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Jean Jørgensen
World Lottery Association (WLA)



Jim Kennedy
Scientific Games Corp.



Verónica Montellano
Polla Chilena de Beneficencia



Mary Neubauer
Iowa Lottery



Leo DiBenigno
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Interview with Conference Host
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PGR Institute is much more than a news aggregator. We follow-up on the news to deliver the perspective and genuine insight you need to understand the gaming industry and how it is likely to evolve. Any questions or comments, e-mail Paul Jason at pjason@PublicGaming.com or call U.S. + 425.449.3000.

Thank you!



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Public Gaming International (ISSN-1042-1912) September 2009, Volume 35, No. 4. 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

The mission of lotteries has always been so vital to the public interests and that is true now more than ever. There are many *billions* of ¥, £, €, \$ and money in denominations from all over the world at stake, as well as the integrity of gaming. There's a battle being

fought right now over how this industry will evolve and whose interests will be served. Legislators the world over are assessing the pros and cons of different policy decisions. They are being assisted in this effort by well-funded lobbying efforts that promote the loosening of regulatory control. Conversely, the WLA membership has raised its performance to comply with the most demanding regulatory standards. Standards of integrity and security that protect the public, paying back to the public a far higher share of the revenues...these would seem to be properties that governments should want to support as they define the gaming industry of the future. Since lotteries don't have cadres of well-funded lobbying groups to advocate for them, let's hope the shapers of public policy recognize the incredible potential this industry has to benefit the public and good causes.

The other battlefield is the marketplace itself. And that is the primary focus of all of our interviews in this issue. What can we do ourselves to shape our own destiny, to impact the way this industry evolves?

As I use the term "our industry," I wonder...*just what is "our industry?"* The word "lottery" is in the names of our associations, our conferences, and most of the member organizations that support the conferences and read this publication. To be sure, lottery will continue to be the 'core competency' of our businesses. Lottery has long been the vehicle for government to operate games of chance with the dual goals of eliminating illegal numbers games and channeling the profits back to good causes. Only now, in addition to numbers games, we have gray market slot machines and internet gaming. And new forms of gaming and distributional channels are emerging every year, if not every month. The public service mission remains the same. But maybe it's time we broaden the range of game categories that our "industry" now encompasses.

Secretary DiBenigno discusses the integration of the PowerBall multi-jurisdiction jackpot game into Florida's changing gaming landscape. Of course, it's been a fantastic thing for the FL Lottery and the people of FL, but there's much more to the decisions on how to evolve traditional lotto and introduce your customers to such a dramatic change in your product portfolio.

Iowa's slight decrease in sales was accompanied by an increase in profits and the amount contributed to good causes. Thinking that an unusual combination, I asked **Terry Rich** to explain how they managed to increase the net when there is so much pressure to also increase the prize payout. Part of the answer lies in product mix and increasing focus on those high-margin categories like lotto.

Mary Neubauer and Jim Kennedy really drill down into forward-looking themes that are driving the marketing side of this business. We asked **Mary Neubauer of the Iowa Lottery** to help us understand the impact that "social media" is having on the gaming industry. This discussion takes on a scope and meaning that I guarantee you'll find interesting. "Convergence" may be a buzzword du jour, so I asked **Jim Kennedy** to help me cut through the chaff to get at how changes in market dynamics are impacting our business. The explosion in the number of choices, options, and points of contact available to the consumer have, I proposed,

transformed the role of brand strategy, product portfolio management, and the traditional ways of segmenting the market. (This kind of change used to be referred to as "paradigm shift" but that would too many buzzwords in one paragraph). You'll be pleased to know, though, that Jim Kennedy grounds the discussion in the application of sound business principles and concrete real-world experience.

Talking about "convergence"...I find it interesting to look at the literature on non-money, just entertainment gaming. Interesting but not surprising is that innovation and distinct competitive advantage is being carved out by producers of great game content (as opposed to the game-box hardware). Interesting and surprising is that games like 'World of Warcraft' are demonstrating that the consumer is willing to pay more for great content.

There are three fantastic articles. **Cheryl Sullivan and Bob Riggs of GTECH** did the research to show how the increase in consumer spending actually anticipates the last stage of economic recovery. The implication is that if there is any discretionary leeway in the advertising budget, now would be the best time to begin to ramp back up. **Ed Honour of MGT Lottery** explains the bridge strategy that turns a big leap (e.g. into internet or mobile gaming) into a series of small incremental steps, each one of which is easy to implement and well within the bounds of regulatory constraints. **Mark Hichar** sorts out the legislation that is being proposed in Congress to address the black-hole of federal internet gaming regulatory policy. While there is no clear guidance on what direction things will take, the two bills represent the different potential regulatory scenarios. I know I'm missing something, but I do not understand why the federal government doesn't just do the simple and obvious thing. That would be to turn back to the states the right to determine regulatory policy and simply provide assistance in the implementation of enforcement, tax collection, and possibly licensing procedures.

Some of our industry's most important conferences are on deck. **NASPL is in Oklahoma City Oct. 7, 8, and 9** (<http://www.naspl09.com>). Read **Jim Scroggins'** (Executive Director, Oklahoma Lottery) interview to get some insight into the themes and focus of the biggest annual conference for North American Lotteries. Then there's the **Cibela/World-Meet Conference in Santiago, Chile on Oct. 26, 27, and 28** (www.wla2009.com). **Verónica Montellano**, President of Polla Chilena de Beneficencia and one of the hosts of the conference and trade show, welcomes everyone to her favorite city in South America to get a crash course on how far the industry has come in South America and, more importantly, where it's going. And **Jean Jørgensen**, Executive Director of the World Lottery Association (WLA), discusses the relationship between the World and the Regional associations and how they work together to raise the standard of performance in the industry. Next month includes an interview with **Todd McLeay**, CEO of the New Zealand Lottery and host of the **Asia-Pacific Lottery Association being held in Auckland on November 9-12** (<http://www.apla2009.com>).

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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. ♦

— Paul Jason

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Jim Scroggins

Executive Director, Oklahoma Lottery

Recipient of the Major Peter J. O'Connell Lottery Industry Lifetime Achievement Award



Jim Scroggins was hired in June 2005 to direct the startup of the Oklahoma Lottery. Prior to that, he served as Executive Director for both the Missouri Lottery (1992–2005) and the Pennsylvania Lottery (1987–1991). Over 30 years in the lottery business give him an important historical perspective with which to analyze the events and issues of today. As the following discussion shows, our constant push for change, innovation, and progress really does need to be informed by an awareness of how we got to where we are at today.

As host to NASPL '09 in Oklahoma City, Mr. Scroggins welcomes you to participate in North America's most important lottery conference and trade show of the year. Visit www.Naspl.org for complete information.

Public Gaming: You're hosting the NASPL conference and trade show in Oklahoma City October 6-9. What will be special about this conference and trade show?

Jim Scroggins: The lottery industry is in a very interesting situation right now. The state of the economy is on most peoples' minds and that is the focus of our conference. That is...how will lotteries grow and prosper in an industry that began to change long before this recession and will continue to change long after the recession is over?

We will be looking at the world and our industry in a positive forward-looking way. The changes our industry has been going through are presenting lotteries with tremendous opportunity to reinvent their approach to business.

The unifying theme of the conference is... Where is our industry going and how do we as lottery organizations position ourselves for success? The keynote speakers and breakout sessions will focus on topics that will help drive that success. For example, we have scheduled keynote presentations on "The State of the North American Economy," "Current State of the Lottery Industry", and "State of the Lottery Consumer," to name a few. Breakout sessions will include such topics as "Advertising Return on Investment," "Interactive Gaming," "Customer Service," "Managing the Stress of Change," and numerous other timely subjects.

And since the trade-show and our commercial partners are always a tremendous source of innovation, they will be presenting their visions for the future in various sessions as well as in their exhibit booths. The trade-show itself is a fabulous source for insight into where we're going as an industry and how we're going to succeed as a business.

The focus is on timeliness and topics that are impacting our business right now.

J. Scroggins: Exactly. We're bringing in experts from outside the lottery industry to talk about trends in retailing and marketing and applying those perspectives to the lottery and our own businesses. To some extent, those of us in the industry are already aware of much of what our colleagues are doing and thinking about. One of the main objectives of the breakout sessions is to 'break out' of the "preaching to the choir" syndrome. Our speakers, panelists and moderators have all been challenged to really take it up a notch, delivering a conference and educational experience that is fresh, bold and informative.

It sounds like a push for a little edginess, too. It seems to me that we're entering the second half of the recession, and that now is exactly the wrong time to cut back on advertising and promotion. It's a mistake to wait too long to position

our brand and product awareness for the return of consumer confidence and economic health. The time to ramp up the advertising and promotion machine is early in the recovery stage. Do you think we are in the second half of the recession and do you agree with that line of thinking?

J. Scroggins: Yes and yes. We should not allow our brand awareness to diminish, ever. And now is an especially important time to make sure we keep our name, our products and brand awareness at its peak. But as you know, state governments operate on budgets that don't necessarily get adjusted according to strategic decisions like we are talking about. They should, but often they don't.

I'm curious about the notion that lottery players don't play slot machines and slot players don't play lottery. I'm wondering if that notion isn't based on presumptions that no longer apply. Like the presumption that you have to get on an airplane and fly to Las Vegas Atlantic City to play in a casino. Like the presumption that players don't compare the value propositions of different games of chance. Presumptions that may have been true five years ago but are not as true now.

J. Scroggins: It is still the case that different people play for different reasons. The

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Jean Jørgensen

Executive Director of the World Lottery Association (WLA)

The WLA membership includes lottery operators from all around the world, which gives Jean Jørgensen a uniquely global perspective on our industry. And that's a good thing because the global markets are being blended together by the elimination of international barriers to free trade and commerce and the technologies that penetrate geographical borders. So we want to know how the problems and opportunities manifest themselves differently in different parts of the world. And what are the commonalities? It is integral to Jean Jørgensen's mission to help his membership get clear on those issues. Visit www.world-lotteries.org for complete info on the WLA.

Public Gaming: Before we get to specific questions, you were appointed to the position of Executive Director of the WLA last October. But, you've been in the industry a long time, haven't you?

Jean Jørgensen: Yes indeed, I have been in the lottery business for 17 years. I began in 1991 as the assistant to the director of the Danish national lottery where I served 14 years; the last ones as acting CEO. Danske Spil has a full range of products from exclusive licenses on draw based games like Lotto; Instant and sports betting with fixed odds to a horse racing tote and slot machines in a regulated but very competitive market. In 2005, my family and I moved to Brussels, Belgium, where I worked with gaming politics and business intelligence as an independent until 2009 where I took over as Executive Director at the WLA in Basel, Switzerland. My academic background is a masters degree in economics and an Executive MBA. Prior to my lottery career, I worked as a fund raiser for the United Nations High Commissioner for Refugees in Geneva, Switzerland.

How influential on the EU Commission is the Parliamentary vote and assertion that member states should retain regulatory rights and not be forced to comply with some pan-European regulatory system imposed by the EU Commission?

J. Jørgensen: In March this year, the EU-Parliament adopted a resolution on "The integrity of online gambling" with an overwhelming majority—544 votes in favour, 36 votes against

and 66 abstentions. It was based on the so-called Schaldemose report which made it clear that online gambling is not an ordinary commercial activity and that the 27 EU members have the right to control and regulate gambling markets within their own borders. The resolution has no direct or immediate legislative implications. However, any future proposals from the EU-Commission, which has the right of initiating EU law proposals, would need the adoption by both the Council and the EU-Parliament. The Parliament's resolution on online gambling clearly demonstrated that its members will not support any proposals from the EU-Commission based exclusively upon internal market principles. This reiterated the members' views from 2006 where gaming was completely taken out of the EU services directive—a directive adopted to promote and advance the free markets for services within the EU. Although we have a newly elected EU-Parliament for the next five year term, nothing indicates that the approach to gambling and its sensitivity has changed. A summary of the 14 pg. Schaldemose report on online gambling can be found at this link: <http://www.europarl.europa.eu/oeil/resume.jsp?id=5680812&eventId=1070535&backToCaller=NO&language=en>

How is this issue playing out around the world? Do other countries like China, Japan, and regions like Africa, South America, Australia, have similar problems clarifying regulatory policy and control over remote Internet gambling operators? Is this an issue that engages the active involvement of the WLA or this not so much a WLA issue?

J. Jørgensen: I believe all regions face the challenges of adjusting their gaming laws to take into account technologies which facilitate easy global access. However, the need and the format for regulatory gaming policies vary from one region to another and differ even within jurisdictions from the same region. The WLA would like to facilitate the exchange of experiences and policies across its global membership. We also emphasize each jurisdiction's right to regulate and control gaming within its borders. Finally, we maintain that that gaming is not just an ordinary economic activity and it doesn't suddenly become one just because technology has advanced. That being said, the WLA does not take any position itself but leaves the role as spokesperson to the regional lottery associations and the individual members. After all, they are in the best position to know about their region's particular circumstances and cultural and historical gaming heritage.

