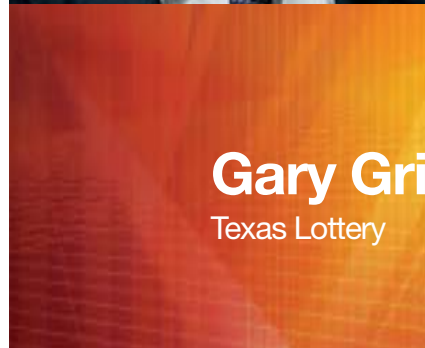# Feature Interviews

Ed Honour
MGT Lottery

Tjeerd Veenstra
De Lotto, the Netherlands Lottery

Jennifer Welshons
Scientific Games International

Gary Grief
Texas Lottery

GTECH Printing Corporation…

Kathy Matson

Jacqueline Deragon

Will Higlin

(Clockwise, left to right.)

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From the Publisher

Paul Jason, CEO, Public Gaming International Magazine

"Just because we don't understand you, doesn't mean you're an artist."

Remember back to the years of heady optimism just prior to the dot-com crash of year 2000? Years earlier, U.S. Fed' Reserve Chairman Greenspan referred to it as a period of "irrational exuberance". One of the themes of that period were that the "old rules don't apply". A funny anecdotal moment that reflected the spirit of the time was the analysts conference call held by Enron. A financial analyst kept asking the Enron CEO, Jeffrey Skilling, to explain how transactions that happened between divisions within Enron could be counted as revenue. How can selling something to yourself be considered revenue, he asked. Skilling responded by calling him an expletive (this on a Wall Street conference call in which the objective is to put your best foot forward for people who influence your stock price) and telling him that he "just doesn't get it". As wacky as that sounds in hindsight, the fact is that Enron's stock price did not plunge as a result of that call. People held to the belief that the traditional metrics used to assess company performance no longer applied; and that if you didn't accept that the "old rules don't apply", it was simply because you "didn't get it". Speculative bubbles like that of the dot.com era seem to repeat themselves every 8 or 9 years.

I am sometimes guilty of wanting to move fast and get impatient with "old rules" that get in the way. My enthusiasm for big, bold, fearless innovation; championing the "change agent" as the vital link to the future, may

need to be tempered with an appreciation that many of the principles that guided business decision-making in the past are fundamentally sound and it would not be wise to think "the old rules don't apply anymore". That fact was revealed in all of my interviews this month. **Gary Grief** helps me to see that while the Director encourages creativity and even bold innovation on the parts of their commercial partners and lottery staff; there are lots of reasons why the Director must manage with a steady hand, assuring that mission-critical principles are never compromised. Risk-averse, I asked? You bet –an aversion to risking the reputation of Brand Lottery is a good and healthy thing for any Lottery Director to have! Our discussion goes on to explore the incredible potential for innovation to drive our industry towards even greater success, and also the communication strategies that engage all constituents in the mission and objectives of their state lottery.

Similarly, **Ed Honour** helped me understand that key to any Internet gaming initiative is a strategy that integrates the awesome power of lottery's network of land-based retailers; **Jennifer Welshons** disabused me of my notion that the Internet obsoletes the four "P"s of marketing; and **Kathy Matson** pointed out that it's not as if the "core player" likes exciting game concepts any less than the next generation gamer. The Internet changes a lot of things, but it certainly doesn't change everything, and many of the old rules and common sense will apply for a long time to come.

As casino-style gaming becomes available on the Internet in Canada, Europe, and other parts of the world; and as the U.S. inches towards a regulatory framework that makes it easy for states to enter this space, I have

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been wondering how the business of Internet gaming can be integrated into the traditional lottery business for optimal overall impact. Second-Chance drawings have proven to be a most excellent way to begin the process, and can be leveraged for much greater impact still. But what will happen if enabling legislation doesn't purge the competitive landscape of illegal operators, or in some markets even license multiple operators? How can Team Lottery fulfill its objective of being the operator of choice, the safe & secure place to play for Internet gamers? I noticed that two big-name casino moguls came out with exact opposite viewpoints on the impact of Internet gaming on other gaming categories. One criticized it as being harmful to the industry because it will further divide the market and result in everyone getting an even smaller share. The other welcomed the expansion and pointed out the obvious, which is if you see your crowd of followers starting to walk in a different direction, run like heck to get back in front so you don't concede your leadership role. Like the two shoe salespeople who encountered a land where the people don't wear shoes. One figured there's not much potential in a place where the people don't even wear shoes. The other wrote back to the head office saying "These people don't have any shoes. Send all possible stock. We can dominate the market". Let's be counted among those who see the glass as half-full.

Tjeerd Veenstra has been a leader in the mission of protecting the rights of European member nations to regulate their own markets. We discuss how a series of important ECJ Court and EU Commission decisions has clarified who decides regulatory policy in Europe, and empowered the member states to enforce their policies and taxes on operators based outside of their own country. As the U.S. enters the i-gaming space, we will want to look at how Europe and Canada resolves the trade-off between the very worthy principles of free-market capitalism and the goal of regulating the gambling industry for the protection of players and the benefit of the public. Commercial companies do have the right to expect fair and equitable treatment, but it remains the purview of the government of the people to decide what is best for the people.

Lottery Expo 2010 is being held in Las Vegas at the same time as the huge G2E Gaming Show, November 16, 17. The conference theme is **Integration: The Merging of Markets, Channels, Media, Social networking, and Gaming**. Our industry is being reshaped by lottery operators who are stretching to innovate, add value to their products and delivery, and reaching out to their customers in creative new ways. We will be hosting a diverse group of "Thought Leaders" from media, Internet gaming, investment banking, and cultural trend-spotters. Just as with SMART-Tech New York, we will video-record the presentations and make them freely available to everyone online. Thousands of viewers have visited our special conference website, www.PublicGaming.org, and even more will be tuned in to Lottery Expo. Our singular purpose is to support the expansion of government-sponsored lotteries and gaming operators for the benefit of the public and Good Causes. More Lottery Expo Conference details will be sent to you as we confirm them over the coming weeks. Stay tuned to www.PublicGaming.com for updates. ◆

Tjeerd Veenstra

Director of De Lotto, the Netherlands Lottery

The dispute over who decides gambling regulatory policy has continued ever since the inception of the European Union (EU). Resolving this dispute will go a long way towards freeing up the member nations to allow the gaming industry to evolve and grow and prosper. Recent decisions by the European Court of Justice (ECJ) are affirming the rights of member states to determine regulatory policy as it relates to gambling within their own borders. One of the recent decisions has upheld the injunction granted to De Lotto, which operates the Dutch lottery, that prevented Ladbrokes from accepting bets over the Internet from Dutch gamblers. We asked Tjeerd Veenstra to help us understand the broader implications of this decision. In addition to being the Director of De Lotto, Mr. Veenstra has been instrumental in representing the interests of European lotteries in their fight to prevent liberalization from upending the stability of the multi-billion euro European gaming markets. As Chair of both the Legal and the Regulatory Committees of the European Lotteries Association, Mr. Veenstra brings an informed perspective to these issues.

A primary purpose for the creation of the EU was and continues to be to break down barriers that impede cross-border trade and free market competition. That is a very worthy purpose and one that has resulted in great economic progress throughout the European Union (that statement holds true in spite of recent setbacks). National governments have asked for exclusions to allow them to impose protective barriers to protect their most favored indigenous industries. The EU Commission and the ECJ have resisted attempts to exclude industries from the mandate to compete in a free and open competitive environment. However, it has always been understood, and even recognized in the original Treaty of the European Union, that gambling is an industry that demands a higher level of control and regulation. For that reason, the principle of "subsidiarity" enters into the process of shaping public policy and regulatory frameworks in Europe. That principle basically states that there are some cases in which the interests of the member nations are best served by vesting regulatory authority at the local, or member nation, level; and that gambling is one such case. Even so, private operators have lobbied the EU Commission to intercede and force member states to reduce regulatory restrictions placed on gambling operators. This dispute has resulted in confusion over who has the authority to regulate the gambling markets. This confusion has made it difficult for anyone to know what is permissible under EU laws and how the regulatory frameworks will evolve and how they will impact their business strategies. Recent ECJ decisions should free up the member nations to move forward with the business of building the regulatory frameworks that will govern this industry in a coherent and predictable manner. Even if those frameworks are more restrictive than some private operators would prefer, they will at least provide the predictability that private operators and their shareholders need to formulate strategy and investment decisions. The European gambling industry could be poised for a period of expansion that will be as exciting for the commercial community as it is beneficial for those who want to preserve stability and integrity in the markets.

Paul Jason, Public Gaming: *Could you please explain what this decision means to the Dutch gaming market and regulatory framework. To what degree is this issue settled once and for all?*

Tjeerd Veenstra: First off, you cannot make this distinction between the Dutch gaming market and the rest of Europe because we are all in the same boat. The ECJ is the high court of Europe and its mission is to set precedent and provide foundational decisions that apply to all members of the European Union. Its mission is to evaluate the issues on the basis of how we must understand and interpret EU Law and Jurisprudence and make decisions based on that. So this decision doesn't just impact the Netherlands. It is a tremendous victory for all EU member states. Along with the Liga Portuguesa decision, this case affirms the rights of member states to regulate gaming for the preservation of Public Order. This is a very good thing for lotteries because lotteries depend upon the right of their own government to control the markets. But most importantly, it is a defense of the principle of subsidiarity. That is the principle that EU member nations do preserve the right to make public policy decisions where it makes sense to do so and where it is more effective to enforce it. The European Parliament voted specifically on the question of whether regulatory control of Internet gambling comports with this principle of subsidiarity. The Parliament voted overwhelmingly that regulation of gambling should be decided at the national level, not the EU level. These two ECJ decisions comply with the will of the European Parliament, which is as it should be. We are very pleased with the decision.

You asked about whether this is a final decision that settles everything once and for all. The answer is that these are complex issues that involve more than one question. But the combination of these two ECJ decisions, the Netherlands/Ladbrokes and the Liga Portuguesa decisions, do reflect the will of the European Parliament. There may be additional issues that need to be clarified, and more referrals to the ECJ for the High Court to do

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Gary Grief
Executive Director of the Texas Lottery

Gary Grief was appointed Executive Director of the Texas Lottery Commission in March 2010. As Executive Director, Mr. Grief oversees a $3.7 billion enterprise whose mission is to generate revenue for public education and other good causes in the State of Texas.

As a 19-year lottery veteran, Mr. Grief has been an integral part of the success of the Texas Lottery Commission since its inception. Mr. Grief was appointed in 1991 by the Texas Comptroller of Public Accounts to the original eight-member Lottery Task Force assigned to research and launch the Texas Lottery. After the lottery start-up in 1992, Mr. Grief assumed the role of Statewide Manager of Claim Centers, overseeing 24 field offices statewide. After serving in that role until 1997, he accepted the position of Director of Lottery Operations. In 2002, Mr. Grief was appointed by the Commission to serve the first of what would be three separate terms as Acting Executive Director. He served in this capacity from September 2002 to February 2003, again from July 2005 to January 2006, and finally from October 2008 to February 2010. Between and after each stint as Acting Executive Director, Mr. Grief served as Deputy Executive Director until his official appointment as Executive Director in 2010.

