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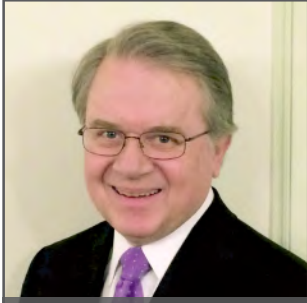
The Evidence is in, and it's conclusive: iLottery benefits land-based retail sales



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Uberification:
Disruption of an industry by a combination of legal and illegal means.

How Regulatory Dysfunction Clears the Path for Illegal Operators

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Gaming Laboratories International (GLI)
With Panelists:
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Chair of Gaming Law Practice Group
 - Friedrich Stickler, Managing Director of Austrian Lotteries
and President, European Lotteries Association (EL)
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UPCOMING EVENTS

PGRI 2015
LOTTERY EXPO
CONFERENCE

WHEN: September 9, 10,
and 11, 2015

WHERE: Eden Roc
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From the Publisher

By Paul Jason, Publisher
Public Gaming International Magazine

April 11 was a very sad day for so many of us. Buddy Roogow was only 65 years old when he died of an aneurysm. He was not only a fearless innovator and leader, he was a good friend and inspiration to everyone who knew him. We will miss him!

The high margins and long-term sustainability of government-lotteries would not happen without monopoly protection. And monopoly protection depends on a regulatory system that is effective and enforceable. Otherwise commercial online gambling operators could enter the market with superior product offerings/prize-payouts and generate outsized profits for private shareholders - essentially re-channeling the proceeds from government-gaming operators away from **Good Causes** and over to private shareholders. That's what happened in the sports-betting market in Germany, and to a lesser extent all over Europe as well. What exactly is there to prevent this syndrome that has turned sports-betting into a low-margin, competitive multi-operator market-place from happening to government-lotteries? In **"Change and Disruption in the European Government-Lottery Industry"**, we attempt to provide proper context for understanding how European regulatory structures have evolved to become so vulnerable to major disruption. More than ever, the inability of regulatory frameworks to keep up with technological and marketing changes is paving a smooth path for disruption of the games-of-chance industry. Unfortunately, regulatory change and uncertainty is more useful to those operators willing to skirt the edges of legality than it is for those, like government-lotteries, who are dedicated to raising the standards of integrity, consumer protection, and business practices that align with public welfare.

It is hard for those of us based in the United States to imagine this kind of scenario actually happening in the U.S. To be sure, payment-blocking (and to a lesser extent, ISP-blocking) has been used to great effect in the U.S. These regulatory mechanisms are invaluable tools that enable effective enforcement of many of the laws that prohibit illegal online gaming and the illegal sale of lottery products. Unlike its counterparts in Europe, the U.S. is not politically conflicted about the enforcement of the monopoly model to channel lottery proceeds to support charitable causes. Our other feature, though, discusses how regulatory laws are based on legal definitions of gambling that may become obsolete; and how that may come to affect the stability of the U.S. lottery monopoly model. James Maida and his panelists discuss how clever operators and game developers are finding ways to circumvent the traditional definition of gambling (**Chance+Consideration+Prize**). Government-lotteries are particularly vulnerable to the disruptive impacts because, unlike commercial operators, government-lotter-

ies are constrained to abide not just to the letter of the law but also to the spirit of the law.

I have often been asked to provide the concrete data that illustrates and proves the contention that selling lottery products online not only does not cannibalize land-based retail sales, it helps and augments retail sales. That may seem counter-intuitive, but it is the fact as revealed in the experience of lottery operators which have been offering lottery products online for many years. Retailers are understandably concerned that making the products available on other channels might further segment the market and cause retail customers to buy online instead of at retail. The thing is, as many retailers are coming to recognize, the future of retailing includes an integration of an online internet-based consumer connection into the land-based retail shopping experience. We are very pleased to provide the evidence showing the positive impact that iLottery has on land-based retail sales. It's no longer just theory or supposition or claims made by those of us who are advocating for the omni-channel model to be applied to lottery. Thank you to IGT for doing the research and gathering the data and turning this into a white-paper that can hopefully be used to help all of our constituents and channel partners to embrace the omni-channel model. Truly, this is vital to the ongoing success of lottery and its retailers. iLottery expands the market and enhances the consumer experience for everyone, and that ends up benefitting land-based retailers.

Susan and I are off to the EL Congress in Oslo (June 8 to 11). The U.S. is different from Europe, and the efficacy of its regulatory frameworks more stable than those in Europe. But it would be a mistake to under-estimate the ingenuity of commercial online gaming operators to invent new game concepts and methods of making them available to the consumer. Partly because of the maturity of its gaming markets and cultures, and partly because of its politically conflicted approach to regulations, Europe is the breeding ground for "Uberification", i.e. the application of innovation and business methods that push, or cross over, the edge of legality. The EL Congress is a forum where these most challenging issues are addressed. We will be reporting on the proceedings of the EL Congress, as well as envisioning how these issues may manifest in the U.S. and bring them to you at PGRI conferences.

Thank you to all of our editorial contributors - Your perspectives are so insightful and helpful, and your willingness to share so appreciated!

Lottery Expo will be held at the Eden Roc Miami Beach on September 9, 10, and 11. Check in at www.PublicGaming.org for updates and information on PGRI conferences. Hope to see you there! ■

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Remembering Industry Leader and Friend to so many ... Buddy Roogow

It is with profound sadness that we think about the loss of one of our true industry giants. Buddy Roogow died of an aneurysm on April 11. Buddy was 65 years old. This was a shock to Buddy's family and friends who all knew Buddy as a fit and active and healthy man. Buddy played tennis, racquetball and bike riding, and had no plans to retire. "He was the picture of health," said Tracey Cohen, the D.C. Lottery's chief operating officer. "He really believed in what he did." Buddy always took time to walk around the office to get to know all of his employees' names and their personal stories. He frequently called employees who were out sick or on maternity leave, and often interacted with lottery players. He was known for his sense of humor, his big laugh, and to carry a lottery ticket to give away to people. That is why it is also an inspiration to think back on the life of Buddy and the impression he made on so many people.

BUDDY ROOGOW was named the Executive Director of the D.C. Lottery and Charitable Games Control Board in December of 2009, bringing more than 13 years of lottery experience to the D.C. Lottery. Buddy started in the lottery industry when he was named Maryland Lottery Director in October 1996. Under his leadership, Maryland enjoyed twelve consecutive years of record-breaking sales. At the DC Lottery, Buddy and his team faced some of the most daunting challenges that a lottery director can face. He did that with the same level of optimism and fortitude and 'can-do' attitude that inhabited everything he did. Buddy also served as President of the North American Association of State and Provincial Lotteries (NASPL) in 2013.

In 2013, Buddy was awarded the Major Peter J. O'Connell Lottery Industry Lifetime Achievement Award by the Public Gaming Research Institute. The award is presented to lottery directors and industry executives who have distinguished themselves in the lottery industry over long periods of time.

Buddy was recognized as a leader who was willing to take a chance on new ideas, new games, new innovations. That is not an easy thing to do in state government. It often means putting the interests of your constituents ahead of your own. But taking the easier path was never a goal. Serving the State and Good Causes and the lottery industry was the goal. "Buddy loved what he did and he was the Lottery's foremost champion. He was a consummate professional, dedicated to making DC's the best Lottery in the country and worked hard every day to achieve that goal," said District of Columbia Chief Financial Officer Jeffrey DeWitt. "We will miss his warmth, enthusiasm, energy and humor."

Buddy grew up in Allentown, Pa., and Baltimore, and spent most of his career in government service. Before joining the lottery industry ranks, Buddy was appointed in 1991 by Maryland Governor William Donald Schaefer to Director of Operations for the Governor's Office. Subsequently, Governor Parris N. Glendening appointed him to the position of Deputy Chief of Staff in 1995. Immediately preceding his career in Maryland state government, Buddy served as Chief Administrative Officer of the Howard County Government from 1988 to 1991. He began his career in the 1970's as an Urban Planning Consultant with a private firm.

Roogow received a Bachelor's degree from the University of Maryland and was awarded a Master of Arts degree from the University of Maryland.

Buddy Roogow was the very first lottery director that I (Paul Jason) interviewed. This was back in November of 2006. I did not know hardly anyone in the industry, and was barely conversant in the issues that we deal with. Buddy could not have been more gracious. I was so amazed and appreciative that someone in his position would spend an hour with me, talking about the industry and explaining how things worked. Like countless others, I will miss him. And the memory of what Buddy stood for will be with me always as an inspiration to serve others with joy and enthusiasm and energy.

Buddy Roogow is survived by his wife, Billie, daughters Caroline and Robyn, son, David; brother, Alan Roogow, and five grandchildren. ■

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GORDON MEDENICA

Appointed to lead the Maryland Lottery and Gaming Control Agency

PAUL JASON: The Maryland Lottery system brings in more than half a billion dollars a year for the state's general fund, while casinos contribute an additional \$400+ million (and rising) a year to the education trust fund and support for the state's horse racing industry, small businesses and the communities hosting casinos. "Gordon Medenica will bring a wealth of lottery and business experience to the agency," Maryland Governor Larry Hogan said in a statement. "I am confident that he will be committed to maintaining the integrity of the agency, as well as ensuring that the casino and gaming program continues to run efficiently and effectively." The Director of the Maryland Lottery and Gaming Control Agency oversees about 325 employees at the agency with an operating budget of more than \$140 million.

Mr. Medenica served as the director of the New York Lottery from 2007 to 2012, during which time revenues increased from \$7.2 billion to \$8.4 billion a year. He then served as the transitional CEO of the Northstar New Jersey Lottery Group and as a consultant to the industry, thankfully continuing to present at PGRI conference events and share his views with our readers. Following is an article based on his unique experience as both a public servant directing the New York Lottery, and as an executive leading a privately managed lottery operation.

Prior to joining the lottery industry, Mr. Medenica was an executive with The New York Times Company and served on the leadership team of the company that acquired the Philadelphia Inquirer and Daily News. Prior to that, he acted as an independent advisor to the Blackstone Group on newspaper acquisitions; as the President and CEO of DornaUSA, a sports marketing company; and as a Senior Analyst at the Marriott Corporation. Mr. Medenica earned his A.B. from Harvard College, where he majored in government, and his M.B.A. from Harvard Business School.

It is personally gratifying to see a state government select an industry veteran to lead its lottery. Lottery is a huge business and should be managed by executives with a successful track record who understand the business and are likely to be the most effective at producing the kind of sales results and overall business performance that serves well the Lottery mission of supporting Good Causes in a responsible way. Welcome back, Gordon!

Bringing Private Management Performance to Public Lottery Management

By Gordon Medenica

In the recent past, there has been a perception among some policy makers that private lottery managers can produce higher levels of performance (i.e., profits) than public managers, based on the notion that private management has inherent advantages over public management in running consumer-based businesses. Given that there are now several jurisdictions where this notion is being tested, both in the U.S. and internationally, what lessons can we learn?

As someone who has managed lotteries from both sides of this question, there are a number of insights and perspectives that might help policy makers understand the advantages and, importantly, the limitations, of private management and its ability to grow profits. At the same time, existing public lottery managers can maximize their own performance within the constraints of government oversight by understanding the levers available to private managers.

First, we need to be clear about the structural and contractual advantages of private management. The most important of these is the access to resources and the ability "to spend money to make money." Public lottery managers are all too



familiar with the constraints of being a government agency, with focus on the cost side of lottery operations with state-mandated budget limits, hiring freezes, onerous and time-consuming procurement processes, limited capital and short-sighted marketing restrictions. All of these constraints are significant factors in limiting the revenue growth of lotteries under public management. A key fallacy of policy makers is the belief that cost control can increase profits, but in fact there is almost no leverage on the cost side of the lottery business. Most well-established lotteries run their entire operations with a low-single-digit percentage of revenue (2-5%). No amount of cost cutting can materially impact the bottom line but the inverse is true—cost constraints can actually reduce the profits of the lottery.

Private management understands this fundamental dynamic and is well-versed in the calculation of Return on Investment. They know how to invest in the future of a business, with prudent spending to maximize returns. In New Jersey for example, total employment at the Lottery was about 130 before the outsourcing of sales and marketing. After the conversion, the Lottery still has about 90 employees, but Northstar New Jersey has about 130, for a total of 220. This has allowed for a substantial expansion of the retail network and much more

9

LOTTERIES

1604

LT-3s IN PLAY

3.52

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9
months in
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LT-3 ITVM: There's so much more to earn.

effective coverage of retailers by the sales force. Ironically, the press has naively criticized New Jersey's higher level of overall spending as symptomatic of a problem with private management! (No good deed goes unpunished ...)

Another structural advantage of private management is the ability to offer incentive-based compensation, to managers but especially to the sales force. Anyone with experience managing a sales force in the private sector is astonished to hear that most lottery sales people are civil servants on fixed salaries. Incentive compensation, based on clearly defined goals and objectives, is a proven tool in the private manager's toolbox.

Finally, a more conceptual advantage of private management is its contractual ability to remove the business volatility from the lottery earnings stream. Essentially, the government gets a highly predictable revenue source, with the private manager absorbing the normal ups and downs of the business cycle. Governments like predictability and private management offers a means to smooth revenue through formulas that require penalties in down cycles but reward the operator during flusher times. Again, unfortunately, the press has misunderstood this aspect of private management and has chosen to characterize penalties as poor performance rather than revenue-smoothing.

So what can public lottery managers take away from these lessons? While private management agreements appear to have lost momentum in the United States, the profit performance of lotteries remains a critical imperative for all lottery managers. How can public managers achieve the levels of performance of the high achieving lotteries without the tools available to private managers?

There are three areas that can benefit from the focus and attention of management, infrastructure, performance measurement and staff motivation. By infrastructure, I mean the basic elements of lottery operation. Question and test your assumptions about how the business is run day to day. It starts with retail; how robust is your retail network? Industry best practice benchmarks suggest that high-performing lotteries should have a population-to-retailer ratio of less than 1200; extremely high-performing lotteries have under 1000 (Massachusetts is less than 900). While all of us would love to be selling lottery tickets on the internet, the fundamental truth is that we are a bricks-and-mortar business and will be for a long time. Focus on the expansion of your retailer network to get up to best practice standards.

Closely related to the retail network is the direct support lotteries give their retailers, especially from the sales force. Again, industry best practice suggests a retailer to salesperson ratio of about 120 to 135, or even lower. Of course, adding sales people is sometimes hampered by the state resource restrictions discussed earlier, but it is a critical element of sales growth and success. Educate your state budget people about your business, using these metrics for support. And as your retail network grows, engage your retail partners

to demand better support from the lottery via their sales people.

Sales support is necessary to make sure that the retail experience for our players is as positive as possible. We all have seen the negative image consequences of a bad retail experience: stale point-of-sale materials, empty bins in vending machines, outdated instant ticket inventory, weak clerk training, poor visibility signage, unkempt player stations and unprofessional lottery presentation. Sales people deal with these issues every day; make sure they have the tools to remedy these faults before they occur.

There are other aspects of infrastructure management that can help lotteries grow. Re-examine your licensing process—is it too burdensome for a small businessperson or too inflexible for a chain operation? Define the real purpose of your licensing and focus the process on only those elements critical to your, and your retailer's, success. Don't let the licensing process bog down your growth or cause your retailers to feel like the enemy. Retailers are your bread and butter and the first line of contact with your players. Treat them like partners and make the process as easy and seamless as possible.

Other nuts-and-bolts operational issues that impact retail success include credit terms—don't despair if you feel your generous credit terms are used by retailers as a source of working capital; with commission rates as low as they are, it's another reason a retailer should want to be a lottery agent. Focus on your actual bad debt expense, not your outstanding float. Similarly, be aggressive about retiring stale instant ticket inventory—it's better to shred poorly performing tickets (and the minor printing expense lost) than to suffer the opportunity cost of underperforming shelf-space. Put your high selling tickets up front and get rid of the dogs! Manage your partial book return policy to both maximize security and allow fresh inventory to reach players quickly. And of course, make sure your sales people have the very best sales force automation software on their tablets.

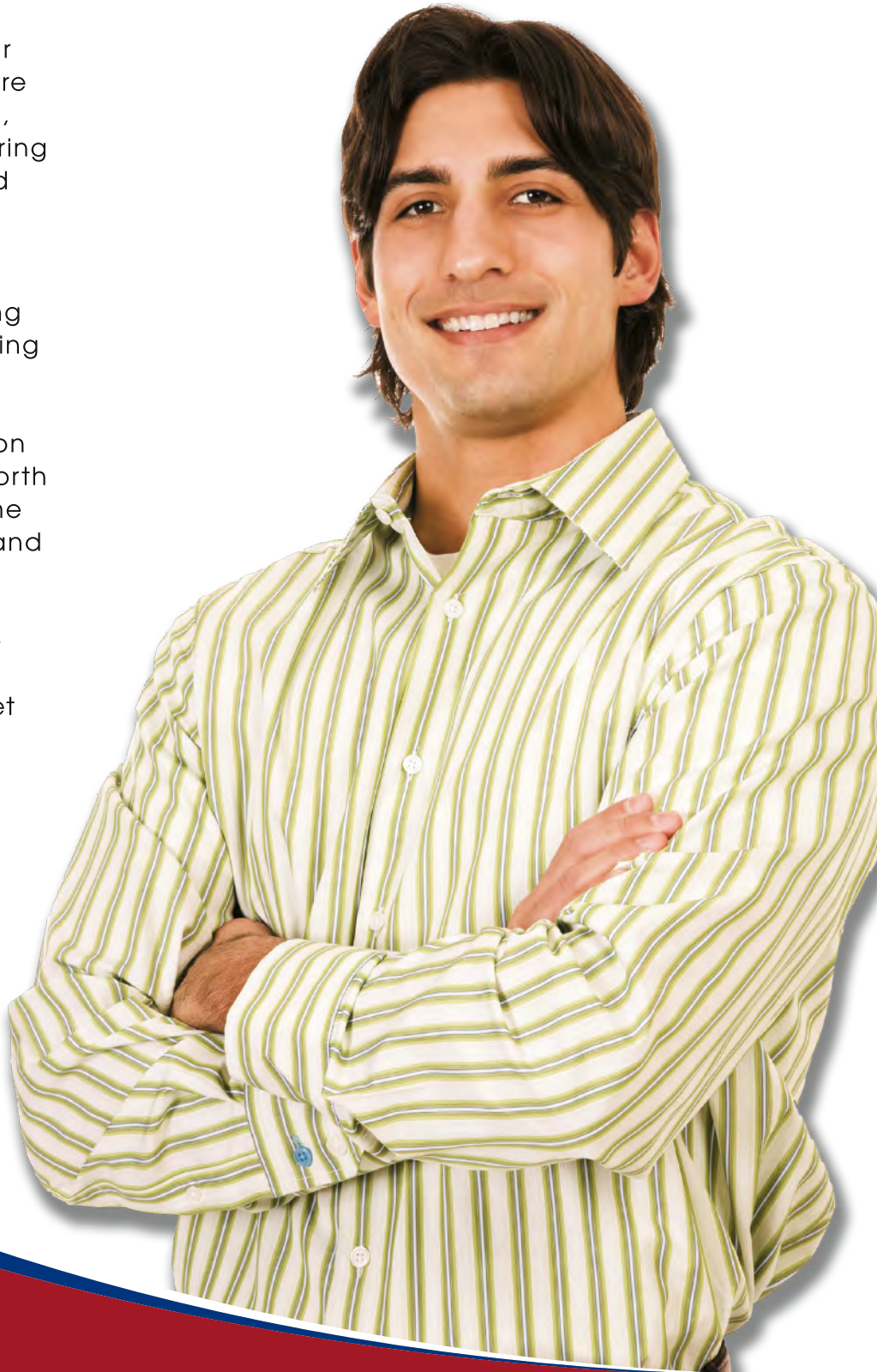
The second area of focus is on performance measurement. There is a wealth of good data available from your vendors, from NASPL and from third parties. Learn to understand and use the comparative data from other lotteries to identify your areas of strength and weakness. There is much to be learned from relatively simple examination of per-capita data if you can disaggregate that data and apply it to your own unique circumstances. For example, much is made of the extremely high total per-caps from Massachusetts. As many know, this is driven in large part by the very high payout rates Massachusetts has on its instant games, which creates significant "churn" on the part of players who cash in their winnings for more tickets. This churn, in turn, suggests that Massachusetts is perhaps closer to casino accounting (where "handle" or total bets placed is a less important metric than "net win") than lottery accounting (where each transaction is included in "sales"). Another factor in Massachusetts' success is

Continued on page 65 ...