Comments on the EU Commission request for France to loosen restrictions on the gaming operators?

J. Jørgensen: France is one among more than ten EU member states where the EU-Commission over the past many years has claimed the gambling laws should change to allow more competition. What is happening now is that many European jurisdictions adjust their gambling laws in accordance with their cultural background and political desires for public order, consumer protection and, of course, the fact that they are

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Mrs. Verónica Montellano

President of Polla Chilena de Beneficencia



The Cibela and World-Meet Conference will be held in the magnificent city of Santiago, Chile on October 26, 27, and 28 (www.wla2009.com). Mrs. Montellano is one of the hosts of this conference and has agreed to share her views about how the industry operates in Chile and what Polla Chilena de Beneficencia is doing to adapt to the needs of a changing marketplace.

In many ways, the issues driving the South American markets are similar to other regions. The vital role that legislators play in the formulation of public policy, the importance of eradicating illegal gaming markets, controlling internet gaming, and the competition that threatens to impinge upon the funds that lotteries contribute to good causes ... these are among the issues that lottery operators from all around the world are facing. Opportunities to implement new technologies, new games, and new strategies also abound and leaders like Mrs. Montellano are moving forward with ambitious agendas to convert this rich potential into reality.

(This interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.)

Public Gaming: Please tell us about Polla Chilena. Who is the beneficiary and what products do you sell?

Verónica Montellano: When we talk about the beneficiaries and the amount received by each one of them, these are very strict issues defined by legislative instances, meaning that any change in institutions and the percentage of contributions received is the product of a long process. This process is resolved in the parliamentary framework, without the intervention of Lottery itself.

In this way, the company should deliver and distribute 5% of the net sales (equivalent to 4.35 of the gross sales) of its products of Polla Boleto and Scratch Tickets. These funds are distributed to eleven beneficiaries, all of which have a high social non-profit mission.

Moreover, the 15% of net sales for the Loto games, Revancha, Polla 4 and Toto 3; and the 12% of the gross sales of Xperto and Polla Gol, all directly benefit the National Institute of Sport (government agency that promotes the national sport).

Each of these results is directly related to our players preferences given day by day. One of the most significant aspects of Polla Chil-

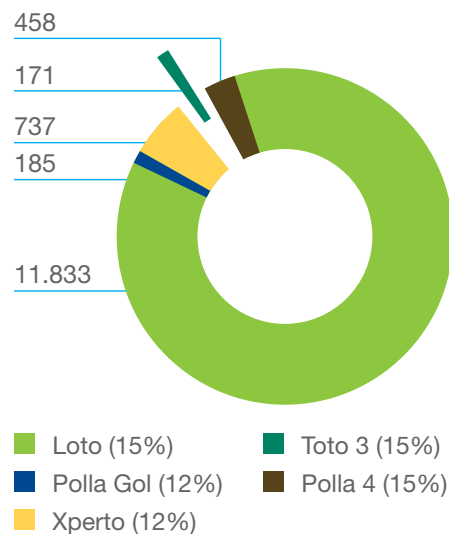
ena de Beneficencia S.A. is that the relevant contribution to the National Treasury of the country and the payment of taxes results in a direct benefit to the Chilean people.

The graph on page 26 shows the percentage assigned by law to the Instituto Nacional del Deporte and the contribution they received in 2008 (Source: Deputy Management for Management Control and Studies, Polla Chilena de Beneficencia S.A. Figures are based on nominal pesos).

Could you describe the performance of the different products as a percentage of total sales?

V. Montellano: The main gambling market is still "Lotto," since consumer preferences are highly concentrated in "large pool" games. Studies also show that there is significant interest in immediate resolution products; for this reason, we are intensifying our strategies related to the "scratch 2 cash" instant product portfolio, thus servicing the different market segments. Lastly, a potential interest has been detected in sports events forecasts, specifically, football (or soccer), especially in view of the upcoming 2010 World Cup to be held in South Africa.

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What do you mean by "sports events forecasts?" Is that sports wagering or what exactly? What do you see as the possible gaming initiatives you might implement that tie in with sporting events?

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Leo DiBenigno

Secretary of the Florida Lottery

Secretary DiBenigno is joined by Connie Barnes, Communications Manager for the Florida Lottery. Florida just joined Powerball the beginning of this year, with great success. Secretary DiBenigno discusses why they waited until this year to join, what's involved in joining a multi-state jackpot game, and how Powerball has been integrated into the lottery's portfolio of games.



Public Gaming: In an interview we did a couple of years ago, you had expressed concern about a multi-jurisdictional game cannibalizing the Florida lotto game. Your thinking at the time was that this would make a multi-

jurisdictional game not right for Florida. What changed your thinking on that?

Leo DiBenigno: John Maynard Keynes was quoted years ago as saying, "When the facts change, I change my mind." And that's what I did. Two years ago was a lifetime ago, in the economy in general and in lottery in particular. When faced with the prospect of flattening if not lower sales, we took another look at Powerball. We were encouraged when the MUSL group reached out to us to consider Powerball, this time with new ideas on enhancing, updating, and changing the game to make it even more compelling for Florida to join. So I would say two things: A new Powerball game, different from what it was two years ago, which I thought would be more appealing to our players; and, the fact that over those two years lottery sales and the economy in general have been a real challenge for us.

What aspects of the changes in the game particularly appealed to you?

L. DiBenigno: Certainly the larger jackpots were appealing. The average jackpots were going to be larger and more frequent. The biggest draw, really, was a new second tier prize of \$1 million if players choose Power Play. Previously, Powerball didn't offer the

prize level of \$1 million on a \$2 play. And, we thought the new prize level would be a real value for our players. Luckily, it's proven to be so. We have about a 25% play-through rate for Power Play. Our players have really taken to this.

Connie Barnes: Since we joined Powerball last January, Florida has had more \$1 million winners on that 2nd tier prize than any other state.

How difficult was the process of incorporating Powerball into the Lottery's offering?

L. DiBenigno: There were a lot of mechanical, technical issues associated with bringing Powerball to Florida. First of all, it was a very condensed timeframe. The decision was made in July, the game launched in January. Doing that for any game would be a challenge. A big game like Powerball makes the challenge even more so. We did, of course, have the benefit of over thirty other states having gone through the process. So we benefited immensely from being able to use the experience of the other states, MUSL itself, and our vendor, GTECH. That combined experience made it possible for us to launch the game with basically no glitches whatsoever. It was a lot of work compressed into that five-month period of time.

Probably the bigger challenge was managing the roll-out from an advertising and sales perspective. We were the last state in the country to join a multi-state game. We had been in existence for twenty years. And as you alluded to, though we had looked at Powerball many times over the years, for policy reasons the Lottery had always decided against it. So, when we finally decided to implement Powerball, there was a lot of public outreach, dealing with the media, coming up with an ad

campaign that would not only get the word out but show our players that this was a big deal, something to get excited about.

In retrospect, the introduction of Powerball went off with fewer problems than I could have ever hoped for.

I know the MUSL group has many expectations regarding the way in which its members operate. Did you find there were a lot of changes expected by the MUSL group?

L. DiBenigno: I think there may have been a handful of things we had to adjust to the MUSL formula of drawing. For the most part, though, we were already conforming to the vast majority of MUSL rules and regulations. Those handful were certainly a challenge, but not unexpected. There's a big difference in running your own games in your own state lottery without having to worry about how it might impact another state or lottery. Having to coordinate a drawing for a game being sold in over thirty states is a far different thing. None of those handful of things were at all insurmountable, because again we had the benefit of over thirty jurisdictions having had already gone through this. For the most part, we needed only to emulate what had gone before.

Have you found much cannibalization with the Florida Lotto game?

L. DiBenigno: Yes, there has been cannibalization, from day one. But that was expected. What has been a surprise is that the cannibalization is less than we had budgeted for.

A convincing argument made at the time of discussion regarding Powerball was that we had and have a real confidence and faith in our in-state Lotto game. We knew that we had the preeminent Lotto game in the coun-

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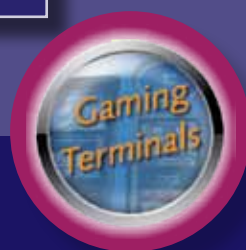


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Terry Rich

Chief Executive Officer, Iowa Lottery



Terry Rich was appointed to the position of CEO of the Iowa Lottery by Governor Culver in February, 2009. Mr. Rich has hit the ground running and we asked to talk with him about some of the opportunities for improvement and growth that he and his team are pursuing. The thing that caught our attention was a healthy increase in net profit in spite of a decrease (albeit slight) in sales in the most recent fiscal year. Come to find an intense focus on product mix, margins and ROI...i.e. the bottom line profit instead of the top line sales.

Public Gaming: It seems like all businesses need to figure out how to produce more just to make the same amount of money, the trend being for sales to go up while profits remain flat, if we're lucky. You somehow bucked that trend. You had the top line go down and the bottom line actually go up. How'd ya do that?

Terry Rich: When I first came to this position last year, sales were a big focus of the lottery. Of course, sales are always a primary focus for all businesses, but to me sales are not the end focus, they're a means to an end. The real goal is to generate more money to go to good causes. That's the real objective. So we started concentrating on questions of the return on investment (ROI), learning how we fine-tune the allocation of resources to maximize the return on investment of time and money. Certain products like on-line (lotto) games have a higher payback so we tried to increase the percentage of sales derived from those higher margin products. We succeeded at getting a nice increase in the Hot Lotto product. That's one way to increase profit. Another way is to control costs throughout our operations. Being set up as a state authority instead of a state agency enables us to operate more independently, be more nimble and flexible, and more responsive to market conditions. We're able to adjust our course of action to minimize negative impacts and to more aggressively exploit opportunities. Dr. Stanek, the staff, and the Iowa Legislature established the Lottery Authority with that purpose in mind. We're also able to manage our asset structure more like a private corporation. For instance, we bought our office building and vending machines, rather than

lease them, and now we're reaping the benefits of those kinds of decisions.

What is an example of reacting quickly to changing market conditions?

T. Rich: Shifting advertising and other resources to those higher margin product categories like lotto became a focus. Another initiative with a rather fast turnaround was a promotion with the Iowa Tourism Office that not only drove dollars to our bottom line, but also generated between \$2 and \$3 million for the state's tourism industry. The promotional dollars we used to advertise our games tied in with tourism and thus contributed to tourism and the general economy in Iowa. I think most Lotteries underestimate their promotional power, which can be used for positive messages that extend far beyond the lottery.

Your corporate structure allows you to operate more entrepreneurially, like a company that pull different levers to improve profits. Increasing sales is just one of many different ways.

T. Rich: The Iowa Code specifically says that our responsibility is to be entrepreneurial. One of the first ways to do that is to always have something on the shelf that is new, that is experimental and unique. That gives some flexibility to do ideas that have calculated successes much like successful businesses do. Take McDonald's strategy as an example. McDonald's is always testing a new product. We should model ourselves after that by taking calculated risks to reap big rewards. That's how we will find the innovation that will add something incremental to the bottom line. That's also how you give yourself the chance

to find a big home-run type product or strategy. Second, I think that in state government there is pressure to pull back in marketing, especially when the economy is soft. It's my contention that you spend a dollar in marketing and you can make 20 dollars in profit, then the decision on how much to spend in marketing can be a straightforward business decision. You invest to optimize return on investment. The investment in marketing and promotion is positive as long as it generates a larger net profit. So you should increase that investment as long as it generates that positive ROI. Of course, we need to be prudent with any budgeting decisions, but the point is to look not at costs and budgets but instead at return on investment and how those costs are contributing to the bottom line. Our corporate structure allows us to manage our budgets with the objective of maximizing the bottom line. When it comes to advertising, there are other factors, too. We do not want to over-promote and cause an increase in problem gambling. But the proof is in the pudding. We increased our investment in marketing and it produced a handsome return to the bottom line. The marketing ramp-up combined with the promotion with the Tourism Office reaped huge benefits because it was at a time that people were looking for entertainment, looking to do things within their local area, and so it paid back in the bottom line. But that's our test. We try hard to drive the entrepreneurial spirit that the Iowa Code allows us to maximize our results.. Then we continue to work hard to focus our marketing resources on the goal of increasing net profit as

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Mary Neubauer

Vice President of External Relations, Iowa Lottery



Social Media. What is it exactly, how does it work, who's using it, and what does it mean to our business? Those are some of the questions that many of us are asking. Mary Neubauer and the Iowa Lottery have been working on those questions for over two years now and have at least some of the answers. Ms. Neubauer explains how the project got started, where the Lottery is at today, what's hoped for in the future, and some of the key components to success in this space.

(This interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.)

Public Gaming: Let's start by asking the most basic question. What exactly is "Social Media?" Most of us have a Facebook, MySpace or LinkedIn account and have seen videos of a relative's wedding or friend's funny episode posted on YouTube and so have some idea of what this is about. Is there a more precise definition for what is meant by "social media?"