Paul Jason, Public Gaming: *You've been acting director at various times over the 19 year history of the Lottery. You were even involved in the design and implementation stage of the Lottery, and have since served in many different capacities, including Acting Director. How has the appointment to Executive Director changed how you manage the lottery? Does it enable you to conceive and implement longer term strategies and flesh out a more comprehensive business plan?*

Gary Grief: There is a big difference between the roles of chief operating officer and CEO. As the deputy director, I functioned primarily as chief operating officer for many years and periodically assumed the responsibilities of the executive director, or chief executive officer. As chief operating officer, I have been fortunate to have had significant input into our long term strategies and business plans. So that's been a big help for me in making the transition to CEO. Our commission has now chosen to combine those functions into one position. I have found that the main difference between COO, or even Acting CEO, and CEO is that the external focus becomes mission-critical for the CEO. As deputy or chief operating officer, the focus really needs to be internal, working hard to lead the team to optimize performance and results. Of course, that also remains a top priority for the CEO. But in addition to that, the CEO is the face of the lottery to the legislature, to state leadership offices, the media, the lottery retailer, and the general public. Cultivating positive and mutually supportive relationships with members of the state legislature and the media is key. We must be extremely sensitive to a variety of constituents whose interests all need to be respected. Performance in our business is not just measured by total revenues, or even total funds delivered to good causes. It's ultimately measured by our ability to fulfill the expectations of the people of Texas.

My good fortune has been that I work with an experienced, top-notch management team, many of whom I've recruited over the years. I've worked with them all for a very long time and have tremendous confidence in their abilities. They know my strengths and weaknesses better than I do. And our staff is second to none. I enjoy my job very much, and have the utmost respect for the people I work for and with.

Even though there is hardly anything you haven't done over the past 19 years at the Texas Lottery, it's still not the same as having ultimate responsibility.

G. Grief: That's true. I can tell you that, as second in charge, it was much easier to have strong opinions on everything. As executive director, you become more sensitive to the many different ways that things can go wrong. I know that might sound risk-averse, but a reality of our position is that the highest priority we have, from a business point of view, is to protect the brand and image of the lottery. Without that, nothing else will work out.

So the imperative to avoid mistakes is simply a lot more pressing than the challenge to achieve outsized results?

G. Grief: The answer to that, Paul, is that we must communicate with all of our constituents, especially our lottery commissioners, legislators, and the governor's office, to make sure that we are all always on the same page, clear on both the upside potential and downside risks.

In Texas, I'm fortunate in that many members of our legislature are astute business people, entrepreneurs who understand what it takes to market and sell a product. Our legislature is generally supportive of the lottery here in Texas and our mission to generate revenue for good causes. But that said, there will always be members who philosophically disagree with government being involved in the business of gaming. Those members typically stay true to their beliefs in their voting records and in their resistance to changing laws that might increase revenues for the lottery. And I am very respectful of those members who feel that way and of their position on the issues. My approach is to work closely with them

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Ed Honour

President & Chief Technology Officer of MGT Lottery

MGT Lottery is a provider of innovative multi-player games that are implemented over the Internet. And yet, when I referred to lotteries' land-based retail network as a "powerful competitive advantage," Ed Honour described that as a gross understatement. Not only will the land-based retailer stay relevant in spite of the push in Internet gaming, the retailer will play a vital role in the integration of promotional campaigns, new products, new channels, new customer groups, and the exciting lottery products that consumers have been buying for decades. True innovation, the kind that resonates with a lasting impact, is happening because lottery operators are building the bridges, creating the mutually supportive relationships that drive sales and long-term growth. As Ed says, the lottery, the retailer, and the player form a partnership that is vital to short, medium, and long term success on the Internet.

Paul Jason, Public Gaming: *How will the retail channel evolve and coexist with the Internet?*

Ed Honour: Retail will continue to be the face of the lottery to the customer. That will not change in the foreseeable future. And we don't want it to change. The retailer is a valuable partner and always will be.

We think of the goal as being to integrate an Internet strategy with retail to create a mutually reinforcing relationship with the player. The Internet can be used to add value to the lottery's relationship with the player in a wide variety of ways. Internet "gaming" is one way but we really don't want to think of it that way in the early stage that we are presently in. The Internet is fundamentally a communications tool. So before we explore ways of selling and gaming, the first thing would be to just deliver the outcome of the lottery ticket on the Internet. The player purchases the lottery ticket at the retail location and goes home to find out if the ticket is a winner. That's a small but meaningful step towards forging an internet relationship with the player. The "reveal" can then be made to be fun and entertaining. You've done a couple interviews in which the operator talked about whacky fun ideas to jazz up the way the result of the tickets are revealed on the Internet to the player. We're still well within everyone's concept of legally permissible ways to interact with the player via the Internet. The next step is Second Chance Drawings. Still, the Internet is being used as strictly a communications tool. The outcome is predetermined and is simply being revealed. The purchase was made at the retailer, so no purchase is being made on the Internet. But the player has the option to enter the losing ticket number on the Internet for an additional opportunity to win. Not surprisingly, operators have found Second Chance Drawings to be quite successful. Who wouldn't want to enter their ticket number online for an additional chance to win? But still, no purchase or financial transaction is being processed online. The next step is to enable the player to play a game online, like poker. Still, it is a non-money game; no purchase is being transacted online. We're just enhancing the value of the retail purchase by providing a fun extended-play experience. The purchase and financial transaction is still 100% executed at the retailer.

And the next step would be to enable the player to conduct the entire relationship online, including the purchase of the ticket, right? Why exactly does the lottery want to drive traffic into the retailer to buy the tickets? Why not just sell directly to the player over the Internet?

E. Honour: It's wrong to think that is where we are headed or that is where we even want to go. One, the retailer will continue to be the face of the lottery to the customer for a very long time. Even when lottery products are sold directly via the Internet, the overwhelming majority of sales will always be driven at the retailer level. That would hold true even if we tried hard to drive sales through the Internet. The other thing that you may not be getting is that we don't want to cut out the retailer. That is totally not the goal. And the reason we do not want to dis-intermediate the retailer isn't because we do not want to compromise this important commercial partner and make them mad at us. Lotteries want the retailer to continue to be an important channel and relevant point of customer contact because no other gaming operator has that retailer network and would have a very difficult time, impossible really, trying to duplicate the network that lotteries have. Retailers add value to our products and our relationship to the player that is proprietary to lottery operators and we want to reinforce that.

Second Chance Drawings seem to be the perfect way to integrate the Internet into the lottery playing experience.

E. Honour: Yes. Think of it as a digital delivery of the outcome of the game. There is no purchase over the Internet, there is nothing that anyone would consider to be "Internet Gaming." This is simply a communiqué. The next step is to allocate an increasingly large portion of the prize pool to the second chance drawing. You'll want to do this because having an Internet "reveal" component to the game is much more appealing to the young adult. The purchase is made at the retailer regardless of how high the percentage that is set aside for the Second Chance Drawing. The main thing is to have a progressive strategy

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My discussion with Jennifer Welshons revealed some of my assumptions about this industry to be slightly misguided. My notions about how the four "P"s apply to the lottery business, about how player groups are segmented, about how the internet fits into the broader scheme of the business, all needed updating. New products, new ways of reaching the customer, and an accelerated pace of innovation make this a most exciting time to be in the lottery business. But I have been cautioned to appreciate that many of the "old rules" of marketing are based on solid principles that will continue to apply for many years to come.

Jennifer Welshons

Vice President of Global marketing,
Scientific Games International

Paul Jason, Public Gaming: *I would think that we have a sort of bifurcated player profile. There's the traditional "core" player that drives billions of $ in sales and does not like dramatic change. They like the lottery products they have become familiar with and they like to buy them at the C-stores etc. Then there is the next generation which has been raised on incredibly stimulating and fun video-games and is likely to expect a different kind of playing experience. And they are more likely to be found on the Internet than in the C-store. Is that the case? Does it create a dilemma for marketers to fulfill the expectations of those conflicting demands?*

Jennifer Welshons: Here at Scientific Games, we don't view the player or consumer market as bifurcated. It's about delivering the product to the consumer and the consumer to the product. For simplicity here, let's use the common terminology of core players versus others; however, we believe it does a disservice to group all of those core players into a single group since there are so many nuances. But at a basic level, a core player is a core player because of the desire he or she has that is met through the product. Whether you're 45 or 25, raised on board games or Xbox, if you enjoy the fun and thrill that is delivered through the experience of a lottery game, the moment of excitement, you have the potential to be a core lottery player. How that desire is delivered and the level to which a consumer is willing to seek it out is more where the Internet comes into play.

There are definitely some consumers who do not go into C-stores and so we need to make the products more readily available to them where they routinely shop and in the future that may involve the Internet. But there are two reasons why the notion of two separate groups with conflicting play styles and preferences is not correct. First, it's not as if 'core' lottery players don't go on the internet. Most everyone's on the Internet. Internet promotions, or promotions that deliver a benefit in the form of a Second Chance Drawing and Points for Prizes that can be redeemed on the Internet, are appealing to the 'core' player as well as to the proverbial next gen' player. Second, the product attributes that make them fun and exciting for the next generation of player should also appeal to the core player. It's not as if the core player wants dull and boring. They like fun and exciting, too. The difference right now is that they are willing to seek out the current product in traditional venues and the next 'gen player has totally different shopping behaviors.

It is true that we need to avoid getting out of step with the core player, and that we need to continue to make products with attributes that the core player may like but may not appeal to the next generation gamer. And there might be some products or play styles that the players in their 20's may like more than the older players. But the overlap between these two segments is huge. In general, all players like fun and exciting and they're on the Internet. Which means we want to create fun, exciting products and make them available over a wide variety of channels and media. And we want to build innovative promotions that tie everything together. The retail channel is still the lottery face to the customer. When you look at the actual numbers as opposed to trend lines, you see that retail is where our customers are. Other large consumer packaged goods industries are finding this as well; that even though they have the ability to sell their products over the internet, consumers are still "shopping: brick and mortar and then "purchasing" online.

We also recognize that the impulse of the core player to go into a C-store may wane though. Our Internet promotions give that core player another reason to be motivated to continue to make the effort to go into the store and buy the ticket. Even though the core player is used to seeing our products displayed on a regular basis, we need to refresh the products and our image for the core players just as we do to attract new players. It's really a combination of offering consumers "what I want, when I want, where I want it."

You said that there has always been more of a focus on Product than on Place and Promotion. Why?

J. Welshons: Product is the easiest to affect. We invest significant resources to research and innovate in the product area because it's what we know how to do and we are good at it. But the interesting thing that we are finding is that the players, even the next generation players, already like the product- instant and online. The product is not the problem. Of course we need to evolve in the product space just like any business does. But the bigger opportunities to impact sales growth lie in the Place and Promotion spaces.

