Michelle Carinci
Lottery Industry Leader

PGRI Introduction: The U.S. Dept of Justice has finally given the guidance that states have been begging for. Its clarification that the Federal Wire Act of 1961 applies only to sports betting and not to other forms of i-gaming effectively means that U.S. states do have the right to implement all forms of i-gaming other than sports betting; and that states do have the right to authorize their lotteries to sell lottery products over the internet. This is very good news indeed for states and their lotteries. Unfortunately, a lack of understanding is causing some to raise questions which may interfere with the rapid implementation of i-gaming initiatives. Speed to market is of the essence.

Michelle Carinci began her career in the lottery industry with the Western Canada Lottery Corporation when she was 22 years old. Ms. Carinci was the CEO of the Atlantic Lottery Corporation (ALC) in Canada for ten years, is a frequent speaker at PGRI conferences, is a moderator and speaker at countless World Lottery Association (WLA), European Lottery (ELA) and North American conferences and seminars, and has as much experience with managing the integration of internet distribution with existing channels as anyone. Under the leadership of Ms. Carinci, ALC was a pioneer in the development of new gaming opportunities, internet distribution of existing and new products, and the preservation of a healthy and mutually supportive relationship between lottery operator and the land-based retailers. ALC's internet offering which allows Atlantic Canadians to purchase lottery tickets in a secure, geographically and age controlled online environment, is an example of this forward thinking.

Michelle Carinci is, along with Dianne Thompson of the Camelot Group and an international working group, the architect of the World lottery Association's Responsible Gaming (RG) program. Preservation of the lotteries' reputation for the highest standards of RG is an integral part of any sustainable i-gaming initiative.

Engaging Land-Based Retailer Support for Internet Sales

Paul Jason, Public Gaming: *It is understandable that land-based retailers be concerned about the impact of the internet on their businesses. Yet, there are many lottery operators who, like ALC, have distributed their products over the internet for many years. How did internet distribution impact your land-based channels?*

Michelle Carinci: We are all naturally concerned about a future that is unknown and uncertain. So the first thing we might do is try to remove some of that uncertainty. Internet distribution has been highly disruptive to many industries. Fortunately, that has not been the case with lotteries.

What is also fortunate for our USA colleagues is that there are three lotteries today in North America – Atlantic Lottery, the British Columbia Lottery and Loto-Quebec – that have several years of experience and can provide the facts related to the impact of Internet gaming. There are also regulated lotteries in Europe that have deep experience and learning to share, Finland, Austria and Sweden for example. The trailblazers in regulated internet gaming were also the trailblazers for responsible gaming.

I would encourage the stakeholders related to lotteries in the USA to look north and across the pond to ensure they are making informed fact-based decisions as they move into the future. Myth busting will be important. Some key facts are: players today are playing games and gambling on the internet in an unregulated and unprotected world and the money is not going to good causes. Regulated internet lottery and gaming is a channel that allows for very strong responsible gaming initiatives enabling players to make informed choices about their gaming practices. Another important fact is that retailers will not be impacted in a negative way.

There are a number of reasons why internet distribution actually supports and complements the traditional lottery - retailer business model. But first, the simple answer to your question is that the impact of the internet on land-based retailer sales has been positive or neutral in the lotteries that I am familiar with. Lotteries all around the world have been selling traditional lottery products over the internet for many years and there is no evidence of a sustainable negative impact on sales at retail. Depending on the offering, the impact can be a positive one, helping to drive store traffic and sales of lottery products, and sales of other consumer products as a result of the increased consumer traffic. At ALC we did not have the benefit of quite as much historical hindsight when we started six years ago. But now the evidence is in. Integrating the Internet into the mix of lottery distribution channels does not hurt the retailers. And with a little creative thought and cross-promotional strategy, it actually helps the retailers with increased lottery sales and store traffic.

How did you engage the support of your retailers in the beginning?

M. Carinci: Back then, our first order of action was to be certain that age verification and geo-location functions were extremely reliable. The reputation of the lottery depends on that, which makes it mission-critical. The technology has been in place for over a decade now, is used by many lotteries all over the world, and is proven to be reliable. Our second order of action was to make sure our retailers are engaged and motivated to support our efforts to sell products over the internet. Along with reputation and brand value, the land-based retail network is lotteries' most valuable asset. We were not going to do anything to hurt that relationship. But we are also not going to let a lack of understanding impede progress and increased funding for our beneficiaries. It turns out that there is no conflict between the two because the internet can drive sales and profits for both the lottery and the retailer. It is true that a thoughtful plan is needed to communicate and convince the retailers of the commitment to that partnership and to protecting the earnings of lottery retailers.

What did you do to make sure that the sales and profits of your retailers stayed on a positive trend-line?

M. Carinci: It is important to make a couple of key points first to create some context for those considering offering lotteries and gaming on the internet.

The majority of current players are not looking to replace their lottery experience at retail by moving to the internet. Internet players are typically looking for a different social and gaming experience than what the lottery offers at retail. This will vary somewhat from between markets, but draw games represent a very small percentage of the internet gaming pie, one or two percent, on the other hand those offering sports betting will see double-digit percentages and once interactive social games like multi-player bingo are added to the portfolio there is significant activity. Lottery games offered at retail today will not be noticeably cannibalized. The sales will be incremental.