Mary Neubauer: That's a good question because it really is so much more than a new set of tools that enhance communications. It is that, of course, but it is our thought that "social media" is already transforming the way people interact with each other, manage relationships and time, get and share information, and basically live their lives. To try to answer your question, I would say that "social media" involves the digital tools that people are using to magnify their circle of influence and relationships. It may have started on a social level, but those same tools can produce results on a business level as well. Maybe the best way to look at it is to start on a personal level: Think about how you may have been communicating over the past several years. It wasn't too long ago that you might have interacted with some people just once a year, with a Christmas or holiday greeting telling relatives and friends what's happened in your life over the past year. Or, you'd pick up the phone and call a friend or relative to catch up. That evolved into group e-mail lists in which you'd copy all your friends on a topic or a joke that you thought they'd enjoy. You may still be using all of those tools today, but you've also likely expanded the list of com-

munications techniques in your arsenal. Now there's Facebook, where in just a few minutes two or three times a week you can post pictures, talk about what you're doing or recommend a good movie, book or restaurant. And all the friends you have on Facebook are able to see what you've shared and comment back. Maybe one or two of them have read the same book and have a comment about it and you start a conversation that, were it not for Facebook, likely wouldn't have happened. Of course, at the same time, you are seeing the posts of those friends and quickly scanning to see what they're up to. You notice that one of them is in Paris and is asking for recommendations on restaurants there. You've been to Paris and remember the great meals you had in some of the off-the-beaten-path neighborhood bistros, so you give some suggestions. In just minutes you're able to keep up with the activities of all your friends and relatives. It's actually quite fun because it takes so little effort to see the interests and activities of all your friends and then pick and choose to interact on whatever level you want. Frankly, I don't know how you would have the time to interact with so many people at once without a tool like Facebook.

I'm sharing all of this background because the first step to understanding how to use social media to advance your business objectives is to understand how and why it's changing the social habits of the people who are tuned into it.

Back to your original question: As we're talking, I pulled up the Wikipedia entry for "social media." It describes social media as "the democratization of information, transforming

people from content readers into publishers." Wikipedia, of course, is the quintessential example of that: an encyclopedia created by everyone for everyone. It's the ultimate collaborative enterprise that continually evolves with every new entry.

If you approach it conceptually, social media isn't just about a more efficient way to share information with friends. It's about harnessing the energy, talents and knowledge of people everywhere in a way that's not been done before. The ability of social media to convert this untapped intelligence is boundless. What if we could snap our fingers and have a massive brain dump in which all of us who are thinking about a topic, like how to engage the millennial generation with lotteries for example, instantly had access to the brightest ideas of each of our colleagues? It's this collaborative function of social media that is unleashing the power of people working and pulling together. Again quoting Wikipedia, social media is "a fusion of sociology and technology, transforming monologues (one to many) into dialogues (many to many), creating a shift in how people discover, read and share news, information and content."

I prefer to think of social media in that broad sense: It's the digital means by which people come together to create a much better result than they could have achieved by themselves. As you can tell, what may have started as a marketing or advertising idea has blossomed into something much bigger than that.

Let's start with the build-up to the social

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Jim Kennedy

Senior Vice President, Sales and Global Marketing,
Scientific Games Corporation

Recipient of the Major Peter J. O'Connell Lottery Industry Lifetime Achievement Award

Jim Kennedy operates in a world where the thing that matters is performance and results. So any discussions about cutting edge consumer behavior theory, or how a new technology or consumer trend will change the world etc., are always combined with a firm grip on the way the real world actually operates. Testing these ideas against the fundamental rules that govern the way business works and the way markets and consumers behave is the key ingredient to success. Decades of experience in top marketing positions with Scientific Games is what informs Jim Kennedy's ability to do just that.

Public Gaming: You refer to convergence of gaming categories. In what ways are markets, product categories, and delivery technologies converging, and what implications does it have for operations?

Jim Kennedy: One definition of convergence is when technology or products evolve and combine to create a new offering, while still maintaining the advantages of each initial component, thereby heightening the advantages of the new product. To do this, we try to conceptualize the entire portfolio of products from the earliest stages of development through delivery and finally to the repeat purchases by the consumer. This creates a more integrated approach. This aspect of convergence can be simply understood when you stand in the shoes of the people who use our products. The retailer for example, he or she does not see the online category as one distinct product separate from the instant games. The terminal, the signage, the network, the lottery game, the person who answers the phone when they call, the sales rep that visits their store, it's all lottery to that retailer, and it should be all lottery to us on the management side of the business, both within the Lottery organizations and on the commercial supplier side. For example, over the last 18 months, we have focused along many areas that streamline the integration of lottery at retail with the launch of our full motion digital display advertising that promotes lottery—instant & online—at the point of purchase. On the back office systems side, our

business intelligence platform is designed to deliver retail performance metrics to help pinpoint trends and opportunities across all game and promotion types.

However, in addition to the technology that enables this type of content, convergence is also about how the games work together and how they are positioned together to effectively engage and retain the consumer. We see this type of convergence as both a marketing and technology issue—a way to seize gaming opportunities across a variety of mechanisms that have consumer involvement. Specifically how we maximize revenue from these gaming opportunities, not just how to enable new technology. We understand the consumer needs and the marketing programs that can make new technology and the convergence of games more productive. For example, a core area of interest is bringing games from retail with an expanded play experience on the Internet, tied back to player clubs that reward playership with points programs. We must remember that the core games and the core play styles that in the US alone generate over \$50 billion in sales per year. The temptation is to radically expand into new channels and markets, to jump to a new train. However, sometimes leveraging the core performance drivers can deliver improved results, and keep you on the right track.

You make it sound like there are core play styles and core performance drivers that are at least somewhat universal, that cut across cul-

tural boundaries. I'm suspecting, though, that operators and professionals whose job it is to focus on one market would perceive the differences to be greater than the similarities. As Senior V.P. Global Marketing, you operate all over the world, most recently focusing on China. How much variance is there in core play styles and performance drivers from one part of the world to another?

J. Kennedy: That's an interesting question because I can assure you that the similarities far outweigh the differences. It is human nature to focus on what differentiates us from one another. And so the Lottery Management whose focus is on a single market is naturally going to perceive the differences between that market and others as being greater than they actually are. Sometimes it can be hard to convince people to recognize or see the similarities.

We learned quickly in China that there are cultural differences to which we all needed to be sensitive. You need to know things like the number 4 means death in China just like the number 7 is lucky in the U.S. We all know the importance of these countless culturally specific attributes. But the basic structure of the games, the basic delivery of the frequency of win, the magnitude of win, the ability to understand the win is remarkably consistent across all cultures we've seen. When you digress from those fundamental principals, you will almost invariably fail.

None of us likes to think that we're all cut

from the same cloth. We all like to think that our problems are somehow different. And don't we all prefer to think that maybe, just maybe, we can break the mold and hit a home run?

J. Kennedy: Yes, and sometimes you'd be right. Sometimes it works. But for every success story, we have many more examples of attempts to depart from those core principals that resulted in failure. And the costs of those failures far, far outweigh the profits yielded from the rare success. We actually spend the majority of our time trying to convince people of the validity of these core principles and provide managers solid information that will encourage them to stick with the plan. The core performance drivers that reach large markets are remarkably consistent across all cultures all across the world.

We think of the business as a process that begins with the consumer moves back through the intermediate channels where they purchase their experience then back to the infrastructure that supports it. It starts with the end user or the consumer. So when we think about the consumer in China, in Italy, in Florida, we look for the similarities to what motivates them, to what they find repeatedly engaging. It's got to be repeatable and engaging. We can always get somebody to try something once. The secret to this business is to be able to create a product and an experience

that people want to repeat. To do that, we need to have the discipline to apply those core principles, to stay consistent with the methods and strategies that are predictably successful because they have evolved over decades of experience.

You're cramping my style, Jim. What about creativity, innovation, thinking out of the box, and my artistic talents?

J. Kennedy: Highly over-rated! Just kidding. Of course we do need creativity. And we need to think outside the box and continually push for innovative solutions. And in brainstorming sessions, let's let it fly. But we are not playing jazz music here, in the end, decisions about how and where to invest capital and human resources have got to be consistent with the fundamental rules that apply everywhere in reaching broad consumer markets. Believe me there is still a lot of work to do inside the box. Our group at SG is studied not only in this industry but in the most current literature on behavioral economics. There is more and more concrete evidence showing that the experience that we deliver, which is this moment of excitement, is really a human experience. It's shared across cultures in a strikingly similar way. In the most important ways, the experience and motivations of the Chinese consumer is not much different from

the Italian consumer or the Florida consumer. Our experience in this industry is being confirmed by the academic research in behavioral economics into how humans make decisions and how that decision-making process is rooted in our biology.

Let's move in to the retailer space and an example of how the commonality of concerns and goals exists there as well. I was in the middle of Mainland China in a city called Chengdu, in Szechuan Province. A retailer stood up and in Chinese asked me three questions. He asked "why should I take valuable counter space to put these tickets up?" Then, "why should I dedicate my busy clerks to selling this." And lastly, "why should I do it for 5% commission?" I may as well have been standing in a retail forum in Indianapolis! You hear that exact same thing virtually everywhere you go. Like you said, we do all like to think we are different. But the most astonishing thing that is revealed as you go around the world is just how much we share with other people and cultures. And the rules of business and human motivations and behavior are in so many ways universal.

Again, every jurisdiction and market is different in some ways. It is vital that we discern those differences and integrate that knowledge

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lottery playing experience is very different in many critical ways from the casino and slot playing experience. The player profile is also quite different. The immediacy of feedback on winning is different. That said, I tend to agree with your main point. Some of the evidence is anecdotal but when you look at Oklahoma, we have over 100 Indian casinos right now. We're not the most populous state in the Union and yet I think we're second only to California in number of casino environments. It happens that some of our biggest retailers are located on the turnpike corridor that feeds the casinos. Casino themed scratch games are among the most popular in our portfolio. There are likely a variety of factors driving the high sales of the retailers that are located close to the casino corridors. I would suggest though, that it might mean that slot players do play the lottery and that we do want to make sure we are making our products available and appealing to casino patrons. In Oklahoma, I am of the opinion that we can and should market to the casino patron.

To what extent does the customer evaluate the value proposition, comparing the prize-pay-out percentage of lottery to slots, for instance?

J. Scroggins: The way you asked that question implies that the prize payout percentage is the only aspect of the value proposition. There are other components to value. Obviously, casinos do pay a higher percentage than we do. On the other hand, casinos often don't provide the opportunity to win a large prize for a small amount of money that a lottery provides. That is a value factor as well as payout percentage. Themed instants provide a completely different kind of player experience than do slot machines. That's value. Our products can be bought in stores that the customer visits on a daily basis. That's convenience and that's value. And completely apart from the inconvenience of traveling to a casino, many people enjoy playing a game of chance but just don't like casinos and slots. There are lots of factors that go into the perception of value. We need to understand that and appeal to all those factors, not just prize payout as a percentage of the purchase.

That being said, in Oklahoma we are limited in the prize payout by our 35% mandated contribution to education. I would have to say that the player is definitely aware of the prize payout percentage and that an increase in prize payout percentage has been shown time and again to have a positive impact on net funds contributed to good causes.

You started your career in Illinois back

in 1978?

J. Scroggins: Yes. Then went to the Pennsylvania Lottery and then to Missouri before coming to Oklahoma.

How has public perception of gaming and wagering changed since then? From a political and public image point of view, lotteries no longer have to be so keen on differentiating themselves from other forms of gaming, do they?

J. Scroggins: Lotteries are generally more accepted now than 20 years ago. But it varies greatly depending on the stage that the lottery is in. The public perception in Illinois where they've had the lottery since 1975 is much different than in Oklahoma which was just started four years ago. People in Oklahoma are not accustomed to it as just being a part of the fabric of society. States that don't even have a lottery would have very different public perception of a lottery than those that have long standing lotteries.

Since gaming is available to everyone everywhere, it's no longer a question of whether or not gaming is a desirable form of recreation. I'm thinking that the public policy question has shifted. Now it's about who enjoys the economic benefits of gaming.

J. Scroggins: Again, you may be oversimplifying, Paul. Even if you assume that what you just said is true, that does not necessarily translate directly into positive public perception and political policy. The decision of whether a state should enter the casino gambling business involves a lot of different factors and a lot of different political constituencies.

Same with the lottery. Of course the lottery has wide public acceptance where it has been a part of a state's culture for decades. But public acceptance or support for a lottery is definitely not to be taken for granted in places where the lottery has not been in operation. In new lottery states like Oklahoma, public opinion is far from unanimous. It takes time for the public to become familiar and comfortable with new ideas like state government being in the gaming business.

Why are instants increasing more than lotto as a percentage of revenues?

J. Scroggins: In my opinion it's much more than instant feedback about winning. It's driven by the increasing price points, increased payouts, large prizes and numerous other factors.

Why don't you increase the price points of lotto?

J. Scroggins: I don't have a definite answer to that. I would point out that the basic way that higher price points are marketed is by focusing on the higher payout percentage and larger prizes. The increase in prize value is a way to give the player a reason to buy the higher price point product.