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Ecommerce, iLottery, and Their Impact on Lottery Retail Sales



Selling products online complements, not cannibalizes, brick-and-mortar sales

Over the past decade, the Internet and ecommerce have contributed to a substantial transformation of many industries, often disrupting consolidated business sectors in a way that was unimaginable only 20 years ago. A few examples include:

- › Music, which experienced dramatic shifts in selling channels (and profitability) from physical recordings and record stores to digital distribution.
- › Travel, where most reservations, ticketing, and payment systems are now digital.
- › Health care, where the growing use of digital diagnostic equipment and record management will further accelerate with the spreading of wearable devices.
- › 3D printing, which will have dramatic impact on the value chain,

logistics and distribution, and cost of goods sold in several industries, including for example construction.

The trend toward digital is unstoppable and will only intensify. The speed of transformation, however, will vary greatly by industry, based on specific factors such as level of globalization, geographical differences, and regulation, radically shifting the relative relevance of different industries to consumers. This is especially the case in the entertainment sector, to which lottery belongs, where different industries satisfying similar consumers' needs compete for customer share of wallet – and customer share of mind.

While some have believed that digital distribution might completely overcome physical distribution, this is unlikely; both are an indispensable part of life and of business. Humans are social beings that need to

International Benchmark on Internet Sales Penetration over Total Lottery Sales (percent)

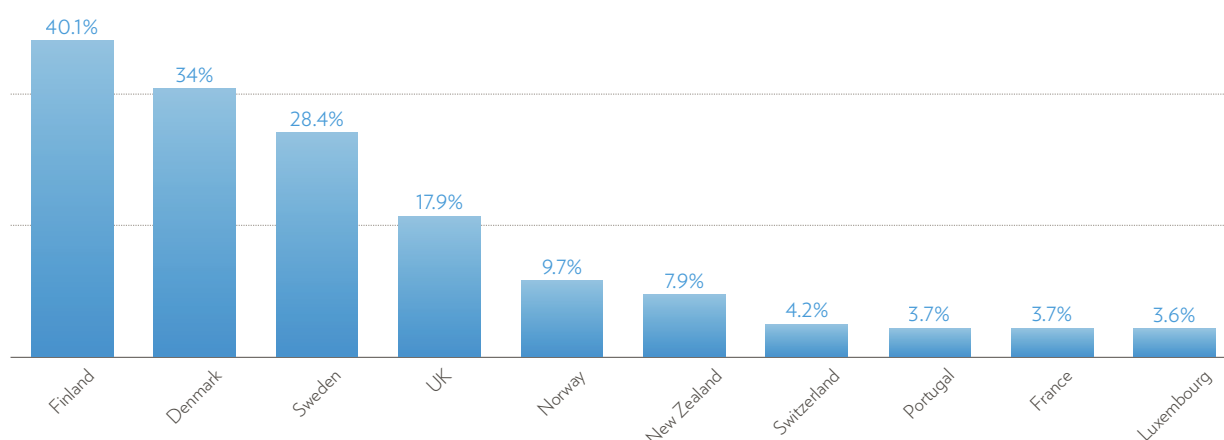


Figure 1 – Top European Lotteries for Interactive Sales

interact with other people and to make and touch things. Therefore, retailers are responding to the new challenge through innovation, and the most prominent ones are investing heavily in developing digital marketing and ecommerce capabilities: 9 of the top 12 ecommerce retailers are companies with established brick-and-mortar operations (source: Global ecommerce Research, Internet Top 500 Retailers in 2013) who are reacting to the evolving context.

As a result, the line between brick-and-mortar and online operations is blurring; more and more corporations are focusing on the omnichannel experience they can provide to create new sources of value. A few examples:

- Established retailers are pushing hard to develop their digital capabilities; Walmart now operates ecommerce websites in 10 countries; its largest, Walmart.com, sees 45 million visits a month, a number that is growing every year.
- More and more retailers are offering their physical stores as point of delivery for goods purchased online; on the other end it is rumored that Amazon is considering building physical stores.
- Apple appointed Angela Ahrendts, the former CEO of luxury brand Burberry, SVP for online and retail stores, clearly recognizing the opportunity to managing the two channels as a single integrated means to reach out to customers.

Mobile is part of this trend, and it is increasing its market shares among online sales:

- According to Criteo, in Q1 2015, 34% of all global ecommerce transactions, and 29% in the U.S., were via mobile.
- A senior executive at Walmart declared that over the 2014 Holiday season, mobile represented “70% of the orders ... taken through [their] digital business.”

Lotteries are taking part in this transformation; since the 1990s, the interactive channel has been a key international growth driver. Today several European lotteries see more than 25% of their sales being generated through digital channels (see Figure 1).

iLottery is also a key driver to modernize the lottery brand and to enable lotteries to be more relevant for consumers. The interactive channel:

- Attracts the young adult demographic that traditionally has been more difficult to serve effectively (see Figure 2 for an example from a European jurisdiction of the demographics of different games/channels).
- Enables innovative content and innovative ways to promote, for example through social spaces, traditional games.

These are all opportunities that need to be embraced by lotteries and their most loyal evangelists, the retailers.

In lottery and the general retail industry, interactive does not necessarily cannibalize retail sales, and can in fact be leveraged not only to improve player convenience but also to make the retailers a more attractive destination for consumers. The increased use of personal devices and smartphones can accelerate in-store innovations and improve the retail experience. New devices such as digital mirrors, which take a 360-degree video, allowing clients to see

Age Distribution of Customer Base (percent)

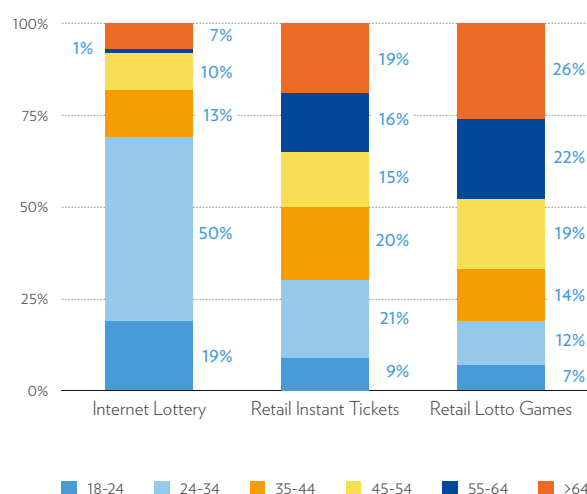


Figure 2 – Player Demographics of Interactive Lottery vs. Retail Lottery (example of a European lottery jurisdiction)

clothing on themselves from all angles, also enhance the consumer retailer experience; similarly, innovative concepts such as Bring Your Own Device, larger digital screens, paperless playslips, iBeacons, on-premise tethered wagering, and virtual betting can all enable further in-store playing opportunities and enhance the social aspect of the games. At the same time, leveraging these features will help lotteries to compete with other entertainment industries and to stay relevant to consumers as they increase the adoption of digital services and in-store experiences. This is already happening in other fields; 10% of Walmart's online sales, for example, are for purchases made through mobile devices by consumers in-store.

Retail sales are increasing even while ecommerce is growing; in February, NRF (the National Retail Federation, the world's largest retail trade association) forecasted a 4.1% increase for 2015 U.S. retail industry sales vs 2014, with non-store retail sales growing between 7% and 10%. Due to the interaction between the online and retail channels, the combination of the two is creating value, rather than developing one channel at the expense of the other.

"Not only are lottery retailers not negatively impacted by interactive sales, in some cases they can actually benefit from the development of interactive channels."

International experience derived from lotteries with a longer history in the interactive channel shows a similar story. Figure 3 illustrates statistics from a number of best practice interactive lotteries where, since the launch of the online channels, both interactive and retail lottery sales have grown. It is important to note that not only are lottery retailers not negatively impacted by interactive sales, in some cases they can actually benefit from the development of interactive

channels, as this provides them for additional opportunities to earn a commission. Several examples exist, some of which are also emerging in the U.S.:

- › Often lotteries, to further promote integration between the interactive and the retailer channel, offer consumers the ability to top-up their ewallet in the stores, often recognizing a commission for the retailers:
 - » In the U.S. and Europe, some jurisdictions allow players to top up their ewallets at retail and reward retailers for that activity; in Italy about 35% of electronic top-ups occur at the retailers.
 - » Offering the option to pay cash in store for products ordered online is another possibility, and one that has been embraced by the general retail community: Walmart, for example, has offered this option since 2012.
- › IGT OnPremise mobile sports betting and casino gaming is made available at a dozen MGM Resorts in Nevada as a way to allow players to enjoy convenient and exciting new ways to wager seamlessly across multiple gaming channels through mobile, whether they're at a sports book, slot floor, restaurant, or poolside.
- › In Norway a player card is mandatory for draw based game wagering at retail. This offers additional convenience to players, as all winnings they earn are automatically deposited to their player card. A similar optional feature is available to retail players in Sweden, where it is leveraged for 65% of wagers.
- › On-premise and tethered wagering being developed for keno retailers will provide retailers the possibility to earn a commission without having to input the transactions at the terminal, as they will be autonomously wagered by players through their device.

The facts are clear. Adding Internet sales to land-based retail can augment both channels while improving player convenience and increasing product relevance.

Contribution of Retail Sales to Lottery Sales Increase after Launch of Internet Wagering (percent)

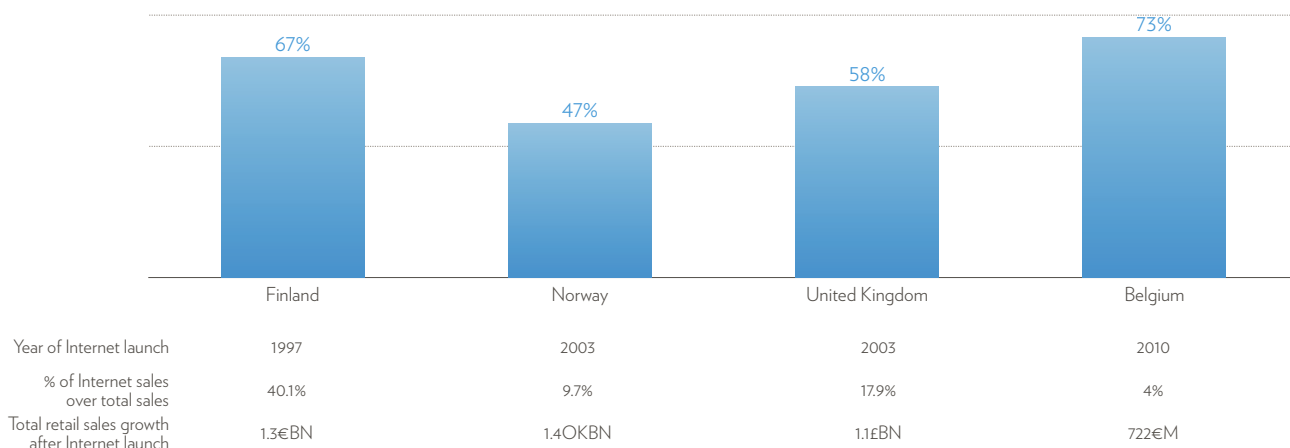


Figure 3 – Impact of Internet Wagering on Retailer Lottery Sales



CHANGE AND DISRUPTION IN THE EUROPEAN GOVERNMENT-LOTTERY INDUSTRY

PAUL JASON, PUBLISHER, PUBLIC GAMING INTERNATIONAL MAGAZINE: Following is a multi-part feature that attempts to sort out the ways in which regulatory confusion essentially clears a path for illegality. While we have always reported on the impacts of public, regulatory, and taxation policy on the gambling and lottery industries, there is now a confluence of events that is particularly grave and concerning. The fact of the matter is that government-lotteries absolutely depend upon monopoly protection. Without that, competition between operators would result in the proverbial race-to-the-bottom of higher prize-payouts and decreasing margins. That's just the way that market-driven capitalism works. Without monopoly protection, it is hard to imagine how government-lotteries could even exist in their present form.

Further to this discussion is the article which follows this one, on clarifying the definition of "gambling" and the disruptive impact of "Uberification" on the government-lottery model. Uberification (named after the alternative taxi-service) is a term coined to describe

the business model of applying innovation and aggressive legal strategies to disrupt existing industries.

The lottery monopoly model is now under direct attack. EuroMillions, EuroJackpot, Powerball, Mega Millions, SuperEnalotto, Lotto 6/49, and other mega-brands are now available for purchase online from multiple operators based in Gibraltar, Malta, and other low-tax harbours of illegal online operators. Even though it is illegal in almost all of the consumption markets where the players reside, this new model is almost certainly going to proliferate. We do not presume to have the antidote for shutting the illegal sale of lottery products. It's our hope, though, that we might all work together to do whatever we can to preserve integrity in the government-lottery industry.

I want to thank four industry leaders in particular for helping me to research and understand these issues. Whatever credit for this article belongs to them. Whatever miss-statements or errors belong to me—responsibility for this article resides solely with Public Gaming Magazine.



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THE NEVER-ENDING CHALLENGE TO RATIONALIZE THE EUROPEAN REGULATORY SYSTEM

The European Union (EU) was created to facilitate trade and commerce between the member states. A common currency, rules that required free and open borders to facilitate cross-border trade, rules against the erection of barriers that protect a nation's

indigenous industries from free-market competition, a harmonization of economic regulatory structures to ensure that resources (human, capital, material) would flow across borders and coalesce in the most efficient ways ... these are some of the tremendous

benefits that the EU endeavors to provide. Businesses that performed the best and delivered the best consumer value would be free to sell into all the member states in the EU, creating one giant, dynamic, and maximally efficient market. That's the goal. Member states all agreed to abide by these rules in order to foster a climate of free-market capitalism that would lead to economic prosperity. But even in the Maastricht Treaty that established the EU in 1993, it was recognized that there needs to be provision for member states to have some measure of control over policy that serves the interests of their citizenry. The term subsidiarity is used in these Treaties to describe one of the core legal principles of the EU, namely that matters which are most appropriately regulated at the individual member states' level should not be regulated at the EU level. Where this principle of subsidiarity is applied, it creates an exception from EU harmonization, resulting in laws that differ from country to country. That is why it is applied so sparingly. There is a careful balance to be struck between realizing the internal market ideal of harmonization, and the correct application of the subsidiarity principle without doing harm to the free movement of persons, goods, services and capital. From the inception of the EU in 1992, Gambling and Lotteries have been specifically upheld in court cases at the highest level, the Court of Justice of the EU (CJEU), as being industry sectors that fall

under the rule of subsidiarity. Gambling and Lottery are industry sectors that have complex socio-cultural and economic impacts on society, and the ways to manage those impacts are best decided at the national member-state level, not the EU level. That seems simple and straightforward enough. But it's not.

Not surprisingly, commercial operators have lobbied and litigated to convince the EU Commission to over-turn the basic tenet of subsidiarity as applied to gambling, and force the member-states to open up their markets for multiple operators to compete with open borders and taxes based on the home office of the operator instead of the nation where the consumer is based. Thus ensued the ongoing debate over jurisdictional authority over the regulatory and taxation policies that govern the gambling and lottery industries. This legal debate therefore has a profound effect on the way the industry evolves, who will gain advantage and who will be disadvantaged in the competitive landscape, and the kind of role that gambling will have in society. Some member-states may decide that the best regulatory and taxation model is one that results in an expansion of gambling, with betting shops located on every corner and multiple online operators promoting high-prize-payout i-gambling. Others may decide that is not what they want for their country. The principle of subsidiarity gives authority to the individual member-state to decide what is

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best for its citizens and to have the prerogative to decide that it does not necessarily want a gambling culture to proliferate in that way, and that it not be forced to conform to a universal system of harmonization that applies to all member-states. Of course, this debate has reached a fever pitch with the advent of online internet gambling. The low cost of making any products, including gambling and lottery products, available everywhere online makes it a very attractive business to commercial operators.

There are analogous political structures all around the world where there is ongoing debate about the rights of individual states to control policy and enact laws versus the rights of the federal government to enforce rules and laws that are intended to serve the interests of all states. In Europe, the general concept of subsidiarity is intended to apply for nations to protect the social welfare of its citizens (Public Order), and for those individual national governments to have some latitude to enact laws that are not applied to all other EU member states. There are, however, differences of opinion as to what Public Order means. For instance, in the U.S., the role of state lotteries to channel the outsized profits generated by lottery and gambling over to charitable causes is thought to be worthy of protection, even monopoly protection. There is little or no debate over the efficacy of the monopoly model that protects the business of lotteries which generate \$25 billion+ for Good Causes. That reasoning is not totally accepted in Europe. Over the years, the EU's subsidiarity exception has been reduced in scope, limited to be based on the need to minimize problem gambling, negative social costs, money laundering, and criminality. The EU Court of Justice has ruled that the legality of the regulatory structures of the individual member-states can be challenged if the purpose is to channel economic benefits to a particular sector; even if the funds are funneled to that sector (like government-lotteries) for serving the worthy objective of supporting Good Causes. According to the EU Commission and the CJEU, the purpose of channeling economic benefits to Good Causes is not in itself a legal justification for a monopoly model. Regulations that constrain free-market competition and impede cross-border commerce must be justified on the basis that they are the most effective way to protect social welfare, i.e. Public Order. The EU Commission is prone to favour the free competition approach even as applies to gambling because that is what comports most readily with the goal of EU harmonization. And that puts the EU Commission on a collision course with the will of the member-states (except, of course, Malta).

Advocates for Good Causes protest that the rule of subsidiarity should allow individual member-states to protect their national socio-cultural identities such that the government-lottery monopoly model can be applied for the express purpose of channeling economic benefits to Good Causes. And we still hold out hope

that the EU will appreciate the vital role of government-lotteries to channel funds to Good Causes. That is what the member-states want, as evidenced in the unanimous political statement from the Council of Ministers of the EU (the EU institution which brings together representatives of the member-states) that, contrary to the legal ruling of the EU Court, the special contribution of lotteries to Good Causes should be allowed. But presently, individual EU member-states are under pressure from a well-organized and concerted strategy reaching the highest political, corporate, and legal echelons to make their regulatory and taxation models comply with a system that prioritizes free competition, with a uniform pan-European approach to minimizing problem gambling, money laundering, and other social costs. This harmonization model does not provide the flexibility needed by member-state governments to manage the gambling industry in accordance with their own public policy priorities, nor in accordance with the goal of channeling funds to support Good Causes.

Since November 2013, the individual member-states have been subjected to an increasing number of "infringement proceedings" launched by the European Commission, the purpose of which is to substantially change the legal and regulatory frameworks of the member-states. These proceedings are being litigated at the highest court of Europe, the CJEU. It is unfortunate, though, that the EU Commission is framing these issues as technical and legal when in fact they are political. Harmonization is achieved by imposing a pan-European regulatory structure that promotes cross-border, free-market competition onto the online gambling industry. Free-market competition of multiple operators is usually not a bad thing for consumers. But the high prize-payout, low-margin model that drives the expansion of gambling is not necessarily good public policy. That is the fundamental issue, and it is a political issue much more than a legal issue. The Court, the CJEU, is being put into a position where it must decide whether the EU Commission goal of harmonization is more important than member-states' rights of subsidiarity. The CJEU decides matters of jurisprudence. These political issues should be decided by the legislative bodies. The reason it's happening this way is that were it to be decided as a political issue, the EU Commission would need to take into consideration the will of its members as expressed by the Parliament of EU members-states. The EU Commission is trying to force its priority of harmonization onto the online gambling industry, and it is more expedient to do that by casting it as a legal issue and sending it to the CJEU to adjudicate than it is to try to convince member-state governments to accept what they have already stated they do not want.

