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NEW IDEAS PASS THROUGH THREE PERIODS:

1. It can't be done.
2. It probably can be done, but it's not worth doing.
3. I knew it was a good idea all along!

Quote by Arthur C. Clarke

INTRODUCTION BY PAUL JASON: The business performance of lotteries over the past couple years has been impressive. They have been resourceful in dealing with the economic slowdown; but more than that, lotteries have innovated to position themselves well for the better times that lie ahead. The groundwork for break-through initiatives has been set and they are ready to move with confidence into a new era for growth in the gaming industry. Multi-jurisdictional collaboration, building brand equity, and focusing on the fundamentals that drive this multi-billion dollar industry are keys to achieving our full potential.

"Customer First" is an initiative that is driving GTECH strategy and promises to propel the company's customers into the leadership position in the coming wave of gaming expansion. Conversations with GTECH President and CEO Jaymin Patel have given me an appreciation for how this singular notion can drive a complex set of objectives.

The process of innovating cannot be left to serendipity to inspire creative minds to show us the way. Nor is a passionate conviction, in spite of all the evidence, the basis for real leadership. The next generation of leadership and innovation needs to combine passion with professionalism, innovation with process, and create flexible solutions based upon clear local and global market understanding. And the will to make this happen must be a systemic part of the corporate DNA. Jaymin Patel is the architect of GTECH's strategy to accomplish that by integrating a "Customer First" focus into all stages of the innovation process and into each and every aspect of GTECH global operations.

Paul Jason, Public Gaming: *In your presentation at WLA in Brisbane, you emphasized that the real revenue drivers will continue to be land-based retailers selling the core products.*

Jaymin Patel: I tend to think about growth in two broad categories. The first category deals with driving organic growth from the existing business. The second category is innovation that leads to new solutions, new products, and strategies that will drive new growth. With respect to the first category, I believe there remains huge potential for growth. Traditionally, most lotteries have thought of themselves as being separate and apart from other forms of gaming; hence, market share as a measure of performance is going to be pretty impressive in that context. When we think of lottery as a segment of the broader gaming industry, or even broader entertainment industry, it gives us a clearer view of the potential size of the market and the huge potential that exists to increase lottery market share and returns to good causes. The market share lotteries enjoy is well below what it could and should be due to the substantial competitive advantage we have in retail distribution and the ability to make the product portfolio

omnipresent to players. We need to broaden our thinking and our strategic approach to be a part of this much larger market.

That is not to say that the interactive channel is not critically important in attracting new players and distributing new forms of content – it certainly is. To be clear, I think it is vitally important for the future of the lottery industry that we pursue opportunities to augment the existing products and channels through interactive and social media channels. We just need to realize that today we are in a consumer-driven physical retail distribution business and this must remain a top growth priority for lotteries. Traditional lottery games sold in interactive channels do not yet deliver significant profitable top-line revenue growth. Even for those lotteries which have demonstrated strong performance in interactive gaming, such as Camelot in the UK and Veikkaus in Finland, the incremental increase in revenue and net of cannibalization is still relatively small.

New media channels are clearly important in order to maintain continued relevance of your brand, and as a defensive measure to keep your customers from shopping in other stores. But we need to realize that top-line revenue growth still comes from focusing on the fundamentals of our core retail business – tremendous organic growth opportunity still resides in all markets globally, and that's where we need to continue to focus. The real issue is balancing management focus and innovation to drive the highest returns to good causes. It is often easy to under appreciate

the benefits of organic growth from the existing games in favor of new initiatives.

What are some of those fundamentals that could drive real growth?

J. Patel: I believe that tremendous growth potential exists in traditional and new retail channels and core lottery product lines. Improving same-store performance by traffic building advertising, outstanding in-store merchandizing, strong inventory management and retail execution, significantly increasing the number of quality distribution points, and driving sales in the core lottery products through the retail channel are keys to generating growth in this industry. Those are the fundamentals of our business. This may sound like a lot of hard work and perhaps lacks the appeal of silver-bullet solutions that have not been tried before, but I genuinely believe these are the ingredients to success.

Product accessibility to consumers, perhaps more than any other factor, drives performance. The general 'best practices' benchmark for the minimum number of terminals per person is one per thousand. Fewer distribution points means that some people do not have easy access to purchase the product, which clearly reduces potential sales and returns to good causes. This one per thousand ratio is not an arbitrary target, it's an evidence-based metric. Look at the jurisdictions that have more than one per thousand, like Massachusetts and Italy. These jurisdictions are amongst the highest per capita sales and 'returns to good causes' lotteries in the world. As an industry, I think it is clearly within the reach of lottery organizations to achieve a 6% to 8% organic growth year-over-year. In some cases, this could be higher, and in other cases, it may be somewhat lower depending upon current performance levels and competitive gaming offerings.