My second point is that mature lotteries around the globe have experienced a slow but steady decrease in their core player base over the past years. One of the reasons is lifestyle changes that changed the frequency of retail visits. The internet offers the lottery the opportunity to acquire those lapsed players and drive retail sales at the same time.

At ALC it was decided to introduce existing lottery products first, the same products that are sold at retail. The more interactive and social new game styles that have more appeal to the internet gamer, was part of the second phase of the plan. To engage the support and cooperation of our retailers from the beginning was very important to sustaining the existing strong relationships. The goal was to target lapsed players, preserve the earnings of the retailers, and gain insights into this new world of digital. Maximizing the impact on sales was not the short-term goal, how we sell was always more important than how much we sell. So our strategy was not to target players who were already engaged in playing at retail. In fact, it was the opposite. We knew there was a group of consumers that was more active on the internet, not playing at retail, and that many were lapsed lottery players. That is who we targeted.

The goal of increasing sales to lapsed or otherwise inactive consumers groups was also the solution to avoid cannibalizing the retailer business. No big media campaign. It was all online advertising with no mass media. I would interject to say that this would be a more conservative approach than most operators would want to do today. With the benefit of seeing what works and what doesn't, it would be easy to accelerate the entire process, and actually deliver more benefits faster to your retailer constituents. But this is what we did six years ago. Retail sales were tracked and surveys were conducted. The majority of play at the outset was from lapsed players and sales were incremental.

I can see how that approach would minimize cannibalization of retailer sales. But how does it drive lottery sales and store traffic in a positive way?

M. Carinci: We used a "web-cash" or "e-cash" tool. In order to play on the internet, the player is required to buy this web-cash for the first transaction at the retail store. The retailer is paid their normal 5% commission on that sale. Then, once the player is registered and in the system, they have the option of depositing funds directly from their account to the lottery or to return to the store to buy web-cash. The players do not have to return to the retailers if they do not want to. What's interesting is that as of last spring, several years later, over 40% of the players go back to retail to buy web-cash. So the retailer is still benefiting from the purchase of the web-cash and the internet play. I would expect that at least some of the players who are attracted by way of online banner advertising, and directed to go to the retail store to buy web-cash, in many cases are consumers who were not already going into the store. We were surprised at the percentage of online players that chose to return to the retailer to buy web-cash. The web-cash system was driving new consumers into the store and

moreover, these players who come in to buy web-cash often ended up making impulse purchases of other consumer products, or an Instant scratcher or some other lottery product while they were there.

The main thing is, our studies indicated that the majority of the players who bought online were not previously buying at retail. Retailers did not lose lottery sales, and they did gain new customers.

Training, education and communication with retailers is critical to success. Helping them to understand the benefits with facts and how to take full advantage of the increased selling opportunities is important to sustain that healthy partnership which has been the lottery's bread and butter for years. Too, web-cash is only a tool, and is not a necessary component for an effective retailer engagement program. Many operators do not use e-cash and the results speak for themselves. BCLC, for instance, does not use web-cash and its retail network continues to be strong even while its internet sales are increasing. Retailers are key to the continuing success of lotteries, so gaining their active support is imperative. There are lots of different approaches to accomplishing that.

Wouldn't the retailer still be concerned that internet distribution would redefine the lottery's relationship with the consumer in ways that might end up hurting them? Wouldn't they feel vulnerable for losing control of their customer?

M. Carinci: I understand this concern and that is why communicating fact-based information based on the actual experience of others is so important while lotteries venture into new territory. First, nobody really has control over the customer. Consumers have choices and they expect to have options. All of us, lottery operator and retail store proprietor alike, need to be flexible and open-minded to deliver optimal value and convenience to the consumer. Second, retail continues to be very strong, and not just with the proverbial core player. While consumers are active on the internet, and it is clear that consumers will continue to shop at retail for a different experience. That is where cross promotion between channels can take advantage of both experiences. Third, internet sales remain a fraction of overall lottery retail product sales. Retail will continue to get the vast majority of draw games. Depending on the introduction and execution, the internet can be a tremendous tool to promote visits and sales at retail and retail can promote sales on the internet. There are lots of options!

We have been focusing on integrating internet into the distribution of the existing traditional lottery products. Massively multi-

player online games are taking the internet by storm. What implications does that have for lottery?

M. Carinci: Over the past decade online poker and casino games have become mainstream, poker players have become front page news and lead stories. World of Warcraft has a massive following as do the social games such as Farmville and then there is Angry Birds! But think about this for a minute ... a very small percentage of consumers players play poker and casino games online, and it is a very small percentage of consumers that will ever play traditional draw games online. Now add to that group the 10% to 14% of consumers that will never play any games at all, on or off line. That leaves somewhere in the neighborhood of 80% that will be looking for lottery and gaming related products that offer a fresh, new, different kind of entertaining experience. What have operators got in mind for them? And what about the players coming of age? We have begun to see the introduction of what I will call soft lottery games and social games on the internet using the unique attributes of the internet to create an entirely new gaming experience. This digital space includes opportunities that go way beyond the internet. This is a very exciting time in our industry with lots of opportunities to offer smart, responsible, and entertaining gaming experiences. Someone will have the strategic foresight to provide that experience. I hope it will be the regulated operators!

In the meantime, both the retailer and the lottery have the opportunity to benefit by creating an integrated approach to serving the consumer. Everyone wins. ◆