For example, when we place traditional instant games in front of casual or non players, they actually like them. In that moment of single isolation, where they didn't have to seek out the product in a place they don't

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Jacqueline Deragon
Sr. Director, Sales, EMEA (Europe, Middle East, Africa)

Will Higlin
Sr. Director, Sales, Americas & Asia Pacific

A theme I have been focusing on is Integration. Promotional strategies integrating land-based retail distribution with the Internet; players becoming more open to trying new games; markets absorbing an influx of more gaming options. Game portfolios, channel mix, and promotional strategies are getting larger and more complicated. The potential to increase sales by integrating products, promotions, and market segments is enhanced and that spells opportunity for the lottery operators.

Paul Jason, Public Gaming: *Instants make up a much higher percentage of lottery sales in the United States than in other parts of the world. Why is that? How does the Instants market in Europe differ from the United States?*

Kathy Matson: In most cases, payout percentage in the EMEA region is much lower than it is in the United States. And the number of Instant games that are launched in a year is typically much lower in Europe compared to the average in the United States. Lotteries in the U.S. launch an average of close to 50 games a year. In Europe it's more like 24 games a year and as low as 9 in some markets.

But some countries are doing more. Italy has had tremendous success with their Instant product, re-launching games with a higher payout and refreshed branding. Other important variables, like distribution channels, were also introduced at the right time and place in Italy. They focused on achieving high objectives, made the necessary changes, and exceeded everyone's expectations.

Jacqueline Deragon: Most countries in Europe run the same games for years. Some of the games are literally ten, twenty, even thirty years old. The players enjoy playing familiar games that they know and like, so the operators don't change them. There's cultural difference from the U.S. where the consumer has been trained to expect a constant supply of new and different games. The fact is, though, it really isn't just one or two things that produces a successful In-

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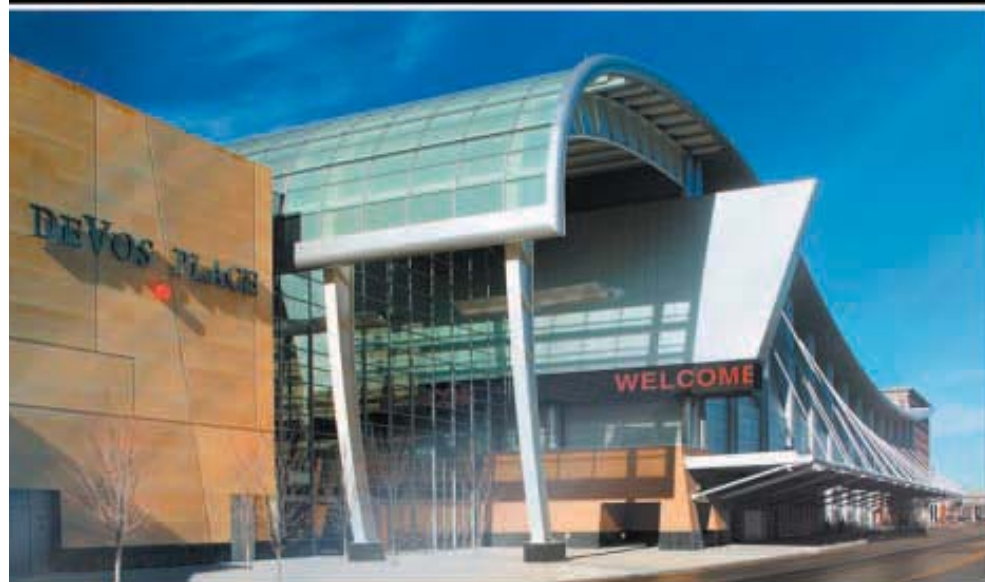
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The 2010 NASPL meeting will be at the DeVos Place Convention Center, a modern, spacious facility located in the heart of Grand Rapids, with accommodations at the adjacent historic Amway Grand Plaza Hotel. Keynote speakers are John Scully, former Senior Vice President of Marketing and CEO for the Pepsi-Cola Company and former CEO of Apple Computer, and Dr. Nancy Tennant, Corporate Vice President for Leadership and Strategic Competencies for the Michigan-based Whirlpool Corp.

Program content includes sessions on the Mega Millions-Powerball cross sell and the possibility of a national game, a panel of lottery retailers, and a discussion on interactive marketing tools. In addition, Batchy, Hickey and Powers Awards, along with best instant and best online games, will be presented.

Guests attending the conference will also have the opportunity to participate in partner programs featuring a luncheon cruise down the Grand River, a trip to a winery, a shopping excursion in the charming community of Holland, and a tour of the beautiful Frederick Meijer Gardens and Sculpture Park.

For travel convenience, this year's meeting awards banquet will be Thursday, Sept. 21, and the conference will end at 2 p.m. on Friday, Sept. 22.

John Scully

Dr. Nancy Tennant
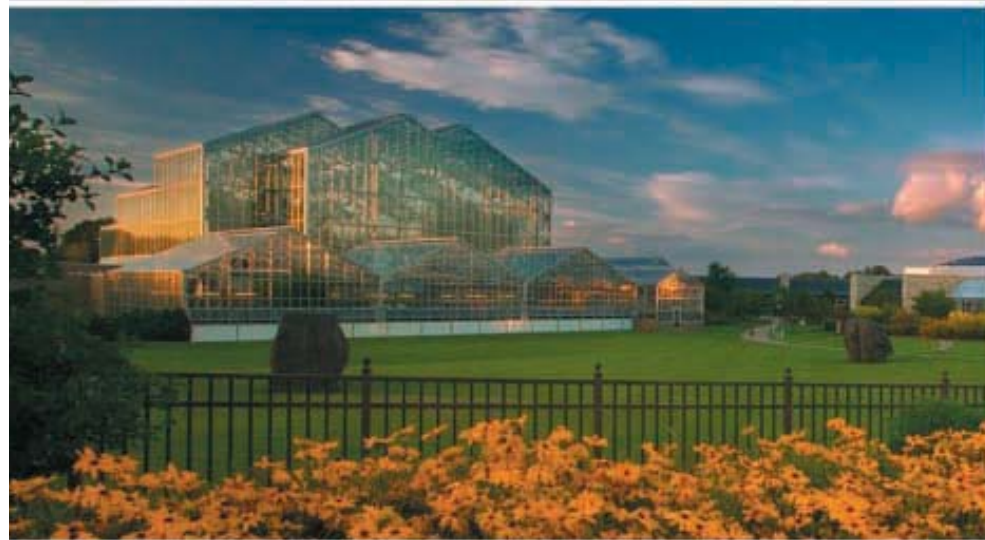
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Information Security in the Lottery Sector

By Dr. Christos K. Dimitriadis, CISM, CISA
Head of Information Security, INTRALOT Group

Introduction

The current economic crisis has elevated the need for effective business risk management, while corporations struggle to remain profitable in an ever changing risk environment. The academic definition of information security is *"the preservation of confidentiality, integrity and availability of information."* Confidentiality is the preservation of secrecy of crucial information by ensuring their sole viewing from authorized persons. Integrity is ensuring that information is not manipulated by anyone deliberately or not. Finally, availability ensures that information is at hand when needed.

This article presents the business aspect of information security in the Lottery sector and describes the case study of GIDANI, the National Lottery of South Africa, as an example of efficiently addressing information security needs.

The Business Aspect of Information Security in Lotteries

Lotteries sell games to the public. These games have to be trusted in order to achieve customer (player) acquisition and retention, directly affecting the Lottery's revenue. **Player trust** is a key success factor that is directly related to:

- **Game integrity:** each game is conducted as described in its official rules. It is fair to the players, the draw results are integral and winners are selected/drawn and paid according to the game rules. Information integrity (avoiding data manipulation), is a key information security component related to player trust.
- **Player asset protection:** Players need to be confident that their money, credit card numbers, bank account numbers are safe. Especially in online gaming where player participation is conducted with electronic money, players have to trust the lottery for securing their financial assets. Confidentiality, integrity and availability are crucial security parameters.
- **Player privacy:** Players and especially winners are providing their personally identifiable information to Lotteries. As in player asset protection, trust in the lottery is important for making the player feel comfortable with sharing such information. Especially is the case of high winning amounts, the player has to feel safe and his personal data have to be protected.

Providing lottery games to the public also has a societal and political nature/aspect. Lotteries are usually controlled directly by the local government and are always subject to a regulatory and legal framework. The provision of secure and fair lottery games to citizens is a matter of social responsibility. Moreover, in most of the cases the government is a shareholder of the Lottery (directly or indirectly though taxing), thus its business success affects the corresponding governmental revenue and increases the amounts that are allocated to good causes.

The above are clarified in relation to information security if the drivers of **shareholders' trust** are studied in more detail:

- Each licensed Lottery has to comply with rules and terms of the license. Shareholders need to be confident that the Lottery complies with the license obligations and the legal and regulatory framework, since this is a main corporate viability factor.
- In competitive environments, where more than one Lottery operates in the same region, or in the case where illegal gambling is present, information security acts as a competitive advantage, which in turn ensures customer acquisition. Shareholders trust the Lottery if it operates as a competitive corporation.
- Shareholders are risk averse entities in relation to the Lottery's brand name. They need to be ensured that the Lottery brand name is resilient to information security threats that may cause reputation loss.

Having identified information security needs in the Lottery Business, a holistic approach is required for addressing them.

Case Study of Effective Information Security Business Modeling

Being an innovator in the Lottery information security field, GIDANI has implemented a business model, in order to be able to understand and address its information security needs deeper and make them an integral part of its business processes. This modeling is based on ISACA Business Model for Information Security[1], illustrated in *Figure 1.*

Information Security at GIDANI is an integral part of the business strategy of the Lottery. **Governing** of all information security activities is the responsibility of an executive committee chaired by the CEO. Strategic plan execution including strategy definition as a result of business analysis (e.g. information security analysis in the life cycle of a new game development), resource management and lottery operations are controlled by the executive committee that monitors security performance, value delivery and risk levels of all integrated information security controls.

From a technical perspective, GIDANI has implemented a Lottery System with built-in security controls from INTRALOT SA, the first international vendor that has been certified according to the most recognized Lottery Security Standard: the World Lottery Association's Security Control Standards[2]. **Architecture** is based on a Lottery-specific threat model serving the security requirements of all critical business

processes as identified through **Governing**. For example, there are technical controls in place for protecting game integrity, controlling access to Lottery business reports, securely managing game configuration, establishing secure communication lines for game transactions (communication between the central system and terminals at the point of sale), isolating the computer room physically and ensuring game continuity by the implementation of a disaster recovery site.

Enabling and support represents how security processes are automated by the use of technology, as well as which processes are used to complement automated security controls, evaluate them and improve them. GIDANI has automated all Lottery related processes by the deployment of the Lottery system. Transaction engine (ticket processing) security configuration, support and operation is implemented by a number of written and continuously improved processes. At the same time, there is a security technology evaluation process in place that is used for calibrating and extending Lottery system security for addressing business needs. For example, the business need for providing Internet gaming goes through a security assessment of the current technology, automation controls are identified (such as the player identity management mechanism) and complemented by manual procedures (e.g. review of player access rights) following official GIDANI rules. Since selling Lottery games through the Internet has been identified as a key business enabler in **Governing**, information security controls become a priority.