Selecting the right retailer is crucial. Working with our customers, we need to fully understand the markets we are trying to serve and appreciate the subtle nuances of the local environment – often right down to the community level. We need to prepare detailed retail recruitment implementation plans and be very deliberate and thoughtful about how we define success in various regions and diverse trade styles. When we are approaching non-traditional trade styles, we need to understand what's in it for them and be prepared to make a compelling sales proposition. Once a retailer is in place, we need a continuous support program from the beginning, providing the tools and the motivation to optimize sales. It's just as important to

make sure that the retailer in the high-traffic location is achieving its full potential and pushing hard to increase sales as it is to help the under-performer improve performance.

Another way for lotteries to increase sales is to refresh their product offerings. Many games have been in place for too many years. The portfolio of games needs to be monitored on a consistent basis, pruning some of the underperforming draw based and Instant games in favor of games that have a much broader appeal and bigger impact on results. This is a difficult process to undertake, however the blueprint for success does exist. A decision to suspend an underperforming game and perhaps invest more in a sustained marketing and consistent sales and merchandising program for a stronger game, will result in higher growth potential. The multi-jurisdictional games like Powerball, Mega Millions, and Euro Millions are clearly in that high-growth category.

This process would also involve thinking in new and creative ways about the branding of the lottery. A creatively imagined approach could result in one of the most powerful consumer brands in the world. Rethinking the product offering and designing a balanced product portfolio is the first step toward creating that powerful consumer brand.

To me it seems like the cross selling of the two multi-jurisdictional jackpot games would change the whole concept of branding and portfolio management in quite a dramatic way.

J. Patel: The advent of cross-sell has resulted in the first real example in the United States of national branding of games. The integration of sales, distribution, and marketing has the potential to unlock a huge reservoir of brand equity. By capturing the imagination of players so quickly, Powerball is giving us a tiny glimpse of that potential.

It clearly introduces another layer of complexity to overall portfolio management. Strategic brand and portfolio management is necessary to ensure the products work synergistically and produce positive net results. The introduction of new national brands has already produced an increase in sales; it also has the potential to produce an increased national awareness and appreciation for all that lottery stands for. With strategic brand management, this will have positive residual impact on the rest of the product line, increasing the relevance of the entire portfolio of products in the consumer imagination.

Do lotteries care about whether sales come from in-state games versus multi-state games?

J. Patel: Fundamentally, lotteries need to be indifferent to whether their sales are coming from Powerball, Mega Millions, Euro-Millions, or their in-state games. What really matters is whether the lottery is growing net revenues and the funding it contributes to good causes.

The development of national games and branding strategies is a key to unlocking the full potential of lotteries. Lotteries around the globe have so much to gain by working together on multi-jurisdictional games. The job of managing a more complex portfolio of products, channels, and brand strategies is more challenging. However, there is so much growth potential from a cohesive consumer awareness perspective, allowing for distinct economies of scale for some of the smaller jurisdictions and those with more advertising budget and resource constraints.

What is your view of adding consumer value and increasing the price of Powerball

J. Patel: Adding consumer value and moving Powerball to a commensurate higher price point is clearly the next logical step in bloc game portfolio management toward building a national presence with differentiated products. More to the point, we estimate that a $2 enhanced Powerball game would result in an annual increase in sales of more than $1.8 billion net of cannibalization. That's over $600 million more per year to good causes. Just like with any change in product attribute or price point, we will have to provide a compelling value proposition for the consumer. And the value proposition here is clear. The game design that underwent extensive market research among thousands of players nationally will not only produce higher jackpots, it will produce a lifestyle changing second-tier prize level with lots of winners. It's all about the winning experience, bigger jackpots, and more winners, particularly at the local level.

The media has typically reported on winners within their own state. If national branding and marketing could redirect the local media attention to the national stage, there would be a lot more winners to talk about. Why shouldn't lotteries leverage all the winners they create as opposed to just the limited number that is being created in a single jurisdiction? It's like we're hiding our light under a bushel!

J. Patel: That's it exactly. It's not much different than the way that connecting slot machines together to produce a larger turnover with more players and progressive jackpots revolutionized that sector more than a decade ago. National branding could galva-

nize our player base in a similar way. It would engage the players with consumers across the entire country, creating a giant pool of players, more jackpots, and far more winners. More winners drive sales up, enabling more advertising and marketing. Think about how much we have to gain by broadening the affiliation from being state-based to being nationally-based!

At the WLA conference, there was much talk about the cultural phenomenon of affiliation. The human impulse to affiliate is what's behind the success of Facebook and powerful consumer brands like Apple products. Lottery is so rich with potential to tap into that impulse to affiliate. It would take a concerted national effort to paint a picture of who we are and why it is so exciting to be a part of the community of lottery players. It would not be that hard to do. It just requires the lottery community to see the value in it and work together to create the character and appeal of a national brand that resonates with the consumer.