Why not experiment with new approaches in lotto that would include higher price points?

J. Scroggins: Lotto has a whole different profit structure than instants. To increase the price point of any product, instant or lotto or whatever, requires enhancing the value in some way. Otherwise there is no incentive for the player to buy the more expensive ticket. In instants, one of the ways we've increased value is to increase the prize payout percentage. That's difficult to do in lotto because it changes the whole profit structure of the game. In spite of that, some jurisdictions are exploring ways to increase the price points of lotto. It's just that we need to be very careful to never do anything that would diminish the profit contribution of lotto. It's all about profit, not just sales. Raising price points in today's economy could be counter-productive.

A traditional view, if I'm not mistaken, has sort of been that the lotteries never really had the 20-something crowd, and doesn't need to appeal to the 20-something demographic now. Instead, wait for the 20-something to become 30-something when lifestyle and mindset changes to cause people to 'grow into the lottery.' Do you think the 20-somethings of today are going to 'grow into' the lottery like the 20-somethings in past generations did?

J. Scroggins: We all hope they do. I'm not sure they will. In fact, I'd be surprised if they do. I'm just looking at my own kids. They're far more tech savvy. It's their way of life. Their entire lives are centered on things that didn't exist a generation ago. When I think about what I thought about at their age, the difference is so great I can hardly fathom it. All I can say is, we are all keenly aware of this challenge, we're working on it, and I don't know anyone who has the definitive answers. I would have to say that this is one of the biggest and most important challenges to the lottery business.

Why can't you do some things like sell lotto tickets over mobile electronic devices? Are there regulatory constraints on that?

J. Scroggins: Some would argue there are constraints and others would argue there are no constraints. But it's probably just not politically acceptable at this point. Just like

Internet sales, these things will come. Even if you get past the question of distribution, making it available on a mobile phone or over the Internet, the question becomes whether the games themselves will appeal to your target market. Both have to be in place for the right games to be at the right place for the player to buy them. Distribution and game design. So it's a two-fold problem.

I noticed that Michigan is implementing a program of rewarding top retailer performers and actually penalizing underperformers. When retailer sales fall below \$1,000 a week, they are charged a \$70 penalty. That would mean that the retailer is literally losing money on lottery.

J. Scroggins: Again, I think that may be a function of how old an individual lottery is. Michigan is a mature lottery. They've certainly got a different financial situation and distributional landscape than Oklahoma does. For us, we can't afford to do anything that might result in losing retailers. We have lost some retailers because of the economy and we have gained some new ones. But for us, we're just working hard to keep our retailer count at a consistent number.

Isn't there a point at which if they sell less than a certain amount, that it's literally not worth keeping them on; that it's literally costing the lottery money to maintain them as an account?

J. Scroggins: The short answer is yes. In my opinion there are two basic reasons to maintain low volume retailers. One, you don't know if or when a low volume store might succeed at increasing their volume. That can happen in some unpredictable ways. Like a casino being built in a place that creates traffic in an otherwise rural setting. Or border business or successive field sales initiatives. All kinds of factors contribute to a store's volume. So you never really know when a retailer may improve its sales. Two, I for one feel an obligation to make our products available to everyone in our state. There are rural locations that may not sell much, but we want to maintain a relationship with the customers there just as we do everywhere in the state of Oklahoma. Our lottery was approved in every county in this state. So I believe we should make it available to people in all areas even if some locations are less profitable. Along the same lines, retail availability and the POS in all stores are an integral part of our branding efforts. Regardless of how much the store sells, our presence there gets exposure for the lottery, grabs mind-share of the general public, and contributes to the brand awareness that is so vital to long-term success.

We can analyze the information that is available, but we need to remember that we never actually have complete information. And maybe what we're missing will turn out to be the most important piece of the puzzle.

J. Scroggins: It's like trying to design a good scratch game. You don't know exactly what will work until you try it. Obviously, you do everything you can to research and gather the data that enables you to make an informed decision. But we must also assess the performance in progress, adjusting our business plans as we go along, and never forget that reality does not always conform to the best-laid plans. It's a bit like the old definition of insanity, "continuing to do the same things and expecting different results." The economy has changed, the lottery environment has changed and will continue to change. For lotteries to continue to be successful we have to gain an understanding of these changes and adapt our business model accordingly. ♦



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EU member states. The adjustments will facilitate regulation and control of gaming delivered through internet technology but in different formats depending on the countries' objectives. New legislative initiatives range from a complete ban of internet gambling like in Germany to a nationally regulated and controlled partial opening up of some of the gaming services in other member states like France, Spain, Italy, and Denmark.

Tell us about the most important WLA initiatives. What are your top priorities for the next 12 months?

J. Jørgensen: To make sure our 140 member lotteries, 41 associate members (suppliers) and our valuable contributors feel they get value for money. We strive to create the best possible platform for the membership to exchange ideas and experiences which in turn should help them excel and grow their business. The platform is built on five service areas. The WLA Convention and Tradeshow is one such key area where we have two major upcoming events: The World Meet 09 in Chile, Santiago 26-29 October, organized in cooperation with CIBELAE and hosted by Chilena de Beneficencia; and the WLA 2010 Convention and Trade Show in Brisbane, 31 October to 5th November 2010, hosted by Golden Casket. I trust both of them will provide both hard core business insights and excellent opportunities for professional networking in great and inspiring environments. The second service area is training and education, where the WLA assists the regional associations in planning and conducting seminars for its members. The third area is communication through our WLA magazine and WLA website. The fourth area is the development and management of standards of security and responsible gaming and finally a group of services which includes the collection of statistics and other business intelligence related issues. Consolidating our services in these areas hopefully represents value to the membership and also to potential new members. I realize that not all lotteries have the same opportunities to engage equally in all activities (due to different factors like travel constraints). This, however, does not lower the value of demonstrating good "family relations" to both internal and external stakeholders through a WLA membership

The WLA and the regional associations have various certification programs to attest to the superior performance standards met in areas like Responsible Gaming and Security. Vendors get certified for things like "Quality Assurance Best Practices" and other perfor-

mance qualifiers. What exactly is the purpose of the certification?

J. Jørgensen: The WLA has a newly completed standard for responsible gaming and a long standing one for security and risk management. The purpose of a certification process is two-fold. Most importantly, the lottery systematically scrutinizes its processes in the relevant area. Is it performing well or perhaps even excellently, or maybe not so well? For responsible gaming, the lottery looks at its training of staff members; training of retailers and treatment referral just to mention three of the ten action areas. Secondly and again using the example of the WLA responsible gaming certification, the lottery gets an evaluation of its practice and advice on where to improve it. This is given by the WLA Independent Assessment Panel of experts in various areas of corporate social responsibility. The visible proof to employees and outside stakeholders that the operator has systematically reviewed its processes and has been assessed by outside CSR experts is the certificate. It's similar to the diploma you receive when you graduate from, for example, a business school. The certificate not only shows you passed but also your family relations as mentioned earlier. You become a member of the family that graduated from that particular business school. The WLA certificate shows your family relationship with the world's best lottery operators which in itself is valuable. I certainly think this is relevant for regulators and policy makers and I do believe that operators not following the best practice will be asked why not and what they do instead. The other example is the WLA Security Certification Standard which has been in existence for more than a decade. Today, some 35 lotteries are certified and I trust more will come. The procedures have been changed this year to get WLA security certified. Earlier, only two companies could do the WLA security audit and they were both situated in Europe. Now, any accrediting institution with good knowledge of the lottery business may seek the WLA's approval that it can perform the WLA security certification. This should make it easier and less costly particular for lotteries outside Europe to be certified. To your question of why it matters: it is typically used as a requirement for being part of a block game like, for example, Euromillions.

Prize Payout Percentage. We do know that increasing the prize payout percentage increases sales and net profits. I would think that the operative question isn't just whether it increases net profits, but by how much does it increase net profits.

J. Jørgensen: That's exactly right because it's not enough to have a modest increase in net profits combined with a big increase in sales. In general, the public, and the policy-makers, would rather not have sales go up more than necessary. They would expect you to deliver a big increase in net profits for a relatively smaller increase in sales. And that's not always easy to accomplish. For instance, at the Danish Lottery, Danske Spil, we felt compelled to increase the prize payout because our research indicated that competition was seriously impacting our sales. We succeeded at increasing sales volume, in fact we doubled sales which were more than we expected. But at the end of the day what was left for good causes was more or less the same as before. The retailers loved us of course. Their commissions doubled. It should be pointed out, though, that it is entirely possible, likely even, that had we not increased the prize payout that sales would have declined more and that would have been very bad. My point is that I do not consider it a simple foregone conclusion that increasing prize payouts produces a robust increase in net profits to good causes. And remember; once prize payouts have been increased there is no return to the old structure. You can't decrease prize payouts, certainly not in the increasingly competitive environment. I would emphatically say that to decrease prize payout percentage does have the very predictable result of crippling the image and perception of value and fun for the players and results in a decrease in net profits to good causes. That we do know, so we can't reduce payout percentage. Nothing can be worse than weakening your value proposition, especially since competition for both the entertainment dollar and the gaming dollar is certain to continue its upward climb. It's a question of balance and appreciating that increasing the top line does come with the potential increase of problem gaming.

That's why lotteries truly are the best operated gaming organizations in the world, isn't it? This balancing act, managing the variety of sometimes conflicting public service objectives, is what the WLA lottery operators do better than anyone.

J. Jørgensen: That's exactly right. Gaming and wagering is a form of recreation that is quite obviously different from any other because of those conflicting objectives. Operating a business to comply with such a mixed bag of objectives is difficult and actually something that lottery operators can be quite proud of. The willingness and ability to stay tuned in to the will of the political

...continued on page 32

Making innovative games is complex

Calling us is easy



Creative Collaboration at Play

SALES FROM JANUARY TO MARCH, 2009

PRODUCT	PARTICIPATION %
LOTO+REVANCHA+GG	74.6%
POLLA GOL	2.2%
XPERTO	5.7%
SCRATCH 2 CASH	8.5%
BOLETOS	3.1%
TOTO 3	2.7%
POLLA 4	3.2%
TOTAL	100.0%

V. Montellano: There are sport forecast games. Polla Gol has the traditional system of local, tie and guest, with 14 football games per date. The player wins by matching 10, 11, 12, 13 and 14 hits, as well as matching the finishing number of each game card; thus, returning the total amount of the sweepstake. Xperto is a sports forecast game, which allows the players to bet and freely predict the results of the sports events (football, tennis and formula 1), whether national or international.

Each of the possible results has associated factors or dividends which indicate how many times the amount bet could be obtained (in case of being a winner).

Unlike the gambling games, the results obtained by the player do not depend on chance, but they are directly related to the player's knowledge on sports and the protagonists. In order to obtain the desired prize, the player should successfully hit each of the forecasts made.

There appear to be two lottery organizations in Chile, Polla Chilena de Beneficencia and Lotería de Concepción. How does that work exactly? You both sell lotto and scratch-offs? They do Keno and you don't and you do sports betting and they don't, correct? Do you distribute through the same channels, the same retail stores?

V. Montellano: Yes, indeed. Chile has two authorized lotteries that can operate legally: Polla Chilena de Beneficencia, a state-owned company, and the Lottery of Concepción, a private entity, property of the University of Concepción. They are both governed by common rules and regulations, such as the 15% tax, and must pay the same contribution percentages. But they are also regulated by a set of different norms due to the differences in their juridical nature. Both entities compete in a market where Polla Chilena has an approximate 65% share and Lotería de Concepción a 35% share. In turn, they both offer

very similar games to the public, such as scratch-off tickets, and also some games that are different, as sport event forecasts, for which Polla Chilena has an exclusive license. Also, both companies share the majority of the sales points, where they compete directly. This system has some benefits to clients in terms of a broader game offering.

Are there other gaming operators, besides the two of you, in Chile? How about "gray market" slot machines? What can be done to get control of them, regulate and tax them? Is the government considering authorizing someone like Polla Chilena de Beneficencia to implement an electronic gaming program to get control and be able to tax the revenue generated?

V. Montellano: There are two other legal gambling operators in Chile, which are the casinos (up to 24 in the country) and horse-tracks. There are also a number of illegal gaming machines of the slot type, operating outside of the law, which do not pay taxes nor are they subject to any type of control. Polla Chilena has undertaken multiple actions to prevent these illegal machines from expanding in number, including legal actions against their owners and distributors. The Chilean House of Representatives and Senate are currently discussing a bill sponsored by Polla Chilena to regulate illegal gambling practices and to increase sanctions for those infringements. It is Polla Chilena's firmest belief that these machines are not authorized to operate gambling in Chile.

How is Internet gaming regulated in Chile? Do Chileans play on internet gaming websites operated by offshore companies? How are they taxed or regulated?

V. Montellano: In Chile, as in the rest of world, Internet gaming offers do exist. The only legal internet gaming operators are those sponsored by legally authorized institutions, such as Polla Chilena and Lotería de Concepción. Typically, just a few people gamble on the Internet, especially due to the players mistrust of gambling operators who are not known.