Human factors affects both **Architecture** and **Enabling and Support**, since they are used for identifying security issues of the interface of people and technology. For example, if a security mechanism, such as the creation of a new Lottery Operator (who monitors ticket sales), is too cumbersome for the security operator to implement, this issue is reported to the security officer, the technology is assessed and opportunities for improvement or extension are being identified. One improvement may regard the extension of the security training program of GIDANI. Another may relate to the reconfiguration of the security control or its extension.

Culture is an element of the GIDANI security model that has a tremendous positive effect in making information security work in practice. GIDANI is characterized by a clear set of hierarchy levels with the roles of each level having been defined accurately and supported by specific operational procedures. The management model as defined by

the **Governing** dynamic interconnection encourages free communication at all levels of personnel, especially as feedback on the security operations is concerned. That means that GIDANI has "low power distance" in terms of free communication of information security matters from the bottom to the top of the hierarchy. For example, if an employee identifies difficulties in implementing in practice a security process or use a security technology, she freely reports it to the security officer for investigating the improvement of the process. At the same time if an employee identifies a security incident (e.g. confidential gaming information left in a meeting room) he reports it immediately as a security incident. This reporting is not translated as an offensive action between employees, but instead as collectivism, giving the opportunity to management for taking preventive or corrective actions.

Emergence is one of the most important dynamic interconnections of the business model since it is dealing with the uncertainty factor in information security at GIDANI. Due to the human nature, the execution of processes within a corporation by people cannot be characterized as deterministic. Despite the detailed procedures, humans sometimes act in an ad hoc manner and make mistakes. Emergence is about the patterns that arise when people execute processes. While nobody can ensure the absence of security incidents, there are solutions through the study of emergence that limit the possibilities to a minimum level. Strong security culture for example, as described above, permits GIDANI to have on time reporting of security incidents. After reporting, the root cause analysis process takes over, where the actual reasons for the realization of the incident are identified and corrective actions are implemented.

For example, a security operator due to increased stress may assign incorrect access rights to a retailer manager (the role that monitors the status of retailers). This will be reported to the security officer through the processing of alerts and logs (potential access to critical information) and by the role that monitors security records (for every change in user access rights a signed form is required). One could assume that this was an unpredictable event (stressed employee). The truth however may relate to an increased workload in defining access rights, caused by a major change in the Lottery System, which in turn makes the user access management procedure too difficult to implement and no longer effective. Through the study of **emergence**, within the framework of the model, GIDANI is in place to link **architectural** changes with **human factors** (usability of security controls), **enabling and support** (combination of technical and procedural controls) and **governing** (limited number of employees in relation to the workload) and correct the user access management procedure on time.

Even then, humans will continue to insert uncertainty in the security processes and some security incidents will still be unavoidable. Through the operation of the model, however, the whole picture of information security will be clearer, providing the opportunity to security experts to learn more accurately from mistakes and improve information security.

Conclusions

Player and Stakeholder trust are the key ingredients of information security in the Lottery Sector, unveiling its societal, business and legal nature. While technical security controls are important, what distinguishes a typical information security management system from an effective one is the ability to correlate all parameters in the operation of a Lottery and especially the human nature. While absolute information security is theoretically unachievable, lotteries have the ability to reduce uncertainty and continuously improve their approaches toward making information security a business enabler. ◆
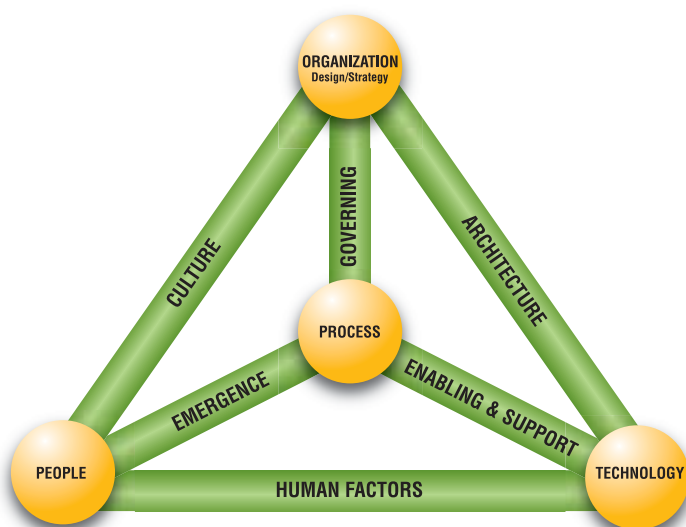

Figure 1: The Business Model for Information Security of ISACA

1. An introduction to the Business Model for information Security, http://www.isaca.org. 2. World Lottery Association, http://www.world-lotteries.org

whenever possible and provide them with as much information as we can just to help them make informed decisions. And then we'll follow the guidance those decisions ultimately produce.

The past and present chairmen of the state Lottery have been very astute business people. They either understand what it takes to run an enterprise like the Texas Lottery, or they quickly learn. They understand that the mission of the Lottery is different from any other state agency. They have supported an entrepreneurial approach, and have allowed for a certain degree of well-calculated business risk taking. For example, my current chairman, Mary Ann Williamson, has an oil and gas business background. Chairman Williamson is completely supportive of our efforts here in Texas to continually try new products and push the marketing envelope a little. That is combined with very clear expectations from her to execute on our business plan and communicate effectively in advance with all the interest groups involved including the legislature, the leadership offices, and the general public. It is critical to communicate clearly, get 'buy-in' from everyone, and then simply execute according to plan. There have been times over the years where we have pursued new and innovative games or processes, and we've encountered resistance from the public, the media, or from members of the legislature. We explain our position, why we recommend a certain course of action, and try to gain support to move forward. There are times that we needed to reexamine a course of action and a critical part of this job is to know when to do just that. A great team along with clear commission guidance, combined with my years of experience, helps me recognize those situations.

Your focus on transparency and proactive communication served you well in that unfortunate incident where a store clerk stole the winning ticket. (In the end, a large portion of the stolen funds was recovered and given to the victim, Mr. Willis.) The media seemed to recognize that the decision-making process of how to deal with a problem like that is complicated. You do not actually have the authority to disburse funds, even if it is to solve an unfortunate problem like this, do you?

G. Grief: Correct. This was a very unfortunate situation that occurred. However, the lottery is a creature of state law created to fund public purposes, specifically public education, and the policy regarding prize payments is set out in statute. Our statutes are clear in that a prize may not be paid more than once.

I noticed too that references to the importance of signing the ticket made their way into some of the articles. Not that we need to have a bad thing happen for people to become aware of how it all works, but informing the media and the public at a time like that can be an educational experience as well.

G. Grief: Before this matter came to our attention, we already had a "sign the back of your ticket" message out to the playing public. This incident certainly highlighted and reinforced the importance of players signing the back of their tickets. We've continued to encourage players to do so. In response to media inquiries, that's the message we've conveyed and we appreciated this message being included in many of the articles written.

"Optimize performance" means more than maximize revenues and profits. Can you describe the relative priority of maximizing profits as compared with other objectives like responsible gaming, retailer security and consumer protection? What other agendas, objectives, and constraints drive your management decisions?

G. Grief: I liken it to driving a high powered race car, except as the driver I've got to have one foot on the accelerator and one foot on the brake at the same time. I've got twists and turns coming, and every once in a while I hit a big speed bump. The race car is the lottery itself. In our case, the Texas Lottery is a revenue producing machine that generates more than a billion dollars a year for good causes. That doesn't happen without "pedal to the metal" acceleration, and that is what we depend on from our vendors – GTECH, Scientific Games, Pollard, and our advertising agencies – to deliver. These vendors have incredible resources and capabilities and we definitely push them to the absolute limit in order to optimize revenue. Our lottery operator, GTECH, is contractually required to perform field marking services, instant ticket warehousing, distribution, and a wide variety of other lottery related tasks here, so we're constantly in communication with them regarding the needs of our retailers. Whether it's personal store visits, recruiting, equipment placement, ticket deliveries, etc., we expect our lottery operator to do an outstanding job in all these areas. And there's never any down time. Our lottery operator must understand that regardless of the day or time, our retailers and our players come first, and immediate response services are required in all aspects. It's no different with Scientific Games and Pollard. We issue about a hundred scratch-off games a year at every price point from $1 to $50. We use all the varieties of paper stocks, game styles, colors, prize structures, payout, etc.

What this means for our ticket vendors is that every week they are printing, packaging, and shipping tickets to our ticket warehouses. Any problems that interrupt this pipeline disrupt our revenue generation apparatus. That hits our bottom line, and in turn, the bottom line of our vendors due to our contract requirements. GTECH, Scientific Games and Pollard do great work for us. They move mountains on a regular basis to satisfy our 100+ instant games a year. My point in saying all that is to describe how our own in-house marketing and operational expertise work hand-in-glove with our commercial partners to push what I think of as the accelerator of our lottery machine.

When I talk about the brakes, I'm referring to the judgment that I have to use every day to ensure that the Texas Lottery is meeting our commitments to the legislature, our retailers and the citizens of Texas. We need to always operate our lottery with integrity and security and be responsible in the marketing of our products. Sometimes we need to hold back on the revenue-generating initiatives in order to stay compliant with these other objectives. For instance, like many states, we have a statute that directs us to avoid advertising or promotions that might unduly influence a person to play. Now, that's a broad statute to interpret. We choose to interpret it in a conservative manner. A former commissioner put it this way: about 1/3 of Texans support the lottery. Another 1/3 don't care one way or the other. And the final 1/3 didn't vote for it, don't like it, don't play it, and wish it would go away. Similar percentages probably hold true for our legislature as well. It's my job to pay attention and be respectful of all these groups, and be willing to apply the brakes even when others want to go full steam ahead.

Do you have an example of applying the brakes?

G. Grief: Our advertising agencies are very creative, always coming out with great ideas for instant tickets. It ultimately falls to me to be the one to recognize when an idea, a theme or play style crosses the line by being too enticing or perhaps offensive to someone. It helps to have a split personality for this job. On the one hand, we are continually pushing our vendors and staff to increase sales and generate more funds for good causes. Then, on the other hand, we advise them to be careful, be cautious, be conservative, be respectful. Don't market the product too aggressively. It's a fine line that we walk. And it's one that the director must be willing to walk alone. You certainly don't want your creative staff or your sales staff to be stymied by those

types of issues. You have to thoughtfully lay out the parameters for them to operate in and then let them go do their job. And do it enthusiastically, with a clear focus on revenue generation.

