their fundamental attributes will maintain a prominent position in lottery product portfolios for the foreseeable future. However, all lotteries are facing the challenge to expand their player base and attract a younger demographic, particularly within the draw product category.

At Scientific Games, we believe there's considerable opportunity for growth in draw games by applying the strengths of other game categories without changing the fundamental attributes. Some examples include applying licensed properties to draw games, the expanded use of loyalty and social media programs, extended play through the internet or mobile, and hybrid games that feature an instant win and draw component to give players more value for the game. Not to mention maximizing the opportunities that new distribution channels can provide.

Let's talk about distribution. Insofar as much of the fundamental game design of the traditional products has enduring consumer appeal, it would seem that expansion and innovation of distribution would be key to increasing sales. Giving the consumer internet access is on the top of everyone's radar. But what other ways is Scientific Games innovating for the distribution aspect of the business?

P. McHugh: As lotteries have matured, it's become more challenging to expand distribution to create greater product exposure to players. This has remained a strategic focus at Scientific Games. A great success story is our work with the Pennsylvania Lottery in recruiting the Wawa convenience store chain back to the lottery industry. Wawa just reached the $126 million

mark in Pennsylvania Lottery game sales – all through our PlayCentral™ full-service vending terminals that were integrated into Wawa's in-store and back-office systems and processes. Our PlayCentral is one of the tools lotteries in the U.S. are turning to as a way to gain entry into new trade styles and retailers. This month, we are installing the first units in Wal-Mart super-centers in Puerto Rico. We were ahead of the curve with touchscreen technology. Now, the market is catching up with us. To accommodate non-traditional street vendors in Puerto Rico, we have recently launched our mobile retail devices that we deployed so successfully in China. Another great success is our work with the Minnesota Lottery and Linq3 to launch sales at ATMs and gas pumps through our Sciplay™ platform. This NFL season, we supported the Delaware Lottery's initiative to leverage their position as one of four states grandfathered to allow sports betting by expanding our point of sale beyond casinos and into social establishments such as restaurants and taverns. The expanded distribution brought in additional revenue and also saw year-over-year increases for the casinos' sports wagering – we believe, by attracting new players through broader exposure to the product. This month, we'll launch Keno in many of these same locations that are now new lottery retailers. Our systems are designed to easily integrate new products from our various business units, or from third-parties, to expand distribution as the marketplace evolves.

Where does Scientific Games stand on land-based retail? I just reviewed an RFP from a major North American lottery that states: "BCLC is investigating the potential to fundamentally transform its lottery business and is considering all aspects of the business such as players, retailers and our central gaming system. BCLC's lottery division is positioning the retail environment as the main distribution channel and driver of sustainable growth for the next

Connie Laverty O'Connor

Chief Executive Officer of
GTECH Indiana
working on behalf of
State Lottery Commission
of Indiana;

Senior Vice President
& Chief Marketing Officer
of GTECH Corporation

PGRI Introduction: For all the talk about multi-channel distribution, the lottery business is still heavily dependent on bricks and mortar– making that connection with the consumer at land-based retail stores. That is why motivating retailers to drive lottery sales is vital to our industry. Helping retailers to understand how lottery aligns with their business objectives is the basis for creating a mutually beneficial and sustainable partnership. Building communication bridges and forging a genuinely open-minded dialogue is the first step towards creating trust, confidence and the foundation for a true partnership. To that end, and to great effect, the Hoosier Lottery's integrated services provider, GTECH Indiana, has embarked on an ambitious program of regularly scheduled Retail Advisory Board Meetings.

Paul Jason, Public Gaming: *Until very recently, land-based retailers were the sole channel of distribution for lottery. For all the talk about the future of the multiple channel approach, retail has phenomenal endurance as the consumer-connection to lottery. Why is that?*

Connie Laverty O'Connor: Lottery is essentially a retail business. This will not change any time soon. Digital media will play an increasingly important role as a channel of communications, but the evidence is conclusive that retail distribution will continue to be the key sales-driver for many years to come. And that is true for all lotteries, even those that have been selling lottery products over the internet for many years. That makes retailers the key supply-chain partner, and retail execution the lynchpin of the lottery business. Fortunately there is still considerable potential to innovate and increase sales at retail; operations can be modernized, business processes streamlined, consumer interest increased with improved use of POS materials and signage, account management tools improved---all making lottery account management easier while increasing same store sales.

The driving theme of GTECH has been "Customer First". Jaymin Patel explains it as an upside-down pyramid in which top management is actually at the bottom and the efforts of everyone at every level is geared towards pushing resources and energy upwards to support the top where the consumer ultimately rules. But since you're not interacting directly with the consumer, is then the retailer your ultimate customer?

C. Laverty O'Connor: Consumers and retailers alike define our destiny. In great part, Lottery or vendor staffs do not sell lottery tickets. The retailer sells the tickets. We can never forget that. We need to focus our resources on helping retailers to succeed at their mission of selling lottery products to the very top of the upside-down pyramid, which is the ultimate boss of all of us: the consumer. The retailer owns the real estate that we are occupying every day, and they decide how much they want to support the growth of lottery.

Hoosier Lottery is now into its third month of extensive meetings with retailers across Indiana. Getting retailers to support a lottery agenda seems to be more challenging than ever.

C. Laverty O'Connor: It doesn't need to be that way. We are finding retailers receptive to our programs and innovations including the fact that lottery products are sold through multiple channels of distribution. They respond well to our transparent collaborative business approach. The retailers already know that we seek to understand their concerns.

Retailer engagement is a critical component to growing the lottery business. The key to engaging retailers is to treat them as genuine partners, and to commit ourselves to their success. That's why we have launched a series of retailer board meetings across the state of Indiana. The meetings include retailers from different markets, urban and rural, from different trade styles, from small independents to large chain stores. This initiative actually includes business and trade groups that do not sell lottery tickets themselves but have a positive influence on the retailers who do. Our goal is to determine what will help them to grow their lottery business.

We begin with an open-ended discussion, asking them how their retail business is going in general and then honing in on how their lottery business is going. We need to better understand their broader business goals, how they intend to achieve them, how they view the

hoosier lottery™ **We're listening to You**

potential and the constraints to accomplishing their goals. And we need them to know that we are interested in them and their success. We depend upon them and we want them to know that we will do whatever we can to help them sell more tickets and make more commissions. We are finding retailers receptive to our programs and innovations including the fact that lottery products are sold through multiple channels of distribution. They respond well to our transparent, collaborative, business approach. They are a valuable resource; they listen to our players everyday. They understand what the customers like, why they like it, and even more importantly, can articulate what players do not like. These insights, coupled with a disciplined program of consumer market research, provide a comprehensive view of player's attitudes, barriers, and play behavior.

The multi-channel approach is not just about internet. It's about in-lane sales at grocery stores, self-serve kiosks, pay-at-the-pump, and other non-traditional POS's. How do you convince retailers that this kind of progress is inevitable and that the best way for them to succeed is to identify their own competitive advantages and figure out how to leverage them? How do you build the communication bridge?

C. Laverty O'Connor: The important thing is to listen very carefully. At the end of the day, their goal is to drive traffic into their store and make as much money as possible. The Lottery, particularly games like Powerball, Mega Millions and Lotto with big jackpots attract customers. Help them understand how the lottery fits into their business and how to optimize the category to build their core business.

Integrating the retailers into the process makes it a shared business plan.

C. Laverty O'Connor: Exactly. When people feel their opinion is respected and their input valued, in general they are more committed to implementing mutually developed plans. Retailer Advisory meetings are working sessions with very high levels of interactivity and retailer engagement. They are made to feel that their participation will help inform our business plan. They believe this because they receive written answers to every single question at the end of the regional tour in a newsletter called We're Listening to You. The answers reflect the specific actions we plan to take based upon the collective input.

Even with that communication bridge, don't you encounter resistance to at least some of the distributional strategies that must be undertaken?

C. Laverty O'Connor: Retailers tend to oppose only things that adversely affect their store

traffic and sales. Offering or expanding lottery products, as long as they are professionally merchandized, results in new revenues. There is no evidence that lottery cannibalizes their existing business. While lines during major jackpots may disrupt their business other than $500 million plus jackpots similar to the March $646 Mega Millions or November Powerball $588, these big pots help their business. One convenience store executive said that the major Powerball rollup negatively impacted cigarette sales, but almost universally, this was an anomaly. With the current price of gas, there is an increasing need for convenience stores to cross merchandize lottery to increase the per person market basket.

When the lottery grows, the player base grows, more innovative games are introduced and new channels bring in new consumer groups. Every retailer sees an increase in sales and profits.

You have been in this business for decades. GTECH has the benefit of systematically leveraging best practices as they are revealed in the hundreds of markets and tens of thousands of retails stores that your team of thousands is working in. Seriously, what can retailers tell you that you don't already know?

C. Laverty O'Connor: I learn something new at every one of these sessions. Different regions of the state have different perspectives. Sometimes it is not so much the suggestions offered as much as detailed insights into operational barriers to performance. The devil is in the details. For example, retailers helped us design the flows as well as the layouts of the terminal screens. This advice is invaluable. Some of these retailers could sell the lottery in their sleep. Many times we simply do not know what we do not know.

We still need to work harder to align our business processes and methods with those of our retail partners. For all the diligence and sophistication in the application of best practices, the execution needs to be 100% right.

The world as we know it is being reinvented daily. Markets and business environments differ. Consumer behavior driven by technological advances is constantly evolving. The only way to remain relevant with up-to-date solutions is to stay closely connected to the retailer. The deeper our understanding of the retail reality, the more effective we and our teams become in driving same store sales.

JCM GLOBAL
www.JCMGLOBAL.com

Tom Nieman
Vice President of Worldwide Marketing, JCM Global

Paul Jason, Public Gaming: *The mission of JCM appears to have evolved from bill validation to the broader category of commercial transaction-processing.*

Tom Nieman: JCM has always stayed very focused on its core competencies. That is why we are able to push the envelope on innovating. We know our customers and channel our R & D into creating better products for the business and the markets that we target. Transaction-processing systems and solutions have always been our focus. Our corporate DNA originates with the processing of government-issued paper, what we all call 'currency'. Cash registers and bill validation solutions have always been primary to our product line. Since 1955, JCM has always been a forward-looking innovator in those categories and that continues today.

But the category of transaction processing is evolving and JCM is evolving with it. Virtual currency and paper-less transactions are becoming a larger share of the business and we expect that trend to continue. The emerging technology that facilitates virtual transactions is called Near Field Communication (NFC). NFC enables wireless transactions for an extremely close field, about 4 centimeters. As a comparison, WiFi goes up to around 100 meters; Blue Tooth to around 10 meters. But they can't guarantee that that the transmission can't be "compromised" or hacked. The benefit of NFC is that it enables maximum security for a wireless transmission. The data encryption is extremely sophisticated. That, along with the proximity of the send and receive points, ensures the high level of integrity required for financial

PGRI Introduction: The buzzword of "convergence" seems to have morphed into "multi-channel distribution". Either way, the concept is simple yet has a profound impact on the gaming, gambling, and lottery industry. The explosion in the variety of games available, the channels of distribution, and the kinds of POS and venues is all consumer-driven. There is also dramatic change in the nature of currency and how consumers pay for goods and services, including casino gaming chips and tokens, and lottery tickets. Transaction-processing technologies are changing and JCM Global is leading the way.

Consumer adoption of the virtual wallet will affect all consumer marketing enterprises, including lottery. JCM has established itself in the most preeminent position in all matters of transaction-processing technology. Now, JCM is pioneering the technology of paperless transactions. Tom Nieman has a long history with the lottery industry, working in the Scientific Games division of Bally Technologies (which owned Scientific Games) to assist in the launches of the Iowa, California, and West Virginia lotteries.

Learn more about JCM Global at www.jcmglobal.com

and other types of sensitive transmissions.

