Featured Interviews

Vic Poleschuk
CEO of British Columbia Lottery
2007 Recipient of PGRI Lottery Lifetime Achievement Award
Managing Operations, Games & Channels in Times of Change

Roger Farrell
Director of International Operations
Gaming Laboratories International, Inc. (GLI)
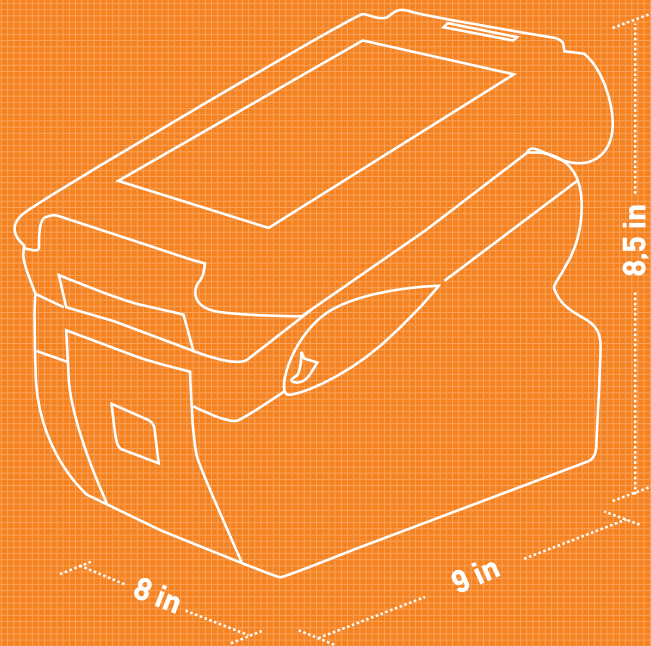*Protecting the Integrity of the Games*

Johan Berg
CEO of Boss Media
Internet Gaming in a Highly Regulated Environment

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Mini Super El Pepe

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Still to Come

Managing Operations, Games & Channels in Times of Change

An interview with Vic Poleschuk, CEO of British Columbia Lottery Corp., and winner of 2007 PGRI Major Peter J. O'Connell Lottery Lifetime Achievement Award

Vic Poleschuk discusses outsourcing of gaming operations, how the gaming industry in BC and Canada is governed, internet gaming initiatives, managing the strategic balance between financial objectives and corporate social responsibility, and moving forward in this increasingly complex industry.

Vic Poleschuk

Paul Jason: *Could you tell us how gaming is managed and operated in Canada, and B.C. in particular?*

Vic Poleschuk: First off, Paul, gaming in Canada does operate differently than in the Unites States in that under our federal law, gaming is illegal and it's only made legal by certain exceptions; and one of those exceptions is when the provincial governments, through a crown agency, decides to manage and conduct the gaming activity. So, we don't have a model here in Canada where the private sector gets licenses from governments. In essence, an agent of the crown is required to conduct and manage the gaming. British Columbia Lottery Corp. is the agent of the crown for all government gaming in our province. That includes the lotteries, all commercial casinos, all of our commercial bingo, and then any other commercial gaming activities that could come up in the future.

PJ: *Are there commercial casinos that operate apart from the agency of the crown, outside of the control of BCLC?*

VP: No. We outsource operations to private corporations, but ultimate management, control, and responsibility belongs to BCLC. Our business model is similar to the way most lotteries around the world are operated in that we don't sell the end product to the end customer. Lotteries sell tickets through a private sector retailer who is contracted to sell those tickets to the ultimate customer. Conceptually, our model on the casino and the bingo side of our business is similar. We have an outsource model where the lottery corporation contracts for operational services to private sector casino service and bingo service companies. Additionally, in our province, these service providers also provide the facility and the day-to-day operational staff to operate the facility. The role of BCLC through all lines of our business is that we decide what games will be brought to market, where casinos and bingo facilities are to be located, how big they are, what type of amenities are associated with them, and then we establish our contract with our service company to be able to fulfill that.

PJ: *So Gateway Casinos and Great Canadian Gaming are private companies that are managed by you in that way.*

VP: They operate under a contract that we have with them and that contract is to provide operational services to us to operate the casino, including where we would like them to be built and then operating them in the way we want them to be operated.

So BCLC owns all of the gaming equipment in all of our casinos. We prescribe the operating policies and procedures; we prescribe the surveillance and security; we have oversight people on the premises at most of the facilities to ensure that the conditions of our contract, including day-to-day operational and customer service requirements, are being met.

PJ: *When you liken it to the way in which a lottery distributes its tickets through retailers, it seems that while there are similarities, in actual implementation the business of oversight for casinos would be quite a bit different, wouldn't it?*

VP: Of course it is. But, it's important to understand that conceptually the business model is the same in that we've contracted with an independent retailer to distribute lottery tickets, but the equipment at the retailer is owned by the lottery; the games are owned by the lottery; the marketing of the games is done by the lottery; and, the method in which that retailer sells the product is, for the most part, prescribed by the lottery. And, that is essentially the same business model as what we have in casinos and bingo but obviously on a different level, with a different scale of magnitude, and different level of complexity.

PJ: *You make it sound simple, or at least straightforward, but wouldn't operating at this different level of magnitude and complexity pose a far more formidable level of challenges as well, really a difference in kind, not just degree. Or does it all go relatively smoothly?*

VP: Well, I think in any parts of the business, whether it's lottery, casino or bingo, there are always day-to-day operational challenges; there are day-to-day reputation and security challenges, integrity challenges; there are what I'll call "employee talent challenges." So, I don't think that the challenges are any less if one is directly involved in the business or if you have an

"Privatization" and Lottery Governance Models

Guy Simonis, first President of the WLA and former CEO of British Columbia Lottery

Guy Simonis

Paul Jason: *It seems that some states are exploring the possibility of leasing, selling, or in some way privatizing the operation of the lottery. Perhaps we could begin by briefly synopsizing the different models of governance and management that exist in the U.S. right now.*

Guy Simonis: With respect to models of gaming management, the current models in the US do not differ from those in use in the rest of the world. There are two basic formats. Since governments have the sole mandate to authorize games of chance they can either take on that role themselves – directly or indirectly – or let some other body do it under license.

Looking at the model where government operates the games of chance itself, there are two ways to achieve it. Lotteries in the US are largely operated by government directly, even to the point where legislators get involved in technical issues with regard to the operations of the game. I don't think I will get any negative feedback if I say that direct operation by the state is – for a number of reasons – the least efficient way and most cumbersome way to manage and conduct games of chance.

PJ: *Are you saying that the government operated model is the least efficient because legislators insist on meddling in operations? If there are a "number of reasons" why the government operated model is less efficient, what are some of them?*

GS: Let me clarify. I am talking about lottery programs being managed and conducted through a branch of government, such as, for example the Department of Finance. First of all the senior executives

make money is not a forte of the civil administration. Governments' policies on hiring and firing, wage freezes and workplace rules are not conducive to a motivated and vibrant sales organization.

Then there are the appointed Members of a Commission who make policy. Generally these well meaning folks are the eyes and ears of government. They have been appointed because they are "in tune" with the government of the day. They know that an overly enthusiastic marketing approach will yield criticism. Therefore they tend to be overly cautious. Moreover, they are required to conduct their business policies in a forum open to the public – another obstacle in a fast moving marketing atmosphere.

Those US governments that have opted for a Corporation such as Kentucky, Georgia and others have recognized this problem and placed the operation outside this restrictive environment by creating a corporation where all shares are held by government. Not that these organizations aren't responsible to government any more but they are not shackled by policies so inherent to the "spending machine." The Canadian lottery organizations are all based on this "one-step-away" model

PJ: *What about the model of removing government involvement in operations by licensing a private operator?*

GS: Some governments don't want to be even one step away from direct involvement but prefer to be just around the corner; but still watching, of course. In many such instances a private company is licensed to manage and conduct a specific portfolio of games tightly circumscribed in terms of prize levels, draw frequency, commissions and the like. The licensee is required to turn all net revenue over to state except for a stated percentage for administration. It is within that percentage that the licensee makes its profit. Yet another way to pay the licensee is to tax its

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What you refer to as "internecine warfare" the advocate for "free enterprise" might refer to as healthy competition. What have you got against healthy competition?

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of the civil service are very good at budget control. They tend to be risk adverse and generally not very good at imaginative marketing.

Government is largely a spending machine. It needs no marketing program to collect taxes. When an "earning machine", such as a lottery operation, is introduced within that hallowed walls, the system becomes conflicted. Budget cuts in administration and cutting advertising expenses generally earn compliments. Cutting advertising budgets will hog-tie a sales organization. Spending money to

net revenue at a high margin leaving a socially responsible profit. This is a popular way in the US with respect to the operation of casinos and riverboats. There is no practical reason why this model couldn't also be applied to lotteries.

European licensees such as some of the German state jurisdictions and Camelot in the UK as well as South Africa operate under the assigned percentage for administration model

Protecting the Integrity of the Games

Following is an interview with **Roger Farrell**, Director of International Operations for Gaming Laboratories International, Inc. (GLI). GLI is the worldwide leader in independent testing and certification of gaming products.

Roger Farrell

Paul Jason: *First, please tell us a little bit about Gaming Laboratories Inc. (GLI), what GLI does, and how does the relationship between GLI the regulator, and the manufacturer work. Exactly who is your customer?*

Roger Farrell: Our customer is the regulator; that's who we work for. The regulator sets the parameters, and we then test gaming devices to ensure that they meet those parameters. Think of testing as a soccer field, where one team is the regulator, and one team is the manufacturer. We're the referee. We don't make the rules, but we test by them.

We also assist regulators in crafting regulation for their jurisdictions. The advantage that GLI brings to regulators is our world-

These parameters are not classified as more important or less important, mission critical or not mission critical.

wide involvement in gaming. For example, because we test for more than 400 jurisdictions around the world, we see problems and solutions in myriad jurisdictions that individual regulators might not be aware of. We can then bring our worldwide expertise and experience to help regulators more precisely write regulations, whether those relate to existing devices or new technologies.

Above all, we are here to help regulators do their jobs the best they can, because that ensures the integrity of gaming, which ensures the survival of gaming.

PJ: *Regulatory policy is changing quickly all around the world. How does that affect the business of testing and helping your clients be compliant with the rules and regulations?*

RF: The volatility of the regulations does provide us with a challenge because we are required to certify gaming equipment in the broader sense against the current set of regulations. We have teams of people who are continually watching and dealing with the regulators, so that we are always aware of changes. We have a very good, positive relationship with all the regulators and in fact are told about and assist with development of that docu-

mentation. So we are usually aware of regulatory changes before they get to the street and we're able to put together the necessary conformance criteria and associated test groups for our engineers to certify the equipment when it comes to the laboratory.