Let's say there was an advertising campaign or a game that just clicked with the players and outperformed in a way that totally exceeded everyone's expectations. Would there be an aspect in which people who do not support the lottery would say that by definition you unduly influenced people to play, as evidenced by the fact that it way outperformed expectations? Or are you okay as long as you can look at the advertising, the game, and everything else and conclude that while the game is hugely fun, there's nothing that conflicts with any of the limiting parameters? Producing a hot game is not in itself a violation of the directive to not "unduly influence"?

G. Grief: So much would depend on how well we did our job up front in informing our interest groups ahead of time. Any type of new game requires about a three month time period to get through our rule making process. During that time we typically have a public hearing where members of the public are able to come forward and offer testimony for or against the game, etc. We also use this time period to reach out to the legislature and state leadership. If the game is ultimately approved by the Commission, it is important that everything about the game was properly disclosed during this rule making process. If we were clear about how the game is operated, how it's played and marketed and advertised, then it is unlikely that anyone will have a problem if the game performs really well. The answer to your question is that the simple fact of a game being super successful is not in itself cause for critics to contend that we are not consistent with the statutes. That has not occurred. What has happened is that critics will claim that they weren't told the whole story. So we try very hard to give more information than necessary, as much as we possibly can, just to be sure we err on the side of caution and defuse that potential situation.

It occurs to me that one of the most important responsibilities of your staff would be to deliver bad news as quickly as they become aware of it. The sooner you get a heads-up, the sooner you can communicate with the commissioners and other constituents in a way that will minimize negative impact.

G. Grief: You are right on point, Paul. A critical aspect of staff's and vendors' performance is to bring these types of issues to the forefront so we can discuss them in advance. I have these types of discussions with my col-

leagues across the country. All lotteries are under a microscope with intense media scrutiny, Texas even more so than many states. Lotteries are all held to the highest standards. Sometimes the criticism may seem unfair, but we need to appreciate that the lottery belongs to all the people, including its critics. So we welcome the opportunity to communicate with all of our constituents, including our critics. I find that our respect for the opinions of our critics, along with open and proactive communication with them, engenders respect for our integrity and that goes a long way towards overcoming any problems that may come up.

I'm sure it's too soon for projections of the impact of the addition of Powerball, but could you talk about how the introduction of Powerball has gone? Specifically, has it changed the way you manage the overall portfolio of the products, including your in-state lotto? And how you have minimized cannibalization.

G. Grief: I can't imagine any lottery director being happier about the introduction of Powerball than I am here in Texas. It's benefitted our players, retailers and public education funding in Texas. The cross-sell initiative is a concept I've been interested in for many years. Even though we have only had Mega Millions in Texas, the Powerball brand is very strong. Powerball has almost become the generic name for large jackpot lotto games. We have players in Texas who refer to both Mega Millions and Lotto Texas as Powerball. The excitement of Powerball has just been overwhelming. In my opinion, this cross-selling initiative is the "next big thing" that our industry has been waiting for. We're enjoying additional revenue, but much bigger in my mind is the synergy that's being created among the two multi-state game groups. That synergy will free us up to accomplish even more in the future. The incentive for state lotteries to overcome our differences and leverage our commonalities is overwhelming. With so many issues on the horizon; internet gaming, perhaps a "world game," the proliferation of "smart phones," coupled with the continued need to fund good causes around the country, I just believe it's critical that the US Lottery industry be unified and work together. The best thing about this cross-sell initiative is that it lays the foundation for individual lotteries to work together, building a future that will bring more success and funding to good causes.

It is exciting. We all know that each individual lottery has to comply with its own unique set of rules and statutes. But that still leaves lots of opportunity to work together. As states explore the

different ways to increase revenues from lotteries, they will likely consider expanding the variety of games and distribution channels. In some of the emerging spaces, like internet-based initiatives, there will be huge advantages to collaboration. In fact, if state lotteries do not collaborate, they will be vulnerable to competitors who are ready to pounce.

G. Grief: Of course you're right. Unfortunately, there are some barriers that make collaboration between state lotteries very challenging. However, they're not impossible to overcome, as we can see with the cross-sell initiative. States have varying degrees of latitude in their authority to make the kinds of decisions required for effective collaboration. You've got to realize that agreement in principle is the easy part. We can all agree, for instance, that it would be great to build a national branding component to our next premium multi-state jackpot game. I don't think anyone would disagree with that, but the devil is in the details. Every state has rules addressing even the smallest of details. But everyone's rules must be respected, no matter how minor they may seem. Everything from procurement processes, advertising and messaging, prize payouts, and the list goes on and on. Integral with any kind of multi-state agenda must be an abiding respect for the challenges that each lottery director or CEO must deal with on a daily basis to keep these multi-billion dollar enterprises moving forward. You know the directors, Paul. You know how hard each and every one of them works to deliver the very best results for their states and the good causes. So while we do want to challenge ourselves to stretch and perhaps step out of our comfort zones, we don't want to challenge the rights of our colleagues to make their own decisions.

That said, I certainly do agree with your premise, that the potential rewards in overcoming such obstacles far outweigh any of the issues that have to be worked out in order to get us where we want to be. And that means working together harmoniously on a national scale.

California, Illinois, and others are exploring creative new ways to optimize performance. Are there ways for a state procurement, an RFP/RFQ process, to build incentives into a contract that drive a higher level of innovation and creativity on the part of your commercial partners?

G. Grief: I believe there are. Speaking for the state of Texas, the way we compensate our lottery operator, for example, is on a percentage of sales. And that's very straightforward. But at the same time, we have numerous requirements for our vendors to provide mar-

keting services and retailer sales support. I can tell you from personal experience that our lottery operator and instant ticket printers are very motivated to come up with new ideas. And that goes back to a comment I made earlier. I would much rather be turning away nine to ten ideas a week and get one good one every month than have them not provide any input and just take the risk-averse approach. Again, the specific approaches vary by state.

So your lottery operator has the potential to make more money if they help you to increase sales?

G. Grief: Correct. Our philosophy is that we're not private industry. We're the State of Texas. Vendors certainly know how to incentivize their staff to generate revenue. We want to see your ideas. We want to hear your thinking. We want to understand it. We reserve the right to decision making in all areas, but we very much want our vendors to be incentivized for the success that they help create for the Texas Lottery.

Any thoughts on the Illinois private management initiative?

G. Grief: I try to keep abreast of what's taking place in other jurisdictions. And not just on their revenue, products, and advertising, but also the types of oversight structures that are being implemented or discussed. I have read the Illinois RFP carefully. I also read the DOJ opinion and my reading of it is that it is unlawful for a state lottery to be privately operated. My reading and understanding of the proposed Illinois private management plan is that there won't be any ownership or transfer of authority from the state of Illinois. The state retains the rights to make whatever management decisions they choose to make. They avail themselves of the drive and creativity of the commercial management partner, but still have their foot on the brakes ready to assert their authority in the event that the interests of the public are not being served well. I would tell you that just strikes me as being somewhat similar to the outsourcing that we're already doing here in Texas.

Illinois, as I understand, is putting their on-line operation, their instant ticket printing, and their advertising all into one RFP and it is expected to be awarded to one management firm. That's different from what we do because we have separate contracts for the different business categories of on-line, instants, and advertising. But other than the fact that we choose to let multiple contracts to cover the different business categories instead of bundling them into one contract, I believe that what we do is quite similar. In both situations, we're outsourcing as much as we reasonably can. We think this is the best way to manage a profit-generating enterprise like the lottery. We outsource and then demand the very best in technology, marketing, printing, advertising and every other aspect of performance from our commercial partners. However, – and this is important – it remains our job as the state lottery to either accept, modify, or reject those ideas. In other words, our job is to oversee the work of our vendors. It really is a win-win for the state. Further, it mitigates our revenue stream risk. It gives us more flexibility to respond to our market. It allows us to completely bypass the need for capital investments in staffing, facilities, equipment, communication networks, all manner of business functions and infrastructure. Those assets have value but the Texas Lottery would rather be asset-lean and let our commercial partners handle the job of capital and asset management. Our vendors have more flexibility to pursue a financially incentivized pay structure than does a state government office. We get real-time access to the industry best practices because our the vendors have a world-wide presence and brain trust informed by that experience. That knowledge and expertise would cost us a fortune to try to replicate in-house, if it were even possible. All states outsource many of the operational duties. We just do it more than most states, including, for instance, the field sales force.

My point is that our experience with outsourcing more operational functions than most leads me to believe that extensive outsourcing is a very effective model. It gives us the benefit of all that a vendor has to offer while preserving control and oversight for the state to exercise as it sees fit.

Is private enterprise more entrepreneurial, innovative, and efficient than state agencies?

G. Grief: Private companies are, by definition, market and profit-driven. They live by the rules of free market capitalism. Their culture and pay structures reflect that focus. State government lives by a different set of rules, with different objectives and a culture that reflects the focus on public service. Might an overtly profit-focused culture that has financial incentives to drive innovation produce a different result than a state government agency? Of course. A lottery lives in both worlds, though. That's why we outsource much of the operational aspects of the business to private enterprise and retain oversight and strategic control in the public domain. But let's not forget two things. First, as Jodie Winnett of Illinois points out, the employees of state lotteries are a most dedicated and talented team whose role and contributions are no less effective or important as those performed by employees of corporations. Second, I think the question of who is more efficient or innovative between state agencies and private corporations is misguided. It is the synergy between state government and private enterprise that produces a successful and optimized state lottery. We both have our roles to play and they are equally important. All state lotteries are implementing what they feel is the best structure for them, and they are striking their own preferred balance between outsourcing and government control.

My recent interviews with Joan Borucki, Jodie Winnett, and Bill Thorburn, and now with you, all contribute to a clearer understanding of how owner – management structures can take many different forms. The controversy over "privatization" has really been a false dichotomy, framing the issue as one of government versus private enterprise.

G. Grief: I agree. My experience with our lottery vendors is that they genuinely embrace a broader set of objectives than simply profit and maximizing shareholder value. They strive to perform in ways that we can all be proud of and feel good about. They recognize that the gaming industry is under intense media and public scrutiny and so there is a critical need to make sure we perform to the very highest standards of integrity. Our lottery vendors have embraced that aspect of this business and helped us to maintain that high standard of performance, transparency, and integrity. Of course, we all recognize that it ultimately is just smart business, and best for their shareholders, to perform with integrity and an idealistic sense of mission and purpose. That is what makes government lotteries such a uniquely special enterprise, operating in a rough and tumble commercial environment but for the purpose of serving the public and good causes.

You must have a wonderful network of friends after nineteen years in the industry.

G. Grief: It's true. In my role as deputy director and now executive director, I have had the privilege to work with many of the other lottery directors and their top staff from all around the country. It is an honor to be counted among this group. It's not just the caliber of talent, the dedication and energy they all pour into their missions. It's about taking ownership and responsibility to lead in these times of change, challenge and great opportunity. It is very uplifting and motivational to be a part of the community of lottery leadership and I very much look forward to ongoing collaborations with my colleagues in the future. ◆

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Lottery Expo is being held to coincide with G2E, Global Gaming Expo. G2E is by for the biggest gaming exhibition and conference in North America. Held annually at the Las Vegas Convention Center, there are over 350 exhibitors and a host of conference seminars. Come to Las Vegas to take advantage of this fantastic "twofer," attending Lottery Expo to focus on how lottery operators can optimize their position in the broader context of the gaming industry; and attending G2E to learn more about what that broader industry is all about. For one thing, it's about much, much more than electronic gaming machines.