The consumer device that will make best use of NFC is likely to be the smart-phone. A virtual wallet housed within your smart-phone can be the tool to execute a transaction with no cash or paper exchanged. JCM is integrating this new NFC technology into our systems and creating new solutions that will enable the consumer to execute virtual, or cash-less, transactions. The Japanese consumer is already past the early adopter stage of this technology. NFC-enabled smart-phone applications are used every day by the majority of Japanese consumers.

Why is NFC technology being embraced by the Japanese consumer ahead of other global markets?

T. Nieman: All new technologies need a driver to push it over the threshold to gain widespread consumer acceptance. Once it gets past that proverbial 'tipping point', consumer adoption explodes. For small business computing, it was spreadsheet applications. For the internet, it was e-mail. For NFC technology to take hold in Japan, the driver was Public Transportation. Much more than anywhere else in the world, public transportation is an integral part of the life of every Japanese consumer. The traffic congestion is such that everyone uses public transportation. So, anything that can make the whole system faster and more convenient is going to get a quick and positive response from the consumer. NFC enables the commuter to load their smartphone with value without standing in line at a kiosk. That's a huge timesaver and an incredible convenience. It is interesting to see how incredibly easy NFC-enabled smartphones are to use. Women don't even remove their phone from their purse when passing the turn-style. Just like ATM usage in the sense that as soon as the consumer gets familiar with it, they can't imagine how they ever endured the inconvenience of dealing with a bank teller every time they needed cash! And also just like with the ATM, it needed to be demonstrated that it would work flawlessly 100% of the time. The consumer needs to be 100% confident that the transaction is executed accurately, that the records are all posted and updated correctly, that everything is performed without a glitch. After all, this involves money and identity, so there is zero tolerance for error of any kind. The ATM was introduced over twenty years ago and the consumer is much more sophisticated now. It still takes time, but the willingness to accept and the ability to learn a new technology is much more evolved now.

Easier for the consumer, for the operator, for everybody, for all the stakeholders impacted positively by the benefits that came out of NFC. So I don't know if each market will need to find its first mover, its primary driver, but there needs to be something like that for a German market to get onboard; for the U.S. market to get onboard; for others all around the world to adopt a new technology.

The Japanese consumer has evolved the NFC technology adaptation because it fulfilled its promise – convenient, accurate and secure. A day does not go by without the Japanese consumer using the NFC technology to buy lunch at McDonald's, to board an airplane, to access a restricted area, or to buy a lottery ticket. The NFC enabled mobile has become an integral part of their lives.

I think it is just a matter of getting familiar with and learning to trust the technology. It took a couple of years for the application of NFC technology to mobile to become widely accepted

JCM Global is the worldwide leader and most trusted name in currency and transaction management. JCM began over 50 years ago as a manufacturer of cash registers, continues today as a worldwide leading manufacturer of cash registers, and has since leveraged its core competencies and IP into a diversified range of industries, including gaming, vending, retail, financial, transportation, security, and custom applications. JCM's market share is around 75% in its core product categories. In 1981, the company began to construct and sell bill validators for the Japanese Yen. As more and more U.S. currency notes were in worldwide circulation, JCM evolved its bill validator for U.S. currency and the Deutsche Mark in 1986. In 1987, JCM Gold (Hong Kong) was established as the first overseas manufacturing plant for JCM's cash registers. JCM American was incorporated in the U.S. in New Jersey, and opened offices in Düsseldorf in 1999 and the UK in 2004.

The company entered new territory in 1988, when JCM applied its technology and skill-sets to the business of handling money and dispensing tokens for the pachinko and patchisuro parlors in Japan Building on these ideas in the U.S., a revolutionary new concept was created: a side-mounted bill validator for casino gaming devices. The idea was met with success and JCM sold side-mounted bill validators for machines that dispensed rolled coins, and the casinos realized a dramatic increase in consumer play and satisfaction.. This success led to the development of the first up-stacker validator, and in the early 1990s, a partnership was forged with leading slot manufacturer IGT to deploy the new device in IGT video lottery machines (VLT's).

JCM's innovative spirit led to the development of its unique embedded bill validator with lockable and removable cash box. The unit's design satisfied the requirements and regulations of the major U.S. gaming jurisdictions, and as a result, that design played a major role in the implementation of the bill validator in the gaming industry - something that more than 1.5 million slot machines around the globe depend on today.

JCM's expertise in the bill validator business has resulted in the development of strong working relationships with the U.S. Treasury and the Bureau of Engraving and Printing. This relationship allows JCM to routinely meet with these agencies as new currency is developed, provides access to new prior to general distribution, including overt and covert security features being incorporated into banknotes, and enabes JCM to have software upgrades available for operators before consumers have newly designed currency in their hands. In addition to staying ahead of legitimate currency changes, JCM also stays on top of technology used to create counterfeit money, and meets with the government when new counterfeits are detected to ensure new software can be developed to detect and reject counterfeits.

JCM's innovative spirit has always led to the creation of products that are technologically innovative, and the company's work has been recognized with several patents and trademarks. With a solid track record, today JCM offers a wide range of capabilities including currency recognition/validation, operational intelligence/intelligent report, micro transport, magnetic and optical sensing, contact image sensing(CIS), bulk note acceptance, note recycling, note centering and thermal printing. Other innovative product features include the ability to dispense customer paper tokens, cash, coupons or tickets, barcode reading technology, intelligent cash box technology, international currency acceptance for up to 80 countries and much more.

JCM believes in constant innovation, growth, and diversification. In addition to the company's core of engineers, every employee at JCM constantly strives to conceive of innovative solutions to improve the cash-handling process. We picture ourselves not as vendors, but as partners with our clients, deepening relationships by listening to their challenges, and creating leading solutions.

business of selling lottery tickets. We all have consumers who are attracted to the "hope and dream" that playing the lottery gives to them. We all have political constituents who expect the highest level of performance and integrity. We all have the general mass media to deal with. We all have beneficiaries who depend on lottery funding. We all want to evolve our games and methods of distribution to appeal to the next generation of player. Think about all that we have in common – Thankfully, there are actually some differences so that our learning curves are not replicated to the nth degree! The similar business models, similar challenges and obstacles, and similar goals combine with differing circumstances and environments to give rise to a wealth of creative solutions and success strategies. The mission of the WLA is to harness the power of our diversity, to harvest the best practices from all across the globe and work with our members to see how and where our methods of operation can be enhanced by a global perspective of this business. More concretely, we work hard to integrate the best ideas from all around the globe into educational curricula that speaks to the specific and unique needs of each individual lottery. Of course, we collaborate with the Regionals to make this happen, to bridge the global perspective with the local realities, and to bring the two together for the benefit of the lotteries.

What if we could combine the best of all lotteries, to make a "Fantasy lottery" like Fantasy Football? All lotteries around the world would have the sophistication of the Asian lotteries and some of the European lotteries in internet gaming, the advanced Mobile gaming franchise found in Latin America, the effective strategies to channelize demand as found in the Canadian lotteries, robust Instants sales and dynamic growth in the multi-state block games as in the U.S. lotteries, the intensely collaborative and resourceful political action agendas as in the European lotteries ... I'm over-simplifying and failing to acknowledge the many other successes of many lotteries and regions. But the goal of the WLA is to try to help all individual lotteries learn from the best practices as they exist in all the various regions throughout the world.

That makes so much sense. It's not about replicating methods of operation from one lottery to another. It's about learning from each other, acquiring the understanding we need to break through with better solutions for our own unique situation.

J. L. Moner-Banet: Exactly. It's not about duplication, it's about inspiration. Building the roads to help lotteries share their best practices and become better operators is basically the reason the WLA was created.

When we talked a couple years ago, the WLA was building an informational database that would contain and organize data and information from lotteries all around the world. This database could then be shared with your members to help them have a better understanding of the industry, and of the metrics as established by the global community of lottery operators.

J. L. Moner-Banet: We are still working on this project; it is still on the agenda. The obstacle is that there are many restrictions to the rights of lotteries to disclose information. And, in Europe, there are restrictions relating to the ways in which we as independent operators in the gaming industry are allowed to collaborate and share information for the purpose of improving our competitive advantage. Having said that, we are working on this project, and I hope that we will succeed to put in place a comprehensive database program. It will not be as complete as I had originally hoped, but it will still be an invaluable resource, including sales figures and other data useful to helping us to understand the trend-lines, direction the industry is going, and to assess our performance relative to our peers and such. NASPL has made tremendous progress in this area so we hope to learn from and emulate their success. NASPL has always been very willing to share the data and we appreciate that as well.

Is there anything that the WLA could do to help the Regionals and/or the member lotteries around the world to communicate the benefit of government gaming model to the shapers of public policy? I hesitate to call it lobbying. But perhaps the WLA could help lotteries do in their jurisdictions what the European Lotteries Association has accomplished in their jurisdictions. Or, for that matter, what the two Swiss Lotteries have become for the national government of Switzerland – a trusted source to at least provide input as public and regulatory policy is being defined. Could or should the WLA become an influential force in the political

action and regulatory arenas.

J. L. Moner-Banet: No, definitely not. That is simply not the role of the WLA. The members would not want the WLA to attempt such a task because it would not be productive. All politics is local, and needs to be addressed by the body politic that is directly affected. For instance, while the WLA has insight and data that relates to regulation of internet gaming, the WLA exercises no influence in Brussels on that issue, nor would the WLA have any voice in Washington to address this issue, or any issue for that matter. The European Lottery Association defends the interests of its members in Brussels. And I see that a team of U.S. lottery directors went to Washington D.C. to meet with federal legislators on this topic. That is how these issues need to be dealt with.

Sports-betting is exploding globally and is increasingly difficult to monitor, regulate, and prevent corruption. The WLA is playing a big role in the global effort to get better control of the sports-betting industry.

J. L. Moner-Banet: It is a big focus because the regulation of sports-betting, the preservation of integrity and prevention of corruption in sports-betting, is quite problematic. We work closely with the Fédération Internationale de Football Association (FIFA) and Early Warning Systems GmbH to safeguard the games and betting systems of WLA members. We also have developed strategic collaborations with the Union Européenne de Football Association (UEFA) and of course with the International Olympic Committee (IOC). And the WLA general assembly just voted approval for the WLA to expand the European Lottery Monitoring Systems to lotteries all around the globe who are operating sports betting. The WLA has taken a leadership role in working to prevent corruption in sports-betting.

Why limit the focus to sports-betting – why not use the foundation you are creating for sports-betting to protect the integrity of all varieties of internet gaming? Don't lotteries and governments everywhere need an international cooperation to address this issue for internet gaming in all its forms?

J. L. Moner-Banet: There will certainly be an increased need for international coop-

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A QUANTITATIVE COMPARISON OF A
HOLOGRAPHIC INSTANT GAME VS. ITS CONVENTIONAL COUNTERPART

Incremental Profitability of TN Lottery $5 Holographic Lottery Tickets

Assumptions: 4"x6" Ticket Size, 25% Profitability

ACTUAL TEST RESULTS

Y-axis: $ profit increase for the 845,980 tickets sold in 16 weeks
($800,000 / $700,000 / $600,000 / $500,000 / $400,000 / $300,000 / $200,000 / $100,000 / $0 / -$100,000)

X-axis: % sales increase vs. conventional tickets
(0% 5% 10% 15% 20% 25% 30% 35% 40% 45% 50% 55% 60% 65% 70% 75% 79%)

The Tennessee Lottery recently conducted a controlled quantitative test that was run to compare the sales of one of its core $5 games ($100,000 Jackpot) which had been traditionally produced on conventional board stock with a holographic version of the same game that utilized an identical size, ticket value, prize structure and payout percentage. The only key variable in this comparison was the use of holography.

Sales results were compared by contrasting sixteen weeks of the conventional game's sales with sixteen weeks of sales of the holographic version of this game. The holographic version was transitioned into the marketplace immediately following the depletion of the conventional version of this game. The results of this comparative test showed that during its initial 16 weeks of sales, the holographic version of this game achieved an index of 179 when compared to its conventional counterpart.

The incremental cost of the holographic board for the tickets sold during this initial 16 week period was fully absorbed when less than a 6% increase in sales (vs. the conventional game) was attained.