As has been emphasized by many, most recently by Piet Van Baeveghem of the Belgium Lottery in our January issue, and numerous times in PGRI magazine by our esteemed editorial con-

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tributor Philippe Vlaemminck, the EU Commission must cease to misappropriate its powers to dictate member-states' gambling policies in a way which in fact contravenes EU law. This, in part, is the reason why Belgium itself launched an annulment procedure against the European Commission when the EU Commission adopted allegedly non-binding 'Recommendations' on how consumers should be protected as regards online gambling. Indeed, Belgium has taken the rare action of bringing the EU Commission itself to Court, for overstepping the boundaries of its legal competences to regulate gambling. Instead, what is indeed more appropriate is that the European Commission clarify its policy intentions, and appropriately involve the member-states in its policy initiatives surrounding gambling. Without that, individual member-states are in a position wherein they must simply comply with the Commission's vision of what is an appropriate pan-European gambling market, in order to avoid being sued. Some, like Italy and France, have opened their markets wide to allow for multiple operators in almost all sectors of the land-based and online gambling industries. That was the concession made to preserve their monopolies over their government-lotteries

(though many would contend that's not the only reason for their opening up of the markets). Other member-states are struggling to avoid opening up their markets to multiple operators without the assurance of sufficient enforcement mechanisms (such as monitoring data transfers relating to online gambling on their territories), and avoid being taken to court. Without being too judgmental about the pros and cons of opening up the markets to multiple operators, I think it can be said that it does result in higher prize-payout percentages, lower margins, and therefore lower residuals as a percentage of turnover to the government and Good Causes, and also an expansion of gambling. It should be pointed out that the lower residual as a percentage is often-times offset by the increase in turnover. But it should also be said that as a matter of public policy, a government should have the right to a regulatory system that does not promote the high-turnover, high prize-payout model that encourages increased player-ship and the expansion of gambling. It's not for us to say which is better for an individual member-state. It's just to say that neither should it be the right of the EU Commission to say which is better for each individual member-state.

CASE STUDY ON THE NEGATIVE IMPACTS OF REGULATORY DYSFUNCTION: GERMANY

The catch-words for the EU regulatory requirement are "consistency" and "harmonization." Insofar as the primary basis for monopoly protection of lottery is to preserve social welfare and Public Order, the regulatory structure must be consistent with that goal. Germany, for instance, imposed strict controls over how the state lotteries operate, how they advertise, and how they promote their products. (There are sixteen German states, called *Länder*, each with its own state lottery.) These restrictions were imposed for the purpose of minimizing problem gambling. For many years, however, there has existed in Germany a thriving underground economy of betting shops which are subject to far fewer restrictions. These operations are not legal, but nor were they shut down by the government. In fact, the government collected taxes from them. The government has tolerated them in spite of there being no laws to authorize or license their operations. German lotteries even held a legally sanctioned "monopoly" over sports-betting. Ten years ago, this monopoly yielded around 60% market share to the state lotteries. Since then, the underground sports-betting shops have flourished to the point where the state lotteries now have less than 5% of the sports-betting market. And that is in spite of the fact that the state lotteries continue to be the only authorized operators of sports-betting! Now, to the bigger point: In 2010 the CJEU questioned whether this is a 'consistent' regulatory system. The thinking is that state lotteries pose less of a threat to problem

gamblers than do slots and sports-betting, and yet lotteries are held to a higher standard than those gambling sectors. Therefore, this regulatory structure is not consistent with the goal of minimizing problem gambling, social costs, and criminality.

Enter the problem that the government of France faced a few years ago. When an underground economy gets to be too big, it becomes more expedient to legalize, regulate, and tax that economy than to attempt to shut it all down. France did just that with the illegal online gambling operators. The hope was that the state lottery of France (La Française des Jeux, "FDJ") would be able to compete with the new cadre of formerly illegal online operators who were now authorized to operate legally (and pay taxes and comply with other regulations). But those operators which were previously operating illegally had all the customers already, so they came to quickly dominate the market for online gambling. Germany is now facing a situation in which its lotteries must operate under the most restrictive conditions and their sports-betting "monopoly" serves little purpose since the lower taxes of the private operators enables them to deliver much higher prize-payouts. Now, the sports-betting operators who aren't even legally authorized to be in that business have all the customers. But it gets worse. Much worse, because now the regulatory dysfunction that has ruled the sports-betting and slots sectors now threatens to disrupt the lottery sector.

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REGULATORY DYSFUNCTION BENEFITS ILLEGAL OPERATORS

It is sometimes said that the legal system functions like a “blunt instrument.” Legislators make the laws. The courts endeavor to enforce the laws but can only do so if the laws are clear, unambiguous, and otherwise enforceable. Unfortunately, that is not the case in Germany. Without enforceable laws, there is nothing to stop the explosive growth of illegal operators. The total gambling market has grown from €20 billion in the year 2000 to €50 billion in 2010. The German newspaper *Der Spiegel* estimates it to be €70 billion in 2014. The share of the market that is controlled by illegal operators has grown even faster, so that now it exceeds 50%. The revenues of the German government-lotteries has significantly declined over the last five years.

Consider the problems with setting up a regulatory structure in Germany for sports-betting. More than 95% of this market is now going to illegal operators. The government decided to get control of this market by issuing twenty licenses to operate sports-betting. There are thirty eight applications. Not surprisingly, the ones who were not granted a license are suing to get the right to operate. The current legal status is that since they have applied for a license, it would be unfair to shut their business down until a decision is rendered as to whether they will get licensed. In the mean-time, the government does not take action against the unlicensed operators and the laws are not being enforced while the legal issues work their way through the court system. The truth is, all the operators are better off with no resolution and no license. When everything is resolved and the licensing and regulatory system are actually in place, then there will be laws that will be upheld. Then the operators will be held accountable and forced to comply with laws relating to advertising and other aspects of operation. Perverse as it may seem, the ability of these illegal operators to advertise, acquire new customers, and generate profits is actually better in this unregulated market than it will be once the market is regulated. So who knows if or when that will ever come to pass because there will always be something that the operators can litigate. This situation may not be resolved quickly. And that is just fine for the illegal operators! Then, if this situation is ever resolved to the point wherein there is a functioning regulatory system, what's to stop the illegals from violating the rules for the sole purpose of throwing everything back into the court system so they can continue to operate without constraint? (Postscript: In May, the German Court ruled that the licensing system is flawed and that it must be re-written altogether. In the meantime, sports-betting operators continue to do business without a license. Even the giant German telecommunications company Deutsche Telekom AG just announced that it is getting into the online sports-betting business.)

In the end, it will be most difficult for state lotteries to gain market share because lotteries pay 40% of the turnover to the state

and Good Causes. Commercial operators pay on average 5% tax in their country of origin, enabling them to give the player a prize-payout that is much higher than state lotteries. Additionally, this low tax enables them to spend much more on advertising. And authorized operators, like state lotteries, are expected to not only follow the letter of the law, but to embrace the spirit of the law. Commercial operators have much more latitude when it comes to advertising and ways they go to market. For instance, authorized sports-betting operators, like lotteries, are typically required to issue a player card that requires registration whereas the illegals are not required to do that because, well, they're already illegal so what's the point in requiring a player card to play illegally. It's almost as if unlicensed commercial operators can be excused for not understanding the laws, but authorized lottery operators are expected to not only understand the law, but to set a higher standard for others to learn from and follow!

Now, let's add another twist to this exacerbating situation. The lotteries in Germany are regulated by an entirely different governmental body, and entirely different set of rules, than are the casinos and slots sector. The lotteries operate under the regulatory mandates of the Interstate Treaty while casinos and slots operate under the trade and industry laws of the federal government. So the casinos and slots have had less restrictive regulations than Lottery, which has contributed to their rapid expansion over the last ten years..

An additional problem for Germany is the reluctance to employ ISP and payment-blocking as a means to prevent remote online gambling and illegal lottery operators from even entering the market. As regards to ISP-blocking, there is the over-riding priority in Germany to protect the freedom of the internet. That priority basically trumps the priority of enforcing the regulations that protect the consumer in the i-gaming industry. So ISP blocking was not included in the Interstate Treaty of 2009, and thus unfortunately not considered a political possibility today. In a recent court case, the CJEU ruled that ISP blocking can be done to protect legitimate objectives. But that is at the EU level, and it certainly does not require member-states like Germany to employ ISP blocking.

Payment-blocking is politically difficult as well because of concerns that privacy of the consumers may be violated. And even if payment-blocking were somehow to be approved by political stakeholders, it would still be extremely difficult to get the banking system to comply and implement it. The banking system in Germany is much different than in the U.S. where there are only a handful of merchant banks that process credit card transactions. In Germany, hundreds of banks have their own system to process credit card transactions. These banks insist that it would be difficult to impossible to organize a payment-blocking system that would be implemented throughout the system.

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THE ADVENT OF ILLEGAL LOTTERIES THAT THREATEN TO DESTROY THE TRUSTED LOTTERY BRAND

It was only a matter of time before clever online operators figured out how to circumvent the law and attack lotteries directly. The profit margins of the traditional lottery business is the crown jewel in the entire games-of-chance industry. The profit margins for sports-betting and other online gaming are tiny compared to the margins generated in the lottery sector.

Up to 2008, Tipp24 operated legally as an online vendor of lottery tickets in Germany. Tipp24 sold lottery tickets online, bought the tickets from the authorized state lottery, and was paid a commission for that service. This was a legal business model, with Tipp24 functioning much like a traditional land-based retailer. Then, in 2008, online sales were outlawed by the German government. Tipp24 could no longer operate as they had been in Germany, so they moved to London. They now sell EuroMillions, EuroJackpot, and many other lottery products online, making them available online to everyone in Germany and many other jurisdictions. The Tipp24 operation is not illegal in the U.K. But it is illegal in Germany and other jurisdictions. Technically, Tipp24 is not selling the legally branded products of EuroMillions and EuroJackpot. Their website (www.Tipp24.com) makes it appear to the consumer that they are selling the branded products. And the consumer thinks they are buying the branded product from an authorized distributor. But they're not. Technically, the consumer is placing a side-bet on the outcome of the lottery draws. Tipp24 is licensed to operate a betting shop in the U.K. and that is technically what it is doing. It appears to the consumer that they are buying a lottery ticket when they are actually placing a bet on the outcome of the lottery. Tipp24 sells the tickets, keeps all the revenues, then pays out the prizes. The revenues do not go to the authorized lottery. That means that the Good Causes supported by the authorized lottery are denied the benefit of those revenues. The revenues taken in by Tipp24 go to benefit its private shareholders instead of the Good Causes supported by the state lotteries of Germany. It is illegal in Germany and the German consumer is being misled to believe they are buying a legitimately branded ticket from an authorized distributor. Although Tipp24 is licensed to operate a betting shop in the U.K. and pay their taxes in the U.K., it does not give them the right to offer their games in Germany.

Did I already say it gets worse? Well, it gets even much worse. Tipp24 at least has a long track record of honoring their obligation to pay large jackpots. It is not contributing to the German exchequer and/or German Good Causes, but it is hoped and expected that at least the consumer will not be defrauded by Tipp24. Observing the success of the Tipp24 model, clever entrepreneurs are rushing in to take advantage of the current inability to prevent the illegal sale of lottery products. Now it's becoming a race-to-the bottom. What is to stop clever but unscrupulous operators from selling lottery products, raking in 30%+ margins, paying out the small prizes, and failing to pay in the unlikely event that a big jackpot is won with a ticket they sold? Or using promo-

tional tactics that far exceed what the authorized lottery is allowed to do by law, or could afford to do even if they were allowed to do? And using super-aggressive customer-acquisition like giving away free tickets upon registration and first purchase. After all, these illegals are raking in giant profits with minimal costs which make it financially easy to fund extravagant promotions. The possibilities are limited only by the imagination of operators which are already breaking the law in the consumption countries, and the implications are potentially dire indeed.

So now we have two problems. First, these illegal operators are not contributing to the state exchequer and/or good causes supported by state-authorized lotteries. Second, there is no legal guarantee provided in Germany that one of these operators will not default on its obligation to pay out a large jackpot. Let's follow the scenario to its likely conclusions. The consumer will be advised that the obligation to pay the prize belongs to the operator who sold them the ticket. But look at, for instance, the www.Lottoland.com website. The logos are not the logos used by the authorized lottery operator. But they are still appealing logos. They look great, they look real and legitimate, the website is very professional and user-friendly, and so why would the consumer think they were not buying the real product from an authorized distributor of the state lottery? When the purchaser of these tickets has a prize to claim, who will they expect to honor that claim? Maybe they'll be advised by the state lottery that they made a mistake by buying the ticket from an unauthorized operator. But then what? The consumers still expect their prizes to be awarded and so wouldn't they turn to the authorized state lottery to solve their problem, to make sure their claim is honored? One of the results of this stand-off would clearly be irreparable damage to the legitimate state lottery brands. Those brands include Powerball, MegaMillions, EuroMillions, EuroJackpot, and other well-known brands. Visit www.Lottoland.com, where you can "Bet on America's No. 1 Lotteries online: Cash in on your luck with America's supersized jackpots: MegaMillions and PowerBall are now at Lottoland!" and where "EuroMillions — Europe's favourite lotto: Join the hunt for Europe's biggest jackpots: the DoubleJackpot feature raises the maximum EuroMillions payout from around £150 million to an incredible £300 million!"

How is it possible for a small entrepreneurial company to pay a £300 million jackpot? How could even Lloyd's of London assess and value that kind of risk? That may be why it is difficult to clarify the precise nature of how the insurance is under-written for these operators. That may be why these companies are now tapping into additional capital markets to off-load the risk.

There promises to be many new twists to the many ways in which illegal operators disrupt the government-lottery business. At the ICE Totally Gaming trade show in London, there are booths representing a number of private lottery with clever strategies. Companies like Kootac.com and LottoYard.com promote a model in which everyone is recruited to open their own private lottery and affiliate with a financial



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backer. One reason they do this is to employ agents in the consumption markets to buy the tickets from the authorized lottery operator when the jackpots get above a certain threshold, i.e. when the cost of insuring the operator against a big loss exceeds the cost of the ticket. This way, the illegal operator is making 30%+ on the sale of lottery tickets when the jackpots are of a manageable size and the liability can be outsourced to an insurer. When the jackpot gets too big, the liability is simply switched back over to the authorized state lottery operator, effectively outsourcing the risk of being obligated to pay a large jackpot. They may not make money when they buy the tickets from the authorized operator, but that's alright because they make a ton of money on all the tickets they sold when the jackpot was not so high. Check out www.Kootac.com. They call this system of partnering with you to build your own lottery an "affiliate" system. "Start your own online lottery in 10 days. Our white-label solution is your opportunity to launch your own lotto site, based upon the tried, tested and never bested KOOTAC platform. Offering a world-beating portfolio of lotteries for your customers and a market-leading system for your staff, a KOOTAC white label solution is your winning ticket to the online lotto industry's top table. We'll get you online and ready to make money within 10 days of commissioning." Their website offers all the biggest lottery brands (EuroJackpot, EuroMillions, Powerball, Mega Millions, SuperEnalotto, Lotto 6/49): www.playeurolotto.com.

LottoYard also describes themselves as a white-label B2B solution. Check out www.LottoYard.com and their consumer-facing website www.IceLotto.com.

WHY CAN'T SOMETHING BE DONE TO STOP THESE ILLEGAL OPERATIONS?

Tipp24 is legally licensed in the U.K. to operate a betting shop. A "betting shop" in the U.K. can take bets on practically anything, from who will be elected president of the U.S. to who will win a sports match to what the winning lottery jackpot number will be. The illegals like LottoLand are based in tax-haven gambling hubs like Gibraltar and Malta where they are protected by their governments because they pay taxes and provide employment. That still begs the question of why the EU Commission undertakes no action whatsoever to combat this kind of illegality which undermines the rule of law for all the other members of the EU. The EU member-states have been asking the EU Commission for many years to leverage its power to fight illegality in the online gaming, and now lottery, markets. But instead of addressing this real threat to consumers, the European Commission is intent on pursuing a tunnel vision of harmonization that threatens to destroy government-lotteries which support Good Causes. For all the time and resources expended on the business of rationalizing the online gambling industry in the EU, one would think the institutions like the EU Commission could at least address the egregious damage being done by rogue member states which harbour these illegal operations.

Another line of defense against illegality would be to find ways to

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The entire situation will likely get more complicated as these illegal operators use their profits to fund additional business models and strategies that will increase their reach and market share. For instance, Tipp24 is leveraging its capital resources, online customer base, lengthy experience, and skill-sets to move into legal markets. According to a Tipp24 press release dated Feb 7, 2014, "In July 2012, German online brokerage activities were successfully spun off from Tipp24 SE in the form of the Lotto24 AG."

support operators who have a history of complying with the laws, and penalize those who have a history of violating the laws. Jurisdictions which are establishing licensing requirements can blacklist operators who have ever operated illegally anywhere. The consequences of operating illegally simply need to be made financially onerous enough to discourage these companies from engaging in illegality in the first place.

Clearly, the regulatory problems in Germany are exacerbated by a lack of consistency and coherence in its own national policy. But the over-arching problem is that the EU Commission is pursuing policies inconsistent with the will and the interests of its member-states. That problem would disappear if the EU Commission would do one simple thing: Re-affirm that the establishment of regulatory and taxation policy is all a matter of subsidiarity, that it should be determined at the member-state level. This was the original intention and wording of the Maastricht Treaty that established the EU. This is what the European Parliament has requested. It is the will of the people (except for the illegals of course, and the harbours of illegality like Gibraltar and Malta) and we hope that the EU Commission will someday come to respect that. ■



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Consideration + Chance + Prize

THE FOLLOWING
ARTICLE IS BASED ON A
PANEL DISCUSSION AT
SMART-TECH 2015
(MARCH 31 IN NEW YORK CITY)

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JAMES MAIDA,
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LOTTERIES ASSOCIATION (EL)

PHILIPPE VLAEMMINCK,
PARTNER, ALTIUS LAW FIRM,
CHAIR OF GAMING LAW
PRACTICE GROUP

How is this foundational definition of gambling being circumvented by game developers and online operators?

The government-lottery industry depends on the effectiveness of regulatory frameworks to protect its business model. Market-driven changes and well-funded private interests (online gaming operators, Facebook and Google, Sheldon Adelson, off-shore lottery operators like Lottoland, etc.) are making it increasingly difficult for governments and their regulators to control the industry. “Non-money” online games (paradoxically, many are making more money than real-money games) are integrating prizes into their game structures in ways that fall outside of the traditional definitions of “gambling.” Games are being invented that have an element of skill, or some twist on prize structure or the precise nature of the “wager,” or otherwise find ways to avoid being classified as “gambling.” What about Fantasy Sports—why is it not classified as gambling? Bitcoin and cyber-currencies threaten to unleash underground economies that evade regulatory constraints and the obligation to pay taxes. Online betting websites that replicate the lottery-playing experience and others that appear to be selling the most popular lottery games like Powerball, Euromillions, Mega Millions, EuroJackpot but are illegal in the consumption markets ... What are the front-lines in the battle to preserve the integrity of the gaming and gambling industry? What can we do to prevent the breakdown of regulatory discipline and effectiveness?

How Will Government-Gaming Operators Become the Next Uber and Not the Next “Uberified?”

Creative entrepreneurship is nothing new. Throughout history, entire industries have been completely transformed, with business models being disrupted or completely “disintermediated.” The disintermediation of the horse-and-buggy business by the automobile, the newspaper business by Google, the fax machine business and other communication processes by e-mail, the record industry by CD’s and then CD’s and DVD’s by downloadable technologies, etc. The ingenuity of entrepreneurs is a driver of progress but also a disrupter of the status quo and the business models dependent on the continuance of the status quo. That’s just free-market capitalism and it’s served us very well!

What is new is that everything is happening so quickly that lawmakers and regulators are not able to keep up with the changes. Government regulates from behind because they’re not the ones who are inventing the next innovation. This is especially concerning to government-lotteries because

they depend upon an effective and enforceable rule of laws and regulations to protect the consumer and the integrity and stability of the system. What happens when new methods of operation are invented that do not fit into the existing sets of rules and regulations?

Panel discussion moderator James Maida used the example of Uber to illustrate the disruptive power of an incredibly simple concept. The first part of the discussion clarified what is meant by the “Uber Business Model.” Then James and the panelists drilled down on the ways that the Uber Business Model is being applied to the government-gaming and lottery industry, with the potential for highly disruptive implications.

Uber is a company that did not exist just three years ago. Now it has a market capitalization north of \$40 billion. Uber develops, markets and operates a mobile-app-based transportation network. It functions just like a taxi-car service except that instead of flagging down a taxi, the consumer pulls the Uber app up on her Mobile and orders the pick-up. The driver is there within minutes. No taxi line, much cleaner and nicer cars, and it’s typically cheaper than metered taxi service. At last

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* The Tennessee Lottery generated a 79% sales increase in a quantitative test that isolated holography as the only key variable. For details, visit: www.holographyx.com/TN



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HAZEN PAPERS PERFORM

count, Uber operates in over 50 countries and 200 cities all over the world. Many governments and taxi companies have protested against Uber, alleging that its use of unlicensed, under-insured, under-regulated, crowd-sourced drivers was unsafe and illegal. In spite of these protests, Uber made a profit of \$208 million in 2014.

