



Theo Goßner



Paula Otto



Alice Garland



Lynne Roiter



Jim Kennedy



Pat Schmidt



Tom Little

FEATURED INTERVIEWS

2013 Lottery Industry Hall of Fame Inductees

Michael Conforti • Alan Eland • Margaret DeFrancisco • Jim Haynes
• Bernadette Lobjois • Jean-Luc Moner-Banet



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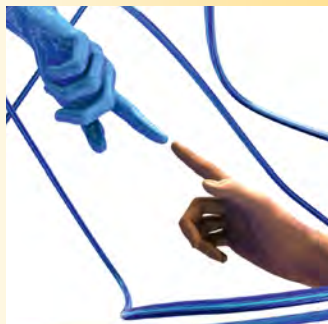
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PGR Institute is much more than a news aggregator. We follow-up on the news to deliver the perspective and genuine insight you need to understand the gaming industry and how it is likely to evolve. Any questions or comments, e-mail Paul Jason at pjason@PublicGaming.com or call U.S. + 425.449.3000.

Thank you!

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PUBLIC GAMING INTERNATIONAL

PUBLISHER & PRESIDENT
 Paul Jason
pjason@publicgaming.com

ART DIRECTOR
 Lisa Robinson

EXECUTIVE VICE PRESIDENT
 Susan Jason
sjason@publicgaming.com

HONORED FOUNDERS
 Doris Burke
 Duane Burke

CONTACT PUBLIC
 GAMING
 Tel: (425) 449-3000
 Fax: (206) 374-2600

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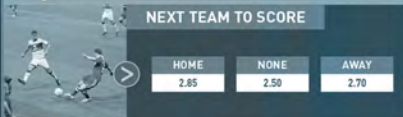


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From the Publisher

By Paul Jason, Publisher, Public Gaming International Magazine

The mission of government gaming operators can vary from one jurisdiction to another. But not by much. Increasing net funds for Good Causes, protecting the consumer, channelizing demand away from “underground” gaming operators, serving as the gold standard for opera-

tional integrity and security - these are objectives found in virtually all their mission statements. There has, though, been a wide variety of perspectives on how to accomplish the mission; lots of different opinions on what the key success drivers over the next three years will be.

Some of these issues seem to be resolving themselves. The monopoly structure for the traditional games is key to survival for the government-gaming business model. That structure has been threatened in Europe and it has been revealed that there is no equivocating on the mission-critical aspect to preserving it. Further evidence of that was revealed just last week, when Française des Jeux chose to exit the i-poker business. It was hoped that one of the largest and most successful and sophisticated lotteries in the world would be able to compete in an open market-place. Française des Jeux was given authority to enter the i-gaming space on the condition that others would also be licensed to operate in the i-gaming space. Turns out that the ability of underground operators to migrate their existing customer base from an illegal business over to the legally sanctioned business proved to be easier than expected. And it would appear to me that

the business of competing in the commercial environment involves a level of aggressiveness that is not suitable for government lotteries. That aggressiveness is not illegal, it just is not how government lotteries are commissioned to operate. Marketing and promotional techniques that push the edge of the envelope of propriety. Lobbying aggressively for lower taxes and less regulation. Merging companies to exploit marketing synergies, operational over-laps, and otherwise extract maximum asset value. New media channels for traditional lottery games is vital. But the opportunity to compete in a very crowded i-gambling market-place may not be the best course for government-lotteries.

As regards the role of the monopoly structure in our industry, Canada and Germany are interesting juxtapositions for shapers of public policy to observe. The monopoly structure in Germany is threatened from all different angles. Canadian lotteries are held to the highest standards of accountability, but the industry is held under strict regulatory control by the government.

I’ve noticed a shift in perspective all around the world over towards appreciating the long-term value of the traditional games distributed through land-based retail. Consumers will continue to love Lottery for many years, and they will continue to buy at retail. Of course we absolutely need to integrate new media into the mix. But for a while, it felt like the tail wagging the dog. Traditional games distributed through traditional channels will continue to be the Big Dog in our industry and constitute a wholly sustainable business model. Our

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editorial contributors with internet expertise recognize this. They are putting Lottery back into the driver's seat and focusing on how new media can be a key component to supporting the traditional games; and how sales growth through multiple channels will enable all the channel partners to succeed and prosper.

An exciting example for lotteries all around the world is how U.S. lotteries are evolving the traditional lottery games and improving productivity of land-based retail. "Innovation" is not just about technology and the internet. It's about lotteries recognizing the benefits of working together: to leverage the incredible power of their multi-jurisdictional games; to build out the portfolio of those games; to build promotional vehicles that operate on a multi-state basis. The draw games are ripe for fresh ideas and those ideas are forthcoming. Instantants have been the sales growth driver in the U.S. for many years, and new approaches to managing the games as an integrated portfolio promise to throw the Instant scratch-offs into a whole new era of growth.

The **Retailer Executive Summit** is our opportunity talk with our retailer customers, break down barriers, identify opportunities, and unlock the extraordinary potential that a genuinely collaborative relationship would ensure for both Retailer and Lottery. So mark your calendars to attend PGRI's next conference: **Lottery Expo in Miami** on **November 4 to 7**. See our news website, www.PublicGaming.com and our conference website, www.PublicGaming.org for conference updates. Thank you for your support. ♦



2013 LOTTERY INDUSTRY HALL OF FAME INDUCTEES

The Lottery Industry Hall of Fame was founded in 2005 to honor those who have done so much to make the world lottery industry the great success that it is today. The six 2013 inductees were elected for this recognition by the current membership of the Lottery Hall of Fame. PGRI, the members of the Hall, and all of our friends and colleagues in the industry extend our heart-felt congratulations to the six 2013 inductees of the Lottery Industry Hall of Fame. Following are the biographies of the 2013 Lottery Industry Hall of Fame Inductees. ♦

a technician installed a new one. They always make me aware of new technology, and ask for my opinion on how their ideas will work with customers. That kind of hands-on support from GTECH has helped me grow my lottery sales and keep my customers happy."

Karan Pathania, *Convenience Plus, Rhode Island Lottery Retailer*

For more about this story and others like it, visit us at gtech.com.



Karan Pathania



BERNADETTE LOBJOIS

Secretary General, European Lotteries Association (EL)

Bernadette started organising the first seminars in 1993 and has since intensively developed the educational programme adding workshops and working groups. The Association has been organising the Marketing, Internet & New Media, Security and Legal Seminar on a yearly basis. Some of the seminars are carried out jointly with

the WLA, however, the organisation of all these events is done by the EL team in Lausanne. In 1998 the ELU (The European Lottery University), an intensive 5-day education and training programme was launched, which has been very successful and always attracts a high number of participants. Since its introduction more than 800 participants joined the ELU in different venues throughout Europe. In 2013 Bernadette launched the "Sport Immersion," a brand-new educational programme designed for newcomers and development-oriented professionals of the sports betting industry. In 1997 she put in place the Legal Working Group by recruiting an expert Lawyer based in Brussels, followed in 2007 by the set-up of an EU Representation in the capital of the European Institutions. The General Secretariat in Lausanne is also in charge of all administrative matters of the Brussels office.

At the same time, Bernadette also launched the EL magazine, which is translated into the 4 languages of the Association. The first issue was published in 1992. The European Lotteries first website was put

in place in 1997 and completely reviewed recently, offering Members a more attractive and interactive platform. She played an active part in the development of the Association and the commissioning of several studies relevant to the European Lotteries. The first economical study was realised in 2006 and since 2007, the ELISE data is published once a year, which effectively represents our Association.

Bernadette also organised the yearly European Lottery draw which was broadcast on Eurovision for a number of years until 2003.

The European Lotteries organise a Congress biannually and in between the Industry Days are held. Bernadette is assisted in all organisational aspects by a small efficient team.

During this period and according to the European community development, Bernadette highly contributed to the growth of the Association by introducing activities such as Seminars, Working Groups, and the EL magazine. She is also very much involved in the organisation of the EL Congresses / Industry Days.

The European Lotteries have grown a lot since 1990 when it comprised 28 Regular Lottery Members, compared to 81 Regular Members today representing 46 countries (including 2 Members in Morocco).

Before joining the European Lotteries, Bernadette was employed by different Swiss and international companies based in Switzerland for which she also set up networks and points of sales in the Middle East and Europe.

She has a degree in Public Relations and obtained a Master in Business Administration in 1999. ♦



JEAN-LUC MONER-BANET

General Director, Société de la Loterie de la Suisse Romande, Switzerland;
President of the World Lottery Association

Jean-Luc Moner-Banet was appointed to lead Loterie Romande in 2007. Loterie Romande is a privately-owned association whose members are the Swiss cantons. The company operates all games of chance (apart from casinos) within Suisse Romande.

Jean-Luc is a member of the board of Loterie Romande. Prior to his appointment as General Director, Jean-Luc was the Deputy Chief Executive, from 1998 to 2006.

Over the course of the following years, Jean-Luc served on numerous committees for the European Lottery Association and also the World Lottery Association. Jean-Luc was appointed to the WLA's Executive Committee in March 2008. Then, in September of 2012, he was unanimously elected as President of the World Lottery Association (WLA). Jean-Luc's great wealth of experience in the realm of lotteries and his dynamic vision of the key issues at stake on the international stage, particularly in the arena of sports betting, persuaded the assembled members to appoint him to the WLA's highest office for a term of two years. Jean-Luc is a member of the executive committee of the Euro Millions multi-jurisdiction game, was a member of the executive committee of the European Lotteries Association from 2009 to 2012 (www.european-lotteries.org), head of the sport committee, and member of the executive committee of the World Lottery Association since 2008 (www.world-lotteries.org).

The WLA is a member-based organization advancing the interests

of 146 state-authorized lotteries and 57 lottery suppliers internationally. Services provided to the WLA membership include certification in the areas of responsible gaming and information security, educational services in the form of seminars and conferences, and the collection of lottery relevant data. The WLA promotes the highest standards of social responsibility and seeks to improve public understanding of the beneficial role that state lotteries play in society.

Jean-Luc is committed to preserving the tremendous value that government-lotteries everywhere provide to society. In an era when private companies active on the Internet, often operating illegally, are challenging the operating business model of State lotteries worldwide, the community of lotteries needs an active and informed voice in this global debate over regulation of the industry. Jean-Luc's mission to forge a professional network at the very highest level and engage in the all-important debate on fundamental issue regulation will serve the membership of the WLA well. This cooperation is likely to prove particularly fruitful as it will allow the integration of an international perspective and global regulatory best practices into the current drafting of the new law. The future of lotteries is so dependent upon the support of political stakeholders. The leadership of our industry associations is vital to the efforts to communicate the role that government lotteries perform for the benefit of society. To that end, Jean-Luc Moner-Banet has been active in advocating for prudent regulatory frameworks, and the means to enforce those regulations, on both the national stage in Switzerland and also the world stage as president of the WLA. ♦

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JIM HAYNES

Director of the Nebraska Lottery

Jim Haynes has served as the Director of the Nebraska Lottery since his appointment in February of 2004. He began his career with the Nebraska Department of Revenue in 1991, serving as Lottery Investigations Supervisor from 1993-1999. From 1999 to 2000, he served as Personnel Manager for the Department of Revenue. Prior to joining

the Department of Revenue, he was a Lincoln Police Officer for 16 years. He received his Bachelor of Science Degree in Business Administration from the University of Nebraska-Lincoln.

Since beginning as Director in 2004, the Nebraska Lottery has achieved record sales during each year of his tenure. Jim has also worked to consolidate three separate government agencies into one integrated business model. In addition to his responsibilities as Lottery Director, Jim serves as the Director of Charitable Gaming (since 2001) and is the Acting State Athletic Commissioner (since 2010). Jim also serves on the Board of Directors for both the Multi-State Lottery (MUSL) and the North American Association of State and Provincial Lotteries (NASPL). Jim is a Past President of both the Multi-State Lottery (MUSL) and North American Gaming Regulators Association (NAGRA). He recently accepted an invitation to sit on the World Lot-

tery Security and Risk Management Committee. Jim is currently the Chair of the MUSL Security and Integrity Committee, working over the past four years on a virtual security solution for online lottery, moving away from bricks and mortar security, providing a cost saving for lotteries and vendors.

Jim has played a key role in the progress made by U.S. lotteries to collaborate on multi-state games and promotions. The move to cross-license the two big jackpot games has created two fully national games, with all the states that sell lottery now also selling both Powerball and Mega Millions. The change in the price of Powerball tickets from \$1 to \$2 was a challenging decision for lotteries and has created the foundation for differentiating the multi-state products and expansion of the portfolio of multi-state games. As president of MUSL during in the 2012 to 2013 period, and as Chair of the Powerball Group in the 2011 to 2012 period, Jim played a key role in shepherding the progress towards a collaborative and modernized approach to managing the multi-state games, and positioning the U.S. industry for accelerating the growth of national lottery brands, promotions, and distribution systems. As a past MUSL president and Powerball Group Chair, Jim continues to foster and encourage a closer, more collaborative working environment between MUSL members and the Mega Millions Consortium. ♦



ALAN ELAND

Senior Vice President and Chief Operating Officer of North America, GTECH Corp. and President of GTECH Printing Corporation

Alan Eland has contributed 28 years to creating and delivering outstanding operations services to the North American lottery business. Alan represents the core values of this highly scrutinized category – integrity, systems reliability, data accountability, consistency of retail service and sharing of best practice operations. He is metrics driven, committed to operational excellence and superior retail execution and has contributed to the consistent growth of the North American business over the years. Alan deserves to be this year's recipient of the PGRI Hall of Fame award.

Alan is responsible for directing all of GTECH's North American operations. This includes managing GTECH's P&L for all North American lottery customers' businesses (representing \$30 billion in sales). He leads over 3,000 employees, directs client services, site operations and all retailer-facing communications networks – including the call centers of North America, the primary and back-up data centers and over 200,000 points-of sale nationally. Alan directs the delivery of all product lines in North America and delivers over 60% of GTECH's revenues, excluding Lottomatica's Italian business revenues.

Alan began his career in the field enabling him to understand firsthand the challenges that retailers and vendor operations staff face every day. In 1986, Alan moved into the position of Marketing Supervisor upon contract award to support the newly created California Lottery. He went on to serve as Systems Coordinator in California and then Project Manager in Malaysia, Puerto Rico, Louisiana and Texas. Between 1992 and 1998, Alan served as GTECH's General Manager

in Texas where he delivered an innovative and collaborative management solution to support the newly formed Lottery. In 1998, Alan was asked to take on the role of Eastern Regional Vice President, overseeing operations in GTECH's largest region.

Alan's level of responsibility continued to increase, becoming Vice President and General Manager for GTECH's Gaming Solutions Department, where he was responsible for managing Spielo, a Canadian-based commercial gaming products manufacturer, and leading the acquisition of Atronic, Europe's largest slot machine manufacturer. In 2011, Alan took over operations of GTECH Printing Corporation, where he was a driving force behind the cohesive coordination of all products and services through GTECH's local site operations network to deliver cost-competitive printing solutions to our customers.

A year later, Alan was appointed Senior Vice President and Chief Operating Officer of North America and President of GTECH Printing Corporation. In this dual role, Alan leads GTECH's commitment to provide technology and service solutions along with day-to-day operational management support to clients throughout North America. He has led GTECH Printing to become the fastest growing Instant Ticket company in the world.

Never one to seek the limelight, Alan is proud to serve the industry, and to serve the mission of lotteries which exist solely to raise funds for good causes. Alan and his family are Guardian sponsors for The Phoenix House of Rhode Island which is committed to protecting and supporting individuals, families, and communities affected by substance abuse and dependency. ♦

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- Internet, Mobile & Social Gaming

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MARGARET R. DEFRANCISCO

Senior Vice President, Corporate Development, Pollard Banknote Ltd.

Margaret DeFrancisco's service to the Lottery industry began when Governor George Pataki appointed her Director of the New York Lottery in 1999. She served in that capacity until January 2004, when she was hired to lead the Georgia Lottery Corporation, serving as President and CEO until mid-November 2012.

Currently, in her "re-wired" capacity, as Senior Vice President, Corporate Development, Margaret helps shape Pollard Banknote's corporate strategy as the company continues to explore innovative and viable avenues for increasing lottery revenues and funding for worthy causes.

She considers herself fortunate to have had the opportunity to work with extraordinarily brilliant teams at both lotteries and now at Pollard, who together produce outstanding results.

In Georgia, during her nearly nine-year tenure, sales grew from \$2.6 billion in FY2003 to \$3.8 billion in FY2012, with profit growth from \$745 million to \$901.3 million. Highlights include: the cross-selling of Powerball and Mega Millions; expansion of the promotional opportunities with the Atlanta Falcons and the NFL, and other sports and community sponsorships. Two lottery-run retail locations were established in the main terminal of the world's busiest airport (annual sales nearly \$8 million). Annual instant game sales grew from \$1.5 billion to \$2.5 billion, aided by the launch of the most successful \$10 game in GLC history and the launch of the first \$20 price point. Daily cash,

club keno games were restructured and reintroduced; annual keno sales increased from \$47 million to \$174 million.

To begin an ongoing strategy of attracting younger and infrequent players, a statewide music search promotion was conducted; the subsequent live award show won an Emmy in June 2012. As in New York, the lottery introduced direct mail couponing to player and retailer households. Finally, she directed the complete overhaul of the telemarketing/inventory management system of the instant product category; joined the world of social media, and launched internet wagering with a player debit card.

In New York, sales grew from \$3.6 billion to \$5.4 billion, with profit growth from \$1.4 billion to \$1.8 billion; launched New York's inaugural program of video gaming at racetracks across New York, executing legislation passed in the wake of 9/11. That legislation also allowed the introduction of Mega Millions in 2002, evolved from The Big Game.

The design and promotion of increased payout of instant games (within statutory limits) increased annual ticket sales from \$900 million to \$2.4 billion. New Yorkers celebrated the new millennium (in 1999 and 2000) with the largest jackpot in New York's history, with a statewide televised drawing from Times Square, New York City.

She earned undergraduate and graduate degrees from the State University of New York. An active Rotarian and firm believer in community involvement, she has served on several community and business boards, including, of course, NASPL, where she served as President in 2009-2010, and co-chaired the the Joint National Game Development working group and the Government Relations Committee. ♦



MICHAEL P. CONFORTI

Senior Vice President of International Business Development, Scientific Games Corp.

Michael Conforti is a well-respected and senior leader in our industry with 16 years of lottery experience and millions of miles of shuttle diplomacy. Recognition by the PGRI Hall of Fame members is a great honor for someone whose unique contributions have made a positive impact on the development of

the international lottery industry.

As Senior Vice President of International Business Development, Michael is responsible for leading Scientific Games' international business development initiatives across each of the company's operating channels, including technology systems, instant game management services, interactive platforms, gaming products and services, and sports wagering.

Michael was a key architect and strategic leader during Scientific Games' entrance into the China gaming market in 2008. He remains a senior member of the team and continues to develop and expand the company's product portfolio and overall business in the PRC. The company's operations in China now employ more than 400, with Michael serving on the boards of both Scientific Games China and Citic Scientific Games, its largest joint venture operation in the country.