The financial impact of the 79% increase in sales that was observed during this 16 week period for the 845,980 holographic tickets that were sold during this time frame resulted in incremental profitability for the TN lottery of $723,000.

This increase in profitability can be directly equated to the opportunity benefit resulting from the reduced amount of time required to sell through the holographic tickets vs. the increased amount of time that would have been required to sell a comparable quantity of conventional tickets.

No evidence of cannibalism was observed with the other $5 games being sold by the TN Lottery (or for that matter, with any other instant games of any value being sold by the TN lottery) during this 16 week test period.

It should also be noted that upon the depletion of the holographic game tickets (27 weeks), sales of the holographic version of this game exceeded sales of the plain board version for the same time frame by more than $1.4 million.

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SAME GAMES, DIFFERENT CHANNELS?

How the Right Partner Makes Convergence Successful.

By Paul Jason, Publisher, Public Gaming International Magazine, and the staff at SPIELO International

There's been a lot of ink spilt (or pixels burnt) over convergence. According to analysts, it's the way forward. After all, gamers love to play, and your VLT players have mobile phones and internet access, too, which means they can play more than ever before.

But is convergence as easy as taking your VLT game and plopping it into a mobile app? The companies that do it well will tell you it's more complex. It's not about having one content strategy, but having multiple content strategies, tailored to each channel. Recognizing this complexity, the Lottomatica Group began the integration of SPIELO International and SPIELO G2 (formerly known as

GTECH G2) to provide integrated service across all channels.

Play experience differs depending on the channel – the device – and the environment. For example, a casino slots player tends to be fully immersed in the experience, often in sessions of an hour or more. Yet someone playing on their mobile phone might be killing a few minutes while waiting for a bus, or a tablet owner might be playing while they watch television or keep an eye on the kids. With players expecting different kinds of gaming experiences depending on their device and environment, why would an operator want to offer multi-channel products?

It's because those hotly sought-after new and younger players want an integrated experience, as they already enjoy in diversions like television and shopping. To be successful, gaming needs to follow.

SPIELO International is showing innovation on this front with the recent announcement of their PopCap® license, where they're harnessing proprietary casual game features and the brand power of casual games (a rapidly growing entertainment segment) and channeling it into slot machines. They also offer the Plants vs. Zombies™ license for interactive games, an example of monetizing online social gaming.

Survival and growth are compelling reasons for companies to consider a combined landbased and interactive offering. But how does this help the customer? These benefits fall into two main categories: a 360 degree view of the player, and cohesive player services.

Lotteries want one view of the player, and the player wants to be able to play 'their' content on any device they choose. A supplier with integrated management of the landbased and interactive elements can meet this vision. System roadmaps can be developed to allow more seamless integration, with reporting packages (including a single player wallet) giving lotteries more accurate information and cross-channel visibility.

The single player wallet doesn't just mean one safe place for funds: it also allows a reward system that works across all channels, empowering cross-promotional activities so lotteries can better anticipate and serve players' needs. It can also encourage socially responsible behavior, with true responsible gaming limits set across all activities and channels, not just in an isolated environment like a bar.

Part of SPIELO International's integration with SPIELO G2 includes a rewriting of Robin Drummond's role. As the Vice-President and General Manager of Public Gaming for North America, his role now encompasses all of SPIELO International's World Lottery Association clients, including those served by SPIELO G2. Drummond says a better understanding of the player isn't the only benefit of convergence.

"By re-organizing, we can leverage the Public Gaming side of the business and the expertise within that group to help our customers with their entrance into, or their continued management of, interactive gaming," explains Drummond. *"My new role ensures a single point of contact for our clients."*

"It also means the combined team can leverage SPIELO International's 22 years of ongoing success preparing and delivering public gaming procurements, as well as SPIELO G2's experience as the leading provider to the interactive gaming market, to enable the convergence of landbased and interactive public gaming content."

An integrated supplier can leverage expertise in government relations, RFP applications, on-time delivery, and project management. Recent examples of lotteries increasingly exploring both

ROBIN DRUMMOND, VICE PRESIDENT & GENERAL MANAGER, PUBLIC GAMING, SPIELO INTERNATIONAL

iGaming and landbased channels include the British Columbia Lottery Corporation and Loto-Quebec, while Svenska Spel has operated in both channels for several years.

SPIELO G2 is the largest iGaming provider to lotteries around the world, and recently, Norsk Tipping selected SPIELO G2 to launch the lottery's first range of iGaming products exclusively for the Norwegian market. On the landbased side, SPIELO International was 100% successful in bids for the Canadian VLT and systems replacement cycle, winning all 11 of its competitive procurement bids. As a unified force, SPIELO International and SPIELO G2 can now inform decision makers and regulators about navigating both channels, and understanding the overlap between.

"We can consult with clients on a regulatory structure that optimizes the environment for both products and channels, without cannibalizing one another. We can also advise on entering the market, and on taxation practices as they typically apply to each channel in order to streamline and simplify the process," says Drummond. *"In this way, we're a single partner assisting them in long-term strategic planning for their market and their players, which is particularly valuable to a new market introducing both at the same time."*

For gaming suppliers, the challenge is providing content that's equally compelling across different channels, not just the same game with identical play mechanics, mimicked on different devices. SPIELO International's approach has been to continue their market-leading practice of player research and market validation. They let content be the driver of their games, but they recognise that content has to match what the player wants, in the environment that the player chooses.

This intimate knowledge, combined with the 360 degree view of the player, unlocks the secret of what players want, giving the supplier the framework for what new content to develop, keeping in mind the importance of matching it to their players' lifestyle and chosen methods of play. And we all know that an entertained player, playing across all their devices, means sustainability and success for lottery programs. ◆

them to gamble at call centres, betting stores, or Internet. They can deposit cash at the store, bet on-line, and return to the store and pick up cash. Ladbrokes realised that there is still reluctance amongst some people about using credit cards on the Internet. Since the oncoming of the recession twenty eight percent of people no longer have credit card facilities in the UK.

Camelot is the operator of the UK National Lottery and has also done exceptionally well over the period. From 2007/8 to 2010/11 sales have increased by 17.2%. In the current fiscal year they have achieved sales of £3.63 billion for the first six months. A stellar performance that if maintained would see them 20% above the previous year. However this was Olympic year in London with many lottery promotions to celebrate the games.

The major focus is still with the retail agents, and in this respect Camelot does do a good job. Point-of-sale materials are top-class with live screens in gas stations and convenience stores that advertise the latest jackpot payout and any roll-overs so as to stimulate customer awareness and interest. At some point in this next two years the two must come together with cross promotion between Internet and retail agents for mutual benefit.

Lotteries are easy to understand, easy for the consumer to learn, and are available throughout the world. The huge jackpots on Euro Millions, Instants with $1.5million prizes are available everywhere, and the UK's new residents have clearly warmed to these products. Internet lottery is still relatively new, the marketing is quite passive, yet it has managed to reach nearly 20% of Camelot's sales.

The Loteria Nacional of Mexico has produced a touch screen game especially for the stores that has more content and is particularly appealing to the younger generation of players. In his interview with PGRI, Benjamin Gonzalez Roaro stated "We are analysing the play styles and preferences of a new generation of Internet gamers and reinventing lottery games to appeal to the new style of games that are social, facilitate sharing with friends and family, are longer playing and deliver more entertainment value."

And they will be available through both the Internet and land-based retail stores. Integration and cross selling to optimize both channels is the direction that progressive gaming operators are pursuing ◆

eration. And the work we are doing to reinforce the integrity of sports-betting will provide a good foundation for developing similar global initiatives in other categories of internet gaming. But our resources are limited. So for the time being, we want to be focused and concentrate on the immediate and urgent need to help the governments prevent corruption in sports-betting.

What are your personal goals as president of the WLA?

J. L. Moner-Banet: My personal goal is to clarify the purpose and the importance of international cooperation, to enhance the level of genuine and productive communication and interaction between lotteries all around the world. That is, I feel, the foundation for all the other goals we have. We all have so much to gain by working together. As long as we realize that and act on it, there is no limit to how much we can accomplish. ◆

EUROPEAN COMMISSION'S COMMUNICATION ON ONLINE GAMBLING:
The wrong method to safer gambling markets in the EU Member States

By Philippe Vlaemminck and Lucas Falco
www.ALTIUS.com

The European Commission recently put forward a statement titled *"Towards a comprehensive framework for online gambling,"* published on October 23, 2012. It attempts to clarify the EU Commission position as regards the matter of regulation. This is an important statement to all member states and their lotteries, and so bears scrutiny.

First, it should be pointed out and emphasized that gambling is not regulated at the EU level. That is to say that no EU harmonized legislation has been adopted by the institutions of the European Union (EU) to regulate gambling activities. Moreover, as there is no sector-specific EU regulation, gambling activities are regulated under Articles 49 and 56 of the Treaty on the Functioning of the EU (TFEU), and according to the interpretation given to the said provisions by the case-law of the Court of Justice of the EU (CJEU), the Highest Court of the EU.

The first case-law in which the CJEU had to deal with gambling (*Schindler*, 1994) granted the power of regulation of the gambling activities to EU Member States, considering that individual Member States were the most appropriate entities given the sensitive differences between Member States in terms of gambling. Gambling is considered to be a sector closely linked to the tradition, culture and specificities of each individual EU Member State. The Subsidiarity principle provides that the EU should only intervene when EU Member States do not have the means to regulate a sector of activities in an efficient manner. In compliance with the Subsidiarity principle, the CJEU has decided that the appropriate jurisdiction to regulate gambling is the Member State. Accordingly, the CJEU has further ruled that EU Member States be allowed to adopt their own legislations and to follow their own objectives in terms of player protection, the fight against criminality and problem gambling, and to do that without taking into consideration the rules and regulations implemented in other EU Member States (*ANOMAR*, 2003). In other words, EU Member States are allowed to implement different types of gambling regimes which can range from a total prohibition of certain gambling activities to a total liberalization of the market of other activities. It is up to the individual Member State whether to limit the number of licences or not, whether to opt for a monopoly model instead, whether to prohibit online gambling or not, allow land-based gambling and casinos or not, etc.

Even though Article 56 TFEU prevents an EU Member State from restricting the offer of services coming from another EU Member State, the CJEU usually accepts exceptions to that principle when a national legislation pursues objectives of general interest, such as player protection, prevention of gambling addiction, protection of vulnerable persons or the fight against criminality (including corruption and money-laundering).

It follows from the above that the gambling debate within the EU (as is also the case in United-States) is still an ongoing subject leading to much debate and lobbying coming from various actors of the gambling sector.

According to the TFEU, EU institutions are allowed to adopt binding and non-binding proposals to regulate or help to interpret the provisions of the TFEU in specific sectors. Needing more precise guidelines as regarding that allowance, the European Commission has adopted its long-awaited *Communication on Online Gambling* on the 23rd of October 2012 which is accompanied by a Staff Working Document aimed at providing guidance related to certain sections of the *Communication*. The *Communication* at issue follows the guidance of the Green Paper on online gambling, adopted in 2011 after a consultation of the different actors of the sector with the aim of obtaining a full picture of the current situation of the EU gambling sector in order to analyze the manner for the different regimes to coexist, and whether possible EU initiatives are required.

The *Communication* defines five areas of action. The first area of action is the compliance with EU law of national regulatory frameworks. The European Commission commits to strengthen its controls and assessments of national legislations by requesting further information from national authorities as well as to move forward in the infringement proceedings against national legislations deemed, according to the European Commission, not compliant with EU law.

The second area of action regards administrative cooperation wherein the European Commission urges EU Member States to equip their national regulators with adequate means in order to cooperate at EU level with the different regulators concerned. The European Commission further emphasizes that the first immediate step should be the exchange of general information and best practice. The objective of the European Commission is to facilitate the cooperation between all EU and EEA regulatory authorities.