Uber's valuation of \$40 billion is not based solely on its business of operating a different kind of taxi-service, but reflects the confidence of investors that profits will sky-rocket in the future. The Uber Business Model is one that very deliberately leverages the fact that lawmakers and regulators are not able to modify the laws and regulations quickly enough to deal with changing circumstances. The method of operation may not even be legal, or may be deemed illegal as soon as lawmakers can craft and pass laws to make them illegal. But the business operates anyway, generating profits and completely upending existing business models, all while those issues are being litigated and regulators scramble to revise the laws. According to Wikipedia, "Since Uber's launch, several other companies have emulated its business model, a trend that has come to be referred to as "Uberification." That is most certainly happening in the games-of-chance industry. Clever, well-funded entrepreneurs are working hard to do to the government-gaming business what Uber is doing to the taxi-cab business.

Everyone knows that when you get into an Uber car, it may be unlicensed, uninsured, and its business unregulated. Their right to operate is being challenged in many markets because they do not pay the same licensing fees or comply with many of the other standards imposed on conventional tax-cab services. But they continue to operate because they find clever ways to skirt the obligations forced on the taxi-cab industry. For instance, in New York, one of the criteria that defines a taxi-cab is that it stops to pick up a customer on the street without any pre-arrangement to meet that person. Since you call to request an Uber-car to pick you up, this is technically a pre-arranged pick-up. Therefore, even though the Uber-cars are usually less than 2 minutes away and pick you up immediately, Uber does not fall into the definition of a taxi-cab service. Another definition of taxi-service is the metered billing system. Uber calculates the fare based on the estimated time of the trip, and charges that pre-determined fare. Ergo, no meter is needed.

The taxi-cab industry, and attorneys generals, are protesting that these minor differences should not exonerate Uber from compliance with the regulations and licensing fees of a taxi-service. After all, from a consumer point of view, Uber's operation is really the same thing as the tax-cab service. So why shouldn't Uber be required to comply with all the laws and fees regulating



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the taxi-cab industry?

It should also be observed that a key innovation that makes Uber more customer-friendly than the conventional taxi-service is its amazing Mobile app. Uber's Mobile app makes it so easy and convenient to use them. No cash is needed to pay the driver. You track the progress of the Uber-car as it finds its way to you, you get a receipt e-mailed to you as soon as the ride is completed, the phone number and name of driver is provided and they always answer, and an electronic survey form is provided for the customer to say whether the experience was good or not. You're even given the option of paying extra to order a premium car. My personal experience is that the Mobile app is the main thing that really makes the whole Uber customer experience superior to conventional taxi-service. It's no surprise that it is estimated that there are now more Uber-cars in New York and London than there are taxis. Frankly, all consumer-facing businesses, like Lottery, could take a page from the Uber Mobile app strategy.

The problem is that Uber is avoiding costs that are applied to the existing taxi-service businesses. The Uber business strategy includes not only a phalanx of lawyers and lobbyists to protect their model, it also includes the recruitment of elite investors who defend their interests at the highest levels of government. The Uber juggernaut appears to deliver a better consumer experience. Additionally, Uber has been forced to apologize for its highly unethical tactics used to sabotage the businesses of competitors (like Lyft), and is widely reported to be shameless in its use of a wide variety of other unethical practices. But my main point is that a cornerstone to its business model is the invention of new ways to go to market that skirt the edges of legality, maybe even fall outside of those edges, or at least fall outside of regulatory frameworks designed to protect the consumer and the stability of an industry.

That should be familiar because it is exactly what is beginning to happen in the gaming and gambling industry.

The gambling and lottery industries depend even more than the taxi-service industry on the efficacy of regulatory constraints and taxation structures. Think about what Uber did. They made a list of the activities that define the business as a livery/taxi service. They saw that from a legal and regulatory point of view, if you do not do one or two of those things, like metered service or picking people up on the street without being called first, then you do not qualify as a "taxi" service. That means you do not fall under the authority of the regulations applied to taxi service. And there is no regulatory framework that does apply to the new business model because this model never existed before.

How to Define "Gambling," and Why it Matters

The traditional definition of gambling includes a Consideration + Chance + Prize. Something of value must be wagered ("consideration") with a chance of winning or losing something

of value. This definition is a cornerstone to the entire regulatory and taxation framework. If even some small part of this definition becomes ambiguous, then the entire framework becomes ambiguous and therefore less enforceable. For instance, so-called "internet cafes" sell a phone card that entitles the bearer to make telephone calls. It also entitles the bearer to play games-of-chance on computers in the internet café. Is the transaction defined as the sale and purchase of a phone card, or is it classified as a wager, as gambling? The internet cafes and the consumers who play at internet cafes contend that it is a phone card even though it is not being used for that purpose.

Another Example: LottoLand is a betting company based in Gibraltar. Check it out at www.LottoLand.com. They appear to sell all the major lottery games like Powerball, Euromillions, Mega Millions, Eurojackpot, and more. From the consumer point of view, they are buying these name-brand products from an authorized distributor. But technically, they are placing a side-bet on the outcomes of the draw-based games with a private unauthorized operator. Tipp24 is based in the UK and operates with a similar model. These businesses are legal in Gibraltar, Malta, and the U.K., but not in most of the countries where the consumers who are buying the tickets actually reside.

What exactly is meant by "chance?" Most games (though not Lottery) have elements of both skill and chance. Even investing in the stock market has an element of both skill and chance. Fantasy Sports certainly has elements of both. Over \$20 billion is wagered on Fantasy Sports just in the U.S. And yet it is not regulated and taxed as gambling. And the average annual wager of a Fantasy Sports player now exceeds \$457! Video games that involve manual dexterity or strategy involve both skill and chance. Of course, poker has been the poster-child of this skill-versus-chance debate. How much "chance" versus "skill" is required to constitute "gambling," and be taxed and regulated as gambling? Insofar as "chance" is one of the criteria that constitutes "gambling," clever entrepreneurs will drive an Uber-car right through the ambiguity of this definition.

How might the fundamental elements of social gaming, wagering, sweepstakes methodologies, non-standard currencies, new play-styles that involve skill and chance but don't fit into existing definitions and laws, be mashed up in ways that confound current regulatory definitions and laws? Think of all the permutations and combinations that can be conjured up that can be developed such that the classification of the new game becomes problematic.

Examples of how game developers and distributors are Reinventing the Games-of-Chance Industry

The fundamental problem is that government-gaming operators not only must comply with the law, they must align with a

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The striking television set of Loteria Concepcion in Concepcion, Chile. The dynamic televised draws create a point of connection between the lottery and the players.



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myriad of political constituents who have a variety of opinions as to how, or even whether, the government should be involved in operating games-of-chance. The result is that government-gaming operators are held to a much higher standard in every aspect of running a games-of-chance business—responsible gaming, advertising, distribution, everything. This makes the games-of-chance business landscape ripe for Uberification. Commercial operators entering the market with new business models are not held to the same high standards as government gaming and lottery operators. This creates a big competitive advantage, the result being disequilibrium in the market-place and disruption to the business models of government-gaming operators. Just as with Uber, just as there is with LottoLand, there are loud protestations when operators find ways to avoid compliance with the laws that govern the industry. But in the end, it is the rule of law that must be invoked to stop operators from pushing the edge of the envelope, from finding clever ways to circumvent the letter of the law, or even from breaking the law. Like Uber, operators are making up their own rules, some of which may not be legal, but must be litigated nonetheless. In the mean-time, just like Uber, lawyers are hired, operations continue while litigation winds through the court system, and out-sized profits are generated which will then be used to consolidate their business position after regulatory structures have been modified to deal with the changing technologies, market-place, and methods of doing business. And then what's to stop them from inventing new methods of operation for the regulators to figure out and attempt to control? A never-ending cycle.

This may sound a bit apocalyptic. Even so, maybe we'd better think about the possibilities?

The ICE Totally Gaming Show in London was host to many of these new models. There were the new breed of commercial lottery operators (Lottoland, Kootak, LottoYard, etc.). And there are new games that combine skill, chance and value in ways that are not classified as “gambling” but deliver a consumer experience that may well appeal to consumers of traditional games-of-chance. Think about, for instance, the basic game concept and business model of an arcade game, or pinball machine. You insert a quarter and hope that you win so you can be rewarded with more playing time. These games involve chance. They involve “consideration” because you do put in a quarter. And the “prize” is the reward of more game time at no extra charge. Yet, it would seem silly to think of this as gambling, right? Nobody would contend that enhanced versions of pinball should be regulated and taxed as gambling. But what if the games were made easily accessible to the online gamer, became hugely popular, generated hundreds of millions of dollars in profit to the operators, and delivered more compelling value to the consumer? What are the definitions of value, chance, and consideration?

There are now games like Pac-man, Space Invaders, Asteroids, and Game of War that are classified as games of skill and the prize can be in bitcoin, more playing time, or increased status ranking. The operators are making a lot of money by selling virtual tools to increase the potential for the players to reap the rewards. There are certainly elements to the play-styles that are the basis for regulation. These games can be addictive and entice the consumer to spend more than is prudent. Game of War, for instance, has been sued in Belgium for being so stimulating that an under-age player spent €0,000 on virtual goods to continue the game, advance his ranking, and receive other rewards that are clearly of value to the player. Just like other games-of-chance, these social-games can entice the consumer to spend more than is prudent. The real trick of it will be when someone figures out the proverbial killer app' of combining social-gaming and wagering that completely reshapes the whole industry.

A “prize” is something of value. That seems pretty straightforward. The conventional “prize” in casino gambling and lottery is money. Casinos in Europe now offer online gaming options that technically have no “prize.” It costs money to play the online games (just like it does for social games), and the players can receive vouchers that can be redeemed at the land-based casino. This would seem to be something that is addressed by current regulations, but for the Uberification strategy of clogging the court system with litigation that impedes the enforcement of existing laws.

Online currency Bitcoin enables operators to offer a value-proposition that evades taxes and regulations altogether. Granted, Bitcoin may not be overwhelming the i-gaming market-place as we speak. But the possibilities for alternative currencies to enable entire ecosystems like gambling to happen off-the-grid should be monitored.

International cooperation will be key to getting control of the regulatory situation. To some extent, these industry-shaping turns of events were all started by the country of Malta. Malta is a small island, actually three tiny islands in the Mediterranean Sea, with about 300,000 inhabitants. As soon as they joined the European Union in 2004, Maltese strategists analyzed their position and how they might reinvent their economy to maximize growth. The purpose of the EU was and is to encourage free-market competition and international trade, to create a common market that facilitates cross-border commerce. But gambling and lottery were exempted from the rules requiring free and open cross-border commerce. Even so, Malta saw an opportunity in the exportation of i-gaming products and services. They figured that being a member of the EU enabled them to use low taxes (like 1%!) to attract i-gaming operators to base their business operations in Malta. Now, i-gaming exceeds 7.5% of the Maltese GDP, which is

Continued on page 55 ...



BUILDING THE BRAND

Being a Brand Ambassador involves building relationships with customers and retailers. Persistence and passion are required but not enough. Skills in game optimization, synergistic marketing, and profit generation are required. All of these must be done responsibly on emerging technology, in secure environments, and offered to a diversified customer base.

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Control Unregulated Lottery Sales with a Single Worldwide Merchant Code—7800

By Mike Veverka,
Founder and CEO of
Jumbo Interactive Limited



A curious and strange situation now exists in the world of on-line lotteries that will interest many lottery executives. Changes to the Visa and MasterCard coding system designed to benefit US lotteries actually may disadvantage non-US lotteries and doesn't help any lottery anywhere and could have unintentional consequences. Up until very recently, all Internet lottery sales were coded as 7995—a high risk code that includes unregulated lottery sellers, online casinos and poker sites. A new 7800 code has been established for government licensed lotteries, which is a great step forward, except (and here's the catch) it only applies to the US lottery market and to US banks.

Continued on page 51 ...

Gambling		
7800	Government-Owned Lotteries	Effective with April 2015 VisaNet Release
7801	Government-Licensed On-Line Casinos (on-Line Gambling)	Effective with April 2015 VisaNet Release
7802	Government-Licensed Horse/Dog Racing	Effective with April 2015 VisaNet Release

UPDATED MCC CATEGORY

Gambling		
MCC	REQUIRED NAME IN VISANET RECORDS	EFFECTIVE VISANET RELEASE
7995	Betting, including Lottery Tickets, Casino Gambling Chips, Off-Track Betting, and Wagers at Race Tracks	
	<p>Merchants classified under this MCC operate gaming or betting establishments that may or may not be associated with hotels, restaurants, riverboats, and resorts. These merchants allow customers to use their bank cards to purchase gaming chips and lottery tickets, and to place wagers. These transactions must be classified under MCC 7995. Other transactions associated with the establishment, such as the purchase of food, lodging, passage, etc., must be classified under an appropriate, separate merchant category code for that type of business.</p> <p>US merchants that do not qualify for classification in MCC 7800—Government-Owned Lotteries, 7801—Government-Licensed On-Line Casinos (On-Line Gambling), 7802—Government-Licensed Horse/Dog Racing, must be assigned MCC 7995</p> <p>Merchants classified under MCC 7995 are considered High Risk, and special registration may be required with Visa Inc.</p>	

Move Your Mobile!

No, this doesn't mean move your mobile phone. Make a meaningful move to mobile for your lottery, NOW, or risk getting left behind!

The Internet has become the undisputed social and economic hub of the modern age. With technology evolving and usage seemingly rising daily, people have become plugged in like never before. With this paradigm shift taking place, lotteries can provide unprecedented access to their products and services across the omni-channel—and mobile technology is proving to be essential to this accessibility.

Think “Mobile First”

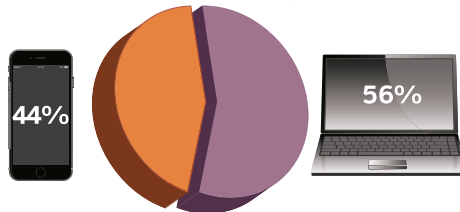
Traditionally, designers and developers have created systems and games with the desktop experience in mind first, and then retrofitted that experience for mobile. However, there's a growing trend in the industry for a “mobile first” approach. That is, to develop interactive and web-enabled products specifically for the mobile channel in order to fully leverage and optimize the mobile experience for player engagement, then work up to a larger desktop version.

For instance, the Michigan Lottery incorporated “mobile first” into its strategy when it successfully launched its online games option for players in 2014. Working with NeoPollard Interactive, the Michigan Lottery featured a 360° online games solution with a full mobile platform and nine mobile games designed specifically for mobile users from the onset. In fact, each component of NeoPollard Interactive's 360° iLottery solution is built to maximize the mobile experience. This strategy has proven its effectiveness. The mobile channel has been an essential factor in the Michigan Lottery's online games success thus far and it continues to demonstrate impressive growth.

Leveraging Mobile to Attract New Players

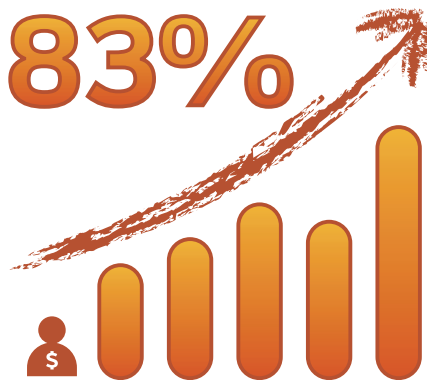
As part of the mobile strategy in Michigan, NeoPollard Interactive optimized the registration process to provide an enhanced mobile user experience to the Lottery's players. This allowed the Michigan Lottery to leverage mobile technology to attract new players to its online games. Currently, the mobile channel represents 44% of the Michigan Lottery's total online games player registrations.

**Bettors:
Mobile/Desktop Ratio**

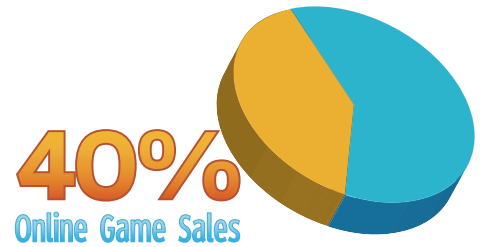


The Rise of the Mobile Player

As is the trend globally for other digital commodities, mobile usage rates for the Michigan Lottery's online games have increased each month. Through the month of February, the Michigan Lottery saw the number of active mobile players increase by 48%. According to NeoPollard Interactive, the mobile channel is being used by players at a higher frequency, and mobile engagement in Michigan continues to grow at a rate faster than web. The average number of games played by a mobile player also has increased by 7% since September compared to a 4% increase by web/desktop players.



With greater mobile engagement, the lifetime value of the mobile player also is increasing. NeoPollard Interactive and the Michigan Lottery have seen a trend of growing mobile player value from month-to-month since the launch of the online games program. All told, mobile player value in Michigan has increased by 83% since the program launch. Plus, mobile players are significant contributors to online games revenue in Michigan. More than 40% of the Lottery's online game sales currently are generated via the mobile channel and that percentage continues to grow.



To Attract Mobile Players, Speak “Mobile”

The Michigan Lottery's success in attracting and monetizing mobile players didn't happen simply by offering a mobile-optimized platform and gaming options. Lotteries must adjust their acquisition marketing strategies to reach mobile players where they are—on their mobile devices! Marketing strategies must be tailored to promote the channel on pertinent sites for mobile users, using relevant content and games, and via optimized e-blasts, SMS, and landing pages. Mobile players are different from desktop players. Therefore, CRM and retention marketing efforts must be customized for the channel of play, and it is essential that content is personalized to meet mobile players' interests.

Mobile Isn't the Future—it's the Now!

When NeoPollard Interactive first teamed up with the Michigan Lottery to provide an online games option for players, the development of the digital strategy centered on engaging new players and identifying relevant sales channels that will drive sales. After just a few months, the data proves that online games can support both of these objectives in the U.S. marketplace, especially through the use of mobile technology.

Mobile matters! Today, there are an estimated two billion-plus smartphone users worldwide, including more than 60% of American adults. In order to truly achieve the most success from an online games program—and reach new players—lotteries need to have a strategy in place at the onset that brings an engaging mobile experience to the player. And NeoPollard Interactive has the technology, knowledge, and expertise to provide mobile solutions and services that generate new, meaningful revenue sources for lotteries.



NOVOMATIC
LOTTERY SOLUTIONS

Miriam LINDHORST

Co-Chief Executive Officer,
NOVOMATIC Lottery Solutions (NLS)

PGRI Introduction: Founded in 1980, The NOVOMATIC Group has always been led by innovation. Over the last 35 years, NOVOMATIC has grown to become one of the biggest producers and operators of gaming technologies and one of the largest integrated gaming companies in the world. Based in Austria, the Group employs over 23,000 staff worldwide and has locations in 45 countries, exporting high-tech electronic gaming equipment to 80 countries, and operates more than 232,000 gaming machines in its more than 1,500 traditional and electronic casinos. NOVOMATIC enters the lottery market with extensive real-world success in the fields of Video Lottery Terminal (VLT) gaming, sports betting, lottery terminal games, online gaming, and experience as a 360 degree omni-channel solutions provider. The mission of NOVOMATIC Lottery Solutions (NLS) is to leverage these assets, resources, technological innovation, and its recent acquisition of leading online gaming technology provider Betware to benefit the community of government-gaming operators. The next five years will be witness to dramatic changes in the world of gambling and lottery. NLS is excited about the opportunity to support its government-gaming partners, driving success and increased funds for the Good Causes that government-lotteries support.

As co-chief executive officer of NOVOMATIC Lottery Solutions, Miriam Lindhorst's mission is to deliver new content, new solutions, and new standards to the world of government-lotteries.

Paul Jason, PGRI: *How can Lottery operators modernize their approach to supporting and optimizing their incredible network of land-based retailers?*

Miriam Lindhorst: Modernization is not happening in just one business area or process. It's happening across the board. All businesses are in a stage of rapid change to keep up with the changes in the marketplace. We are all modernizing every aspect of the business. And Lottery needs to think not just about modernizing to meet the needs of its retail partners. Lottery needs to look at the entire business in a holistic sense to see how the investment in modernization can be leveraged to add value in multiple ways. But retail modernization shouldn't be analyzed as something separate

and apart from the rest of the business. The over-arching strategic plan should integrate all the enterprise resources to create a seamless synergy that adds value in every single thing we do. "Modernization" is not just to optimize sales at retail, it's to optimize business performance at every level.