His executive management experience, which includes legal, government relations, business and product development extends well beyond Asia. Throughout his career, Michael has served an instrumental role in the architecture of lottery business operations in Europe, Latin America

and Africa. Most recently, Michael led a complex business privatization effort in Greece, helping to bring together a diverse group of industry leaders to form what is now the Hellenic Lottery. Michael's significant contributions to numerous international lottery customers and their unique organizations make him one of the most respected and active globe trotters in our industry.

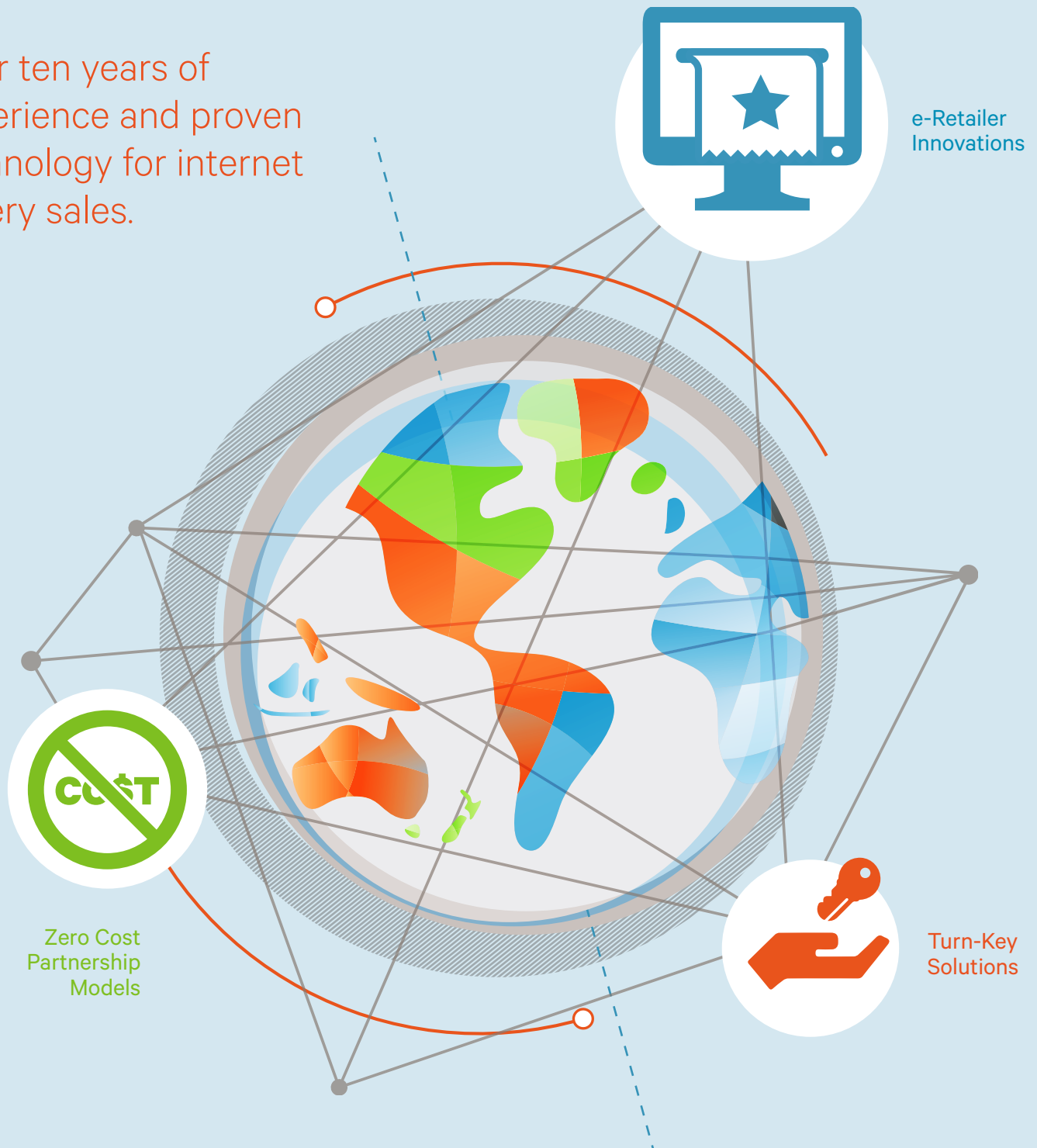
Michael previously worked for GTECH Corporation as Vice President of International Business Development, then located in London. He managed a team of global professionals in the United States, Europe, Africa and Asia, and was responsible for developing the company's bidding strategies, establishing its joint venture relationships and negotiating all related commercial agreements.

Prior to joining GTECH, Michael served as a Director at Black, Manafort, Stone & Kelly (BMSK), a leading Washington, DC-based Public Affairs Company. Michael is also a co-founder and board member of URU Technologies Corp, a company that develops products and services for the access control and identity management industry with patents issued in more than a dozen countries.

Michael is an attorney and member of the Virginia State Bar and holds a Bachelor of Science degree from St. Lawrence University of New York and a Juris Doctorate from George Mason University School of Law of Virginia. Michael and his wife Lynn have been married for 21 years and he is the proud father of two children – Daniel 17 years and Timothy 12 years. ♦

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Managing Director,
Westdeutsche Lotterie
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PGRI Introduction: The German Interstate Treaty on Games of Chance, which came into effect on January 1, 2008, banned all forms of online gaming and online betting in Germany. The main goals of this treaty were youth and player protection as well as prevention of gambling addiction. As the Interstate Treaty on Games of Chance expired at the end of 2011, a new state treaty came into force. The new treaty shifted the perspective, stating that along with player protection and preventing gambling addiction, the goals of channeling the demand into regulated offers, preventing crime and fraud, and securing the integrity of sports to be of equivalent importance. Fifteen of the sixteen German federal states signed that treaty (Schleswig-Holstein passed its own, more liberal, gambling law coming into effect on January 1, 2012), so that the new treaty came into effect on July 1, 2012. In addition to the expansion of the goals, the key issues of the new treaty were the perpetuation of the monopoly for lotteries, with the possibility to apply for special permits to sell lotteries via online and mobile channels, and implementing a testing model for liberalizing the sports betting market with 20 licenses.

Consequently, in 2012 there were two valid legislations in Germany with regards to gambling: a very liberal regulatory system in Schleswig-Holstein and a more strict regulatory system in the rest of the country. This situation did not change until January 24, 2013. On this day, two significant events occurred. First, the parliament of Schleswig-Holstein passed a law to join the treaty of the fifteen other states. This decision of Schleswig-Holstein means

that there is now unanimous support among all sixteen German states for the new German Treaty on Games of Chance. The other event is based on a totally different issue, but is strongly connected to the case of Schleswig-Holstein. A commercial operator was sued in 2008 for offering online gambling in Germany. The private company lost its argument that the state treaty would not be in compliance with European Union laws regarding free trade. It proceeded to appeal against the court's decision by going to the German Federal Court of Justice. The Federal Court approved the prior decisions for the period of time ending December 31, 2011; and referred questions regarding the time span from the beginning of 2012 (the onset of Schleswig-Holstein gambling law) until the day of the current hearing, over to the European Court of Justice (ECJ) for review and comment. The answer is still to come.

The case of Germany is a good example of how the individual regulations of the Member States of the European Union and the laws of the Union itself can sometimes conflict. European Member States all have, and have always had, different gambling regulatory frameworks. Commercial operators are lobbying the European Union Commission to force EU Member States to open up their markets to free and open cross-border trade of gambling. The overwhelming majority of EU Member States, as represented by the European Parliament, contend that EU laws requiring free market competition and open cross-border trade do not apply to gambling and lottery. Gambling products can rather be characterized as being of a very special nature and depend highly on

the culture of each country. This principle that gambling is excepted from the general EU laws that require free-market competition and open borders, along with the principle of subsidiarity which confers authority over these issues to the Member States, has been re-affirmed time and again by the highest courts in the EU. Further, the European Parliament has affirmed that the matter of tax and regulatory policy as pertains to gambling and lottery should be in the competence and authority of the Member States. PGRI advocates for the position of the European Parliament – that EU Member State governments are empowered to determine the regulatory and taxation framework that best serves the interests of their citizens.

The regulatory climate within the European Union remains in a state of flux and uncertainty. Thankfully, it appears that the EU Commission is endeavoring to clarify its position on these matters. Germany is especially interesting because the German government, and the lotteries, have struggled mightily to preserve the stability of a regulatory model that effectively preserves Public Order, protects the consumer, and results also in funding for worthy causes that help society. We thank Mr. Goßner for taking the time to share his insights and for helping us to understand this complex set of circumstances, and how they affect the operation of the Westdeutsche Lotterie. Too, since we are meeting at the European Lottery Congress in Tel Aviv, we discussed how the industry has changed since the Helsinki EL Congress of two years ago.



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Paul Jason, Public Gaming: *The “German State Treaty on Games of Chance” was established almost five years ago and revised at the end of 2011. Can you describe the main differences between the two treaties and explain why a revision was necessary?*

Theo Goßner: First of all, the goals of the new state treaty have changed from the old treaty. The overarching goals of the original treaty focused on the youth and player protection, and the prevention of gambling addiction. For this purpose, the old treaty set strict regulation for advertising and forbade online gambling, for example. The problem was that, due to some judgments of the ECJ questioning the compatibility of the German State Treaty with EU law, public authorities were hampered in executing this regulation. The lack of effective means of enforcement allowed the grey and black market to develop in a very strong way. Evidence of that is the fact that the German state lotteries had a market share of only 3 % in sports-betting in spite of having a monopoly on sports-betting.

Therefore, the German authorities revised the State Treaty when it expired in 2011. Along with the goals of player protection and prevention of gambling addiction, the goal of channeling the demand away from unauthorized operators and over to the state-authorized operators came into force. The regulatory authorities want to allow the regulated companies to offer more attractive products to attract customers, hoping that will keep consumers away from unregulated offerings in the grey and black market. That is why there are very strict conditions for player protection and addiction prevention. Against this background, the German authorities began to accept applications for permits to do Online marketing and TV and Online advertising. In addition to allowing more attractive products and promotion, the market for sports-betting is being reorganized. Formerly, sixteen regional state monopolies, similar to those in the lottery market, existed to offer product for sports bets with fixed odds. As this market model eroded during past years, the new State Treaty installed a license model for a multi-year test. Included in this test, twenty sports-betting licenses are currently in the process of being awarded.

I wonder if our political stakeholders recognize and appreciate that lotteries are already performing to a much higher standard than private commercial operators?

T. Goßner: For us, responsible gaming has evolved to include the more expansive concept of Sustainable gaming. Our political

stakeholders and regulators already expect us to employ the highest standards of responsible gaming. Now we are looking at how the Lottery can align even more closely with the interests of society and support a broader range of societal goals. I think that regulators are well aware of the fact that state-regulated lotteries already fulfill a standard of responsibility and sustainability that is much higher than the private companies. But that conviction is not necessarily adequate to allow them to take action against the private offerings, or even to compel the private operators to comply with the same standards as Lottery is held to.

It does not seem reasonable to hold the lottery to a different standard than operators competing in the same gaming categories.

T. Goßner: The government is the primary stakeholder of the state lottery and so the Lottery will, as a matter of course, embrace the rules and expectations and standards of performance that is expected of it. That is not necessarily so with private operators, especially those that are based outside of Germany. We can all see that there are effective methods of enforcement, like requiring the banking system to block funds transfers that are done in the course of illegal gambling. Even so, EU laws and German national laws make some of these enforcement mechanisms difficult to implement. Advertising restrictions are hard to enforce on operators which are based outside of the national jurisdiction. And Internet operators are contesting the rights of the EU Member States to require compliance with all manner of rules and requirements. These are complicated issues that make it difficult to implement a regulatory framework that is enforceable.

The source of the confusion is the lack of clear guidance from the EU Commission?

T. Goßner: Not in the first instance. The primary source of the problem in Germany is the old interstate treaty which expired at the end of 2011. As already mentioned the treaty justified the monopoly for lotteries and sports-betting with the need for youth and player protection as well as preventing gambling addiction. Parallel to this very restrictive ruling, a much less restrictive set of regulations was applied to gambling halls and other sectors of the industry. As slot machines in gambling halls are proved to show a much higher danger of gambling addiction, the EU Court of Justice determined that the set of regulations in the overall view was inconsistent. Thus, the need for the market constraints by the monopoly were not justified in an adequate manner and the ECJ

came to the conclusion that the state treaty was not in compliance with EU laws.

The new interstate treaty and gaming laws correct this problem, removing the inconsistencies. The new Treaty applies not only to lotteries and sports betting, but also to gambling halls. It is our expectation that if the European Court of Justice is again asked to assess the German regulatory framework, the ECJ will agree that the inconsistencies are removed such that the German regulatory system is now compliant with all EU laws.

Nevertheless there is a need for the German regulators to enforce the new legislation.

The main thing is that the government preserved the monopoly over lottery, correct?

T. Goßner: That is most important, of course, because it helps to achieve the goals of the interstate treaty, especially player and youth protection, in the best way. The old legislation granted the German lotteries a state monopoly in sports-betting, too. The problem was that the underground market grew to control 97% of the sports betting market. The monopoly was not very meaningful since the German lotteries had only 3% of the market. Our political leaders and the regulator realized that if they couldn't prevent illegal offerings, especially on the Internet, then it would be better to license, tax, and regulate them as a second best solution. At least the canalization of the demand will be improved. This is what all our neighboring countries have done and so it made sense for Germany to do it, too. So the new interstate treaty established a licensing model, allowing up to twenty licenses to offer sports-betting. This issue is not completely settled, though, since operators which are not granted a sports-betting license may choose to contest the legality of the new treaty.

So, problem solved? The basic Lottery model remains intact and viable and the license model for sports-betting channelizes the demand to regulated offers.

T. Goßner: A treaty which corrects the inconsistencies and establishes a framework that is compliant with EU laws is an important start. But there are still obstacles faced by German lotteries to carve out a relevant role for themselves in a modern marketplace for recreational gaming. One of the difficulties, for instance, is our precise and exacting way we conduct all business. Not that we should have it any other way, but it does put a burden on our distribution partners, the retailers who must comply with lots of formal bureaucratic requirements in order to sell our products, and then be will-



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ing to follow time-consuming procedures as a vendor of the product. The Lottery way of doing business is a lot more burdensome to the retailer than the alternative goods and services and gaming options that they vend. On the other side of the street are gambling halls that do not have to comply with the complicated systems that we impose, making it very easy for them to get set up to do business and process transactions. The irony is that lottery games are much more benign, much less likely to cause problem gambling or appeal to problem gamblers. The games offered in the gambling halls are much more likely to result in increased social problems like problem gambling. That is the inconsistency that our legislators and regulators were required to reconcile. The new legislation does that, imposing regulatory standards and procedures that are proportionate to the nature of the game, proportionate to the potential for the game to lead to problem gambling and such. In a perfect world, the result should be that it is easier for the consumer to buy lottery tickets and the retailer to sell lottery products than it is for them to buy and sell casino and poker games or products in the gambling halls. But it isn't.

For instance, the current discussion is about the requirements for the consumer to be able to buy lottery tickets over the internet. It is being proposed that the person register and provide their personal passport for identification. Some are protesting that the requirement for passport information is not proportionate to the nature of a lottery purchase that may cost 3 or 5 or 10 euros. Lottery should be easier for the consumer to play, and for the retailer to sell, because it poses little risk to the consumer.

Did the treaty also give you more flexibility in the area of advertising?

T. Goßner: Yes. It gives us more flexibility to use different media, like the Internet and TV, which were prohibited under the old treaty. Too, the old treaty prohibited anything other than the communication of basic information. Nothing that could be seen as making the lottery attractive to the consumer was allowed. This requirement to avoid any kind of promotion that appeals to consumers has been modified. There are still restrictions, but at least we now have the flexibility to do more than communicate basic information.

I never did understand how informational advertising could be differentiated in a legal context from promotional advertising.

T. Goßner: There was in fact some confusion over that. The more important factor, though, was that legislators realize that if

one wants to channelize demand away from underground operators and over to the legal authorized operator, we need to be able to advertise, to promote the products. From a responsible gaming and public policy point of view, we will always need to have a conservative approach to advertising and promotion. But more flexibility was needed to communicate the attributes of the product and why it is fun to play. Without that, the consumer will go to the gambling halls or illegal internet operators and be more likely to lose much more money than they do playing the lottery. We have to at least make our product visible to the consumer, and that means communicating what it is, how to play, and why it's fun to play.

Advertising is not an issue relevant to the EU Commission, is it?

T. Goßner: No. These advertising issues are relevant to the German federal state governments. The EU Commission focuses on maintaining legality in the ways that gaming operators conduct business across Member State borders.

Compared to other parts of the global market, especially the United States, Instant scratch tickets comprise a very small percentage of your sales. Why is that?

T. Goßner: Lotto has been the traditional game for the German consumer for many decades. They know it and like it and it is just what they happen to prefer. Another reason for low Instant ticket sales is that we are very restricted in offering scratch games. We were limited to four scratch games at the same time. That has been increased to six scratch games at any one time, but we are still limited in how we can market the games. And we do not have much of the flexibility that U.S. lotteries have with brand-licensing to drive consumer affiliation and price points that vary from \$1 to \$20 or even more. And those are some of the very techniques that have driven the growth of Instants in the U.S.

How important will be digital channels like Internet for you?

T. Goßner: It is difficult to project right now because we just started online gaming a couple months ago. And the kind of identification required of the consumer for online purchasing has still not been clarified. Too, just like everywhere else, we need to help land-based retailers understand how online sales will help their businesses, or at least not hurt their sales. We need to eliminate, or at least minimize, conflict between the different channels.

Is Eurojackpot going to be a meaningful

addition to your portfolio of games?

T. Goßner: We think so. It has been a long discussion with our political stakeholders because Germany has restrictions on the jackpot size. The largest jackpot allowed is 90 million euros. I realize that is not much compared to the jackpots you have in the U.S. But it is for Germany and, from a public policy point of view, our legislators do not want to create a jackpot-driven mentality. They do not want consumer excitement to be over-stimulated by super-large jackpots. So that is the issue with Eurojackpot.

Too, it is a high priority for us that our whole portfolio of games works well together, as a product category. We want to avoid cannibalization and integrate a new game like Eurojackpot, or any new game, so that it complements the other games and augments overall sales. We expect that Eurojackpot might appeal to younger demographics and otherwise expand the customer base.

Maybe it will be a blessing to have the jackpots capped so you do not get caught up with rising consumer expectations and jackpot fatigue syndrome. In fact, given the goal of building a sustainable business that encourages healthy and responsible recreational gaming, it seems like there are many reasons to be quite optimistic about the future. The German lotteries have always had more political and regulatory challenges than anywhere else in the world, and I'm not sure that has changed. But the new Treaty does set a more rational foundation that enables the different gaming sectors to co-exist, doesn't it?