How about mobile gaming? Is internet or mobile gaming important at all? Can your customers buy lottery products over the internet or via mobile? If so, what are your strategies for these channels? Will these channels experience much growth in the near future?

V. Montellano: Polla Chilena has mobile terminals that are used for events, which are a transitional implementation of a transitional local sales while they connect to the system.

In addition, mobile sales of the on-line game has grown, but today is not more than 1% of the total sales of the company. However, we expect an accelerated growth in the future. We also have implemented the possibility to play via mobile phones (cell phones). Although, this niche market is small, it requires our attention for future development.

You are hosting the Cibela/World-Meet Conference in Santiago October 26 to 28. Collaborating with the WLA to prod World Meet in conjunction with your regional conference will result in a powerful conference, won't it? Higher attendance, presenters from around the world, bigger trade show.

V. Montellano: We want a powerful conference, and we are working very hard to achieve that. We need to bear in mind that our fundamental mission has not changed. What has changed is the specific market requirements. Relevant changes are happening today in legislation related to gambling and new gaming forms have been generated around the world. I believe it is imperative for Lotteries in the region (CIBELAE) to assume the fact that their games and content must be technologically aligned. This also represents a challenge for companies that supply the systems, technologies, marketing strategies and services which enable our Lotteries to grow year on year. The size of the markets and the purchase power of the region have changed and, therefore, new formulas and proposals must be generated to move forward in the above sense. In 2008, regional sales represented approximately 4% of the world's total amount; if we are to increase this percentage, we need to finally eradicate all forms of illegal gaming. In order to be able to cope with these challenges, we will require the expertise and reflection of all Lotteries in the developed world. Entities and individuals that are part of the WLA are aware of the fact that "the South of the world does exist," as the poem goes. I am sure the upcoming Cibela / World-Meet Conference being held in Santiago can be an important forum for exchange, cooperation and rethinking of the usual industry paradigms.

Do you have any guidance or suggestions for the vendor community? Anything you World like them to be thinking about?

V. Montellano: It seems important to me to go back to the concept that best practices in the industry are not limited by the existing game portfolio and current ways of doing business. We need to alter these paradigms. The different regions in the world in general and the CIBELAE Lotteries in particular have different needs and

are at different developmental stages in matters relating to gambling; therefore, we need new proposals and new alliances to help introduce new products and technologies. We need to be alert with regard to significant changes occurring in the world of retail. For instance, consumer habits are changing and we need to change with them.

Any initiatives that have been successful at engaging the interest of new demographic profiles like younger or higher income sectors?

V. Montellano: In Latin American, Polla Chilena has pioneered Internet portal, telephony and message system gambling, incorporating new, more interactive games, and new gambler segments, especially young adults.

What kinds of interactive games?

V. Montellano: The most successful of these interactive games have been Xperto (forecast sport games), which has the highest percentage and is in the best position for on-line success. Today 5% of sales by this game are through the portal games.

For all on-line game fans, Polla Chilena has made videogames available on its web site (www.polla.cl) which will allow the sweepstake to have

access to interesting prizes in an entertaining way. These videogames are games with a certain probability or they are subjected to a predefined structure in which the stakes of the player will not depend in any way on his/her skills or abilities.

Dr. Winfried Wortmann, Friedrich Stickler, Tjeerd Veenstra, and others in the EL have worked hard to defend the rights of EU member states to control gaming within their borders. That's led to a high degree of involvement in regional political and legal issues. Of course, I realize the situation is completely different in your region because there is nothing comparable to the European Union in South America. Even so, in what ways, if any, is Cibela engaged in the legal and political issues surrounding the regulation of our industry in South America?

V. Montellano: Dr. Winfried Wortmann and others have had a significant career in this field and have made relevant contributions to these issues. The EL has developed a very sound position and argument regarding this issue. Gambling is an economic activity regulated by the State; this means that in this area, everything that is not expressly authorized is forbidden; legality is the cornerstone of this in-

dustry. Each State decides for itself how it will use the funds and resources generated by the Lotteries. CIBELAE is an organization for the cooperation with, and the defense of the common interests of state-owned lotteries.

What are some of the problems facing the highly regulated government-sponsored sector that you think some industry people may be overlooking?

V. Montellano: One possible challenge is to have to cope with the effects of the expansion of gambling casinos (in Chile the law authorizing the expansion of this activity is now in effect; in the past, the number was limited to 7 casinos in the country, and now there are more than 20). This will probably result in the need to review the lottery prize percentage currently allowed by the law for gambling, which is much lower than the payout percentage offered by the casinos and which is subject to legal approvals.

Continued online. This interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.

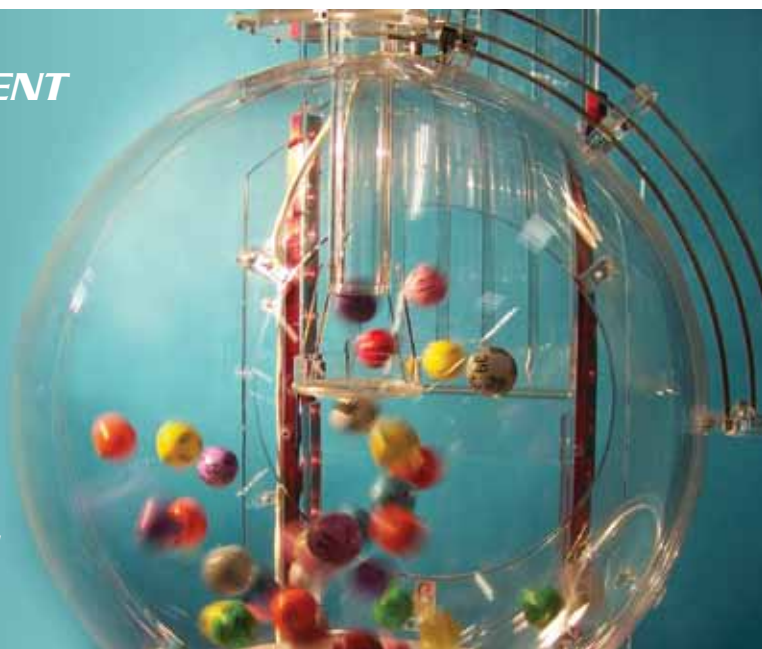
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media program at the Iowa Lottery. Can you tell me about the thought process that led to the program?

M. Neubauer: We've been heavily involved in what today is called social media, or Web 2.0, for about 2 1/2 years. We began by studying the popular social networking sites and some of the most popular national media websites to see how people were using the Internet and what kinds of tools they were choosing to access. And we said, "If they can do it, we can do it, too!" It was our own natural curiosity that made us look around to see if we could add to the Lottery's communications tools. At first, we thought mostly about ways to draw more people to our own website. The process of doing that, though, led to the realization that it's not as much about one website alone as it is about developing a suite of online options that drive traffic back and forth between them and give Internet users several different ways to learn about your organization. I've heard social media users described as "tribal" and I believe that's an absolutely accurate term. Some of them prefer Facebook, some would rather be on Twitter, some like YouTube. It's important to have a presence in several different areas of social media so people know you're aware that one size does not fit all! You can't be everywhere, obviously, but you can choose a few different platforms that work best for your organization.

People are waking up to the tremendous potential of the Internet to bring us all together and are taking action to make it happen. Isn't it ironic that not too many years ago people were wondering if allowing the Internet to mediate too much of our interaction might result in cutting us off from society and make us isolated as individuals? Now it's becoming clear just how amazing and wonderful a platform the Internet is for connecting and sharing and that, in fact, it's bringing us all together. It's almost like how desktop computing languished in the early stages. It took awhile for people to understand how to use it and apply it to everyday life. Likewise, the Internet has been effectively used as a communications tool through e-mail and search engines. And that's fantastic but it's just the beginning. For the Web 2.0 generation, digital technology is a comprehensive platform that serves a wide range of needs, a foundation for rearranging how our lives are managed, both at work and at play.

Staying connected and engaged with a large group of friends, family and acquaintances is

easy and fun with tools like Facebook, LinkedIn, Twitter, MySpace and YouTube. And those are just the mass audience sites. There are hundreds of websites serving the social media needs of ever more targeted subcategories. And it's not just about staying in touch with friends. It's about fulfilling all varieties of interests that require interaction between people. Check out a site called mashable.com. That gives you some perspective on the infinite number of ways social interaction is being facilitated by the Internet. Any group of people with a common interest can come together online and help each other or just share their experiences and thoughts.

The point is that the conventional ways of communicating with your customers aren't good enough on their own anymore. Our customers now live in a social universe that requires all participants to engage in this more dynamic, multi-dimensional form of interaction. In the old days, a news release on its own might have sufficed when you were announcing a new project. But that was one-way communication—your company "talked at" people and wasn't expecting or even wanting a response. People aren't satisfied with that today. Customers and potential customers don't want to be "talked at"—they want to talk with you. Social media may have been a great option just a few months ago, but I think it's quickly becoming a customer demand. If you can't or won't meet that demand, you won't be part of the universe for those customers.

So the basic idea is that if you want to talk with people and have them aware of you and your organization, you'd better be where they are. And social media is where they are.

M. Neubauer: Facebook, Twitter, YouTube, videos on the Web—these are the ways people interact and share and create a sense of community. These aren't just new tools, new websites, or even new ways to communicate. Web 2.0 is redefining the way we interact with each other. You could think of it as the epicenter of social organization. Friends, family, co-workers—they all gather here to meet, share with each other, get to know each other. It's a far richer and more rewarding medium for social interaction than e-mailing to your group list. And if you're not part of social media, you don't exist in the world of those users. They'll come to view you as not current in today's world.

If you don't understand the ways in which people communicate and live their lives these days, you're not relevant. They shouldn't care about you. So everything that

we've done with social media is to ensure that we're part of that conversation and part of that world. It's all about presenting information about the Lottery in a whole new way, to gain attention for the Lottery and make sure everyone is aware of who we are, what we are doing, and why Lottery is a fun and entertaining form of recreation.

What were the program's original objectives?

M. Neubauer: Not surprisingly, it's really been a process of fits and starts. One of our original stated goals was to add a new form of entertainment to our website, and to be able to offer that on a continuous, ongoing basis. I will say that taking on the social media projects is a lot of work. It's not something that you can just do with half an hour each day. It takes time and effort to accomplish the projects. But for us it's been well worth it as we see the comments that we are getting, the thousands of hits that our videos are getting and the friends and followers we're gaining. It's been a very fulfilling challenge for us. We see that people are noticing the Iowa Lottery and are talking about us and what we have going.

The first social media project we undertook was to place videos on the Web. We began producing videos in-house that we could then post on our website and YouTube to call attention to our projects and our winners. The most popular videos on our website and on YouTube have been about winners. People love to see and hear people telling their stories in their own words. That's what our videos can deliver. You see winners' reactions right there on the screen, what they are thinking and feeling.

We also shoot videos about our new games and promotions. Probably the second-most popular videos on our site are something we did on a lark. I'm a David Letterman fan, and I love his "mailbag" pieces where he answers letters from people who watch his show. Well, we get e-mails and letters every day from people asking questions about the Iowa Lottery. So I thought we could do some "player mail" pieces to provide video answers to people's questions. People love to hear what other people are asking and thinking about the Lottery.

In that context, you're also clarifying things, addressing issues and questions people have brought to you.

M. Neubauer: That's right. It's a way of providing answers not only to the person asking but to thousands of others at the same time. We'd never have enough time to send

letters to ten thousand people, but that's how many may watch our videos in a month. That is one small example of the power of social media to extend your reach.

So you uploaded those videos on the website. Were those only available on your website?

M. Neubauer: We do make them available on YouTube, but by far the most hits we get are on our website. We get tens of thousands of hits on videos from our website and hundreds from YouTube. But we wanted to also put our videos on YouTube because we know so many people are going there.

We also began to deliver raw footage of some of our biggest winners, events and announcements straight into television newsrooms around the state. Throughout the years, our public relations department has sent out news releases to the media. We now have been able to incorporate digital photos and audio into our news releases, for both newspaper and radio. This is the first time we've been able to provide video directly to television stations that they can use to expand their coverage of the releases we're sending out. We are seeing

television stations around the state make use of the footage we're providing, which is very exciting, because that's just one more way that we're reaching that many more people.

The most important thing people need to realize in sending footage to media is that it must be raw footage, sound bites from the winners, clean background shots that don't have the Lottery logo superimposed. Television stations can then take that and produce their own packages that are identified to their own stations. That way, you're not sending out an infomercial as such, just raw footage for news purposes. It's an ethical consideration in news, wherein they don't want to present someone else's commercial but instead their own news.

So far we're up to the production of videos, and the variety of ways those have been used. What's the next step?

M. Neubauer: Then we just built from there. We've been constantly aware of the tools that we ourselves are using, either in business or in our personal lives. If we're interested in and using it, whatever "it" may

be, then other people would probably feel the same. So, we tried to incorporate all these tools into the program here at the Lottery.