It is the job of Lottery Directors to optimize the performance of their own state lotteries. That is the singular objective that drives every decision. Just like everything else, proposals to collaborate with other jurisdictions are assessed with that singular objective in mind. So if a lottery resists a particular proposal, like raising Powerball to $2 or changing a logo to try to build a national brand, isn't it because they assess the proposal to be inconsistent with the mission to serve their particular jurisdiction?

J. Patel: We do need to respect the fact that lotteries exist to serve their jurisdictional stakeholders. However, collaboration in the industry between the lottery operators, vendors, and the idea generators is essential. The end result will be totally consistent with the interests of each and every jurisdiction. It may be the case that a particular initiative does not align with the short-term agendas of an individual state. We need to be sensitive to that and minimize the negative impact wherever it may occur. But the long-term success of lotteries depends upon building a national presence and ultimately a global presence, and forging a multi-jurisdictional approach to serving the markets. That's the clearest path to the creation of a powerful trusted consumer lottery brand.

I have asked different lottery directors why NASPL doesn't issue a decisive position paper on Internet gaming in the United States. Or for NASPL to represent the lotteries at the federal level in other ways as well. I am told that the

obstacle is that NASPL would have to get all lotteries, each and every one of them, to sign off on each and every aspect of such a position paper and that would be very difficult to do. But then I notice that Ed Trees, thankfully, wrote an open letter protesting the Harry Reid bill, which would have impinged on states' rights to regulate gambling within their own borders.

J. Patel: I think that the lotteries should be proactive in expressing their position on the national stage and that NASPL is an excellent vehicle to do that. Look at how much the European Lottery Association (ELA) has accomplished by communicating their views to the European Union Commission in Brussels. The ELA is made up of countries with far more divergent political agendas than what we have in the United States. I saw where you asked Michelle Carinci in last month's issue how consensus is created between the different Canadian provinces. Her answer was simple and right on. You just do it, she said. It's not always easy. But it's also not rocket science. There is so much for lotteries to gain by working to overcome differences and act with one cohesive voice. This issue is similar to the need to create consistency in national branding and the marketing of games.

Of course, lottery directors should never be expected to compromise the interests of their own lottery operation for the benefit of a national agenda.

Lotteries operate for the sole purpose of serving the public, typically returning between 28% to 35% of gross sales to good causes. No other gaming operator comes close to achieving this remarkable level of efficiency. Additionally, lotteries set the standard for responsible gaming, corporate social responsibility, and world-class security protocols. So it makes little sense that governments everywhere would not want their lotteries to operate as many forms of responsible gaming as possible. In the U.S., it is hard to understand why states have not been given a green light to implement Internet gaming through their lotteries if that is what they choose to do.

What can lotteries do to affect changes that connect to today's consumer better, and what is GTECH doing to help in that process as well?

J. Patel: First, we should acknowledge that lotteries are the only sector in the gaming industry that do not have a fully-developed customer relationship management approach that includes tracking and analyzing player behavior. We have to find a way to have player registration programs so we can

begin to develop a relationship with our current consumers, understand their playing habits and how their needs are changing, and be able to market to those players in a responsible way.

GTECH has developed what we call our Renaissance player program where we are working with lotteries to issue a lottery-branded player debit card, enabling players to register with the lottery. Prizes are paid onto a lottery embossed debit card, which may be used as a debit card for further lottery purchases or to buy third-party goods and services. This is a great way for consumers to register with the lottery. We view this as a pathway to getting players ready for interactive games when a jurisdiction feels it is ready for such games. The consumer now has a lottery branded card, which would allow them to use that registration for online interactive play when regulation allows. It's a simple and effective way to attract the younger consumers who actually want to affiliate. Younger consumers tend to prefer the higher level of engagement, interactive dialogue, and affiliation that a registration process delivers as long as the environment feels safe and trustworthy.

Customer First. I would think that, for an organization of your scale and scope globally, it requires no small measure of really sophisticated and astute process engineering to channel the input from the thousands of touch-points you have with your customer into action, into useful knowledge and information that is converted into real customer value.

J. Patel: That's true. "Customer First" represents a deep and actionable strategy for the company and is intended to provide a clear sense of focus and purpose. It is a state of mind that puts all of us at GTECH in alignment with our customers' goals and thought processes. We think of our organizational structure as an 'upside down' pyramid. Management is at the bottom and all of our efforts are pushed upwards to support the top where thousands of GTECH associates are dedicated day in and day out to help our customers. Our entire organization is being configured to structure resources to align with and support our customers' growth agenda.

Could we clarify the current structure of Lottomatica and GTECH Corp.: Gaming Solutions, GTECH G2, and GTECH, are all now separate companies that operate under the Lottomatica umbrella?

J. Patel: Marco Sala is the CEO of Lottomatica Group, which is the umbrella of