The third area is the player protection and the protection of citizens where the European Commission commits to adopt a Recommendation on common protection of consumers as well as a Recommenda-

tion on responsible advertising. A Recommendation is a non-binding instrument adopted by the European Commission which aims to provide the actors concerned with information and guidance on a specific area. Nevertheless, the CJEU emphasized that national courts have to take such instrument into consideration when deliberating on disputes, as they were meant to supplement Treaties and other binding provisions without replacing them (*Grimaldi*, 1989). ***One can question here whether this is the role of the European Commission to do so.*** All Member States have issued their own rules on consumer protection and have their own approach to advertising. ***There is no need to re-invent the wheel and to oblige all Member States to adopt the same rules.*** This violates the principle of subsidiarity and does not create any added value. On the contrary the risk does exist that Member States will no longer be able to maintain their own gambling policies.

Anti-money laundering and other forms of fraud comprise the fourth area of action. In this, the European Commission calls upon national states to encourage the exchange of best practice and experience as well as to train judiciary on issues related to money-laundering and other frauds in terms of gambling. Moreover, the European Commission further points out that the new Directive on anti-money laundering, which is an EU instrument which has to be transposed into national laws within a certain period of time, will provide rules applicable to all types of gambling (premises) as it currently only applies to casinos.

Regarding the fifth area of action, the European Commission has planned to adopt a Recommendation in terms of sports integrity and fight against match-fixing in 2014 in order to enhance the cooperation between all relevant actors of the sector to introduce mechanisms such as whistle blowing, reporting obligation of suspicious behaviors, etc. in order to strengthen the fight against such type of fraud. Furthermore, the European Commission calls upon Member States to set up national points of contact allowing discussions between actors of the sector and also to equip national and administrative systems with tools, resources and expertise in order to fight against match-fixing.

Finally, it has to be mentioned that an expert group on online gambling has been set up as provided for by the Communication in order to address all the specific issues mentioned therein. Such expert group includes different representatives and regulators of the EU Member States. The first meeting of the expert group was held on December 5th. Up to now it is not clear what the role of this group is, nor whether the States will have anything to say. The European Commission tries to use this group to move forward fast and avoid political weight from the States.

Given the above, one could submit that the approach of the European Commission is not coherent. Indeed, on the one hand, the European Commission asks EU Member States to cooperate in order to create a safer EU gambling market by fighting illegal operators while, on the other hand, the European Commission commits to keep on acting against Member States the legislation of which is not considered compliant with the CJEU case-law. This approach leads accordingly to more uncertainty for players, and thus to a gambling market which presents less protection for consumers. In other words, in the case that the European Commission desires gambling to be a safe and peaceful sector of activity for citizens, it cannot at the same time keep on acting aggressively against Member States' legislation to accomplish same, as this would lead to a period of legislative lack which illegal operators could take advantage of.

Furthermore, regarding the Recommendations planned to be issued by the European Commission, it has to be emphasized that such initiative will leave the door opened to future EU legislation of the gambling sector that could further violate the principle of subsid-

iarity. Indeed, even though the European Commission submits that such instruments do not aim at replacing the binding provisions in force, adopting Recommendations will force national judges to take them into account when settling a dispute. The European Commission should accordingly not adopt non-binding instruments to impose rules on national authorities. The content of such instrument will have to be assessed to define exactly what is the scope of the so-called Recommendations as we would like to point out that only the content will define the nature of the instruments and not the name granted by the European Commission. In the event that the content will be binding for national authorities, it would lead to a form of harmonization contrary to the CJEU case-law.

Moreover, the European Commission seems to make it a priority for cooperation to play a defining role in producing a safer EU gambling market. Even though administrative cooperation is indeed useful and necessary to fight against illegal gambling, we do believe the European Commission should have defined ***enforcement measures*** as the priority area of action. Consumer protection does indeed start with the enforcement of the laws adopted to protect them against illegal and fraudulent offerings. The European Commission touches upon enforcement measures in the Staff Working Document, setting forth two different types of measures: preventive and responsive enforcement. Considering the scale, and the rapid and relentless growth of illegal gambling, we are of the opinion that the priority should have been the implementation of responsive enforcement measures (e.g. IP/DNS blocking, blacklists, payment blocking, etc.) which are already carried out in different national legislations and have already proven their effectiveness.

It has also to be pointed out that the Council of Ministers of the EU decided, within its Conclusions of December 2010, that in all discussions at EU level the specific role of lotteries and the fundamental contribution of lotteries to the EU society has to be recognized. It is consequently very surprising that the European Commission has not taken into consideration the aforementioned Conclusions and puts at risk the highly important contribution that State Lotteries make to educational, cultural, sports, health, and other societal activities. One could question whether the European Commission does not exceed its competence by denying the Council's decision.

Regarding the agenda, the European Commission will have to work together with other EU institutions such as the EU Parliament as well as with Member States and all interested shareholders in order to implement the Communication at stake. A conference of shareholders should also be organized in the course of 2013. The European Economic and Social Committee, which is a consultative body of the EU, has planned to issue its Opinion on the Communication by March 2013.

To conclude, we would like to highlight the necessity to preserve the principle of subsidiarity as drawn by the CJEU in order to safeguard EU citizens from all the dangers and risks related to illegal gambling. The European Commission seems driven by the desire to create an EU Internal Market for gambling activities, forgetting the aforementioned principle as well as the fact that the CJEU recalled in 2009 (*Liga Portuguesa*) that the principle of mutual recognition (whereby a state needs to recognize the license issued buy another State) is not applicable to the gambling sector. Stated simply, individual EU Member States are the best placed entities to regulate gambling efficiently.

Law enforcement and enhanced cooperation measures should accordingly be the first means possible to stop illegal gambling activities in compliance with the principle drawn by the Highest Court of the EU. At the same time the societal role of Lotteries needs to be recognized and consolidated into any EU framework. ◆

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15 to 20+ years." The irony of this focus on land-based retail for the next 20 years is that BCLC has the most advanced and developed internet gaming division in the western hemisphere. They told me that while iGaming will have a faster growth rate; it will never really impinge on the key-driver role that land-based retail has always played. (The internet as a communications and customer relationship management (CRM) hub and customer acquisition tool will be vital. It's just that the internet will not be the game-changing channel for distributing the traditional games as they may have projected a couple years ago).

P. McHugh: Scientific Games remains incredibly bullish on the land-based retail channel. We fully expect the retail channel to always serve as our industry's primary sales outlet. With that said, the most successful lotteries in the world – indeed the most successful businesses in the world – watch what their customers are doing, help shape behaviors and ultimately adapt to the consumer's choice. Today, consumers are choosing the internet in addition to traditional retail stores to make their purchases. We also see the internet, along with other advanced sales channels, as a critical component to engaging in a different way with existing players, reaching new players and driving incremental business growth. A digital channel at its core is a fantastic promotional tool and a great way to extend brand awareness for the lottery. Our industry will stagnate if we don't pursue these new channels, albeit in a way that remains complementary to our industry's retail-based roots. The rapid adoption of our rewards platform, Properties Plus®, with over 760,000 members as of January 1 – all who purchased tickets at retail – demonstrates the power of this combination.

When considering the internet as a sales channel, we think it's important to continue to make the distinction between iLottery and iGaming. Today, it is best to look to Europe for examples of lotteries that are truly leveraging the iLottery segment. In these cases we see 15-20% (internet sales as a percent of total sales) as the benchmark of a successful program. In these instances, internet sales represent incremental growth. A lottery benchmarking study

from Media & Entertainment Consulting Network (MECN) in late 2012 indicated that traditional retail sales growth in these jurisdictions is outpacing the industry as a whole. We believe this is because an effective internet program will attract new players who will also buy at retail.

For some of our U.S. customers, the internet has provided new ways to drive retail lottery sales through promotions and 2nd Chance games. But for all lotteries, an internet platform can offer CRM tools that provide rich opportunities for lotteries to communicate with their players one-on-one and manage the player relationship more directly and responsively.

Will Scientific Games continue to take a data driven approach to driving lottery performance? A recent article in The Harvard Business Review talks about the limitations of data and research to drive strategic planning and decisions. "Leaders rarely succeed in marrying empirical rigor and creative thinking ... For all its emphasis on data and number crunching, conventional strategic planning is not actually scientific. It lacks the genuine inquiry that's at the heart of the scientific method." How is the application of analytics bridging that gap? How does Scientific Games bridge that gap?

P. McHugh: We believe it's vital to maintain a creative culture that analyzes data in terms of consumer behavior to shape our strategic decisions. As far as pure analytics go, there is an abundance of data available. The key to making analytics work for our organization is in knowing which part is science and which part is art. We have developed many proprietary systems to synthesize disparate data sets (i.e. game sales, retail location, prize redemption, etc.) to provide comprehensive and accurate views of the marketplace. We work with our customers to build real empirical evidence into strategic planning. And, we continuously conduct consumer and retailer research. But that alone is only the science component.
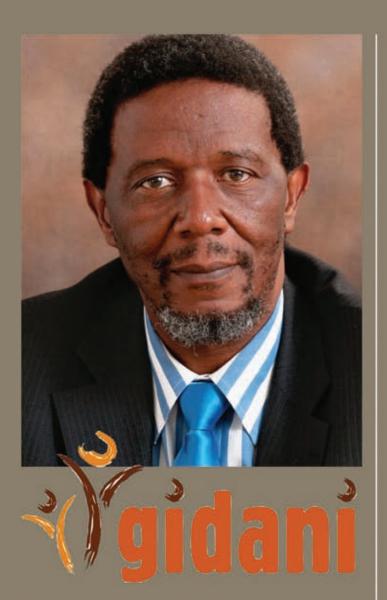
The art part is in the insight – the people who can look at the analytics and tease out results to fuel product and service development. It takes experts to analyze the data and turn it into information that can be applied to a business initiative. Finally, it

takes leadership that values creativity and is committed to taking calculated risks to further the business. Lorne Weil, our CEO, continually challenges our organization to be creative leaders in the industry. I believe the diversity of our product and service offerings is unmatched in the industry and is a reflection of that leadership. The results prove it. Scientific Games' customers generally outpace the rest of the industry in sales performance.

What about managing channel conflict? How can lotteries convince their channel partners (especially small land-based retailers) to embrace the need to implement the multi-channel approach so vital to the future of our industry?

P. McHugh: We need to prove it by engaging directly with key retailers and their associations to implement solutions that provide tangible value to them – either through addressing operational challenges with selling our products, or increasing profit. This has been a strategic focus at Scientific Games. However, it must be executed without losing focus on the consumer's needs, or we all lose. Lottery games are consumer products. And lottery brands are consumer brands. And like all consumer products and brands, they must adapt to the changing needs and lifestyles of the consumer from generation to generation. Today's consumers apply a multi-channel purchasing approach to many products in their lives and lottery games should be no different. Consumers today want to have a relationship with the brands that are important in their life. The opportunity to play games on a mobile device does not mean sales will decline at the neighborhood store that's been part of a consumer's life for years.

In fact, adding additional distribution channels to traditional brick and mortar lottery retail distribution can actually increase brick and mortar sales. The 2012 MECN study I mentioned found internet sales in the U.K. represent nearly 16% of total lottery sales. While the National Lottery has successfully created an important sales channel with the internet, it has done so in conjunction with the continued success of its traditional retail sales

Operator of the South African National Lottery, Earns the WLA Information Security Certification

By Prof. Bongani Aug Khumalo,
Chief Executive, Gidani (Pty) Ltd.

1995 marked the birth of the South African National Lottery. The National Lotteries Act followed in 1997, the National Lotteries Board (NLB) was appointed to regulate the industry in 1998, and the first license to operate the lottery was issued in 1999. The first lottery operator started in March 1999 under licensing terms effective to March 2007.

Gidani was formed in 2005, to compete for the 2nd licence to operate the South African National Lottery. The 2nd license was awarded to Gidani which has operated the SA National Lottery since October 2007. Among the higher standards being implemented with this second license was the increase in net funding that the National Lottery turns over to good causes. Gidani is pleased and proud to operate a lottery which delivers this higher level of service and performance for the people of South Africa, and to turn 34% of Lottery revenue to good causes.

There are about 8,000 terminals deployed at retailers throughout the Republic of South Africa. Each magisterial district in the country is required by terms of the license to have at least one terminal at a retail outlet.