PJ: *Corporate social responsibility is being integrated into the missions and strategic plans of lotteries, the goal of responsible gaming becoming a top priority. I would suppose that operators are trying to find technological solutions to problem gaming that require new testing procedures.*

RF: Yes. We participated in these discussions in various jurisdictions around the world, from Australia to South Africa, into Europe and then in America as well. The parameters and methods that are being used to provide information to the player, to restrict the player's activities according to public policy are, at the highest level, common to all of these jurisdictions. They're looking to either restrict the amount of money that can be lost over a period of time or they're looking to restrict the numbers of games you can play over a certain period of time. So, you can have time for game limits, loss per hour limits, you have information provision. For instance, the Italian jurisdiction and others can provide the player with information about when he starts, when he's finished, so he can make choices, informed choices, about whether he should continue playing with the game. So rather than become fixated at a machine and just keep playing at it, there are these interrupts every so often that make the player stand up and say, "Do I really want to continue with this?" The public policy in this area seems to be focused on restricting the amount that the player is going to lose by having time per game and loss per hour limits and providing the player with this information, so that they make conscious decisions about proceeding or take corrective steps to change his playing behavior.

It doesn't cost the regulator anything because the regulator doesn't pay for the certification, the manufacturer does.

PJ: *Is it the case that the testing for responsible gaming safeguards is not quite as sensitive as mission critical testing related to finances and the integrity of the financial transaction parts of the system?*

Internet Gaming in a Highly Regulated Environment

Johan Berg, CEO of Sweden's Boss Media, talks about 'channelizing' Internet gaming, European gaming trends, Svenska Spel's Internet gaming launches, UIGEA, and more…

Johan Berg

Paul Jason: First, Johan, please tell us a little about BossMedia and what you do?

Johan Berg: Boss Media is a leading developer of innovative software and systems for digitally-distributed gaming entertainment. The company has built a solid reputation in the online gaming industry for its reliable high-quality products, services, and proficient personnel. Boss Media – with its main headquarters in Växjö , Sweden – is a publicly traded company on the Stockholm Stock Exchange. Becoming a successful gaming operator depends to a great extent on building a trusting relation-

This has been measured and it has proven to be very effective. Svenska Spel is doing continuous codes or investigations on how many problem gamblers they have in their systems as well as how many problem gamblers the free unregulated operators have in their operation. The proportion for problem gamblers in Svenska Spel is far, far lower than with the free unregulated operations. It's proven to be very successful. And now the success of these responsible gaming systems have become a strong selling point for the Svenska Spel games. People appreciate it and they want to take responsibility for their gambling and they are actually grateful for having that opportunity with Svenska Spel. So, instead of being a problem or a disadvantage or an obstacle to playing, it's actually become sort of a selling point for playing Svenska Spel games.

The Europeans are very much a business paradox because they are not supposed to encourage people to gamble. They are only supposed to control it, channelize the demand that's there, and offer a socially responsible environment and safe environment to in which to play.

ship between you and your players. Helping our clients gain such trust is one of the building blocks of our company. For nearly a decade we have helped both private companies as well as government-owned gaming organizations across the world to attain just that. We do this by delivering games and systems acclaimed for their high quality in entertainment, design, reliability and security. Delivering the best to each of our clients and their players has always been, and always will be, our main objective.

PJ: *Let's talk about Svenska Spel and the way in which you collaborated with them on the design and implementation of the online games.*

JB: Most of the research behind the responsible gaming concept that has now been implemented in the Svenska Spel poker, for instance, has been done by Svenska Spel. We have both done significant research with the major Swedish universities and some international universities. Based on that research we have implemented this system that the Swedish authorities together with Svenska Spel have defined. The platform and the basic concept that has now been implemented in the total solution is that the player actually sets his own limits, in terms of the amount of time he can play during a day, week, month, year, and, obviously, how much money the individual player is prepared to spend.

PJ: *Also, it seems a selling point for Boss Media that you, in the process, would likely have acquired and developed the skill sets, the technology, the resources, basically all those things that went into helping Svenska Spel design and implement its games.*

JB: Of course, it's a huge advantage for us to be able to work with the forerunner in this field, which I think Svenska Spel is. And, obviously we have a huge advantage over many of our competitors, having the experience we now have with the solutions that we deliver to Svenska Spel. So, yes, I think it's a unique selling point for us, definitely.

PJ: *BossMedia's gaming management system provides the ability to implement and manage a wide variety of games that appeal to all different kinds of needs, be they different languages, different cultures. So, is the main application for operating in different countries?*

JB: Well, obviously it can be, but it's also about having a 360 degree view of the player, as well as for the player to have a 360 degree view of her or his own gaming activities. So, it's this 360 view from the operator's point of view, but also from the player's point of view. And, I think that this can be put to use in a responsible gaming context as well. So, the gaming management system integrates activities, it connects all the information about the

player, with respect to which games he plays, so that will enable us to improve the responsible gaming features that we have, by not only having them on each and every game and category but also the total gaming engagement of the player. So that's one thing. The other thing, obviously, is for the operator to detect compulsive gaming much, much earlier and much more efficiently, by having a complete view of a particular player's engagement.

PJ: *The U.K. is encouraging providers of internet gaming to locate in the U.K., and it seems to me even condoning the practice of exporting internet gaming into jurisdictions where it is illegal. Do you have the technology, the means, for the U.K. based provider of internet gaming to implement games, and control distribution, that comply with everybody's regulatory policies?*

JB: Yes, absolutely. First of all, the basis of a multinational platform is obviously that it's multi-currency, multilingual, and that it supports all the different payment methods, as well as age verification methods, because that varies from country to country,

The political leaders have a chance of a lifetime to get on top of internet gaming and if they wait too long, offshore operators will find other methods, other means, to deliver those kinds of services to American citizens.

depending on which type of information authorities collect about individuals. In Sweden, for instance, we have something similar to a social security number, called our personal number, a number unique to each person and that number basically states your age so you can cross-check and that is actually what Svenska Spel does. They are cross-checking lots of information through the personal number so they can, in fact, verify that this person is over 18. The way this has been architected, I can't imagine that there is any

Can Market Research Mislead?
Tell the Truth Now.

Following is a synopsis of four presentations made at the WLA conference in Singapore. Thanks go to Evan Lawrey, General Manager – Interactive, New Zealand Lotteries; Guy Simonis, former director of the British Columbia Lottery and first president of the WLA; Rolf Stypmann, Managing Director of Toto-Lotto Niedersachsen GmbH, Lower Saxony, Germany; and Bill Thorburn, CEO, Golden Casket Lottery of Queensland, Australia, for allowing us to share their thoughts and insights with our readers.

Back in the days when Elvis Presley was even more popular than Paris Hilton (lucky for Elvis that Paris wasn't born yet), General Mills produced an instant cake mix that needed only water and beat the competition in all the taste tests. So here we've got super convenient, tastes great, and vetted with extensive focus group testing, yet it fails. Why? The market research people blamed their focus group subjects because at no time did any of the focus group subjects bother to explain… *"Well, the truth of the matter is that I derive significant compensatory value from investing at least a little time and energy into the work of baking the cake. It's sort of an expression of love that I am showing my family, and I frankly feel guilty if the process is made too easy. Why don't you change it so that it is a recipe that requires me to add an egg myself? Then it would still be super easy to bake but allow me to be more involved in the process. That little change would make me feel so much better and then I'd buy your cake mix."* The researchers couldn't understand why the consumer focus group subjects withheld this information. Another more famous example… Coca Cola researchers assumed that the dominant buying motive for soda pop consumers was taste. The Coca Cola people confirmed that what the "Pepsi challenge" commercials were claiming (that people preferred the sweeter taste of Pepsi) was true. The amazing thing is, and you won't believe this, but not one of their focus group subjects bothered to explain… *"You may think that the dominant buying motive for buying soda pop would be whether I like the taste. Well not so fast there, Bucky. Aren't you overlooking the whole host of emotional paraphrands and metaphrands that coalesce to inform my decision of what soda pop to buy? And the subconscious associations derived over a lifetime of experiences that are tied to*

Latest Research Approaches
1. Neuroscience

- Technology that captures brain electrical activity while individuals are presented with stimuli such as advertising

And sometimes they may not deliberately lie, but their perception of truth is based more on what they would like it to be.

your brand?" Inspector Clouseau constituted a focus group of one when he was asked by a passerby if his dog bites. He says *"no, my dog doesn't bite."* Then the dog proceeds to bite the unsuspecting soul who reaches down to pet the dog attached to the leash that the Inspector is holding. *"I thought you said your dog doesn't bite."* That's when the Inspector clarifies *"That's not my dog."*

Even the most self-evident assumptions can be wrong. Sometimes people deliberately lie. And sometimes they may not deliberately lie, but their perception of the truth is based more on what they would like it to be. Guy Simonis enumerates some common survey results… *"People say they watch T.V. less than they really do. They over-report charitable giving. Women tend to under-report sexual activity, while men do the opposite. And, an example in our industry, players want to appear responsible and so they underestimate what they spend on gambling and double the amount when they say what they won."* To complicate matters, Mr. Simonis goes on to say *"even if focus groups were entirely truthful they cannot tell about what they do not know, but feel deeply. It takes a skilled and experienced focus group leader to dig deep to get to the truth."* Mr. Simonis tells the story of how surveys were conducted to determine if a second draw should be held on Wednesday, in addition to the draw that was already being held on Saturday. The results were resoundingly negative. But the reason they were negative was that the players knew that if a second draw was held on Wednesday, they would be tempted to play.

Evan Lawrey points out that people are really not the best predictors of their own behavior. People say they want healthier food, but they don't actually buy it. People say they will buy the practical brand, but buy the status brand. No amount of market

research or focus group study yielded the insight that there was a dormant demand for premium priced coffee or ice cream. People say they want more winners and better odds even if it means lower jackpots, but they won't actually jump in the game until it's a bigger jackpot.

Following is a portion of Mr. Lawrey's presentation, verbatim…

"The reality is that despite significant investment in market research over 80% of new product launches still fail. So how do we continue to get it so wrong so often? There are 6 key reasons to be aware of that affect the accuracy of research results:

Consumers are often hopeless at predicting their own behavior.

1 Market Research might be asking the right questions but framing them the wrong way. For example we might ask if they like a new concept – but liking is different to handing over money for the product. Or we might ask nearly the right question – but frame it in the wrong way. If I ask: *"Which would you prefer – to pay the same taxes as you do now, or to pay higher taxes?"* nobody in their right mind would choose option B. But if I asked: *"Which would you prefer – pay the same taxes as you do today – or pay $2 extra per week to fund new hospital equipment to save lives?"* now the vote will be more evenly split. Framing is everything.

2 Market Research may be assuming that the consumer actually knows how they'll behave. In fact, consumers are often hopeless at predicting their own behavior. We predict we'll eat healthier food next year – when in fact we eat the same old mix of carbs. We predict that we'll buy a practical brand – when in fact we err toward status brands. Consumers don't always understand their own psyche – so research makes a mistake if it absolutely believes the consumer every time.

3 Market Research questionnaires and techniques aren't perfect. I can show you wonderful charts that show survey results that emerged as radically different due only to the fact that identical questions were asked in a slightly different order. Questionnaires and question wording can have a bigger effect than most of us imagine.

4 Market Research might be working to old fashioned or even irrelevant models. Example: most ad-awareness follows the AIDA model (awareness, interest, desire and action.) The model was invented when? Answer: 1898. Now

it may still be relevant, but just possibly things like internet, viral marketing and other factors have modified the dynamics of the model.