Lottery Expo is being held at the **Wynn Las Vegas** on Nov. 16 & 17. It's true that the Wynn Las Vegas Hotel is the only destination casino resort in the world to receive the Mobil 5 Star, AAA 5 Diamond and Michelin 5 Red Pavilions awards. But what's even better is the room rate: Only $169 for Lottery Expo attendees. The room block is limited, so please reserve your room today. And register for Lottery Expo at www.PublicGaming.org.

that, but the fundamental principles are being affirmed as they apply to the regulation of gaming and gambling. Keep in mind, though, that does not mean that the national governments do not need to comply with basic principles of fairness and equity when opening up the markets to multiple operators, like France and Italy and others are doing. It just means that the government does have the right to preserve its government monopoly based on the conviction that it is the best way to preserve Public Order and minimize social costs.

The wording of this decision is interesting and telling. It seems like the ECJ is stating that the basis for the decision is the preservation of Public Order; that the decisions on how to best control gambling to minimize social costs and illegality should be made at the national level. It seems, though, that the ECJ is also saying that they are not going to hear arguments about whether a particular regulatory framework, or term or condition, is justifiable on the basis of preserving Public Order; that all that will be left to the national government to decide. That would seem to confer virtually all regulatory power to the national government.

T. Veenstra: I do not think the ECJ intended their decisions to be interpreted in that way. National governments are not entitled to use Public Order to justify whatever regulatory framework they choose. The European Union serves an extremely important function and the Commission and the ECJ are charged with upholding the laws that make that function work. All member states of the European Union have submitted to Article 49 of the European Treaty that affirms that all member states agree to allow free and open cross-border commerce. There are certain areas that are exempted from this free market approach within this internal market, gambling and betting among them. Gambling and betting are specifically excluded from the principle of mutual recognition (this principle states that being legally licensed to operate in one EU member states entitles the operator to do business in all EU member states). This exemption, though, is accepted only on the basis that it is necessary for the preservation of Public Order. That is a critical condition to this exemption. The restrictive policies must serve only the purpose of Public Order and not be imposed as a means of generating more money for the state. In other words, the justification for the preservation of a state lottery monopoly, for instance, can be based on Public Order, but cannot be based on the desire of the state to raise more money. The desire

of the state to maintain high profit margins on its gaming monopoly is not an acceptable reason for being exempted from Article 49 of the European Treaty. Free market competition and free and open trade across national borders are foundational to the purpose of the European Union. It's just that those principles must be balanced against the principle of subsidiarity – the notion that the ECJ and the Commission will respect the rights of individual nations to determine public policies and the laws to enforce them as long as they do not impinge on the basic workings of the EU. When it comes to gambling, the ECJ decisions reflect the commonsensical reality that preservation of Public Order, that minimizing social costs, problem gambling, and criminality, are important objectives and that the ways to accomplish those objectives are best determined at the national level. The ECJ has basically applied the principle of subsidiarity by ruling that the preservation of Public Order as it applies to the gambling industry is best left to the national governments.

Internet gaming, especially as it applies to sports betting, would seem to be an issue that requires an international approach. How do the principles of subsidiarity and Article 49 apply in this case?

T. Veenstra: It might seem like there is a contradiction, but there really is not. The Liga Portuguesa case confirmed very clearly that internet is also an area where the individual member state has full competence. Internet should not be regarded as a complete different activity that therefore requires a different approach. It must simply be seen as an additional distribution channel. It is however more effective with regard to enforcement of Internet gaming regulations and laws to develop a more international approach. But that does not need to conflict with the principle of subsidiarity. Each member state can have its own regulatory framework. The states can still collaborate to create international mechanisms for enforcing their laws even though those laws differ from state to state. Collaboration like that does not conflict with the principle of subsidiarity.

You have a similar issue in the United States. States control gaming policy and regulations. But they need assistance from federal governmental offices with international authority to enforce their state laws. The exact way this is to be accomplished has not been completely decided in the United States. But something like the UIGEA could serve as a

perfectly good vehicle to support the rights of each state to have their laws enforced on an international level. We need to build effective enforcement mechanisms to support our gambling laws in Europe. The Internet has created the need for those mechanisms to be international in scope, which means that we do need to have an international collaboration. But then we come again to the discussion about enforcement. Enforcement is very difficult if you try to establish that on a national level. Enforcement has to be dealt with at the European, or even the global, level. That discussion is now taking place in this working group of the European Council. It's necessary if you want to enforce laws that apply to activities, like Internet sports betting, that cross national boundaries.

Without the recent ECJ decisions that clearly support the rights of member states to create and enforce regulatory policy, it would have been difficult to create an international regulatory framework, wouldn't it? Now that you have guidance from the ECJ that you do have some authority, you can proceed to solve these other problems.

T. Veenstra: Yes, indeed. There's room for us to maneuver now and address these problems. Each ECJ decision clarifies additional points of concern and that frees us up to formulate strategic approaches to solving these problems. It gives all the member nations confidence that the time and money invested in solving these problems will eventually produce something meaningful and positive.

The remote operators, as represented by the European Gaming and Betting Association (EGBA) and other advocates for liberalization of the markets, claim that these recent ECJ decisions are not consistent with previous ECJ decisions. They claim that previous ECJ decisions were more supportive of their goal to open up the markets and the principle of mutual recognition.

T. Veenstra: They are simply wrong. The fundamental principles of Article 49 and subsidiarity and the fact that they can go hand-in-hand together has been confirmed again and again by the ECJ. It has also been confirmed and again very clear that the principle of mutual recognition is not applicable. The source of EGBA's (deliberately created) confusion is that each decision addresses only the specific question that has been raised at that particular time and for a particular circumstance and set of conditions. Their policy is to isolate the Court's decisions to individual member state issues and therefore deny the

relevance of the jurisprudence for the rest of the EU. It is always hard to live with legal facts if you don't like them. Reality however is that we have now up to 15(!) decisions since 1994 by the ECJ. Not one decision has derogated from the fundamentals that I just mentioned. The court has followed a consistent line. That's why our opponents should now stop arguing the obvious and try to live with the legal facts.

It seems that the ECJ has adopted some sort of "clean desk" policy in order to finalize the debate. After the Ladbrokes and Betfair cases, the ECJ delivered the judgment in joint cases Sjöberg and Gerdin on 8th of July. Furthermore we are very recently informed that the Court will give their judgments in the Winner Wetten, Markus Stoss and Carmen Media cases all together on the 8th of September. The year 2010 will be remembered as a very decisive year for our industry.

I find it ironic that, in the gambling industry, Europe embraces the tenets of free-market capitalism more enthusiastically than the U.S. does. There is no ambivalence over who has the right to regulate the gambling markets in the U.S. State governments have that responsibility and authority. They consider the welfare of their citizens, the state's fiscal agendas, and other things. But the rights of private operators to compete in a free and open market-place is not the imposing factor like it seems to be in Europe.

T. Veenstra: Yes. Europe does have different ways of dealing with monopolies and licenses. We have the traditional public operator, usually part of a government department of finance. And then we have private operators which can be non-profit foundations, or for-profit operators like Camelot who submit to strict control by the public authorities. And then there are the Ladbrokes, Bwins, Betfairs who challenge the rights of governments to restrict the way they operate. So there's a complete mix. You can only try to understand this mixture if you know for example the historical background in these states and the sociocultural differences between the different states. That is why it is not always practical or effective to try to impose a uniform policy at the EU level. The same would be true in the U.S. Your federal government does not want to get into the business of dictating regulatory terms and conditions to the states. There is no reason to do that and it would not work if they tried, right?

But it is interesting what you point out. The concept that markets in general should be allowed to operate freely, that governments should not interfere with the free and open competitive marketplace, is newer to Europe than it is to the U.S. And so perhaps as a general rule Europe needs to be less flexible in how we implement the rules that force everyone to compete without government protection and over-regulation. That is why it is such an important victory for the ECJ to recognize what you have already recognized in the U.S.; that there are many reasons why gambling should be regulated at the nation-state level, not the EU or the federal level.

Would you say that the ECJ will refer any need for further clarification back to the national court level?

T. Veenstra: I would say that. It has been confirmed again that the individual member state has its own responsibility. It is up to the national courts to verify if the national government with its gambling policy acts in line with the conditions that lead to an exemption of article 49 of the EU Treaty (Freedom of services).

What is meant by the distinction between "active" and "passive" sales on the Internet?

T. Veenstra: Operators obtain a license to operate in each country separately. Since the principle of mutual recognition does not apply to gambling, having a license to operate in Gibraltar, for instance, does not entitle you to operate in Portugal. You have to get a license in Portugal and in every nation you want to operate. Remote operators, though, are trying to make a distinction between actively promoting and marketing the service and just "passively" allowing a person from another jurisdiction to place bets. The remote private operators are trying to convince the courts that they should not be prevented from accepting bets from citizens in jurisdictions where they are not properly licensed as long as they do not "actively" promote their website there. But obviously, if you accept bets from residents of a jurisdiction where you are not licensed to operate, then you are in violation of that nation's laws. This distinction between active and passive selling is since this judgment an unnecessary and irrelevant one. Only thing that matters is the accessibility of the website

I guess I do not understand how anyone could make a case that "passive" acceptance of bets from jurisdictions where you're not licensed to operate legally should be allowed. We all know that

the technology is readily available to block Internet access by geographical location, so there is no reason why operators should be allowed to violate the laws of any nation, regardless of whether they actively market the product there or not.

T. Veenstra: That's it. You make it perfectly clear, Paul. It is not a technological problem. There is a lot of Geo-location software that effectively detects where the gambler resides. It is the responsibility of the remote gambling operators to install this software. On the other hand there are more acceptable possibilities for the governments to enforce their restrictive gambling policy. In the Ladbrokes judgment it has been declared that website blocking is an indispensable element of the protection with respect to games of chance and is therefore not disproportionate.

I noticed that the EGBA is protesting the Czech Republic's decision to prohibit advertising and marketing of foreign unlicensed Internet gaming operators. It seems like the EGBA is still trying to push an agenda and strategy that the ECJ has made clear will not work.

T. Veenstra: It is sometimes hard to follow their reasoning. In the last judgment of the ECJ about the Sjöberg and Gerdin cases it is said that prohibition on advertising of private gambling operators established in other member states is fully compliant with EU law. Discussion closed!

It seems to me that these decisions empowering the national governments will ultimately be best not only for the preservation of Public Order. It will also be very good for the industry, even remote private operators. I would propose that a regulated environment will be good for commercial operators and suppliers because they will now be able to project and predict how the markets will evolve.