Gidani is a champion of the multi-channel approach to making the products accessible to the consumer. The experience in South Africa is similar to other progressive markets in that land-based retail continues to be the preferred POS for the consumer and therefore the key sales-driver. But the National Lottery can be played in person or online and Gidani continues to innovate to make the products more appealing and accessible to the consumer. Tickets are sold through the Internet, SMS (Short Messaging System), Banking Channels, including Automatic Teller Machines ATM's, Mail Subscription and Tills in the large retail chain stores of various sorts.

In 2010, Gidani embarked on a journey to become a world class lottery by enhancing and strengthening all aspects of its operations and maximising compliance with legal and other standards that are required of a top Lottery Operator. Among others, Gidani took the opportunity to assess all aspects of its security, benchmark its security systems against the best in the world, and establish concrete objectives to measure progress and performance and deliver the highest standard of security in the interest of all of its stakeholders. As a catalyst for these actions, the need to ensure top class legal compliance prompted us to see an opportunity to reinforce the broader business objectives of sustainability, uninterrupted operations and continuity of brand and image development, and securing a competitive edge over operators which do not meet the highest standards of security and integrity.

The new Information Security Management System was implemented in 2010. Two years later, Gidani was ready to subject its accomplishments to the scrutiny of world-class standards. In May of 2012 it began the process of earning the World Lottery Association – Security Control Standard (WLA-SCS) and the ISO 27001 certifications: the certifications were earned in September 2012. The WLA Security Control Standards are the lottery industry's only internationally recognized security standards. They are designed to assist lotteries around the globe to obtain a level of controls in line with best practices as established globally.

Gidani's vision is to be 'number one in Africa - leading globally'. This is an aspiration that we hope inspires our colleagues everywhere, and benefit our stakeholders primarily in South Africa. As part of this commitment to excellence in all aspects of operation, Gidani became the first ever and only lottery operator in Africa to gain recognition by the World Lottery Association (WLA) for its security controls. With this certification, Gidani became the 49th out of 147 distinguished Lotteries globally to have received the highest certifications in the Lotteries Security space.

Achieving the ISO and WLA standards vindicated our conviction that the people of South Africa deserve the highest standards of operational integrity and security, and rewarded Gidani commitment to delivering quality systems through tested processes that provide focus and discipline internally and externally thereby winning credibility, authority and recognition. ◆

channel. The latter grew more than 7% in 2011 alone. We believe additional channels support retail growth and can serve as a promotional tool to drive players back to retail. Our research indicates that a significant percentage of frequent players, infrequent players, and non-players would purchase more often and spend more if the current games were offered on the internet. And there was significant appeal to loyalty programs that included coupons for local retailers.

We have been implementing internet-based players clubs, 2nd Chance games, loyalty and rewards programs for more than a decade. And these programs have proven to increase sales. Now more than ever with eCoupons and promotions, lotteries have the opportunity to work with their retailers to heighten brand awareness, reach new customers, drive traffic to brick and mortar locations, and enhance the player's overall experience. We see the internet as fully complementary to retail. And this could also be said for the new play at the pump and ATM channels. We believe that the technology behind multi-channel play and the CRM tools other channels offer, deepens the customer relationship and will take our industry into a new era of growth.

As the number and variety of ways for the consumer to interact with lottery increases, doesn't this create a challenge on at least two fronts? First, how do you keep it simple and easy for the consumer to understand the games, how to purchase them, how to migrate from one type of POS to another – internet, in-lane self-serve, ITVMs, land-based stores, kiosks in casinos or other age-controlled venues, buy at pump, etc. Can multiple channels be integrated to form a simple consumer-friendly user interface? Thirdly, how do you leverage the different media, POS and venues to cross-sell, to gather consumer information, to inform game design innovation, to create better CRM tools, etc.?

P. McHugh: I agree. It's very easy to over-engineer solutions if you focus primarily on the technology. We really focus on the player experience as the 'user interface' because, as you said, there can be many touch points as products converge. First, we decide how we want to shape the player experience, and then we design the

technology to enable that experience. A primary goal of new channels is to create opportunities to connect with new or infrequent players. So, the experience must always be simple to understand and easy to navigate. The user-flow must take a player quickly from initial engagement, whether that is at retail, via the internet, or mobile, through to game purchase, and other cross-promotional activities, in a quick and efficient manner. This is a common objective across the ecommerce world today and proven techniques can easily be applied to the lottery space.

The most important consideration is to avoid doing things that create artificial barriers to play. Player drop-off comes very quickly when they are tasked with irrelevant extra steps, required to supply personal data they deem unnecessary, or asked to do anything that they feel over-complicates the process.

Our industry has invested tremendously in the retail POS experience to make the game purchase process as simple as possible for the consumer. This is long-proven to be a core success factor. The same translates to new channels and the associated interfaces.

The whole opportunity is around player choice, being able to connect with players at different times using different channels – but where possible using a single player account and familiar gaming content and brands. We believe that channels such as traditional retail and the internet, across fixed and mobile, are not mutually exclusive. They will co-exist. It's not a simple case of migrating from one POS to another. It's a case of extending the player experience across multiple channels.
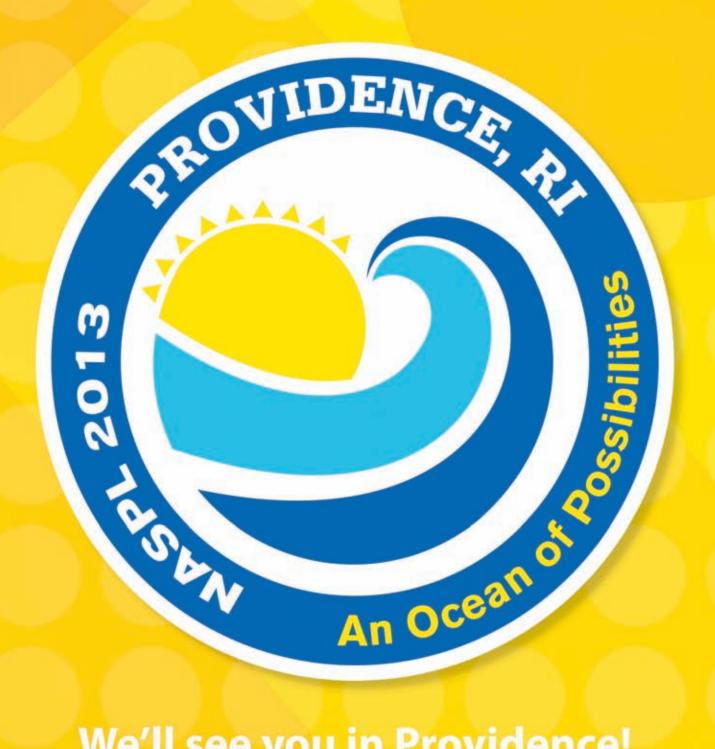
Just as there are advantages to giving players seamless access through a single account and familiar content on different channels, the benefits for CRM are obvious. Now we can use business intelligence technology to build a single view of the player. And with integrated player marketing, we can offer vouchers, free games and loyalty points to incentivize play at retail. Establishing a closer relationship with players can only serve to advance innovation in game content and play styles.

As players drive demand for a play anytime, anywhere experience, how important

is the technology in being able to offer secure access and transactions, and a personalized one-to-one gaming experience? What about the integration of third party content? And finally, how does responsible gaming fit into players being able to play the games anytime, anywhere?

P. McHugh: Trust and security remain critical components of a successful lottery program as new sales channels emerge. And incorporating all the elements when designing a responsible gaming program is very important. The World Lottery Association's framework in this area is exemplary.

For secure transaction processing, building on the same technologies that are widely used for internet banking, the security and integrity of core transactional platforms is already in the marketplace and being used by consumers. Lottery players can have trusted, secure access to their account from any device. The player's account, responsible gaming limits and player exclusion mechanisms sit at the very center of the platform. This 'single view' of the player is critical for the internet channel. Usability is greatly improved if the user interfaces are dynamically built based on individual player profiles and preferences. Our interactive team views personalization as just the first step in ensuring that the play experience can be successfully extended across devices. By using 'contextual' knowledge such as the player's location, the size of jackpots, and time of day, player-specific content is prominently placed. We are further refining the playing surface and menus to make the most desirable content the easiest to find.

Content remains king. Having a platform that is open to third-party developers is important. Just look at the mature iGaming marketplace and you'll see the incredible value of having eco-systems of content producers. We believe the real added value comes through the integration of unique, local content and we are designing programs and technologies that support content innovation. Having large volumes of identical game types tends to move gross gaming revenue between titles. New content successfully engages new players and promotes responsible revenue growth. ◆

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Providence, Rhode Island seamlessly blends the urban sophistication of a big city with the graceful charm of a small town. Sightseers leisurely glide in gondolas on the Providence River, past gleaming office buildings. Cobblestone streets lead to some of the finest restaurants in the country. This unique mix once made Providence the star of its own self-titled television show and continues to entice thousands of visitors annually. The Rhode Island Lottery and NASPL proudly invite you to *NASPL '13 - An Ocean of Possibilities!*

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JCM GLOBAL EVOLVES IVIZION'S "FOUNDATION OF INTELLIGENT VALIDATION"

JCM Global, is helping casinos everywhere evolve their gaming floors to be even more accurate, secure and rewarding. JCM Global's collection of highly evolved products are helping operators be even better, smarter and faster than ever.

JCM is evolving its award-winning iVIZION® bill validator, building on iVIZION's foundation of intelligent validation. iVIZION is the most advanced bill validator the gaming industry has ever seen, and the product has been breaking sales records around the world. iVIZION is evolving with JCM's new DNA (Dynamic Network Applications), an incredible set of bundled enhancement tools that empower gaming operators to do much more than ever thought possible, and in real time.

Operating wirelessly or hard-wired, DNA passively monitors the EGM "SAS" line for critical housekeeping data, while securing two-way communication with all critical peripheral components. With JCM's DNA, operators can get extensive reports in real time and deliver firmware updates instantly, with no downtime, across the entire operation. DNA also enables regulators to instantly verify peripheral devices, software versions, view reports and more. DNA can facilitate promotional coupon printing or random bonusing. DNA can deliver and publish content to EGM digital displays from a central server., offering concierge services or other regulated gaming opportunities. In other words, this original technology is even further enhancing profitability, productivity and efficiency.

The evolution continues to table games with the new iV8™ table game bill validator, which gives operators "Intelligent Validation At 8 Notes Per Second." The revolutionary iV8 bill validator was developed specifically for the high-volume table game marketplaces like Macau and Singapore. iV8 has a compact, sleek, streamline design and has been proven to increase play time. JCM will show iV8 at the upcoming ICE trade show.

Also at ICE London, JCM will demonstrate Mobile Wager Wallet™, the world's first fully interactive mobile wager network that allows players to pre-load their virtual mallet for use at casino EGMs.. Mobile Wager Wallet delivers mobile transaction capability across the entire casino operation, quickly, easily and securely.

TRANSACTION-PROCESSING GOES MOBILE

JCM Global, Techfirm Inc. and NRT Technology Corp. have teamed together to introduce The First Fully Integrated NFC-Based Interactive Mobile Wager Network That Connects Player, Mobile Wager Wallet, ATM and Gaming Device. This integration allows casino patrons to withdraw virtual funds from ATMs onto their phone and into their mobile wager wallet for use at electronic gaming machines, and potentially at retail, food and entertainment venues within a casino property. Additionally, players can transfer virtual funds from the MWW back in to their account on the NRT ATM, or dispense funds, if desired.

This refinement and integration are major steps forward, further evolving JCM and the JCM product line, which will continue to help operators evolve their casino business.

JCM Director of New Product Development Brian Montano said, "JCM has long been the leader in automated transactions in the gaming industry, and has a long history of bringing stakeholders together to advance technology. We are thrilled to bring the major players of Techfirm, NRT and JCM together for a project of this magnitude that will be a game-changer for the industry."