5 Market Research doesn't integrate with other market influences. It is univariate not multivariate in nature. Within research studies we tend to look at one or two variables at a time – but don't take an adequately holistic view of the data. It may not be our gender, or, specifically our answer to attitude question x – it might be a combo of eight or nine variables that combine to reveal the truth.

6 Analytics tend to be old-school and spreadsheet based. Now data in a spreadsheet is a bit like butterflies pinned to a board in a vast butterfly collection. Once those butterflies are pinned down they've stopped flying and interacting. So when I look at the collection I can *describe* the data (the color and size for example) but I can't answer questions such as: How do these butterflies breed? Or – how do they migrate across the USA to their breeding grounds, thousands of miles away west of Mexico city? Dead butterflies don't talk. Nor does data once stapled down in an excel spreadsheet. You can't play what-if with these respondents – or see how they'll behave if you changed a few things. We talk about surveys being a snapshot only. In reality we need movies. Now interactive analytical methods are possible – but most, maybe 95% of market researchers don't use these things which include risk analysis software, neural networks, agent based modeling, Bayesian modeling.

Discerning the motivations of consumers of even the most simple of commodity products is challenging. But with those products, you at least have a transaction in which the value of

equal to the cost of the ticket. However, the task of determining precisely the motivation of the buyer of a lottery ticket is far more formidable than most other forms of consumer behavior. The researcher, Mr. Stypmann explains, is rarely going to receive honest responses. People will in fact be deliberately untruthful for a variety of reasons. Mr. Stypmann's research indicated that two common barriers to truthfulness were the feeling that buying a lottery ticket was not an economically prudent decision and the desire to enjoy great profit at little expense and effort is not consistent with the image they want to project.

Following is a portion of Bill Thorburn's presentation:

"Unique challenges that confront our industry when researching our players and non players are:

1 Our proclaimed product benefit is extremely abstract and offered usually as something like "hope," "a dream," "a chance" or similar. This means that there are several different core motivations that our products can serve and that research needs to tap into, for example "fun," "family," "wanting security," "wanting to conquer," and so on.

2 Market Research doesn't integrate with other market influences. It is univariate not multivariate in nature. Within research studies we tend to look at one or two variables at a time – but don't take an adequately holistic view of the data. It may not be our gender, or, specifically our answer to attitude question x – it might be a combo of eight or nine variables that combine to reveal the truth. Most of our players, most of the time, do not experience the full benefit of the product. By definition, winning is infrequent and winning big, for most people, never happens. This makes it harder to consumer test lottery products, prior to launch, because the thrill & excitement of nearly winning is very hard to replicate.

We do not strictly believe or use research findings, in isolation from our own management experience. Rather we interpret our research findings in the broader context in which we operate.

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the product and the benefit to the consumer can be somewhat objectively appraised. All parties can agree on some of the basic attributes of a can of soda pop, or an automobile, or a theatrical production, and the benefits accrued to the person who buys that product. With respect to behavior of people playing games of chance, Rolf Stypmann explains *"Market analysis in the field of lotteries is uniquely difficult. Products from the lottery and sweepstakes market cannot be compared with products like ice cream or cars, or with services like catering or taxing. The gambling and betting business is something different – very different. It is the only product for which the customer, when he pays his money, does not receive an equivalent to that money in return. Normally, a person who buys a lottery ticket for one dollar gets nothing at all in return."* Of course, the lottery ticket buyer perceives that the value of the ticket is in some way

3 Market Research doesn't integrate with other market influences. It is univariate not multivariate in nature. Within research studies we tend to look at one or two variables at a time – but don't take an adequately holistic view of the data. It may not be our gender, or, specifically our answer to attitude question x – it might be a combo of eight or nine variables that combine to reveal the truth. There is not a great deal of tangibility to our products. For $8 or $12, a customer receives a small piece of paper. Again, researching new concepts is harder when we can't show a prototype apart, perhaps from a description of the new game and a description or image of how exciting it will be.

Even if our research processes can show a realistic image of how a ticket will look when it is launched, how do we build into

the research process the inherent emotion and excitement that could occur if the game was played for real?"

Perhaps, the more important point that we have learnt from experience over the years, is that our research results are used as guiding principles only rather than exact, black or white predictions of reality. In practice, this means that we do not strictly believe or use research findings, in isolation from our own management experience. Rather we interpret our research findings in the broader context in which we operate.

3 Newer Research Approaches

This leads me to present 3 newer and perhaps more novel research approaches that we are using or planning to use at GCLC which help draw out deeper subconscious responses to understand potential consumer behavior.

Neuroscience

The first is Neuroscience, where research participants wear headsets that capture their brains electrical activity while they are presented with stimuli such as advertising.

Neuroscience research overcomes the long proven difficulty for market research to predict how consumers will react to marketing communications. This is because people do not always say

what they mean because it is hard for them to rationalise and verbalise their own behaviors, especially those that are emotionally-based. For example, why is it that a player would prefer the color purple over the color orange.

These hard to explain, emotionally-based processes affect all of us when we buy products. And, this is the reason why traditional research approaches, sometimes have limitations to, as the title of this session suggests "have respondents fess up and tell the truth"

Neuroscience research overcomes this problem because it provides direct access to participants' brain waves. There are different brainwaves that are measured that capture:
• attention,
• memory encoding and
• emotional brain activity responses while viewing or listening to communications.

So, rather than asking respondents their opinions to a new ad, Neuroscience research techniques capture how their 'brainwaves' are responding. This means we can deconstruct and analyze the effectiveness of GCLC advertising on a second by second basis which enables us to make better TV ads, because we know:
• when during an ad should logo placement occur,
• which particular characters are liked or disliked,

- which parts of the ad story are being processed and understood,
- and overall, how well the ad is performing to evoke emotional connection and be remembered by our players.

Neuroscience research is particularly suited to the ads in our industry which have strong emotional overtones expressing the hopes and dreams of our players. However it isn't a panacea for all research needs. At GCLC we are planning to use Neuroscience as a market research tool to complement and add to the understanding yielded by more traditional methodologies such as focus groups.

Online ISI Testing

At GCLC we test tickets prior to choosing which to launch, using the second of our newer approaches which is online ISI testing. Online testing has benefits over traditional research such as focus groups which have had difficulties in doing this cost effectively.

By testing tickets online, where they look and perform like tickets printed on cardboard & covered in latex, we can achieve samples of thousands of people and get very detailed feedback and predictions on which tickets will succeed if we launch them in market.

Our current research facility allows players to scratch the tickets using their mouse in order to best "replicate" the playing experience. It's a virtual experience of reality. The cursor pointer on each persons computer is in the form of a coin and the scratching sound effect is included. The player can play the ticket more than once and will receive a different result after each play experience (just like reality).

The experience starts with the research respondent logging on the GCLC website and clicking on a link which asks them to provide feedback to new ISI tickets.

The respondent then proceeds to our online virtual dispenser where they are asked to choose a ticket to play. This is our first piece of data collected – which ticket is chosen simply on how it looks – its color and theme.

Once they have selected the ticket and played it, research respondents then complete a short questionnaire rating the individual ticket on:
- overall appeal,
- liking of the theme,
- liking of the game mechanic
- AND importantly, their likelihood of buying the ticket if it is launched in Golden Casket shops.

All of these measures have an impact on purchase intent and over time we have been able to build a database of knowledge in order to guide the design and development of new scratch-it tickets.

Another benefit from this type of research is that we can advise on optimal product configurations – that is, not just give feedback on the ones we test. Because online instant scratch-its testing has very large samples, and because we can be very detailed in how

we construct the stimulus – for example online can test the same ticket just with modified colors – we can build conjoint models that will show us the optimal product attributes for our ISI games.

Observational Research

Observational research, as the name suggests, involves observing our players when they purchase and play our products. Observations can occur:
- In the vicinity of our shops,
- Within our shops,
- In home (with permission),
- Where the playing experience occurs, for example in a coffee shop.

Like the Neuroscience approach, this type of research does not require us to ask players questions. Rather we observe how they behave to answer research questions like:
- Do players observe our point of sale within shops?
- What other products – newspapers, magazines, cards etc – are purchased in conjunction with our products?
- How many people stand near our dispensers when buying products from our shops?
- How do people play our products and who do they play them with?
- And so on.

Using observational research we've uncovered some useful information to assist our marketing activities such as:
- Players spend a very short amount of time browsing in our shops, which therefore makes it difficult for point of sale advertising to gain attention;
- The counter experience within our shops is extremely short and usually not conducive to much personalized discussion with the sales assistants, which therefore makes it difficult for sales assistants to support new product launches such as SportsTip,
- Most of our instant scratch its are takeaway purchases – they are not played within the shops or in the immediate vicinity of our shops, which means any reinvestment of winnings will not occur until the next time a player visits the shop.

Like the other newer techniques, observational research is used in conjunction with the traditional techniques to expand on and enrich our understanding of our players and their needs.

Summary

So in summary, GCLC conducts both traditional and newer forms of market research. When used as a suite of techniques, market research is a useful business practice which GCLC values because it helps us to make better informed and lower risk business decisions. Importantly though, we do not follow market research results blindly. We appreciate the limitations and understand that market research results are a tool to aid our managers to make better decisions. ◆

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An Integrated Strategy for Increasing Lottery Sales
Lotteries can broaden their appeal by focusing on content, channel and delivery.

By: Amir Sadri, Senior Director Market, Game & Industry Analytics at GTECH

As lotteries search for new strategies to increase sales, it is no longer enough to just run a promotion or release a new game. That just creates a short-term bump in revenue that would sustain only minimal growth. Instead, lotteries should consider creating an integrated strategy designed to boost revenue from traditional customers while simultaneously broadening the appeal to a younger demographic. An integrated strategy is one that blends game content, sales channels, and delivery mechanisms.

Current Industry Fact

Lotteries are struggling to attract the highly-coveted 18 to 34 year-old demographic. Their traditional customer base is drawn to the more established matrix games, such as Lotto and Bingo, and numbers games, such as Pick 3 and Pick 4. Lotteries are very successful with these types of games, but, predictably, they don't draw new players until the jackpot rolls to an exceedingly large amount.

Conventional wisdom says that the younger demographic, conditioned by flashy graphics, instant gratification, and the any-time/anywhere access of the Internet, mobile phones, and PDAs, will only be drawn to the lottery by exciting, dynamic, interactive games. That is partly true; however, it is a mistake to think that rich content and cutting-edge games are the only keys to success. Hot new interactive content can increase revenue, but only if provided on the right channel and via the most appropriate delivery mechanism.

Certainly, focusing on attracting new customers from a younger demographic is smart marketing. But lottery marketers should not ignore traditional lottery players in their attempt to broaden their portfolio without cannibalizing their successful revenue-generators. With this customer segment, too, the same "golden rule" applies: lotteries must continue to optimize their game mix, sales channels, and delivery mechanisms to increase revenues.