T. Goßner: While it's true we have more to be optimistic about than in years past, there are still many obstacles, some formidable and some intractable. There is still the problem with enforcement of the laws against unlicensed Internet gaming operators. But the new Treaty does go a long way towards rectifying the inconsistencies and allowing the German lotteries to conduct business in a way that enables us to deliver value to the consumer and continue to generate funds for good causes.

It is still not certain, though, the direction that the EU Commission will take with regards to the rights of member states to determine regulatory policy. We know we need to comply with EU laws regarding consistency and other requirements; and we feel that the new treaty does comply with all EU requirements. But we do not know for sure how the EU Commission will regard the protestations of operators based in low-tax havens

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Paula Otto

Executive Director
of the Virginia Lottery

PGRI Introduction: Director Otto was a member of the original team of people who worked to launch the Virginia Lottery back in 1988. As the Lottery's first Director of Public Information, she was responsible for shaping and protecting the Lottery's public image during those formative years. In 1997, Director Otto left the Lottery to accept a faculty position at Virginia Commonwealth University, eventually rising to the position of Associate Director of the School of Mass Communications. Eleven years later, in February of 2008, she was tapped to lead the Lottery as Executive Director.

With the unique experience of having been there at the start, Director Otto has a special affinity for the people she serves in the Commonwealth of Virginia, and for the mission of the Lottery which straddles a line between government and business. But times have changed! Since assuming the role of Executive Director, she has applied the most progressive principles and methods to modernize the Virginia Lottery for the contemporary consumer.

Director Otto is also the lead director for the Mega Millions Group. The multi-state games have been in a state of transition over the past couple years, and the pace of change is quickening. The media attention and the consumer love of the multi-state jackpot games pose a huge potential for U.S. Lotteries. Now that the number of multi-state games is increasing, the goal is to evolve a portfolio approach to differentiate the games, to optimize the synergy of the games, and maximize overall sales of the entire category.

Paul Jason, Public Gaming: *Happy 25th birthday. That makes the Virginia Lottery itself a Gen Y millennial.*

Paula Otto: Yes, and it's time for us to act our age – think more like a millennial, produce games that appeal to millennials, and make the games accessible to the younger adults on the Internet and Mobile. Of course, those are the games and channels that also appeal to those of us who may not be 25 years old anymore. And we need to modernize our approach to land-based retail as well.

Your FY 2012 sales increased by 9% over 2011. That's a good thing, but raising the bar like that can make it hard to sustain growth in the following years. So congratulations for extending your winning streak.

P. Otto: Thank you. It is gratifying to

follow a great year with continued growth.

Lotteries must not only comply with the all the restrictions applied by legislatures, they also operate on a day-to-day basis as an extension of government. The culture of government can be quite different from the commercial world. And yet lotteries are fundamentally marketing organizations, responsible for selling \$67 billion in product in the U.S. alone in 2012. Hasn't there been a rather significant shift, over the past several years, towards thinking more entrepreneurially?

P. Otto: I think there has. It begins with the culture, how you think of yourself and your mission as an organization. We do need to comply with the forms and structures inherent with all government entities. But lotteries are also marketing orga-

nizations with responsibility to generate funding for good causes. 100% of the Virginia Lottery net funding goes to support public education. If we do not accomplish our sales and net funding objectives, public education in Virginia would suffer. So, while we are an extension of the government, our mission to generate funding for public education would not be served if we thought of ourselves as administrators of a government agency. Our mission requires us to think and act entrepreneurially. We think of ourselves as a consumer products organization. That is the lens we look through as we set our strategic planning and chart a course for action. Instead of thinking of our mission as being able to manage a government lottery, we think of our mission as understanding the consumer and creating products that appeal to consumers.

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Does it seem like our political stakeholders are coming around to that way of thinking as well?

P. Otto: Yes. It was twenty five years ago, in my role as PR Director, that I referred to Lottery as a government agency in a business suit. This dichotomy, this role of being both a government agency and a market-driven consumer products enterprise, has always been there. Legislators are more recently thinking about how to make government more responsive to the citizens, how government operations can become more 'user-friendly' in general. That's in all areas, not just Lottery. For instance, Virginia has remade its DMV (Department Motor vehicles) to function more like a service, to be more accessible and to deliver good customer service. We can now go online to conduct much of the DMV business, like buying our annual decals for license plates. State and federal taxes can now be filed electronically. There are lots of examples of how government is working hard to become less bureaucratic and more focused on providing convenience and service to the citizens who pay for the government with their taxes. And this trend has definitely accelerated over the last five years.

For our part, we think of our constituents as consumers. And our mission is to create lottery products that appeal to those consumers, turns them into lottery players, and generates sales and net funding for public education.

Does the proliferation of consumer options as relates to gaming and gambling contribute to this trend of increased government support for Lottery?

P. Otto: We do not think of Lottery as gambling, but rather as a consumer product. There is some overlap between the two and the widespread availability of gambling options for the consumer may be causing government stakeholders to be more open minded to the idea that lottery belongs to the people and so should be allowed to be on an equal footing with other forms of gaming, and that Lottery should be allowed to make a product, and market the product, to appeal to more consumers.

Just this morning we had a discussion about the ways that consumers are now paying for things. Pay Pal, which traditionally served the community of online vendors, has recast its service to support other channels of distribution, like bricks and mortar retail. And I learned about other new payment processing options

that are becoming available to consumers. Have you ever even heard of Popmoney, Chirpify, and the whole raft of new payment-processing services? I hadn't, but we need to be aware of these kinds of trends that are changing the ways that consumers interact with merchants. This is just one example of where we can look for ways to modernize our operations to deliver more consumer-friendly services and options. We are aggressively monitoring the landscape to understand where the consumer products industry is going, how others are improving their service to the consumer, and how we might sharpen our efforts to become more consumer-centric. As a highly regulated government entity, we will never be as flexible or as nimble as the best consumer products companies. We will always operate within some constraints. Even so, there is much that we can do to reshape ourselves into the consumer-focused operation that will serve the mission of generating more funds for good causes. And it begins with simply making it our business to understand these forward-looking consumer marketing trends, understand consumer behavior, and think about what that means for the business of selling lottery products.

As part of the UIGEA laws against illegal online gambling, credit card companies are restricted from processing gambling-related charges. Unfortunately, there seems to be a lack of clarity as regards the definition of gambling and the status of lottery.

P. Otto: And, like many states, Virginia lottery products cannot be purchased with credit cards (at least at the present time) because of a statutory restriction. As an industry, I think we need to clarify how these alternative payment-processing options work, what forms of payment do they accept, how age-verification works, etc. We do accept debit cards, which are branded with VISA and MasterCard, so it is curious just what the credit cards are allowed to do and exactly how they code transactions. These are the kinds of conversations we need to be having as an industry, in addition to talking about what kind of scratch card to launch next.

A big theme at the European conference in June was the need to look outside of our industry for ideas and inspiration for ways to change and grow the lottery business. Your recasting the self-image of lottery as a consumer products enterprise would seem to be a big step towards bringing in fresh

new approaches to the business.

P. Otto: Let's first point out that Virginia is not the only lottery that's taking these steps and trying to become more market-driven and consumer-centric. We are sharing our thoughts and research with others and they are sharing theirs with us, and we are all learning more every day.

Here in Virginia, we decided several years ago to chart a course towards the goal of becoming a consumer-focused marketing organization. Our first decision was to create a solid foundation for understanding the consumer as a consumer, not just as a lottery player. That may sound like a semantical or minor distinction, but it's not. Our research and development efforts had always endeavored to understand the behavior of the lottery player. Questions might have been framed like: Why do the consumers like one product more than another? What product attributes appeal to the consumers? What promotional campaigns do the consumers respond to and why? But there are two things going on with that kind of framework. First, the word "consumer" is being used, but insofar as you are referring to the consumers who are playing the lottery, you are actually talking about only a portion of consumers, i.e. those who buy lottery products. Second, the structural flaw of that framework is that it ties the focus back to the product, which makes it an essentially product-centric methodology. We decided that we needed to make it our business to understand the thoughts, the feelings, the lifestyles and motivations of all consumers and that the way to do that is to initially remove lottery from the research framework. We looked at Virginians, really got to know them as consumers first and to understand how they are shopping, how they make decisions, what's important in their lives, how they consume media, how they use their mobile phones. This is the kind of research and intelligence that all commercial consumer products companies rely on.

The goal is still to sell more lottery tickets. But our way of getting there is to step back from the traditional focus on product and players, and try to understand the innate behavior of consumers. That does impose an extra layer of research, but the benefit is two-fold. First, it reveals the underlying motivations of the player in ways that the product/player-centric focus may miss. Second, it helps us to understand the underlying behaviors of consumers who are not playing the lottery and hopefully reveal opportunities for us to appeal to

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The most sophisticated consumer products companies are investing in the ability to capture and organize data that provides this kind of insight and enables them to quantify, measure, and track consumer habits, what they buy and when they buy it and all manner of peripheral detail about their interactions with merchants. Casino operators like Caesars Entertainment are among the most advanced in their methods of leveraging customer data to drive loyalty and repeat business. Consumer products companies absolutely need to do this to even be competitive. Lotteries may feel like it has a monopoly and so there is less pressure or immediacy for us to allocate resources in these ways. But the proliferation of gaming and entertainment options is putting us into a similarly competitive environment.

I would think that getting consumers to register online and creating loyalty programs that loop in land-based retail transactions would be key to accomplishing that.

P. Otto: I don't know if there is one simple answer to this. But I agree that it is unfortunate that our entire business at retail is based on anonymous transactions. Creating a context for interaction between Lottery and Player would seem to be a necessary component to building that foundation of customer data that may well be the decisive competitive advantage of the future. It is challenging though, not just because of the regulatory constraints that apply to the Internet and the use of credit cards, but also because government agencies will be held to an even higher standard when it comes to respect for privacy and confidentiality of consumer information. The obstacles are formidable, but we do need to find ways to connect better with the consumer. And we need a solution that captures consumer transaction data that takes place at land-based retail.

What are some of the results of your consumer research?

P. Otto: Our research led us to segment Virginia consumers into six groups. The research led us to determine that two of those groups will not likely ever engage with lottery, so that leaves us with four consumer groups to concentrate on. We identify one of those groups as "iDrenz." These are digital natives, the twenty-somethings that is a particularly important segment to crack. We call another segment the "Alphas." This group has a lot in com-

mon with the iDrenz but are older. Alphas are the forty and fifty year-olds who are successful, well-educated, tech-savvy and share many of the behavior patterns of the iDrenz. An important discovery is that the products and promos we design for the iDrenz appeal just as much to the Alphas. Completely different demographic profile based on age, but having enough commonalities to comprise a huge homogeneous segment from a marketing perspective. Segmenting by age under-estimates the potential for products and promos targeting twenty-somethings. The application of criteria other than age and gender enables us to identify commonalities between iDrenz and Alphas that warrants a bigger allocation of product development and marketing resources. It's that kind of insight that focusing on the consumer as consumer instead of lottery player that we find most helpful.

I am at the older end of the Alpha group and am less interested in scratch tickets even though the odds are better, am attracted to the "Hope and Dream" sell of lotto, and would not stand in a line for a chance to win a big jackpot.

P. Otto: The iDrenz and Alphas are much less likely to buy a piece of cardboard so they can scratch it off with a coin. That's not in their profile. We are designing longer-play games that loop in different media platforms like Facebook to engage these groups. We probably would not be doing that if we did not perceive the potential to be the combined power of both the Digital Natives and Alphas. We launched a game called JeepSeeker that could only be played online. There was no cost to enter. Every day there was a new clue on Facebook for where to look for Jeep®. After 40 days, there was a drawing and one of the players won a Jeep®. We had a goal of 5,000 players and 1,000 new registrations. We ended up with more than 30,000 players and 12,000 new registrations. We expected to engage the iDrenz and we did. But the group that played JeepSeeker the most was the Alphas. Almost half the players were Alphas. 8% were the iDrenz which are the youngest adult category, early twenties. That may not sound like much, but it is. That is an extremely hard group to attract: it is a high priority to engage this group, and 8% is a big win for us.

These are strategies to bring in new consumer groups. Is there any conflict or competition for resources between that agenda

and the need to design games and promotions for the core players?

P. Otto: It's true that we are trying to cover more ground, appeal to a wider variety of consumer preferences and that would seem to leave fewer ad and promotional resources for the traditional areas of focus. But we do not think of it as a competition for resources. We think of it as an opportunity to work harder to make sure our advertising, promotion, and marketing dollars are effectively targeted and that every dollar spent is generating a positive ROI. In the short-term, the ad spend to bring in iDrenz may have a lower ROI than traditional advertising to the core groups. While the short-term pay-off is not large, it's well worth it, and it's fundamental to building sustainability into the business model. As I said, one of our primary strategic objectives is to bring in more consumers to our games, get more Virginians to spend a smaller amount of money rather than trying to get our core players to keep spending more.

We know that about 33% of adult Virginia consumers play regularly (consumers who play monthly), and they contribute the most revenue. This is a number we are trying to move, based on the belief that it is more responsible to grow revenues by growing the number of regular players. We absolutely continue to design games and promotions and market to that core group of loyal customers. That is one Path of what we call our Dual Path marketing efforts. The other path is to design games and promos to attract new consumer groups. We do need to be careful to avoid campaigns that might appeal to the iDrenz but be too edgy or otherwise alienate our loyal customers. We have been pleasantly surprised to find that the traditional player may not participate in some of the new games, but they do not seem to be bothered by them either. So we're going to continue to have this Dual Path of reaching out through the different channels and media and trying new game and promotional concepts, but always having traditional games marketed in more traditional ways for our core players.

That would seem to be basic to any sensible consumer products marketing playbook.

P. Otto: Recently, I was asked by a policymaker why we wouldn't just eliminate the \$1 ticket. The casinos eliminated the \$1 and \$2 blackjack tables and made sure there are limited \$5 tables so players would go to the \$20 tables. If we don't

offer the \$1 ticket, wouldn't that cause everyone to just buy the higher-priced tickets? The answer is that there is no reason why we would limit consumer choice in that way. There will always be a demand for a low entry price and we want to meet that demand because new players may start out buying a \$1 ticket will grow into the Alpha who moves into the higher priced tickets.

As regards the multi-state games: Decisions to change anything must be a case of high drama because they are such a profoundly important part of every lottery portfolio. And it is prudent to minimizing risk. Research mitigates that risk, but no amount of research can eliminate the uncertainty of the future. As a group, don't directors need to be willing to move forward in spite of a lack of total and perfect information?

P. Otto: Definitely. But you need to appreciate two things. First, preservation of integrity is paramount and not subject to risk assessment modeling other than zero or near zero tolerance. The asset value of the brand is fundamentally tied to integ-

ity so it would be irresponsible to jeopardize that in any way. Two, some states derive a very high percentage of their sales from the multi-state games and cannot afford to make a mistake that would jeopardize that revenue stream. To your point, though, it is not at all prudent to wait too long to take action. There is the lost revenue for having postponed a positive initiative, and there is perhaps the missed window of opportunity when the change would have optimal impact.

The matrix change of Mega Millions will be implemented in October. There must be a lot of uncertainties when it comes to figuring out the jackpot games.

P. Otto: Both of the jackpots are driven by a couple of factors; some of which we can control and some of which we can't. We can't control interest rates which affect our cash position and also affects how quickly the jackpot grows. Another thing we can't control is luck and when the jackpot gets hit. The jackpots are also controlled by the matrix and the odds and those are things we can control. After extensive national testing and market analy-

ses, the Mega Consortium determined that keeping the price at \$1 and changing the matrix is the best course to help the jackpots grow more quickly.

Powerball jackpots have been growing faster than the Mega jackpots, and that creates a cycle of increased sales which in turn drives the jackpots higher. When Mega Millions gets on a roll, the players pile into it and Powerball slows down. The beauty of cross-sell is that we now have two games to drive the sales. The consumer has two price-differentiated options with jackpots that are likely to have asynchronous roll cycles. The result for everyone is that the aggregate revenue of both games combined is significantly higher than it was before cross-sell. And now all the lottery states sell both games, so we are all in the same business of maximizing the aggregate revenue of the two games in combination. Mega sales over the past year have been lower than Powerball sales. But the increase in Powerball sales more than made up for the decrease in Mega sales.

...continued on page 47

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Alice Garland

Executive Director, North Carolina Education Lottery

PGRI Introduction: Alice Garland helped start the N.C. Education Lottery in 2006, served as its deputy executive director for legislative and corporate communications during the Lottery's first five years, and was appointed to its top executive position in January 2011. Director Garland is also a member of the Executive Committee of the North American Association of State and Provincial Lotteries, the professional association representing the lottery industry in the United States and Canada. She also serves on the Development Committee of the Multi-State Lottery Association (MUSL), a nonprofit organization which operates Powerball on behalf of its member lotteries.

The North Carolina Education Lottery recently announced results for fiscal 2013. The real attention-getter was rocketing up to \$1 billion dollars in instant ticket sales in less time than any other state except for Texas and California, and those are states with triple the population base of North Carolina. I thought we all might want to know: How does a lottery achieve that level of market penetration in such a short period of time?

Paul Jason, Public Gaming: *Is there anything in particular that you could point to as being a key component to producing the tremendous success you have had in the Instant category?*

Alice Garland: Two years ago we clarified our goals, we put together a detailed plan to reach that goal, and we stayed with that plan. All of the different parts to that plan were inter-related. We

THE NORTH CAROLINA EDUCATION LOTTERY SETS NEW MILESTONE WITH \$1 BILLION IN INSTANT TICKET SALES

The North Carolina Education Lottery instant ticket sales topped \$1 billion for the first time ever in fiscal 2013, and ended the year with a five percent overall increase in its instant sales, as compared to last year. The Education Lottery, which just completed its seventh full year, becomes the 12th lottery to achieve \$1 billion in instant sales in a year. Only two others, the Texas Lottery and the California Lottery, reached the \$1 billion milestone quicker.

Instant games are the most popular with North Carolina lottery players, accounting for about 60 percent of all sales. Director Alice Garland attributed the lottery's achievement to a plan created two years ago to improve instant sales. The plan set the \$1 billion goal as a measurement of its success. "We knew that if we could grow our core product of instant games, then we could improve the overall performance of our lottery," said Garland. "We've been focused on this goal, so we're pleased to see how popular our instant games have become with our players."

The plan took steps to improve the overall portfolio of instant games and their prizes, to create more effective sales practices, including how instant tickets are allocated and then sold in stores, and to strengthen the advertising and marketing programs supporting instant games.

"You can see the new strategy at work in many ways," said Garland. "We create family of games such as the Bucks family – Junior Big Ol' Bucks, Lady Bucks, Mega Bucks and Jumbo Bucks – and the Week for Life series as core sets of games that are always in stores. We launch suites of games, such as the \$1, \$2, \$5, and \$10 Monopoly tickets, backed with advertising and marketing programs that support all price points at the same time, creating awareness of lower priced tickets that otherwise would not have been advertised. We distribute and display tickets in new ways to ensure higher profiles in retail locations. Altogether, it adds up to a new winning formula for our instant games."

