

PUBLIC

# GAMING

I N T E R N A T I O N A L

## Featured Interviews:

Lorne Weil

Friedrich Stickler

Gerhard Luftensteiner

Jussi Isotalo

Miriam Nilsson

Christian Schütz



Lorne Weil  
Chairman of the Board  
Scientific Games Corp.



Miriam Nilsson  
Marketing Manager  
Corporate Brand  
Svenska Spel



Friedrich Stickler  
Deputy General Director  
Austrian Lotteries



Jussi Isotalo  
Executive Vice-President  
Viekkas Oy

Christian Schütz  
Director Guest Relations  
Casinos Austria



Gerhard Luftensteiner  
CEO and President  
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Our industry news gets reported here as soon as it hits the wires. If it's lottery and gaming news you need, you can surf the web yourself to find it, or you can come to our website and get all your industry news in one place.

**PGRI's Morning Report** is our weekly electronic newsletter. It is sent out to your e-mail address every Monday morning. This provides you with a brief synopsis of the previous week's industry news. In addition to the news items, our editor, Mark Jason, follows up to get commentaries and quotes from the news makers themselves. Join your colleagues (15,000 of them) and subscribe to *Morning Report*. E-mail your request to subscribe to [sjason@PublicGaming.com](mailto:sjason@PublicGaming.com).



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Public Gaming International (ISSN-1042-1912) June 2009, Volume 35, No. 3. Published six times a year by the Public Gaming Research Institute, Inc., 218 Main Street, #203, Kirkland, WA 98033, (425) 935-3159. ANNUAL SUBSCRIPTION RATES: United States: \$145. Canada & Mexico: \$160(US). All other countries: \$225(US). POSTMASTER: Send address changes to Public Gaming International, 218 Main Street, #203, Kirkland, WA 98033. SUBSCRIPTION REQUESTS: Send to same address. NOTE: Public Gaming International is distributed by airmail and other expedited delivery to readers around the world. ©2007 All rights reserved. Public Gaming Research Institute.

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# From the Publisher

Paul Jason, CEO, Public Gaming International Magazine

Enduring a crisis is a hard way to learn. But since we seem unable to avoid the current upheaval, we may as well learn from it and possibly even use it as a catalyst for positive change. As Stanford economist

Paul Romer commented “A crisis is a terrible thing to waste.”

The economic crisis reveals at least a few important things about our industry. One is that markets do need to be regulated. “Free market capitalism” has proven to be the most effective wealth generator and efficient mechanism for allocation of resources. But that never meant (even going back to Adam Smith) that markets should not be regulated. The opposing view can be discerned when we hear people complain about government “interference” and lobby for “hands-off” government policy, and insist that governments should “let the markets control themselves.” The fruits of their efforts to “keep government out of our lives and businesses” can be seen in the implosion of the financial services industry. Invoking the battle cry of “free market capitalism” is also the refrain of remote gambling operators all around the world (but especially in Europe) who basically just want to evade their tax responsibilities. You can watch them move from one jurisdiction (like the UK) to another (like Alderney or Channel Islands, Gibraltar or Malta) to evade taxes. Operators of Internet gambling websites have been lobbying for the EU Commission to prohibit the member states from exercising regulatory control over their businesses for years. On March 10, the European Parliament voted overwhelmingly in favor of vesting regulatory control with the national governments. This is an important victory for those who want to preserve the rights of individual nations to determine how to regulate gaming within their own country.

The economic crisis also seems to have caused policy-makers to look carefully at the implications of “liberalizing” the gaming market in Europe. They seem to be recognizing that forcing member nations to allow multiple vendors to compete for the lottery and gaming business would result in the transfer of hundreds of millions of euros from charitable causes over to private interests. The European Parliament has officially affirmed the rights of individual member states to regulate the industry and that maximizing the profits for public welfare is a justifiable rationale for limiting the competition.

These issues continue to be contested and are far from being resolved. The Parliament is not the same thing as the EU Commission and their votes and decisions are not binding on the EU Commission. But presumably the EU Commission will be sensitive to the will of its member nations. See the Friedrich Stickler and Jussi Isotalo interviews and Philippe Vlaemminck’s article for more insight into how these issues may unfold.

I attended a legal/regulatory seminar in London in January, sponsored by advocates for opening up online gambling to free market competition and free and open borders. A very interesting thing emerged in the presentations. Of course, they are pushing for the EU Commission to legislate a more liberal and open market and regulatory system for Internet gaming. They have achieved some measure of success over the past few years and have always been very optimistic that things would resolve in their favor. But there is now the realization that the EU Commission is not likely to ever attempt to dictate to the member states the terms, conditions, and

tax rates for how a market should be operated. And as long as the member state retains control over those terms, conditions, and tax rates, the member states’ governments will have the ability to effectively maintain whatever regulatory system they want. For instance, the operators recognized that the member states may require that the servers be physically located in the jurisdiction where the players are based. That would facilitate the auditing process and the power of the state to compel the operators to pay taxes to the state. There are, believe it or not, some remote operators who don’t like that idea. The remote operators have long protested that they are willing to comply with all regulations. Their actions reflect that may be true except for the one tiny little matter of paying taxes. So they may end up “winning the battle but losing the war” by being allowed to operate in all countries but held to all the same standards as government operators, including the amount of taxes paid.

I should emphasize, amidst all this talk about government regulation, that **our publication advocates for the expansion of the gaming industry**. It is our conviction, though, that the long term health and stability of the industry depends on a sensible regulatory system. We recognize that there is no one regulatory model that is best for everyone. Markets, cultures, political agendas all differ greatly from one place to another. And we’re not opposed to a liberal approach that minimizes taxes and authorizes a large number of competitors to aggressively market a wide range of gambling options. We just encourage the supra-national political entities (like the EU Commission, the WTO, the U.S. federal government, etc.) to defer to individual jurisdictions to determine what works best for them.

Another conference attended by the editor of Public Gaming was the East Coast Gaming Conference (held May 19 in Atlantic City). Presentations were made by industry financial analysts to casino gambling operators and regulators. Not surprisingly, casinos in Atlantic City and Las Vegas are expected to continue to struggle. However, when asked if there were any bright spots in our industry, the analysts pointed to government-owned lotteries which are not saddled with legacy facilities, games, and gaming operations and are in a great position to exploit forward-looking trends, like distributed venues and new Electronic Gaming Machines. When asked which companies they would invest in, they named only three companies, all three of which are advertisers in this issue (!). They did emphasize, though, that if governments impose tax rates that are too high and other terms that are unreasonable and make the value proposition to the player unappealing, they are most definitely setting themselves up for failure.

*Mea Culpa:* The Jack Boehm (Director of the Colorado Lottery) interview printed in the last issue was not the final draft. The final, corrected, and edited version of the Jack Boehm interview can be found at [www.PublicGaming.com](http://www.PublicGaming.com). This is an excellent interview that describes the complete overhaul of a lottery organization, and we encourage you to take a look at it!

Thank you all for your support. We need it and depend upon it and are dedicated to working hard to earn it. I welcome your feedback, comments, or criticisms. Please feel free to e-mail me at [pjason@publicgaming.com](mailto:pjason@publicgaming.com). ♦

— Paul Jason



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# PGRI 2009 Lottery Products of the Year

Public Gaming Research Institute is pleased to announce the winners of the 2009 Lottery Product of the Year. Presentations were made at the SMART-Tech 2009 Conference held at Dover Downs Hotel and Casino in Dover, Delaware, on March 28. This conference was attended by industry professionals from almost every lottery state in the U.S. and Canada.

The PGRI Lottery Product of the Year Award has acquired a status that is important to lottery operators from all around the world. Conceived as a way to recognize the most innovative products and concepts impacting lottery performance and results, the Award has evolved into a reference guide for lottery operators to quickly discern the most reputable and accomplished commercial suppliers in each product category. Congratulations go to the 2009 winners for creating products that meet those high standards and for winning the 2009 Lottery Product of the Year Award. For more information on the Lottery Product of the Year Award, see [www.PublicGaming.com](http://www.PublicGaming.com).

## **Diamond Game**

**Product Category:** Instant Ticket Vending Machine

**Company:** Diamond Game; [www.DiamondGame.com](http://www.DiamondGame.com); (877) 727-1690

**Presenter:** Randee Kerns

**Product:** Lucky Tab II Video-ITVM & Instant Ticket System

The Diamond Game Video-ITVM looks, plays and earns like a VLT, yet usually requires no law change for a state lottery to operate. The patented Video-ITVM dispenses a pre-printed instant ticket on each play, reads the ticket and displays the result on a video monitor in an entertaining manner, such as with spinning reels.



**Product Category:** Retail Full-Service Terminal

**Company:** GTECH Corporation; [www.Gtech.com](http://www.Gtech.com); (401) 392-1000

**Presenter:** Paul Riley

**Product:** Altura Laser GT 1200

The Altura Laser 1200 is GTECH's new state-of-the-art, full-service lottery retail terminal. GTECH's 'next generation' terminal family platform combines improved performance features based on proven Altura technology with futuristic design in a compact footprint.



**Product Category:** Video Lottery Terminal

**Company:** IGT; [www.Igt.com](http://www.Igt.com); (702) 669-7777

**Presenter:** John McMullen

**Product:** REELdepth, Multi-Layer Display

Slot machine "action" is taking on a whole new meaning these days, and it's all because of REELdepth™ – the only true 3-D games on the market, featured exclusively on IGT's G MLD® multi-layer display technology. Incredible graphics combine with a huge portfolio of gaming options to meet the needs of an evolving player profile and deliver the new wave of Electronic Gaming machine.



**Product Category:** Market Survey and Research Consultancy

**Company:** InfoTek Research Group; [www.Infotekresearch.com](http://www.Infotekresearch.com); (509) 248-8219

**Presenter:** Scott Jackson

**Product:** 2009 Mobile Lottery Gaming Study: A Roadmap for the Future

In this study, InfoTek Research (IRG) focuses its 15+ years of lottery industry expertise towards assessing the most effective strategies for implementing Mobile Phone initiatives. The Roadmap for the Future

analyzes survey results to outline the key components to successful Mobile strategies for lottery organizations. Clear understanding of player behavior is critical to successful Mobile initiatives.



**Product Category:** Digital Imaging Retail Terminal

**Company:** INTRALOT; [www.Intralot.com](http://www.Intralot.com); (770) 295-2580 or +30 210 615 6000

**Presenter:** Glenn Goulet

**Product:** Photon Terminal

INTRALOT's new Icon Digital Imaging Technology, as it is incorporated in its new Photon Digital Imaging Retailer terminal, combines sophisticated components, wireless connectivity, large display, powerful peripherals and processing power, and unique state-of-the-art technology within an ergonomic and effective design. The new Photon Terminal reads all types of documents (play slips, instant tickets, lottery receipts), with high speed, full reliability and security.



**Product Category:** Mobile Applications for Lottery

**Company:** Media 5; [www.media5mobile.com](http://www.media5mobile.com); (630) 532-2565

**Presenter:** George Kois

**Product:** Media 5 Suite of Mobile Applications & Products for Lottery

Media5, LLC assists lotteries in launching turnkey interactive mobile marketing, entertainment, and information applications and products and in building mobile communities using the short code LOTTO. Media5 provides the organizational layer, operational guidelines and technical infrastructure for state lotteries and its retailers and customers to use the incredible power and convenience of mobile technology.



**Product Category:** Community-Based Multi-Player Electronic Lottery Products

**Company:** MGT Lottery; [www.Mgtlottery.com](http://www.Mgtlottery.com); (877) 785-2483 #7078

**Presenter:** Ed Honour

**Product:** MGT Touch2Win Terminal

MGT Lottery develops interactive, networked lottery games of entertainment which fit within the legal definition of local, state and federal lotteries. MGT Touch2Win terminal stations provide users with a wide range of predetermined ticket-based electronic-style games designed for age restricted locations. The innovative Replay2Win product allows players to "replay" their winnings without having to purchase additional tickets.

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# Friedrich Stickler

Deputy General Director, Austrian Lotteries



The gaming industry in Austria has evolved into a system that works well. No jurisdiction is without its own set of political and regulatory challenges. But between them, Austria Lotteries and Casinos Austria manage a comprehensive range of products that meets the needs of their government, their shareholders, the players, and the general public. Friedrich Stickler discusses how this equilibrium evolved, what they do to reinforce it, and why it is so important that the EU member states be allowed to determine their own regulatory model.

*(This interview is continued online. Please go to [www.publicgaming.com](http://www.publicgaming.com) to see this interview in its entirety.)*

**Paul Jason, Public Gaming:** How is the gaming industry structured in Austria? What is the ownership structure of the casinos and the lottery and the relationship between the government and the shareholders?

**Friedrich Stickler:** There was a monopoly in Austria on casino games and lotteries that, I would say, goes back forever, with state-run lotteries operating as a monopoly, beginning back in the 18th century. Casinos entered the field in the beginning of the 20th century, and have also been operated as a monopoly, since then. Sports betting was liberalized following World War One, and was given to the responsibility of the Austrian provinces. Sports betting was mostly about horse racing, not becoming significant until the Internet brought in a whole new category of players. It then gets a little complicated. Austrian Lotteries, owned by Casinos Austria (68%), a consortium of Austrian banks and insurances and the Austrian broadcasting corporation ORF, was founded in 1986 and was given the license for lottery games. Since then Austrian Lotteries operates all the traditional lotto and scratch-off games. On the other hand you have Casinos Austria with 12 licensed casinos in Austria. You have the privatized book-makers. And then you have a segment that's a little complicated. Let's put it this way, this is gaming machines with low stakes, and under the authority of the provinces. Some allow it, some don't allow it, and nevertheless, it's everywhere because there are also illegal gam-

ing machines all around in Austria. There are several thousands; we don't know the exact figures. This is, shall we say, under review. An amendment to the Austrian Gaming Law is

it additionally holds 56% in our sports betting company called tipp3. The rest is owned by the big Austrian newspapers. So we have a very close cooperation with big Austrian daily

**I would like to go on record as being quite confident that the subsidiarity principle will prevail and that member states will retain the right to control and regulate gaming within their own borders.**

on its way, and so the legislature is trying to regulate this segment also by giving a license for gaming machines for all Austria.