Making It Easier to Purchase

Here's an example of what we mean by the value of delivery mechanisms as part of an integrated strategy for increasing sales. In both retail outlets and social spaces, self-service terminals have become a widely accepted delivery mechanism for reaching new customers. In fact, all industries have embraced the self-service trend and many successful case studies demonstrate this fact. Self-service terminals, like GTECH's GamePoint®, which offers players a choice of either instant or online tickets, are reaching a new demographic. These terminals offer a convenience that younger lottery players appreciate. At GTECH, we are seeing the sales from our GamePoint solution steadily grow as players increasingly recognize the benefits of self-service and as lotteries are better able to determine the best retail locations (and placement strategies) for the device.

Let's take a look at three examples of more recent trends that illustrate the value of the golden rule.

Attracting New Players

Lotteries don't require a hard sell to understand the value of social-space gaming. Played outside of the traditional retail channel, social-space games are more appealing to younger demographics and they don't cannibalize existing sales. The revenue statistics are impressive. Since 1991, Keno has delivered more than $7.6 billion in revenue to 12 jurisdictions in the U.S., including jurisdictions like Michigan, which only began offering Keno in 2003.

Michigan is a good example of how a sales channel can help grow sales. Six months after the Michigan Lottery launched Club Keno®, total sales from the game were more than $33.2 million! Less than three years after the launch, Club Keno's total sales were more than $1.1 billion and revenues were more than $340 million – proof that a lottery can succeed in a new channel with the right content.

Restaurants, taverns, and bars clamor to participate in entertaining games like Club Keno, because they keep customers in the establishments for a longer period of time. In Michigan, the number of licensed social spaces doubled from 700 to 1,400 five months after the launch. Currently, more than 2,170 Michigan restaurants, bars, and other social spaces offer Club Keno.

The Michigan story proves the value of an integrated strategy, where the right content and the right sales channel, together, re-energize interest in the lottery and increase revenues.

Club Keno is also successful in Rhode Island. However, the Rhode Island Lottery provides another option for customers who want a more dynamic social-playing experience: Rhody Poker®. Launched in September 2006, it complements the existing products in the social space. Rhody Poker is a lottery version of the very popular card game Texas Hold'Em; it is played on traditional Keno monitors.

Texas Hold'Em clearly has a grip on American culture. The game is featured in weekly television shows, in special star-studded celebrity games that seem to happen once a month, and now in one-hour dramas. Casinos from Atlantic City to Sin

We Must Join Forces as We Prepare for Change
By Carole Pinsonneault, Ingenio, a subsidiary of Loto-Québec

Lottery corporations must be ready to deal with change, because their market has evolved considerably over the past decade, not only in terms of competition, but also in terms of the expectations of customers, who no longer want to play simply to have a chance to win, but also to have fun.

According to Nathalie Rajotte, General Manager of Ingenio, Loto-Québec's research and development subsidiary: "*At the beginning, lottery corporations mainly attracted customers by selling the dream of winning merchandise or cash prizes, but the way in which the win was determined was only of minor consequence.*" Since that time, lottery games have taken on many forms, and today's consumers want even more. Living in a technology-driven world, they want an entertaining experience that even involves skills and challenges before discovering the outcome of the lottery game. "*In light of this, we must consider what we mean by the game experience from a new perspective,*" adds Rajotte.

Consumer expectations are forcing lottery corporations to review their product portfolios. Driven by technological advances, the industry trend of convergence toward multi-platform products is becoming a reality. The boundaries between video lotteries, slot machines, interactive instant lotteries, and electronic bingo are gradually fading. According to Rajotte: "*Soon it will no longer be a matter of gaming sectors, but rather of game concepts that are sometimes offered in one kind of setting, and sometimes in another.*" The recent corporate mergers and acquisitions involving various gaming sectors reflect this trend.

This era of change for the gaming industry also points to the emergence of multi-sector games. These products, which are spun-off from a single game theme but developed in different ways on various platforms, can be interconnected in order to offer consumers a diverse experience while taking advantage of cross-market leverage, thereby creating a single major happening.

Spending in R&D is not a luxury

At the present time, Ingenio is conducting joint research and development projects involving lotteries, casinos, and bingo with partners from these various fields. This approach makes it possible to properly manage innovation across all gaming sectors, thereby creating a synergy that benefits everyone. Rajotte explains: "*Québec is well positioned to manage innovation corporately, because all gaming sectors come under the jurisdiction of a single government agency, Loto-Québec. However, we can also work in partnership and cooperate on a larger scale, which we already do with various lottery corporations around the world, and with private partners such as Bally Technologies, Gtech, and Betware.*"

The gaming industry cannot afford to ignore R&D, because it is one of the main keys to finding imaginative solutions to evolve within today's legislative and regulatory framework, while addressing issues related to our social responsibilities.

Developing secure integrated solutions

Lottery corporations must continue to work toward alternative means of marketing that are capable of providing a secure integrated presence across various distribution platforms, including the Internet and mobile technology. One excellent example of this is derived from a concept that was patented by Ingenio: interactive lottery games for personal computers, which are activated by an access code that is distributed through the purchase of an instant lottery ticket.

"*Amid the proliferation and diversification of the forms of gaming that are available on the grey market, it is now more crucial than ever for government corporations and reputable private companies to work in unison,*" Rajotte adds. "*Operating in a vacuum is no longer feasible, and R&D is the necessary path to solidifying the positioning of our industry so that we emerge from the greatest era of change in our brief history as winners.*" ◆

Managing Operations, Games & Channels in Times of Change

outsource model. Managing in an outsource model is different in some respects, but at the end of the day, it's still our business; so, if there are any fundamental issues with respect to gaming integrity issues, market place management, corporate reputation or player satisfaction issues, all of those do come back to us and then we have to work with our casino or bingo service company to be able to sort those out.

PJ: *You said something to the effect that implementing a game operationally through an outsource provider isn't really that much different or doesn't pose that many more problems than implementing it more directly yourself?*

VP: What I meant to say is that the issues are the same. They just fall at different times and on different sides of the responsibility line. So, in some cases, it may fall under the day-to-day responsibility of the service provider, our outsourcer, but if it's a big issue, it's still going to end up back with our corporation.

PJ: *What if the crown or the government determines that it wants something done differently with the way the games are implemented in the casinos – for example, reduce the number of plays per minute or some other measure to reduce the overall spend amount. They communicate this new directive to you and then you in turn communicate it to the service operators, correct?*

VP: That's correct.

PJ: *But wouldn't your service operators protest that your new directive is unfairly impinging on their profit structure, costing them money, and they don't want to do it?*

VP: Yes, that's very perceptive. That does happen. How we deal with it depends on what the issue is, and what the magnitude of the issue is. Those kinds of issues would cause both parties, the outsource operator and BCLC, to refer to the contracts. There are provisions which ensure that the service providers do fulfill the requirements as set out by us. On the other hand, there is also a provision that says, "You know what? If the terms and provisions that we set out are so burdensome that they actually start to materially change the cost structure, then this causes us to look at and re-asses the financial side of our arrangement."

PJ: *So an important aspect of the role of B.C.L.C. is to implement the mandates of government, and protect the interests of the people, but also to act as liaison to figure out how to help all parties, including your outsource agents, to try to work together in a reasonable way towards fulfilling a mutually agreeable result.*

VP: Very much so. We begin by being clear with what our objectives are within our province. For example, we're pretty clear with our service companies that our objective is to offer responsible gaming entertainment which also generates income for the public good. It's not about maximizing the revenues from all ac-counts, it's really finding the right strategic balance between the financial objectives and the social responsibility objectives across all lines of our business.

PJ: *So you feel that the end result is that outsourcing helps you to fulfill the interest of society with respect to managing that right strategic balance between financial objectives and managing, minimizing problem gaming; the notion that your goal isn't really to expand and increase the volume of gambling, it's more a matter of just managing or channeling it. And you don't feel that your ability to do that is compromised by the fact that you're not always directly controlling every aspect of operations on a day-to-day basis.*

VP: I would agree, Paul. I think that when we look at what our end objective is, I think that our business model, using a contract outsource method, does not take away, does not impede at all, our ability to work toward our mission and our end objective. It just requires us to work more cooperatively to ensure that our outsource partners clearly understand our objectives.

PJ: *So, like Svenska Spel, you're charged with managing all of the entire gaming industry within your jurisdiction.*

VP: That's correct, although, there are some exceptions. We have charitable gaming, this could be charitable raffles or hospital raffles or in some cases some charitable bingo and horse racing. But all of the commercial gaming falls under the responsibility and the banner of one organization, making ours similar to the Swedish model. Now, in the Swedish model, as you know, Svenska Spel goes one step further in that they actually do not outsource the casinos; they actually operate them themselves. That model also exists in Canada where some of the other provinces have chosen to invest capital and operate the casinos themselves. We've chosen not to do that here in British Columbia. The law provides the option to either operate them yourselves as a crown agent or to contract to a third party to provide the operational services to operate them. We've chosen the outsource model here in British Columbia.

PJ: *It seems like a model that serves the interest of the people effectively in that you're able to manage that strategic balance in a way that a competitive free market system would not do. Even for those of us who are strong believers in the efficacy of free-market capitalism, society's interest may be better served by having a corporation, like yourself, manage that strategic balance in a way that a free market wouldn't necessarily do. And your service providers probably employ that extra measure of creative initiative found in the private sector, sort of giving you the best of both worlds.*

VP: I would agree and I think a lot of jurisdictions around the world have come to that same conclusion because of the somewhat unique nature of the gaming industry.

PJ: *Would you say that the structure of British Columbia and*

Svenska Spel, the model of having all gaming under the control of one corporation, gives you a special advantage in managing that strategic balance effectively?

VP: Very definitely, however, while I do believe that we have a model that works very well, I don't think it's the only model that supports an effective approach to achieving that strategic balance. I think this is a model that works well in Canada, works well in other parts of the world, but I certainly wouldn't say it's the only model that can work well. One of the things we often hear as a counter to this model, is that with one organization that you really don't get the competitive forces of the market place. And, to a degree that is true. I guess we have tried to balance that by actually having a private sector outsource model as we take the products to market. We do operate in a regulated gaming market place, so it is not a free marketplace, but even Las Vegas is a regulated marketplace.

PJ: *About your games and the way BCLC is set up. Do you think of yourself as having four categories – Play Now, lotteries, casinos, and bingo?*

VP: Actually no. For the most part, Paul, we really look at our business in three categories. What I'll call lotteries, casinos and bingo, at this point. That's principally how we've structured the company in that we have separate business units responsible for each of them. Obviously, we have enterprise wide, corporate functions that support those three market facing business. But our management structure treats those three businesses as being different from each other.

For instance, lotteries have been around for 30 years and it's the more traditional part of our gaming products. Even though lottery is about a billion dollar a year business, like most of the lotteries around the world it's a part of the business that's not seeing a lot of growth and has not seen a lot of growth for the last few years. The strategic challenge in our lottery business is to try to transform and reinvent that business, to bring in new and innovative games, to attract new players, and also to bring back the number of infrequent players who we know may not be playing as regularly, based on the products that we have out there today.

The casino part of our business is about ten years old. This year it will be about a $1.2 billion a year business for us, and that's net after prizes. We have 17 casinos in the province and over the last five or six years, we have been really trying to transform the casino business by moving to fewer, bigger, better casinos that are sized to suit the market but also with better entertainment amenities associated with them. And, those entertainment amenities could be hotels, show centers and lounges, convention space, fine dining – those types of amenities that you would typically see in some of the better casinos around North America.