The N.C. Education Lottery increased sales and earnings for the seventh year in a row. Sales as of June 30, the end of the fiscal year which began in July 1, 2012, were

\$1.69 billion, up 5.8 percent. Based on preliminary, unaudited results, earnings grew

an estimated 4 percent. N.C. Education Lottery net proceeds are used for pre-kindergarten programs for at-risk four-year-olds, teacher salaries in grades K-3 with goal of keeping class size as low as possible, school construction, need-based college scholarships and grants, and digital learning initiatives. ♦



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committed to a disciplined approach and to stick with the core building blocks of the plan even when some part was not working as well as we had projected. Too, it was largely a “failure is not an option” attitude that drove us to make it all work.

Lastly, it took tremendous teamwork within this organization to reach that \$1 billion goal. Virtually every department was fully engaged in the process. The game design group, sales, marketing, advertising all worked hand-in-hand to make this happen. And we couldn’t have succeeded without the planning and implementation support of our commercial partners GTECH and Scientific Games. They both played an instrumental role in helping us to reach \$1 billion in instant ticket sales.

The Instant ticket plan must have become the cornerstone of your overall strategy when you were appointed to the top executive position back in 2011?

A. Garland: I was acting director prior to being appointed director, so I really started in the summer of 2010. It wasn’t just me alone who decided to focus on Instants. Most of our management team were of the same opinion that the instant product had great potential and really needed more focus. We had a lot of internal discussions that included our vendors and we all thought that \$1 billion was do-able and we just needed to figure out how to get there.

It is interesting the way you just described how you stuck with the plan. I would think it would be challenging to stick with a plan when circumstances can change so much. Don't we need to be flexible and allow for dynamic evolution and updating and be able to modify the plan as new information and market feedback comes in?

A. Garland: That’s true. You do need to be flexible, and the plan needs to enable updating and tweaking as new pathways to optimization are revealed along the way. But we committed to staying true to the core building blocks, to be sure that any changes did not compromise those core values and building blocks, and to even pass on opportunities to exploit short-term potential that did not integrate perfectly with our long-term plan.

The portfolio of Instants includes over fifty games. The goal is to optimize overall performance. It would seem that overall performance could be measured as the sum total of each of the games. In that sense, you could assess the performance of each indi-

vidual game, and allocate more resources towards those that perform well and less towards those that don't.

A. Garland: You could do that, but that’s not what we did. One of the core building blocks of the plan was to avoid falling into the trap of looking at the individual games in isolation from each other. We think of the entire category as a Family of Games, managing the games as a product category. While the performance of everything in this business is measured from a variety of angles, the assessment of how each game contributes to our goals is never done in isolation from everything else. The focus is on the entire category as a whole, and how the games complement each other, mutually reinforce each other, and work synergistically to produce an overall result that is greater than the sum of the individual parts.

An example of synergy and optimization would be the \$5 crossword game we implemented to move into the extended-play market. We knew that a \$5 crossword was not going to be one of our better performing \$5 games. But we thought that it provided a great way to add variety to the portfolio of games and gave an option to the players who were playing the \$3 game. And we hoped that providing a \$5 option would create more appeal for the group of crossword games. So even though the \$5 game was not a top performer itself, we felt that the addition of the \$5 game contributed to the overall result of a 29% increase in average weekly sales for our crossword category. That is a good example of why our plan was to focus more on the product line as opposed to being worried about how well an individual game was going to do.

Our promotional campaigns were also organized around the Family of Games concept. What that meant is that we probably sacrificed a little bit in terms of individual game performance by not boosting the exposure of the hottest current game. But it meant that we were able to use advertisements to promote the entire Family instead of just one game. That’s important because our advertising budget is limited.

So the \$5 crossword would not have made the cut if it were not part of a bigger plan to evolve and grow the whole category?

A. Garland: Correct. Too, a part of the general plan was to introduce the players to new price points, give the \$3 player the option to buy a \$5 ticket, and the \$5 player to buy a \$10 ticket, and so on. But it’s important to provide a low entry-level price point

option for the new player.

What are some of the basic executional aspects that can make a big difference to the sales results?

A. Garland: We refined how we did our initial allocation games to the retailers, taking a much more customized approach to the initial allocation. That helped us accomplish two things. First, it kept the retailer from running out of stock on any of the new games in the first two weeks of a launch. Second, we avoided over-stocking the retailer with too many packs that would end up as stale inventory in their stores. Customizing that initial allocation has really gotten to a science where stores are getting just the right amount of initial inventory.

We also began to provide what we call ‘dispenser inserts’ which are the cards that capture the face of the ticket, but it’s the size that fits the front of the dispenser. These dispenser inserts make it much, much easier for a player to walk in, look at the dispensers, and see exactly what games are being offered. And then finally we really have gotten better about developing a planogram for each dispenser unit size. Some are 12, some are 20, some are 26, et cetera. We revise that planogram each time we’re having a game launch. That enables our players to walk into any store and quickly and easily find the games they want.

Our partners on the commercial side of the business always emphasize how a focus on basic execution can make a much bigger difference to sales results than trying to create the next blockbuster game. The notion that retail stores would not always have the right inventory would seem to me to be a low-hanging fruit problem to solve.

A. Garland: Absolutely. That is especially true with the core games, which now constitute 35% of our sales. The players need to be able walk into a store, look at the dispenser case, and see within a second where their favorite game is. And a ticket from their favorite game needs to be there.

It sounds like you're trying to increase the percentage of core games as opposed to non-core games.

A. Garland: Core games are what keep the players coming back. Let’s say we have a new game that indexes at 150, which is obviously extremely good. The gut reaction might be to run the game again. But there’s no guarantee that the reprint is going to continue to index at 150. The main thing is to maintain continuity to the core



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games. There are many moving parts to the maintenance of a solid core game strategy and we need to stick to the plan. Despite the fact that some players look for the cool new bright and shiny game, it is important to stay focused on the plan, be happy with the results of the new game, and hope that your next non-core new game does as well.

Were there changes in prize structure?

A. Garland: We're always refining our prize structures. We want to make certain that we're providing the options and experience that meets the expectations of all the consumers. At this point we're just making small corrections. And any changes are done with the entire Instants category in mind, making sure that the prize payouts for each of our price points is positioned appropriately against one another.

For instance, this past year we increased the prize payouts on our \$1 games. We think that this small change contributed to a 9% increase in our \$1 games, which is bucking the trend of declining sales of the low price-point games in the industry. And we do not think the change kept players from moving up to the higher priced games. The NC Lottery started out with a mandated 35% return. That mandate was modified to give us more flexibility. But we have moved very slowly, very cautiously, and very methodically to ensure that we balance the prize payout with our net return to education. You know you can increase sales by improving the prize payout. That's easy. But that's not the goal. The most important thing is net return, and to manage it in a way that the net goes up at the same rate, or close to the same rate, as the sales are going up. And manage consumer expectations so that we preserve a sustainable long-term growth plan. That's what our mission really is.

What did you do differently as regards to advertising, game design, and promotion?

A. Garland: We have moved away from an advertising philosophy that focuses on specific hot buttons like high-price point tickets or licensed properties. Instead, we formulate campaigns that encompass the entire category and range of price-points, and create a series that has continuity. We also introduced a branding strategy unique to the instant products that we call Feeling Lucky. We changed our media purchase to give greater weight to those markets that we felt were under-performing. And for the first time, we introduced a licensed property as a Family of games with the Monopoly

games. We had a \$1, a \$2, a \$5, and a \$10 Monopoly ticket. That Family has done extremely well for us. We then reinforced that campaign by having what we call a Monopoly super-entry promotion. Players could go to our online players' club, the Lucke-Zone, and enter a ticket into the Lucke-Rewards program at each of the different price points, which earned them a super-entry into a drawing for \$1 million. This multi-prong promotion reinforces the Family category and hopefully inspires some of those \$1 and \$2 players to buy \$5 or \$10 tickets. And throughout the year we added promotional value to specific instant games by conducting second-chance drawings that were related to just that game. We did that with each of our four Monopoly tickets, with a \$20 holiday game, and with a Star Trek game. So not only was there a lot of different kinds of advertising and promotional initiatives, they were all inter-related and mutually reinforcing. It's that integrated approach that we feel enabled us to reach our goal of \$1 billion in annual sales.

You just started your rewards program, Lucke-Rewards, last year. How has it performed for you?

A. Garland: The rewards program allows players to enter non-winning instant tickets and all draw tickets to receive points to use in weekly and monthly drawings. Lucke-Rewards launched in October 2012 and we already have over 260,000 active accounts. The number of entries for a weekly drawing averages 130,000; for the monthly draw, it's 113,000. These results greatly exceed our projections so we are excited about the future of the players' club to create added-value for our players.

How important do you feel vending machines are to bringing in new consumer groups?

A. Garland: We have ITVM's and we also have vending machines that sell draw games as well as Instants. And in the last two years we've deployed another 158 machines for a total of 1,128 vending machines. I definitely believe that the vending machines brought in new players. But I also think the success of a vending machine depends totally on how well it is supported by the staff in the store. If the vending machine is not close to a counter where there's a staff person who can answer questions, it's not likely to be as successful. So we work hard to get optimal positioning for each of our vending machines.

Since Instants are growing faster than draw games for you, do you think the percentage of the portfolio comprised by Instants will continue to increase?

A. Garland: We really want to maintain that 60/40 split between the instant and draw games. It's important to maintain that balance for the health of the lottery, but it's really important to maintain the net return to our beneficiary – education. The draw games are important because they carry a higher margin than Instants, so we want them to comprise at least 40% of our total revenue. Too, we only have three in-state games and feel there is a lot of room to grow in the draw games category.

Your in-state draw game, Carolina Pick 3, is very successful, selling more than Powerball, which is quite unusual. Does it matter to you how the growth is divided between your in-state draw games and the multi-state draw games?

A. Garland: No. We'll take the growth and net funding to education wherever we can get it. But we did give extra attention to our in-state jackpot game, Carolina Cash 5. We put a multi-faceted plan together which included rebranding of the Cash 5 game, allocating more advertising to Cash 5, doing a cross-sale promotion with the Instants, and conducting promotional drawings for additional cash prizes. Cash 5 sales increased by 10% in FY13. We were very pleased with that since the trend line is for the in-state games to have trouble competing with the big jackpots of the multi-state games.

It sounds like you would like to have more multi-state games?

A. Garland: Yes, but only insofar as they can be differentiated. We need to broaden the base of consumers who play lottery. That is the way to grow responsibly. The way to bring in new players is to have a lot of diversity in the games. The core players may like to play the same games again and again. But non-players need something fresh and new to interest them in becoming players. Different price-points are important. But we need more than that to capture the attention of the less-frequent players and to get them to play for something other than the big jackpot. Better odds to win a smaller prize works well for our in-state games. I don't have the answer for those people who only play for the superjackpots. But the multi-state games still have tremendous potential and I am sure we will all enjoy continued growth in that space. ♦



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ENGAGING STAKEHOLDER SUPPORT THE IMPLEMENTATION OF INTERNET GAMING IN LOTO-QUÉBEC

PGRI Introduction: This is not just the story of Loto-Québec. Ms. Roiter makes a most persuasive case for the leadership of lotteries all around the world to learn from each other, to actively draw on the experiences and research of other lotteries, to help us communicate the mission of lotteries to political constituents, media, and retailers. As Ms. Roiter explains, she drew extensively on the resources of her European colleagues to help her explain i-gaming to the government of Loto-Québec. Government leaders in the U.S. are now debating the pros and cons of different regulatory models. U.S. Lotteries now have the advantage of drawing on the extensive i-gaming history and the guidance of their colleagues in Canada, Europe, and other parts of the world to explain why i-gaming should be operated by Lotteries and not by private commercial operators. It requires a concerted effort and out-reach by the leadership of Lotteries to ensure that public policy decisions are based on facts and not on the dis-information being propagated by private interest groups.

I have often referred to the Canadian model with great admiration. As a matter of public policy, the primary mission of government-gaming in Canada is to protect the consumer from illegal, unregulated operators by “channelizing” demand to the legally regulated and taxed operator. For instance, when it appeared that the amount of play on electronic games was increasing at a higher rate than was deemed necessary to meet the demand, Loto-Québec took steps to deliberately decrease the play on electronic games. Of course, revenues decreased as well. Alternatively, when the level of illegal internet-based gaming reached an unacceptably high level, it was decided that the time had come to “channelize” the demand for i-gaming over to the legally regulated operator. Curious about how this process actually works in the real-world, I asked Lynne Roiter to address our Smart-Tech Conference audience, to explain how the government and its lottery operator work together to formulate the best approach towards protecting the consumer. In particular, how did Loto-Québec and the government of Quebec work together to formulate the current i-gaming regulatory model? In addition to her role with Loto-Québec, Ms. Roiter’s perspective is informed by a long history of engagement with the World Lottery Association – and the legal, political, and regulatory issues faced by lottery operators all around the world.



Following is the transcript of a presentation made at PGRI Smart-Tech Conference in New York, April 2013 ...

Lynne Roiter, Corporate Secretary,
Vice President of Legal Affairs and
General Secretary of the World Lottery
Association (WLA)



**LOTO
QUÉBEC**

As you know, in Canada there are 5 lottery organizations, each operating independently of each other; within their respective jurisdictions. However, just as the US lotteries, we do join together, in order to obtain the liquidity, to offer pan-Canadian lottery games. When it comes to i-gaming, we have followed the same format. But for my purposes today, I should emphasize that I do not speak for Canada,

only for myself and the actions we took at Loto-Québec. Loto-Québec’s Espacejeux was launched in December 2010. It is my hope that our launch experience, the challenges we met, how they were addressed, and our strategies going forward might provide you with some points of interest.

In Canada, we are fortunate that there can’t really be legal challenges to our being on the Internet. The Criminal Code is clear; it is only the provincial lottery corporations that can legally offer Internet gaming. We have no challenges from the federal government as the Canadian Criminal Code does not



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permit it to be involved in gaming. So we didn't have to face potential federal legislation like the Kyle Bill.

As well, since it is only the provinces that can operate all forms of gambling, the issue as to whether it is the state lotteries or private enterprise that can offer poker, for example, on the Internet is a non-starter - it has to be the provincial lotteries.

Loto-Québec had closely followed the growth of the internet since the 1990's. But it wasn't until some 10 years later that we felt that the demand had reached a point that a solid case for launching our own i-gaming website could be made. A study done by Boston Consulting showed a 30% growth in the marketplace between 2003 and 2008, with growth projections over the next five years of 12%, going from \$675 million to over a billion. The growth in real dollars would be much bigger in the U.S., since the Canadian population is only 34 million compared to 314 million in the U.S. This double digit growth in i-gaming was occurring at the same time as the revenues from our land-based gaming operation were more or less stable. As well, from 2001 to 2009, homes in Canada with high speed internet access, which is so essential for internet gaming, rose dramatically - from 20% penetration to 65%. In Québec, growth was even greater, increasing from 14% penetration to 60%.

There was a very compelling business and legal case for channeling this demand over to a legally regulated environment. Even so, there were strong voices expressing concern as to the impact that legalized i-gaming could have on problem gambling in Québec. This is a challenge faced by lotteries all across the globe. Our challenge then was to correctly address these concerns. Our approach was two-pronged. The most important was to properly position our initiative as one that was driven by social concerns, and as a natural extension of Loto-Québec's mandate which is to channel existing gaming into controlled circuits for the protection of the consumer and to the benefit of the province. Contrary to the very vocal representations made by those who were against the initiative, our internet site was not a widening of the gaming offer. The offer was already there. There were some 2,000 unregulated sites to which Québec consumers had access.

Quebecers were already playing on these illegal sites. In fact, they could only play on illegal sites, where the integrity of the games and the responsible gaming measures are doubtful, because there was no other option. The real question is how can you justify not giving your players, who are turning to Internet gaming in increasing numbers, the option of doing so on a website that was controlled and regulated for honesty and responsible gaming and whose revenues were returned to the benefit of all Quebecers.

Some of you might recognize that this rationale is really identical to the original justification for many governments to enter the lottery business in the first place. Land-based lotteries were started in many markets for the express purpose of putting an end to the illegal and dishonest numbers and sweepstakes rackets. It was recognized that the responsible public policy was to channel this gaming activity into a legal and controlled network - one where the profits are returned to the benefit of the state and its citizens.

But it was not enough to simply state this. It was necessary to back this position up with facts and figures. I might point out that being part of the global lottery community helped tremendously. A primary mission of the World Lottery Association is to promote and facilitate sharing of information that can help us accomplish our own individual jurisdictional objectives. Being a WLA member - if I can make a pitch for WLA - was a great advantage. We had access to Interpol reports, European court judgments and decisions, data and analyses relating to i-gaming, scientific studies and information from other lotteries that were already on the internet. And it was not limited to their sales data. Most useful was the information relating to responsible gaming measures and the impact that they have had, as well as the strategies used to convince their stakeholders to permit them to launch on the internet. And this was essential because it created a compelling case for moving the existing consumer i-gaming activity over to a safe, secure, and regulated website.

For example, Sweden had already implemented i-gaming through its national lottery operator, Svenska Spel. So it became the resource that some of us turned to for data that would illustrate the real-world results of channelizing i-gaming over to the legal, regulated operator. We needed to get access to the source data to help counter-act misinformation that was being used to criticize our attempt to channelize i-gaming. Svenska Spel helped us to access the accurate data and information about consumer i-gaming behavior. The major data-points include:

- Rate of pathological gamblers in Sweden did not increase with introduction of their internet site - stayed at 0.6%.
- At that time, 30% of market was channeled to Svenska Spel Poker site.
- There were 4 times more pathological gamblers on illegal sites than on Svenska Spel's.
- Responsible gaming measures were effective.
- 5.4% of players used the self-exclusion function and ¾ of them didn't go to other sites.
- 78% of players didn't go to other sites when they reached the time/money limit they set.
- 68% stopped playing before they reached their limit.
- 44% of those who scored as problem players reduced play after test result.

As you can see, the actual data is a powerful recommendation for taking action to channelize demand for i-gaming towards a responsible government-gaming operator. We were able to show that channeling demand did in fact work in Sweden and that their responsible gaming measures were effective.

There was an argument put forward that impact studies should have been done before opening the i-gaming site. Unfortunately, this ignores the fact that Québecers were already playing on the internet. You could not do a before and after study since we were already in the "after." We contended that more important was to monitor and measure the impact of our site as well as what actions could be taken to counter illegal gambling on the internet.

The government therefore created a scientific panel with the mandate to report back to it within three years of our launch. We are cooperating fully with that panel, providing it with all of our data. Their reports should be coming out in December. Their assessment will obviously be very important for us in Québec. But I would submit that it will likely contain information that others will find quite useful. Insofar as stakeholders everywhere would like to make decisions informed by actual data and real-world experience, this information could be helpful to everyone.