Of course, land-based retail will continue to be the most important channel for every single lottery in the world. Fortunately, just like Lottery, retailers know they need to modernize. Just as the consumer is being exposed to new gaming options, so too is the consumer being exposed to new ways to shop and buy products. Like Lottery, retailers know they need to move quickly to ensure that they stay relevant to consumers. Our challenges are similar in

that regard. Retailers are keenly aware of the challenges they face and are more open than ever before to developments that will help them compete and build solutions that form the basis for sustainable growth into the future. This is really the perfect time to assume a leadership role in helping our retailers accomplish their goal to modernize their business.

For instance, why should lotteries or retailers be forced to spend \$1,000 or \$2,000 and give up precious checkout-counter space for a terminal dedicated to processing only lottery transactions? Why not integrate this functionality into either existing devices at the retailers or simply new, lower-cost and smaller footprint devices. The technology is there to do that.

You are just now launching such a platform in Nigeria, correct?

M. Lindhorst: Yes. Our Nigerian customer is not using a traditional type of dedicated lottery terminal. Instead, the retailer is using an Android-based mobile platform to process transactions. This solution enables the retailers to process transactions other than just lottery. This not only delivers cost-savings to the retailer and the lottery, it's also a much more efficient way to do business. Accounting and inventory management programs for all products are performed on a single platform. The platform includes a single in-store transaction processing device that typically routes the appropriate data into the central servers of the retail enterprise, the suppliers, and the lottery operator. This is not something that will happen over-night. But it would seem to be the direction that lottery operators should be preparing for. Nigeria is launching with over 1,000 terminals.

There is zero tolerance for error when it comes to the processing of lottery transactions. Are there concerns about security and reliability?

M. Lindhorst: I'm sure there was a reason for those concerns in the very recent past. But it's just not the case anymore. Security is mission-critical. But you no longer need a dedicated terminal to provide that security. VPN technologies allow totally secure transaction processing. Look at the financial services industry. It's not just consumer banking business that is conducted via the internet. Businesses are conducting increasingly complex financial management tasks involving huge amounts of money, all online. Clearly the technology is there to enable Lottery and retailers to move beyond the whole dedicated terminal business model. It's archaic and must be modernized.

Why can't retailers in the mature economies of Europe and elsewhere just process lottery transactions on the existing transaction-processing platforms that are used for all other products?

M. Lindhorst: They definitely could and

most definitely should. You don't need to use tablet computers. Not all existing devices are capable of handling lottery. But the transaction-processing devices used in retail stores are quickly acquiring the functionality and sophistication to handle lottery.

I would think the retailers would insist on it. Why does a retailer want to have a different terminal dedicated to just lottery?

M. Lindhorst: That's exactly our point and we think it's exactly the kind of modernization that needs to take place. It requires software solutions on the part of the lotteries and their commercial partners. So there are costs, but the benefits far exceed these costs and so this kind of integration would seem to be inevitable.

How will lottery be taking advantage of the trend towards self-service?

M. Lindhorst: I think the trend towards self-service is very interesting because it varies so much from country to country. It is a big trend in Europe and the U.S. Lottery products are being sold through vending machines in both Europe and the U.S., and in other parts of the world as well. A big part of this equation for government-gaming operators is to develop new POS's like self-serve in a way that preserves their reputation for Responsible Gaming. Lotteries set the world standard for Responsible Gaming and so they need to ensure that the methods of promotion and distribution reinforce that distinction and that nothing be done to impair it.

The NLS solution involves integrating Online, Mobile, and Retail. A self-serve vending machine is not always easy to control for age limitation and has no provision for self-exclusion or many other Responsible Gaming tools that are standard with online gaming. Player registration and player management tools enable an interactive dialogue that can only be done with an online connection. Tickets and promotions and personal identities are all contained in QR codes that enable the lottery players to avail themselves of all the tools that create a responsible, healthy,

and fun play-style. Also, the demographic that is most readily embracing self-serve at retail is the same one that is most likely to adopt online gaming tools that make use of QR codes and other such tools. Modernizing lottery to integrate Mobile with land-based retail is one of the cornerstones of Lottery modernization. And going back to the idea we discussed in the beginning of this conversation, it is an example of how modernization involves much more than in-store merchandising or other methods of retail modernization. It involves a big-picture assessment of how the modern consumer will be doing business in the future. And how they expect merchants and operators to do business in the future. And that will include Mobile.

And you are pointing out how the online connection to the consumer involves player registration and an interactive relationship that is far more supportive of a Responsible Gaming agenda than self-serve vending or the anonymous retail consumer connection.

M. Lindhorst: I would also point out that it also dramatically increases the effective number of POS's. Think of the Mobile as a medium for communication through which we have a much more direct and interactive relationship with the players. Then combine that with transaction-enabled functionality. Then combine that with Lottery's proprietary and massive network of land-based retailers. When deployed as both a channel for distribution and a medium for communication, and integrated into Lottery's land-based retail strategies, the power of Mobile to transform the business begins to take shape.

The number and variety of gaming options is increasing exponentially. How might Lottery evolve its game development strategies to preserve its position in the marketplace?

M. Lindhorst: I don't think there is one simple answer to that question. Lottery needs to clearly identify its product positioning. What are the buying motives and

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Camelot | GLOBAL

Richard BATESON

Senior Vice President Sales & Marketing,
Camelot Global

Paul Jason, PGRI: *You stated that it does not matter which game(s) one starts with as long as you get the consumer experience right. So, how do we 'get the consumer experience right?'*

Richard Bateson: The consumer, or user, experience (often referred to as UX) needs to be as intuitive and seamless as possible. It needs to allow for ease of registration, ease of purchase and optimized cross selling of games—and above all ease of comprehension. Importantly, this should be optimised across devices—for most sites this means responsive design so consumers are getting the best possible version of the website rendered regardless of the device they are using to access.

To hone-in, or refine, your user experience you must test and learn what works best for your players. Techniques such as A/B testing and multi-variant testing are often used by ecommerce companies to refine user experience. Testing direct marketing messaging, click-throughs, conversion of traffic, game/promotional placements and/or activities to increase dwell time (amongst other things) should be tested and refined.

To provide the best possible user experience the operator must have an agile and dynamic platform from which they can make quick changes to their UX and be able to remain relevant with messaging and be able to change.

I am surprised at the notion that it does not much matter whether one starts with ... Draw-Based-Games or Instant.

R. Bateson: My view is simple. You should have both game categories on iLottery as quickly as possible. If you have to choose one, then it doesn't matter – just get it launched and start refining the user experience and your offer to your players.

Camelot believes that lotteries should soft launch their iLottery offering to market. This has two benefits. Firstly, it allows for the test & learn process to start so the user experience can be refined (and often corrected) with little impact on the core player base. Secondly, it allows for better use of marketing spend once acquisition, retention, and upsell techniques are working effectively for the lottery. A soft launch can be between 3-6 months. During this time, an impact assessment of the channel on the wider lottery business can be understood and marketing can be targeted to ensure minimal impact/canalisation to the business.

On the PGRI panel there was a consensus that lotteries shouldn't be too hung-up on which game to launch—just get the channel launched and then look at balancing the player offer/game offer. Different lotteries will have different restrictions placed upon them by their states. These restrictions will be due to pressures or influences within market. My view is that you

wouldn't hold-off launching your iLottery channel if you believed that Instant would be the best product to start with, even if Instant were prohibited. My view is that you would launch with DBG and then look to pilot Instant (as soon as possible) to try and allay the fears of the pressure groups or influencers in states.

I would think that it would be important to offer a broad portfolio of games. Once you get the customer in the "store," you want to give them options and not let them leave without buying something, right?

R. Bateson: Player comprehension and channel comprehension is critical. Less is often more, and allowing players to shop what they have come to your site for, needs to be balanced with upselling other games and making your offer relevant and compelling.

There are a few answers to your question, and it all comes from targeting your players with the right messages and segmenting your players to know what to target to them.

When there is a big jackpot, players will come to your site to play for that big jackpot. Often these players will be new or infrequent visitors to your site. As such, you need to make the experience easy to understand/easy to buy.

Your higher value, higher frequency players will want more from your site. They may

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iLottery—our burning platform ...

By Richard

Bateson,
Senior Vice
President
Sales &
Marketing,
Camelot
Global

The lottery industry in the United States is facing a difficult time—sales from traditional lottery products are stagnating, player numbers are falling and net income is beginning to suffer as a result. To illustrate this, calendar year 2014 saw overall sales growth of just 0.6% over 2013, and in 30 of 45 states sales actually went backwards. For Governors and Lottery Directors across the nation this should be a wake-up call; as things stand, budget deficits which are already substantial, and the funding programs they support, will not be rescued by lottery performance unless things change.

Part of the problem comes from a lack of innovation and no 'new news' for players. There has been no meaningful innovation in game propositions or channel development that has significantly benefited net revenue returns. This coupled with the fact that lotteries have failed to attract younger players—those aged 18-24, has meant that not only is the lottery category nationwide failing to excite players, it is also seeing the demographic most attracted to playing ageing.

Changing consumer behavior:

Lotteries should also think hard about these issues in the light of changing retail trends—from a consumer perspective the internet is changing the way people shop, in particular due to the rise in smartphone ownership. Pew research from December 2014 showed 64% of US adults own a smartphone, up from 45% two years ago. Unsurprisingly the younger demographic have adopted this new technology more quickly—85% of 18-29 year olds now own a smartphone and these devices are a key entry point for online access.

From a retailer perspective, while some have failed to take advantage of the range of opportunities presented by smartphones, others have seized upon the benefits they can bring to their business, particularly if the proposition is great for the consumer. Starbucks is a terrific example of this, having 13 million mobile users in the US, and 16% of its in-store transactions taking place on a mobile device. By offering this service Starbucks can learn more about its customers, and in turn offer its customers tailored rewards for loyalty.

The myths of iLottery:

For the Lottery business, the advent of the smart-

phone presents a fantastic opportunity to reconnect with players, particularly the younger audience, innovate and grow sales. Progress to date though has been slow, and there are a number of widely held myths that are worth dispelling:

Online sales come at the cost of retail:

The evidence suggests that the opposite is actually the case. A good illustration of this is the UK National Lottery, where online sales account for 18% of total sales. In FY15, while the UK saw strong online sales growth, up 14%, retail sales also grew, with sales up 7%. Early indications suggest a similar experience in the US. In Michigan for example, where online sales were introduced late last year, sales in Q1 are up 7.4% over last year, with no indication that retailers are losing out.

Online sales present a risk to the vulnerable:

Again, this is not the case. One of the advantages of an online offer is that lotteries can put in place dollar limits and other controls to protect players from spending more than they can afford; this is not something that can be done for a retail player. With the appropriate age-verification and account controls lotteries can also ensure that only those old enough to play can do so.

Online sales might not be in-state:

Geolocation software is already extremely accurate and can ensure that only players who are in-state can play. At a recent PA congressional hearing, software company GeoComply showed how its software could determine between two players at opposite ends of a coffee shop. For lottery, concerns over native gaming reserves, or out of state play are not legitimate.

In summary:

To sum-up, Mobile presents a fantastic opportunity for lotteries at a time when they are in desperate need of help—they need to innovate and attract younger players. Almost all of the consumers they find hard to reach own a smartphone, as do most of their current players, and as Starbucks has shown; consumers love the convenience and benefits of a smartphone.

So for lotteries, rather than deliberating over whether to adopt a mobile solution, they should be thinking, why have we not done this already? ■

New content in an instant

There is a huge appetite within the lottery industry to obtain a better understanding of the digital consumer and what they mean to the lottery business. Consumers of lottery are of course consumers of many other 'products' and the evolution of e-commerce, casual and social gaming, online entertainment and social media are key indicators of how people are



consuming content online. Trends that have prevailed in the online world are informing us greatly on the behaviour of the online lottery customer, and we are taking these preferences on board as we continue to roll out our products to customers.

One of the most interesting and unique aspects of digital lottery is the way it combines the worlds of e-commerce and entertainment. We make lottery products that are expected to offer consumers the chance to win money but also to entertain them in the process. One factor that clearly unites both of these insights is the demand for 'new'.

The appetite for 'new' in the online world is universal because digital consumers consume content at a much faster rate than in the offline world, and this has only been accelerated by the growth of mobile, which has seen consumers consume online content at a faster rate than ever before. This almost insatiable thirst for new and frequently updated content throws down a significant challenge to the lottery industry that has so far proven difficult to overcome.

Content + Data = Insight

This understanding of the digital consumer landscape has greatly informed our strategy for taking games online. Our mantra over the last few years - and

our customers will verify this - has been that any lottery launching an instants platform needs access to a large amount of diverse content, and they will need to update and refresh it frequently. In every territory we have launched, the player

the data. Instead, it must be harnessed, shared and discussed, and your strategy needs to be adapted to address the insights you obtain from your analysis. Never before have lotteries been in a position where they can understand and react to

"...content creators should not constantly place a burden on our platform partners by pushing them for a greater bandwidth of support in delivering the required volume and innovation."

data has unanimously backed this up. To engage, retain and, more importantly, grow a player base, you need to meet its appetite for new games, new mechanics, new themes and innovative content.

Equally important is the ability to react quickly to player behaviour, and this is where the capture of player data and the ability to analyse it is absolutely crucial. Your player base will change and grow over time, and they are the people who will best inform you about what is working by either buying or not buying your products. It is incredibly important not to overlook

their consumers, and this will be a huge factor in the success of any lottery online.

Mobile: An unprecedented distribution opportunity and challenge

Facilitating the growth of a huge market like this presents a host of logistical problems. The creation and distribution of the amount of content required to meet the needs of the market has pushed game developers and platforms to the limit of their abilities. Additionally, we have been waiting for years for mobile to mature and settle in order for it to take its place



The new IWG games platform will launch with innovations like Progressive Play™. Players are rewarded for repeat play by enabling them to unlock in-game content which is then saved between sessions. As players progress they enhance the level of entertainment in a game whilst the odds of winning money remain constant.

at the table. Now that it has arrived, it is proving to be a needy guest with a huge appetite. In every territory in which we have delivered mobile content, we have had to support and test on numerous devices, all of which is adding precious time and effort to the distribution chain. As it stands, the amount of time needed to get new content to market is far greater than the market is prepared to wait. In most cases there is little or no flexibility to allow lotteries to quickly change or update their game offering to react to the all-important player data. Instead of a reactive, streamlined process there are bottlenecks and delays, and the consumers, not to mention sales, are suffering as a result.

As a game developer, we have had to push very hard to try and ensure that we can meet our strategic ambitions for our customers by giving them the content they need as quickly as possible. In trying to find a better way of achieving this, we decided that we have to take on more of the responsibility of distribution ourselves. There is no point observing the supply chain and complaining about its frailties if you aren't prepared to step in and help solve the problem.

Our solution: A truly cross platform content platform

IWG's response to this has been to build our own content delivery platform for mobile and desktop and take on a significant amount of the responsibility for getting a high-quality product to the end customer. Our belief is that content creators should not constantly place a burden on our platform partners by pushing them for a greater bandwidth of support in delivering the required volume and innovation. At IWG we fundamentally believe that we have to

we are working with, and believe that, as in any relationship, both sides have to put in the effort to achieve the best results.

Our content platform allows us to offer as much content as the market demands,

The opportunity to work more closely with our platform partners and lotteries in getting content to players quickly and efficiently is one we all need to embrace. If we can release platforms from the burden of building and distributing our content, it



In Money Monkey Mayhem, repeat play unlocks more mini games. Each time the player returns to the game any previously unlocked mini games are available to the player. Rewarding players' loyalty and appealing to their desire to unlock and collect.

and by opening up our portfolio of over 100 games on mobile and desktop through an RGS we are able to empower lotteries by giving them a much wider choice. We also have access to data that allows us to better understand what motivates our players - not just in terms of sales but also very important data on how players

will allow them to focus on vital innovation at a platform level, optimising the player experience in a variety of other ways. Everyone benefits. We don't need to look too far to see this example working well in other markets, of course. Game developers in the commercial gaming market have long been supplying their content to exactly the same platforms remotely via their own platforms, and this kind of relationship is working very well indeed.

"By opening up our portfolio of over 100 games on mobile and desktop through an RGS we are able to empower the lotteries by giving them a much wider choice."

be responsible for this and find a solution that works for all of us. Clearly we are all striving towards the same goal of growing a healthy player base and healthy sales, and by taking some responsibility for the delivery of content, we are helping take up some of the slack. In our relationships with platforms, partnership is key. We want to be able to do our fair share, whomever

are interacting with games. Crucially, we can now innovate on our own platform without our platform partners having to do the hard work on our behalf. We design and build all of our own game mechanics, more of which will now see the light of day because we would be able to rapidly market A/B test any of these for any lottery that chooses to deploy them.

IWG will be rolling out a new content platform this summer with key clients in Europe and N. America, and in doing so we hope to lift the burden of development from our platform partners. More importantly, it gives lottery clients immediate access to our entire back catalogue of games and a fast, constantly updated pipeline of new game mechanics and innovations. www.instantwingaming.com


intralot

Nikos NIKOLAKOPOULOS

INTRALOT Group COO

Leveraging Lottery's Network of Land-Based Retail, and the Consumer Adoption of Mobile, for Competitive Advantage

PGRI Introduction: A most telling sign of the enduring relevance of retail: Amazon's opening of land-based retail stores in 2015. Even Amazon, by far the most successful online merchant in the world, recognizes the value of land-based retail. A picture is emerging for how the landscape of B2C commerce will evolve; and it most definitely includes land-based retail. The successful merchants, and operators of games-of-chance, will all have multiple channels of distribution and communication with the consumer. Digital technologies, social networks, and application of CRM (Customer Relationship Management) tools will permeate the business of gaming, and consumer products marketing, and promise to breathe new life into the retail sector.

Nikos Nikolakopoulos discusses how these trends will impact the gaming and lottery industry, and why they represent a big opportunity for government-gaming operators.

Paul Jason, PGRI: *Mobile and Internet connectivity is coming into the retail store. Near-Field Communication (NFC), WiFi, transaction-enabling Mobile technologies would seem to represent a huge opportunity for operators of lottery and games-of-chance. Is this a window that might close before we have the chance to take full advantage?*

Nikos Nikolakopoulos: When it comes to integrating digital technologies into the retail stores, we need to appreciate that all the other marketers of consumer products are thinking the same way—how to turn these trend-lines to their advantage. The retail industry is keenly focused on the goal of integrating the Internet and Mobile technology into the in-store shopping experience and it is already evident that every ef-

fort to modernize Lottery retail stores is not complete without the utilization of online and mobile technologies. We are supporting our customers in such efforts worldwide and can see that these efforts are paying off quickly, wherever they are applied.

Specifically, the opportunity that Mobile represents for gaming operators is huge—not only as platform but more importantly as the means for effective player engagement. It is therefore imperative that operators focus on effective CRM (Customer Relationship Management) capabilities and loyalty programs. The “mobile” player is much more willing to try new things, to migrate from channel to channel, from website to website, and from operator to operator. There will be intense competition

to acquire and retain player loyalty.

Retailers and Lottery alike will need to differentiate themselves by service, by Customer Relationship Management, and by overall consumer experience because everything else is a commodity. CRM enables personalized service and that is the key to delivering the consumer experience that is most valued and appreciated by the players.

What's to become of the desk-top computer for future generations?

N. Nikolakopoulos: Most of us still use desk-tops for work in our offices. But exactly what capabilities does desk-top computing have that Mobile doesn't have? Young people clearly think the answer is – not much at all. They rely on their Mobile for

practically everything. Notice the increase in size of the newest generation of Mobile phones to make it even more convenient for applications that require larger screens and easier-to-use keyboards. The thing about Mobile is that it becomes an extension of ourselves in ways that desk-top computing never could, allowing for continuous communication and interconnection anytime, anyplace. The Mobile device is always in our hand or our pocket or handbag, effectively binding us to its power to instantly connect us to each other, and to the apps that we use to accomplish anything we want in the digital universe. INTRALOT has long invested in enabling our Lottery customers to leverage the power of the Mobile channels and it is an integral part of our strategy.

The adoption of the Mobile as the communications hub is being embraced even faster in emerging markets than in the mature markets which have existing land-line infrastructure and high existing population of desk-tops. Won't it be easier for emerging consumer markets to leap-frog these legacy technologies and jump right into the future of Mobile computing and gaming.

N. Nikolakopoulos: Emerging economies lack the telecommunications and technological infrastructure that already exists in Europe, the U.S., and the more mature economies of the world. However this is irrelevant when disruptive technologies render traditional infrastructure obsolete. Just think of the massive land-based wiring system to connect telephones all over the entire landscape of the more developed countries—that now most of us do not even use as we increasingly rely on the one (or more) mobile phones we have.