T. Veenstra: That would be true as long as these operators are all willing to abide the law, the rules and regulations, and pay their taxes. His will be tough on them because they don't like restrictions and paying taxes. To give you an example, the issue was even discussed in European Parliament because the remote gambling operators build their businesses on sports betting but are not contributing to the financial support of sports infrastructure. They made money off of sports, their businesses could not even exist without organized sports, and they paid nothing in return. Lotteries in Europe typically pay a large percentage of their revenues to support sports, add-

for integrating the Internet into a dynamic relationship between the retailer and the lottery. Second Chance play provides a platform that is almost infinitely flexible.

And it ties the retailer into the distribution network. How challenging will it be for lotteries to create a gaming experience that competes with the kinds of video-games the next generation of gamers is being raised on?

E. Honour: We do not want to even try to compete head-on with video gaming. Lottery games will not ever be as technologically sophisticated as video-games. But that's okay because lotteries have other assets. First, there is the built-in relationship with millions of repeat customers and the brand recognition that goes along with that. Second, you have the wagering component, the possibility that the small amount of money invested in a lottery ticket could change your life. Along with the massive retail network, these assets provide a decisive competitive advantage. The integration of these assets is what will consolidate the dominant position that lotteries will hold in this industry. Lotteries do not need to think that they need to compete with video games, or attempt to meet that high standard of game development and technology. That's not what lottery is about and it's not what we need to do. There's huge potential to engage the lottery player in extended-play options with the Second Chance Drawing platform.

Explain "extended-play."

E. Honour: The basic Second Chance Drawing enables the player to enter the losing ticket number for a "second chance" to win. The outcome is then revealed, right? How is it revealed and what exactly is the reward? Even though the outcome is predetermined, the way it is revealed and the nature of the reward are not. In other words, the possibilities are endless. MGT Lottery, for instance, provides the lottery operator with a variety of non-money extended-play games. One of those, for instance, is poker. Along with a money prize that can be awarded just like the conventional "Second Chance Draw" program does, you can provide the non-winning ticket holder with chips to play in a poker game. Again, there is no purchase being made on the Internet. The ticket was purchased at the retailer. But the Second Chance Draw revealed an outcome that includes a place at a poker game. Now the opportunities to turn that into a whole world of new experiences are endless. You can have chat and other social gaming features. You can integrate with other social gaming sites like Facebook. That provides an especially powerful

inroad to viral marketing campaigns. The player wins or places in a poker match and that gets posted on the Facebook pages of the player along with all of her "friends." The post can include a link back to the lottery website that pitches all of these amazing new lottery applications. The potential to use the Internet as a tool to deliver massively enhanced entertainment value is limited only by your imagination. The purchase of the ticket at the retail store is the catalyst that drives everything. It's just that now the player receives so much more value for her purchase. This will resonate especially well with the next generation of young adult players.

Why couldn't a portion of the prize pool be allocated towards prizes for the poker game, so that the winner of the poker game wins a prize? Even then, no sale is being made over the Internet.

E. Honour: Of course. That is very much a part of the scalable program that MGT Lottery offers. That's the next step and does dramatically enhance the appeal to the poker player. But the most important thing for all lottery operators to appreciate is that it is scalable and that there is no imperative to progress at a rate that is faster than you, and your state legislators, feel good about. Implementing non-money games that extends the play and creates a social networking context to the play is legally and should be politically acceptable everywhere. It adds huge value for the player, engages that elusive twenty-something demographic, and positions the operator to move forward as the industry and regulatory climate evolves.

The concept of using the Internet to deliver extended-play games to the lottery player causes me to wonder how many other creative ideas could leverage the extended-play experience into higher sales. Like perhaps even a learning or knowledge competition. "Second Chance" could be a tool to promote whatever the lottery wanted to promote, including education, which is the recipient of much of the lottery funding.

E. Honour: Absolutely. It doesn't have to focus on new and innovative, though. Second Chance Drawings are an effective way to promote any lottery initiative. This costs practically no money to do and always has the potential for a blockbuster impact in the form of a viral marketing response. Much more effective, I would think, than a big billboard. Being a new concept, it may take longer to ramp up, but once we pass the proverbial tipping point, games that deliver this much value will take off.

One of your products is your Live Texas Hold'Em Poker Second Chance Game. You're

launching that with the Minnesota Lottery right about now, aren't you? How does it work?

E. Honour: When you buy the Minnesota State Lottery Scratch Hold'em ticket, there's a (validation) code on it. Non-winning tickets are eligible for an entry into the Minnesota Lottery's Second Chance Sit-and-Go Poker Tournament. You have the opportunity to win up to five Second Chance entries by playing poker against other Minnesota residents or virtual players. The Lottery is providing a game that people want to play. Poker is huge, and it's actually really huge in Minnesota. The Lottery is simply reaching out to the segment of gamers which enjoys poker; making that connection with the Minnesota State Lottery Hold'em ticket. Integrating a multi-player extended-play game with the purchase of a lottery ticket repositions the way that people can think of playing the lottery. And that's being done while avoiding the controversy of Internet gaming or Internet poker since nothing is being wagered online. The lottery ticket was purchased at the store.

A really cool feature that has very interesting marketing potential is the way it is integrated with Facebook. When you win, there's a button at the end of the game that you push that allows you to share your results with your friends on Facebook. It posts the result to your Facebook wall. This post also provides a link that enables the viewer to click and be connected to a page that explains the game and how to participate.

So there is no financial transaction, no winning and losing of money in the interactive poker game itself.

E. Honour: Correct. You can win more entries into the Second Chance Drawing, but not money or prizes. But even if all that is done is to provide your players with a fun extended-game experience, engaging them in a social networking environment based on fellow lottery players who also enjoy poker, well, that is a perfectly great value added component itself. The important thing is for lotteries to begin to implement a wider variety of creative Second Chance extended-play applications. It's what the players want; it's easy to implement and not prohibitively expensive; and it is also easy to stay well within the boundaries of what is politically acceptable.

This is all about making a lottery ticket more popular; creating a connection with people who normally wouldn't necessarily go into the store to buy a ticket. As a poker player, you might be filling up at the convenience store and decide to go in and buy a few tickets so you can participate with your lottery poker playing friends on the Internet at home that night. Integrating the Internet into

the relationship between the Lottery, the retailer, and the player is such a vital objective and this is a great way to do that. You'll get some people to try the lottery who have not played before. And you'll reach an entirely new set of customers from the social networking dimension that Facebook provides. It's really about using technology and new games to expand your market.

Will the business of product development be different in this world of increased expectations for new and different and constantly changing?

E. Honour: The days of long life span for games is over. You're just not going to have a game like Monopoly that lasts for decades. So as an operator, you can't expect a big payback based on a long product life-cycle. Instead, you need to build a framework that supports a constantly changing portfolio of games and game updates. You need a smart, flexible framework that gives you control over the content. That framework needs to include the actual delivery of the game, the social media aspects enabling the players to share the outcome with their friends and neighbors. And it needs to have the tools to integrate the retailer into the objective of driving more lottery ticket sales. The quality of your infrastructure and framework is what will increase sales over the long term.

Since games will be changing quickly, maintaining profitability and positive ROI would depend on reducing the cost and time it takes to produce game content.

E. Honour: Game developers already have that figured out, and are producing content at a rate that is increasing and a cost that is coming down. It's all about having the application programming interface, or framework, that enables the lottery to implement the games and meet all the lottery specific needs for player tracking, responsible gaming, linking to both internal and external applications, the security features, and basically everything except the game itself.

It seems to me that our lives are much less compartmentalized than they once were. We check our blackberry or iPhone for business messages when out on social events and otherwise on "personal" time. We text our kids and take care of personal affairs when working. Some people might say this causes us to be on the clock 24/7, working all the time. Another way to look at it, though, is that we can build enjoyment and perhaps fun into all aspects of living, into everything we do. I am thinking that this has tremendous implications for gaming. People want their "service-providers" in all walks of life to

build in an entertainment component, to deliver an "experience." That experience can be enhanced with games. Games are entertaining and perhaps could be that extra value component that all businesses could build into their offer.

E. Honour: Look at Facebook. It is a service business with a fundamentally utilitarian purpose. It is a super-efficient way to communicate with your entire circle of friends and relatives, right? Keep them updated on your life, check in on theirs, announce a party, ask a question or for help making a decision, etc. In that sense, it serves a very practical purpose, and became very popular for that reason. But games like Farmville have increased its popularity exponentially. Facebook was not designed or originally intended to be a platform for gaming. But when you have millions of people communicating and forming new affiliations based on overlapping interests, then whole new opportunities for fun and entertainment emerge. People just naturally gravitate towards games. Now, you may not get a big charge out of Farmville, or other Facebook games however, I would suggest that the incredible success of these games is a powerful testament to the appetite that people everywhere have for more fun and entertainment. Games can even be the catalyst for that most fundamental of human needs, the need to socialize with other people. The tremendous success of Farmville reflects an unmet demand and that spells opportunity for lottery operators. We need to think about how we can collaborate with other brands the way that Facebook collaborates with Farmville. Facebook actually also collaborates with commodity products in the C-stores in ways that Lottery should do much more of. Lottery has a tremendous capacity to add fun and entertainment to otherwise unexciting products and services found in stores. And of course, the consumers of these other products represent new customers for the lottery.

Young people look for and expect enjoyment to be built into every element of life. As you point out, the separation between work and personal time is becoming fuzzier. One pundit coined the term "experience economy," meaning that there is a macro-shift from a "service" economy to one in which service is just the baseline of what is expected. Superior service itself has become commoditized and is no longer the competitive differentiator any more than other basic product attributes, like having a product that works properly, or food that tastes good, or transpiration that gets you from here to there. People now want to be truly entertained. Since that is what we do for a living, this is very good news for those of us in the lot-

tery and gaming business!

We need to revamp the way we frame and analyze the business. We tend to think of media, entertainment, games, education, retailing, as being separate and compartmentalized. The future breakout successes will happen to those who find creative ways to merge these different categories; to design experiences that complement the new ways that our customers think and live their lives. What is it about the iPhone that makes it so successful? Certainly not the actual telephony part of it! It's the thousands of applications that enable people to merge and blend all aspects of their lives into this amazing little device. The iPad will extend that impact, merging personal entertainment with conventional computing. Facebook merges social communications with games. Cable news programs merge education and news with entertainment by trying to capture dynamic discourse between different points of view. Southwest Airlines tries hard to make air travel a little less boring by entertaining the passengers. Restaurants are staging wine tasting events. This isn't exactly a new concept. It was decades ago that Sesame Street and mini-series like 'Roots' merged T.V. and entertainment with education.

So how can the lottery operator do that?

E. Honour: First, let's point out that our goal is to sell lottery tickets. It's not about becoming social philosophers.

It's about fully leveraging assets. We've talked about the tremendous network of retailers that lotteries have to distribute their products. So right off, we know we want to integrate the retailer into our promotions. We ultimately want to merge retailing with entertainment, media, and lottery games. That means integrating C-Stores, Internet, extended-play games, and lottery.