**Are you owned by the same consortium of banks? Do you have the same owner?**

**F. Stickler:** No. Casinos Austria's shareholders include some major Austrian Banks (Raiffeisen, Vienna Insurance Group), Austrian Mint and various private shareholders.

**The ownership structure would seem to have implications as to how you operate. It would probably create potential to collaborate on things like Win2Day?**

**F. Stickler:** Indeed. There is potential on Win2day, our internet gaming platform, and also in our VLT outlets called WINWIN. These two subsidiary companies are owned by Entertainment, a holding company that is jointly owned by Casinos Austria and Austrian Lotteries, with each owning 50%. And

newspapers. We have a very wide variety of companies doing business together. So when it comes to a description of the whole conglomerate, you could say that we most likely are the broadest casino/lottery/sports betting operator world wide because we are doing almost everything. Our casino operations have been international since 1977. We operate 63 casinos in 18 countries on each continent and on board 11 cruise ships. We have this lottery branch of the business, and then we have the holdings with all the other sectors we are covering. So it's a wide variety of different products and segments we are covering.

**There is a large number of electronic gaming machines that are not legal, that operate outside of the control of Austria Casinos and so are not properly regulated?**

**F. Stickler:** Correct. These are in restaurants, in pubs, gas stations, and other smaller

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## Jussi Isotalo

Executive Vice President, Veikkaus, Finland Lottery  
Second Vice President in the European Lotteries Association

Mr. Isotalo discusses the methods and concrete success strategies of one of the most progressive and inventive lotteries in the world.

(This interview is continued online. Please go to [www.publicgaming.com](http://www.publicgaming.com) to see this interview in its entirety.)

**Paul Jason, Public Gaming:** Veikkaus had a pretty good year last year.

**Jussi Isotalo:** Yes, it seems that we did have a good year last year. Sales and net revenue both increased roughly 6%. Just to put you on the map, we are a country of 5.3 million people, and our net revenue plus taxes we paid to the government adds up to about \$700 million U.S. So we gave back to society €100 per capita, which was really very satisfying (1€ = 1.3 USD). Our jackpot games are the two lotto games and Joker, which is a seven digit number draw game. By far our biggest game is Saturday Lotto, which generates around €500 million a year. Our second biggest is Keno, a daily game that generates around €300 million. We have almost 20 different game brands covering games of chance, numbers games, instant tickets. We have sports betting, football pools, fixed odds betting, and live betting. And we also run off-track horse betting, two games. Our total annual turnover in 2008 was around €1475 million. A 6% growth rate from a base of per capita spending rate of over USD 300 is pretty good.

The highest weekly sales were when we had a multiple rollover in Lotto, and when we had our biggest jackpot ever, at the end of November last year. It was €4 million, and then we had total company sales that week of over €40 million.

The sales graph shows increases in '07 occurring at different points in time than the upward spikes in '08. Does that correspond to jackpot sizes?

**J. Isotalo:** That's true. The natural reason is that lotto multiple rollovers do not follow the same weeks. But if you try to look over the peaks, you can see that there is a certain seasonal curve. The lowest is summer, which is the holiday time in our country when typically people go to their summer cottages by the lake

or seashore. They don't think about lotteries then. And the best season is end of the year, November and December, especially December. There are lots of reasons people buy more at that time, but one of them is to buy instant tickets as a little Christmas present.

What are you doing to make those pointy little downward spikes go away?

**J. Isotalo:** It's true that the high peaks typically follow something specific that we have done to cause them. Last year we gave a significant face lift to our biggest lotto game. We increased the stake (row) price point from 70 cents to 80 cents. We allocated this new money to the first prize category, the jackpot, which gave us the ability to guarantee that the jackpot would always be at least €1 million. That's an important and attention-getting prize amount in a small country like Finland. So now we are able to create a millionaire every week. We

improve sales by creating new structures to the game and doing things to keep the excitement going from week to week.

It's great that you are creating interest and excitement about the possibility of winning a million euros. It's always mystified me that creating a hundred millionaires isn't a more compelling value proposition than giving the entire hundred million euros to one extremely lucky player.

**J. Isotalo:** We try to make different games with different prize structures. We have games with smaller prizes that are easier to win and have more winners. I just mention daily Keno, where it is rather easy to win the lowest winning category, but the player also has the possibility of winning a big prize. The highest odds are 200,000 times the stake you have played. There are many other games, like most of our instant games, which are sort of easy to win, but the first prize is not astronomic. But

So there are four categories: Dream, Excitement, Hobby and Community. The distinctions might seem a little fuzzy but they aren't really. A lot of thought and research goes into this; the science and methodologies of understanding human behavior are quite sophisticated.

hope that this will keep the players' interest going strong even during those periods when there isn't a huge jackpot. That magic number, a million, is harder to get to now that we are on the Euro. Our old currency was 1/6 the value of the Euro. The results indicate that the changes are working to stimulate lotto sales, which is a very good thing since our lotto had been declining. We cannot control many things, like exactly when the jackpots will rise to levels that cause everyone to play. But there are lots of things that you can control. You can

we have not yet had a game like Power Ball or Euro Millions where the jackpot can be over one hundred million euro or dollars. The important question is whether we owe it to our customers to make that kind of super-jackpot game available. I think that we should.

Because that's what your player wants.

**J. Isotalo:** Yes, that's what our player wants. So I see that we have to be part of one of those multi-national blocks in the future, definitely.

...continued on page 24

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## Lorne Weil

Chairman, Scientific Games Corporation



The UK electronic gaming market consists of thousands of locations (mostly licensed betting offices), located throughout the country. Each venue typically has 4 units. Thousands of units located in thousands of different locations creates a unique set of technological, operational, and management challenges. Global Draw is the company that operates the wide-area networks, servers, and communications systems that support these machines. Lorne Weil explains what's involved and how it is different from operating a large casino facility.

Check out websites [www.globaldraw.com](http://www.globaldraw.com) and also the content development site [www.games-media.com](http://www.games-media.com) to see an example of cutting edge website design.

**Paul Jason, Public Gaming:** People talk about Server-Based Gaming to mean using a central server to implement content on a large number of machines. Global Draw is a form of Server-Based Gaming but on a far more complex scale. What is it and how does it work and how is it different from large casino implementations?

**Lorne Weil:** First, what is meant by "Server-Based" gaming? Moving the brains of the electronic gaming machine off of the box that the player is playing and on to a central server that supports a large number of gaming stations, right? So, in a casino, you have content being delivered, or served up, to all the individual machines by a central computing facility. You still have to make sure that everything and everybody is complying with the rules, though. You need to provide security for both the players and the operator, you need to make sure the machines aren't tampered with, you need to guarantee that the government is getting its share of taxes, all that kind of thing. In a large casino facility, that's accomplished by having different people on the ground making sure that everything is done correctly and everybody is complying with the rules and laws. People to protect the interests of the player, the casino, the government, are actually right there on the casino floor and watching closed circuit monitors. Security,

tax collection, and all that is accomplished in that very hands-on manner.

Now, think about the challenge of doing that with thousands of locations, each with only a few machines. The manpower and logistical requirements of monitoring these in that conventional way is not feasible. A casino facility has everything located in one place – the machines, the players, and the central server are all in one building and they employ security and compliance officers to literally walk the floor. Controlling a distributed network poses a whole different set of challenges because it is not possible to physically monitor the system in that way. That's what Global Draw does. We do that with what we call wide-area gaming. That means networks of gaming where you have thousands of locations spread out across a very wide geographic area, across an entire country, or for that matter, an entire continent where each location has a small number of gaming machines. The requirements and the applications of wide-area gaming are completely different from a casino operation. In the case of wide-area gaming where you've got thousands of locations, each with a only a few machines, the idea of central determination and link to the central system is critical because you can't afford to have somebody in a remote location disconnect their machine from the system and not be

paying the tax that they're supposed to be paying, and not be subject to the requisite security procedures. So by not having a random number generator in the box forcing the player to reach into the system every time, you ensure that the government is collecting the taxes, that everybody is performing to the proper security standards, and that all the remote locations are complying with the rules and procedures that are expected of them. But, you're doing all this remotely with the central server, not with compliance and security officers physically monitoring the gaming floor. So, in a casino with hundreds of machines, what is meant by "server-based" gaming is just that content is being delivered to the individual terminals by a central computing facility. In addition to delivering game content, Global Draw's wide-area network delivers a whole different level of control to the operator.

The network becomes far more important from the point of view of downloading new games too. Again, think about the way a casino works. You have hundreds of machines. At any point in time, you would see that some are performing better than others, some are being played more than others. The business of implementing game content is a relatively simple matter of assessing the performance and adjust-

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## Gerhard Luftensteiner

CEO, KEBA AG



In line with its credo, "Automation by innovation," KEBA develops and produces inventive, top quality automation solutions for the industrial, banking and service branches. As a supplier of self-service automation solutions to the financial services industry, KEBA pioneered the development of cash cycle ATM (automatic teller machines) technology in Europe. For the past 10 years, KEBA has been successfully applying the R & D, manufacturing engineering processes, and skill sets to the creation of advanced lottery solutions and products.

There is a huge potential to increase sales by making it more convenient for the customer to buy your product. Increasing the POS's, making the product available at more retail locations, and providing self-service options to the customer is a key part of reigniting growth in the retail industry. Based in Linz, Austria, KEBA develops customized solutions to fit local markets and customer needs all around the globe. Gerhard Luftensteiner discusses how self-service and logistics will transform the retail industry, and how that will impact the lottery business. Read more about KEBA at [www.keba.com](http://www.keba.com).

**Paul Jason, Public Gaming:** How does your expertise in the financial services and ATM's apply to the lottery business?

**Gerhard Luftensteiner:** Lottery is an interesting and in many ways unique challenge. Or at least many people think of it as unique. That is why many of the large online lottery contracts are serviced by companies which specialize in the business of designing and building termi-

lottery business. Instead of thinking of the lottery business as unique since nobody else sells lottery tickets, we asked ourselves the opposite question. How is the lottery business similar to the financial services business? How are the business, design, manufacturing, and service support processes similar to financial services, and similar to other service and transaction-based businesses as well? Take the focus off of the product itself and look at the business in an abstract way, identifying and analyzing the component parts of the business. For instance, from a distribution and process point of view, lottery is essentially a transaction business, right? Lottery is a business that processes a very large number of low denomination transactions. From a mission-critical point of view, what is the single most important factor? Is it top-line sales revenue and bottom line profit, as it is with most businesses? No, it's security! As important as sales and profits are, the one thing this business absolutely requires is zero tolerance for failure in security. What other business has these elements? Probably more than

sophistication required to process hundreds of millions of financial transactions through tens of thousands of self-service ATM's, with zero tolerance for error. Then think of what is involved in executing transactions in the lottery business and how critical the issue of security is in that business as well. That is how we came to the lottery business. Our R & D and manufacturing processes are focused on developing products to meet the uncompromising standards of security and reliability for the financial services industry. Applying that knowledge and skill-set to the lottery business is simply a logical fit.

Self-service is a trend that plays to your strengths. How will the trend towards self-service impact the lottery business?

**G. Luftensteiner:** The relevance for the lottery business is two-fold. First, as a general concept, self-service is a very powerful and inevitable trend. The only constraint to the deployment of new and innovative ways to enable a more automated process for exchange of goods, services, and currency is the willingness of people to adapt. The technology and the logistical know-how is all in place to provide a far higher level of efficiency and convenience based on self-service methods of operation. At first, the adaptation process is always slow. That's unfortunate but it's the way it is. However, you do not want to make the mistake that many people make by thinking that people won't adapt. People always adapt and gravitate to what are economically superior models. It is hard to imagine, but there was a time not too long ago that many very smart people in the financial services business actually thought that

As the benefits to self-service methods continue to add up, the adaptation process will definitely accelerate. And as the customer becomes accustomed to the convenience of self-service from more and more retailers, they will come to expect it of all retailers.

nals for the lottery retail business. At KEBA, we take a different approach. We looked at the business process, design, and manufacturing competencies that we acquired in the financial services industry. And we saw a perfect fit and opportunity to apply those capabilities to the

one, but KEBA comes from the banking automation business which has these same priorities. The banking automation business is, frankly, far ahead of the lottery business in almost every way. Just think of what's required to automate the distribution of cash – think of the level of

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## Miriam Nilsson

Marketing Manager, Corporate Brand, Svenska Spel, Sweden Lottery



In January of this year, we interviewed Ann-Sofie Olsson, Director of Corporate Social Responsibility and Public Relations for Svenska Spel. In that interview, Ms. Olsson discussed how CSR is much more than a set of initiatives with good intentions. The most progressive operators integrate CSR into every aspect of product development, advertising, and strategic planning. (Svenska Spel was awarded the WLA Award for Excellence in Responsible Gaming.) In this interview, Miriam Nilsson gets specific in describing the ways that this is accomplished.

**Paul Jason, Public Gaming:** Everyone is quite tuned in to the importance of Corporate Social Responsibility, and impressed with Svenska Spel's accomplishments in this regard. Do you think the public and the Swedish government appreciate the record of success that Svenska Spel has in CSR? How can our sector of the industry, the WLA operators, raise awareness for the importance of CSR?