Bingo is no different for us than it is in most of the parts of North America. It's a business that's on the decline and has an aging customer base and has not seen a lot of innovation and changes over the last two decades. So, we're trying to reinvent that business by transforming the old stereotypical bingo hall into what we call a "community gaming center." While bingo will still be one of the gaming products offered in a Community Gaming Centre, it may have a variety of other gaming products offered in that facility as well. These could potentially include a small number of slot machines, an off-track betting parlor, a sports betting parlor, good food and beverage and some type of entertainment that will attract people that are going there not just for the gaming, but for a nice, friendly casual place to go for an evening of entertainment.

So, those are our three market facing businesses. Play Now, which is our internet offering, is more of a convenience distribution channel. We're primarily offering our lottery products on our Play Now channel. At this point, we really have two styles of offering. The majority of our offering is a convenience offering, the standard traditional lottery games. It really is a convenience for the player, as opposed to having to run out, jump in the car and go to retail. Players can actually click the mouse, register and purchase on-line. We verify that they are a resident of British Columbia and that they are older than 19 years of age, which is our age of majority, and we have a specific spending limit, that they can only spend up to $120 per week. We also offer a number of interactive games which, as opposed to just for convenience, are games that may attract some new players to come to the site and play for a short period of time. Games like our 5 Minute Keno game and a variety of interactive scratch-and-win games.

PJ: *The interactive games do not enter into a category where a skill is involved?*

VP: No. They are still predetermined outcome games or random chance games, although some games present a perception of skill.

PJ: *With regard to games that have the perception of skill… is it challenging to manage that strategic balance between games that are too successful and minimizing problem gaming?*

VP: That's exactly why we have other compensation controls, such as the spending limit. Play Now provides players with a real time session log, including money spent as well as a twelve month record of activity.

PJ: *Has the volume or percentage of play that takes place on your Internet channel, Play Now, been increasing and how does it compare to the retail channel?*

VP: We made a decision to move into the Internet channel as a long term strategic opportunity. Similar to what most lottery organizations have found, it's a slow build process. You've got to build awareness and familiarity of your product offering with your players. So, for us we've been in it now for three years. It still represents a small percentage of our overall lottery business at about 2% but we do see it growing over the course of the next number of years.

PJ: *Did you receive much resistance from your other channels, like retail, when you first implemented Play Now?*

VP: We did not. We were able to show a number of business examples within the lottery but more importantly outside of lottery where companies had been able to both increase their business in their bricks-and-mortar channel while at the same time offering the same product in the Internet channel as well. So, we did a lot of work and study, and presented that to our key retail partners and were able to show that in many cases the convenience of play from home was not in fact taking away from the lottery play at retail.

PJ: *Perhaps even engage the interest of players so that it could actually enhance retail sales?*

VP: Absolutely. That's what you strategically really hope to be doing in any of the channels is to find ways for the internet offering to be working synergistically with what you're offering in the bricks-and-mortar channel. And vice-versa.

PJ: *What needs to happen for you to be able to implement Internet poker?*

VP: In our jurisdiction any new games, we call it "new gaming directions," have to be approved by our government. So, that would require a government policy decision and our government has been pretty clear in that they're comfortable with us using the Internet as a convenience channel for our lottery games but, there are no plans to offer any casino games on the internet.

PJ: *Do you feel that there's a large percentage of your population that's playing Internet poker?*

VP: I don't think you can go anywhere in the western world without some people being involved in Internet poker. You can't turn your television set on without seeing Texas Hold 'em Poker. You know, from the work that we've done in studying our market place, there are definitely people who play internet poker here in British Columbia. We think it's still a relatively small but growing group of players and we're going to watch it carefully over the course of the next number of years.

PJ: *If you were asked whether you can guarantee the integrity with respect to age and jurisdiction verification; am I wrong in thinking the answer would be "yes?"*

VP: You're not wrong. We really approach it on the basis of due diligence and making sure we can do the most that we can do to guarantee both age and jurisdiction. I don't believe that you can ever be able to say that there's an absolute, fool-proof method but we're pretty diligent in what we do. We have real time checking on age verification so when a player registers, they must provide us with some very specific data to confirm that they are who they say they are. This includes external third party and real-time checks on their data. There are a number of different checks on the IP address to determine that the computer and

that the ISP is actually located here in our province. So, from our perspective, we believe that we have some of the better jurisdictional and age verification controls in place that we've seen. We'll always be fine-tuning and improving it, but I don't think you can ever say its fool-proof.

PJ: *It seems like you don't have as much of a problem with lottery "jackpot fatigue." Have you taken specific measures to try to have a prize structure for your lotto jackpot games that doesn't fall prey to that syndrome? What is the largest lotto game jackpot you've ever had?*

VP: It's much more important for us to maintain frequency of player participation. We've actually had a national jackpot on Lotto 6/49 that was $54.2 million dollars. Most of our jackpots to date have been under that amount. But, we do also suffer from an element of jackpot fatigue. It's just that it's at lower levels in the sense that we do not get the same degree of player participation on a $10 to $15 million jackpot today as what we did five years ago. And, our Lotto 6/49 base jackpot at $4 million is, generally, less played today than it was ten years ago. All players hope to be one of the lucky ones where the stars line up and the moon's in the right place and that it's your six numbers that get drawn.

PJ: *The "For Life" games seem to try to make that connection between an abstraction, lots of money, and a real change in lifestyle… to create the vision of what it means in terms to how your life would really change.*

VP: I think so. I think that whole "For Life" game category has worked well for us over the last number of years. Whether it's "Set for Life" or "Vacations for Life" or "Millionaire Life," they're all slightly different variations that are hopefully able to bring alive a little bit more of the vision of what this lottery win could mean for individual players, as opposed to just having a Jackpot number out there that many of our players have difficulty relating to, or understanding how it could change their life.

PJ: *Everybody that's been in this industry a long time has been wrestling with the question of jackpot fatigue, but maybe the media could be engaged to promote the notion that 20 people winning $2 million is more exciting than one person winning $40 million.*

VP: When we ask players after a big draw, that's exactly what they say, that they wish there would have been more opportunities, more smaller million dollar prizes. But when you ask them before the draw, the reality is that they say that they want a shot at the big one.

PJ: *In British Columbia, you offer a player card called BC Gold Card. Does the BC Gold Card also tie into helping the player manage their playing activity or is it more like a frequent flyer loyalty type program?*

VP: Our BC Gold player card is more of a loyalty card at this point. And it is only offered on the casino side of our business. So, it's more of a traditional casino player card, which provides

the player with some loyalty benefits and those benefits can either be cash back or merchandise type of awards. It certainly has the possibility as we look out into the future of extending across all of our lines of business and at the same time also using it to be a mechanism for the player to possibly use to ensure they are following responsible and healthy playing behaviors.

PJ: *Any comment or insight into the trend lines of Scratch-offs, Keno, lottery and jackpot games, and bingo, and casinos?*

VP: I think one of the things we are all seeing, and that is there's going to be continued increase in competition for the consumers' discretionary entertainment dollars. I don't think it really matters if it's on the lottery part of the business or if you have other gaming like casino and bingo. I think that in general the amount of competition, not just for the consumer's wallet but for their intention, for their heart and for their mind, is increasing significantly. So, I think we really have to shift our thinking as an industry, away from just being, let me call it "lottery companies" or "lottery and casino companies," to truly looking at this from the player perspective and seeing how we can enhance the player experience, how we can improve that player experience, how we can actually give players the products, facilities and services that they look at and say, "Hey, this is really cool. I really enjoy this. I'm going to come back and do some more of it." I think it's all about strategically shifting away from just thinking that it's only about products, to actually acting and behaving as

if we truly believe we're delivering gaming entertainment experience for our players.

PJ: *Is there any comment that you might have, looking south of the border, at some of the things that the U.S. political scene, as it relates to lotteries, and the discussions about privatization – is there any comment on or observation from your perspective that you would make on all of this and how it might unfold?*

VP: Well, that's a very speculative question. I think that as you look at what is happening around the world, the issues of deregulation and privatization have been ongoing issues. I think that governments need to simply ask themselves what role they want to play… what is my role as a government, what parts of the gaming business does government need to be directly involved in, should it explore other ways of operating the businesses, what is the best way to manage that "strategic balance" between financial objectives and social responsibility. I do think that just generally as a trend you see that things will continue moving much more to a deregulated type of environment, over time. I don't find it surprising that some of these conversations have started in North America. In terms of where they will end up, I think the jury is still out on that. I think a big part of where it will end up will be driven by the business economics and what opportunities there are to grow the business bottom line to effectively pay for any investments that might take place. ◆

"Privatization" and Lottery Governance Models

and turning all net revenue over to prescribed beneficiaries.

PJ: *So what exactly is the difference between the Camelot/UK model and the way Nevada taxes casinos? Isn't there more government oversight in the case of Camelot/U.K.?*

GS: Yes there is. The UK's Lottery Commission is the "Regulator" of the National Lottery. They in fact own the National Lottery. Camelot is their service provider. Camelot runs the UK lottery to the specifications and dictates of the Lotteries Commission. Camelot has latitude of operations to a great extent but the commission demands a high adherence to corporate behavior such as responsible gaming and social responsibility.

The Gaming Commission of Nevada has a much larger constituency of gaming operators to consider but operates on the same principles. While their regulatory powers are extensive I do

believe they are not as hands-on – operation wise – as the UK Regulator. The UK owns the National Lottery and has a service provider to conduct its lotteries. The Nevada Gaming Commission regulates private entities.

PJ: *House Speaker B. Patrick Bauer has said that there are "very long odds" that the legislature will approve the privatization of the lottery. He said that the only way that a private operator could substantially increase lottery revenue (which they supposedly would need to do in order to make money on the deal) would be to greatly expand gambling. An additional complication to the proposal is that lawmakers don't seem to agree on how the proceeds should be allocated. Could you comment on some of the obstacles that stand between someone's proposal to privatize and the actual approval of such a plan at all levels of state government?*

GS: I have no knowledge of the legal obstacles that may pre-

I have often asked myself why there is such a strong belief that a well-run corporation owned by the state would be less capable of achieving good results than a similar entity operated by a private firm.

vent a US State Lottery from being "outsourced". But the concept is by no means new, certainly not in other gaming activities in the US. What is new is the idea of an up-front payment by the licensee. This is in essence a loan that will be repaid by withholding lottery profits that normally would have accrued to the states. One may assume that the interest rates will be thoroughly analyzed by the bidders for the license. One may speculate if such rates will be more advantageous to the state than merely borrowing the money from the bank or other sources. The up-front payment is really irrelevant to the operation of the lottery. What is interesting is what happens when the loan is recouped by the licensee? Will it then be free to cash-in at an accelerated rate?

PJ: *Each of the models you have explained has some disadvantages. What are the main drawbacks to the model of licensing a lottery operator or a casino operator?*

GS: The licensee model as practiced in the lotteries in the UK and South Africa opens the door to a never-ending disputatious relationship between licensee and the regulator. The pettiest of issues such as the color of the logos to the really important issue of expanded gaming become part of the daily grind for the regulator and operator. The regulator has the government looking over its shoulder, in some cases denying the discontinuation of dying games, in others refusing to authorize new games of chance so as not to fan the flames of problem gambling. The operator will protest that he has to recoup his investment and make money for the shareholders. At that point government will wish that it was back when it controlled all the action and all the money. It's so easy to shush a government employee wanting to expand gaming but hard to deny a private operator who can use the media and politics to achieve his goals.