A considerable investment is required to implement and maintain an internet gambling operation. The potential for i-gaming to deliver a positive ROI is significant, but it is also a developing marketplace. Concerns were raised as to whether it would be a good investment for Loto-Québec financially. We were able to address this concern by partnering with BCLC, the British Columbia Lottery Corporation, and ALC, the Atlantic Lottery Corporation, in the selection of both our account management platform and i-poker platform. Partnering like this proved to be a vital part of the initiative for at least two big reasons. First, the synergy this created permitted us to achieve economies in our negotiations with the commercial suppliers, reducing the cost of implementation. Second, partnering greatly expanded the population base from which to attract players. This provided us with the scale and liquidity which otherwise would have made certain games such as poker and network bingo less interesting economically. As far as I know, this Canadian approach is the only example of a multi-jurisdictional internet gaming. Again, this is something that U.S. states may want to explore for the same reasons that we did.

In Canada there are now four lotteries representing seven provinces which are on the internet and OLG has announced it will soon be online as well. The order that each introduced their i-gaming products varied according to their local situation. At Loto-Québec, the order that we introduced our games online was determined by the window of opportunity of having common platforms for certain games with ALC and BCLC. After a nine-month startup period, we launched our internet site in December 2010 with poker. BCLC joined the poker site a few months later and Manitoba joined in 2013. On the lottery side, we started our sports-betting products in March 2012 and followed a few months later with our lotto games online. In May 2013, we added other number games as well as our monitor lotto games and we should have a network bingo offering with BCLC and ACL around towards the end of this year.

The launch went very smoothly. There was, however, concern expressed by our retailer network when it was announced that we were going to be adding lottery product to our internet offering. The reaction was very similar to what appears to be happening in the U.S. The different retailer associations all let our government know of their concern in the usual ways. The media picked up on it as well. Studying the experiences of other lotteries, we were very confident that the retailers' fears were not well founded. Internet lottery sales wouldn't be more than 2-3% of our total lottery sales. And, we had invested over \$100 million dollars in the two to three years preceding the launch to improve

the land-based retailer network. Our retailer network is essential and our commitment to supporting their success is stronger than ever. So it is vital that our retailers remain confident in our commitment to them and their success.

We examined various ways of engaging their support. We settled on doing a retailer-specific promotion. Its purpose was to help support the launch of lottery products on the internet. And we called it "Mon détaillant et moi, ça clique", which roughly translates into "My retailer and I – we click," or "it clicks." We provided the retailer with point-of-sale materials to promote the launch of our internet site for lottery products and asked them to actively encourage their customers to open an account on the internet.

In exchange for their support and for space on their counters, etc., we agreed to pay them a 6% commission for the lottery purchases their clients would make on the internet. To get the commission, their clients – when they open their account on the internet – have to provide us with their retailer's number. The promotion was very successful with about a third of our retail network, getting the 6% commission.

For the customers that did not associate their account with the retailer, we take 2% of their purchases and distribute it pro rata to all of our retailers based on their in-store sales. So the retailers can see that being on the internet can also have a good consequence for them. What started off as a negative turned into a positive. And I imagine this was also helped by the fact that they saw that we were correct in our predictions that internet sales would not adversely affect their lottery sales, nor the traffic in their stores.

I have been talking about our own experience which is quite specific to Canada and Loto-Québec. I would submit that we all have much to learn from the European experience as well. In fact, the circumstances of U.S. states and their lotteries have many similarities to those of Europe and therefore could learn from the European experience. This was really brought home to me the other day when I read that Mark Lipparelli, the former chair of the Nevada Gaming Control Board, said the United States can dominate the world's multibillion dollar internet gaming market, but only if it does not repeat the same mistakes that Europe made. The implications of that are concerning because it is not his intention for the industry to be controlled by government lottery operators. The only way for his prediction to happen would be for the U.S. to adopt a low taxation and multiple licensee commercial operator model that is not consistent with the interests of the states and their lotteries. I would respectfully submit that it would be very wise for U.S. lottery executives to communicate with their European colleagues, to learn their strategies on how to combat the agendas of commercial operators who want to undermine the government-gaming model. U.S. lotteries may in fact want to repeat the "mistakes" made in Europe that are helping to preserve the integrity of this industry and the economic benefits for Good causes. ♦



Jim Kennedy

President, Global
Printed Products
and Chief
Marketing Officer

PGRI Introduction: Clarifying the basic building blocks of a business plan (mission, objectives, strategies and tactics) requires answers to some basic questions. What business are we in? Who exactly is our customer? For lottery, the issue is how to optimize a most unique business model. The cost of operating the business and generating sales is, as a percentage of sales and profits, constrained such that it is extremely challenging to wrest the full potential of the business. In the commercial world of efficient capital allocation, resources and funding would flow into a business that generates the kind of ROI that lottery does. For a variety of reasons, that does not happen with lottery, which means that increasing the leverage of those limited resources has a hugely disproportionate impact on sales and net funding to Lottery beneficiaries. Finding ways to eke out an extra measure of productivity from every dollar spent is the Holy Grail of this business. The commercial world of consumer products has discovered that migrating from a brand management to a category management approach is yielding significant increases in sales and profits. A focus on the performance of individual brands is being replaced by a focus on optimizing the entire category of products. Fortunately, lottery does not need to be first with the paradigm-shifting strategy du jour. The category management approach began to gain traction some 15 years ago, which means that we in the lottery industry now have the benefit of learning from the pioneers who have perfected the category management approach. Lotteries have become quite adept at the fast-follower role, identifying and assimilating the management strategies and business process that have been vetted outside of our industry.

One of the obstacles for consumer products companies to moving into a category management partnership with retailers is that the brands within the category are owned by different companies and so they compete with each other. One might wonder what an amazing thing it would be to own the entire category. Oh, wait, Lottery does own the entire category!

This is new territory for me, so I asked Scientific Games' Jim Kennedy to help me sort it all out.

THE STRATEGIC APPROACH TO MAXIMIZING VALUE

Paul Jason, Public Gaming: *Unlike the terminal game side of the lottery business, the instant game business has traditionally operated like the old P&G brand management model. And the results have been very good. Sales of instants have increased at a much faster rate than lotto over the last two decades. Why not stick with what works?*

Jim Kennedy: We are sticking with what works. It's just that what has created the best results for our Lottery customers worldwide is a focused category management approach. It's a true and proven approach for other consumer product categories – and in fact most major retailers have dedicated category managers and expect to have this type of close business relationship with their category suppliers.

The instant product category is growing and evolving around the world; in the U.S. alone it's grown over \$6 billion incrementally in just the last two and a half years. Over

time, we've gone from selling single games to multi-themed games, to higher price points games, to multi-themed multi-price point games. Then that evolved into the game management approach of launching more and more games, making the consumer decide which games they liked the best, then turning that consumer feedback into creative product development and results-based innovation.

As an industry, I think we're shifting into a new place, a category management environment. Sheena Iyengar's research in her book "The Art of Choosing," suggests that too much choice can actually reduce sales; people confronted with too much unstructured choice choose not to buy. In the instant games business, our goal is to build excitement without introducing confusion. Getting this right requires a deep understanding and a development of the consumer experience over time. A few seconds of play on each

game can accumulate into hours of learning about consumer behavioral patterns. The best performing Lotteries harness each encounter with games into an on-going, developing relationship with the consumer's value choices.

Lotteries own the whole category. That's an amazing concept. No other product marketer is in that position. That would seem to provide quite the convenient platform for applying the principles of category management. Manage the category, the promotions, the merchandising, the launch cycles, the game content, etc. for optimal synergies instead of a haphazard Darwinian competition between brands.

J. Kennedy: Exactly. There has been the assumption that the success of the lottery instant games business is driven by the individual performance of the games. But games are individual parts in an overall consumer and retail experience. Of course, we

must have great individual games but it is the masterful combination that makes all the difference. Lottery, like all consumer product categories, is moving into a category management approach that focuses on category optimization instead of just individual game optimization. The elements of the marketing mix have a force multiplying effect on each other when managed strategically as a category. The results support this. The highest performing Lotteries in the world are the ones that have evolved from the game management approach to the category management approach. They may not call it by that name but that is what is going on beneath the surface. At Scientific Games, we call it Cooperative Services Programs (CSP) and it is a programmatic approach that provides our customers with a proven instant game partner that has helped grow their instant game sales on CAGR average of nearly 8 percent for the past 10 years and helped their retailers sell more games and increase their profits.

What does category management mean exactly, as we apply that concept to Lottery?

J. Kennedy: It means managing the entire product line as a business instead of a collection of competing games; so that all aspects of the program are coordinated to work synergistically and be mutually supportive. For many years we have identified and integrated 15 determinants of demand into our category management approach. These determinants complement and reinforce each other to produce an aggregate result that is far better than the sum of the parts.

But our capitalist system is based on competition. Competition of ideas and competition between products in the market-place giving the consumer the power to choose the winners and losers, and the marketer the feedback they need to continually improve the product and promotion.

J. Kennedy: This is the fundamental difference between the lottery instant game category and traditional consumer brands. In a product brand environment, companies are driving choices WITHIN a category BETWEEN competing companies' products at the consumer level. Buy Coke or buy Pepsi.

An enormous amount of effort and expense goes into shifting market share a percentage point in one company's direction or the other; it is a zero sum game. Unless there are competing Lotteries selling instant games at the same retailer (and in some countries there are), the Coke versus Pepsi branding assumptions don't apply and are actually destructive to the growth and development of the category. We don't want a consumer to choose one game over another game; we want them to enjoy the benefits and excitement of multiple experiences across multiple games. Category management orchestrates the demand drivers that create breakthrough performance.

The business of coordinating all these moving parts would seem to require a different kind of working relationship between Lottery and Supplier; one in which the supplier plays a bigger role in the process of managing the category.

J. Kennedy: It's absolutely different. And the role of a supplier or business partner is

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TRANSITIONING FROM BRAND MANAGEMENT TO CATEGORY MANAGEMENT

The management processes that produce optimal results in retailing have evolved greatly since Proctor & Gamble discovered the benefits of the 'brand-management' approach back in 1935. Ivory soap had made P&G the leader in soap sales. P&G wanted to introduce a new brand of soap, called Camay. Thinking that the team responsible for maximizing the sales of Ivory might not do the best job for Camay, P&G assigned an independent team of managers to launch the fledgling brand. The success of Camay led to a brand/product management philosophy which has persisted in large part to this day (or until enlightened marketers began to adopt the category management approach, beginning in the 1990s). Brands fought it out on the retailers' shelves for the attention of the consumer. Competition between brands was thought to be the perfectly logical foundation for a capitalist system that gives the consumer the power to decide the winners and losers. Supply chain relationships were driven by simple, albeit adversarial, negotiations over costs and service levels. But times have changed.

The most successful retailers and their suppliers have discovered that the outcomes produced by focusing on the newer concept of 'category maximization' are outperforming the mode of pitting brands in competition with each other. An ancillary benefit of the category management approach is that it depends upon cooperation between the retailer and all supply chain partners.

BusinessDictionary.com: Category management is a marketing strategy in which a full line of products (instead of the individual products or brands) is managed as a strategic business unit. It is based on the concept that a marketing manager is better able to judge consumer buying patterns and

market trends by focusing on the entire product category.

Actually, category management is much more than a marketing strategy. It is a different way of doing business and managing supply-chain relationships. Under the old P&G brand management model, manufacturers were managing the business with the singular goal of making the most profit for themselves. Retailers then came to recognize that the resources and expertise of their suppliers could be applied to improve their own business operations; that engaging the active participation of their suppliers in the business of marketing the products would reduce the retailers' costs, increase sales, and improve profitability. Suppliers recognized that helping the retailer sell more is a sustainable strategy for expanding the market and improving efficiency in operations. As a catalyst for binding the strategic interests and planning processes of manufacturer and retailer, category management has birthed a new age of cooperation. Or, in the case of the lottery industry, created the platform for cooperation and teamwork between Lotteries, retailers and commercial partners. The result is that negotiations over who gets what percentage of a static profit pool has turned into a collaborative approach towards improving customer satisfaction and increasing that profit pool for the benefit of retailers, Lotteries and supply-chain partners alike. Actions to increase sales and improve profitability are now undertaken as a team. The one binding principle is that everything revolves around the consumer, setting the stage for a new age of a genuinely holistic, customer-centric relationship between all factors of production and supply chain partners. ♦

Tom Little

President & Chief
Executive Officer,
INTRALOT, Inc. – US

intralot



PGRI Introduction: In the U.S., Instant Scratch-offs have been evolving and growing over the past couple decades. The draw games have not innovated as much. It was a great leap forward to cross-license the two biggest multi-state games, and then to raise the price of Powerball from \$1 to \$2. But, what about the games themselves? Are the game mechanics and distributional and promotional options just more limited in the draw game category than other game categories, like scratch-offs? Or are there opportunities to innovate, to give the consumer more options, to create a more entertaining play experience in the draw games?

Tom Little draws on over thirty-seven years of personal lottery management experience and expertise. Prior to implementing the Intralot USA startup in 2001, Tom served as Senior Vice President and Chief Information Officer (CIO) of Scientific Games International. His extensive background in lottery management, operations and technology informs Tom's perspective on ways to innovate and grow the draw games – quintessential lottery game.

Paul Jason, Public Gaming: *Although U.S. lotteries have been experiencing record-breaking sales, many of them are struggling to increase sales of their in-state traditional draw games such as Pick 3 and Cash 5. What are your thoughts on the future of existing in-state draw games and what can be done to revitalize the product line?*

Tom Little: The multi-state draw games have tremendous consumer appeal and that can put pressure on the in-state draw games. Even so, a number of current in-state draw games are still performing well. Others have been struggling and will probably continue to do so. Some lotteries are considering dropping games that have had consistent sales declines. My belief is that if those games are still profitable and there are no issues with covering top prizes, those games should be allowed to remain on the market. Products in the mature stage of their life-cycle can still be profitable. If the lottery were to minimize advertising and other support for those games, they could be among the most profitable games in their portfolio. I see no reason why their contribution to net funding should be terminated prematurely. All games have a group of core players that will continue to play and enjoy those games. Advertising and promotional support should be applied to new games. Having said that, we are losing the typical draw game lottery player, either because of age or the advent of numerous other gaming options. The new generation demands more variety and

features that appeal to them; not a one size fits all option. In order to continue to attract current players as well as draw in new ones (pardon the pun), lotteries will need to push the limit on what they offer to their players as well as how and where they offer those choices. There has been resistance within the industry to increase the number of price points of in-state draw games. However, we see multiple price points on draw games as a necessary evolution to keep up with the changing market and the consumer demand for more options. We have seen great success with a number of our jurisdictions that have adopted this model of multiple price points with their Online Instant games. The price points of these “draw” games have included \$1, \$2, \$3, \$5 and \$10. Very soon one of our customers will offer a \$20 Online Instant game to their players.

Online Instant games would seem to hold tremendous potential. How do they work?

T. Little: I'm not surprised that you've heard about this new product line. It has been hugely successful for our lottery partners. Essentially the Online Instant games are fast-play style games generated from the retailer terminal, or from INTRALOT's self-service terminals – the WinStation and MP. They can be played and validated instantly without having to wait for a daily or weekly drawing to occur. Getting that real-time feedback on winning information is what makes the experience of playing Instant Scratch-

ers feel like a true gaming experience, and significantly contributes to their big appeal to consumers. Transferring that attribute to the draw games and giving draws that instant feedback also has the same result of making the experience feel more like a real game and should further enhance their appeal. These Online Instants have multiple price points and are essentially scratch tickets without latex. We have developed games with all types of play styles, from traditional match 3 of 5, to themed games as well as extended-play games. This product line has added as much as an additional \$0.25 in weekly per cap sales that has been completely incremental with no cannibalization of other draw games or instant tickets. We see the opportunities for this category of draw games as a way to attract new players and possibly put a new twist on older style draw games such as Pick 3. Imagine an "instant" Pick 3 drawing available to players where every play has its own drawing with the results shown immediately.

These Instant On-line games also have a significant advantage over multi-state games in that they don't require approval by a number of other lotteries. In the past, that process has been difficult and it can be a very big obstacle to innovation. State lotteries still need to stay aligned with their own in-state set of constituents, but they have much more flexibility and control to innovate and to implement something like an online internet-based draw game.

There is much talk about how we need to apply at least some of the principles that have worked so well for scratch-offs over to the draw games. Are there ways to apply these successful principals to draw games?

T. Little: The game mechanics of scratch-offs are quite different than those of draw games. But there are many successful principles that have been developed for scratch tickets that can be applied to draw games as well – like creating games with a variety of different themes, different price points, different odds, different prize levels and top prizes. Those are all attributes that offer a rich canvas for innovation in the draw game category. And INTRALOT has also expanded on the basic principles to differentiate our products from the existing ones so as not to just move dollars from one product to another. Research has shown us that these games fit a unique niche market and do not cannibalize sales from other existing products.

Most people think only of Mega Millions, Powerball and Pick 3 when they think of draw games. The truth is that we can do much more. Just in the last couple of years, INTRALOT has worked closely with its lot-

tery partners to develop new, exciting, and innovative draw games. Our experience has shown us that the most successful strategy, just as it is with instant tickets, is to launch a variety of games with different themes and price points in order to create options for the consumer and attract different demographics. Currently, Online Instants are offered by the Ohio, D.C., Montana, New Hampshire, Vermont, New Mexico and Arkansas Lotteries. The DC Lottery, for example, at any given time, offers more than 20 FastPlay games (Online Instants) on the market with price points ranging from \$1 up to \$10. In addition, our Online Instant Progressive Jackpot games have been experiencing great success in Montana, Arkansas, Ohio and Washington, D.C. These games do not compete with the existing big jackpot games since their jackpot is much smaller. However, the games are still very exciting as they grow in real time with increasing ticket sales. Another feature that players like about the games is that the jackpots are won frequently and that they produce "local" winners. In addition, the odds of winning the jackpot prize in these games are significantly better than multi-state games. Sales of these games have also been helped by another strategy used in the success of scratch games, the self-service lottery terminals.

Another great principle coming from the scratch world is that of "families of games". The D.C. Lottery was the first to offer three draw games under the same umbrella, called "DC Jackpot". Each game has its own price point and prize structure but their sales contribute to a single progressive jackpot. As a result, the jackpot increases much faster, making the game much more interesting. The DC Jackpot game doubled the Lottery's Online Instant sales when it launched and has continued to bring in 50-60% of total Online Instant sales, depending on the jackpot level.

You touched earlier on self-service terminals. Aren't lottery players creatures of habit and refuse to buy from anything except their clerk?

T. Little: We've found the response to be quite the opposite. Self-service is a growing trend in every industry globally and lottery is no exception. While there may be a group of traditional players who aren't interested in self-service, we have found them to be a tremendous tool to aid retailers and lotteries. When jackpots are high on Powerball or Mega Millions self-service machines help to reduce lines and wait times for retailers and players. In addition, we have found that providing self-service machines significantly helps to sell lottery into social locations such as bars and taverns that typically do not have

the inclination to be lottery retailers. As we evolve with the new generation of potential lottery players, I see the reliance on self-service growing as more players demand products at the touch of a button.