**Miriam Nilsson:** We could start by explaining what we have done over the past couple of years. Two years ago, the corporate brand had a very small budget, almost nothing. We marketed the products and the games, not the brand. Today we have an entirely different situation. But we had to start by gathering the information, studying the players, product development, advertising, everything in the business to understand the process. We analyzed all aspects of business operations, assessing how CSR is a part of those processes, and building a plan for changing those processes to integrate an approach that would elevate the level of CSR. There is a whole lot of homework to do before you broadcast your commitment to a new CSR agenda to the public and your various other constituencies. It is important to be well into the implementation phase before your marketing communications begins to tie it into the brand. The fact is that we started on this journey many years ago and have always held ourselves to a high standard. But two years ago our political leaders challenged us to take it up a notch and that's what we set out to do. We feel that we've accomplished a lot in the past two years

but we also view this as an ongoing process. The opportunity to contribute to society in ways that stretch beyond the profits that we contribute to good causes is something that we are all quite glad to embrace. Instead of thinking that we're already performing pretty well in this category, we're excited about the possibility to do better, and continue to look for ways to improve.

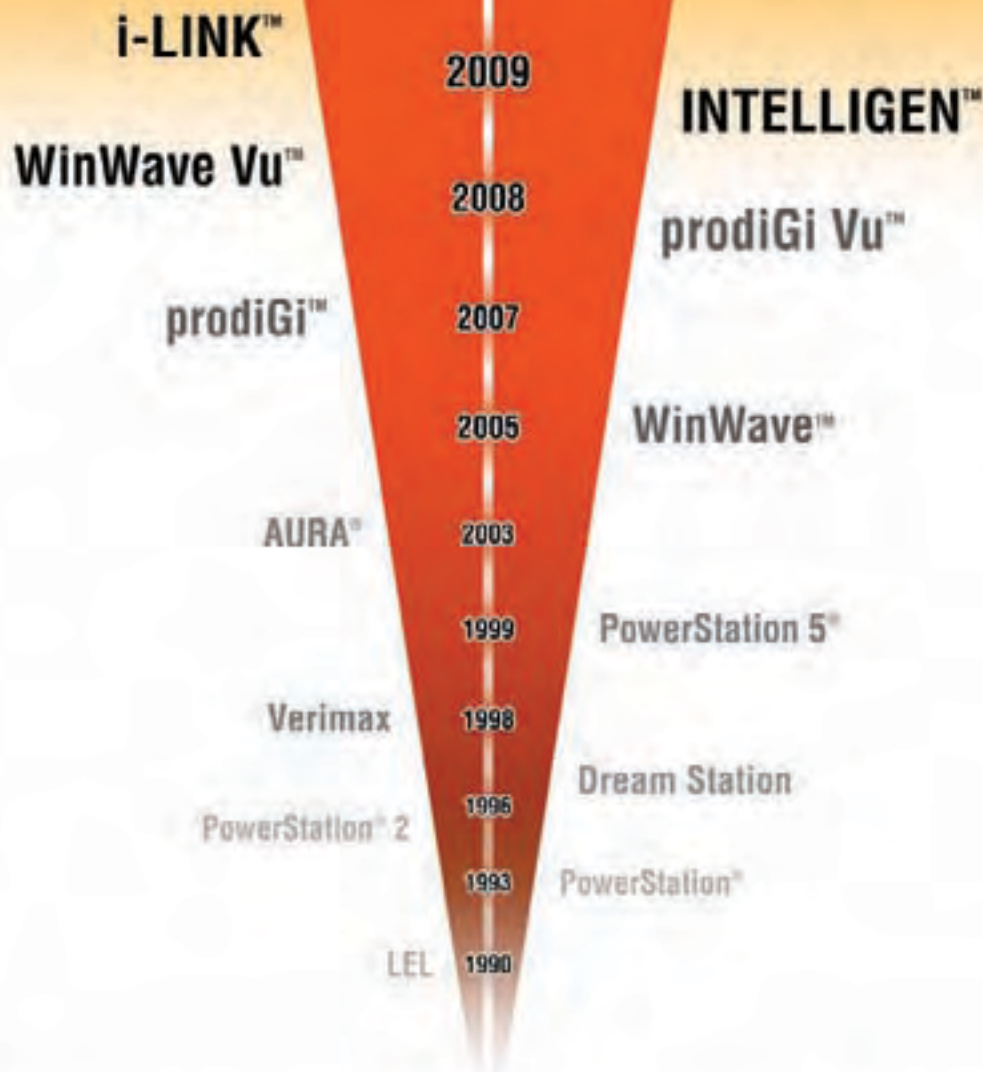
**Let's talk about the messaging. There's a lot more to it than warning people of the dangers of problem gambling, isn't there?**

**M. Nilsson:** Exactly. Building effective responsible gaming tools for the players is most important. But that's just a start. Education about responsibility applies also to the retailers, employers, our political constituents, and even the general public as well as the players. Over the past two years, we have shifted a portion of our marketing communications resources to focus on education. Marketing of the games and products themselves is still key to a successful operation, of course. But all of our communications and advertising, including the promotions for the games, has a powerful responsible gaming component built into it. Too, all of our advertising integrates a focus on the Svenska Spel corporate brand. So we don't think of the messaging for responsible gaming as being somehow different and isolated from our other marketing communications efforts. It's all integrated together – games, brand, responsible gaming, and CSR. And in addition to that aspect of our messaging, we do have campaigns focused on re-

sponsible gaming itself. For instance, in 2008 we've done a couple campaigns to launch a brand called, in Swedish, "Spela Lagom." It means Play Moderately. This brand is actually a concept. That concept is to think of the object of the game being to play at what we call a "perfect level." What is meant by that is to play moderately or to play within your means. But the point is to create the association in the mind of the player that the objective of the game is to play within your means as well as to win money. We want to change the concept of winning so that it includes the ability to play "perfectly," which is to say play within your means. We want the players to take as much pride and enjoyment out of their ability to play within their means as they do from the possibility of winning a prize or money.

You see, the challenge of getting players to play responsibly is that you can't just admonish them to play responsibly. Telling them of the dangers of problem gaming just doesn't really work. Some of these campaigns are actually counter-productive, having the opposite effect on the player. It's obviously important to have your messaging inspire a positive response in the player. We do that by trying to communicate a respect for their ability to behave intelligently and maturely, to respect the fact that each individual must decide for themselves what is the right amount of play. Then we try to relate the messaging to something that will amuse and entertain the player. We feel that you can't scare the player with descriptions of the bad things that

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## Christian Schütz

### Head of Guest Services, Casinos Austria AG

Casinos Austria International (CAI) is a leading player in the global casino industry. With its unique portfolio of casino consulting, development, management and investment services, CAI has successfully realized more casino projects in more jurisdictions than any other casino operator worldwide.

**Paul Jason, Public Gaming:** Could we start with a brief description of Casinos Austria.

**Christian Schütz:** Casinos Austria is the parent company of the Casinos Austria Group, which includes Austrian Lotteries and Casinos Austria International. We started operations 42 years ago, and we are now running 12 casinos here in Austria. Additionally, we operate 11 casinos on board cruise ships and 52 land-based casinos in 18 different countries. That's a total of 75 casinos featuring over 1,200 table games and over 13,000 slot machines. The Casinos Austria Group engages around 13,500 employees. Total number of visitors world-wide is over 22 million per year, which means that we are serving more than 60,000 visitors on every single day of the year.

**What is your revenue?**

**C. Schütz:** A worldwide revenue of about €2.96 billion makes us an important player in the global industry.

**Does Casinos Austria actually have an equity position in some of the casinos, or are you strictly the facility managers?**

**C. Schütz:** Framework conditions are quite different from country to country; agreements with local partners also differ from casino to casino. We do own shares in many of the casino operations, ranging anywhere from 5% up to 100%. As a consequence of managing a broad portfolio, the Casinos Austria Group has had to acquire the ability to truly understand the objectives and priorities of different types of governments, regulatory bodies and financial partners from all over the world.

**An important part of Casinos Austria's agenda is the manner in which you balance the need to encourage responsible gaming with the need to generate prof-**

**its, and you now have the experience and brain-trust to operate in virtually any kind of regulatory environment.**

**C. Schütz:** Responsible Gaming is a very strong issue for us. We conform to the highest standards of corporate social responsibility and regulatory strictness not just because it is the right thing to do and smart business and the best way to qualify ourselves, but also to comply with the most demanding game licensing standards.

Casinos Austria takes important measures to ensure that gambling is dealt with in a responsible manner. The most significant are to clearly inform guests about the risks of compulsive gambling, provide self assessment tools and suggest possible precautions that customers can take if they feel they might be at risk.

Executive management and gaming employees are specially trained on the topic in regular further education programs by national and international experts. In this spirit, Casinos Austria cooperates with institutes involved with research into gambling addiction as well as gambling help-lines in order to promote a lively exchange of ideas and valuable information within the field of gambling research.

**As a consequence of managing a broad portfolio, the Casinos Austria Group has had to acquire the ability to truly understand the objectives and priorities of different types of governments, regulatory bodies, and financial partners from all over the world.**

Furthermore Casinos Austria follows responsible strategies with regard to advertising and sponsoring.

**Your primary skill set, though, is operating in the most highly regulated markets like Switzerland and Belgium and others like that, isn't it? To what extent does that**

**help qualify you to expand further and acquire additional licenses?**

**C. Schütz:** One of our major shareholders, the Austrian Mint, is the official and the only minting authority of the Republic of Austria, and therefore has an impeccable reputation that must be upheld. We accept this serious responsibility for running our operation in the best possible way, to serve the interests of the players and the general public as well. This might be one of the reasons why we are invited to apply for gaming licenses and operate casinos all around the world.

**As Head of Guest Relations, your focus must be on the service end of the business?**

**C. Schütz:** Of course! And service is at the core of the entire operation, quite central to our corporate vision. There has to be a truly genuine desire to serve, to offer the best product and to provide additional value. But the fact is that in our business it is very difficult to measure the efficiency and effectiveness of the operation. How exactly do you test and measure the level of satisfaction of each individual player? Since you can't unremittingly do that, it is important to embrace and understand

the attitudes and cultural background of your patrons. That requires a concerted effort on the part of all of our employees to understand and meet those needs. But that doesn't happen because of a single order by the top-management. It happens because we rely on what we in Austria call a social partnership: engaging our employees as the

most vital connection to our customers. Content and well-trained employees become proud of their company and proud of the important role that each one of them plays in our corporate mission. In my opinion, that's the best guarantee of ensuring the best customer experience in the service industry. I think we've been very successful so far in doing this, but it is an ongoing and never ending process.

How do you expect the current economic slowdown to impact revenues and profits in fiscal '09? What things can you do from a guest services position to add value without increasing price to the customer?

**C. Schütz:** It's quite impossible to give a serious forecast for our sector, as analysts do not even know about the general economic development. What we try to do – and always did – is to give our customers a lot more than mere gaming opportunities. Our restaurants and bars offer a very high standard, and additionally we have ball and conference rooms for every kind of event. We do not intend to increase prices as this would be counterproductive.

Operating in such a diverse variety of cultures must be an interesting challenge. What aspects of this business, from a guest services point of view, do you find to be pretty universal across all cultures?

**C. Schütz:** There is one central thing which is appreciated by all cultures: an excellent quality of service!

How will gaming venues change over the next 3 years? Smaller number of machines in larger number of locations to bring the venue to the customer? Or destination type mega-resorts that support an exciting array of high cost entertainment and other high-end amenities? Installing gaming machines in places that the customer frequents for other activities (pubs, hotels, stores of all kinds), or dedicated age-restricted gaming facilities?

**C. Schütz:** Very hard to say! The expected decrease in tourism will certainly have an impact on gaming revenues and visitor figures. However, for Austria it is assumed that turnovers shall settle down at the current level. My personal opinion is – from a global point of view – that during the next two years significant investments will be made very cautiously. Market consolidation might be another possible effect. Only those companies that keep responding to increasing consumer preferences will be able to take full advantage of existing and developing possibilities and possibly emerge as a winner from crisis.

The previous questions seem to relate to peoples' travel and vacation lifestyles. How will that likely change over the coming years? More driving or flying? Adventure vacations or sun/sand/relaxing vacations? How will these travel lifestyles changes affect the gaming industry?

**C. Schütz:** I'm afraid I'm not the expert to answer that. But the Austrian tourism statistics do show that people are going to wait longer to confirm their travel plans and will stay for a shorter time. Over the last few years, city tourism has been growing. People come just to stay for a weekend and want to get as much entertainment as possible. That fits our business model quite well. ♦



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venues. And these are not necessarily electronic machines. There are also low stakes traditional gaming machines. But as we all know, machines that are intended to be low stakes can easily be switched to high stakes with the push of a button. These machines are not properly controlled and regulated at all.

*That's why the government is attempting to enact laws that bring the illegal machines under the umbrella of a regulated system?*

**F. Stickler:** Yes. The problem is that a great number of machines that are under the control and laws of the provinces are not fully regulated. The new laws are attempting to bring these gaming machines under federal law and out of provincial law. The provinces

The traditional lottery player did not stop buying from the retailer and go on the Internet to buy. No, instead the new Internet customer is much more likely to become a customer of the retailer than vice-versa. We now have more than 400,000 registered Internet players, which is 5 percent of the Austrian population, most of whom are new to the lottery.

do not want control to be taken away from them and given over to the federal government. So there will be disagreements over how and whether this should be done. We will have to see how this amendment to the Austrian Gaming Law will resolve.

*I assume that the issue of who controls the machines is mostly about who gets the money, the tax receipts?*

**F. Stickler:** In general, but not always. It's about control and who decides how this market should be operated. Some of the provinces don't even want gaming machines at all, and do not want the federal government to allow them. But in principle I would say it's more about the distribution of revenues coming from these gaming machines. Revenues can be distributed according to several keys and indices. The mechanisms for doing that are not difficult to implement. The hard part is the negotiation process between provinces and the federal government to determine just where the split should be made, how much should the federal government receive and how much should the provincial government receive.