Government officials generally do not recognize that there is only one field of games of chance that extends from the local bingo hall to the glitzy high-roller casinos. It is one single entertainment sector with many variations. I ask the reader to imagine that if he or she was charged with the responsibility of controlling the entire sector of games of chance if the most effective way would be to parcel out different components to various operators and put them in opposition to each other. The riverboat against the bar that offers Keno and electronic horse racing; the lotteries offering bingo games that affect charitable gaming; Casinos sucking the lifeblood of what remains of betting on horse races.

Why, a logical person might even suggest that one licensee for all games would eliminate the squabbling and internecine warfare and allow government control through one model of governance, whether that entity was operated by a private licensee or a company where the state controls all the shares. Where can such a model be found? Look at Svenska Spel in Sweden. Look at Ontario, Quebec and British Columbia. I know that by misguided, incremental decision making over the past decades too much water has poured over the dam to set the structure straight, but let's at least make an effort to arrive at the stage where operations and control of gaming (always including lotteries) work hand-in hand.

PJ: *What you refer to as "internecine warfare" the advocate for "free enterprise" might refer to as healthy competition. What have you got against healthy competition? Are you a communist or something?*

GS: If giving away taxpayers money for no compelling reason is communism, I am a target for some name-calling. My argument is this. The law has given the state a monopoly over gaming. There is a reason for that monopoly. My view is that if given a

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I believe that privatization of lotteries is only a debate about how to run a branch of the gaming business. It is an administrative question, not an issue of principle.

I have often asked myself why there is such a strong belief that a well-run corporation owned by the state would be less capable of achieving good results than a similar entity operated by a private firm. After all, a company owned by the state turns over its profits to government, not to private individuals. It seems to me that there is an unspoken bias that a government-owned lottery operation does not have the same ability to achieve results as a private company that is tightly wound-up in a circumscribed cocoon of restrictions.

PJ: *What other comments or observations would you have as to the advisability of privatizing the operation of lotteries?*

GS: I believe that privatization of lotteries is only a debate about how to run a branch of the gaming business. It is an administrative question, not an issue of principle. In fact the US is already halfway there. Casinos and Riverboat gambling operations are privatized. What is important for government is the control of gaming.

monopoly it should be operated as a monopoly. A monopoly is a marketing asset. It is worth billions. Why should this market potential be dissipated by handing out bites and pieces for others to exploit? Why encourage competition when that will only result in assets being squandered on unnecessary, competitive advertising and administrative cost. To achieve market dominance the oligarchies have only one weapon to compete with each other and that is ever-increasing prize percentages, yielding less profit which can only be made up in sales volume. Urging people to gamble and gamble, all the while fanning the fires of problem gambling.

In an ideal world there would be one organization in any given jurisdiction (whether run by a private service provider or a government corporation) with a strong Regulator to keep the various forms of gaming in check and ensure a comfortable, secure, efficient and socially responsibly gaming environment.

Alas it's not an ideal world. ◆

Protecting the Integrity of the Games

RF: From a testing point of view we work on the parameters provided to us by the regulator, period. These parameters are not classified as more important or less important, mission critical or not mission critical. If the regulator says that the loss per hour must not exceed 70 Euros, then we will look at the game cycle, the way the game plays, the various basic elements of the game, any features that the game may have and determine whether or not the game meets that requirement. In the case that it doesn't, if the loss per hour is 71 Euros in one set, then it fails.

The usual statement with regard to the parameter is that it's an average across a certain time frame but if it's one set out, it's one set out. It's black and white and it fails and the manufacturer has to go back to the drawing board and work out how to tune the game so that, in this example, the loss per hour requirement is met for this particular game. Similarly, let's say a particular jurisdiction has a type of game parameter determined to be at least 4 seconds in duration. If the minimum time for the game comes in at 3.99 seconds, then it fails. So, as far as we are concerned, we use straight black and white parameters, wherever we possibly can. We recommend to the regulators that they use parameters that are as close to black and white as they possibly can get them. And, to use an absurd example, if a regulator decided that the only thing they wanted was blue boxes for their games, then we would go back to the regulator and say, "We understand that you want blue. It is your choice, but please just tell us what the pantone coat is for the blue you are talking about." That then gives us the black and white, sharp edge parameter to work with.

Coming back to public policy, using language like "around 4 seconds," is not any good for us. We need to know if you mean 4.1 seconds, or is it 3.9 seconds, or does it have to be absolutely 4.0?

PJ: *So, one of your particular challenges with your clients is just to help them translate big, general notions of what they want to accomplish into concrete, precise, measurable objectives.*

RF: Yes; that's correct and it's not peculiar to the gaming industry. There are many areas of management where requirements are stated in terms that you really can't use as management tools until they are translated into something that is measurable. There's a need in the regulatory arena to ensure that if you're going to manage your organization, your business, your activity properly, you need to have precise language and precise parameters to do that.

PJ: *What if the client says… I'll make it easy for you to understand. I want it to be perfect in every way. Zero tolerance in every respect. Am I wrong in thinking that you might then say, "Well, that's do-able but it would cost you this much and if you were able to think about it a little differently, be a little flexible, it would cost you a fraction of that."*

RF: Well, it doesn't cost the regulator anything because the regulator doesn't pay for the certification, the manufacturer does.

Technology is evolving in ways that can actually leave behind the regulation.

What the regulator has to do is set down clear definitions and guidelines for what he wants to achieve in his or her jurisdiction. It's up to the developer of the products, the software and the hardware, to build equipment, boxes, software, communication lines that meet the requirements laid down by the regulator. And going back to my absurd example, if the regulator says that he wants a blue box, then that's the parameter. So if the manufacturer builds a blue box, he can do anything else he likes. As long as the box is blue, it passes. And we write the certificate.

Coming back to reality, if the regulator says that as far as public gaming, what I would call limited payout gaming, which is where you find these restrictions, we are able to guide him in terms of what else is happening around the world because of our reach to Australia, to South Africa, to Europe into America. We have experience with the various limitations that are placed on that limited payout style of gaming and are able to bring to the table for a particular regulator what other people have done. We can say, "Well, this is what happened in South Africa. This is what's happened in Holland, in Europe and so on. And, these are the reasons that the regulator told us that these particular parameters were chosen. What do you want to do? What are the sorts of restrictions that you want to apply? What have you thought about in terms of applying the breaks to the gaming activity to the general public?" And from that, we then say "Okay, in Holland, they did it this way. In South Africa, they did it this way. Which of these ways works better for you?" Because of our involvement in so many jurisdictions, more than 400 at the present moment, we're able to talk to the regulators, our clients, directly and to others within the G.L.I. family and gather that information together and then present it to a regulator and assist that regulator in coming up with regulations, requirements, rules, clear parameters, whatever you want to call them. Our role in the gaming industry is to provide technical advice up into the regulatory environment, where the rules and regulations are created. So, that if a regulator has a particular public policy or a particular area of management that they wish to implement in relation to the gaming industry, then we can assist them in making sure that it's technically feasible. Sometimes the regulators will come up with a good idea and then say, "Well, you've got to do it this way." but that will involve enormous difficulty and angst to the manufacturers because the prescription that has found its way into the rules makes it very difficult for them to implement it. So, part of our advice upwards is to say to the regulator, "Slow down a moment. Let's understand what you're trying to achieve here and then come up with a non-prescriptive way of achieving what you want to achieve and gives you the control and management activity that you're looking for."

Our activity on a day to day operational basis is to make sure that the way in which the manufacturer has solved that problem is acceptable to the regulator. On a horizontal plane, we have no input to the manufacturer in terms of design and development. We're not allowed to because, just like a financial auditor, you can't have your financial auditor being your bookkeeper. So, as far as we are concerned, the manufacturer stands at arm's length. We can tell him that his solution meets or does not meet the requirement. We can tell him where it does not meet the requirement, if it's defective. Then we just hand it back, just like grandparents with children, we just hand them back and let them solve the problem and then they give it back to us. Our advice goes upwards to the regulator. The regulator will then come up with something like "My political masters are telling me I need to restrict the gaming activity of the general public on the street." Be it the lotteries or scratch tickets or VLTs or AWP machines; the general theme is still the same. It's not allowing Joe Public to leap out and spend six months of mortgage money, right? Or, the next week's money for the groceries on a one night stand in a slot room. So, they're looking to restrict this. That's the general rule. Now, inside that you have to build parameters that are able to be implemented by the manufacturers. If you build parameters that can't be implemented, you don't have an industry. So, there's this balancing act that has to go on in terms of managing the public policy requirement in this restricted area but giving the manufacturer something they can work with, so that they can put equipment into the field that is attractive to the player, but satisfies the requirements of the regulator and their political master. It's a very interesting balancing act.

PJ: *Then if the manufacturer comes back to you and says the requirements are not reasonable. Do you just say, "Hey, you may or may not be right. Go tell it to your customer or the regulator" …or do you actually give some input to the manufacturer and/or the regulator as well?*

RF: What I've been talking about is to some extent a little theo-

We deal with almost every single manufacturer that produces equipment in the gaming industry. And, we are independent. We have no ties to any manufacturer.

retical. In the real world, the regulators don't always come and talk to us. They will go off and write a section in a rule or a regulation that cause us to look at them and go, "Oh, no. Not that again." And that will get out into the field and the manufacturer will get a hold of it and sort of tear his hair out and then he'll come to us and say, "Look this has happened. And, for whatever reason we were not involved, we didn't know about it." I mean, that happens. And, if we believe it to be impractical, too prescriptive, we will go back to the regulator and say, "Look, this isn't going to work. You're going to do some nasty things to your industry if this continues. Let's sit down, understand what it is you're trying to achieve, and then look at how we can achieve that given the current technology or

look at possibly a technology that's coming into the marketplace and see how what you want to do can be achieved with this new technology." Right? On the other hand, if we look at it and go, "Well, that's reasonable." We'll tell the manufacturer "sorry, but that is reasonable," right? And we would suggest you go look in A, B, C and D boxes because in our opinion that's where the solution will come from.So, in terms of pointing them in the right direction, we don't have a problem doing that. But we will never get into the design side of it. And at the end of the day, the regulator is the person running the industry. If the regulator doesn't want to take our advice, the regulator doesn't take our advice and goes off and does his own thing. And we have to follow from behind and make sure that the manufacturers conform to those regulations. If the regulator says, "Look. It's got to be this way;" then that's it.

Christie Eickelman (Director of Worldwide Marketing): The lab provides a lot of information to the regulators through roundtable seminars and trading and that type of thing. That's where we talk about the new technology that we see coming out. If they don't have a set of standards that are technical in nature, we say "okay, are you going to adopt this kind of technology in your jurisdiction or not? And if you are, you need to start writing a standard." Sort of like with wireless or even when ticket printers first came out.

RF: Exactly.