So, the next thing we did was to develop an Iowa Lottery "widget." This is a tool that we developed to be downloaded onto people's desktops. The widget provides winning numbers directly to their computers. By using a widget, we aren't waiting for people to come to our website to get information. We are able to feed information to them.

The "widget" provides an online, real time "Players Club."

M. Neubauer: Very true. It's a great way for us to maintain regular, ongoing contact with our players. From there, we branched out to text messaging. We worked with a local company to provide a text messaging service to get winning numbers, jackpot alerts, and latest information about Lottery promo-

Continued online. This interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.

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into all aspects of the business. But we need to be aware that the outcomes of all our efforts will comply with the core principles and core performance drivers.

How have changes in consumer behavior changed the task of profiling and categorizing the consumer?

J. Kennedy: Convergence is also about how the games work together and how they are positioned together to effectively reach the consumer. We see this type of convergence again as both a marketing and technology issue—a way to seize gaming opportunities across a variety of mechanisms that have consumer involvement. In this respect, convergence of markets is driven by consumer demand in parallel with technologies and products blending to create a new delivery model. We need to be careful about how we apply profiling models to our consumer.

What do you mean by “convergence of markets is driven by consumer demand”?

J. Kennedy: Just that markets are driven by the consumer behavior and not only the theoretical models that also inform our approach to marketing. We need to break down the barriers that prevent us from seeing how our markets operate, how consumers truly think and behave. One of those barriers begins to be built in college when we channel our focus into separate disciplines. That can be a useful and practical way to organize large bodies of information. But it can also cause us to view the world as if those distinctions were reality. We like to think our knowledge and analytical processes are empirically driven, and yet our education and way of perceiving the world is compartmentalized in ways that reality is not. Real-world phenomena does not actually coalesce into discrete categories so that we can understand and model it more effectively. And we carry this over into the ways that corporations are organized. Of course, it is a practical necessity to organize a large enterprise this way; and in fact to organize our knowledge base this way as well. We just need to realize that the ways we model things and organize information is not an accurate reflection of the way the world really operates. Instead we need to focus squarely on the real-world behavior of the consumer.

For instance, in the conventional marketing world, if you're Coca Cola, you're trying to take market share from Pepsi. It's in the marketers' DNA to focus on competing against a similar product. The way we think of things, and organize ourselves internally, can impose a mentality that can inadvertently become an assumption in the lottery business, resulting in positioning one game against another; like positioning a \$20 raffle game against a \$20 instant game. Prefer-

able to that is to think in terms of optimizing the entire portfolio of products. Then you look for ways to harmonize the promotion, prize structures, win frequencies, and everything about the way the product is brought to market. That's the way to get your products and the delivery model to be in sync with your consumer. That's what I mean by “convergence of markets is driven by consumer demand.”

Every single time we put out a new game, or even a marketing message, we are training our consumers and retailers how to think about our products. Our data-driven approach is complemented on the theoretical side by the conviction that the most important part of training your customers to think of you in a certain way is to make sure your strategies and products leverage the way they already think and behave. Our research clearly shows that how you bring the products collectively to market has a significant long-term effect on the consumer behavior. Some of our research is based on a patented system that currently tracks over \$300 billion in sales information over 20,000 games. So, when we talk about concepts like “convergence,” it's important to emphasize that our approach is steeped in concrete information and practical experience.

But you are also saying that one of those drivers is to create an integrated approach to marketing the entire portfolio of games and products, right?

J. Kennedy: Yes. We don't view it as online versus instant versus video versus anything. It is a range of products that's what we bring to the consumer market. I'll give you another example of that. Right now there's this raging debate about the Internet. The question seems to be how will it impact the retail channel, how will it impact the entire business. And when thought about as an isolated phenomenon, or distribution channel, it is perplexing. But when we think about it as simply another point of contact with our consumer and how to integrate it into the complex of channels and games and business partners, we will be more successful at optimizing the impact across the whole portfolio of products. We need to move beyond concepts like “channel conflict” or products “cannibalizing” each other. Our products, channels, and business partners don't have to compete with each other. They can work harmoniously to produce an optimal result.

For example, a player identifies on the Internet where their local retailer is, prints out a coupon that can be used at that retailer and then goes to that local retailer to purchase three or four lottery products that they've identified on their website, and then go back to the website and play promotional second chance drawing games? Several of these functions are examples of what we're doing with some cus-

tomers now. What we're doing is reinforcing this whole proposition that the lottery drives traffic to the retailers, and the retailers benefit from that traffic, and the consumer benefits from an enhanced experience using the Internet. It's not one versus the other. Once new products are available they are not substitutes, they are additions to an existing ecosystem.

What other ways can back-office technology be integrated to support an increased variety of game types? Aren't there significant efficiencies and cost savings to be gained by

J. Kennedy: Each implementation of our gaming system is followed by cross functional reviews purposefully planned to assess opportunities for advancement. Our gaming system platform—AEGIS-EF—has evolved with each implementation, taking advancements from the last implementation and moving the system forward to the next implementation. There are significant efficiencies and cost savings with delivery of integrated systems with expanded functionalities, as there is with consolidated systems data management and operations. The challenge is bringing about change in a way that is least disruptive to the Lottery and its business operations. We need to keep the baseline of reporting and data management but at the same time be ready to move forward and embrace the next levels of possibility.

Are there benefits to creating a comprehensive and integrated approach to marketing a broad portfolio of games from completely different categories—like sports betting, VLT's, Instant scratch-offs, Lotto, etc.? This as opposed to having separate “silos” of game development and marketing/advertising the different games types.

J. Kennedy: There are distinct benefits for integrated marketing and advertising within the portfolio of games, however, game development is a specialty within each category. Collaboration in this area is mutually beneficial in the advancement of concepts and idea generation, but our experience has shown execution of game design is best managed within the product specialties.

You've added sports betting to other gaming categories that SG supports for the Delaware Lottery. Are there synergies between sports betting and the central server and other technologies that support those other games?

J. Kennedy: Absolutely, our sports lottery program for Delaware was a culmination of expertise within our lottery operations group, our online technology group, our video lottery group, and our racing group. Offerings from these groups were blended or converged to

bring about a tailor-fit sports package for the Delaware Lottery at its racino locations.

Of course the size and scope of the product is in the hands of the policy makers but our implementation project plan to launch in early September is being managed following the same best practices employed during our recent Pennsylvania lottery online systems conversion, so there is crossover there in sharing of methodologies and planning. Our online operations group will have operational management responsibility for the sports program, so again there we are seeing synergies in resource skill sets and professional services. The marketing program for sports is a culmination of our best practices developed from our global gaming experience. The basic principles of marketing apply however, regardless of the game type. Promotions and capturing the attention of the player in a meaningful way are key. We hope to have fun contests, using the betting terminals and digital signage as communications avenues to promote games to the players. There may be opportunities for cross-promotions, sports to video to traditional lottery to racing. The racinos in Delaware are full destination gaming venues, ideal for expanding playership across the multiple product lines.

The technologies will certainly integrate in Delaware where relevant as they are based on the same basic design architecture and software types. In this era of systems implementations, products can support each other and work harmoniously. As mentioned above, we see great convergence in implementation and operations methodologies.

It used to be that the players were segmented into classifications that did not overlap much. I'm curious about the notion that lottery players don't play slot machines and slot players don't play lottery and wondering if that notion isn't based on presumptions that no longer apply.

J. Kennedy: When thinking about the segmentation of consumers, we think of it in terms of their core motivations for engaging in gaming activities and not so much about their demographics. In general, lottery players have a higher propensity than the general population for participating in all forms of gaming; casino visitation, horseracing, playing cards and so on. As long as the value proposition is there in a gaming product, people who enjoy the thrill of playing will seek it out. This is especially true for the core player as their motivation is winning. The more casual player obviously enjoys winning as well, but the primary goal is about having fun and enjoying the experience, whether it be an instant scratch game or a slot machine.

People who enjoy the thrill of gambling will wager on whatever products deliver that thrill. The best example of this is the phenomenal

growth of effective higher price point instant games over the past five or so years. The value proposition is what true gamblers want and the product is flexible. You don't have to be in Vegas or Atlantic City to satisfy that desire. The situation we need to consider now is that we have created a product that meets the needs of core gamers within the current environment. However when competition with higher value propositions enter a market, such as casinos, VLT, slots or sports wagering, we need to reevaluate the product mix. Core gamers will still play lottery because of its accessibility, but they will also shift some of their spend to these new, higher return products. So we have to make sure we offer a marketing mix that supports the more casual player who will still seek fun and entertainment.

How can you integrate to optimize the business in a converging industry if there are different companies involved in each category, not integrating and perhaps even working at cross-purposes? Are there ways for different companies (which most likely compete with each other) to collaborate to produce a superior result?

J. Kennedy: Certainly it can be viewed that competition at the contract level or category level is at the front-end of the bifurcation at the product level, but it doesn't have to be. With more than 25 years working within this industry, I am excited to see collaboration taking place at the supplier level and that now evolving into the standard approach to business. More and more, we sit at the table with the other suppliers, working in a collaborative fashion to solve challenges, bring recommendations, and advance the success of the lottery organizations. Our linked games such as Wheel of Fortune are certainly evident of this progression, as are some of the recent efforts in our web services category.

SG is evolving in interesting ways. You recently declined to bid on the Arkansas online lotto contract because, your press release said, you have different strategic priorities. Could you explain what your longer-term strategy is for the online lotto market? How about elaborating on your long-term strategies in other areas? China and developing countries?

J. Kennedy: Our submission of a no bid in Arkansas was really in the best interests of the Arkansas lottery. We reviewed the timeline and assessed that project against already committed project endeavors around the world. We decided to not submit the online bid but were pleased to submit a proposal for the launch of the instant games, along with warehousing and distribution services, and glad to have won that contract.

We seem to get asked the question, "are you staying in the online space?" The resounding

answer is quite simply, yes! We view online lottery as a gaming system, and advance our gaming system business in tandem through implementations of online lottery, video lottery services, instant ticket management distribution systems, server-based gaming systems; it's all technology, and we remain very much in the gaming technology space. We pride ourselves on our integration efforts, of taking diverse technology platforms and integrating platforms to create new and exciting gaming experiences. Our start-up of the instant program for the China Sports Lottery last year was largely driven not only by our skills in the instant game business, but also our ability to rapidly launch large validation systems, communications networks, and deploy hand-held sales terminals. The best potential for us to add value as a commercial partner exists where we're allowed to fully leverage those technologies, products, and competencies. An RFP that over-emphasizes start-up costs and cost of terminals impinges on our ability to do that. It is our conviction that the goal of optimizing the profitability of the lottery is better served with a long-term focus on real performance drivers than those short-term start-up costs differences.

We make contract business decisions on a case-by-case basis around the globe as a part of our business development activities. The criteria we use to make those decisions includes maximizing ROI on our investment and building a business based on serving the interests of our shareholders, our employees, our customers and our other stakeholders. Frankly, that is best accomplished by focusing our investment of time and resources where we can add the most value and leverage our capabilities to really drive superior performance. We find that focusing on those kinds of contracts and building those kinds of partnerships is also the best way to serve the long-term interests of our shareholders and other stakeholders. I suppose that's another example of convergence.

I should add that once we're past the procurement part, we're working hand-in-hand with whoever is awarded the other contracts. So as an example, we're working closely with Intralot right now to get Arkansas up and running. Their folks are working with our folks to put communications into the warehouse and get the warehousing set up and the communication infrastructure set up. And we're working with them to identify the games that they can deploy to the retailers. Even though we may have competed for one part of the business, once the procurement's done, then our interests are aligned. One of the great things about this business is that we tend to fight very vigorously on the get, but then we collaborate very well on the grow. ♦

opposed to just top-line sales.

So that means focusing on lotto?

T. Rich: Exactly, for now. We will always sell more scratch tickets than we do lotto tickets. It's a delicate balance, because our marketing plan is comprehensive and geared towards selling all of our products. But we can do a little extra to create a sense of excitement, newness, and urgency in the way we market the high-margin products.

Like Hot Lotto?

T. Rich: That's correct. Powerball always has some good runs, but in this past fiscal year, we didn't have the normal huge jackpots until May. The year before, we had a \$318 million jackpot. So we acted quickly to promote and sample Hot Lotto. We did more sampling and more driving people into the on-line business with Hot Lotto and that seemed to offset the lack of big Powerball jackpots. Now, this year the jackpots are starting to grow again and we think Powerball will be really strong, but I think what you mentioned a little bit ago is true about the entrepreneurial spirit as our organization recognizes changes in the market conditions and reacts more quickly. We don't want to be lazy and think that we're tied into just implementing our six-month plan. If we need to adjust, we'll adjust sooner and smarter.

Do you think we're in the second half of this recessionary cycle and that we will start seeing some concrete signs of pulling out of the recession?