*Between the two of you, Casinos Austria and Austria Lottery, you're able to implement and operate virtually anything that is done in the gaming and gambling industry, correct?*

**F. Stickler:** Yes. Of course, all the while holding ourselves to the highest ethical standards, and being respectful of all legal and regulatory boundaries. We have begun to go international with lotteries. For example, we have now started an operation in one of the Russian states, Bashkortostan, a state of Russia which has a population of four million inhabitants. We were recently awarded the license to operate the lottery there and will start in the middle of the year with lotto. An important part of our strategy is that we respect the monopolistic structure of government regulated lotteries everywhere. We operate as a monopoly ourselves and believe that the interests of the public are best served by the monopolistic structure. So it is not our inten-

tion to enter markets that are being served by an existing government-approved operator. We will not be interfering with or competing with our colleagues who operate the government approved lottery. The multiple operator model is not a model that we think our government should adopt. The public and the governments and good causes that the lotteries support with funds have all benefited by this system of mutual support and cooperation and we want to do everything we can to preserve that system.

*You just implemented a huge conversion of your online terminals this past year with new terminals from KEBA. Did it exceed expectations or is there anything of interest to note about that implementation?*

**F. Stickler:** No news and that's good news. There were some improvements in ease of operation and in other ways, but the best thing I can say about the conversion is that I heard nothing about it! It's too bad for the IT people that the best measure of their success is if we don't hear anything about it. If you talk with any operator, they would say that the best thing that can happen with a conversion is that it all happens without any problems. To be up and running and forget that you even have terminals that process all those transactions is fantastic news. In fact, thanks for

reminding me – I'll have to remember to congratulate Keba for a smooth implementation.

*Are you attempting to bid on the Turkey lottery license?*

**F. Stickler:** We have expressed interest, asking for the bidding documents and explored the possibility. But I am not at all sure that we will bid on that. It's quite a huge task, it's a huge company, and a huge opportunity and so we will check it very carefully. But even though we had €2.38 billion turnover last year, we're still a relatively small company and we are a financially conservative company. So it is probably not practical for us to bid on the Turkey lottery.

*So from a capitalization point of view, it may not be feasible. How about from an operational point of view?*

**F. Stickler:** I would call it both. The burden on human resources, manpower and management, will be quite significant. And like I mentioned, we operate conservatively, meaning that we would not enter into something without being 100% confident that we could perform and deliver the results that we commit to. Think about what is at stake for the operator of the lottery, any lottery. Think about all the stakeholders who depend on the operator to manage the business in a responsible way. You have shareholders, employees, government, and the good causes that the lotteries fund. The lotteries are truly a public trust and decisions about how to operate the lottery, or change the ownership or regulatory structure, should not be taken lightly. That's why we wouldn't take on a project that we may be qualified for but not necessarily to the high standard we hold ourselves to. If we do take it on, our stakeholders can be quite confident that our performance and results will exceed their expectations.

*Your background includes casino gaming experience, doesn't it?*

**F. Stickler:** I speak more on behalf of the lotteries now than casinos even though I began my career with Casinos Austria, working as a croupier while studying. Then I worked in international, then in the cruise ships casino operations, traveling around the world in the middle 80's, and continued to work my way through all the different areas of the business. In 1985 I was moved to the project team for the introduction of lottery in Austria. So I'm coming from the casinos side but since 1985 have been on the lottery side. That's when we



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developed the formulae and systems for running the traditional lottery games in Austria and they have proven to be a huge success.

When I told the hotel front desk manager that I was meeting with you, he said, “oh, you mean Mr. Lotto!” There is a reference in the annual report to your being awarded the Responsible Manager of the Year in 2006 in the category of public interest. And it refers to responsible management reaching beyond core business and beyond responsible gaming. What exactly does that mean, “reaching beyond”?

**F. Stickler:** We have always tried to be ahead of developments, whether it is technology and distribution as with the Internet, or with organizational structure, or employee development, or with cultural changes. It's now called corporate social responsibility. But Austrian Lotteries and many of our lottery colleagues recognized long ago that the influence of institutions and corporations is much greater than the funds they turn over to good causes or the profits they turn over to shareholders. We all have an impact on hundreds of employees, on the environment, on the general public, and of course on the thousands of people who play the lottery. The concept of ‘reaching beyond’ means simply that it is up to us to see the opportunities to improve our performance and to take action to make improvements, because obviously we ourselves are in a better position than anyone to know where and how we can do better. If we wait for the government or the media to tell us to improve, then they are right to ask us why we did not realize it sooner and make the corrective actions sooner. We owe it to society, to our employees, to our players, to always be assessing our own performance and looking for ways to reach beyond our core business mission and do what we can to make this be a better world.

For instance, we began to integrate the Internet into our operations seriously back in 1997 and 1998. At first, it was just informational and creating a communications channel with our players. Then we started implementing games and enlarging the scope and mission of our Internet operation, ending up last year with more than 400,000 Austrian customers (5 percent of the Austrian population) and a turnover of €945 million. The business potential was apparent and we acted on that. But we also used the relationship we built with our customers on the Internet to evolve what we think of as a new way of communicating with our customers. We could call it “responsible advertising,”

which it is, but it's also something more than that. We work hard to use this medium to create a more open and transparent dialogue and relationship with our customer. It's not only about promoting a “responsible gaming” and a “responsible advertising” agenda. It's not just about your fiduciary responsibility or complying with the laws or even staying one step ahead of the media and government expectations for being a good corporate citizen. It is about reaching beyond all these things, always thinking first and foremost about the welfare of all of your constituents, and that includes society as a whole. Our acting can be seen under the principle of sustainability and responsibility, this is the main difference to our competitors. I would submit to you that my colleagues in the WLA community all understand and act on these principles more than others in the gaming industry. I think that in the end we will all see that this is also the smartest business strategy. Another way to think about ‘reaching beyond’ is that we think beyond today and tomorrow to anticipate and always be exceeding the increased expectations of our stakeholders.

Your annual report distinguishes between maximizing results and optimizing results. How do you balance the need between protecting the player from playing too much and maximizing revenues?

**F. Stickler:** The concept of optimizing revenue is actually written in the Austrian Gaming Law. It is explicitly stated that the mission of the operator is to bring the best result, not to maximize revenue. So this is the principle we have to enforce. But we do now have shareholders who are expecting earnings to increase. One of the most critical attributes of a great product, a successful game, is that it not appeal too much to the problem gambler. We work closely with our regulator, and with scientists who help us develop games that are fun and exciting products but do not stimulate the impulse of problem gamblers. Responsible advertising is another component of an optimized approach. Again, just as with ‘reaching beyond,’ optimizing results for the benefit of everyone is also the best business strategy, from a longer-term sustainability point of view. It is an ongoing process, though, a work in progress that will always be changing and evolving.

Is it possible to apply the traditional model of free market capitalism with multiple enterprises competing for the customers to the gaming business? More specifically, how does that traditional capitalist model integrate into

this additional concept of optimizing versus maximizing the business?

**F. Stickler:** I think that's not only a question for the gaming industry. I think you're touching on a very crucial point in the world economy of today. The tradition of thinking that government regulations interfere with the way the integrity of the free market system seems to have resulted in lots of problems in the financial services industry in particular. I would propose that all industries make corporate social responsibility a foundational part of their mission and purpose. With respect to the gaming industry, I would say that there is not necessarily one perfect model. But the notion that the only regulatory criteria should be the protection of ‘public order’ is misguided. That is what the EU Commission and the ECJ are struggling with now. Everyone agrees that governments should have the right to regulate for the purpose of protecting the public and the players. But that is such a narrow concept of corporate social responsibility. We need to do that and so much more. For one thing, if your responsible gaming agenda is based on complying with the law, you will never have an effective responsible gaming program. The reason for that is simple. Technology, player behavior patterns, game development, everything changes much faster than the law can possibly keep up with. The codes of conduct that we impose on ourselves in our Internet operations, and in responsible advertising, and in all other areas of our business, were done years before the government and regulators even realized that there was a need. To answer your question, the traditional capitalist model does not include this distinction between maximizing and optimizing results. That's not to say that there aren't many leaders of private enterprises who are enlightened and perform as good corporate citizens and perform to a high standard of corporate social responsibility. But can society leave that to chance or to a wish and a prayer that everyone will maintain this idealistic ethical standard? How about when increased competition and shareholder expectations demand more focus on minimizing costs and maximizing revenues and profits? So my answer is that I think that all industries need to raise their standard of corporate social responsibility and that it would be a very big mistake to apply a laissez faire form of capitalism to the gaming industry.

Attention to the principle of ‘public order’ and protecting the player is a vital part of optimizing the results. Another part of the

goal of optimization is to channel the profits to where they can do the most good. We all know that shareholders deserve a return on their investment and that free market competition causes operators to look for ways to drive down costs to increase that return. Nothing wrong with that. In our business, though, the biggest cost factor is taxes and the funds that are channeled to good causes. So, free market competition results in private operators taking action to drive down those costs. How do they do that? By moving to low tax jurisdictions like Gibraltar or Malta where they do not have to pay the taxes or support the good causes of the country where the players actually live. Do you know how much money European lotteries as a whole contribute to good causes? It's over €2 Billion a year! Austrian Lotteries contributes over €60 million to amateur sports. That is a lot of money! The funding to good causes like public health, culture, sports, education and others would largely disappear if the EU Commission were to force member nations to open up the markets to free competition. The profits would obviously go to private operators based in low tax jurisdictions who would use their cost advantage to increase prize payout and take all the customers. I can't imagine that anyone thinks that is a good thing for society. The financial support of good causes is, in my mind, just as important as the preservation of public order and responsible gaming.

Do you see tax harmonization as a realistic possibility?

**F. Stickler:** Not in the near future, not for at least 10 years. It would be a possible solution, but it is simply not feasible in the short-term.

Will the European Union Commission come around to supporting the rights of member nations to control lottery profits for the benefit of the public or will they force liberalization on everyone?

**F. Stickler:** Commissioner McCreevy (commissioner of Internal Markets whose term expires this year) has a clear agenda. He wants to liberalize the gaming market. When he found that he did not have the political support, he changed tactics to route the issue over to the European Court of Justice. This is the wrong way for this issue to be handled. This is a political issue with very high stakes. Important policies like this need to be decided by legislation before they go to the Court. The Court needs direction from the legislative side, from our political leaders, in order to

enforce the law. Mr. McCreevy thought that the Court would act in a more liberal way than the European Commission or the national parliaments or the courts of the member states. It is a transparently manipulative attempt to have legislation be done by the court and this is really harmful to our system and undermines the political process.

Too, we have the principle of subsidiarity that says that matters that can be handled at the member state level should not be referred to the European Union Commission. Almost all the member states want to retain the right to control and regulate gaming within their own borders and not have a system imposed upon them by a central authority like the EU Commission. And for these issues to be referred to the ECJ without clear guidance from the EU Commission is the worst way to handle it. Until there is agreement among the member nations and the EU Commission as to what the policy should be, these matters do not belong in the ECJ.

It sounds like you think that the subsidiarity principle will prevail; that the right to control and regulate gambling will stay vested with the individual member states?

**F. Stickler:** If this is treated as a political decision and is allowed to be vetted like political decisions should be, then yes, I think the result will be that the EU Commission will agree with the member states that regulatory control should remain with the member state and that if the member state chooses to operate a monopoly for the benefit of the public then that is their right.

Is there evidence indicating that the EU Commission will apply the subsidiarity principle to the gaming industry?

**F. Stickler:** Yes, there is. Much of the discussion is now focused on online Internet gaming, but going beyond. On March 10th, the European Parliament has made a strong political statement that online gambling is a sensitive sector and internet operators must respect national laws. Let me just name some of the major arguments, this so called "Schaldemose-Resolution," that was passed with a majority of 544 votes:

- Member States have the right to strictly regulate and control gambling, in accordance with the subsidiarity principle and the respective tradition and culture of their country.
- The European Commission infringement proceedings against 10 Member States do not touch upon the existence of monopo-

lies or national lotteries as such, nor do they have any implication for the liberalization of the gambling markets in general.

- Gambling is not an ordinary economic activity and a pure Internal Market approach to gambling is not appropriate.

This resolution certainly marks a historic point in the European gaming market.

A slight digression, but I think you might find it interesting. I attended a legal seminar in London last week (January '09) for the online gambling group. It was attended and supported by the advocates for liberalization who want to open things up for private operators to sell across borders without incurring tax liabilities. There is a frustration on their part because they are realizing that even if they succeed at getting the ECJ or the EU Commission to decide something in their favor, they'll never get the EU to dictate all the terms and conditions upon which the nations will license companies to operate. And as long as the national government has control over those terms and conditions, the operator will not be able to skirt the laws requiring them to pay taxes. As you might imagine, they are very saddened by this state of affairs.

**F. Stickler:** Yes, but we need a mechanism to block the illegal operators. Without that, it doesn't much matter what laws we enact. And they will fight hard because they demand a tax rate that amounts to less than 1% of turnover. We pay a €500 million in taxes on €2.3 billion in turnover. That's over 20% in taxes. The private operators claim to be willing to comply with all the laws of the land. They say they just want to compete fairly for the business. That may be true except for the one small matter of paying taxes.

And I don't really recall who decided that it's private companies that are supposed to determine what constitutes a fair tax rate.

**F. Stickler:** Do you remember the discussion that was ongoing in England when the bookmakers basically told their regulator they might leave England if the tax was not reduced, protesting loudly that so many jobs would be lost because they would move to the Channel Islands or to Gibraltar? Taxes were then decreased for the English bookmakers to entice them to stay.

**Continued online.** This interview is continued online. Please go to [www.publicgaming.com](http://www.publicgaming.com) to see this interview in its entirety.

It is very interesting how your financial analysis of the operation is organized by player motivation. You segment the market by game categories related to player motivation. One category would be the dream category. Could you briefly describe the way that you classify the different games into the different categories?