Ms. Eickelman: The regulators have got to become aware of this new technology because when they first came out, the manufacturers say, "We want to do this. We're looking at this technology. Do you think the regulators will be open-minded, what do you think they are going to do?" Shows like ICE and G2E are the perfect example because the regulators and operators are seeing a lot of technology but it might not be allowable in their jurisdiction. But different variations of the same technology might in fact be legal in their jurisdiction. So, that's why we host regulators' roundtables all over the world, so that we can let regulators know this new technology is coming. And we need to know if it is allowable or not. What's going to be your standard? What kind of technology are you going to adopt? So the roundtable meetings help us to understand their needs, and their constraints, and the regulatory environment, as well.

RF: Exactly. Technology is evolving in ways that can actually leave behind the regulation. For instance, most regulations that are in place today take absolutely no consideration for a wireless environment. So, part of our role is to provide this information up into the regulator and tell them that this technology is coming. People are going to want to use this technology in their presentation of product in the gaming, gambling industry. You can't stop it. You have

to work out how you're going to handle this, given current public policy parameters, and you need to develop current parameters to deal with this particular technology. The same thing happened with ticketless. The same thing happened with smartcards, with player cards, and when bill validators came on the scene…

Ms. Eickelman: Or kiosks.

RF: Or Kiosks. There were a number of jurisdictions which had regulations and rules which essentially banned the use of a bill validator. And so decisions had to be taken about what to do next. All this equipment is being stacked up waiting to get certified and can't be because that particular piece of technology

It's far better to manage something under your control than to ban it and then have to turn around later and have to work on how you're going to manage this enormous illegal situation that's in front of you.

is not allowed. So, we then go to the regulator and say, "This is new technology and people want to use it, it's part of the industry. Here's how you can fold that into your existing rules and regulations. And here's where you have to develop new rules and regulations." For example, the metering that has to take place when you're dealing with bills. The type of metering, the scope of the metering, etc. And that advice is provided up and then that information goes back down to the manufacturer. So, the second role we play is that of providing technology advice up to the regulator where it hinges on the current regulations.

PJ: *Right. So it would seem like that's a vital role that serves the industry, the regulators, and the public who the regulator is supporting – for you to also be the provider of information about new technology that they haven't heard of.*

RF: Actually, the significant advantage we have, in this respect – there are two elements to it. The first one is our scope. The fact that we do operate around the world, we deal with almost every single manufacturer that produces equipment in the gaming industry. And secondly, our independence. We have no ties to any manufacturer. We have no ties to any particular technology. We stand in the marketplace as a totally independent repository of knowledge and advice and experience.

So, when we talk about, for example the bill validator, we have no ties to any particular manufacturer. We understood the technology. We understood the impact it's going to have on the industry. We understood from a data gathering point of view, from a taxation point of view, the parameters that the regulator requires to maintain their management discipline over this new piece of technology and simply gave that advice to the regulator. And, say, "Here's what you have to do to your regulations. You need to add these things in. You need to add a meter here and you need to do this piece of arithmetic and this is how this communication has to happen so that you can

allow this type of technology." It didn't matter to us whether it came from Mars or J.C.M. or whoever, right? Because the technology sitting behind these new devices is essentially the same.

PJ: *I'm sure regulators all have different ways of interacting with you and relying on your service. Are there any thoughts that you can share with regulators as to how they could make better use of what G.L.I. does?*

RF: Well, at the risk of giving a marketing poke, I think coming to the GLI roundtable is probably the best way of understanding what we can do. The roundtables are run in the United States and in Europe. These are vehicles for the provision of information about new technologies. They provide a vehicle for regulators to talk to other regulators at that point in time about the new technology. Each regulator will be in a different position on the spectrum as to where they are in relation to that technology; so, they can learn from each other as well as learn from us the impact the technology is going to have on their jurisdiction. The information we provide is unbiased. It comes from a desire to advance the industry in a well-regulated, well-managed way. And so, the advice that we provide, that's where it's coming from.

PJ: *Don't regulators also need to be receptive to the reality that technology will find its way into the marketplace. So, whether they want to or not, they really do need to figure out a strategy for dealing with it.*

RF: The advice I would give to the regulators in this area would be that you are not going to stop technology. And that it is far better to manage the introduction of the technology and manage it in a way that's under your control than to say, "No you can't even use it." Let's go back to the bill validator situation. Now, from a public policy point of view, certain jurisdictions say, for limited payout machines, street machines, machines depending on the invention, some jurisdictions are not allowed to have bill validators because the regulator doesn't want the player to have the ability to put large amounts of money in the machines. Okay. Now, that's a public policy statement. So, that's what I'm approached about. But if they are going to be allowed to put bill validators in, as is what happened in the casino industry, the best thing that happened was they realized what was coming, sat down took steps to work out how to manage the implementation before it actually hit the laboratory industry. That's important. It's far better to manage something under your control than to ban it and then have to turn around later and have to work on how you're going to manage this enormous illegal situation that's in front of you. Because, that's what will happen. ◆

Internet Gaming in a Highly Regulated Environment …continued from page 13

method that we don't support to verify age or to support different types of payment. It comes to how you set the limits. Our solution is built in a way that it can be configured so that either the player sets the limits or somebody else sets the limits, like the operator. We believe that will take care of all the different scenarios that we might see in the future.

PJ: *Were there unexpected obstacles that you had to overcome in the Svenska Spel implementations, especially with respect to managing age verification and geographic location of the player?*

JB: Not really. With respect to payments, the system is secure because the solution has been built so that you can only transfer money from Swedish banks or Swedish credit cards. Also, since we have this verification with the individual ID number that each person in Sweden has, we can also verify that a person is a Swedish citizen. So, those are the two basic requirements to be able to gamble on Svenska Spel; that you are a Swedish citizen and that you have your funds available in Sweden.

PJ: *So there has not been an issue with respect to age verification and geographic location?*

JB: Correct. We haven't had any issues. I think it's all based on the information that you can cross-check because when a person – when they come in you will ask them for certain information, their age, some identity, they will each have an identity number, maybe a social security number. And then, you need to be able to verify that towards something. So, you would probably ask the people for more information, the address, and then you can cross-check the information they give you. In Sweden you can cross-check the ID number to the address and so on. So, I would say it's almost 100 percent secure.

PJ: *Picking up on our previous conversation… on the U.I.G.E.A., it would be my thought that we needn't think of it as a negative thing. It doesn't ban internet gaming, it actually just confers authority and responsibility over to the states to regulate it.*

JB: I completely agree with that statement but I think it actually creates an even bigger problem. The problem is that the demand in the U.S. for online gaming or online gambling services is huge. The figures I have indicate that there are more than 17 million people playing poker on line at least once a week. That's a huge demand and if you don't channelize that demand and offer an alternative to what has been taken away, it will now create a huge, I would say, illegal or criminal sector, especially as it relates to payments. In my opinion, lots of people will actually get hurt in this process, dealing with these criminal elements, trying to deposit money in different types of online gaming sites. 17 million people won't stop gaming just because you can't transfer money through credit cards. They will find other means to

deposit money into these sites and the other means that they will find will be illegal and criminal enterprises.

PJ: *In fact, wasn't that one of the primary reasons why Svenska Spel implemented internet gaming, not because of the potential to generate more income for the lottery as much as the goal to keep control of gaming, so they can manage problem gaming, not have the revenues leave their country, and not have their citizens dealing with illegal operators?*

JB: Of course. I think it very much depends on what the particular lottery perceives as its mission or task, or what role they are supposed to play in society. If you take Svenska Spel, the Swedish lottery, their own mission is to provide a gambling service or fulfill demand for gambling in a safe and controlled environment. That's basically the role of Svenska Spel in society. A positive consequence of that is the government and good causes like youth clubs receive a certain amount of money. But the primary role that Svenska Spel is supposed to play in Swedish society is to provide a safe and secure environment for people to gamble in. My question to you is, what exactly is the role that the U.S. lotteries are supposed to play? If, like Svenksa Spel, they want to provide a safe and secure environment for the people who are going to gamble, then I think they are making a big mistake by not offering an alternative to people who are going online to gamble.

PJ: *And, so when I say that the U.I.G.E.A. has some redeeming qualities, the observation could be made that it is not redeeming until and unless state lotteries, or some other government sanctioned entity, fulfills their responsibility to implement a regulated and controlled online gaming environment.*

JB: Absolutely, because the demand for gaming won't go away. I think that outlawing it altogether just creates a huge criminal sector, where you are basically making it difficult for law abiding citizens to obey the law. In Sweden we obviously have a history of instead of banning or forbidding, we try to channelize gaming, control it, and provide a safe environment. I think that's the whole history of the Swedish doctrine.

PJ: *Isn't it the case that many or even most European jurisdictions look at it in a similar way in the sense that their goal isn't to think of it as a business. Expansion and growth of revenues and profits is not the goal at all. Instead it is a response to the fact that the demand for gaming will be fulfilled one way or another, and so their goal is to fulfill that demand in order to manage it in the most socially responsible way, and in fact to minimize revenue growth as opposed to increasing it?*

JB: Absolutely. The Europeans are very much a business paradox because they are not supposed to encourage people to gamble. They are only supposed to control it, channelize the demand that's there, and offer a socially responsible environment and safe

environment to in which to play.

PJ: *I don't know if this is a question you can answer but I'll ask it anyway. Are you talking to anybody – any of the lottery directors in the United States?*

JB: We are talking to lottery directors all over the world. So, yes. I can't really be explicit on who we're talking to. As a general comment, it seems that Canadians are at the present time more progressive than the Americans. Americans seem to be a little bit more conservative, which surprises me because they have this one-time opportunity, the opportunity of a lifetime, to make their mark in American history by channelizing illegal gaming activities in the U.S. right now. So, they should be doing it right now. Obviously, it has to do with the permits from the authorities, the political processes, and it's obviously not the lottery directors who are holding things up; it's the underlying political processes that take time. The political leaders have a chance of a lifetime to get on top of internet gaming and if they wait too long, offshore operators will find other methods, other means, to deliver those kinds of services to American citizens. I am convinced.

PJ: *Regulatory policy in Europe is also changing, even a little chaotic. Do you see the systems, procedures, technologies that you've developed easily adapting to a volatile and changing regulatory environment?*

JB: We are operating in a multi-national environment today. We are compliant with all the regulations that are available to our customers and we are complying with lots of different regulations and I don't' see why we can't comply with new regulations as they are created. Whatever somebody decides to do, we will always comply with it. All the cornerstones are there. It's about age verification. It's about making sure that the person is the person he claims to be. It's about making sure that they don't overspend. It's about detecting and identifying behavior that indicates compulsive gaming.