Recognizing this emerging trend in self-service, INTRALOT recently introduced the TAPP IT! product line. This line of games allows players to use the touch screen of the MP terminal to choose the game and game parameters (price point, numbers, etc.). Allowing the player to make their own selections within the game gives them the perception of skill and the feeling that they have control over the outcome. Of course, in reality the result of each game play is predetermined by INTRALOT's central system and within seconds the outcome is displayed to the player in high graphic animations and sound. The games give the entertainment experience that the new generation of gamers demand. Non-money casual games have become quite popular. TAPP IT! shares some of the attributes of casual games and so appeals to these new consumer groups. By allowing players to validate their winnings immediately and get credit in the machines up to a configurable amount, they can play additional TAPP IT! and other traditional lottery games as well, producing a rising tide lifts all boats phenomenon.

It will be interesting to follow the progress of INTRALOT's TAPP IT! line of games because while that product is new to the industry, Self-Service and online instant tickets have been around for some time. To what do you attribute your success with Self-Service and online instant games?

T. Little: Our success with the online instant tickets comes from the expansion of the product line and the fact that the games themselves have been designed to provide the flexibility to take into account the habits, customs and preferences of local players. For example, bowling is extremely popular in Ohio. For that reason, we developed an EZPlay (Online Instant) game with a bowling theme. It has been a tremendous success in Ohio but it probably wouldn't translate to New Mexico. We can also be experimental with these games because the lower cost to develop and launch the games means there is less risk for the Lottery than with some of their other products. With regard to self-service machines, success depends on where the machines are placed, and the appeal of the games that are played on them. Lotteries have been placing ITVM's in grocery stores and truck stops for many years. We will con-

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Pat Schmidt

Senior Director,
Licensed Properties,
GTECH



PGRI Introduction: Casual games have captured the attention of hundreds of millions of consumers. These are entertaining, interactive games targeted to the masses with simple rules and are accessed on the Internet and often played on the mobile smartphone. Studies show that consumers are spending more and more of their leisure hours playing casual games. That is causing some to ask ... Why couldn't lottery create the next casual gaming phenomenon like Bejeweled or Plants vs. Zombies™? Part of the answer is that these casual games usually involve an element of skill or an outcome that is not totally random, and, in that respect, do not comply with the basic requirement of a lottery game. But that does not mean that lottery can't find ways to integrate at least some of the attributes of casual gaming that consumers find so appealing. Better yet, a lottery can license the casual game brands, translate the game into a lottery-compliant format, combine it with social networking, and carve out a place for itself in the expanding universe of casual gamers.

Bejeweled has been downloaded over 150 million times, making it the most popular puzzle game in the world. It's also proven to be a casual game that translates beautifully to lottery. GTECH has experienced incredible success by licensing the Bejeweled brand for its printed products.

Paul Jason, Public Gaming: *How did you know that Bejeweled would turn into such a great brand for lottery?*

Pat Schmidt: GTECH does extensive research before we partner with any brand because, once we acquire the brand license, we invest considerable resources to make sure the game succeeds at driving sales and net revenue for our customers. In fact, our business model is to invest heavily in a more focused portfolio of licensed brands.

First, the brand must have strong consumer appeal to qualify it as a potential fit to license for lottery. It is even better when the brand is directly related to entertainment, as opposed to just being a popular consumer product. It is especially powerful if the brand is not only entertainment-focused with broad consumer penetration, but is actually a game. Lottery is all about games and fun, so a game like Bejeweled with massive consumer appeal is a perfect fit for lottery. Our challenge is to take those game mechanics and translate them into a lottery program that includes more than just a scratch ticket. We strive to build a multi-faceted approach that integrates lottery with the consumer brand value, entertainment, social media, and gaming.

The casual gaming category, consisting of entertainment-focused gaming that is played over digital media, is one of the fastest-growing categories in the interactive gaming world. We knew we wanted to tap into the momentum and phenomenal popularity of casual games. But we wanted to select one that we could grow with – a brand with longevity and sustainability. The life-cycle for casual games can be fleeting. Just look at the struggles of the wildly popular Zynga games. Farmville-type games ruled just a few years ago and have already fallen out of favor with the consumer. Casual games come and go very quickly, with dozens of new brands introduced every day. Bejeweled is a phenomenally successful brand in the casual gaming space. It was launched 13 years ago and has demonstrated tremendous staying power. With 150 million downloads and counting, it has huge market penetration and brand awareness.

Then we study the demographics of the brand's consumers. With Bejeweled, for example, we ask who is playing the game and does that demographic align with the lottery player whom we want to attract. PopCap provided us with some very compelling demographic information that demonstrated the Bejeweled game is played by the core



lottery demographic as well as the very important younger and emerging player. To further understand the appeal of Bejeweled to the lottery player, GTECH surveyed 1,500 lottery players, segmenting them into core lottery players, casual lottery players, and non-players. We asked them if they are familiar with the Bejeweled brand, if they like and play Bejeweled, and if they would play if it was a scratch ticket. The results of this survey confirmed that everybody knows the Bejeweled brand, everybody likes the Bejeweled brand, and most people have played Bejeweled. Well over 50 % of both the core player group and the casual players said that they would play the game if it was a scratch game. And a quarter of the non-scratch players said that they would play Bejeweled if it was a scratch game. This is a brand that appeals to the core player and the casual player alike and will also pull in the non-players.

Bejeweled is also a very visually interesting game with lots of beautiful graphics that lend themselves to making great, attention-getting scratch games. Those were the key drivers that helped us make our decision to license the Bejeweled property.

And its owner, PopCap, is shrewdly developing a big stable of spin-off games to further extend the brand.

P. Schmidt: PopCap recognized very early on the power of the Bejeweled brand, and they worked very hard to develop the game into a brand, allowing for the sustained success over the past 13 years. PopCap has done a great job of taking not just Bejeweled, but all of their games and building them into brands with the use of Facebook, spin-off

BEJEWELLED™

games, sequels, and robust licensing programs. They also recognized early on the power of Facebook to be a platform that could create a viral expansion of players. Bejeweled Blitz alone is now played over 100 million times every day on Facebook. Think about that! Plants vs. Zombies, also a GTECH licensed property, is another great example of PopCap's ability to integrate its games into the social space and add an interactive layer.

It is our intention to extend the demographic reach and life-cycle of the Bejeweled license for lotteries. As Bejeweled evolves, it's important for us to also evolve our printed product by incorporating new features and assets and creating new play styles and relevant promotions that are attractive to our core players and new players.

Then you have to turn it into a product that lottery can sell.

P. Schmidt: In order to capture the consumer appeal of Bejeweled for lottery players, our strategy has been to develop a variety of scratch game designs with multiple play mechanics and at multiple price points. We have also developed play-for-fun, interactive games specifically for lottery customers that incorporate leaderboards where lottery players can compete amongst each other for fun and bragging rights. Another major component to our offering is to provide comprehensive promotion development and execution. Some lotteries will elect to undertake event marketing campaigns, like Washington's Lottery did, while others choose a different approach. It is GTECH's goal to provide our customers with tailored support, specific for each lottery, to help create the most impactful marketing campaigns.

The implementation of Bejeweled would seem to create a platform for lotteries to utilize other PopCap brands to create additional instant ticket promotions.

P. Schmidt: GTECH has positioned Bejeweled as the lead-in game among the PopCap properties. It is certainly one of the most recognizable brands in their portfolio, and we see the value in leading up with an entertaining Bejeweled program and following up with games like Plants vs. Zombies and Zuma®. Plants vs. Zombies has had great success in multiple jurisdictions and is PopCap's fastest-growing game franchise. In fact, the much anticipated Plants vs. Zombies 2 launched in mid-August and, within 2 weeks, was setting download records on the Apple App Store.

We have developed multiple scratch games and play-for-fun, interactive games for all three properties that really add value to a lottery program. The marketing strategies that we can implement with these brands are multi-channel, can promote sharing on social media platforms like Facebook, Twitter, and YouTube, and can lead to viral marketing. This provides our customers with an opportunity to engage players in non-traditional channels and make lottery products relevant to a wider consumer audience. These strategies support the ultimate goal of driving more players to retail to purchase tickets and increase lottery revenues. ♦

WASHINGTON'S LOTTERY DAZZLES WITH BEJEWELLED®

Washington's Lottery kicked off 2013 with a \$5 Bejeweled® instant ticket, available exclusively from GTECH. The Lottery was excited to launch the award-winning, gem-matching game as an instant ticket. The player demographics for the brand both align well with the Lottery's core player and attract a new demographic. Bejeweled is a game that is played on multiple platforms, including Facebook, PC, MAC, smartphones, tablets, and gaming consoles and appeals to a very broad audience.

Bejeweled is part of Electronic Arts' portfolio of casual games under the PopCap® label. Located in Seattle, Washington, the PopCap team was excited to finally see Bejeweled instant tickets in their home state and were there to assist the Lottery with creating the buzz and excitement of their hugely successful and wildly popular casual game.

In order to showcase the brand in a way that would resonate with a new audience, Washington's Lottery and GTECH worked together to organize two interactive and fun events to drive awareness of Bejeweled and engage players.

The first Bejeweled event took place at the Tacoma Mall, the second at the Northwest Women's Show in Seattle. At the Tacoma event, the Lottery sold Bejeweled instant tickets at its kiosk and lit up the mall by giving away sparkling Bejeweled rings to all players. Anyone who purchased two \$5 Bejeweled tickets was automatically entered into a second-chance drawing hosted by the Lottery on-site. The fabulous prizes for the drawings included Bejeweled games for multiple platforms, including Nintendo DS, Xbox, and PC, and gift cards valued at \$500 to stores in the mall. In addition to the drawings, the event included a Bejeweled tournament, where players could compete for the high score and bragging rights. Hundreds of people joined in on the fun, and some very dedicated and talented Bejeweled enthusiasts competed.

"Public events really generate awareness of our licensed brands and their availability in the lottery category. The success we saw at the Tacoma Mall validates that interactive events are well received by players and add value to the lottery games. GTECH has a proven track record of designing and executing instant ticket promotions, and we are always happy to help our customers develop and implement promotional programs and events," said Pat Schmidt, Senior Director, Licensed Properties, GTECH.

The two Bejeweled events were invaluable to our customers. Washington's Lottery always likes to be a brand that is associated with fun and entertainment, and our players had a great time competing and playing Bejeweled. These kinds of events really resonate with players and attract people to our instant ticket. Further, this type of game gives us the opportunity to be relevant in the market and on-trend with popular culture. We achieve two goals - a game that is popular with our regular players and the added benefit of brand recognition with non-players who may decide to purchase a ticket based on their familiarity with the brand." said Gaylene Gray, Instant Ticket Product Manager, Washington's Lottery.

Bejeweled is a brand that easily lends itself to fun and engaging lottery promotions. After all, the core essence of the brand is, in fact, a game. The Bejeweled license is one of several PopCap games available in the Lottery category exclusively from GTECH. ♦



THE EFFECT OF THE 4TH EU ANTI-MONEY LAUNDERING DIRECTIVE ON LOTTERIES

By Philippe Vlaemminck and Lucas Falco
www.Altius.com

Money laundering and terrorist financing practices is a world-wide phenomenon that touches all sectors of society. Authorities are aware of the size of this problem and have tried to establish different international bodies to fight against money laundering and terrorist financing, and also adopt recommendations and regulations in order to reduce such criminal behavior. This is the case of the OECD Financial Action Task Force ('FATF') which counts as Members countries from the all the different continents (e.g. Germany, UK, Mexico, New-Zealand, USA, etc.). In an earlier article in this magazine "The new FATF recommendations on combating Money Laundering in the Gambling sector: the need for Lotteries to take the lead in the debate" (by Philippe Vlaemminck & Beata Guzik), we emphasized the need for Lotteries to take a leading role in the further implementation of AML rules.

Indeed the money laundering phenomenon has recently been highlighted in the USA with the Las Vegas Sands casino case where the Sands' CEO Sheldon Adelson has agreed to pay a fine of USD 47 million in order to avoid criminal prosecutions for failure to report to the USA anti-money laundering authorities deposits of several million dollars in suspected drug money through several transactions designed to avoid any potential detection. The US anti-money laundering law obligates any company to report suspicious transactions to the competent authority. Similar obligations and procedures are set out by the 3rd and future 4th Anti-Money Laundering Directives ('AMLD') adopted by the European Union as analysed further in the course of this article.

It has long been recognized that casinos and other betting activities can be used for criminals to launder money acquired illegally. These activities are monitored by agents of law enforcement, as are emerging gaming platforms on the internet. Moreover, it is now being recognized that social gaming, virtual currencies, and new app's that enable commerce of kinds that used to be considered safe from money-laundering also need to come under the scrutiny of legal authorities. In fact, this has already been taken into consideration by the FATF which has issued a set of Recommendations to fight

against money-laundering practices where it states: "Countries and financial institutions should identify and assess the ML/TF risks that may arise in relation to the development of new products and new business practices, including new delivery mechanisms, and the use of new or developing technologies for both new and pre-existing products" (Recommendation 15.1).

This issue has also been raised by Morgan Stanley (see Morgan Stanley Blue Paper, Social Gambling – Click Here to Play, 14 November 2012) which emphasizes that: "In some virtual worlds and games, the virtual currency used is relatively liquid and can be exchanged easily on secondary markets for real money. This is likely to raise concerns about the possibility of money laundering via social games. Money laundering regulation on social games may include requirements to verify the occupation, source of funds, business interests, and credit history of customers if the management has reasonable suspicion that the customer is high risk for money laundering or terrorist financing."

As mentioned in our previous article on 5 February 2012, the European Commission published a proposal for a 4th AMLD. This proposal aims to consider all gambling operators as "obliged entities," which is to say that casino, betting and lottery operators will be subject to the different procedures and requirements laid down within the future 4th AMLD. So far, only casino operators were specifically targeted by the text of the 3rd AMLD (although it has to be emphasized that certain national legislations have already gone further and imposed the different anti-money laundering obligations upon other gambling operators additional to casinos). The discussion about whether Lotteries, or more in general, operators of games with low pay out and/or lower risk, need to be fully covered, is still on going (see later).

Lotteries will therefore have to prepare their staff and to implement mechanisms and internal procedures in order to comply with the new requirements set out by their national legislation implementing the 4th AMLD. Amongst the different preparation steps, lotteries will have to retrain their staff in order to raise their awareness in

terms of money laundering, as well as carry out strong and secure mechanisms in terms of reporting, information sharing, customer identification, staff education, etc. Several internal tasks will also have to be performed. Such tasks concern record-keeping, organising of training programmes for employees, appointing dedicated staff and compliance officer, drafting policies, etc.

National authorities will also have to play a role in the transposition of the 4th AMLD. Indeed, the 4th AMLD provides some latitude to Member States regarding the transposition of the EU instrument into national law. Such margin of implementation is particularly illustrated by the carrying out of a tailored and flexible risk-based approach to, amongst other things, the identification mitigating and understanding of the risks which remain within the competence of the EU Member States. Moreover, other examples of this margin of discretion granted to Member States can be seen regarding the establishment of a national supervisory authority; the obligation for gambling operators to receive the authorisation to operate by the authorities of the state where they want to provide their services; as well as in terms of sanctions to be applied and their degree of severity, etc.

Given the current version of the 4th AMLD, lotteries will have to adopt a pro-active behavior regarding, in particular, their Customer Due Diligence ('CDD') obligations. In the current state of the EU text, lotteries could be subject to a threshold of EUR 2,000. That is to say that lottery operators will have to perform their customer identification duty when a customer engages stakes and receives winnings for an amount equal to or exceeding EUR 2,000. It has to be emphasized that certain operators have pointed out that Member States should be free to decide, in the implementation of the Directive, whether this threshold applies both to the engagement of stakes and the granting of winnings or only to one of the said situations. Discussions are still ongoing regarding this issue. Moreover, it has to be pointed out that in the case that an operator suspects a client of money laundering or terrorist financing behavior, the same procedures will have to be implemented regardless of the amount spent or won. Customer identification is not the sole procedure that has to be implemented. Lottery operators will have to identify the beneficial owner, perform a permanent monitoring of the transactions, collect and assess information regarding the intended nature of the business relationship, report suspicious behaviors to the competent Financial Investigation Unit, etc.

Besides the basic CDD obligations, the current provisions of the 3rd AMLD as well as the provisions of the proposal for a 4th AMLD in its current state allow certain obliged entities to reduce the burdens imposed by the Directive. Indeed, as it is already provided for by the 3rd AMLD, the proposal for a 4th AMLD maintains its provisions allowing the implementation, at national level, of Simplified CDD obligations for activities presenting lower risks of money laundering or terrorist financing. Lotteries could use this opportunity to demonstrate to their national authorities that certain games they offer, particularly low pay-out games, generate lower risks of money laundering and terrorist financing justifying the implementation of Simplified CDD measures.

Given the above, lotteries should demonstrate there is a clear dif-

ference between the products/services they offer and other types of gambling activities such as casino games, instant lotteries, sports betting (with the exception of 'pool betting') and social gaming, as it is commonly agreed that basic lottery games (i.e. draw games) involve lower risks than the other aforementioned types of game. Applying the above mentioned Simplified CDD will enable lotteries to save costs and enhance their relationship with their customers but will require lotteries to demonstrate to the national body in charge of the implementation of the Directive, through the performance of a risk assessment for all types of games and before the implementation of the 4th AMLD, that given the lower risks of money laundering and terrorist financing generated by certain of the games they provide, lotteries should be subject to Simplified CDD obligations.

Furthermore, what is mentioned above can also be applied to the different distribution channels given that online gambling activities generate more risks than offline gambling due to the specific characteristics inherent to the online offer (i.e. permanently accessible, lower controls, different environment, etc.). The CJEU itself recognised the said difference in the *Carmen Media* case and confirmed further that online gambling is just another form of distribution channel and not a new type of game (CJEU, *Zeturf*). The differentiation mentioned above, should also be performed between online and offline gambling activities considering that the latter do present lower risks of money laundering and terrorist financing. There is a clear necessity for lotteries to avoid having types of game presenting different degrees of risk subject to the same CDD procedures. This aspect should also be borne in mind by national authorities in charge of the risk assessment.

Besides Simplified CDD, lotteries could also be subject to Enhanced CDD which implies the implementation of stricter controls. This procedure applies in different situations, e.g. when a customer falls within the definition of Politically Exposed Persons ('PEPs') or for games presenting higher risks of money laundering and terrorist financing. For example, considering the risks of match-fixing inherent to online sports betting, such activity is likely to be subject to the Enhanced CDD requirements.

Finally, it has to be recalled that the 4th AMLD has not received any final vote so far. Nevertheless, lotteries and other gambling operators should prepare themselves now to implement the different CDD mechanisms, internal procedures, as well as the risk assessments of their games. As already mentioned, there is a clear need to demonstrate that all types of game should not receive the same treatment and that accordingly, certain low-risk games provided by lotteries would allow them to be subject to lighter CDD requirements.