T. Rich: Everyone refers to the unemployment rate as being high and therefore making it hard to sell. I think that instead of 8 percent unemployment, we should think of it as a 92 percent employment rate. That's 92 percent of the people who are able to buy and our job is to appeal to them and get them to turn to lottery for entertainment and the opportunity to dream and imagine what it would be like to win a million dollars.

You've obviously brought a wealth of business management experience into your role. How did you get up to speed so quickly on all the industry specific skill-sets and knowledge?

T. Rich: As a new CEO, the first step is to earn respect rather than demand respect. We had a really good team here already. They'd been through a lot of difficult times, so getting a clear sense of mission and purpose, building out the team, and getting about the business of executing are all we had to do and that's what we've done. With the experience of this veteran team, I was able to just listen, ask a few good questions, support the staff with whatever tools and direction they needed, and all the while

learn the business myself. The Lottery Directors' meetings also have been really great for me. There is a great group that is leading the U.S. lottery industry and I am fortunate to be able to learn from them. Besides, they're all a lot of fun, which makes being in this business so exciting. So as much as I talk about all the different ways to generate bottom-line income, this really is a sales business. That's my background and so I love that aspect of it. And what's not to love about lottery?

You do have a great team there in Ken Brickman, Mary Neubauer, Larry Loss, Brenda Loy, Joe Hrdlicka and Joe Diaz, and the whole team, and I know there are others there that I should be mentioning. But I'm sure they're really excited and pleased with the leadership that you've brought, and so congratulations to you for that.

T. Rich: The true test for me will be how everyone feels about our success a year from now. You know, every day we work hard to gain the respect and every day we're talking about what's happening today, how do we move ahead? It's always trying to evaluate and work together as a team. But we're really working hard on new ideas and making sure that we have some new things in the pipeline at all times that meet our goals, and the No. 1 goal is bottom-line proceeds to support good causes. ♦

Jean Jørgensen Interview ...continued from page 24

constituencies while performing to the highest standards in all the conventional matters of running a business is really the most valuable skill set that a gaming operator can have. That's not to say that a private commercial enterprise can't also acquire those skills because we know that they can. Actually, some of the best performing lottery entities in the world are privately held and operate under exclusive licenses from governments. Our political leaders just need to be aware of the nature of this business and the complexity of fulfilling this mixed bag of public service objectives. I generally think they are. In Europe, the EU Commission is pushing to open the markets up to free market competition but both the Council and the EU-Parliament—which are the policy deciding bodies—have been very cautious and highly aware of the sensitivity of this area as illustrated by the Schaldemose report mentioned earlier. The member states need to be allowed to determine the terms and conditions and tax rates to operate to ensure their gaming policy objectives. Those typically include the prevention of crime, consumer protection and funds for good causes.

Will there ever be resolution between the EU Commission and the member states as to how the gaming industry should be regulated?

J. Jørgensen: A lot can be said about this topic. But I will limit myself to one observation. I do not see equilibrium or a single agreed upon way of regulating the markets for the next three to five years. There will be many different models. There will be those member states that try to maintain a legal monopoly. This is permissible under EU law. There are just a number of conditions that need to be fulfilled in order to do that. Then there will be a more liberal 'license and regulate' model like you see in the United Kingdom. Italy has implemented what is called a "controlled opening" and other jurisdictions like France and Denmark are also taking this route. This route is about licensing more than one operator in a given game category but having strict regulatory standards and perhaps a higher tax rate to comply with. Philippe Vlaemminck wrote about that in your last issue. Everyone is going their own way and we will have a patch-

work. And that is fine because different nations have different needs, cultural backgrounds and different priorities and they should be able to decide for themselves how they want the gaming industry to operate in their country. That being said, it would be beneficial to everyone if the EU member states could agree on some of the aspects on cross border Internet gambling to protect vulnerable groups and to enforce the member states' rights to regulate and control gambling. The Council now has a working group on gaming and more meetings have been planned in this second half of 2009 under the Swedish Presidency.

One last thing on this topic...the 67 WLA lotteries in Europe are directly responsible for contributing literally billions of euro to good causes. Actions that would clearly result in the massive transfer of billions of euro from good causes over to private interests would not be welcomed by many EU citizens and it would not progress the economic and social developments of the European Union. ♦

try. What we didn't know, what we have discovered, is how truly resilient that game is, even in the shadow of Powerball. There are still weeks in which our Lotto game outsells Powerball in Florida. That game has the benefit of twenty years of loyalty and incredible brand awareness among our players. So, while there has been some cannibalization, the net overall increase in combined Powerball and Lotto sales more than make up for that.

Didn't you quickly launch a huge state lotto game right after the introduction of Powerball?

L. DiBenigno: We actually did that before the introduction of Powerball. We introduced an add-on game for Lotto roughly nine months before we joined Powerball. Until that change, our Lotto game had not been modified in any way for almost eight years. We felt that it was time to create something new for our players.

Do you believe that Powerball has generated excitement and interest with people who may not have played lottery before?

L. DiBenigno: I'd like to think so, but honestly I've not seen any evidence to reflect that.

Any other comments on the introduction of Powerball?

L. DiBenigno: We are very excited about the future of Powerball in Florida. Our expectations have been exceeded in terms of the impact Powerball has had, particularly for our On-line games. If not for Powerball, we would have had a much worse year in terms of transfers to education. I have to say that Powerball really saved us this past fiscal year from the standpoint of transfer to education. The decision not to join in the past was the right decision for that time, and I certainly wouldn't second-guess that. At the time the decision was made, I was very confident. In retrospect, I'm even more happy that we joined Powerball when we did. It really saved our ability to continue to transfer money to education, at a time when it is desperately needed,

Couple other topics...First, how is your ITVM roll-out progressing?

L. DiBenigno: We are very excited about the introduction of ITVMs. Florida had ITVMs eight or nine years ago. We removed them, and have had none since then. We

went to the legislature last year for funding, which was denied at the time. We went back earlier this year, and it was approved. So, we are in the process of rolling out 1,000 ITVMs. They will begin to appear in some of our larger retailers in late August. We should have all in place by early to mid October. We think that ITVMs, while certainly a convenience for our players and retailers, should also result in an overall increase in scratch-off sales as well.

We are focusing first with our large super-market chains. Tom (Delacenserie) may have some plans to place a small number in Kmart's down the road.

As gaming in general expands in Florida (i.e. the Seminole and casino gaming), do you see that as competing against lottery?

L. DiBenigno: I see it competing against lottery for the gaming dollar spent by players. But I don't see it as competition for effort to raise money for education. So long as the transfers from slot machines and other gaming go to education in Florida, whether that money comes from lottery or other gaming doesn't concern me. ♦



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Advertising to increase sales now and position you for the coming upswing in consumer confidence.

By Cheryl Sullivan and Bob Riggs, GTECH Corporation

Given the current economic climate lotteries, like many industries, are struggling with how best to allocate precious marketing and advertising dollars. However, these economic times may be an opportunity. Taking a contrarian view from the prevailing "tighten all budgetary belts" philosophy, lotteries may now be uniquely positioned to benefit from an aggressive advertising and marketing approach in a recessive economy. Lottery advertising generally follows one of three dominant themes, sometimes combining one or more of them in a single ad: the dream of a life-altering jackpot; how good luck can alter your life; and the impact lottery has on good causes.

These themes also happen to align perfectly with the consumer mindset in a recessive economy. The fundamental premise of lottery—placing a small amount of money on the possibility of a large payout that also helps benefit communities and good causes—is an attractive, village-conscious approach that works in a recession.

Indeed, recessionary times may actually be the ideal time to increase advertising and promotion. If the economy is in fact in the second half of the recessionary cycle, then this is the perfect time to imprint your advertising message on the marketplace. By investing now, when businesses and consumers are beginning to think about how to adapt their behavior when things improve, lotteries can jump out in front of the pack and position their brand for the return of consumer confidence.

In the past 10 years, US lotteries' fiscal year advertising budgets as a percentage of sales have experienced a virtually consistent decline. This experience is shared by other industries as well.

According to the National Bureau of Economic Research, the US has been in a recession since December 2007—based on a number of measures including job losses, declines in personal income, and declines in real GDP. http://www.usatoday.com/money/economy/2008-12-01-recession-nber-statement_N.htm

Given that consumer spending is 70% of the US economy and since lottery spending is part of the consumer spending, it follows that lottery spending may also suffer from lower buyer confidence/optimism and job insecurity. In fact, a recent Ipsos survey of lottery players found that 46% reduced their lottery spending and 8% cut them out entirely. (http://www.mediapost.com/publications/?fa=Articles.showArticle&art_id=107453)

Because revenue can be the most difficult element of the balance sheet to control—since it's ultimately in the hands of the consumer—company leaders naturally look inward to the expense side of the ledger to reduce costs and improve financial performance.

So, should lotteries really spend more to make more?

The short answer appears to be—"yes". A recent example from the Missouri

Lottery shows how decreasing advertising budgets can prevent lotteries from maximizing revenues. According to the lottery, there was a marked difference in 2008 and 2009 proceeds from a raffle promotion: With advertising in '08, the promotion sold out on the last day, grossing \$2.5 million. Without promotion in '09, the game did only \$172,000 in sales, failing to sell out. (<http://www.arkansas-business.com/article.aspx?aid=113742>)

Understandably, spending money to get money sounds risky. However, as more and more states and national governments are relying on lotteries at a minimum to maintain the revenue levels they have provided in the past, and at best produce additional revenues to offset losses in traditional tax generation diminished by the economic downturn, this initial investment is essential.

In The New Yorker Magazine's Financial Page, (Hanging Tough, April 20, 2009) James Surowiecki says studies have shown that "companies that keep spending on acquisition, advertising, and R. & D. during recessions do significantly better than those which make big cuts." In fact, "when everyone is advertising, for instance, it's hard to separate yourself from the pack; when ads are scarcer, the returns on investment seem to rise."

John Quelch, Senior Associate Dean and Lincoln Filene Professor of Business Administration at Harvard Business School (Harvard Business School article, March 3, 2008, "Marketing Your Way Through a Recession") argues convincingly that the very last place leaders should look to trim expenses is in the advertising budget, citing that brands that increase advertising during a recession, when competitors are cutting back, can improve market share and return on investment at a lower cost than during good economic times.

Businesses with larger ad budgets may be able to negotiate favorable advertising rates and lock them in for several years. If a business has to cut marketing spending, Quelch urges companies to try to maintain the frequency of advertisements by shifting from 30-second to 15-second advertisements, substituting radio for television advertising, or increasing the use of direct marketing, which gives more immediate sales impact. Ultimately, no matter how a company chooses to economize, advertising in a down economy is a powerful tool for current and future success.

According to the U.S. Department of Commerce, since 1854, there have been 28 recessions: on average one every four to five years. But what may come as a surprise is that during the recessions of the past 50 years, consumer spending went up, not down, during each one. The following chart substantiates the representation that consumer spending actually increased in the previous 10 recorded recessions in the United States. ♦

BEST PRACTICES

- Maintain your advertising presence
- If you must cut, reduce unit size to maintain frequency or choose less costly media
- Commit to expanded market research

In summary, if you must make some cuts in advertising, make them by reducing the unit size of the advertising unit. Marketing efforts must be designed with a keen eye on the consumer mindset. Lastly, be sure to work with the freshest data possible to ensure that your program is in synch with the mindset of the consumers you are trying to reach.

Consumer Spending During Post-War Recessions Personal Consumption Expenditures During the Quarter when the Economy Peaked and Bottomed (\$ = Billions)

Source: U.S. Department of Commerce

RECESSION	PEAK	BOTTOM	%CHANGE
1948-49	\$176.0	\$178.0	+1.14
1953-54	\$233.6	\$238.2	+1.97
1957-58	\$287.7	\$291.9	+1.46
1960-61	\$331.6	\$334.4	+0.84
1969-70	\$614.3	\$653.0	+6.30
1974-75	\$861.6	\$967.4	+12.28
1980	\$1,682.2	\$1,749.3	+3.99
1981-82	\$1,940.9	\$2,117.0	+9.07
1990-91	\$3,785.2	\$3,827.0	+11.04

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The Spirit of Adventure



Ed Honour Chief Technology Officer, MGT Lottery

A Path to a Full-Service Online (i.e. Internet) Lottery Experience

(This interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.)

There was a book a few years ago called *Crossing the Chasm* by Geoffrey Moore. The concept is simply that there is a big gap of time between the introduction of a transformational technology and its widespread adaptation. The obstacles to the adaptation of technological innovations in the gaming and lottery business aren't exactly the same as moving from the "early adopters" of technology to the mass market. The similarity, though, is that both situations require a "bridge strategy" to overcome the impediments to the progress that will greatly enhance the customer experience. In our case, the customer is the player. There are now incredible technologies that will transform the player experience. These technologies are ready to be implemented now. Following is a discussion about the bridge strategy that enables the lottery operator to implement the products, distributional channels, and games that will attract entirely new categories of player (and re-energize the enthusiasm of the traditional players).

We're talking about internet online games that appeal to tech-savvy adults who love texting, videogames, Facebook, all things social media. The challenge is to devise a solution that will deliver the benefits while complying with state/federal laws regulating online game play.