A few years ago, the lack of development of telecommunications infrastructure in developing countries was a formidable obstacle to growth. Now it does not matter so much. In fact, the lack of land-based infrastructure is being turned to advantage because it frees developing countries to move even faster into the next generation technologies based on digital and cellular. And they are

doing just that. The general population in many developing countries are adopting new telecommunication technology at a faster rate than those in the developed countries. That's an extraordinary thought. In many emerging markets, the number of cell phones exceeds the population itself—over 100% penetration of cell-phones! Mobile is completely replacing the need for land-based connectivity; at least as it applies to telephony, commerce, dissemination of news and information, social networking, and online games.

Interesting that emerging market consumers are moving so quickly into next generation technologies and yet they value the legacy games based on the unique cultural history of the people.

N. Nikolakopoulos: Some of the most successful games have been running for decades, even forty or fifty years. Quinela in Argentina, for example, and Cash pot in Jamaica. There is a clear correlation between what they see, their inner thoughts, their dreams, and how they play. An incident like a dog crossing a street co-mingles with the number of a birthday or anniversary, or maybe a number on a store-front sign, to influence the numbers they select in lotto or the kind of wager that is placed in the other games. The whole gaming culture in Latin America, Asia, and many emerging markets has an underlying experience that is rich with cultural and emotional connections.

In the mature markets, we are struggling to reshape the lottery playing experience to deliver that richer emotional connection. The games need to be simple, but also engaging at the same time. Complexity does not seem to appeal to lottery players.

N. Nikolakopoulos: Making the game complicated is certainly not a goal - but if you are implying that games must be simple in order to sell, then I don't agree with that. I would frame the issue differently.

The more time and mental energy required to play a game, the higher the level of interactivity and engagement that must be delivered. For instance, the player experience can be a

purchase of a \$2 ticket for the chance to win a jackpot. Simple, easy to understand, little time involved in making the purchase. But casino games like poker and blackjack require the player to invest much more time and energy as well as to learn how to play games that are much more complicated than the act of buying a lottery ticket. Another example is sports-betting, which is the fastest growing game category. Sports-betting can be quite complicated. Consumers enjoy it, though, because it taps into their knowledge about and enjoyment of spectator sports. And they enjoy poker and other time-engaging and more complicated games because they deliver a more engaging player experience.

I am not saying that complicated is good, or that one play-style is better than another, only that we need to think of everything in a holistic manner to understand whether increased complexity is truly adding value to the player experience. Because if it isn't, then complexity can definitely be a barrier to player engagement.

What are some of the trend-lines in gaming styles of the mature markets?

N. Nikolakopoulos: Younger players have grown up with online games that are fun and engaging—which is why the simple jackpot games are struggling to stay relevant and appealing to younger players. Games should always be easy to understand and play. But they need to deliver a more exciting player experience. That could mean just finding ways to integrate social media into the gaming experience. Or multi-player options. These new gaming overlays can be implemented via the Mobile.

Connecting personally, even emotionally, with the consumer is the next stage of development for the gaming operator. We need to personalize the B2C interaction with individualized communication that speaks directly to the player's preferences. This is a key area of focus for Intralot—converging personalization via CRM, interaction of content and key channels into delivering a compelling value proposition for the player profile of today and tomorrow.

That is already being done in the most advanced markets in Europe and other parts of the world.

N. Nikolakopoulos: Everything starts with mature markets. But this too is an opportunity for the emerging markets to leapfrog and go directly to a more interactive gaming environment. The successful emerging market operators are already moving in that direction as we see that it is not at all uncommon for consumers in emerging markets to have two Mobile devices; one cell-phone and also a smart-phone with more robust capabilities for games and other apps. The Mobile connection that operators can create with consumers anywhere, anytime, represents the biggest opportunity to customize their offer and communicates to the individual players. This kind of personalization will be the next frontier for operators to differentiate themselves.

But isn't there a large percentage of emerging-market consumers who don't even have credit cards?

N. Nikolakopoulos: Many don't even have bank accounts, but that does not mean that there are no alternatives already. Pre-paid cards and dedicated payment systems are two options. And more solutions are being developed. Even this fact can be turned to advantage for government-gaming operators. The aspect in which these solutions depend on the retailer to be a point of sale for payment services gives the legal operator a big advantage over remote unlicensed operators. Especially in emerging markets, consumers place a high value on trust and integrity. That too confers a big advantage to the licensed operator with the known and trusted brand.

There is often a personal relationship between the consumer and the retailer, isn't there?

N. Nikolakopoulos: Absolutely. Many consumers, especially those without credit cards or bank accounts, rely on their personal retailer relationships. These consumers also depend on the retailers for guidance when it comes to the lottery games they play, how they play the games, and how they pay for goods and services. The Lottery can

be an agent for change, for helping the retailers to evolve their business for consumer markets that will be coming out of poverty and into middle class. Lotteries can help the retailer integrate digital, WiFi, and internet enabled transaction processing into the store environment. Lotteries could be, and should be, the leaders in helping the retailers migrate to the omni-channel model.

This is exciting stuff. Insofar as Lottery can be the agents of change, they can shape the dialogue about the omni-channel model; change it from an adversarial relationship with retailers into one that is mutually supportive. Lotteries could be the ones to help retailers evolve and grow their entire business.

N. Nikolakopoulos: I agree. We know from our worldwide engagements that the Internet does not cannibalize the land-based retail sales. It is imperative though that Operators, retailers, and commercial partners like INTRALOT need to all work together to ensure that implementation of the omni-channel model results in expansion of the market so that all achieve benefit from incremental growth.

Retailers will also benefit by integrating new media channels and technologies into their business model. The need for them to do that is not driven by just lotteries. Retailers need to evolve their business model to meet the needs of the consumers who have interactive relationships with all their merchant affiliations.

For example, the coffee sold at Starbucks is inherently an off-line consumer experience. But they sell Starbucks payment cards that require registration and deliver value-added benefits and promotions via the internet. Retailers should be thinking about how to stay competitive in the modern market-place not just so they can sell more lottery products, but so they can be more successful in all product sectors. Lottery can be the change-agent that will help the retailer be more successful in every product sector. The performance of that role will hopefully promote the kind of collaborative relationship that will result

in and increased focus on lottery, and more lottery sales.

Norway has had compulsory registration for ten years. Svenska Spel is now instituting compulsory registrations. Is compulsory registration likely to be adopted by more lotteries? And is it a good thing?

N. Nikolakopoulos: Keep in mind that registration is already compulsory everywhere for consumers to buy lottery products or play lottery games online. Registration is always a pre-condition for buying products online. That is true for all lotteries everywhere. As regards to even stricter requirements than already exist, like compulsory registration to play the games off-line, or buy lottery products in land-based retail stores, I would suggest that it depends on the games. Player registration enables the operator to communicate with the player. That channel for communication enables more effective implementation of Responsible Gaming tools. Focus on Responsible Gaming is most important for slots, electronic games, and fast-play games that have a higher potential for abuse than do traditional lottery games. Of course, the Interactive relationship that all lotteries aspire to create does not happen without player registration. Preferable to making it compulsory, though, is to make it appealing to the players so that they enter into the interactive relationship because they want to, not because they are forced to. Then player registration becomes a tool not just for Responsible Gaming, but as a channel for ongoing communication that is the basis for growing the market in a sustainable and healthy manner.

As the new COO of INTRALOT, what are the main goals of your strategy in global operations?

Our strategy in global operations focuses on four main pillars; we are streamlining operations to focus on the player, we are strengthening our subsidiaries' management, we are expanding our offer in existing jurisdictions, and we are seeking opportunities for selective growth and greenfield development. ■

Are you connecting with your retail customers?

It's an exciting time in the lottery business, with new technologies and platforms enhancing the relationship between lottery and customer. However, the more things change, the more important it is to ensure a strong relationship with customers through retail – the lifeblood of any lottery.

As an industry, lotteries have done an excellent job of developing new products and marketing strategies to drive sales, particularly in the area of instant tickets. However, the retail marketplace is an increasingly competitive arena where customers are exposed to multiple, pervasive marketing messages even before they leave their cars and approach the store.

Why is there such a store-based push? Consumer Packaged Goods (CPG) companies know that there is precious little time to command the attention of retail customers in store and drive their purchasing decisions.



More than three quarters of retail purchasing decisions are made in or in close proximity to a retail outlet. Most retail customers will spend between three and four minutes perusing products, and just 21 seconds actually making a purchase. During that brief cycle, however, those customers can be exposed to dozens of marketing messages from a wide array of CPGs.

The big CPG players know that they must “prime” the purchase of their products, particularly in convenience stores that are, thanks to the broad array of products offered in a small location, noisy marketing environments.

As a result, lotteries must have a robust, diverse retail strategy that can be heard and seen through the other in-store CPG noise. This means ensuring consistent, strategic messaging so that retail customers are engaging with lottery products at multiple points throughout a store, and not just at the point of purchase, which has been the traditional lottery approach.

At Pollard Banknote, we believe in developing consistent “standards of excellence” in retail marketing that create multiple engagement points. We call this ‘the marketing trifecta’ – outside signage, store-entry signage and point-of-purchase messaging and display.

A comprehensive marketing plan will also include a winner awareness strategy at the retail level. This approach captures the power of word-of-mouth advertising by highlighting winning tickets at the point of purchase. This aspirational messaging, combined with traditional displays and promotions, reinforces and primes purchasing decisions by showing actual winners.

This approach can be further enhanced with the use of digital signage, promoting the fact a winning ticket was purchased at a specific location. This type of messaging can be customized to a specific retail location, further increasing the chances that it will stimulate a specific purchasing decision. Previously, this kind of messaging has been very difficult to launch. However, new technologies in digital displays will allow location specific messaging to become a mainstay of retail lottery marketing.

A winning retail marketing strategy is not, however, just about signage. It's about working with the retailers to manage stock and ensure appropriate merchandizing. Being out of stock on key products hurts the bottom line of the lottery and the retailer. A shared interest in avoiding these problems can be a win-win for both.

Still, there is some skepticism that improvements to retail marketing and display can, in and of itself, produce better sales. To prove its point, Pollard Banknote worked closely with a number of our lottery clients to test the power and reach of the Trifecta approach.

This involved changing current retail strategies as they relate to signage, display and stock management. Pollard Banknote focused specifically on what, if any, impact there was on instant ticket sales once the Trifecta strategies were put in place.

The changes included:

- Outfitting retail outlets with on-counter dispensers that were much more visible than previous displays;

- Changing point-of-sale materials to be consistent with other messaging vehicles;
- The addition of menu boards and consistent execution of planograms that allowed for maximization of the number of facings.
- Retailer training to ensure compliance with signage, POS materials and other displays and messaging.
- Ongoing monitoring of compliance to ensure the retailers are not becoming lax in implementing the new marketing and display strategies.

The impact of these simple but powerful changes were significant. Modifying signage, improving display positioning and meticulous management of stock resulted in a 10-30 per cent increase in sales.

The best news for lotteries is that a thoughtful and enhanced retail strategy like this does not always require new resources; smart allocation of existing resources and a renewed focus on points of contact and messaging can produce much better results without increased cost.

As our lottery example has demonstrated, there was a time in this industry when just keeping dispensers full of tickets qualified as robust marketing. Times have changed, and the lottery industry has matured to the point where it realizes that convenience store customers have only a few seconds to make their most important purchasing decisions. It is in those few seconds that lotteries must make themselves top of mind for customers.



That connection with customers, the key relationship in any retail marketplace, is now well within reach for lotteries. All they have to do is get out into the stores, and into the marketing game.

market drivers that are unique to Lottery? How can Lottery differentiate itself in the market-place? One thing is for sure: Lottery should not try to compete in the market of high prize-payouts and low margins. Lottery games should embrace the qualities that are unique to them and that appeal to the players. Lottery games are benign, low-cost games that offer the possibility to hope and dream and even the possibility to win a life-changing prize. You know, lotto is the most successful game-of-chance in history. It still has massive appeal and that isn't likely to change anytime soon. Let's focus in on what appeals to the lottery player and let that guide game development. And look at how we can over-layer new elements to the player experience that do not involve changing the fundamental game concept.

Making Lottery available on Mobile, developing a strategic approach towards integrating Mobile into the consumers' lottery-playing experience, and creating an engaging and easy-to-use Mobile player experience—these are the keys to retaining and increasing player-ship. Also, the Mobile platform opens up a whole new world of new and exciting lottery games. Even staying strictly within the parameters of random number generators, Mobile enables entirely new play styles and experiences. Multi-player gaming, games that promote social interaction, longer-play games that are fun to play, tournament formats, VIP and ranking systems and other tools to appeal to the modern consumers' desire for status and competition are all do-able with Mobile lottery games.

And Lotteries are now enabling the player to earmark a portion of the funds to their favorite charity. That creates awareness and engages the player in the primary mission of Lottery. And that's important. Social consciousness, the desire to do something good for society, the desire to affiliate with organizations that share our values and beliefs—these are increasingly important priorities for the modern consumer.

Should we be concerned that online gaming might reach a tipping point where it's not only going to grow faster than retail, it's going to cannibalize retail?

M. Lindhorst: People have been wondering about that ever since lotteries began to sell online. The fact is that it just has not happened that way. Look at the UK, Canada, Australia, and the Scandinavian lotteries which have been selling online for many years. Their retail sectors continue to grow right alongside of their online sales. Retailers do need to modernize themselves and integrate Mobile, WiFi, and QR codes into their business model and the consumer shopping experience. But retailers need to do that for themselves to stay relevant in all product categories, not just Lottery. The opportunity for Lottery is to be the ones to help them modernize. By being proactive and being the catalyst for retail modernization, Lottery will secure the inside track for selling its own products at retail.

How will the retailer benefit by bringing WiFi into the store?

M. Lindhorst: There are several ways I can think of. WiFi can extend your shop size and shop window with digital messaging that is dynamic and much more communicative than standard signs announcing the jackpot size. Another is that it enables self-serve and that would alleviate long jackpot lines that interfere with efficient everyday traffic flow. And Player Cards can be integrated with vouchers and coupons that promote other consumer products, or other lottery games.

Lottery has not tended to be a technological leader. But it seems like the nature of the lottery product being intangible and the whole way that lottery does business should position it to be a technological leader in the modernization of the retail experience. Do you think that Lottery should be the technological leader, and that they can be?

M. Lindhorst: Lottery definitely has the need and an urgency to modernize. It's hard to say whether Lottery will do what it takes to become the technological leader. But the tools are all there for them to achieve it. The retailers need them to do it. Investing in an ambitious goal to be the technological leader would position Lottery for long-term sustainable success and that would maximize the return to Good Causes. And truly, becoming the technological leader is key to engaging the next generation of players. They expect and even demand it. I do think that the leadership of the lottery industry recognizes this. We just need political buy-in and support.

It used to be that the players did not migrate from one game category to the other. Lottery players did not typically go to casinos and casino players did not typically play lottery. Is that changing?

M. Lindhorst: Perhaps, because of the easy accessibility of all gaming venues to everyone everywhere now. But I would still say that the play-styles and motivations are quite different, that lottery and casino are very different playing experiences and appeal to different kinds of players. There may be some migration between VLTs and casino, but even then we see that the player groups are actually very distinct.

There is much talk about how to engage the twenty-somethings. Do you think this generation of twenty-somethings will "grow into" the lottery when they get into their thirties?

M. Lindhorst: Yes. The good news is that the fundamental appeal of the lottery games is very much alive and will continue as it always has. The problem is with the overall consumer experience. The games must be made available through multiple channels. Lottery needs to connect and communicate with the consumer on the media that they are tuned in to. I think the twenty-somethings will be receptive to the basic value proposition of Lottery, but we won't see

them going into small convenience stores to buy a newspaper and chat with the neighbors and buy a lottery ticket while they are in there. We need to create a robust multi-channel ap-

proach that enables Lottery to build a relationship with its customers. That is what the mission of NOVOMATIC Lottery Solutions is all about. Lottery has a very bright future

indeed. It's just a matter of using the tools that are readily available to reach out to its customers, to let them know we care by making the investment to grow and evolve with them. ■

Mike Veverka: Control Unregulated Lottery Sales ... continued from page 38

Updated Categories

By excluding the rest of the world, Visa and MasterCard have allowed unregulated sellers to simply open up shop in one of many jurisdictions outside the USA. These sellers offer tickets in the US Powerball, Megamillions, Euromillions, the Eurojackpot and local games to unsuspecting customers who are unaware that these tickets are not bought from legitimate sources or in many cases, not bought at all.

For the 7800 code to be truly effective, it must be applied worldwide. All regulated lotteries worldwide must be coded the same in order to place pressure on unregulated operator sites to change their trading habits. The Internet after all spans the globe and so should the financial systems that underpin it.

The Internet Lottery Black Market

As most lottery executives are aware, a battle has been raging between regulated and unregulated sales of popular lotteries on the Internet. Regulated sellers buy tickets from the proper sources, that is the federal or state government, ensuring the correct taxes are paid, while unregulated sellers often do not even buy the tickets they sell. Not only does this rob states of taxes and funding for worthwhile causes, customers are at great risk of not receiving their winnings. While this practice is worldwide, affecting the USA, Asia and Africa, it is mostly concentrated in Europe which has a complex legal framework that allows unregulated sellers a safe haven in

several "gambling friendly" jurisdictions.

The most effective method for controlling this activity is via financial methods—stop the flow of money into the unregulated websites and problem is solved. Every online merchant must have a merchant code to be able to accept Visa and MasterCard, however up until now there has been just one merchant code (7995) that covers all internet gaming. This is a rather crude category that combines regulated and unregulated lotteries with Internet casinos and poker sites that are considered high risk. The result of this crude coding is that unregulated sellers thrive and many legitimate customers are unable to purchase tickets even from regulated websites because some banks choose to decline all transactions coded 7995. When the good gets mixed with the bad the outcome is hardly optimal.

Recent Update of the Merchant Coding System

A recent update of the merchant coding system has seen the introduction of the 7800 code for government owned and licensed lotteries—perfect for the regulated lottery industry. However here is the catch—this code is only available for the US market and US banks. This is more than a little strange because the volume of Internet lottery sales in the US market is tiny compared to Europe where the real problem is. Don't get me wrong—I'm happy with the progress but unregulated Internet lottery sales are a global problem and the 7800 code must be applied worldwide. An

unregulated Internet lottery seller based in a jurisdiction outside the USA can still offer tickets in the US Powerball and Megamillions as well as the Eurojackpot, Euromillions and local games and draws.

The 7800 code needs to be rolled out worldwide. Authorized Internet resellers and government lotteries themselves will be able to use the 7800 code to put significant pressure on unregulated sellers and swing the pendulum back in favour of the governments. Currently that pendulum is in favour of the unregulated sellers. Unregulated sellers who do not purchase the tickets they sell have enormous profit margins that can be ploughed into marketing or other customer acquisition tools that regulated sellers just can't afford. This situation compounds the issue of depriving governments and good causes of a source of funds and potentially compromising the integrity of the lottery industry worldwide.

Regulated lotteries are a huge business for the credit card companies. If all regulated sellers put pressure on Visa and MasterCard to rollout the 7800 code worldwide, the changes are sure to happen sooner rather than later paving the way for modern internet lotteries where their integrity is beyond reproach. The benefits of internet lotteries are well documented—better customer satisfaction, younger demographics, etc, etc. But before this can happen, the 7800 code needs to be uniform worldwide without advantage to just one country. The internet after all spans the globe and so should the financial systems that underpin it. ■



By Mark Hichar, Partner and Chair of the
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WHY RAWA IS UNNECESSARY, OVERREACHING AND MISGUIDED:

☛ Real-world evidence has demonstrated the effectiveness of geolocation technologies to prevent unlawful cross-border gambling and of safeguards to prevent underage gambling.

☛ Federal Laws already exist that prohibit Internet gambling that has not been made lawful by applicable state laws.

The March issue of this magazine analyzed the “Restoration of America’s Wire Act” (the “RAWA” or “H.R.707”)¹ and described the severe adverse effects it would have on U.S. lotteries were it to be enacted. Since then, the arguments for and against the bill have become crystalized.

The main arguments put forth by proponents of the RAWA appear to be these:

- Existing technology cannot prevent play of games in jurisdictions that have not authorized them, and, as stated by Lyle Beckwith, Vice President of Government Relations for the National Association of Convenience Stores, “there is no enforcement regime to try to make states” stop such out-of-state gambling;² and
- Existing technology cannot prevent play by minors, and state law enforcement is not capable of preventing such illegal wagering.