**J. Isotalo:** First, there is a lot of research and surveying of the player that goes into the classification process. We ask players about their motivations in the money games, and exactly which motivation is most nearly connected to which game. We have found that typical lotto players dream of a jackpot. What they buy is a reasonably priced dream. They spend on the average five to ten bucks a week for that dream, and that's their key motivation. They do know that they're very, very unlikely to win the dream. But it's still fun to dream.

So the dream is one distinct motivation.

**J. Isotalo:** Yes, exactly. And we also communicate the extremely long odds of actually winning the jackpot. On the other hand, everyone can see that almost every week somebody hits a nice size jackpot. The fact that the winner could have been you is exciting. It's not so much about becoming rich as it about dreaming about what it would be like to be rich.

Another classification is connected with hobby, an interest, and that is mostly related to sports. We have a wide range of sports betting, targeting soccer, off-track horse betting, and ice hockey, which is sort of our national sport nowadays. The motivation is to use the chance of winning a prize or money to enhance the enjoyment of a hobby, which for now is mostly focused on sports.

How about Community Games?

**J. Isotalo:** Still a small but very important category for the future. The motivation of community games is connected to social networks and social interaction. So you have games like bingo or games where all the players are connected to each other. We have one instant ticket in this category, called 'Nature'. This has to do with people's concern for the environment, and a small amount of the money this instant game generates goes to nature protection association.

The game you called "Nature," is that community?

**J. Isotalo:** It is. You're thinking that the players probably don't get together and socialize over the instant game, so where's

the social interaction? But the community classification is not so much about what you do as it is about how you feel. In this case, we classify Nature as community because the motivation is connected to the feeling of connecting with other people who care about nature. They want to play the lottery for a chance to win money, but the feeling that they are playing a game that contributes to a cause they care about, and they are playing a game that other people who feel the same way they do are also playing, becomes an important part of the player motivation.

So there are four categories: Dream, Excitement, Hobby and Community. The distinctions might seem a little fuzzy but they aren't really. A lot of thought and research goes into this. The science and methodologies of understanding human behavior are quite sophisticated.

What other games besides Bingo and Nature enable the player to affiliate emotionally with other players?

**J. Isotalo:** Poker would be another obvious example of community-based motivation, but it's not in our portfolio. Bingo is the proto-

At this very moment we have 900,000 Finns that are already our registered players. My vision is that within a few years all the players will be identified and all transactions be traceable.

typical example of a community-based game.

Could you describe the gaming market in Finland. Who are the operators and how is it organized?

**J. Isotalo:** There are three legal money-game operators in Finland, with their own monopolies. We at Veikkaus are the biggest of them, but there are two others. One is RAY, The Slot Machine Association of Finland. They run casino and slot machines, what you call VLTs in the United States. And then there is a third company named Fintoto that runs the on-track horse betting.

Our license covers the games and services we are allowed to provide, and we are prohibited from offering anything that does not fit into it.

Are the other two 100% owned by the government as well?

**J. Isotalo:** No, they are not. We are a company that is 100% owned by the state.

Every cent of our profit goes to the Ministry of Culture and Education who distributes it to four good causes: Arts, Sports, Science and Youth Organizations.

The Slot Machine Association is an association of social welfare voluntary organizations. It is strictly controlled by the government department of social and health, but it's not owned by the state. Its profit mainly goes to these voluntary organizations that support social and health services. Fintoto is a private company owned by horse owners association.

You had a really healthy increase of 8% in the most traditional of games, the lotto. We've already touched on this, but could you speak about the things that you're doing to invigorate the traditional games, and whether you see the trend line for lotto continuing to be positive.

**J. Isotalo:** Lotto has been offered in Finland now for 38 years. But, of course, it's not the same game as it was when it started. We have changed the format several times. We have increased the price point several times. The main thing in the growth of the game is making it as attractive as possible for con-

sumers. Lotto is everyone's game in Finland. So we have to pay careful attention to what people are interested in and change according to popular tastes and preferences.

Describe the distributional channel mix and how that contributes to that increase. For instance, what is the percentage of land based versus Internet, and what can you say about all that?

**J. Isotalo:** We do use multiple channels, which has evolved over many years. We were the first state lottery to put its products and services on the Internet 12 years ago. Last year the Internet share of our sales was slightly over 20%. This comes mostly through computers because the mobile devices still are rather clumsy when it comes to playing games online. But it is important that we figure out how to make mobile interesting, easy and fun. We are all so busy that there are not very many moments in the day that we have free. But we do spend time waiting – waiting for trains or to meet

someone, in lines or at offices before meetings. As busy as we are, there's still dead time during which the mobile could be a tool that would enable us to do things like play games, have some fun, place sporting bets, and buy lottery tickets. So we definitely see mobile as an important channel to develop, and we are doing that. Of course, people already do things like book airline flights, find hotels and restaurants, execute bank transactions, and many other tasks. So I think lotto, sports betting, and gaming will be done on the mobile as well.

When you say everyone's game, does that mean younger peoples' games? Like the twenty-something group?

**J. Isotalo:** That is a challenging question. The fact is that most of the traditional games do not engage young adults as much as middle age or elder people. Even so, we have 85% of the adult population in my country who buys our product at least now and then. In many other markets, less than half of the people are their customers. There are two important reasons to increase the percentage of people who play. First, that means in average people play smaller amounts, which is better from a responsible gaming point of view. The second is that if we lose some customers, it does not impact the top line sales as much as it does if you depend on a smaller number of heavy players. So I'm proud to say that even young adults do play lotto, though not as regularly as mid-age people. Once we get the big jackpot multiple, then almost everyone is on the move. The other thing is that Keno seems to attract different people than lotto. It could be that people who are under 35 want everything to happen quickly, right here and now, and so they prefer the game that is drawn every day.

You said that engaging the interest of a large percentage of your population is important because it allows the majority of people to enjoy the game in a moderate and healthy way as opposed to trying to over-leverage the people who already play enough.

**J. Isotalo:** Yes. That we have five Finns out of six as our customers is, of course, a sign that lotteries are widely accepted in my country, and this status has not come automatically. It's been a concerted effort over the course of 70 years to create a positive brand image that has become a part of Finland culture. The cornerstone of our strategy to maintain and reinforce that positive image is to create a wide base of players, lots of people playing an amount that

is harmless fun and not compulsive.

Doesn't everyone have a percentage of problem gamblers?

**J. Isotalo:** Of course. It is a fact that almost all around the world there are 1% to 2% of players who belong to a so-called risk group, and part of them develop a gambling problem. On the other hand, we could say that at least 98% of people play harmlessly. As far as I know, there is not much difference between different countries. Now, just because it is a fact of life doesn't mean we shouldn't take responsibility for doing whatever we can to keep the at-risk group as tiny as possible. And when we talk about real problem gamblers, even one is too much. There is a sad story behind each, not only for themselves, but people close to them. Lotteries are not expected to treat people, but we can require our customers to give us the information and create the tools to control their playing behavior. And that's what we have done. We have evaluated our games, noticed that certain games are more addictive than the other ones, and I think that the clearest common denominator is the frequency of draw. The faster the pace, the more addictive.

Problem gambling has nothing, actually, to do with what is the top prize. It's not an economic function. Addiction comes from other matters. Otherwise you can't explain the most addictive way of gaming, the slot machine. You can only win a maximum of 50 Euros from a slot machine at a time. But this is the game that creates the most problem gambling situations. Our internet customers have been given the tools to limit their stakes beforehand. And they can close themselves totally out for as long as three months. They can ban themselves from going to our gaming site. So they do have sort of a red button.

Also we have decided that we don't sell games at night time. We close at 10:00 p.m. and open at 7:00 a.m.

Did your government come to you and tell you "we don't think you should run those games at night," or, "we think you should reduce the frequency of the games."

**J. Isotalo:** No they did not. We identify the problem areas, figure out what can be done about them and take action without hesitating. It is our job to understand the customer and the business, and to impose the restrictions and constraints that will serve the best interests of the players and society. That's expected of us. For instance, there is

actually nothing in the law that mandates a minimum age for playing. We established minimum ages and do everything we can to guarantee that underage people cannot play. You cannot register to play on the Internet without verification that you are an adult. It's easily controlled. If you want to be a Veikkaus Internet customer, you have to have a Finnish Social Security number, an address in Finland and a Finnish bank account, and we check with the office of registry of people to make sure that these things all match up.

There are casino operators who feel that as long as they run honest games, provide some basic tools like stop-loss limits, and comply with the laws, that their obligation to help problem gamblers is fulfilled. One problem is that the law will never be able to keep pace with the changes in technology and game styles. The WLA lottery operators have always been dedicated to doing the right things proactively and taking a leadership role in finding the most effective ways to minimize problem gambling.

**J. Isotalo:** It's not enough that you obey the law. You have to do much more. You have to be proactive, take the initiative to implement the control mechanisms that protect the public and the players. And you have to do that long before they are written into law. Being good corporate citizens means that our mission is to give joy to as many as possible, and harm to as few as possible. We have to do continuous research and service to cover the possible weak points in our processes and then act on what we find out.

Like everything else, you are blazing new trails with your customer relations strategies.

**J. Isotalo:** To know your customer individually and to have a two-way connection with the customer is a key objective when it comes to success in the future.

Couple examples... We have cut our mass media advertising by 1/3 off of what it was in the 2004 budget. Instead we are focusing our resources on developing direct contact with our customers. Of course, we have good data on them. We know what they like, what they dislike, and we can give them information about the areas they seem to be interested in.

**Continued online.** This interview is continued online. Please go to [www.publicgaming.com](http://www.publicgaming.com) to see this interview in its entirety.

ing accordingly. The thing is that a casino can function quite well with a percentage of machines that are not being played as much as others. The operator is still serving the customer, meeting the players' needs and optimizing the income from the pool of available players. Now, what if you only have two or three machines and the players don't like the games on those machines? Not good – your business is basically dead. We need to provide maximum flexibility to deliver the hottest games to each location, and to adjust instantly to feedback that performance is being optimized. Of course, what's hot in one location may not be what the players in a different location like. On a big casino floor, this isn't so much of an issue because there are so many machines that it is not difficult to make sure that at least some of them have the right games. For our operators with a small number of machines, we need to make sure that each and every one of those machines always has the optimally performing game content for that specific location. That's what true server-based gaming is really all about – being able to control everything at every single machine on a completely individual basis.

*How do you service and maintain those thousands of machines in remote locations?*

**L. Weil:** We've talked about the challenge of security and compliance issues; we've talked about the need to have real-time control to deliver game content that optimizes performance for every single machine. Now, as you say, how do you service these machines in remote locations? In a ca-

sino, service and maintenance is a relatively easy matter because of the large machine population in a single location. But how do you service and maintain 15,000 machines that are located in a thousand different far-flung locations across an entire country? First, you have to know how to manage a service organization, how to manage logistics, how to operate your call centers, and so on. In addition to that, the communications technology plays a vital role in Global Draw's ability to manage this distributed network. We actually use a satellite network, which is by far the most efficient way of doing a wide-area of server-based gaming, much more so than any kind of a broadband technique. Server-based gaming is used to describe so many different things. What we are doing really is completely different from what casinos do to serve up game content on their slot machines. The level of complexity is of a completely different order of magnitude than what is required to run a bunch of electronic games in a casino. Figuring all this out, creating the systems and integrating the most advanced technology to support this wide-area network is what Global Draw is all about. Our business model is not to make the cheapest box or the box that has the flashiest buttons. Our business model is to provide a whole facilities management system, a wide-area gaming service to customers who don't need to do anything except let us put the machines in their location, wire them to the network, and then we split the profits. And that's that.

*So it's really much more about communications technology than anything else?*

**L. Weil:** Let's take someplace like Maryland that will have five locations with a total of 15,000 machines, as compared to the UK where you have five thousand locations. The implementation of gaming in Maryland really doesn't use any of the sophisticated skills that we have. And yes, it's mostly about the communications technology and network management systems. Now, we would certainly be very interested

Controlling a distributed network poses a whole different set of challenges because it is not possible to physically monitor the system... The level of complexity is of a completely different order of magnitude than what is required to run a bunch of electronic games in a casino.

in supplying the VLT central server system, like we do in Delaware, Maine, New Mexico, West Virginia, Quebec – we're definitely interested in that because that definitely plays to the specialized technology and competencies of Scientific Games. But in terms of the gaming expertise that we have in Global Draw, we would be much more interested if Maryland were to decide that they want full-blown true server-based

gaming and to go beyond five casinos and go into several thousand bars. That's where the skill sets of Global Draw really come to the fore.

*Games Media creates content in the Amusement with Prizes and Skill with Prizes. I would think that Skill games with prizes would be an interesting growth area. I assume the reason for prizes instead of money is that skill money games are not allowed yet.*

**L. Weil:** No, this is not correct. The prize in an AWP or SWP is money and it is allowed in the UK. The "Skill" is generally answering a multiple choice trivia question about some topic. Only a small fraction of the prize payout is determined by the skill so it's easy to hit a target prize payout ratio.

*How is the regulatory environment likely to evolve for skill-based gaming? How will the Games Media model evolve?*

**L. Weil:** The Games Media model itself is fairly straightforward – the idea is to more or less duplicate in the PUB MARKET what Global Draw has done in the betting shop market – install tens of thousands of "server based" machines across thousands of locations and provide the service to pubs on a facilities management basis for a percentage of the weekly "cash box."