An alternative to attempting a big leap across the vast digital divide is to follow a path of smaller low-risk steps that offer immediate improvements to games. These small steps will also build up the technical foundation that will support a progressive expansion of interactive lottery services. Too, these small steps are all compliant with all regulatory constraints, well within the boundaries of what is allowable.

This 'simple step' strategy was first articulated at the SMART-Tech 2009 Conference by Edward Honour, recipient of PGRI Lottery Product of the Year Award and the Chief Technology Officer at MGT Lottery. com. Ed described a path to successful web-based lottery games which involves taking simple steps today that build into a full-service online lottery. Small steps help lotteries establish a solid technical foundation, and eliminate the need for big, risky jumps towards online transactions for lottery products.

Public Gaming: How can taking small steps with technology lead to a Big Leap for state lotteries?

Edward Honour: Lotteries won't double their sales overnight with web improvements, but expecting online services to double sales over the next ten years is absolutely achievable, particularly if the state is laying the proper groundwork right now.

For some state lotteries this means a chance to upgrade an outdated website into a value-added web experience, without the unwelcome controversy that displaying a 'Buy Now' button would cause.

Online or at retail locations, lotteries can use electronic presentations to get engaged with a tech-connected generation that grew up with video games, without sacrificing the games or services multi-generational players know and love.

How complicated is the technology that's required to get started.

E. Honour: There are no technology barriers to online lottery presentations or games anymore. Twenty years ago the simplest digital task was difficult to do, but today anything can be done at a reasonable cost, and in a reasonable time period (i.e., months). State lotteries can have a flexible program that is easy to adjust, personalize and improve which is always in total compliance with state and federal legalities related to tickets sales and winners notifications.

What are the first steps to offering online or electronic games at retail locations?

E. Honour: Traditional instant scratch-off tickets aren't well suited for an age-restricted location like a bar, which tends to be dark. However, electronic games are a natural fit in this environment. Technology allows state lotteries to introduce interactive versions of existing lottery games in a way that helps build a bridge towards electronic ticket sales and online game play.

For example, the Touch2Win lottery game station from MGT Lottery offers a lottery ticket holder the opportunity to use a well-lit machine, in an age restricted location, to determine if the instant lottery ticket they have purchased is a winner. The introduction of a lottery game station that reads and provides a digital electronic display of the pre-determined outcome already printed on the purchased lottery ticket, improves the game experience for players, abides with all laws, and is unlikely to generate widespread criticism.

How can a retail-based lottery game station or ticket reader improve the experience of playing lottery games and lead to increased play?

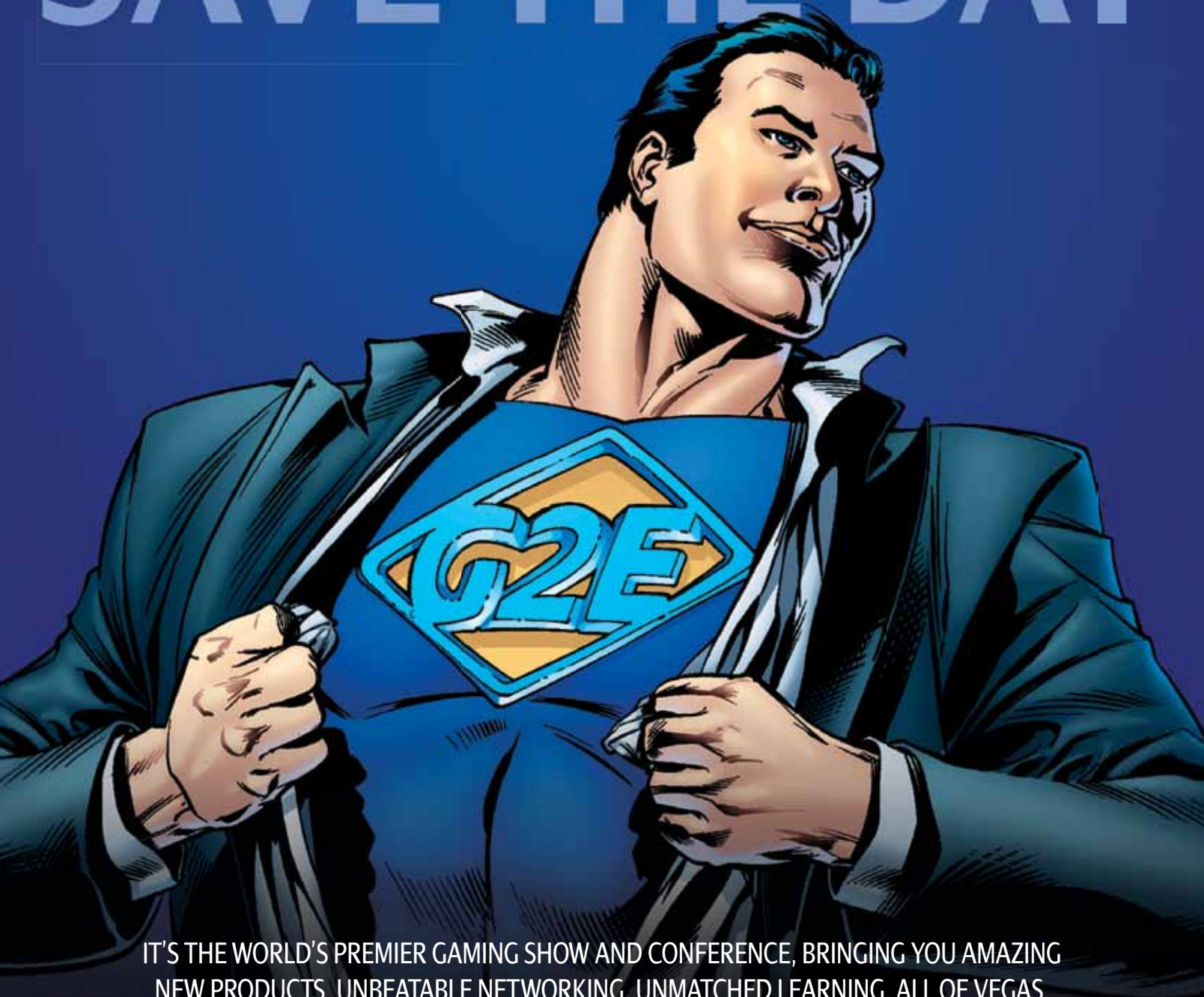
E. Honour: Electronic games are fun, and online game stations can offer basic lottery services through interactive displays. Software upgrades to touch-screen displays can include the ability to read any/all state lottery game tickets, or a retail-based customer loyalty program that rewards players for repeated use.

In age restricted locations, game station services can be expanded to allow multiple games on single tickets, or provide options to play winning tickets down to a zero balance. Lottery ticket kiosks can also provide improved player convenience in high-traffic locations. The key to the strategy, whether offering electronic games in retail locations or interactive games on the internet is to create reasonable improvements to the games that always meet all local and federal regulations for lottery game play.

Aside from interactive lottery games being offered at retail locations, what other types of small steps can Lotteries use to bridge the gap between ticket sales and online services?

Continued online. This interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.

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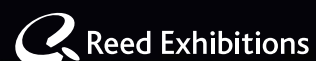
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Mark Hichar

Differences between the Frank and Menendez Internet Gambling Bills May Make the Menendez Bill More Likely to Pass

Mark Hichar is a partner in the law firm Edwards Angell Palmer & Dodge L.L.P., and heads the firm's Gaming Practice Group. He practices out of their offices in Boston and Providence. MHichar@eapdlaw.com

Bills introduced on May 6, 2009 by Representatives Barney Frank (D-MA) and Jim McDermott (D-WA) (collectively, the "Frank Bill"), and a Bill introduced on August 6, 2009 by Senator Robert Menendez (D-NJ) (the "Menendez Bill"), would authorize, but regulate and tax, certain forms of interstate and cross-border Internet wagering. Although similar in many respects, differences between the bills make it likely that a final bill—if there is one—will look more like the Menendez Bill.

The Frank Bill would authorize licensed Internet gambling facilities to accept interstate and cross-border wagers from persons located in those U.S. states that had not chosen to "opt out" of its provisions. Only wagers on sporting events would be excluded, although regulations issued under the bill could further limit the authorized wagering as could individual states and tribes that limited (rather than banned altogether) authorized wagering in their lands pursuant to the "opt out" procedure. The Menendez Bill, on the other hand, would authorize Internet wagering only on games "in which success is predominately determined by the skill of the players, including poker, chess, bridge, mahjong and backgammon." Moreover, it would permit wagering on poker only if the poker game was of a type "in which players compete against each other and not against the person operating the game..." Like the Frank Bill, states could "opt out" of the scheme, thereby leaving in place any existing state-law restrictions. By limiting its scope to poker and other skill games, the Menendez Bill may stimulate strong support among groups that have been formed to lobby for laws authorizing Internet gambling on poker.

Each bill attempts to keep professional and amateur sports leagues on the sidelines of the debate by specifically excluding from the authorized activities wagering on sporting events that would violate the Professional and Amateur Sports Protection Act. The Menendez Bill, however, conspicuously reaches out for support to the horseracing industry—historically a politically powerful group. For example, the Menendez Bill would exempt from its licensing provisions website operators that accept interstate off-track wagers as defined in the Interstate Horseracing Act (the "IHA") and also would confirm that the Wire Wager Act does not apply to wagers permitted under the IHA—thereby explicitly rejecting the contrary position asserted by the U.S. Department of Justice ("DOJ"). These provisions will likely engender support for the Menendez Bill from the horseracing industry.

In addition, the tax provisions of the Menendez Bill appear crafted to engender support from states that expect to have large populations taking advantage of newly-authorized Internet gambling. While the Frank Bill would obligate licensees to pay the federal government a license fee equal to 2% of all funds deposited by customers into their wagering accounts, it is silent as to state taxation. By contrast, the Menendez Bill would require licensees to pay a state/tribal fee as well as a federal fee, each equal to 5% of the amounts deposited by customers into their wagering accounts. The state/tribal fee would be divided among participating states and tribes pro rata according to the customer deposits attributable to persons located within their jurisdictions. Participating states and tribes would be prohibited from separately taxing customer deposits or wagers, or licensee income relating to such customer deposits or wagers (unless the licensee maintained a permanent physical presence in the jurisdiction).

Thus, the Menendez Bill would establish a more comprehensive scheme for collection and disbursement of state (as well as federal) taxes related

to the authorized wagering activity. States "opting in" with large populations of Internet gamblers relative to other states would receive larger shares of the state/tribal fee and would benefit from the federal government's established structure for collection and disbursement of this fee. Such states should strongly support the Menendez Bill. States "opting out" or with small numbers of Internet gamblers relative to other states, can be expected to be less supportive of the bill.

Still further, the Menendez Bill, unlike the Frank Bill, would amend the Unlawful Gambling Enforcement Act of 2006 (the "UIGEA") by requiring the creation of a list of website operators involved in illegal activity, including the operators' known website addresses, owners, operators, financial agents and account numbers. Such a list was requested by financial transaction providers in their comments to the draft UIGEA regulations so that they could learn which website operators were known to be operating unlawfully. Under the Menendez Bill, a financial transaction provider would be deemed to have actual knowledge that a website operator was operating unlawfully to the extent such operator was identified on the list.

Finally, the Menendez Bill would authorize the following appropriations in each of five years to increase knowledge and awareness with respect to problem gambling, and to further problem gambling research and treatment:

- \$200,000 per year to increase problem gambling knowledge and awareness;
- \$4 million per year for a national program of research of problem gambling; and
- \$10 million per year for grants to states, local governments and non-profit agencies to help them provide problem gambling education, prevention and treatment services.

In sum, the Menendez Bill is more detailed, and certain of its differences from the Frank Bill appear calculated to engender support for its passage. Each bill, however, would obligate states to "opt out" in order to prohibit the Internet gambling authorized, and this will likely offend states' rights advocates. (They likely would prefer an "opt in" approach.) At present, it is not known whether either bill will move forward in its respective chamber, nor is it known what the Obama administration's position is in regard to either bill or to Internet gambling generally. (The Attorney General's position is not so opaque, however. During his confirmation hearings in January 2009, then Attorney General-nominee Eric Holder promised Senator Jon Kyl (R-AZ) that "under [Holder's] leadership the Department of Justice would continue to aggressively enforce the law against the forms of Internet gambling that DOJ considers illegal," and that he would "oppose efforts to modify or to stop [the UIGEA] regulations, and...continue to be vigilant in enforcing those regulations to shut off the flow of cash from...illegal [Internet gambling] activity") In any event, the wagering activity contemplated under either bill is very unlikely to be lawful until late 2010, at the earliest. This is because each bill provides that its substantive wagering provisions do not become effective until 90 days after final regulations are issued, and each bill provides a 180-day period for the issuance of such regulations. It likely will take at least 180 days for regulations to issue, with the effect that the wagering provisions will not become effective until at least 270 days after enactment of the legislation.

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