The market for mobile-based transactions is anticipated to grow quickly in North America, and Google recently announced its launch of a "Google Wallet." Additionally, all mobile providers are now equipping their smart phones with NFC technology. ◆

in Japan. But it's just like any new technology.

JCM's strength is that you pioneer new technologies even while dominating the markets for the products based on current technologies. That is especially true for your bill-validators, isn't it? I read that you won every single RFP over the past 12 months.

T. Nieman: Not exactly correct. We won every RFP that we responded to. We chose not to respond to a few because their requirements to deliver within a tight timeline exceeded our manufacturing capacity. So we had to walk away from some of the business. In spite of that, we still have around 75% of the North American market in bill validators.

And you are pioneering the application of NFC to transaction-processing, a trend which would seem to cut into the market for bill-validators. Why disrupt markets that you already dominate? Aren't you concerned about cannibalizing your cash-cow?

T. Nieman: First, it's not as if currency is going to go away. And because criminals and cheats aren't going away either, the need for secure and increasingly sophisticated bill-validators will continue to grow for many years to come. Second and perhaps more importantly, JCM is a customer-focused company. We go wherever the customer wants us to go. We are confident that our core competencies position us better than anyone else to meet the need for virtual-transaction-processing systems. JCM has combined the currency bill validator and the virtual transaction processing system into a single device, creating cost savings, lower cost of ownership, and transactional synergies. Rather than have a BV and a second system for NFC transactions, we consolidated for operational benefits, consolidated accounting, etc.

And we feel that if we keep raising the bar on ourselves, always being the first to embrace the future and deliver the best products that meet the emerging consumer trends and not just the current tastes, that makes it very difficult for anyone to ever catch up or leap-frog us. The fact is that the consumer markets are evolving. The consumer is much more willing than ever to embrace new technology. And as they understand the benefits of technology and become quicker to adopt new time and money-saving technology, like smart-phone-enabled virtual transactions, their learning curve becomes shorter and easier. That in turns makes them more disposed to accepting change and new ideas. It's Bill Gates' concept of a positive feedback cycle. And what it means to us is that there is no time to waste. We are anticipating future trend lines because the future is happening much more quickly than anyone is prepared for.

The smart-phone is perhaps the most important case in point. Consumer adoption of the smart-phone has now passed the proverbial tipping point in almost all markets. Now, more applications and capabilities make it the most indispensable consumer tool. I'm more likely to forget my wallet than my smart-phone. But to your question, Nokia dominated the cell-phone business and should have been the ones to lead the market disruption that migration into smart-phones produced. But they didn't, perhaps because they were concerned about cannibalizing their profitable

On Innovating the Multi-State Games

First, congrats for your continued success. Iowa Lottery sales are up by like 30% over the last two years. Isn't there a limit to how long you can maintain a double-digit growth rate? I'd think you'd run out of runway at some point.

T. Rich: We may reach a plateau. But we continually try to set a new level, to create a new normal. So it's not simply a continual drive to promote and increase sales. A sustainable growth plan must include expansion of the player base, appealing to new consumer groups, and always staying true to our principles of responsible play. That does become more challenging as the revenue baseline increases.

Increasing sales is only one part of the equation. The overall objective is to maximize net funding that goes to social programs that benefit all Iowans. Increasing operational effectiveness is also a focus for the Lottery right now. Among other things, we're taking steps now to automate our sales force and the support we give to retailers.

The change in the price-point of Powerball would seem to introduce the markets to the concept of product differentiation in the lotto space. Are we entering a period of change and growth in the lotto category?

T. Rich: I think so. The growth of scratch tickets is largely attributed to the big variety of price-points. Now we have the option to apply some of those principles to lotto. But we're exploring lots of different ways to innovative and update the multi-state lotto category. Internet and mobile applications can get us into new markets. And social media is rich with potential to change the complexion of the game and create appeal for new consumer groups. Instants will continue to evolve in exciting ways like they have been for years. But lotto represents rich potential for innovation and we expect the result to be significant growth in a category that once may have been considered mature.

There have been some great jackpots this past year. That certainly helps to drive sales. But you also made the observation that success can have the collateral effect of hurting innovation. Is that because the motivation to take risks and push for change becomes less pressing if sales are going well anyway?

T. Rich: You may be right that if an organization is hitting its sales and net funding targets, the need to take on more risk is diminished. Look at the cross-selling of Mega Millions and Powerball or the decision to implement "More, Bigger, Better" Powerball. Those were implemented during the economic downturn. Would there have been the requisite impetus to make those changes if lotteries were all exceeding their targets and there was not pressure to make changes to improve results? I hope so, because now most lotteries are in fact achieving their goals. And now more than ever is when we have the opportunity to leverage that success into further innovation that will further consolidate lotteries' position of strength in the market-place. This is a very exciting time for lotteries. But we need to resist the impulse to rest on our laurels and coast to the short-term success that will likely be achieved with or without immediate change and innovation. This is the time to press on and optimize the great position that lotteries find themselves in right now.

There is one area without compromise, though. Integrity is at the heart of all we do, the foundation for the brand and equity value of lotteries. There is zero tolerance for risk relating to integrity and security.

The thing is, this is a great example of how private industry operates differently than government entities. The leadership of private industry is very clear on the fact that the time to invest in and initiate innovation is precisely when you are enjoying success. That's when you have the resources to invest and the forward momentum to lead the market. We need to make sure we do that in the lottery industry.

Reminds me of the Jack Welch (former CEO of GE) response to the bromide of "If it ain't broke, don't fix it", which is "If you wait till it breaks, it's too late".

T. Rich: Unfortunately, it is not always within the purview of lottery directors to decide how to allocate profits that exceed plan. And we want to commend the U.S. lottery directors for the tremendous progress they have made possible over the past three years. But as an industry, we do need to invest in the kind of change and innovation that positions us for long-term success. We owe it to our stakeholders to push hard to make that happen.

The success of the multi-state games is leading to an expansion of the types of games and promotions, and the addition of new markets. It appears that the lottery leadership is adopting an approach that is more market-driven and one that includes a prudent but calculated approach to risk management.

T. Rich: This is a very exciting period for the multi-state games. They are attracting more national attention than ever, which brings in new consumer groups that are so key to the long-term sustainable growth plans of all lotteries. Of course, lotto has higher margins and so we want to see as much growth as possible in that category. We have an aggressive time-line for launching the changes in the portfolio of multi-jurisdictional lotto games. California joins the Powerball group in April, making it a truly national game. When Florida joins the Mega group, then we will have two truly national brands. That creates a real opportunity to develop a national approach to distribution and to partnering with national consumer brands and sponsors. It also requires us to think carefully about how to brand and position all the multi-state games.

Lottery directors have all been working hard to find the common ground and overcome differences to enable everyone to move forward. The press has been supportive of $2 Powerball, recognizing the positive consumer response. The two groups of Mega Millions and Powerball directors are working well together, respecting each other's prerogatives while trying to integrate both games into all the different markets.

Any comment or anything that can be said on the next stage, perhaps a $5 premium national game or other things being considered for the two big multi-state games?

T. Rich: I think we're still looking at late 2013 or early 2014 for anything major to be launched. We have all been so focused on doing what we can to inform legislators about the impact of federalizing Internet gaming that we may have lost a little time on other issues. But don't worry – it'll ramp back up after the beginning of the year.

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2013 is shaping up to be a breakout year for North American lotteries – a year when lottery consolidates its relationship with its incredible base of loyal consumers. The values we stand for – player protection, security, integrity, serving worthy causes that benefit society – are more important than ever. Now is the time to focus on operational excellence, overcoming the obstacles that interfere with the successful implementation of the most enduring business model in modern existence. The exciting thing is that there is huge potential for innovation and improvement in the basic business processes that drive this multi-multi-billion dollar industry. This is the year that PGRI endeavors to give a voice to the ideas and best practices that will generate results this quarter, this year … right now.

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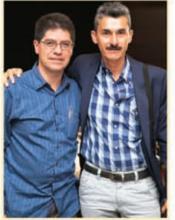e-mail: **Pjason@PublicGaming.Com**

We're listening to You

Over the past few weeks, the Hoosier Lottery, through its new lottery games manager, GTECH conducted four retailer advisory work sessions, in Evansville, Fort Wayne, South Bend, and Indianapolis. We have heard valuable insights into how our retailer businesses are going, what's working, what's not, and most importantly, how we can better serve you while driving new players into your shops. Thank you to each and every retailer

for taking the time out of your busy schedules to participate, particularly those of you who traveled long distances.

The following are questions and suggestions from across the state, and the responses from the Hoosier Lottery. We take all of your suggestions very seriously and will keep you posted.

Our plan is to hold these meetings on a quarterly basis. We will rotate into different regions (New Albany is being planned

now) to continue the open dialogue and to respond quickly to changes you identify in the market place.

Please let your LSR know if you would like to participate in a future retailer advisory work session. If you can't make it to a session, or have questions or suggestions before then, please email us at listening@hoosierlottery.com. We value your input!

Warm regards,

Karl and Connie

> The following is a small sample of the scores of questions that were posed in the Retailer Advisory Board meetings and answered through the Hoosier Lottery's "We're Listening to You" communication.

Questions & Answers

Retailer Compensation and Accounting

Q: What other ways will you reward retailers for increasing sales?

A: We will be launching quarterly performance-based incentive programs that will include various product-oriented elements. The first will support the Cash For Life family of scratch-off games launching April 4. Look for details in upcoming issues of the Retailer Playbook.

Q: Do you have any training programs in place to help new retailers?

A: We will be implementing a "Raising Retailers Right" training program that is tailored to meet the needs of individual retailers, including the number of training visits they receive on a weekly basis. In addition, as stated above, we will be streamlining the settlement terms, making accounting easier to understand; the terminal will have a training program; and our new retailer communication program, including the Retailer Playbook, will also be in place to help.

Q: What incentives do you have planned for clerks?

A: Clerks are the front line of our sales efforts and their engagement with players is a linchpin to our success. To reward them for their support, we will have more "Ask for the Sale" promotions, including one at the end of January to support the Cash 5 game. In addition, we are in the process of printing a clerk Sell, Sign & Win promotion and expect to run periodic mystery shopper programs.

Q: I'm concerned about keeping my tickets on the front counter due to possible theft. Do you have solutions for this?

A: We will provide many tools to help counter potential shrinkage. Dispensers can be attached to the counter by using the adhesive strips that come with each base or screwing it down to the counter through predrilled holes in the bases; you can remove the dispensers from bases for storing at night if you choose. Or we can put some games on the shelves behind you using either the same plastic dispensers reversed or simple clips; the real tickets can be sold from behind the counter (e.g., drawer, bottom shelf, etc.).

Q: What is the best way a retailer can increase sales and earnings?

A: Ask for the Sale! This is the number-one proven sales driving best practice.

Equipment/Technology

Q: What are we doing to attract new players? Do we have plans to leverage new technology such as with mobile devices?

A: We have a whole group working on social media (Facebook, Twitter, mylottery) to help attract new players. Leveraging mobile devices presents both security issues (multi-jurisdictional security rules require a draw ticket to be printed on uniquely serialized paper) and responsible gaming issues (ensuring players are both of age and in state).

Increasing Awareness of Lottery Brand

Q: What are you planning to do to show where the money goes?

A: We are looking at many opportunities to convey how much of the money goes back to good causes. This would include localizing beneficiaries, print materials in newspapers and at retail. We will be increasing our public relation efforts and we will be working on this for a future ad campaign.

Q: What is the goal of the Integrated Services Agreement between GTECH and the State of Indiana?

A: The lottery was operating well, but we want to excel! Having a company with global experience and expertise in managing and selling lottery, integrated with incredible local Hoosier expertise and experience, will be a great advantage for making the Hoosier Lottery best in class.

Point of Sale

Q: I've seen updated play centers and merchandising in a few stores around the state. Will my store get new POS?

A: Yes. We will be investing millions of dollars in curb-to-counter merchandising for all retailers, including an external-facing digital jackpot sign that is automatically updated. Your LSR will be sharing these pieces with you in February. This POS refresh will include the removal of all old-logo-branded items so that we have a consistent brand image. We will work with corporate chains and each individual retailer to customize the POS for your store.