Although discussions are not over yet, lotteries should be prepared to face the new challenges that will most likely be brought by the 4th AMLD by coupling expert legal counsel, tax advisors, cooperation with other operators, and the use of the different instruments provided by institutions experienced in the fight against money laundering and terrorist financing, such as the FATF of the OECD. An anticipative and cautious preparation will enable lotteries to save time, money and to develop and strengthen their relationships with customers without any doubt. ♦

Geonomics

INTERACTIVE LOTTERY GAMES: HOW LOTTERIES CAN MOVE ONLINE

By James Oakes,
Chief Executive Officer, Geonomics
www.geonomics.com

Over the last few years there has been growing recognition within our industry that the online sphere offers a profitable – and thus far comparatively untapped – territory for lottery operators worldwide. Undoubtedly, interactive games present a host of opportunities for engaging with players, and attracting the attention of a younger generation on whom the future of the industry depends.

It's therefore no surprise that many lotteries in Europe, and increasingly in North America, have introduced internet-based versions of their games and are enjoying heightened sales as a result. But now the industry is progressing beyond traditional bricks-and-mortar lottery games replicated for an online audience. We are starting to see the emergence of a new generation of both draw-based and instant-win interactive lottery games that are designed to capitalise on recent digital innovations, and incorporate new technology that makes them truly 'interactive'.

Whilst it's easy to see the benefits of 'going interactive', the actual process raises new questions for lottery operators in terms of their technological infrastructure and marketing methods. Whilst I firmly believe that it is a leap worth taking if lotteries wish to remain relevant and profitable in a digital world, going interactive can be difficult, and lotteries should work with providers that make the process of offering interactive lottery games easy.

INTERACTIVE LOTTERY GAMES: THE OPPORTUNITY

In the past decade the entertainment industry has experienced a revolution. From gaming to films to music, the way organisations reach and engage audiences has been transformed by the internet. Progress has been slower in the lottery industry, but that doesn't mean we should shy away from the opportunity that the internet presents us.

Online gaming is becoming increasingly popular (both in

terms of number of players and also the amount of time spent playing), and with every year that passes operators without some form of online presence risk becoming redundant in the eyes of younger players; their place in the future of our industry is at stake. Moreover, it's not just the younger generations who occupy the online space: in 2012, 53 per cent of US adults over the age of 65 used the internet.

Interactive games offer the potential to engage players without them even having to leave their sofa. Perhaps most importantly, however, the internet presents lotteries with incredible marketing opportunities: social networks and forums add a vitally important dynamic to the gaming experience – one that has the potential to transform it from a solitary activity to a more interactive one. Social networks also enable lotteries to get closer to their players: to learn about their preferences and to start two-way conversations with them.

Whilst many in the lottery industry view the internet as a potential threat to the traditional retail channel, this needn't be the case. Indeed, activity on the web can complement retail sales, and cross-channel players are the most valuable to lotteries. The internet offers the chance to increase brand awareness, strengthen player loyalty and attract the attention of a younger generation of lottery players, all of which will benefit retailers significantly.

A good example of these two channels complementing each other is the interactive 2nd chance game, which takes players from a physical lottery ticket to an interactive game. Not only does the retailer directly benefit from the sale, but also the reinforced player loyalty and the increased insight into playing habits that the interactive game, if created and marketed properly, will foster.

HOW TO OVERCOME THE CHALLENGES OF OFFERING INTERACTIVE LOTTERY GAMES

This is not to say incorporating interactive lottery games into your portfolio is a decision to be taken without preparation. Interactive and mobile channels will become increasingly vital to lotteries. However, to truly take advantage of these opportunities, lotteries must build the technological and organisational infrastructure needed to support such games.

It's important to stress here that interactive games are not a one-off investment that can be switched on and left to bring in a host of players. The beauty of the internet is that it enables organisations to be flexible and adapt to player behaviour and feedback. Done right, you end up with a game that constantly evolves to suit the playing preferences of the geography it is played in.

Because of this, lotteries must have structures in place to be able to adapt quickly to player preference. A good technology partner will constantly be working on their offering and issuing updates in response to player behaviour. It's important that lotteries have the capacity, both in terms of their technological infrastructure and also their decision-making process, to take on these changes swiftly in order to offer their customers great



But we do need Mega Millions to remain a viable brand, don't we?

P. Otto: We need to evolve the portfolio of multi-state games to give the consumer options and bring in more consumer groups. The multi-state games are extremely popular and have been a growth driver for all the state lotteries. We want to nurture that growth and fully optimize the potential of that category of games. Mega Millions provides a price-point alternative to Powerball and a second game to drive big jackpots. It will remain viable and be a vital part of a growing portfolio of multi-state games.

There are lots of ways to grow the portfolio of multi-state games. As a group, the directors of lotteries are exploring many options. And we definitely want to preserve Mega Millions because it is a great brand, a great game, and has tremendous consumer appeal.

This business can be very cyclical, especially as it relates to the big jackpot games. We need more time to assess the performance before drawing conclusions. The challenge is that state lotteries must deliver results within a 12 month fiscal year. We are, though, moving in the right direction. We're building a portfolio of games that complement each other, work synergistically, and can be managed for long-term sustainable growth.

Technically, the legacy Mega states license the right to sell Powerball from MUSL, and the legacy Powerball states license the rights to sell Mega Millions. Insofar as the multi-state games should be managed as a single portfolio of games to maximize the aggregate results, and insofar as all the lottery states now sell both games and so everyone has a similar and shared interest, doesn't there need to be even more cooperation between the MUSL/Powerball Group and the Mega Consortium?

P. Otto: There's tremendous cooperation between the Mega and Powerball groups. While the final decisions on each game continue to reside with the two groups separately and independently from one another, there is an increasing amount of cooperation and discussion. New ideas are initially discussed within one group without the input from the other group. But as soon as the idea gains traction, the other group is brought in. For instance, MUSL is working on some very interesting promotional initiatives for this fall. Even though the Mega Millions Consortium does not vote on these initiatives, we were brought into the early stages of discussion because it does affect all of us. The Powerball Group wants our input and vice versa. The two groups work together and I appreciate the collegial nature of the working relationships that have developed. And committees are being formed, consisting of members from both groups to explore new game and promotional concepts. So the future looks bright indeed for more and more multi-state cooperation. ♦

player experience.

Likewise, marketing a game to customers in new and potentially unfamiliar digital surroundings necessitates a completely different approach to capturing and retaining customer interest. Certainly, lotteries are starting to recognise the importance of interactive sales channels, but for most there is a certain amount of catching up to be done, especially when compared with other industries; for example, whilst nearly all lotteries have websites, few use them as interactive sales channels.

If lotteries want to attract internet-based players, they must meet them on the internet too, and for this to happen they must learn from those experienced in advanced digital marketing techniques to enhance player acquisition. Community-building, social media engagement and online advertising, amongst others, form an important base foundation for any strategy aimed at attracting online players. Lotteries must incorporate digital marketing expertise into their marketing skill sets if they are to reap the benefits of interactive games.

Few can doubt that internet-based, and increasingly mobile, channels represent a great proposition to lotteries all over the world, presenting them with the opportunity to reach players – old and new – and engage with them in ways that they could not in the past. ♦

JUMBO

INTERACTIVE

THE RIGHT COMBINATION

HARNESSING THE INTERNET TO REVITALIZE LOTTERY SALES AT RETAIL

By: Brian J. Roberts, President,
Jumbo Interactive, North America



Lotteries around the world are all turning to the Internet and smart phones as additional sales channels. Vital to the smooth integration of these new channels is the support of the retailers. Retailers are concerned that the new channels might cannibalize their own sales. Fortunately, it is well-documented in lotteries that have been selling over these channels for years that the opposite is the case. Digital channels of distribution are being used to revitalize lottery sales at the retailer.

The recent deployment at several convenience gas outlets have resulted in significant gains in lottery sales after a POS program supported by an interactive loyalty component was implemented.

For established lotteries with entrenched distribution partners, the introduction of new technologies is improving operations, security, accounting and sales. Internet access not only provides additional consumer options and convenience, it provides a richer variety of playing experiences. The end result is a more engaged core player and additional appeal to bring in new consumer groups. For newer lotteries, implementing all the new technology in the beginning is the best way to avoid controversy later on. In both cases, new technology and channels of distribution quickly become the norm and recognized for the value they bring to all channel partners and consumers alike.

For example, a little more than 30 years ago the U.S. lottery industry started the deployment of what was then called “online” technology to distribute games. This new technology replaced the off-line systems that were the norm in most jurisdictions outside of the U.S. In the off-line world, the tickets were physically collected by couriers each week and delivered to a central processing facility where they were microfilmed before the drawing. After the drawing, the players could be identified because their name and address was on their ticket.

The introduction of online systems in the U.S. did not attract much attention since online was the technological norm for many industries at that time. Only the Massachusetts and New York Lotteries had already implemented off-line systems prior to the introduction of online technology. In Europe however, there were many initial concerns about this new “online technology. Is it secure? The telephone line cost is prohibitive. Can the lottery expect the retailers to provide a dedicated telephone line to connect the online terminal? Will retailer clerks be able to master the operation of a computer terminal? How will players react to not having their name and address on their tickets?

Some argued that going online would hurt customer service as tickets would become bearer instruments. And Lotteries could no longer mail uncollected winnings directly to players which potentially posed more issues and reactions. These are all reasonable responses to something new. But with hindsight, the reality is that those reactions were unfounded and the ultimate benefits far outweighed these concerns even if they had substance. Online made possible multiple draws each week, and the use of the online systems capabilities has enabled improved instant game processing through added functionality for winner validation, inventory control and much more. In the beginning, the benefit to online was thought to be related to security enhancements and operational efficiencies of the online systems. But the ultimate benefit was soon recognized as having much more to do with increased sales that benefits all stakeholders.

It is also important to recognize that these kinds of reactions do not lead the debate into Internet gaming. For most lotteries, implementing an Internet strategy simply means providing players e-commerce and m-commerce channels to conveniently purchase the lotteries existing products. We are not talking about turning a smart phone into a mobile slot machine being used for hours on end.

History can help minimize the concerns of the “new online”

(i.e., the Internet). Several European and Australian lotteries were the early adopters of the internet and several of these lotteries have now been selling over the Internet for over a decade. After a decade of sales growth for both brick-and-mortar retail and e-retail, on a global average in these jurisdictions, e-retail sales still only account for approximately 5 to 6% of total sales. There is no evidence to support the notion that lottery sales over digital channels are detrimental to traditional retail sales or that cyber sales will merely transfer sales from traditional retail. Conversely, in FY12 traditional retail sales in jurisdictions that sell via the internet increased by a global average of more than 10%.

One big challenge facing the Lottery and retailers today is the need to attract new players, especially a younger demographic. Industry research indicates a decreasing amount (less than 38%) of adults 18-34 play Lottery. The evidence shows that the digital sales channels do reach a new younger demographic of players and those who purchase through these sales channels spend more; often double than at retail.

Another challenge is communicating new games and promotions to players and directing them to retail. The average convenience store customer in the US spends only 21 seconds at check-out. Adding an additional Lottery internet distribution channel will increase the Lottery's player base and product awareness and enable retailers to increase traffic by offering online promotions and e-coupons that must be redeemed at retail. The end result is that new players have been added to the network, existing players are more educated, and both are directed back to retail – all of which generates sales and commissions increase at retail.

So the Internet should be viewed not as the demise of the lottery retailer but the deployment of technology that will, over time, lead to innovation and benefits that will be far greater than can be imagined or projected today. Traditional retail sales will always remain the Lotteries' primary focus, but Lotteries need to utilize these technologies to develop the new sales channels and new features, functions and services not only to maximize sales and revenue potential for all of the stakeholders, but to protect their current position against other commercial gaming interest.

Over the past several years, the consumer market has changed for many reasons, including the adoption of the Internet and smartphones. Digital devices have given the majority of people an instant pipe line to everything they do in their personal and business lives. Recognizing this fact and harnessing the power of the Internet and Mobile technology can revitalize the retail network to increase sales and create customer loyalty.

Today, many consumers are choosing the Internet in addition to traditional retailers to make purchases. According to Nielsen Global, 85% of Americans report purchasing products online. Most retailers today know their customers are online, and they have opted to offer their products both online and through store channels. Retailers are moving online themselves, or risk obsolescence in the long term.

To maximize sales, lotteries have created diverse retail networks of retailers to provide wide spread and convenient access to capture lottery sales where their customers are. Jumbo Interactive is a lottery e-retailer that has applied this practice to the Internet.

Most traditional lottery retailers understand the power of the Internet and have deployed their own web-sites to provide information (locations and store hours) and products and offers to their customers. Jumbo's tools and solutions enable retailers to become e-retail partners to replicate the same diverse retail net-

work across the Internet; enhancing the retailers reach to provide greater service and convenience to customers. More importantly, retailers now have a mechanism to directly engage with their customers to build brand recognition and loyalty.

Jumbo's e-retailer model creates a more extensive network of e-retailers. That creates many more touch-points to engage customers and capture sales than a single Lottery e-commerce site. The e-retailer model has been successful in revitalizing traditional lottery retail networks in Australia and Europe as well as many other industries including the airline industry where numerous e-retailers (i.e. Expedia, Orbitz, Kayak, etc.) promote and sell airline, hotel and car rental reservations.

There are many tangible benefits to an e-retailer distribution channel. The Lottery e-retailer model is more cost-efficient, secure, accessible and socially responsible than the existing retail model. All player bets and information is confidential and encrypted in a secure database allowing players to manage their own accounts online, and it reduces retailer labor costs and the risks associated with handling cash. Lottery games are fully-automated and accessible with no manual order entry or paperwork required by the player or Lottery. A Web-based system promote responsible gaming by requiring mandatory proof of legal age and residency verification checks and permits players to set consumption limits and/or to exclude themselves from participation.

The Internet provides the opportunity for a retail grocery or convenience chain to implement cross jurisdictional brand and lottery awareness, through web-site promotion of in-store merchandising and vice-versa. And a cross jurisdictional internet based loyalty program can provide added value to each lottery purchase through point awards redeemable for lottery products, second chance drawings and sweepstakes.

Jumbo has developed the platform and tools under its Lotto Points and Lotto Points Plus programs that enable retailers to offer enhanced lottery product offerings to their customers. Jumbo's joint venture with Retail Gaming Solutions (RGS) is developing and deploying innovative interactive programs under its trade marked "Lottery Rewards.com" that add even more value to lottery purchases and provides a vehicle for retailers to provide clear differentiation to their lottery offering. But most important is the fact that a retailer providing digital purchasing options can provide much more convenience to its customers. For example, while waiting in a grocery check-out lane snapping a QR code on a smart phone instead of viewing the tabloid headlines can quickly and conveniently facilitate the player's lottery purchase there and then or remind them later. And players can easily and conveniently play via pools that can be created and promoted by the retailer via their own web site or social media.

Smart retailers will get it and harness the power of the digital age to enhance their lottery business and provide their players with enhanced convenience and service through e-commerce and m-commerce. Once deployed, the digital infrastructure will be in place for much more innovation to enhance lottery, innovation that will benefit of all stake owners. And the fact that we lost knowing who our players are when the original online was introduced 30 years or so ago is now a thing of the past. With the new online we will know much, much more about our players and how to cater for their lottery needs. ♦

a critical strategic choice by the Lottery's senior management team. Is the Lottery's mission best served by a business partnership or a game supply relationship? The category management approach fundamentally works best when the Lottery aligns in a primary business partnership for the category. Of course, the Lottery is still the decision-maker. It's just that a full business partner can support the Lottery with the resources, expertise and operating capacity to optimize results for all stakeholders. The instant category is a major business in most jurisdictions – hundreds of millions and in some cases billions of dollars each year in sales. A lottery launches an average of 60 new games a year. An instant game product manager is at the center of all of this at the Lottery. Consider the workflows and the volume of this annual activity and the financial consequences of the decisions and results. This is a category that demands the highest levels of support and requires the deepest resources for success with business alignment at the category level not just the game level.

But no single supplier is the sole source for all the very best game content. Couldn't a contract with a primary supplier allow for the inclusion of hot new games from other suppliers?

J. Kennedy: This is a very common question. I can only say that if the Lottery's mission is to have a variety of games, then, of course a game-by-game selection approach is appropriate. However a Lottery's mission

is to maximize returns for their stakeholders. And a game-by-game selection model is not the practice of the best-selling Lotteries in the world. First, when a Lottery selects one primary strategic partner as category manager, the organizations are aligned for best category results. Second, while it is true that there is a difference between the performances of individual games, the marginal performance of individual games is not what drives the ultimate outcome that global Lotteries are trying to achieve. A partnership that creates and executes a coordinated strategic plan to optimize the performance of the entire category is a way to maximize sales and net funding. Maximizing sales is much more about how the games, promotions, merchandising and distribution work together than it is about just capturing value from a contest of games.

I think an example of this approach is that Lotteries don't invite a variety of advertising agencies in to pitch on every ad campaign. If they did, they might be exposed to one or two great TV commercials or promotional ideas. But they don't do this because it is just not a strategic, balanced approach. Advertising needs a very strategic approach to manage continuity and flow in order to maximize the impact over a period of time. All the same reasoning applies to the management of the instant game category.

The original catalyst to migrate away from the brand management model and over to the category management approach was the desire of retailers to enlist more support and expertise from their suppliers, to offload

some of the costs to their suppliers. Like retailers, Lotteries operate with extremely limited resources to produce the sales results. Like retailers, wouldn't Lotteries benefit just from the point of view of leveraging its limited resources, and relying on their suppliers to take on a more active role in managing the category helping to sell the product?

J. Kennedy: I think so and more importantly, major retailers think so too. Suppliers have tremendous resources at the ready to apply to the mission of helping lotteries increase sales and net funding. The suppliers' depth of resources and capabilities are a strategic asset for enabling on-going success for a Lottery. Today, Lotteries are operating with even less capacity than they did five years ago due to budget cuts and restrictions on hiring, and on top of this, the business is getting more complex, the old model is maturing and the demands for revenue growth are often increasing. With so many games and the increased variety of promotional strategies and media options, Lotteries can easily become consumed with the operational tasks of just keeping up with the job of project management, getting the products out the door and staying on top of all the media relationships. There may not be enough time left over for the strategic management of the multi-billion dollar business. The instant game product is a growing category for profits, and a strategic alignment generates the best results for all stakeholders in the Lottery's very demanding world. ♦

Tom Little Interview ...continued from page 41

tinue to try to open up big box stores using self-service equipment. But where we are seeing greater impact is in the expansion of self-service equipment with new and exciting Lottery products in social venues. Social venues are a very under-utilized retail channel for Lottery, but it takes a combination of the right self-service terminal, the right placement of the terminal, and the right games to fully effectuate this channel's potential. Social Venues need the self-service equipment so that their staff are not drawn away from their core business operations and the players need the games that fit with the style of games that are being played in those venues, whether it is Quick Draw Keno, pull tabs, video games, or illegal 'grey machines' slot type games. You have to have the right

product to compete with or complement those types of games to be successful. An example of this combination is our 'Shake-a-Day' game in Montana. We developed an instant win, progressive jackpot game that resonates with Montanans because it is a game that has been played in bars and taverns around Montana for many, many years. The game is only sold from self-service equipment in around 250 social locations around the state. Last year Shake-a-Day accounted for about 8% of all Lottery sales, pretty amazing considering it is not sold at traditional lottery retail outlets.