PJ: *There's the different governance models – the U.K. model, the Swedish model. Greece, privatizing a portion of it with O.P.A.P. Do you have a thought on what model might serve the interest of society best?*

JB: One thing I can say about it is that having some sort of tie to contributing to good causes is a very important thing. I think that whether that's done through government or private operation, I don't know if it matters that much really. I think the connection to good causes is very important. Secondly, and again it's sort of a paradox, but I think the authorities should give gaming operators the necessary means to do proper age verification and to make sure that the person is the person that he or she claims to be. For instance, the kind of information that's available to Svenska Spel is not available to other gaming operators who are based outside of Sweden but working in the Swedish market. So, they are in fact not able to do the same safe and secure age and identity verification controls that Svenska Spel is. The bottom line is that I think the market should be regulated, tough

demands and regulations and control should be put in place to control the gaming operators to become compliant with the regulation and then it should be treated as any other sector – any other business sector. And, I actually think that is the way the European Union is going, finally. There would be some ups and downs with some… in the Netherlands they are trying to block the ISPs to block out gaming. They did that for a period of time in Italy. Germany, there are some legal discussions right now. So, there will be ups and downs but as far as I can interpret the European commission, the high commission, is that they want to treat this as any other business. The only thing is that you have to put the proper regulation and rules in place to control it.

PJ: *It seems that in the United States there are some regulators that think banning something is really an extreme form of regulation, when of course it is really just the opposite. Banning is more like ignoring it.*

JB: It's actually deregulating it. That's the paradox. So, I think it will take some time but Europe will become a regulated market where there will be a free competition, the businesses will be taxed as any other business. I hope there will be a requirement for the gaming companies to pay a certain percentage of the revenue to good causes but I'm not sure if there will be.

And, I think that in most countries, the lotteries have a huge advantage. They have a brand that is trusted. They have the connection, in most cases, to good causes which most people like. Every person, you, I, everybody wants to be a part of something good. I think the lotteries have an incredibly strong position and the politicians should recognize and support the positive contributions that lotteries make to society. If you regulate gaming on a pan-European basis, you would need to require everyone to compete on equal terms. That's very important. If lotteries are required to give a certain percentage to good causes, well, then all gaming operators, no matter what territory or jurisdiction they are located in, should be required to contribute the same to enable free competition to work fairly.

PJ: *But, why is free competition necessarily a good thing in this particular industry? Why aren't the Swedish people better served by just having Svenska Spel control everything?*

JB: Yes, but then you would have to make a worldwide ban, which would be an almost impossible task because we have to realize that with new technology, with the internet, everything is available everywhere. That is why I think they should allow for competition but it should be regulated and the requirements on the gaming operators should be very tough. The serious players in the industry today, take guys like Unibet and Redbet, they want to have a regulation that they can comply with.

PJ: *Let's talk about the centralized administrative system, and how this is kind of critical to making this whole thing work effectively, right?*

JB: The main purpose, the need and requirement that the gaming management is supposed to fulfill is the name of the player, to

have a 360 view of his gaming engagement, total gaming engagement, over all the different gaming categories and types that he plays and the same thing for the operator.

So that's one aspect. The other aspect is the integration capabilities that we have in this part of the system. It begins with the purpose of actually enabling plug-ins from third parties. And plug-ins can be games, so we can take on a game from anybody else because customers require us to be able to change their gaming content at a very, very rapid pace. And they want to be able to throw up a new game and see if it works and if it doesn't work, throw it away. With this new technology we will be able to integrate the same game in days. We are using the latest technologies for reducing lead-time for actually bringing new content up into the game. So that's the other aspect of it, the second aspect.

The third aspect is obviously that you have more information in one place. This enables you to profile a player, or a category of a player, or whatever you like and you can slice and dice that into any shape or form you want, which has a lot of advantages. For instance, it enables you to quickly detect or identify problem gaming playing patterns.

If you look at most gaming operators today, it's quite surprising but most of them have a very fragmented software technology and to consolidate a business most of them need to do lots of manual work. We are basically taking all that manual consolidation work away. So, yes by pushing a button, basically, you are able to see, for instance, my gaming engagement, which games I've played, how much I've spent, whatever you'd like to know.

PJ: *So, the gaming management system gives you the ability to rapidly create the kind of game that appeals to a specific player profile…*

JB: Yes, absolutely, it gives the operator the ability to use the gaming information in the system to attract the players to the games they enjoy the most.

PJ: *Is Svenska Spel expanding into other gaming areas?*

JB: We haven't had any new permits or any new licenses in gaming to Svenska Spel but there was a piece in the Swedish press not too long ago where basically, Svenska Spel stated that they are applying for different gaming licenses, with the intent to channelize other types of games as well. In addition to poker and lotteries, the main business to have online today is sports betting.

PJ: *How about Bingo? Wouldn't Bingo, with its social dimension, really hit a sweet spot?*

JB: Boss Media built the Svenska Spel Bingo solution 4 years ago and it has been extremely successful since launch. What we see here is the trend of actually adding other types of services, especially Bingo, which is a social event, and I would say the functionality is important. You have all different Bingo sites today. You have maybe 25 different interest groups, cars, cooking, dating, all kinds of stuff. You have dating sites, dating rooms and

the gaming sites and stuff like that. So, the internet is becoming sort of a virtual community for people that, to use Bingo as the example, it's a virtual community for people that are over 30.

PJ: *On that subject, the people that are under 30 or the people that will be in their 20s in a few years, and be in their 30s in a few more years, do you see them as being more likely to want to go to a casino or play online?*

JB: I think most kids, like my daughter who is 8, she goes online for almost everything. My neighbor's kids, they are 15 and 16, they do everything online today. So, whether or not they go to casinos, the next generation is certainly far more likely than our generation to go to online sites to do the same thing.

PJ: *Is it an important part of your gaming development to fulfill that need for social interaction?*

JB: Absolutely. Those are key areas of development for us. The back office actually enables us to point people, not only to the right games, but also to other types of services that are provided on the net. By actually identifying playing patterns, you can also identify with quite high certainty the kinds of interests a person has. Same thing you have on Amazon, for instance. If you buy certain types of books, they know what other books you are likely to be interested in. It might be the same subject, or it might be other subjects. It's the same type of thing with our player profile.

PJ: *You know how American Express makes more money by selling all kinds of stuff to their credit card clients. Are you saying the gaming operator's website could do a similar thing, introduce their customer, the players, to products and services that don't necessarily have anything to do with gaming?*

JB: Exactly. It actually works the other way around in Europe today. We have several internet friends that sell other products but also offer games. So if you take Yahoo, for instance. They are the biggest Bingo creator in the United States. Royal Air has a very successful Bingo site today. And it's an airline! But, if you go into Royal Air, you can say, "Okay, I want to play Bingo," and then you push a button and you are in a Bingo room.

PJ: *But the cool thing from your point of view is that Royal Air flies airplanes and Yahoo does their thing really good but neither of them develops game content or builds the back office. So no matter what ways that distribution evolves, your focus will remain on content alone.*

JB: Yes, we are the content provider. The trend in Europe is that the brand values that are compatible with gaming are going to offer more and more of the games. We provide everything, we have a full facility management concept, to manage the players, payments, hosting, everything. So, they are leveraging the system, the brand to increase revenue through gaming. And the only thing that they have to have is a gaming license and a license to offer profit for the games. And, then we brand the games.

PJ: *Would it be fair to say that an important objective of Svenska Spel is to take market share off of other, offshore, providers?*

JB: Their purpose is to take as much as possible. To take as many players as possible from the free market but once the players come in to Svenska Spel, their goal is actually to get the player to spend less on gaming. Their role in society is to decrease the gambling, to reduce the gambling, and the way they do that is by channelizing the interest and have the players in a controlled environment to promote responsible gaming. They're actually quite successful in

poker because the majority of the players play on very low stake tables and even people that used to play on high stake tables must now play on low tables. Now, they have 7,000 players at peak everyday. So they take a significant market share from the free operators but they are providing a safe, secure and controlled environment. And the purpose is actually to decrease gaming.

PJ: *I read somewhere that the percentage is something like 53 percent; it's over 50 percent of internet poker marketed in Sweden that a little less than 50 percent of the Swedes were playing offshore?* ◆

An Integrated Strategy for Increasing Lottery Sales

City offer special rooms just for the game, where hundreds of players at dozens of tables compete until only one person is left wearing the coveted bracelet. Introducing this type of game in a lottery's social-space channel has proven immensely popular because of its appeal to traditional lottery players as well as well as younger players.

The Kansas Lottery also launched a poker-themed game – Kansas Hold'Em – in September of 2006, to enhance its social-space offering. However, two years earlier, the lottery had done something even more innovative. It took a huge step forward for the whole industry in terms of exploring new delivery channels. It introduced a new channel that offered a high level of visual appeal and entertainment – games through the Internet. And it became the first lottery in the nation to offer an interactive, Internet-based lottery game. The game, eScratch™, expands the player's lottery experience to the Internet and blends the traditional retailer-based lottery experience with Internet play – a completely new concept in our industry. The player buys an eScratch ticket at a lottery outlet, creates an account or "e-Wallet" on the lottery's Website, and then uses the account number printed on the ticket to access a variety of games and track winnings on the Internet. The player must return to a retailer to collect any winnings. eScratch is part of an evolutionary category of games being offered through a new channel.

Restructuring Familiar Games

One way to expand sales among current customers is to fine-tune existing games in traditional channels, giving players more value for their dollar(s). The result can be either an increase in the number of tickets sold or an increase in the base price of a ticket. This strategy has been successfully implemented in a number of lotteries.

For example, the Illinois Lottery changed the parameters of its cash game, including increasing the overall odds of winning a prize. Changing the structure from a roll-down format to a roll-over format improved the association between players and the game by allowing them to track the jackpot. Such improvements

allow players to see more value in their investment. For the same money, they're playing a game that's easier to win and has a more valuable top prize. After changing the structure of the cash game and increasing the odds of winning, the Illinois Lottery increased its cash game revenue by $17.6 million in the first 12 months after the change.

The Illinois Lottery also introduced Pick 'n Play™ in March 2006. Pick 'n Play is an example of new content; it targets a player who enjoys an extended-play game experience in an instant win format. Since July of 2006, Pick 'n Play has sold more than $32 million.

In February 2004, the Minnesota Lottery introduced an "Instant Online" game called G3®. To date, G3 games account for 13 percent of total online sales excluding Powerball (or 6 percent if Powerball is included); revenue to the Minnesota Lottery from G3 games is $6.6 million.

Lotteries can receive a tremendous revenue boost from fine-tuning their online game mix. The industry has a very good track record of introducing new instant content – last year, more than 2,300 new instant games were introduced in the U.S. alone. Lotteries need online content that is similarly robust and flexible, with new game formats that provide the opportunity to reach a broader range of customers through different channels.

Conclusion

The golden rule is that rich, dynamic gaming content should continue to be an important part of a lottery's strategy to increase sales, but not at the exclusion of sales channels and delivery devices. These three things are of equal value, and an approach that integrates all three of them is the foundation for successful growth – and the mark of a lottery that's leading the industry. ◆

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FREE YOUR POTENTIAL.

Fulfill Your Net Potential

Boss Media has the expertise to help you create a secure online gaming haven for your customers, just as it helped Svenska Spel of Sweden. Svenska Spel offers interactive games such as scratch tickets and bingo, and was the first government-owned gaming company to offer online poker. It's no secret: people enjoy gambling. They will find a way to do it online with or without you. Allow them to enjoy the responsible gaming environment only you can be trusted to provide.

A versatile online gaming system from Boss Media equips you with the technology to comply with tough statutory regulations and gives you the freedom to easily modify your game selection over time to meet changing customer demands.