*To what extent do you see the distributed venues, small number of machines in large numbers of locations, as a model for other jurisdictions to adopt? From a political and regulatory point of view, what other jurisdictions are most likely to adopt the U.K. distributed venue model?*

**L. Weil:** I think that the wide area, distributed gaming model will evolve to become the gaming model everywhere except in certain parts of the world where the resort/destination gaming model still has some inertia going forward. Nevada, Connecticut, New Jersey in the U.S. and Macau in Asia are examples of the destination gaming model. The momentum now is clearly with the distributed gaming model which delivers two really big benefits. First, it doesn't force the customer to travel a great distance to enjoy some recreational gaming. Second, enabling the public to play in a local venue keeps the money and the tax benefits from leaving the state or country or municipality. So, the customer benefits and the government benefits. ♦

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The Spirit of Adventure

people would never adapt to the notion of making financial transactions with a machine. They did not think that ATM's would be accepted by their customers! They thought that people wouldn't trust machines and that people would miss the "human touch." Of course, they were not entirely wrong at first. But when adaptation passes a certain threshold or 'tipping point', the process of adaptation happens very quickly and universally. The reason is that once you pass that tipping point, economies of scale kick in and proceed to reduce the costs and increase the efficiencies, sometimes dramatically. Everyone in the distribution business needs to think about how to integrate the powerful self-service trend into their operations and marketing strategies.

Second, other retailers are implementing new networks of self-service stations and kiosks. These are, in effect, new networks of POS's through which lottery products can be sold. This constitutes a huge increase in the number of POS locations where people can purchase lottery products. We are in the infancy of this trend. Adaptation is inevitable and will impact everyone. This explosion in the number of POS locations poses a tremendous opportunity for lotteries.

The ATM example is quite telling. I'm amused by television commercials that promote the "human touch" and try to appeal to the impulse to want to interact with a real person. When we get past the learning curve and see that we can save time or money, we easily overcome that impulse and choose the automated process over the human interaction process. I'm sure it won't be long before we'll prefer the self-service check-out at the grocery store just like we prefer it at the gas pump and the bank.

**G. Luftensteiner:** As the benefits to self-service methods continue to add up, the adaptation process will definitely accelerate. And as the customer becomes accustomed to the convenience

never, ever run out of new ways for the application of human brainpower to add value. In the financial services industry, for instance, payroll hasn't been reduced, it's just been shifted over to new services being provided to help people manage their money. Instead of performing mundane tasks that can be automated, like dispensing cash, there are more people acting as consultants on new financial products, building the online banking world, helping the customer solve problems that machines are not equipped to do, and things like that.

I don't know if there's really an answer to this question. The life cycle of so many things, technology, business processes, all kinds of things, gets shorter and shorter as time goes on. I'm wondering if the life cycle of consumer and worker behavior might also shorten so that the time it takes for the adaptation of a new technology might also be shorter than it used to be. When we think of desktop computing or ATM's or online banking – the bottleneck was just our ability to adapt, so that it took ten years when it should have been more like two years. Might it be the case that our ability to change and adapt is improving so that innovations like self-service happen more quickly than previous innovations like the ATM?

**G. Luftensteiner:** Absolutely. Look at mobile technology. Granted, much of the innovation is driven by the early adopters. The thing is, though, this "early adopter" group is getting larger and larger. And the rest of us are jumping on board much more quickly. People have seen and now understand that the time it takes to learn new things does in fact pay off. We didn't necessarily quite get that 20 years ago. Adopting new technology requires an investment of time, and sometimes of money. People needed to be persuaded that there is a positive ROI to that investment. Now that they took the time to under-

are has caused us to be much more open-minded when presented with new applications. Another way to think of it is that our own human bandwidth, our capacity to learn and change and integrate new ideas, has exploded right along with technology itself.

You just implemented a huge conversion of your online terminals this past year with new terminals from KEBA. I talked with Mr. Friedrich Stickler, Executive Director of Austrian Lotteries. His interview is also in this issue (see page 8). I asked him if the implementation exceeded expectations. Mr. Stickler replied, "No news, and that's good news. There were some improvements in ease of operation and in other ways, but the best thing I can say about the conversion is that I heard nothing about it! It's too bad for the IT people that the best measure of their success is if we don't hear anything about it. If you talk with any operator, they would say that the best thing that can happen with a conversion is that it all happens without any problems. To be up and running and forget that you even have terminals that process all those transactions is fantastic news." So you have a happy customer!

**G. Luftensteiner:** I hope we have more than one happy customer! Of course, I very much appreciate those kind words of Mr. Stickler. We are very pleased and proud to be a long-term partner to the Austrian Lotteries. The Austrian Lottery is one of the very best operated lotteries in the world. They always meet their revenue and profit targets, their operations run smoothly, and they set a high standard for integrity, corporate social responsibility and responsible gaming. And they didn't get to be that way by having a casual approach to business operations. They are demanding and, as Mr. Stickler says, they expect commitments and agreements to be fulfilled without glitches or problems.

What other trends in retail and distribution do you envision?

**G. Luftensteiner:** As we have talked about, increasing the points of sale would have dramatic impact. People are very busy and convenience and saving time is a top priority. For instance, people don't go into the store when they buy gas if they can avoid it. So why not make the lottery product available at the pump? Find ways to make the product available wherever it is most convenient for the customer to buy it.

And a way to increase the POS's would be to decrease the cost of maintaining those POS's, which points the way to automation and self-service?

**G. Luftensteiner:** Self-service automation is one way. Another way is to decrease the size and

Much of the innovation is driven by the early adopters. The thing is, though, this "early adopter" group is getting larger and larger. And the rest of us are jumping on board much more quickly.

of self-service from more and more retailers, they will come to expect it of all retailers.

Will we always need a clerk-assist option?

**G. Luftensteiner:** There will always be a need for people to assist and facilitate in the learning process, and on an ongoing basis to answer questions and solve problems. The beauty of automation, though, is that it frees up human resources to be focused on new ways to add value and help the customer. The world will

stand and use ATM's, smart-phones, e-mail, etc., and see that it was worth it, they are more willing to make that investment when a new technology promises to improve our lives. So, yes, the adaptation cycle is accelerating and that is a very good thing. Look at all the things mobile phones do now. I never asked for or thought I needed a camera to be built into my cell phone. But now I use it all the time. The experience that everyone is having of discovering how fun and interesting and lifestyle enhancing these new applications

the cost of the terminal. That is important. Reducing the amount of sales needed to pay for the POS terminal can enable a significant expansion in the number of POS locations, making the product more available to more people at more locations. That can dramatically increase sales. That is what we have done at KEBA – create a smaller, more reliable, and less costly terminal – the KeWin micro – that brings down the sales break even point. And another way is to develop multi-functional terminals, enabling the terminal to process more than one type of transaction. That is easily accomplished, technologically. The adaptation process in this case has to do with the retail organizations and gaming operators being willing to collaborate to create a cost savings that would be shared between them. It would all be somewhat transparent to the consumer. Another possibility is a mobile terminal, not much bigger than a mobile phone. Security is an issue, identifying the user of the terminal and controlling the cash payments etc. But these obstacles can all be easily overcome.

Retail may seem to be a mature industry but as we've been discussing, it's really not. There are quite interesting and important changes to come. The lottery industry has not really evolved much in the past two decades. There is

some catching up to do, but that can be a good thing. Others have borne the cost of pioneering new technologies and the customer is ready to change and adapt. The industry will be reshaped by the changes we have been discussing and that makes the present a great time to introduce new products and distribution strategies.

Some changes are logistical more than technology driven. For example, the business of express freight delivery has been constrained by the package or envelope needing to be delivered and received by people. It's rather inefficient when you think about it. There's the proverbial "last mile" bottleneck along with the need to have people present at certain times to deliver and receive the package. We are partnering with DHL to create a network of secure "Pack stations". This enables the driver to deliver ten times or more the volume of packages to these pack stations instead of to the end destination. This is much more efficient and therefore reduces the cost for the carrier. Of course, it off-loads the cost of that "last mile" of the delivery to the receiver, but in many ways that does not incur either inconvenience or time cost for the recipient. The package gets to these pack stations earlier so the receiver can get it sooner if they choose. They receive an SMS message when the package is de-

livered so they know instantly the status of their shipment. Then they can pick it up at whatever time works best for them, while doing their other driving-around tasks. The pack station is secure and so you can pick up the package or envelope 24/7. One of our implementations of this system is in Denmark where computers and parts suppliers complete the deliver in less than four hours. As the number of users increases, the logistical efficiency and cost effectiveness of this self-service pack station system increases exponentially. There will be countless logistical innovations like this one.

Lotteries have a tremendous opportunity. Retail distribution is undergoing seismic shifts over the next few years. It's driven partly by technology but mostly by the willingness of the consumer to move forward and adopt the benefits of new technologies that self-service automation and other innovations will be providing. Retail distribution offers a great opportunity to implement new, innovative, and game-changing strategies, but only if we start now to make the necessary changes and continue to meet the needs of the consumer. And when you do, I hope you'll give KEBA the opportunity to tell you how we can help you accomplish your goals! ♦

## PGRI 2009 Lottery Products of the Year ...continued from page 6



**Product Category:** Sales Automation and Productivity  
**Company:** OrderPad Software; [www.OrderPadSoftware.com](http://www.OrderPadSoftware.com);  
 (212) 625-6500  
**Presenter:** Len Lorenz  
**Product:** OrderPad 2009

OrderPad 2009 Software, which leverages the benefits of Tablet PCs, provides mobile sales professionals working in the field with a powerful, easy-to-use interface for managing the entire sales process all from a single device, making them far more effective and better informed for on-the-spot decision-making. OrderPad is already used in 14 North American lotteries, helping to drive over \$22 Billion in annual sales.



**Product Category:** Retail Innovations and Solutions  
**Company:** Scientific Games Corp.; [www.ScientificGames.com](http://www.ScientificGames.com);  
 (770) 664-3700  
**Presenter:** Simone Harrison  
**Product:** Lottery InPlay™

"Scientific Games' Lottery InPlay™ solution for multi-lane selling uses the retailer's existing point-of-sale cash register to sell quick pick online games and instant games. An easy to implement solution designed for speed of service and wide deployment across multiple store and cash reg-

ister types, Lottery InPlay™ expands the availability of lottery products into new channels."



**Product Category:** Signage and Jackpot Display Technologies  
**Company:** Sunshine Electronic Display Corp.;  
[www.SunshineElectronicDisplay.com](http://www.SunshineElectronicDisplay.com); (800) 821-9013  
**Presenter:** Bonnie Fussell  
**Product:** Sunshine LED Electronic Display

This new line of LED displays ranges in digit height from 4 inches to 8 feet and is offered in a variety of colors. These high impact displays can be used from small Point of Purchase signs to large High Rise and Billboard displays. We also offer price sync'd changeable product labeling allowing one numeric display to show the prices of many different products.



**Product Category:** POS Ticket Display Systems  
**Company:** Take-A-Ticket; [www.Tatinc.com](http://www.Tatinc.com); (800) 253-4295  
**Presenter:** Calvin Tigner  
**Product:** TRS Motorized Lottery Ticket Display

T-A-T's motorized display systems offer a unique, eye catching way to display lottery scratch tickets and can be used in place of or in addition to dispensers currently placed in stores. The rotating panels allow the display of twice as many games in the same space currently used (32 games instead of 16 displayed in a space 18 inches square.) ♦



# Is It a Video Game or a Slot Machine?

Picture the twenty-something walking into a casino. She's come from a home with an X-Box, Playstation, Wii, and computers that deliver a huge variety of game content, with stunning 3-D graphics and enticing new applications that always keeps things fresh, new, and exciting. Her mobile phone has more applications and computing power than desktop computers of only a few years ago. She's always multi-tasking so she is always in a position to drop anything that isn't at least as interesting as the other things she's doing. In our young protagonist's world, technology has passed an important tipping point. Technology is no longer just a useful tool that makes life easier. Technology itself has become a source of recreation and fun. Learning new applications, sharing her discoveries with friends, using technology to mediate her interaction with other people and the world that surrounds her – that's what excites and delights the next generation of players.

Slot machines need to evolve to engage the interest of this younger player. And yet, the 'core' player continues to enjoy the familiarity of the traditional spinning reel slot machine. The trick of it is to create an entertainment experience that appeals to a wide variety of demographic profiles and player preferences. Following is a discussion with **Gerry Aubin**, Director of the Rhode Island Lottery, **Craig Sculos**, Vice President and General Manager of Twin River in Rhode Island, and **Tim Shortall**, Vice President Sales U.S. Eastern Region IGT. The story is about IGT's REELdepth™ electronic gaming machine, Twin River entertainment facility (more than 4,700 electronic gaming machines, making it one of the largest in the country) and the Rhode Island Lottery. But it's also about how products and strategies are evolving to bridge the gaps and meet the needs of a rapidly changing industry.

**Paul Jason, Public Gaming:** How is the demographic profile of the slot player changing? Is it aging like the lotto player profile seems to be?

**Gerry Aubin:** I'm sure there are some differences in game preferences between age groups, but it is probably a mistake to generalize like that. The number and variety of games that are being implemented in an electronic format is increasing greatly. So slots are sharing the EGM space with more and more competitors. The player who enjoys electronic gaming machines can now play Keno, Roulette, and other games as well as video slot machines.

There is a very strong player base that prefers the look, feel, and

playing experience of seeing the three objects spinning around the mechanical reel. The interesting thing about REELdepth™ is that it creates a playing experience that appeals to both that core player base and also to the player who is used to the action of video games. The player who grew up playing video games expects the more exciting graphics and game options, but the traditional player also enjoys the 3-D graphics.

**Craig Sculos:** I think there are two distinctly different components for the answer. Like Gerry said, the demographic profile of the core player, for the most part, has remained the same. Skewing female, certainly slightly older, particularly during the weekdays, tends to be a frequent customer, and then it sort of takes on a bit of a younger persona on the weekends. Like most operators in our industry, we are trying to appeal to a younger, more economically upscale demographic profile. Some of the things we have done that are successfully moving us in that direction include a host of new amenities, including an event center that allows us to host concerts of 2,000-3,000 people, a fine-dining restaurant, front-line shows, and new electronic games that really deliver a whole new caliber of entertainment to the players. Combine those assets with a very strong marketing program, ongoing support and cooperation from the Rhode Island Lottery, and exciting forward-looking games like IGT's REELdepth™, and we feel confident that our product is well positioned to appeal to the core players as well as new demographic profiles.