Reports on the Technology Indicate it is Indeed Effective

In New Jersey, after more than one year of experience conducting online poker and casino games, it is clear that the geolocation technology employed in that state is effective in preventing play from outside its boundaries. In his January 2, 2015 report on internet gambling in New Jersey, David Rebutck, that State’s Director of Gaming Enforcement, reported that the geolocation measures employed in New Jersey have “approximately a 98% success rate.”³

Note that the 2% “failure rate” does not

reflect persons being allowed to play from out-of-state. Rather, it reflects persons within New Jersey who were falsely flagged as not being within the State, and thus prevented from wagering—so-called “false negatives.”⁴ Thus, although some in-state residents remain frustrated by being inadvertently prevented from accessing New Jersey online gaming sites, the technology and processes have proven effective in preventing play from out-of-state.

Indeed, in testimony on the RAWA submitted to a subcommittee of the U.S. House Committee on the Judiciary (the “Pappas Testimony”), John Pappas, Executive Director of the Poker Players Alliance, stated:

- With major populations centers from other states on two borders (Pennsylvania and New York), New Jersey DGE [i.e., Division of Gaming Enforcement] employs some of the most sophisticated technologies to ensure compliance. Using satellite-based geo-positioning technology, the DGE verifies the location of Internet gamblers across New Jersey on digital maps and computer screens. Geo-positioning is so precise that it can distinguish between gamblers who are on the very edges of New Jersey’s boundaries and those just across the border in another state.⁵

In regard to age control, online gaming operators employ a number of technological and procedural safeguards to ensure that players are not only of legal gambling age, but also are who they claim to be.

1 Wire Act Fix 2015—While Identical to 2014, It Could be a Greater Threat to State Lotteries, by Mark Hichar and Ashley Taylor, Public Gaming Research International, March, 2015.

2 States’ Rights and Internet Gambling—Commentary, Special to Roll Call, May 7, 2015, by Lyle Beckwith, Vice President of Government Relations for the National Association of Convenience Stores. See <http://blogs.rollcall.com/beltway-insiders/states-rights-and-internet-gambling-commentary/?dcz> (last accessed May 15, 2015).

3 New Jersey Internet Gaming One Year Anniversary—Achievements to Date and

Goals for the Future, January 2, 2015 Letter Report by David Rebutck, Director, Division of Gaming Enforcement, New Jersey Office of the Attorney General, Department of Law and Public Safety (the “New Jersey Gaming Report”), p. 4.

4 See: <http://realmoney.durrrchallenge.com/nj-online-gaming-outlook/> and <http://www.newjerseycasinos.com/category/casino-news/cams-new-jersey-interview-201412180001/> (each last accessed May 12, 2015).

5 Testimony of John A. Pappas on behalf of the Poker Players Alliance, March 25, 2015, submitted to the House Committee on the Judiciary, Subcommittee on Crime, Terrorism, Homeland Security & Investigations.

These verification measures include verifying the name, age and residence of players through third-party service providers who require players to provide numerous items of specific personal information and compare that information to information available online and in government data bases. If the provided information does not match such other previously recorded information for an individual, the individual's play is blocked pending resolution via additional measures. Accounts are password-protected as well.

In regard to the age control measures implemented in New Jersey, David Re-buck reported:

- The Division [of Gaming Enforcement] had to ensure that sufficient guidelines were applied for the "Know your customer" (KYC) process. This process ensures that patron identities are known and that the players are old enough to gamble in New Jersey. To date, this system has been working very well *with no evidence that underage individuals have been able to establish accounts.*⁶

Finally, Mr. Pappas testified as to the effectiveness of the age control measures employed in Delaware, Nevada and New Jersey. He stated:

- While the U.S. market is just under two years old, it is notable that in the three states that offer online poker and casino games [i.e., Delaware, Nevada and New Jersey], the states have not had a single reported incident of underage access. Even more impressive, however, is what we have learned from Europe's history

of regulation. In late 2011, the European Commission sought feedback on the effectiveness of its online age controls as part of its review of Internet gaming. A response was submitted by the Children's Charities' Coalition on Internet Safety. Their response stated:

- *"Since the online age verification laws came into force in the UK in September 2007, the children's organizations have not been made aware of a single instance where a child has beaten the system and got online to gamble. There have been instances where a child has 'borrowed' a parent's credit or debit card and has been able to pass themselves off as the parent, but that raises different issues ... However, we are not aware of any instances where a child was able to lie about their age and get away with it in an online environment, as they used to do quite easily before the law was changed. By comparison it may not be so difficult to 'PhotoShop' a fake ID to use in a real world setting."*

Thus, the age control measures employed by Delaware, Nevada and New Jersey have proven effective at preventing online gambling by underage players. Claims that the technology is ineffective to prevent such underage gambling lack evidentiary support.

Enforceable State Laws Exist to Prevent Unlawful Out-of-State Play

The argument that the RAWA is necessary because there is no enforcement regime to stop unlawful out-of-state internet gaming and/or unlawful gaming

by minors is wrong.

Laws in states that have authorized internet gambling make clear that play outside state boundaries is unlawful (except where there is an agreement between states allowing play between or among residents of those states, such as the agreement between Delaware and Nevada relating to online poker⁸).

For example, in New Jersey, underage play is a crime⁹ and a parent or guardian who allows a minor to gamble via the internet can be held criminally liable.¹⁰ Further, a licensed operator may accept a wager only after verifying that the player is physically present in the State,¹¹ unless the New Jersey regulator determines that such wagering "is not inconsistent with federal law or the law of the jurisdiction, including any foreign nation, in which any such person is located, or such wagering is conducted pursuant to a reciprocal agreement to which this State is a party that is not inconsistent with federal law."¹² New Jersey law also expressly provides that the New Jersey Division of Gaming Enforcement ("DGE") is a law enforcement agency with enforcement powers.¹³ Similar laws exist in other states that allow intrastate online gambling,¹⁴ and laws in states that do not permit internet gambling criminalize the in-state sale of gambling products not made lawful under applicable state law.

States thus have the law enforcement capability to enforce underage and unlawful out-of-state gambling. *Even if they did not, however, robust federal laws exist today which federal law enforcement agents can use to prosecute gamblers and internet gaming*

6 New Jersey Igaming Report, p. 4 (emphasis added).

7 Pappas Testimony, p. 9, citing the European Commission Green paper on on-line gambling in the internal market 22, 2011, and Expansion of gambling does not lead to more problem gamblers, University at Buffalo Research Institute on Addictions, 2014.

8 See Nevada, Delaware Signing Online Poker Partnership, by Steve Tetreault and Howard Stutz, Las Vegas Review-Journal, February 25, 2014, at <http://www.reviewjournal.com/news/nevada-delaware-signing-online-poker-partnership> (last accessed May 12, 2015).

9 N.J.S.A. 5:12-119.

10 Id.

11 N.J.S.A. 5:12-95.23.

12 N.J.S.A. 5:12-95.31.

13 N.J.S.A. 5:12-77.

14 See, for example, 29 Del. C. § 4810(a) (making it a crime for underage persons to play internet wagering games); § 4810(c) (making it a crime for an operator to allow underage persons to play internet wagering games); § 4826 (requiring verification that players are physically located within the State, except that persons out-of-state may play if the Delaware Lottery determines that such play "is not inconsistent with federal law and the law of the jurisdiction in which the person is physically present, or if such games are conducted pursuant to an interstate compact to which the State is a party that is not inconsistent with federal law.") See also, NGC Reg. 5A.110 (requiring the operator to obtain proof that an individual is at least 21 years of age before registering such individual to engage in interactive gambling in Nevada, and requiring individuals to agree not to engage in interactive gaming from an out-of-state jurisdiction where such gambling is unlawful).

operators that violate online gaming laws. The RAWA is unnecessary in light of these existing federal laws.

Robust Federal Laws Exist to Prosecute Unlawful Out-of-State and Underage Internet Gaming

Existing federal laws prohibit online gambling that occurs via fraud (e.g., misrepresenting age or location information) and/or in violation of state law. For example, the federal Wire Fraud statute makes it a federal crime to obtain money or property, including intangible property (such as a virtual lottery ticket), by means of materially false and fraudulent statements transmitted by means of a wire communication in interstate commerce.¹⁵ Accordingly, a player from outside a lawful internet gaming jurisdiction who falsely claimed to be located within the jurisdiction in which such gaming was lawful in order to purchase a lottery ticket or play a wagering game,¹⁶ and who transmitted that false representation via the internet, would be subject to prosecution and conviction under this federal statute. One would similarly violate this statute if, regardless where located, one falsely claimed to be of lawful age to purchase a lottery ticket or play a wagering game, and transmitted such false representation via the internet (and

such transmission crossed state lines). In summary, federal law would apply and subject the fraudulent player to federal criminal prosecution.

In addition, the federal Bank Fraud statute makes it a crime to knowingly execute a scheme to defraud a financial institution or obtain any money or credit from such a financial institution, by means of false or fraudulent statements or promises.¹⁷ Thus, a person would violate the Bank Fraud statute if, in order to place an online wager (including the online purchase of a lottery game), he or she falsely claimed to be of legal age to do so or falsely claimed to be in a jurisdiction in which wagering on the applicable game was lawful, and, in either case, he or she executed the transaction using a credit card issued by a financial institution.¹⁸ Again, federal law would apply and subject the fraudulent player to federal criminal prosecution.

Still further, operators who knowingly accept wagers from players located outside the boundaries of the lawful playing jurisdiction would be subject to prosecution under at least three federal laws, the Unlawful Gambling Enforcement Act of 2006 (the "UIGEA"),¹⁹ the Travel Act²⁰ and the Illegal Gambling Business Act (the "IGBA").²¹

The UIGEA prohibits gambling businesses from knowingly accepting credit, electronic funds transfers, checks and other payment means in connection with "unlawful internet gambling," and requires payment networks and financial institutions to establish policies and procedures reasonably designed to identify and block the acceptance of unlawful internet gambling transactions. Although the UIGEA carves out from its provisions state regulated intrastate gambling (where applicable state laws or regulations include age and location verification requirements reasonably designed to block access to minors and persons located out of such state),²² this exception would not operate to make lawful the acceptance of wagers from persons located in jurisdictions which prohibited making the applicable wager. Such an unlawful wager would constitute "unlawful internet gambling" under the UIGEA.²³ Accordingly, a gaming system operator that knowingly accepted credit, electronic funds or other payment means in connection with such a wager would violate the UIGEA²⁴ and be subject to federal criminal prosecution.²⁵

The Travel Act prohibits the use of "the mail or any facility in interstate or foreign commerce, with intent to distribute the

15 18 U.S.C. § 1343, the federal Wire Fraud statute, provides, in part: "Whoever, having devised or intending to devise any scheme or artifice ... for obtaining money or property by means of false or fraudulent pretenses, representations, or promises, transmits or causes to be transmitted by means of wire ... communication in interstate or foreign commerce, any writings, signs, signals, pictures, or sounds for the purpose of executing such scheme or artifice, shall be fined under this title or imprisoned not more than 20 years, or both."

16 Licensed internet gaming websites, including lottery websites, usually, if not always, require players seeking to play a game or make a lottery purchase to certify that they are of legal age to play and physically located within the jurisdiction where play of such game, or purchase of such lottery ticket, is lawful.

17 18 U.S.C. § 1344 provides: "Whoever knowingly executes, or attempts to execute, a scheme or artifice (1) to defraud a financial institution; or (2) to obtain any of the moneys, funds, credits, assets, securities, or other property owned by, or under the custody or control of, a financial institution, by means of false or fraudulent pretenses, representations, or promises; shall be fined not more than \$1,000,000 or imprisoned not more than 30 years, or both."

18 See, for example, *United States v. Honarvar*, 477 F.3d 999 (8th Cir. 2007), in which the court affirmed convictions under 18 U.S.C. § 1344 of defendants who falsely inflated their incomes in order to obtain credit cards with larger credit limits.

19 31 U.S.C. § 5361 et seq.

20 18 U.S.C. § 1952.

21 18 U.S.C. § 1955.

22 31 U.S.C. § 5362(10)(B).

23 Subject to certain inapplicable exceptions (among them the exception for intrastate wagering), the UIGEA defines "unlawful Internet gambling" as "to place, receive, or otherwise knowingly transmit a bet or wager by any means which involves the use, at least in part, of the Internet where such bet or wager is unlawful under any applicable Federal or State law in the State or Tribal lands in which the bet or wager is initiated, received, or otherwise made." 31 U.S.C. § 5362 (10).

24 See 31 U.S.C. § 5363.

25 So too would be any entity that "aided and abetted" the UIGEA violation. Under 18 U.S.C. § 2, "[t]o establish aiding and abetting liability, defendant must have: (1) associated with a criminal venture, (2) purposefully participated in the venture, and (3) sought by action to make the venture successful." (*U.S. v. Peters*, 283 F.3d 300, 308 (5th Cir. 2002); reh. den. 2002 U.S.App. LEXIS 6007 (5th Cir. 2002); cert. den. 536 U.S. 934 (2002))

26 18 U.S.C. § 1952(a).

27 18 U.S.C. 1952(b).

28 The Travel Act has been held to apply to internet gambling conducted in violation of state law. See *Vacco v. World Interactive Gaming Corp.*, 714 N.Y.S.2d 844, 862 (N.Y. Sup. Ct. 1999).

29 18 U.S.C. § 1955(a).

30 18 U.S.C. § 1955(b)(1).

proceeds of any unlawful activity; or ... [to] otherwise promote, manage, establish [or] carry on ... any unlawful activity [or to facilitate any of the foregoing] ...”²⁶ The Travel Act definition of “unlawful activity” includes “any business enterprise involving gambling ... in violation of the laws of the State in which they are committed or the United States ...”²⁷) Thus, the Travel Act would apply to gambling businesses—including online gambling businesses²⁸—operating in violation of a separate state or federal law.

The IGBA makes it a federal crime if one “conducts, finances, manages, supervises, directs, or owns all or part of an illegal gambling business ...”²⁹ The IGBA defines “illegal gambling business” as “a gambling business which (i) is a violation of the law of a State or political subdivision in which it is conducted; (ii) involves five or more persons who conduct, finance, manage, supervise, direct, or own all or part of such business; and (iii) has been or remains in substantially continuous operation for a period in excess of thirty days or has a gross revenue of \$2,000 in any single day.”³⁰ Thus, the IGBA would

apply to any reasonably-sized online gaming business operating in violation of state or local law.

Accordingly, it is not accurate to say that “there is no enforcement regime to try to make [states]” stop out-of-state gambling. Internet gambling by an individual located in a state which does not license internet gambling operators or conduct such internet gaming itself (e.g., via the state lottery) would be unlawful under the law of the state where the individual was located. A player who misrepresented his location (and/or his age) in order to be able to wager on internet games would likely violate the federal Wire Fraud law and, if he or she used a credit card issued by a financial institution, also the federal Bank Fraud law. Operators who knowingly accepted electronic payments in connection with such unlawful wagering transactions would violate the UIGEA, and likely also the Travel Act and the IGBA. Thus, such gambling activity would violate not only the law of state in which the individual was located, but also several federal laws. Such unlawful internet gambling activity

would therefore be subject to prosecution by federal law enforcement agents.

In summary, the main arguments put forth by proponents of the RAWA do not stand scrutiny. Technological and procedural measures designed to prevent underage play and play from jurisdictions in which such play is unlawful are proving to be effective in fulfilling those objectives. In addition, as shown above, underage play and wagering from jurisdictions in which such wagering is unlawful would violate not only applicable state law, but also several federal laws. As a result, federal law enforcement can be brought to bear to prosecute such unlawful conduct. The claim by RAWA proponents that the RAWA is necessary to make states stop unlawful out-of-state or underage internet gambling is false. ■

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Consideration + Chance + Prize ... continued from page 36

huge. And the whole rest of Europe is being Uberified by the likes of tiny little Malta and Gibraltar.

Of course, this strategy only works if you can sell into the consumer markets where the consumers actually live, i.e. the more populous countries of the EU like Germany, France, and Italy. The problem is that while these i-gaming operators are licensed in Malta to operate this way, at least some of these Maltese operators are not licensed in the “consumption” countries to offer their i-gaming and lottery products. In that sense, they are operating illegally in the countries where the majority of consumers reside. Gibraltar has also adopted this Maltese model. Antigua and Barbuda have been trying for many years to adopt this model to sell i-gaming products into the U.S.

This is why it is so vital that there be an international cooperation to not only erect laws that protect the rights of all countries to regulate and tax the i-gaming industry, but to develop the tools and infrastructure to enforce their laws against those operators

based in “safe-havens” like Malta and Gibraltar.

The big threat is the likely convergence of “Uberification” tactics and creative new social-gaming models. Right now there are very important trade negotiations taking place between the EU and the U.S. They are trying to create a comprehensive trans-Atlantic trade and investment partnership that includes an e-commerce chapter. Social gaming may be included in that e-commerce section without adequate regard for the issues that relate to the regulation and taxation of gambling and lottery. Insofar as social-gaming is not considered to be gambling, and insofar as operators figure out ways to augment the social-gaming experience with a wagering component that falls outside of current definitions, or perhaps game concepts that appeal to the players’ desire to compete and win something of value, the result could be problematic for regulators, and devastating for the industries that depend on strict enforcement of regulations and tax obligations. ■

What Does Data Have To Do With It?

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The answer is, just about everything. Some might be looking for answers that quickly get to how Powerball needs to specifically change to recapture its revenue or what's the next big win draw game for the industry. But as outlined in the two previous articles, the path to the future, including getting more from Powerball, isn't about Powerball at all. Instead it

is about creating strategies and organizational competencies in response to the trends affecting not only Powerball, but the lottery industry as a whole.

The trends that are blurring the lines and resetting expectations around gaming, raising the bar for customer experience and broadening the competitive landscape for all. The lottery industry (like every other) is facing seismic changes brought on by what the always connected customer expects from the companies with whom they do business, the games they like to play and the way they prefer to engage. While today's traditional lottery business is significant and there is revenue yet to be gained, traditional strategies and approaches are no longer enough.

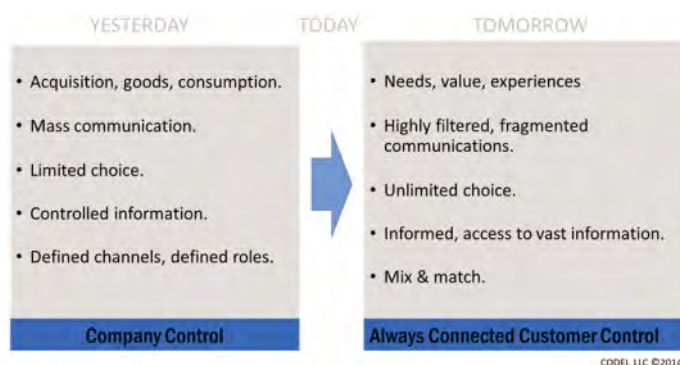


Figure 1: Consumers Expect More

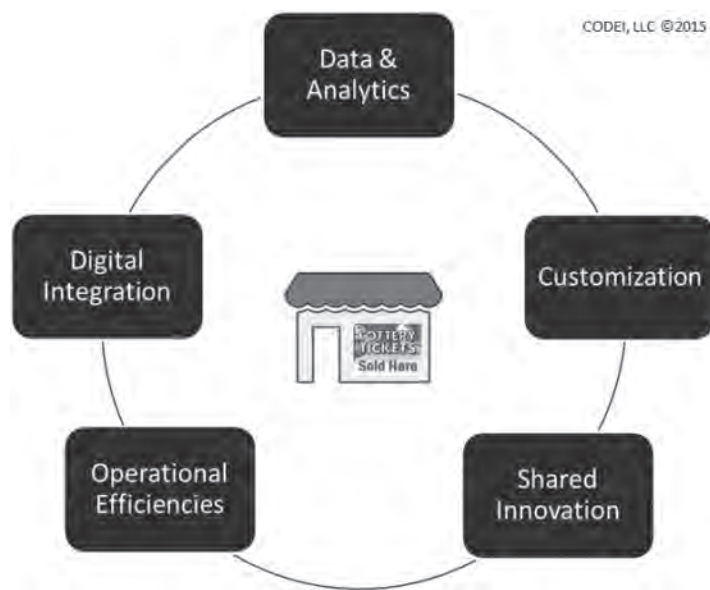


Figure 2: Retailers Expect More

The way things have always been done will no longer meet the demands of lottery customers and the requirements of lottery retailers. Where to start and how to keep up? The answer lies in the data and a willingness to change.