Speaking about traditional lottery retail outlets, how do you see their role with lotteries evolving in the future?

T. Little: Traditional retail outlets have

been the backbone of our industry and great partners for close to 50 years now. Although I believe the prediction that eventually "Everything that can go digital, will," our partnership with Brick and Mortar retailers has the capability to become stronger in the future, even after traditional lottery sales occur on the internet. The key is for lotteries and their vendors to use advanced technology that already exists, and take advantage of developing technology to not only help B&M retailers sell more lottery products but also help them increase sales of their non-lottery merchandise. We, as an industry, already have access to current technology that will assist in achieving this goal. That is, however, a very lengthy discussion and probably best saved for another interview! ♦



Pall Palsson

Executive Product
Manager, Betware

www.betware.com

PGRI Introduction: In the complexity of a crowded gaming market, lottery operators make the true difference, being the ones with the strongest brands in the industry. Lottery is the most well-known brand among consumers of all age groups. Lottery is, however, faced with the challenge of leveraging new technologies to bring their most popular products closer to the modern player. There is plenty of talk across the industry about the multi-channel approach, and how to stay competitive when the consumer is faced with a multitude of entertaining opportunities served within this new space. PGRI talks to Pall Palsson about how operators could benefit from applying Responsive Web Design.

Traditional lottery games compete today with casino and social games, as well as other forms of online and mobile entertainment, which have already carved out a big role for themselves in the online and mobile sales channels. However, even though Lottery may not be the first to the interactive gaming market, the combination of brand equity, trust, and the largest base of active consumers in the industry gives lottery operators a very powerful competitive advantage.

Paul Jason, Public Gaming: *So, in another words, the best strategy for making a successful step into the interactive gaming market is to adopt a multi – channel strategy?*

Pall Palsson: Our experience shows that draw – based and instant lottery games featuring large jackpots, if implemented well, have proven to become big sellers online. And most vital to long-term growth, the internet has proven to be a powerful driver of player acquisition. The key is to recast the traditional games for these new media to take full advantage of the format to deliver the most entertaining consumer play experience.

In addition to big jackpots, players are now looking for, even demanding, entertainment, convenience, and simplicity of use. Tablets and smartphones have now become a basic commodity and internet is something that the modern society can probably not function without – something closer to a utility such as gas or electricity rather than a luxury. It's been a long time since people were using their mobile phones purely for calling – a smartphone is now a device that connects us to the whole world and we have it at hand 24/7. This represents a truly incredible sales opportunity for any mass-market business, not just gaming. And how does the multi-channel strategy fit in with gaming? Well, in today's world of internet connected devices of all shapes and sizes (tablet, desktop or mobile) the answer is to build the solution based on HTML 5 and Responsive Web Design. Those are the tools that allow developers to build a really flexible solution that adapts to whatever device the player chooses to use.

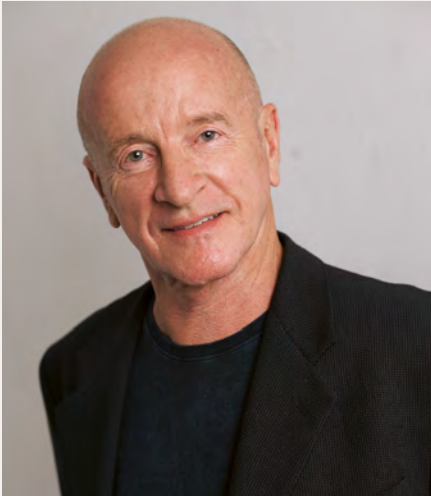
Locking the sales and player experience within simply one sales channel limits accessibility and attractiveness for the player. Within a growing competitive environment, this is simply a step towards losing players' interest. While many operators are afraid of cannibalization when new sales channels are opened, Betware's experience is quite opposite. Betware's strategy takes into account all sales channels, combining them into a perfect mix which not

only adds incremental revenues but creates great cross-promotion opportunities. The result is that the retail channel benefits tremendously from a stronger lottery with a stronger brand.

Responsive Web Design is a buzzword that some of us need to have explained. What exactly is it and why is it important?

P. Palsson: Yes, it has already been named "the industry best practice" and it made the "Ecommerce Marketing Checklist for 2013" done by the Forbes Magazine. Responsive Web Design is a web design approach that allows websites to adapt to the user's interface, providing the users with the optimal viewing experience, regardless of the device in use and whether it is a landscape or a portrait mode. Responsive Web Design is basically a way to adapt the layout and content of any webpage to the viewing environment. To be more specific: the website, using media queries, can ask the browser how large the viewing area is and then scale graphics and text and rearrange content appropriately for the size of the viewing area. The amount of devices (traditional desktop computers, smart TVs, tablets, smartphones) and screen resolutions people use nowadays is huge. Responsive Web Design enables developers to design content that works similarly across all platforms. For gaming industry operators, it guarantees a seamless entertaining experience for players, regardless of the device they prefer to use. There is more: Responsive Web Design also simplifies search engine optimization and content management for multi – channel sites. If you are an operator who needs to reach the customers on smartphones, tablets and desktop PC's and want to be found through search engines, Responsive Web Design is an indispensable approach. At Betware, we have retooled all our product development so that our products are built with HTML 5 and Responsive Web Design approach. We recommend that our customers follow the same approach and are increasingly finding that operators themselves are quickly coming to the same conclusion. ♦

LET'S STOP TELLING PEOPLE WHAT TO DO



By Mike Bosworth
www.mikebosworthleadership.com
mtb@mblstoryseekers.com

I am now an author, speaker and trainer. I specialize in helping leaders improve sales productivity. In my business, the “Holy Grail of sales productivity improvement” has always been to codify and institutionalize the best selling practices of the very best salespeople. In other words, figure out what the top 13% (“Eagles”) are doing, and teach the rest (“Journeymen”) a framework for doing what the best do intuitively.

When doing keynote speeches I like to ask the people in my audiences to raise their hands if their mother wanted them to grow up and have a career in sales. Very few people raise their hands. I ask my audiences to shout out the adjectives their mothers would use to describe salespeople. People typically shout out a whole list of disparaging adjectives – pushy, sleazy, difficult, annoying, etc. It seems as much as we all love to buy things, most of us do not like feeling “sold” to.

However, Daniel Pink makes the point in his latest book, “To Sell is Human” that we are ALL in sales. At least the ‘all’ of us who find ourselves wanting to influence other people to do difficult things that will benefit them. Parents, friends, teachers, CEOs, politicians, preachers, leaders, lawyers, family members and yes, salespeople all want to influence other people.

In many of the potential scenarios above, one party has authority over the other. Salespeople however, do not have authority over their customers and prospects. The challenge of selling is to influence people you have no authority over to do difficult things that will benefit them. The vast majority of

PGRI Introduction: Mike Bosworth was a keynote speaker at the NASPL Professional Development Seminar in San Diego. Talking with him afterward, Mike shared his story about how his father was a salesman which resulted in the family living in poverty, so selling was the last thing he ever wanted to do as a career. But life had other ideas for Mike. He reluctantly decided to try sales at Xerox in 1975 - And discovered that sales is about connecting with the story of people's life ...

top tier salespeople do this intuitively.

Likewise, we know the best leaders influence people to do difficult things that will benefit them without having to use their ‘authority’ card. When leaders feel the need to resort to using their authority, their ability to influence diminishes.

Back to my story about getting into sales. By time I was 28 years old, I was the number one salesperson in Xerox Computer Services. With 20/20 hindsight, I now understand what I was intuitively doing back then that enabled me to sell so much. I was an ‘expert’ at knowing how to solve the shortages problem in assembly manufacturing companies. How did I become an expert? I had the good fortune to work on the customer support side for two and a half years before I went into sales. I KNEW the details about the Materials Managers’ shortage problems in seconds because they all had the same problems back then. Maybe because I was 28 and most of my prospects were in their 40’s and 50’s, I didn’t feel right telling them what they ‘needed to do’ because of our age difference. So, my intuitive strategy was to offer them a story about another materials manager who had figured out a way to manage his shortages.

They ALL said YES to that offer of a story. That story became the vehicle for helping them see that they weren’t the only materials managers suffering from shortages and that Xerox had hope for a solution. In that story they learned that one of their peers (less than 1 mile away) was an early adopter of the Xerox MRP system and that it really IS possible to reduce shortages and inventory at the same time. This story, combined with their own struggles with the problem, gave them hope that there was a now a better way. That hope motivated them to open up and share their situations with me. I could then tend their stories and build the trust I would need to influence them to trying a new way.

Had I been in my 40’s or 50’s at the time, I probably would have told them what they needed to do and would have been a mediocre performer.

By the late 70’s I had the good fortune to work with Neil Rackham on the Xerox SPIN project. One of the revelations from Rackham’s research was that over time, a seller’s expertise could become his enemy. When a seller becomes expert enough at knowing the solution to the customer’s problem before the customer, most of them push their customer away by telling them ‘what they need’ to do. The irony is, they are correct. They DO know exactly what their customer needs to solve his problem. And, the reason they are so excited is they have that exact thing for sale. And, many of them calculate the commission they are going to make on this sale in real time.

Expertise and enthusiasm cause many sellers to hit a ‘slump.’ Their behavior causes many buyers to retreat from the ‘pushy’ salesperson. We call it, ‘premature elaboration.’ When I was the ‘expert’ salesperson, I had the intuitive good strategy of offering a peer story rather than telling them what they needed to do.

Most people do not like unsolicited advice. Most of us do not like being told what we ‘need to’ do by anyone else, much less a salesperson. In our workshops we ask participants who doubt this to call their spouse on the next break and try 2 or 3 “you need to’s” on them and see how they respond. If the person who in theory loves you more than anyone else won’t take it from you, why would your customer or prospect?

So, what is it about stories? As human beings, we are genetically wired to emotionally connect with other humans. For 100,000+ years, two-legged human-like creatures have been roaming the earth and for the vast majority of that time there were no written languages. Darden Professor Jeanne Liedtka says that stories were developed for two purposes: to pass on tribal knowledge and to get people to do difficult things that need to be done.

What happens when a human being anticipates a story? When we anticipate a story (some version of ‘once upon a time’) we have an unconscious reaction of, ‘oh, a sto-

ry, I don't have to do anything, I don't have to make a decision so I can just enjoy.' Yet, a simultaneous intuitive voice whispers in our ear, 'this could be important information, I'd better pay attention, I might have to remember this.' What better frame of mind could you ever wish for in the mind of a person you would like to influence?

When we anticipate a story, our critical left-brain powers down and our right brain opens up. Our right brain is connected to all our senses and imagination (art, music, food, thrills, touch). Our right-brain is also connected to our limbic, emotional brain. It is in our emotional brain where we decide why we are going to do something. It is our emotional brain that decides, 'this feels good,' or 'I like this person,' or 'I trust this person,' or, 'even though I don't have all the facts, I am going to take a leap of faith and try something new.' We still need our left-brain (analysis) to come up with enough logic to convince those that

matter to us that we are sane. Insight is a whole-brain process. We make emotional decisions for logical reasons. Stories allow us to educate, inspire and influence people without telling them 'what they need to do.' Stories enable us to motivate others to do difficult things by enabling insight – the Ah-Ha moment.

Another wonderful thing about stories is we can all learn to be much better at building them, telling them and tending them that we ever would have realized.

In our Story Seekers workshops we use a 'card' system. Every participant gets a story board 'placemat' that has the five elements of a story in our framework. The YELLOW card is the 'why' of the hero of the story, the GREEN card is the setting and introduction of the character(s), the WHITE card is the struggle, the complication, the BLUE card is the turning point; the new insight, and the RED card is the resolution to the story. This framework allows ordinary human beings

who have never been that good at connecting, inspiring and influencing other people to learn to do it in 2.5 days!

Think about a person you would like to influence to do something difficult that will benefit them. Do you think they would like you to tell them what they need to do, or might they rather accept the offer of a story?

The power of story can help you emotionally connect with others. Most of us struggle to be influenced by people we do not trust or like. Connection is an integral component of trust. Trust is necessary in order to be able to influence.

Our mission at Mike Bosworth Leadership is to help 'journeymen,' influencers – parents, friends, teachers, executives, leaders, politicians, preachers, lawyers, family members and yes, salespeople influence others to do difficult things that will benefit them. The power of story facilitates influence, with or without authority. ♦

Theo Göbner Interview ...continued from page 18

that want the EU to impose a pan-European regulatory framework. The EU Commission has already acknowledged that there is no reason to create a pan-European system that would result in a race to the bottom of minimal taxation. The EU Commission has stated that their focus is on consumer pro-

tection and responsible gaming. So, we are hopeful that the EU Commission will recognize that we, and our counterparts in other EU nations, are taking every measure to deliver the highest standards of consumer protection and responsible gaming and to have a fair regulatory system. And we hope the

EU Commission recognizes that bowing to the pressure of the few small Member States which want free and open borders would be devastating to the causes that depend on funding from lotteries, and would most definitely not contribute to the goal of protecting the consumer. ♦

The DiCristina Case Lives ...continued from page 54

er court's finding that skill predominates over chance in determining the outcome of Texas Hold 'Em poker played over time. Rather, the Appeals Court's holding decided merely that such question was not relevant in DiCristina's case, since his gambling business was unlawful under New York State law, and therefore constituted an illegal gambling business under the IGBA. Thus, although undoubtedly of less significance, the lower court's decision still may be used to support the argument that Texas Hold'em poker is a game of skill, and not chance, and thus not "gambling" in jurisdictions where a gambling game is defined as one in which chance predominates over skill. Because of its detailed examination of Texas Hold'em poker and its recitation and analysis of expert testimony, the lower court's opinion should remain useful in such other jurisdictions. Nothing in the Appeals Court's decision discredited or cast doubt upon the expert testimony presented in the lower court or the lower court's analysis thereof. (Indeed, already there is evidence that the lower court's decision in DiCristina is viable to support future legal arguments. In an unpublished opinion dated September 3, 2013, the Court of Appeals of Minnesota cited the lower court's decision in DiCristina as support for its conclusion

that the outcome of the game of blackjack ("21") is determined predominately by chance. (In the Matter of the Request of North Metro Harness Initiative, LLC, to Amend its Plan of Operation, 2013 Minn. App. Unpub. LEXIS 838)

Notwithstanding the subsequent reversal, the lower court's decision in DiCristina is important to state lotteries because it supports the position that peer-to-peer Texas Hold'em poker is a game in which skill predominates over chance in determining the outcome. In many states, the state's lottery is limited to conducting "lottery" games, defined often as games in which chance predominates over skill in determining the outcome (and also involving "consideration" and a "prize"). In those states, therefore, the state lottery would be precluded from offering peer-to-peer Texas Hold'em poker, since that game would not be considered a "lottery" game (since skill predominated over chance in determining the outcome). Thus, the lower court's decision in DiCristina may continue to be important to state lotteries, notwithstanding its reversal, since that reversal did not discredit or cast doubt upon the expert testimony presented in the lower court or the lower court's analysis thereof. ♦



THE DiCRISTINA CASE LIVES – AND MAY MAKE IT DIFFICULT FOR SOME STATE LOTTERIES TO CONDUCT POKER AS A LOTTERY GAME

by Mark Hichar
Hinckley, Allen and Snyder, LLP
mhichar@haslaw.com

On August 21, 2012, the federal U.S. District Court for the Eastern District of New York – in the “DiCristina” case (U.S. v. DiCristina, 886 F. Supp. 2d 164 (E.D.N.Y. 2012)) – determined that Texas Hold’em poker was a game of skill not chance, for purposes of the federal “Illegal Gambling Business Act” (the “IGBA,” codified at 18 U.S.C. § 1955). As a result, the Court held that the game was not among the activities prohibited by the IGBA, and it therefore

entered a judgment acquitting DiCristina under that Act after a jury had found him guilty.

Lawrence DiCristina had operated regular games of “Texas Hold’em” poker as a business. Acting as the “house,” he received a 5% “rake” from each pot. Dealers were paid 25% of the rake, and the remainder was used for expenses relating to the operation of the business and constituted his profit. As mentioned, a jury convicted DiCristina of operating an illegal gambling business in violation of the IGBA.

In acquitting DiCristina notwithstanding the jury verdict, the Court held that for there to be a violation of the IGBA, the government must show that the defendant conducted a business involving “gambling” as defined under that federal statute, not merely that the defendant’s conduct constituted illegal gambling under state law. Because the term “gambling” under the IGBA was ambiguous, the Court decided that it was compelled to adopt the defendant’s more narrow construction of the statute – that the IGBA applies only to games in which chance predominates over skill. After hearing and analysing extensive expert testimony on the issue, the Court determined that Texas Hold’em poker was not such a game – i.e., in that game, skill predominated over chance. Thus, even though DiCristina’s conduct violated New York State gambling laws, his conduct did not give rise to a violation of the IGBA, because it did not involve “gambling” under that federal law.

Almost one year later – on August 6, 2013 – the U.S. Court of Appeals for the Second Circuit reversed the DiCristina decision and remanded the case back to the District Court with instructions to reinstate the jury verdicts finding DiCristina guilty and to proceed with sentencing. (U.S. v. DiCristina, 2013 U.S. App. LEXIS 16197 (2d Cir. N.Y., Aug. 6, 2013)) In its opinion, the Court of Appeals determined that the critical question in the case was not whether Texas Hold’em poker constituted “gambling,” but whether DiCristina operated a “gambling business,” as defined in the IGBA, and whether that business was prohibited under New York State law.

The Court stated that, when enacting the IGBA, Congress did not “intend[] to create a definition of “gambling” unique to the IGBA, or to confine the reach of the IGBA to businesses involving certain types of gambling, ...” Further, Congress did not intend to limit the scope of the IGBA to businesses operating games of chance. Thus, it was not relevant to the case whether poker constituted a game of skill or chance. Only three elements had to be established for there to be a violation of the IGBA: (1) the conduct of a gambling business which violated the law of the state in which the business activities were conducted; (2) the involvement of five or more persons who conduct, finance, manage, supervise, direct, or own all or part of such business; and (3) substantially continuous operation for a period in excess of thirty days or gross revenue of \$2,000 in any single day. Because it was uncontested that DiCristina’s gambling activities violated New York State law, and it was undisputed that DiCristina’s business satisfied the second and third requirements of the IGBA, the Court held that DiCristina operated an “illegal gambling business” as defined by the IGBA.

Notably, the Appeals Court’s decision did not contest the low-

...continued on page 53



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