You're broadening the entertainment experience to include a variety of amenities along with gaming.

**C. Sculos:** It's been a true transformation of the property. And the gaming floor needs to evolve just like everything else at Twin River. We do appeal to those that just want to continue to come in and play video slot machines. But we're also appealing to that new group, those that are looking for a night out where gaming is just a part of the fun and not the entire night. Products like REELdepth™ fit into that nicely, because it's new technology on the gaming floor that catches the



interest of a first time or an inexperienced gamer who's looking for something a little bit different.

I think that a lot of what we're talking about and what we're seeing in the REELdepth product is sort of a prism through which we are viewing the entire industry. It's changing. What I find so fascinating is that this is actually a very complex product. A lot of technology and engineering is rolled into it, and yet it's so simple to learn and play. So it's a different experience, new and exciting but it's not intimidating. We don't want to be so complex that we outsmart ourselves and we outsmart our guests.

So you need to appeal to both this new demographic profile and the traditional 'core' player?

**G. Aubin:** You absolutely need to appeal to the traditional 'core' player who expects the games to be a familiar video slot machine. A product like REELdepth™ has incredible 3-D graphics and other features that enhance the playing experience for the core player as much as anyone else. The ultimate test of how well a game performs in the state of Rhode Island is what we refer to as net terminal income, and the REELdepth™ products right now are performing better than double the house average. That is a very impressive record, and you don't get that without appealing to the core player.

**Tim Shortall:** REELdepth™ games have virtual reels that mimic the look and vibration of their mechanical counterparts, so traditional slot players feel comfortable playing them. REELdepth™ game themes offer classic slot play with an innovative 3-D twist that appeal to everyone, core players and new players alike.

**G. Aubin:** And, as Craig explained, Twin River is augmenting the casino floor with all these other amenities to attract different demographic profiles, like younger and higher income perhaps. So we also need to have the kinds of games that will pull in these new players. It won't do much good to build all these other amenities to attract new players if you don't also have the games that get them excited.

**C. Sculos:** Many of these younger players never saw the original Oceans 11 and have no idea who the Rat Pack is. They're only interested in knowing the George Clooney, Brad Pitt version of *Ocean 11*. That's their self-image and that is the image they want to affiliate with and be a part of. So we need our image to be up to date so we are perceived as a contemporary forward-looking venue. And our games need to reflect that image.

**The player who grew up playing video games expects the more exciting graphics and game options, but the traditional player also enjoys the 3-D graphics.**

**G. Aubin:** Players gravitate towards the games that feature the popular icons and movie themes they know and like. Licensed products do very well in electronic games just like they do in traditional lottery products.

IGT REELdepth™ has a much bigger portfolio of gaming options for the player to choose from, doesn't it?

**C. Sculos:** It does, but we're still in the early stages of launching the program and have not implemented all its capabilities yet. Which is sort of amazing since it's already performing so well. We're well aware that REELdepth™ can scale up in many ways, and that is



one reason we are enthusiastic about its future success.

**T. Shortall:** REELdepth™ does provide operators with unmatched flexibility. The technology allows multiple games to be housed on the same machine. Players are able to view and play a selection of their favorite games by switching from a 3-reel to 4-reel to 5-reel to video reel to poker within seconds – all on the same machine. A player can also switch to and from a non-progressive feature to a progressive feature by just choosing another game on the same machine. All games in the REELdepth™ line are ready for server-based gaming today, but operators do not need a server-based system to run the games or the unique 3-D technology. REELdepth™ truly provides casino operators with many choices to fit their needs.

How many different facilities is REELdepth™ installed in now? How many more facilities do you project to come online with REELdepth™ before the end of the year?

**T. Shortall:** IGT installed its first REELdepth™ slot machines in September 2008. Today, more half of the casino properties in North America have REELdepth™ games installed. Player response has been incredibly positive and we expect many more operators to place the games on their floors by the end of this year.

Tim, where does IGT go from here?

**T. Shortall:** As the younger gaming audience continues to grow, so does the need for more interactive and entertaining games. The younger generation of players has grown up with a variety of video games like Sega, Play Station and Wii which drives their desire for

social and community play. IGT's electronic table games incorporate social interaction and community play and so that will be an increasingly important category.

The other thing is to be smart about how we use technology to create the most exciting player experience. The technology should be behind the curtain, because even young people are there to play, to have fun and enjoy a recreational and entertaining evening. They're really not there to be impressed by your technology. So the games must be as enticing and user friendly to the traditional player as they are exciting to the younger player. But frankly, a great playing experience appeals to everyone. ♦

# U.S. Shapers of Public Policy

## Turn to Their Own State Lotteries to Expand into the Electronic Gaming Machines Market

By Mark Jason, *Public Gaming International Magazine*

Following is the first in a series of reports describing the expansion of gambling in the United States. Our agenda is straightforward. We want to provide the information, data, and analyses to support a public policy that is favorable to the expansion of the gaming industry, but with the explicit objective of benefiting the state government and the public which it serves.

Gambling (electronic gaming machines and other casino style gambling) has expanded to the point where almost all forms of gambling are easily accessible to almost everyone everywhere. We are well past any "tipping point" where the phenomenon can be prohibited. For a state to turn its back on this market does not deter people from gambling, it just denies its own citizens the financial benefits that should be accruing to the state from this industry. From a public policy point of view, the question is no longer whether gambling should be allowed. The question now is... What can each state do to capture the financial dividends generated by the gambling industry for the benefit of the state and the general public?

We all know that certain sectors of the industry are suffering now. The fact is, though, that the two major destination gambling centers, Las Vegas and Atlantic City, showed signs of weakness even before the current economic downturn. As we emerge from this recession, we should perhaps look carefully at how the gambling industry has evolved over the past 10 years, and how it is likely to evolve over the next 3 and 5 years (who knows what this world will look like 10 years from now!). Hopefully, insight into the dynamics that form the foundation of the industry as it exists today should inform our approach to planning and strategy for the future.

### Capital is Required to Build for the Future...

A few years ago, it may have appeared that states were at a disadvantage for not having the infrastructure and customer base to compete with the 'big boys'. The Harrah's, MGM's, Sand's, and others seemed to have so much momentum that competing with them would be intimidating. Combined with the well-funded and politically connected network of Indian gaming casinos, these commercial giants dominated the market. Now the tide has shifted. The industry is changing in major ways and the asset-rich infrastructure that was a protective barrier against new entries in the market has become quite the onerous liability. To some extent, the mega casinos and huge population of installed electronic gaming machines have become obsolete. The major casino companies are today saddled with burdensome debt, a weakened cash-flow unable to service that debt, a full-blown structure of legacy games and destination resort facilities, and no access to the capital needed to change course and build for the future. These factors will make it very difficult for the

entrenched industry operators to adjust to trends like the movement away from centralized destination resorts to a more localized distribution of gaming venues; and access to capital needed to acquire the new generation of incredible electronic games is severely limited. In an interview on May 21, Gary Loveman, CEO of Harrah's, the world's largest casino operator, said: *"The underlying fundamental health of the industry remains strong. The issue is to address the capital structure and that's what companies like we and MGM Mirage and Station (Casinos) have struggled to do. It's not just the recession. It's that the industry has generally tried to compete largely on the opulence of the box in which the central product is delivered."* Sounds sanguine until we realize that Mr. Loveman seems to be saying that their capital structure prevents the big casino operators from adjusting their business model to the changing needs of the marketplace. The industry is stronger than ever, like he says, but only for those not saddled with an over-leveraged balance sheets.

This poses a tremendous window of opportunity for state governments. Many state legislatures have already turned to their own state lotteries to regulate and oversee the new gaming operations. West Virginia, Delaware, Rhode Island, New York, South Dakota, and Oregon have all passed VLT legislation, and all are regulated by the state lotteries. The revenue from these VLT operations exceeds \$5 billion per year. Kansas and Maryland recently passed such legislation, and their lotteries are hard at work on implementation. Not surprisingly, other states are discussing the benefits of implementing such legislation. States that have no program in place now are perhaps in the best position of all for the simple reason that they have a clean balance sheet and can start fresh. They can assess the pros and cons of different approaches and be the ones to build the industry of the future. Having a blank slate to work with is a tremendous advantage, giving those states the freedom to imagine and then create the gaming future that works for everyone.

### How to Implement Expansion into Electronic Gaming Machines?

The circumstances that determine which model works best vary from state to state. But clearly all state legislatures should consider the advantages of having their own state lottery organization implement the expansion of gaming. The gambling business has at least two critical elements to it that make it different from any other

business. First, it has the potential to deliver significant financial benefits to the public (or charitable causes or state government). Second, it has the potential to incur social costs in the form of problem gambling. State lottery organizations have the experience and proven skill set to meet the needs of the government and the public on both of these counts. Balancing societal needs for moderation in gambling along with the need to generate revenues and profits is not an easy thing to do. Lottery organizations already do that. The infrastructure to implement and oversee gaming activities is already in place at every lottery, from the organization and supplier contacts to the manner in which gaming is regulated. Lotteries are adept at managing their businesses in ways that stay consistent with the needs of the state legislature, and to returning a high percentage of the revenue over to the good causes or whatever the legislature chooses to fund.

Additionally, the percentage of gambling revenues contributed by lottery organizations is consistently higher than all the alternatives. Compare the terms and financial benefits to the public of the “compacts” that states have with the Indian casinos. These ‘compacts’ vary from state to state, but the terms are invariably far less lucrative than are achieved by state operated gaming programs. Couple examples: On May 21, Arizona House Majority Whip Andy Tobin proposed ‘racino’ legislation, which would allow any racetrack in the state to offer casino games. Tribal gaming is likely to vigorously oppose such legislation. But the tribes now contribute only up to a maximum of 8% of the ‘take,’ net play after winnings. The tax rate proposed for ‘racino’ gaming is 45.5% of net profit. And, in the last fiscal year in New York state, tribal gaming returned \$14,163 per slot machine to the state. The New York Lottery, through its Video Lottery program, returned \$ 37,951 per machine to the state.

On the other hand, state legislatures should be somewhat more conservative in their expectations of what can be accomplished, and the time frame required to accomplish it. In Maryland, the legislation calls for the gaming operator to return 65% of the ‘take’ to the state. Kansas legislation contained a similar expectation. In addition, both required the bidders to commit to a massive up-front investment. In each case, the states failed to receive bids that met these mandates, and are now reworking their expectations. Analysts speaking at the East Coast Gaming conference in Atlantic City on May 19 warned that if governments impose tax rates that are too high, impose other terms that are unreasonable, and otherwise make the value proposition to the operator unworkable, they are most definitely setting themselves up for failure. Investors and operators are not going to build gaming establishments without a reasonable expectation for a return on their investment. Gaming is not a monopoly. It’s now a competitive business environment, and operators need to be armed with a cost structure, including taxes, that enables them to compete for the business and end up actually making a profit themselves.

A similar obstacle to success lies in the large up-front capital investment being required of the bidders. In an interview on Public Gaming’s website, Ed Sutor, CEO of Dover Downs Hotel and Casino in Delaware, talked about the importance of managing the capital investment and the build-out to coincide with demand. There is roughly \$350 million invested in the facility, but this investment was done in stages over a period of more than ten years. Even if capital were more readily available, bidders are reluctant to partici-

pate if they are required to make a large investment before seeing any return.

Pennsylvania enacted legislation authorizing the state to enter the electronic gaming machines market but did so without having its lottery oversee and regulate the new gaming. They placed casino gaming under the control of the Pennsylvania Gaming Control Board. This organization has had enough well-documented difficulties that Governor Rendell on May 8 called upon his own Chief of Staff, Gregory C. Fajt, to take over and ‘right the ship.’ Video Poker legislation was recently proposed by William DeWeese, the Majority Whip of the Pennsylvania House of Representatives, under which the Video Poker program would be put under the control of the Department of Revenue. The state lottery is under the direct control of the Dept. of Revenue. Perhaps the state would have been better off putting casino gaming under the Dept. of Revenue as well.

Pennsylvania currently has Video Poker legislation under consideration, a bill which would allow for Video Poker machines in the bars and taverns in the state. Predictably, anti-gambling constituencies oppose this bill, even in the face of testimony by the Commissioner of the Pennsylvania State Police, Col. Frank Pawlowski, given on May 15th. The Colonel described a significant ‘gray market’ of slot machines in Pennsylvania, operating illegally, unregulated and untaxed. He estimated that these machines are generating a total annual profit of roughly a half billion dollars! That’s \$500,000,000. At a 20% tax rate, that’s \$100,000,000 in direct revenue to the state. Of course, the gray market is also unregulated in other ways as well, leaving the players more vulnerable to dishonesty and a lack of responsible gaming tools. In this case, we’re not even talking about an expansion of gaming. This legislation is geared towards replacing the illegal market with one that is properly taxed and regulated for the benefit of the public. It is hard to understand the rationale for opposing such legislation.

It wasn’t too many years ago that Atlantic City had no competition apart from Las Vegas. Of course, Atlantic City was supported by players from all the neighboring states as well as New Jersey. Neighboring states are now taking aggressive action to keep the gaming revenue from leaving their states. (One result being that Atlantic City casinos as a whole suffered a 38% drop in revenue in the first quarter of 2009.) Delaware just passed a bill allowing its ‘racinos’ to offer both sports betting and table games. Las Vegas Sands is opening a major casino in Pennsylvania on the New Jersey border, an hour from Philadelphia and two hours from New York. The New York legislature is busy evaluating seven bids for the construction of a destination resort and casino at Aqueduct in Queens. The rest of the country may not be quite this same hotbed of competition. But that’s good news for them. It just means that actions to expand gaming where competition is not so intense will yield even higher dividends.