Q: How can I get those that pay at the pump to come inside to buy lottery?

A: We will be investing in permanent merchandising. Every retailer will have "destination" signage so they know you sell lottery and a jackpot sign that automatically updates the big jackpot games to drive customers from the pump into the store.

Q: Our main lottery players are going to buy, but how will you attract those that normally do not purchase lottery?

A: We agree: attracting new players is vital. Brand transformation, more comprehensive marketing campaigns that message that lottery is optimistic and supports good causes, and new and innovative games such as games whose top prizes pay out every week for a lifetime will all work to attract new players. We will be investing substantially more on retail and sales-driven campaigns than ever before to drive traffic into your stores.

Q: How can I combat the perception that there are no winners?

A: Our Public Relations department has already ramped up efforts to get into local communities to promote winners, and we will be reinvesting in a complete winner awareness program, including new signs and displays for low-, mid-, and high-tier winners.

Q: Some people have a bad perception of gambling and what the lottery represents. How can we change their mind with this?

A: Our business plan promises to responsibly deliver growth. We are working on developing localized messaging to reinforce the beneficiaries of lottery in retailer locations.

Q: Will the Lottery be doing promotions like it did in the past?

A: Absolutely. Moving forward, LSRs will be doing more promotions in stores, and our promotions department will be attending events in communities across the entire state. We will bring to the community the fun and excitement that our players experience when playing lottery.

Draw Games

Q: How can I grow my draw game business?

A: There are several exciting draw game enhancements planned. The new best cash odds game, Cash 5, which launched in November, will definitely help with this effort. A new add-on feature called EZmatch with outstanding odds (1:5.13) will be launched soon after the April 1 operating system conversion. Asking for the Sale and the new digital jackpot will also help grow your draw game business.

Q: How have the new $2 Powerball and cross-selling Mega Millions affected sales?

A: The $2 Powerball allowed us to differentiate the games and improve the prize structure. If we did not cross-sell, we would have never experienced the type of large Mega Millions jackpot runs. Cross-sell has been a tremendous success with 27.8% sales over base nationally ($724 million) for Powerball alone. Mega Millions has increased by 7.4% ($211 million). The total increase generated $935 million, which is 17.11% over 07/09 annual average. $2 Powerball nationally (97 draws post vs. pre $1.7 million on a base of $3.2 billion, representing 53.5% sales over base.

Q: How can I get my scratch-off players to purchase more draw tickets?

A: Plans are underway to create tie-in scratch-off games that will reward players with free plays for Cash 5, Mega Millions, and Powerball.

Scratch-off Tickets

Q: We have had to pull games on really good selling tickets when the last top prize is hit, even though there is still a demand for those games. Can something be done about this?

A: We could not agree more. During the first half of 2013 you should expect to see games introduced that have better prize structures and larger order quantities. We just completed a soup to nuts brand audit of the scratch-off product. Additionally, our product strategy moving forward will include staple or core games that will always have top prizes available.

Q: What innovations are underway to grow scratch-off games?

A: We are planning to introduce a family of four Cash For Life scratch-off games on April 5. These products have broken sales records in jurisdictions across the country. With top prizes that never run out and guaranteed weekly cash payments for the rest of a winner's life, they attract new players. This is just the first in many initiatives planned to invigorate the product line. For example, we will also change the game parameters to make the scratch-off experience more enjoyable and keep players in the game until the very last scratch.

Q: Can you separate the bar codes on the back of the ticket to make it easier to scan the right one to the back end system?

A: Yes. We have heard this same recommendation across the state, and we have already instituted scratch-off ticket programming parameters that will separate the bar codes on all tickets going forward.

WIN UP TO $600,000!

It all sounds so common-sensical.

C. Laverty O'Connor: Selling lottery tickets is about superior execution of simple business processes. We need to simplify every aspect of what we expect the retailer to do. They have no time. They are multitasking and they have hundreds of other categories to worry about. So, we need to drill down into simplifying every aspect of handling lottery from merchandising to signage to effective retailer incentive programs to excellent inventory management. In other words, we have an obligation to take as much work away from them as we can through flexible retail solutions.

Chain stores that cross state lines com-plain that the accounting and other processes are not standardized. Is that a costly matter to re-program or otherwise convert to standard procedures that are translatable across state lines?

C. Laverty O'Connor: It needs to be done. Yes, there may be some upfront investment, some modifications to technology and even possibly some local rules modified however; we have been discussing national chain expansion for a long time and each of us understands that national chain penetration is essential to attracting new players.

I would have thought of The Lottery Retailer Advisory Board as being an expedient way of getting the message across and get-ting 'buy-in' from the customers, the retailers. What's coming across loud and clear, though, is just how beneficial the learning process is for your Hoosier Lottery Team as well.

C. Laverty O'Connor: The Advisory's Boards work because we learn from the retailers basic principles of effective retailing. We hear which products sell, what merchandizing works, what lottery players are saying, how best to motivate their clerks, and how best to fit in with their operations. We learn as much as they do. We implement several improvements from a technology, operational, and marketing perspective based on their insights. Our follow through on their suggestions, concerns and views make it worthwhile to participate. ◆

cell-phone business. It was Apple, which had a big hit on its hands with the i-pod but had absolutely no presence in the mobile business, that created the product that revolutionized the industry. Others are now introducing products to compete with Apple, but I would expect that Apple intends to be the one to continue to raise the bar on themselves faster than anyone else. Or look at Amazon. They dominated the online book-selling sector, they leveraged their core competencies in online commerce to move into new consumer product categories every day, and yet they are the ones who seem to always be delivering great new upgrades in the online shopping experience and consumer service. And of course, Blockbuster Video is the poster boy of hanging with its legacy business instead of evolving with the consumer. We all need to run fast to keep up with the consumer and that is what JCM is committed to doing. We want to be the ones to keep raising the bar of high-performance, customer-centric innovation.

The fact is that the consumer is evolving with or without us. There will always be someone stepping up to give the consumers what they want. So, frankly, it's just not smart business to try to protect your cash-cow; at least not anymore. JCM has always innovated without regard for anything other than delivering a better customer experience. So we are adapting quite well to an environment that is so fast-paced that development of the next generation products has to start yesterday.

So you are projecting that the virtual wallet will be in the form of a smart-phone with many of the consumer transactions enabled by NFC technology; that this will form the basis for many transactions, including buying tickets to play on Electronic Gaming Machines and to buy lottery tickets. And so you built NFC technology right into your newest breakthrough product, the iVIZION. You must have envisioned the importance of NFC many years ago to get it into a current product?

T. Nieman: JCM's R & D team had to think ahead on all aspects to create iVIZION. The iVIZION is the most technologically advanced system of its kind and so we need it to be capable of serving the next generation of transaction-processing needs, which include smart-phone wallets enabled by NFC. When we first introduced iVIZION to the marketplace, we called it "The Foundation of Intelligent Validation," and NFC is just one example of how we are building on that foundation. Another is our Dynamic Network Applications, or DNA, that give operators an incredible wealth of applications from firmware updates to real-time reports and more. Another is iVIZION's ability to scan and capture a note's entire image. Bill validators in the past captured a piece of a note, and with iVIZION, the entire note or ticket is captured, and the uses for those images range from e-storage to anti-counterfeiting. Another is the DNA application that allows for remote firmware uploads from a central server via the wireless encrypted eco-system, eliminating the need to do it on a machine by machine basis. This reduced machine downtime, optimizes the latest firmware for increased acceptance rates and ultimately increases revenue.

The Japanese have a ten to fifteen year horizon. They are traditionally and culturally inclined to think in the long term. They pay little attention to short term results because they are so focused on envisioning the future and preparing for it. The iVIZION is the ultimate system for enabling the current modes of bill-validation to be executed in the most secure environment, as well as have the capability to evolve with the market-place for another ten to fifteen years.

What are some of JCM's most important new installations?

T. Nieman: JCM had an absolutely incredible 2012, a record-breaking year actually. In traditional casinos, tribal casinos and in VLT operations, we have had tremendous success with iVIZION, and our PayCheck 4 thermal printer product; in Europe our note-recycling UBA-RC was a key reason we are nominated as Best Street Supplier in the IGA Awards again this year.

Specific to iVIZION, properties have been processing record amounts of currency with the validator. For example, at three casinos in Ohio, iVIZION bill validators processed a combined total of over $1 billion in just 30 days. Resorts World Casino New York had similar results, with iVIZION processing over $14 million in 10 days.

The operator feedback we have received regarding iVIZION's performance has been extraordinary, and as we've discussed, because iVIZION is the foundation of intelligent validation, the industry can continue to expect JCM to evolve and produce more innovative products that move the industry forward. ◆

ON POLITICAL ACTION TO DEFEND THE INTERESTS OF STATES' RIGHTS ON GAMING MATTERS

PGRI Introduction: There are many obstacles that prevent political action by lotteries and their directors. However, the biggest stakeholder of the lottery is the state that owns it and somebody needs to defend its interests. Lotteries do not have budgets for lobbying legislators. And yet, lottery directors are charged with the task of operating the lottery, and most directors feel that would include defending the interests of lottery stakeholders. And that would include ensuring that legislators at both the state and federal levels are making informed decisions when it comes to laws pertaining to gaming. Thankfully, a high-level delegation of lottery directors stepped up, travelling to the nation's capital and meeting with lawmakers who are charged with the task of shaping public policy. The mission was, and continues to be, to make sure that the shapers of public policy have all the facts and a clear understanding of the impact of laws affecting the regulation of gambling. On the front burner right now is to prevent the usurpation of the authority of the state to regulate and tax the gambling industry. The regulation and taxation of gambling has always been under state authority and control. The only federal law essentially states that all forms of gambling are illegal until and unless a state government chooses to regulate and tax it. Commercial gambling interests are now attempting to change that law such that the federal government would regulate internet gambling.

We want to thank and commend Directors Arch Gleason, Charlie McIntyre, Debbie Alford, Jeff Anderson, May S. Reardon and Bill Hanson; David Gale and the staff at NASPL; the lottery Vendor community; and other lottery management staff for their efforts to speak up in defense of states' rights and the rights of all lottery stakeholders.

What was accomplished by your trip to Washington, D.C., last month?

T. Rich: We met with lawmakers and representatives from around 100 Congressional offices to discuss the issues, explain some of the implications and impacts of legislation being proposed, and express our concerns. Our goal was to deliver a clear and consistent message: All forms of gambling have always been regulated and taxed by the states and that should not be changed. Legislation has been proposed that would federalize Internet gambling or Internet poker and that legislation should be vigorously opposed. This is not just about the rights or concerns of lotteries. It is all about the rights of states. We pointed out that, as lottery directors, we are just like the legislators we met with in the sense that we are all public servants with no financial interest or angle other than to serve our state. We just want to do what's right for our communities and the worthy causes that depend on the funding from lotteries. Unlike the advocates for federalizing the regulation of i-gaming, we don't have a war-chest of millions to mount a big lobbying campaign. In fact we have no budget at all for educating leaders about our story. What we do have is a message that should compel legislators to consider the impact of changes to a regulatory framework that has governed the gaming sector well for decades. We were extremely pleased and impressed by the attention we were accorded and are confident that our message is being carefully considered.

I was even somewhat surprised by the reception we received, the openness of all of the states to hear the story. Even though Utah does not even have a lottery, Senator Orrin Hatch's top staffer met with us, listened to our story and shared his views. All the legislative offices expressed a genuine desire to get both sides of the story, to hear and understand everything. I can't say they were all committal, but they were all sympathetic to the concept of preserving states' rights. And they were very sensitive to the fact that state governors and legislators are almost unanimous in their opposition to the Reid/Kyl bill.

Were you joined by representatives from vendors to the lottery industry?

T. Rich: Yes, and they should be given credit for smoothing the way for us to get our message heard. The organization and professionalism of our vendor community and their government relations teams was astounding. They know what they're doing, they know how to get the messaging into the hands of the right people. And they are working hard to defend the interests of lotteries, our stakeholders, and the states. So it was a pleasure and an eye-opener to get the opportunity to work with them on this project.