The Potential In Data

Data has always played an important role in the operation of lotteries. Ensuring security, integrity and stability in transactional, claims and draw data is foundational to a lottery's livelihood. So too is data critical for suppliers as they design and deliver games that appeal to the market and play and redeem as they should. Accurate and timely reports are important to retailers as they balance books, manage inventory and get paid the right amount each month. Up until now, this largely operational use of data has served the industry well in its climb to a preferred entertainment choice.

There is a lot of data. While there may be more data the industry would love to have, unlike many companies, lotteries are already data rich and getting richer by the minute. As data continues to accumulate around winners, games, customers, marketing, transactions, distribution, email, loyalty, salesforce, social, app and more, the demands for what to do with it and how to keep it clean and



Figure 3: Data is Plentiful

secure increase. Accumulating data, purposefully and incidentally, is the easy part. Ensuring that data is efficiently stored, consistent, accessible, integrated and secure is hard. Harder still is uncovering, understanding and analyzing the data with context and meaning. And hardest is ensuring the organization has the ability to share, apply and respond to what the data has to say and the technology, infrastructure and processes to utilize the data to improve the customer or retailer experience.

Lotteries are not alone. In late 2013, Forrester estimated that companies were using just 12% of the data they had. According to Gartner statistics shared by Cloudera's Chief Technologist at Indy Big Data 2015, by 2017 60% of big data projects will fail to go beyond the pilot phase and by 2018 90% of data lakes will be useless with no business case. Finally, a recent MIT Sloan Management Review report, The Talent Dividend, found that in 2014, organizations went backwards in their ability to use insights to guide future strategy and gain a competitive advantage (although access to data had risen).

Billions Being Spent, Potential Still Out of Reach

If it is true that the billions already spent on data initiatives have delivered disappointing results, why are billions more expected to be spent?

Because, data is increasingly considered a vital asset. An asset that is appreciating daily and for many the only way to remain continuously competitive, meet the requirements of distribution channels, keep up with the demands of always-on marketing and efficiently meet the needs of the customer. Multiple studies from leading schools and organizations have quantified the potential of data to create measurable value. In study after study, analytically driven companies consistently perform measurably better than those who are not. Additionally, a study by McKinsey & Co. specifically on marketing spending, indicated that a typical range of 15% to 20% of marketing budgets could be reinvested in other activities or returned



Figure 4: Data Does Deliver

to the bottom line without losing marketing ROI.

Given the data rich features around the planning, marketing and distribution of lottery products, the potential net income gain through improved use of the data is measurable. The instant category is reaching maturity, bloc lotto is declining, network growth is challenging and digital is changing everything, therefore it is increasingly important to look to data to find efficiencies and to focus resources on the biggest opportunities. While the specific size of the potential is unique to each lottery, for most there are likely short term gains around optimizing instant game distribution and getting more actionable data in the hands of the salesforce. And mid-term gains likely in areas such as forecasting, product strategy, store optimization and marketing spend optimization. And longer term gains to be achieved around strategies with multiple levers to push such as retail, customer, products, operations and digital.

Regardless of the business optimization opportunities, controlling and using data (and technology) is quickly becoming a customer and a retailer mandate. As consumers immerse themselves in activities that yield quantities of data, they become harder and harder to reach and are increasing their expectations for how companies must secure and use their data to responsibly bring them value. Retailers, facing increased competition from all sides, are looking to data to gain a competitive advantage, improve the shopping experience and increase the value they can offer to their shoppers.

More than More Reports

If the value is substantial, the mandate clear and spending substantial, what then are the barriers?

Because many (if not most) efforts thus far have not fully addressed the scope of change necessary. Lotteries, like most organizations, were built up in the 80s and 90s with an infrastructure, systems, processes and people focused on stability, scalability and continuous improvement of the same strategies and tactics. "Get better at doing it the way it's always been done and do more of it." Top down, controlled decision-making and iterative improvement were enough to stay ahead of the market and maximize distribution. Data sets are disparate, not always accessible and inputs and outputs aren't integrated or necessarily captured. For many, data ownership is dispersed throughout the organization and the language around the data is inconsistent. Staffs are lean, often working in departmental silos and focused on responsibly and effectively delivering the business of today. Finally, for many, the existing lottery systems, software and hardware are no longer enough to support the access, analytics, automation and agility required for business today.

Multi-Path Journey

Many of the discussions regarding the challenges organizations face regarding data have often been around the lack of specialized talent, limitations of software, and access to or structure of the data. Issues surrounding data initiatives are often framed as an IT issue, a

Marketing issue, a Sales issue, etc. Depending upon who one talks to, the problem might be needing to better define a use case or it might be hiring more analysts or perhaps getting users to better define requirements. In truth, it is all of those things, but fixing them will not fix the underlying issue.



Figure 5: Creating an Analytically Driven Organization

Changing the way a business operates, requires changing the way a business operates. Creating an analytical organization that is capable of turning data into value is not an IT installation of a BI solution, or a big data initiative or the creation of a data warehouse. Those may be important, but are only a few steps in a multi-path journey requiring resources, focus and continuous work from across the organization. A multi-path journey that recognizes there are distinct efforts around Data Strategy and Management, Reporting and Analytics and Interpretation and Application.

Data Strategy & Management encompasses the responsibilities of organizing, accessing, and managing data as well as ensuring the data is quality, secure and consistent. Reporting and Analytics is the work around discovering, understanding and analyzing the data for reports, analytics, consumer strategies and more. Interpretation and Application is the work across the organization to put the data in context, understand its business impact and put it to work in the form of decisions made as well as strategies and tactics deployed in operations, sales, marketing and administration. A few things to keep in mind.

Start at the Beginning

Each organization's paths toward turning their data into value will look different depending upon budgets, resources, starting point, etc. Whether the effort is small, medium or large, the first step should always be assigning a champion, ensuring executive leadership and gaining buy-in and participation from across

the organization. Additionally, before establishing goals or chasing anything new, audit what is happening today. An audit that includes answering questions such as: where is the organization's data, who is using it, how is it governed, how is it being accessed and how is it being used today?

Stay Focused & Prioritized

If possible, start first with data that is already available, define a focus and get to work. Don't complicate it if it isn't necessary. Consider areas where better use of data has the potential to remove barriers, overcome objections or meet a longstanding customer need. Find a few quick wins while also taking on some larger challenges. Keep the effort nimble and supported to allow the organization to practice and grow its competency around data.

Create a Structure and Then Be Prepared to Change

While each organization will be different in the specific how, it is without question that new types of relationships and collaboration between marketing, IT, sales, accounting, administration, operations and suppliers will be necessary. Where and how to begin to build the new data competency will depend upon unique aspects and strengths of each organization and their supplier relationships. One way, the hub and spoke method affords analytics talent the opportunity to foster a greater understanding of all data sets while also allowing for tight collaboration with business partners as well as a vertical concentration in specific data sets. Additionally, it is likely that while a structure may be initially defined, it will continue to change and adjust as data competencies grow.

Understand What Data Can and Cannot Do

Data is a piece of the puzzle, it isn't the puzzle and it doesn't solve anything on its own. Data must be understood, put in context and properly interpreted to have meaning and value. Given the now overwhelming availability of data, there are more ways to get it wrong, more ways to disagree and more ways to disappoint the customer

than ever before. No matter how sophisticated the technology or robust the data, gaining business value from data is dependent upon people and how they interpret and use it.

It's the People

As confirmed in The Talent Dividend, it is the people that make the difference. Data is turned into an asset only when people from across the organization are interested in



Figure 6: Getting Started

it, understand it and have the skills, ability and resources to put it to work. It is these people that, up until now, have been directed to make the way things have always been done better, faster and more efficient. The same people, already subject to cognitive barriers and biases, who work in organizations that likely don't reward critical thinking, taking risks and creating new ways of doing things. The same people that are often already tasked with delivering the business needs of today. It is these people that must create change. It is possible, but it will take time and supported plans that recognize all levers, needs and barriers.

It's a Journey, Expect to Fail Before You Succeed

Perhaps most important is the need to accept that creating an expanding ability to leverage data for value is a journey. A journey requiring participation and resources from across the organization. It isn't a one-time installation with an end date, but instead an ongoing effort to gain a clearer picture of the market and a greater ability to meet and stay ahead of its demands. It requires time, commitment and daily

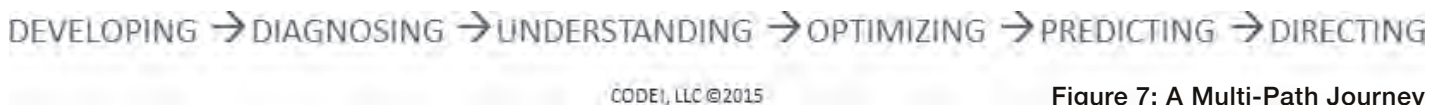


Figure 7: A Multi-Path Journey

Richard Bateson Interview ... continued from page 42

want to repeat-play Instant games, or they may want to know what the latest promotions, coupons or offers are. This experience needs to be different for these player than for the new/infrequent players.

The role for the operator is to be able to provide different messages, experience and navigation of the site by player segments (whether they be by value or usage). The operator must have the ability to be able to meet the needs of these differing player needs and have the dynamism to convert and upsell against a narrow and broad product offering.

Shouldn't an Interactive website include free-play options to engage the consumer? Is the goal to maximize the "dwell time" as key to maximizing the likelihood of purchase, as land-based retail stores try to do?

R. Bateson: Yes, iLottery channels should offer free-play options (where allowed to by their state or regulator). This allows players to try before you buy and is common across the i-gaming industry. In our UK business, 80% of IWG players that try a game also play a wagering game. So backing up our hypothesis, we offer games to new/undecided players to help drive conversion, and ultimately the majority of them do go on to wager as well.

Operators need to decide whether free-play options are only available to players with active accounts. The advantage of this is that it can become a data capture exercise to build out prospect pools and build player understanding—for example—which games/types of games/price points are driving trial.

Free-play can increase dwell time on site as it is likely to encour-

working it to derive more than interesting points, dashboards and reports. Regardless of budget, it will take a commitment from many, a centralized vision and a clear understanding of resources. Even with all of that, be prepared to be disappointed, to fail and to find more barriers than discoveries in the early days. Continue to work and eventually results and value will be exponential.

As the market has gotten more challenging and both consumers and retailers demand more, there seems to be a growing narrative around all the reasons why lotteries can't stay competitive. Games are changing, marketing is changing, consumers are changing and technology is changing. That said, instead of listing why lotteries can't keep up, perhaps the list should be all the reasons why lotteries can. Lottery remains one of the most popular entertainment products, drives traffic into retail doors like no other product can, touches millions every single day and raises billions for good causes. With a vision, enough resources, new types of enabling technologies and a commitment to change, lotteries can maintain their preferred entertainment status. It might be more than getting more out of Powerball, but it can be done. That's what data has to do with it. ■

age increased visitation of the site, but this is by no means the only activity to do so.

Lotteries must focus on content, social integration and on site promotions. Content, whether it be rich media, user content, beneficiary stories is really important in giving players a reason to drive engagement and revisitation. We all know that there are times when jackpots aren't big and there isn't any new news, so a content/promotional calendar should address those gaps with fresh and engaging content – increasingly we are seeing this being achieved through rich media, be it video or infographics for example.

Exactly how is Mobile Gaming different from home-computer-based gaming? Isn't it all delivered via the internet?

R. Bateson: This is about a shift in usage by consumers. More people are accessing lottery websites through mobile rather than PC. It's true that in its simplest form a mobile device should be seen as just another distribution channel and many of the same principles and disciplines do of course apply.

It's also worth considering that there will be some differences. We know that our players accessing games on their mobile behave differently—they play different types of games, at different times of the day and respond to different marketing techniques. All of these need to be understood, considered and acted upon in order to give your players the experience they want. ■

Scenes from PGRI Smart-Tech 2015

March 31 and April 1, Marriott Marquis in Times Square, New York City





Scenes from PGRI Smart-Tech 2015
March 31 and April 1, Marriott Marquis in Times Square, New York City





Scenes from Ice Totally Gaming
Conference and Trade Show
February 3 & 4, in London



Keno, which drives up their per-cap figures.

Analyzing and disaggregating per-capita figures can help you focus on areas where you actually have the ability to improve. When looking at other jurisdictions' figures, consider factors such as cross-border issues (Georgia benefits from being next to Alabama, a non-lottery state), competition (primarily casinos) and context (e.g., a history of illegal numbers playing). But the reverse is also important—don't look at individual game per-caps in isolation; they must be considered in the context of your jurisdictions' total game portfolio. Performance measurement, and the proper use of the metrics available, is as much art as science. It's not the sole province of the financial staff or the marketing staff or the operations staff. Bring everyone together in their evaluation and understanding.

Finally, one of the greatest sources of growth potential for your lottery is your staff. And while you may not be able to reward people financially, recognition is hugely important in motivating your people. Sales people in particular are competitive; measure their performance and give awards for "Best Sales Person" for July, or for Region 3, or for the year. If you're allowed to have sales conferences, use them to reward your staff. If not, use your regular

office meetings to highlight success stories and thank your high performers. Good performance is infectious and will spread to many others. Be fair, be generous in your praise, be explicit about goals and objectives and avoid playing favorites. Use your annual performance evaluations (you do have annual written performance evaluations, don't you?) to inspire and motivate, not punish.

Some ideas may be corny, but are still effective. Keep "Employee of the Month" selections lighthearted, celebrate personal occasions, keep up the daily "fun" quotient in your office routines, greet your players (and especially your winners) with sincere affection and always reinforce the sheer pleasure of playing the lottery. Employee morale can be a hugely important tool for business success, and can be developed in any type of organization, private or public. It simply requires managers to recognize its value and prioritize its role.

Private management of lotteries, while having clear potential benefits, does not imply that public management cannot be similarly effective in delivering superior results. The tools may be different, but enlightened managers can still be highly successful. The distinction between public and private lottery management is not necessarily a key determinant of high performance. ■

A Sustainable Gambling Policy for the Benefit of Society in Europe ... continued from page 66

they are companies who reach out to a very large and varied audience of citizens by offering their services in a strictly-controlled and responsible manner and by respecting the law.

Lotteries can play an active role in the development of a sustainable digital society, in fully respecting the balance of competence between the Member States and the European Union. Lotteries can, through dialogue with the digital community and SNS operators, enhance consumer confidence and commercial fairness. They can help shape the right environment for other services to flourish in a digital market while, at the same time, fully respecting the laws of the Member States and the principle of subsidiarity through the appropriate and fully justified digital tools.

This brings us to our final point, which looks to the future development of the European Union and the fact that Lotteries can be the partners of both the Member States and the European Union.

Over the past few decades, the discussion within the EU has been limited to the question of whether the Member States could implement their own gambling policy. In the absence of harmonisation, the Court of Justice of the EU accepted that, for reasons of consumer protection and/or the fight against fraud and crime, the Member States could maintain certain restrictions. However, it is necessary to move beyond that limited paradigm. Lotteries should be one of the main driving forces in the pan-European recognition that there are common principles

that the EU and the Member States consider essential: a political, social and cultural Union alongside the economic project of continued European integration.

Lotteries agree that, while respecting their national respective legal and social traditions, a strong connection must be forged between the proceeds, with their origins in an activity which is always ethically open-to-debate, and the support for societally-desirable objectives. At the EU level, lotteries can further develop that message, and contribute to the development of 21st century projects, such as the Digital Single Market, as they once did with the introduction of the Euro without undermining the Member States competence.

Lotteries also capture the diversity of the European Union project. Member States are not identical, and have different cultural, ethical and religious backgrounds, which should continue to be recognised as well. The Euro captures this image perfectly: one side of the Euro coin is the same, stating "1 EURO" with the European map in the background. The other side of the coin is different for each Eurozone Member State: Austria puts Mozart on the Euro coin, Belgium places its King, and Italy places Leonardo Da Vinci's Vitruvian man on the background.

In a similar vein, lotteries will continue to contribute to the EU's socio-economic and cultural unity-in-diversity in the 21st century as they did before. ■



Going back two decades, Lotteries played a very important role as the European Communities (the forerunner to the European Union) was working towards introducing the single European currency. The President of the European Parliament, José María Gil-Robles said in 1998: “The transition to the Single Currency requires the support of the European citizen. It is he or she who is going to use it. Any currency can only be as strong as the confidence it enjoys. The Euro merits our trust. Trust is based on understanding.” Since, historically, half of Europe’s citizens played a lottery game at least once a year, Lotteries had a significant role in introducing the Euro currency through their retail networks. Specifically, it was necessary to quickly replace the Eurozone’s multiple national currencies with the single currency. Lotteries collaborated to set up training programmes across their large local retail networks to support the Euro’s smooth introduction. This cooperation occurred in no less than 11 Member States! Subsequently, the European Parliament, in a resolution entitled “the EURO and the consumer,” recognized the important educational and social role that state lotteries played as intermediaries in advancing the European cause through supporting the single currency’s introduction.

Fast-forward to the present decade: on 9 December 2010, the EU’s Council of Ministers—the body that brings together the 28 Member State governments—unanimously adopted its “Conclusions on gambling.” Here, for the first time, was the Council’s full recognition of lotteries’ role for European society:

16. AGREES that this specific role should be recognized in discussions at the European level.”

This recognition, by both the European Parliament and the Council of Ministers, was based on fact. In 2011, members of the European Lotteries Association contributed more than 25 billion Euro to Member State budgets and various good causes.

Almost 70 per cent of the gross gaming revenue generated by European Lotteries was returned to society, equalling on average 46 Euro per capita.

Lotteries are the largest contributor to the EU sport model (contributing more than 2 billion Euro). Lotteries are also the most important patrons of arts and culture and make substantial contributions in social projects including health, development aid, the integration of the disabled (i.e. ONCE created 99,340 jobs for people with disabilities).

But lotteries do more, through the way in which they operate; they pursue the highest level of consumer protection and strong support of public order. The integrity of sport, the fights against money laundering and cybercrime are very high on the Lotteries’ respective agendas. Lotteries are strongly embedded in society, making them the logical and responsible partners of both the Member States and the European Union. The fundamental values that the lotteries pursue follow the EU Treaty’s principles.

Recently the European Commission published a factsheet on the need for a digital single market. The European Commission strongly believes that “A Digital Single Market” can create up to 415 Euro billion in additional growth and hundreds of thousands of new jobs.

To succeed one needs again to create trust as it happened at the time of the Euro’s introduction. Lotteries were amongst the first organisations to start investing in the Internet’s use in a safe, responsible manner that would be subject to strict security standards. Lotteries did not see the Internet as an aggressive medium to make more profits, but as an additional distribution method to enhance the channeling of gaming desire away from illegal operators into a strongly-controlled environment without undermining the incumbent land-based structures.

Building an inclusive e-society, as is one of the EU’s ambitions, requires education and trust among the EU’s population. Almost half of the EU’s population (47%) is not properly digitally skilled, yet, in the near future, 90% of jobs will require some level of digital skills. Lotteries have always been driven by innovation and the need to respond to today’s citizens’ desires. Lotteries operate games in a “social manner.” Indeed

A Sustainable Gambling Policy for the Benefit of Society in Europe

BY PHILIPPE
VLAEMINCK,
BART VAN VOOREN
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—ALTIUS
WWW.ALTIVS.COM

“III. THE SUSTAINABLE CONTRIBUTION OF LOTTERY AND RELATED SERVICES TO SOCIETY (...)

15. RECOGNIZES that contributions, in particular from state lotteries or lotteries licensed by the competent state authorities play an important role for society, via for example the funding of good causes, directly or indirectly where applicable.

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AND NOW, MORE THAN EVER, IT'S ABOUT INTERACTIVE. Lotteries are building out the infrastructure, game content, and strategies that connect the lottery operator to the consumer over Interactive channels.

IT'S ALSO ABOUT MODERNIZING THE ENTIRE RETAIL SHOPPING EXPERIENCE, and that includes bridging the gap between Interactive and land-based retailing. Collaboration on promotion and brand messaging is augmenting the success of multi-jurisdictional games, innovation is improving all levels of operations, and navigating (and perhaps influencing) the changing regulatory environment, are top-of-mind issues that are addressed at Lottery Expo. So join us at Lottery Expo to push into new frontiers that will secure a bright and prosperous future for government-gaming.

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