The reality that the public enjoys and will engage in recreational gaming was actually recognized some 32 years ago: “*Gambling is inevitable. No matter what is said or done by advocates or opponents of gambling in all its various forms, it is an activity that is practiced, or tacitly endorsed, by a substantial majority of Americans.*” –Commission on the Review of National Policy toward Gambling, 1976, p.1.

Your feedback on this editorial is encouraged. Please email [mjason@PublicGaming.com](mailto:mjason@PublicGaming.com) with comments and criticisms. Thank you! ♦



Philippe Vlaemminck

## Is Europe Moving Towards a Controlled Opening of Gambling Markets?

In recent months we did see several governments in the EU responding to the threats of the Commission to bring them to Court by proposing ways to get a stronger control over the online gambling market. The Netherlands and Germany reinforced the prohibition of online gambling, but have difficulties in getting their laws enforced. It is astonishing to see that in markets like Germany, Turkey and Greece, a large group of remote gambling operators try to take as big a stake as possible in spite of the fact that their activities are totally illegal.

Italy was the first to respond to the legal challenges by setting up a transparent and open concession model requiring operators to connect their servers to the AAMS, the Italian regulator. However, still a number of operators continue to challenge the right of the Italian government to impose licences, although Italy's system is perfectly in line with the case law of the European Court of Justice and the EFTA Court. Indeed, the Courts did recognise the right of each State to impose its own licensing system as long as such system is non-discriminatory and transparent, and proportionate to the aims pursued. Italy's system is in line with these conditions and provides for a fair and controlled access to its market.

France, Denmark, Finland and Belgium responded more recently to the provocations by proposing legislations in line with the case law of the European Court of Justice to tackle the illegal online gambling operations, although the answers proposed are in some ways different.

France is indeed proposing a partial opening of its market, limited to certain defined online games (certain types of sport betting and poker). Each operator will need to obtain a licence in France and pay taxes over the stakes. Those stakes are limited. They will also be obliged to contribute to sport and agree with the organizers on the use of sport events for betting purposes. The land based world will not change, both La Française des Jeux (lotteries) and the PMU (horse racing) will maintain their monopoly. The control over the online gambling market will be in the hands of a new regulator (ARJEL) who will also define the operational conditions. The French bill is well conceived and balanced and in full compliance with EU law. France was largely inspired by the Italian model and is today a further inspiration for Spain and Denmark. The French Minister of budget called the French approach "a controlled opening of the market."

Will this become the EU model? Clearly the UK model, based

upon a single licence issued by the UK or any other remote gambling jurisdiction (Malta or Gibraltar) valid throughout the whole EU will not prevail. Such model does indeed not recognise the right of each state to decide upon its own gambling policy.

But there are also other models promoted in the EU. Finland, the first country in the world having offered games through the Internet, does take legal steps to reinforce its monopolies. According to the case law, this is perfectly legal as well. The difference between Finland and France is to be found in the number and types of operator. While in France any EU based company will in the future be able to apply for a licence to operate the games of chance admitted by the French government remotely on the French territory, Finland prefers that such games are only operated through a single company, and preferably a state owned company. As such there is nothing wrong with that choice as both the European Court and the EFTA court did in two cases (Läära and the Norwegian slot machine) recognise that a monopoly in gambling is legal from the EU perspective.

Belgium chooses a third way. Licences for casinos, gaming halls and sport betting operators will be extended to the online market. As such the Belgian legislator follows the line decided by the WTO dispute settlement bodies that online gambling is a like service and Internet just another distribution mode.

All these solutions prove that today EU Member states take the issue of remote gambling seriously and look for ways to get the illegal offerings under control; while understanding that prohibition is not an effective solution to combat crime and to avoid addiction. However, all these solutions prove to be limited in practise. Without a coordinated approach to tackle illegal online gambling, enforcing judgements in all the other states and consolidating the states' choices, all solutions will partially fail. The EU principle of subsidiarity requires the EU institutions to become involved when essential transnational problems occur which cannot be adequately resolved at national level. Up to now this has not been done in a satisfactory manner. As a result there is still a growing number of litigations, some of them going up to the European Court of Justice. At the moment there are 12 cases pending.

Many of these issues have already been decided in past cases. One has to acknowledge that the European Court has acted in this area with great respect for the sensitivities and problems at stake. The Court, as always, took up its own responsibility and did substantially

contribute to the objective of creating the conditions that enable the Member States to understand what is possible within the actual context of the Treaty. From Schindler to Placanica, the Court has designed the legal framework for gambling services under the Treaty and the limits thereof.

The EU Treaty as such does not provide for full answers to the complexity of the gambling issues and the Court understands this. The Portuguese internet gambling case did show how far-reaching the difficulties are. None of the Member States present, and there were many intervening, nor the EU Commission wants the gambling market to be driven by market forces. Already in Schindler, the Advocate General explained in a very high level and well argued opinion that applying market rules to gambling services will not lead to a better allocation of resources as aimed at by the Treaty. There is no need, the Advocate General states, to apply internal market rules and competition law as such in an area where there is no benefit for the consumer from a liberal, competitive environment. However, he makes it perfectly clear that the attitude of the states is crucial in this regard. If the states do not operate their lotteries as normal economic enterprises and are not trying to maximise profits, this is fine and they should not be forced to apply market driven principles. The AG considers that operating a lottery as the Santa Casa de Misericordia de Lisboa is doing under strict governmental control and ownership is perfectly alright.

But the situation is albeit not resolved with this opinion. The Court still needs to rule and even that does not resolve the regulatory problems.

Where are the other EU institutions on this?

The Member States have clearly decided to take the lead. Indeed, following a meeting of the Government Agents to the European Court on July, 10, 2007, the Member States decided to start a dialogue on this matter. It took up until the French Presidency in the second half of 2008 before the idea was implemented through the "Services and Establishment Working Group" of the Council.

Surprisingly, already during the first meeting in July the Commissioner on Internal Market denied even to participate in this dialogue with the Member States instituted by the French Presidency. This attitude has not changed over the past months. Let's hope that this changes and that the Commission Services, who have over the years acquired a substantial knowledge of the problems and understand the sensitivities, can participate and contribute to this dialogue. This is indeed the only way to come to terms in this difficult area.

On 1 December, 2008, the Council of Ministers decided that they want to continue the work of this Working Group under the Czech Presidency and to search for the regulatory answers. Most of them insist upon the need to approach the questions with due regard for the subsidiarity principle, thereby emphasizing that only those problems need to be looked into at EU or international level that cannot be adequately resolved at the national/state/regional level.

The French Presidency did call upon the Commission to participate more actively in the debate and make further studies. The Commissioner of Internal Market refused this request. Unfortunately, the Czech Presidency, overwhelmed by the financial and economic

crisis, did not take up this matter seriously. Only a conference and an informal meeting at the end of June 2009 will give attention to the gambling problems. The upcoming Swedish Presidency will pay substantially more attention to the complexity of the gambling services issues. During the second half of 2009 we expect that at least 3 meetings between the Member States will be held to talk about the problems and to define the scope of an EU approach.

Also the European Parliament did contribute to a better solution. The Parliament did, like the Council, reject the proposed solutions of the Commission to base gambling services upon a single country of origin licence as promoted by the UK, Malta and Gibraltar, but was aware that the Treaty as such did not provide the solution. During the debate on the White Paper on Sport it became clear that the European Parliament acknowledges the important role and contribution of Lotteries to the European sport model based upon amateur and grass root sports.

In the meantime the IMCO Committee of the European Parliament has addressed the question of gambling in its own initiative report. Although initially the European Parliament was considering to look into the questions of the online gambling market only, the Parliament took into consideration all consumer related aspects as well as the public order elements of crime prevention. The report prepared by MEP Schaldemose provided a correct picture of the situation. It was adopted by an overwhelming 85% majority of the Parliament. The Parliament recognizes the fundamental right of each state to regulate gambling and warned that remote gambling is much more dangerous. The Parliament did also insist upon more academic research to understand the risks of remote gambling.

Both initiatives can be quite welcomed and show how both institutions take up their political responsibility to find proper political and regulatory answers, if necessary under secondary EU law, something that the European Court could as such not do.

Today it is clear that a single Member State cannot provide all answers to regulate properly the gambling sector. The principle of subsidiarity as outlined in the Protocol of the Amsterdam Treaty does therefore require the European Union to look for the essential cross border aspects of the problem. Some member states may choose to open up their markets more than others. But all member states endeavour to have their laws enforced and their regulations respected. That requires making serious work of getting control over the remote gambling markets and operators. ♦

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happen to people who play more than they should. What works better is to use humor and warmth in our campaigns, to create the feeling that playing responsibly is the 'cool' thing to do. We have done some T.V. and print campaigns that have had good impact by encouraging that feeling.

We're positioning this brand, what we call 'Spela Lagom,' to be an umbrella brand that gives us a lot of flexibility to change and evolve our messaging. This is, we feel, an important part of our long-term strategy to create a healthy and responsible gaming culture. The specific initiatives will likely change with the times, but the overarching brand will remain the same.

That is a fantastic explanation about how Svenska Spel's approach to CSR and responsible gaming has evolved over the past couple years. You really do seem to have created a unique approach to tapping into the mindset of players so that your message has a truly positive effect. What you're doing is really interesting because the ultimate goal is to enable and empower the individual to exercise the right approach so that they have the optimal enjoyment and gaming experience. You're getting the player to be excited and proud and feel good about their ability to play responsibly.

**M. Nilsson:** Of course, it's not so easy to do. The tricky part is to try to combine the promotion of the games with the concept of not playing too much. We started by putting a little label on the product marketing that said things like, "Play with responsibility." At the same time we were also saying "But don't forget the jackpot is this Saturday." The challenge is to combine those two messages without creating the proverbial cognitive dissonance, sending out mixed or contradictory signals. We feel that it can be done by associating responsible play with fun and being cool; associating responsible play with being part of the objective of the game itself.

Another aspect of the campaign and our brand Spela Lagom is to create a sense of fun and entertainment even if you touch a very serious subject. With humor it's easier to reach out to the people who actually need it the most.

We're finding that the result is actually very positive not just for the responsible gaming message but also for the promotion of the games and getting more people to enjoy the diversion of just playing for a little fun. When there was the mixed message, pleasure voice saying "play

more" and serious voice saying "don't play too much", that contradiction created in the players' minds impairs the promotion of the game as well as the responsible gaming message. The appearance of contradiction causes the player tune the entire message out. Making sure that the messaging is consistent and mutually reinforcing causes the player to be more receptive to both messages.

Too, we have a website for the brand Spela Lagom. We feel that the approach of thinking of responsible play as being a positive attribute of the games themselves will have an important impact on the way our society thinks about Svenska Spel.

Your target audience for the messaging isn't the 2% of the population who are problem gamblers.

**M. Nilsson:** Correct. We are doing both T.V. and print to reach a broad audience that really includes the entire population of Sweden. Of course it includes all the expected constituents like our political leaders and the players themselves. But it also includes the mother who may be a bit concerned about her children sitting too long in front of the computer playing non-money games; it's the relatives and friends of players, it's basically everyone. We use television to convey a more positive and emotional context, create a feeling of fun and humor. We use print to convey more information content, explaining our objectives in more factual detail. It's harder to create emotional context with print, but print works better for those who want to get more concrete information.

How about public relations... Do you meet often with members of the press giving interviews and do you have to be concerned that the media doesn't always treat our industry fairly?

**M. Nilsson:** We do meet with the press, address their questions, and do our best to communicate to the general media what we are doing, what our plans are and why we do the things we do. For example, we did do a press release to announce that Svenska Spel received the Responsible Gaming Award from the World Lottery Association. But it is also the case, as you point out, that the general media usually thinks that our only public relations goal is to promote our games instead of talking about the real issues in an honest and straightforward way. I'm not criticizing the media. It's their job to keep everyone honest. But we can't rely on them to get our message out about the positive things that Svenska Spel is doing to

help not just our financial beneficiaries, but everyone in Sweden. That's why we have taken care to develop a multiple branding strategy. We do want to communicate with the general media, but we also need to develop our direct connection with our audience, which is the entire Swedish population.

That does seem a bit of a dilemma. To communicate the positive things you're doing without coming across as being self-promotional.

**M. Nilsson:** Yes. That begins with us keeping a proper perspective. We need to always keep in mind that even if we win awards and feel proud of what we have accomplished, we should always feel that we are just in the beginning stage with much more to accomplish. That's the way to keep us sharp and focused on continuous improvement. It's also the right mindset for communicating with the public and the general media about how hard we are always working to continually make things better. There's no reason for us to ever be defensive about the fact that we're not perfect and that our Responsible Gaming programs are not perfect. We know they're not perfect. We also know that nobody is working harder than we are at making them be the very best they can be. We are proud of the results we've achieved, excited about the progress that we have yet to accomplish, and confident in our ability to accomplish it.

Do you use different responsible gaming campaigns for different products, like for the mobile and internet customers versus the casino players versus the scratch-offs?

**M. Nilsson:** No, not yet. We have only started on this journey, and the important thing now is to communicate our mission to be the best corporate citizen we can be. We are building the branding strategies that will be the foundation for doing more things like developing different messaging to accomplish different objectives with more tightly defined target groups and player profiles. Right now we are building trust, awareness, and brand recognition. Our short-term objective is to create a foundation that will support a cultural attitude towards gaming that is healthy, fun, and responsible. As we achieve that goal, we'll be able to accomplish so much more because there will be a public awareness, an enlightened approach to gaming that will be responsive to all the specific initiatives we may launch. It's really the only approach to building a business that is healthy and sustainable for the long-term. ♦

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