What was the essential message?

T. Rich: The basic message is that regulation and taxation of gambling of all varieties, whether it is casinos, internet, mobile, i-poker or slots or whatever – all of this should be under the authority of the states. There is no

need for the federal government to intervene. And federal intervention would serve no purpose other than to destabilize a system that works perfectly fine as it is. The only ones that benefit by such intervention would be private commercial gambling interests and that would come at severe cost to the states. Any and all public policy debate needs to be held at the state level. That system has always worked well and there is no reason to change it. Nevada may choose to regulate and tax gambling differently than its neighboring state of Utah. Illinois may choose to sell lottery tickets over the internet, but that is only to Illinois residents. Other states may choose to prohibit internet distribution of lottery tickets. Delaware and others may choose to implement i-poker while others choose to prohibit it. States can choose to pool their markets together if it serves their interests to do so. They already do that for lottery games and could do it for i-poker as well. The government of each state is in the best position to decide what is the best public policy for the citizens of that state. Just as it would be wrong to insist on federalizing the regulation of bricks-and-mortar casino gambling, it would be wrong to federalize the regulation of internet gambling or i-poker. It's a simple, clear, straightforward message.

Did you refer to the specific implications of the Reid/Kyl bill?

T. Rich: We absolutely added our voices to those of governors and legislators who

already had expressed that the proposed legislation from Senators Reid and Kyl would be a departure from all precedent, why it is unnecessary, and why states are best suited to continue to regulate and tax internet gambling just like they are best suited to regulate and tax all the other forms of gambling. There is really nothing about internet gambling that should cause it to be treated any differently from all other forms of gambling. Age and location identification technologies have been operational for many years and proven to be effective. So i-gaming can and should be regulated on a state-by-state basis just like all other forms of gambling.

Gambling is a unique industry. Public policy needs to be sensitive to the needs of the people, and those needs vary from state to state. States need to have the authority to decide what is best for their citizens, and to protect the interests of their citizens from over-reaching casino gambling interests. And that is why it would be very misguided to impose a federal framework that would over-ride the concerns of individual states.

What is the likelihood that bills on the federal level can be introduced again and again until something onerous eventually passes?

T. Rich: We can certainly expect that there are people who will keep trying to pass legislation that will attempt to give the casino gambling industry an advantage by abrogating state authority to regulate the industry. I would like to think that understanding of the issues is the best defense against that happening, that our legislators are more informed now than ever before, and that awareness of these issues is increasing with every passing week.

It sounds like your approach to these meetings and to this whole issue is one of measured desire to have an open dialog as opposed to my high-pitched self-righteousness. Your toned down professional approach must be better at creating thoughtful and open-minded dialog.

T. Rich: I can get somewhat animated about the issues too. But we do need to be clear on the mission. Different states have different public policy agendas relating to gaming. We need to respect that fact and focus our message on the specific issue of preserving the rights of states to determine regulatory and taxation policy for all forms of gambling. We also need to respect the fact that lawmakers need to consider a wide variety of factors and we are not the experts on all of those factors. Hopefully, that measured approach will bring about the best reception for the core message of protecting states' rights to control gaming.

Can we be hopeful that NASPL can start assuming a more politically active role?

T. Rich: As you know, there are limitations to what NASPL can do. It is partly related to funding. But this will probably go down as one of the best-led initiatives that NASPL-member lotteries have conducted. David Gale, his staff and the NASPL Government Relations committee should be commended for the effort. As regards to future efforts, NASPL also needs to represent the interests of all of its members and basically constrain its messaging to that which is supported by all of its members. ◆

Kevin Gass

shouldn't be changed.

K. Gass: Paul, that's a very big question and it's one that I can't answer conclusively, at this point. The fundamental value proposition is that lottery gives players the opportunity to spend a very small amount of money to create the excitement and potential to win a very large amount of money. In other words, a very small purchase creates the possibility for a life-changing event. I can say that we are working on some new concepts that leverage that fundamental value proposition in some new and different ways.

Lots of companies talk about moving executives into completely different areas of responsibility, but BCLC seems to do it. You moved from the corporate/casino to internet gaming and now to lottery gaming. Jim Lightbody moved from lottery gaming over to casino gaming. Darryl Schiewe moved from casino to implementing a new, province-wide Casino Management System, which I understand will be one of the most advanced in the industry. The benefits of a fresh perspective must be outweighing the downslide of longer learning curves.

K. Gass: It has worked very well for us. Our CEO, Michael Graydon, is a very empowering leader. While many companies talk about this kind of change, very few actually carry through; Mike did. And he simply asked us to bring fresh eyes to everything and do what it takes to grow and innovate the business in a responsible way. The results have been very rewarding.

As the number of channels and media increase, do you need to worry about confusing the consumer? Don't we as an industry need to develop a more consumer-friendly user-interface that integrates the different channels so the player can easily migrate from one POS to another, and feel like they are familiar with the product and how to buy it or play the game?

K. Gass: We call that the multi-channel player. We have the casino player, what we call the facility player. And we have the retail lottery player and we have the Internet player. There is a huge overlap among those player bases. We know our players enjoy having this level of variety in which to play so there is a tremendous opportunity here. We do want to make the process of playing on more than one channel easier and are working now to improve the look and feel and protocols to make that happen.

Our ultimate goal is to turn the anonymous player into a connected customer. As we gain better understanding of their play styles and preferences, the user interface can, for instance, be customized to the individual. As we get an enterprise-wide view of the player, and the player experiences a single set of access protocols and buying processes with BCLC, the stage will be set for a genuinely interactive relationship, one that evolves dynamically as the player evolves, as the technology evolves, as new games are introduced, and as new consumer devices introduce even more POS's. That's where we are going. ◆

gbgc
global betting & gaming consultants

LOOKING INTO THE FUTURE OF DISTRIBUTION FOR LOTTERIES

Warwick Bartlett, Chief Executive,
Global Betting and Gaming Consultants (GBGC)
www.GBGC.com

Lotteries are presently navigating the evolution into a "multi-channel" distributional model. The challenge is that government lotteries are, for good reason, conservative. The existing brand value and revenue streams are immense and cannot be jeopardized. That is why the natural response to proposals to innovate are met with a cautionary desire to see how it works for others first. The problem with that is the inertia resulting as everyone waits for others to be the first.

A useful way around this conundrum may be to gain foresight by looking at how other related industries have evolved. The UK betting market provides a most telling story, one that should give lotteries the visibility they need to move forward. The conclusion: Land-based retail is evolving but is here to stay and will continue to be a vital POS for consumers. This is true for bookmakers in the progressive UK betting market and even more true for lotteries all around the globe. Even so, the Internet channel is a vital medium of communication, as well as an increasingly meaningful channel for distribution, bringing in new consumer groups and driving sales.

The UK has a rich experience in gambling that dates back to the 1750's. Gambling started with the landed gentry racing their horses one against another. It was not long before the farm workers and servants began to bet amongst themselves on the success or failure of their employer's horses. The odds, of course, were unfair. Some horses were much better than others, and so the bookmakers stepped in to assess each horse's chance and offer the appropriate odds and absorb the risk. For many years, the UK flirted between gambling being banned or partially legal then in 1963, exactly half a century ago, the "Betting, Gaming and Lotteries Act" decriminalised all forms of gambling in the UK.

Over the next five years, the number of retail outlets exploded to 15,800. The number has subsequently fallen to around 8,500 for two reasons, taxation and competition from other leisure pursuits.

There are four major retail betting chains in the UK: William Hill, Ladbrokes, Coral, and Betfred. All have an Internet website where casino, slots, sports bets and poker are offered. They also bet on the outcome of European Lotteries.
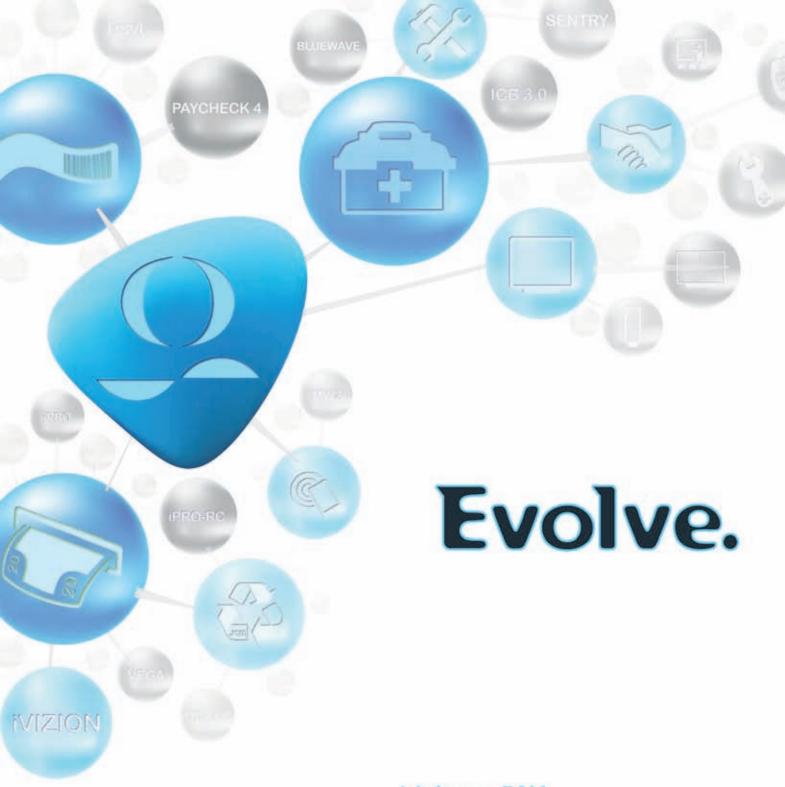
The evolution of distributional strategies is quite interesting. William Hill now derives 30% of its profits from Internet, and 70% from the retail estate. In its January research note to investors, Morgan Stanley predicts that the percentage of William Hill's Internet profits will rise to 50%, or close to 50%, in 2014. However, in spite of the trend-line, and in spite of the wildly competitive UK market with betting stores on countless corners, William Hill and the others are investing in expansion of their retail network.

All of the bookmakers place great emphasis on both divisions, internet and land-based retail. Their retail model is changing significantly, mostly because of dramatic changes in the demographics of the UK which are driving big changes in play styles and preferences. The 2011 census in the UK came as a shock to most people, but not these retail bookmakers. The census revealed that between 2004 and 2006, 1.2 million of non UK born residents arrived in England and Wales. Another 1.2 million arrived between 2008 to 2009. Only 59% of the UK is now Christian. This huge influx of immigrants has mainly occurred in London where only 44.9% of Londoners are white British.

The retail betting stores' main product was always UK horse racing with some greyhound racing. But this rapid change in demographics and nationality has caused the gambling industry to change its offer to the new customers. Horse racing is a complicated product and one that the new arrivals from India, Pakistan and Eastern Europe are not familiar with and have no desire to learn, so bookmakers now concentrate on the FOBT's (fixed odds betting terminals) and numbers betting to satisfy the demand from the new gamblers.

Ladbrokes and William Hill are now investing large sums into the retail estate, relocating to better and larger premises. The average store now costs $200,000 to fit out. In the early years of internet wagering, these traditional bookmakers implemented their i-gaming businesses independently from their retail store network. Now they are evolving an integrated approach and recognize the huge value of their land-based network. Bookmakers are now acknowledging that many consumers are connecting with both the internet and retail stores, and that these are the most valuable customers. So now there is more and more cross marketing between the two. Managers of shops have become affiliates and are incented to sign up their customers to the company's Internet offering.

Ladbrokes customers can apply for an account card that enables

Evolve.

It's in our DNA.

You might think things evolve slowly. At JCM Global, they evolve at light speed, wirelessly, and make your gaming operations better, smarter and faster than ever before. At ICE Totally Gaming 2013, our signature iVIZION® bill validator is now evolving, giving operators and OEMs more power, more options, and more capabilities than ever before.

Evolve with JCM at ICE Totally Gaming, stand S9-240.

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