Lotteries are blessed with a product that has more marketing appeal and promotional potential than most of its potential collaborators. In the future especially, there will be so much competition for the Internet gaming player that its retailer channel will become a powerful competitive advantage for lottery operators. That's convenient, since retailers would prefer to partner with lotteries than to lose business to the Internet. Likewise the vendors of the products themselves that are sold in the stores all want to sell more and a partnership with lottery should help them accomplish that. Retailers and vendors of commodity products need lotteries to provide entertainment value. In fact, they need lotteries more than vice-versa and that's why they'll help us sell lottery tickets. ◆

normally shop and experience a less than desirable purchase process, it appeals to them. The obstacle to selling the product to these possible consumers isn't necessarily that they don't like the product. It's that they are not really exposed to adequate opportunities to buy nor be exposed to the promotional hooks that would engage their interest. What's happened over the years is that we've always looked primarily at product and price to realize lottery sales growth. On the Instants side, most of the revenue growth has come from increasing price points. Obviously, there is a great opportunity to do a similar thing in the online game side, and it looks like that may happen with the expansion in the number and variety of multi-state super-jackpot games. The exciting thing is that the other two "P"s have even more potential to contribute to sales growth. That's Promotion and Place. Initiatives such as Second Chance Drawings and Points for Prizes programs are great examples of innovative promotion and place opportunities that the industry should build on. The Internet and Mobile provide great potential to make the product more readily available to a wider cross-section of consumer groups. And while the industry has been in the traditional brick and mortar retailers such as C-stores and Grocery forever, there is still more that can be done to optimize sales there.

We talk about the importance of the Internet, but the most important place at this very moment is still the retail store. We can put the best product ever out there, but nobody will buy it if it is displayed upside-down in the dispenser in the store, if the promotional signage isn't up, or the retail store staff doesn't understand the games.

How do you get thousands of retailers to do everything right?

J. Welshons: That's the challenge, of course. Lotteries around the globe are doing their very best to accomplish that and we are creating progressive programs to help them. But it is a challenge and one that is certainly not unique to our industry. We have our SalesMaker™ program that attempts to identify and replicate Best Practices in lottery product retailing. We are constantly developing the program offerings by working broadly with retail organizations and locally with individual retailers. This work has been invaluable and we're now beginning to streamline the SalesMaker™ program giving us the ability to roll out Best Practices to large numbers of retailers. C-stores have been especially recep-

tive since they're really suffering these days.

As much as people like me try to make the whole story be about New Media and Internet, you're pointing out that the real story continues to be about retail and players.

J. Welshons: Absolutely. But also that retail and meeting the needs of the player complements and does not in any way conflict with strategies and promotions for New Media channels, games, and promotions. The retailer also benefits by an expansion of the market and more lottery sales. There is no doubt that expanding the reach of lottery products to new consumers is critical for the industry to experience growth. And that the Internet and New Media will play pivotal roles in that effort. But the idea that these are the only ways to do that is an incorrect assumption. There is still ample opportunity to reach new consumers through traditional methods, we just have to do a better job of understanding the realities of our category in meeting both retailer and consumer needs.

I would think that the store traffic driven by lottery sales would have a direct impact on sales of non-lottery products. Is there any data on that?

J. Welshons: My team at Scientific Games is working heavily on that right now. We know that lottery traffic lifts overall sales of other products for the retailer; hence they consider it a traffic driver. We need to be able to support that knowledge with facts and hard data. Unfortunately, our product isn't regularly tracked through the cash register like every other SKU-based product is tracked, so it's not simple to get access to market basket reports. Lots of logistical problems. But we need to do that, we're trying to do it, and we will have to do it for the big retail chain stores. This is a very important issue.

Lotteries are implementing various forms of "extended-play" games on the Internet, usually as a part of a second Chance drawing. In effect, the extended-play games allow longer playtime for less money. Electronic games can also be designed to deliver an extended-play format. Casino operators are concerned that it will reduce turnover and, ultimately, profitability. How does the extended-play format affect the basic business model of lotteries? Does it impinge on profitability the way it can in casino gaming?

J. Welshons: The rate at which the player is buying tickets, or putting money in a slot machine, can be viewed as the 'velocity of the

product.' Insofar as casinos measure profitability by the velocity of the spend on the slot machine or table game, or perhaps turnover and profitability of floor space, then extended-play formats would appear to reduce profitability. There may be many reasons why it is still a good strategy for casinos to implement extended-play electronic games, but increasing velocity, turnover, profitability per square foot, etc., would not be among them. If the lottery players ended up buying fewer tickets because they can choose to go home and play the games on the Internet, then extended-play could be seen to have a similar impact of reducing velocity. Fortunately, the picture is a little more multi-dimensional for lotteries.

The purchase of lottery tickets at a C-store does not mirror the play of a slot machine. While core players will stay in the store and make repeated purchases, the more casual player's repeat purchase happens when the player returns to the store. If the lottery player enjoys the internet games they get to play as a result of holding a non-winning ticket, they will hopefully be inspired to return to buy more tickets so they can play more of the extended-play games, and the relationship with lottery products deepens. I have a harder time envisioning exactly how a casino recoups the lost turnover from an extended-play game. Whatever time the casino player spends playing the game without wagering is lost turnover for the casino. But the time that a lottery player spends playing games on the Internet at the lottery website is not necessarily taking time away from buying tickets at the store. But we do need to understand all the implications of creating these types of extended-play games. Adding value to the product and increasing the appeal to the player does not automatically result in increased sales. We need to truly understand the core motivation for purchase and play in each consumer segment so that we ensure we're satisfying their need. Different segments most definitely play for different reasons and, in terms of expanding the player base to reach those not currently engaging on a regular basis, this is critical.

It sounds like we still have a lot to learn about player behavior when it comes to Internet gaming.

J. Welshons: We do. These are new games and the Internet is a relatively new channel for lotteries, so actionable data has not been available until recently. We are now receiving the kinds of data that will help us to analyze and understand player behavior. The Internet connection to our customer is different

than the retail connection. The nature of the platform enables us to gather huge volumes of data about the profile and motivations of the players. They can be asked general questions, the answers to which are electronically posted and can be processed and analyzed to provide an entirely new level of insight and understanding. This, combined with essential qualitative and ethnographic findings, will inform and impact our product design and overall marketing and promotional strategies.

With that in mind, why wouldn't you want to integrate the Internet into the channel mix for literally all the games?

J. Welshons: It might not happen right away, but there are quite compelling reasons to do just that. In addition to all of the other benefits of integrating the Internet into the channel mix, you're building a conduit for communication and dialogue with the player that did not exist before. That gives us tremendously valuable insight into what the player wants, enabling us to further evolve the products and marketing. We are doing extensive research into segmenting the current and potential customer base to determine what the specific needs are for the different segments, and produce and deliver the products they want in the manner in which they want to buy them. Additionally, we're spending a great deal of time understanding the role the internet is playing in other consumer product industries. We are trying to learn from their mistakes and successes in social media, mobile applications and so on and see what is applicable to our industry. It's an exciting process!

It seems bizarrely inefficient for 40+ ad agencies to be producing campaigns for each individual lottery. The amount of money spent with ad' agencies must be huge. I would think they would get a far superior ROI by having you do the entire "soup-to-nuts" marketing and advertising program. Why couldn't Scientific Games leverage its deep understanding of all aspects of this industry into the area of advertising and promotion? You would clearly be able to produce a higher quality at a far lower cost to the lottery. And you understand how to integrate marketing, promotion, distribution, new media, into the entire portfolio of lottery products in ways that ad' agencies have no idea.

J. Welshons: I agree that there are certainly efficiencies to be gained with this approach, and we do provide ad-agency style services under a number of our global contracts. We have a program called Agency Services™. It is a comprehensive program that integrates game product design with all other aspects of marketing, promotion and distribution of the product. Our internal resources have decades of experience in these areas, many having come from the agency side working directly with lotteries. Given that we're so closely tied with the product development process and the intended end-consumer, and have a resource depth of creative design and services, we can deliver comprehensive and integrated marketing programs in a way that can reduce costs for lotteries.

Is there anything that an ad' agency does that Scientific Games couldn't do better at a much lower cost?

J. Welshons: I don't believe so. Obviously, local agencies offer value in that they're just that – local – and there is something to be said for intimately knowing a market. But in the grand scheme, it's about understanding the consumers you are trying to reach and doing so through scale. The magnitude of data points and strategic product development in the lottery space that takes place within the walls of Scientific Games is unmatched by any ad agency. This is a complex industry and the role we play gives us a much better perspective than an ad' agency could ever hope to have. We can quite easily integrate the most creative advertising capabilities into our portfolio of services and capabilities. And we do. The best example of this is with our Linked Games where we have had success using scale to produce effective, cost-efficient advertising to support these initiatives. We're looking forward to expanding this success. ◆

Tjeerd Veenstra Interview

ing up to more than 2 billion euro per year that facilitates on a long term basis the sports infrastructure in Europe. To illustrate the difference: the more than 250 remote gambling operators that have a license in Malta altogether pay approximately 19 million euro in gaming tax per year. The National Lottery of Luxemburg, a small state with a few hundred of thousand inhabitants pays more than 20 million euro per year.

There was another issue in France. The operators complained that it was unreasonable for the French government to require the operators to locate their transaction-processing servers in France. How are these disputes being resolved?

T. Veenstra: The national government is obligated to treat everyone fairly and equally. But the national government does have the right to determine tax rates and other terms and conditions and if the company wants to be licensed to operate legally then they must comply with the laws. They must pay their taxes and meet all the terms and conditions as determined by the national government.

The future is looking bright for the beneficiaries that lotteries support. It is a nice by-product of Public Order that a system that generates funding for good causes is allowed to continue to operate.

T. Veenstra: Exactly. The present system benefits society in both ways. It enables the regulations that minimize social costs. And it also gives the profits back to society. How can you do better than that?

I just read this morning about a three and a half year old case against the organiser of a Texas Hold'em poker tournament in the Netherlands. The criminal court of The Hague ruled that poker cannot be considered a game of chance under the country's gambling laws. What are the implica-tions of the ruling that poker is a game of skill? Does that mean that organized, casino-like poker playing facilities are now legal in Netherlands? Is Internet poker now legal, since it is not considered to be a game of chance?

T. Veenstra: A very typical judgment of a lower court that has to and will be challenged in an appeal. It is striking that in the oral hearing the Ministry of Justice referred to a study of the Dutch Gaming Board. That study explains that in 35 European countries poker is defined as a game of chance. The judge however declares that the extent of support for this opinion does not deliver the (scientific) proof for rightness of the opinion. Of course this judgment will create some confusion and suppliers will take advantage of this situation. But there will be an appeal. Furthermore the Minister of Justice has explained that he will sustain in his restrictive policy with regard to poker. ◆

stants program. There are hundreds of different variables. That's why a Best Practices approach is so important. Analyzing the ways in which these different variables work together, and then integrating that analysis with the gaming culture, distribution infrastructure, regulatory framework, etc. specific to the jurisdiction, all of that goes into the business of producing sales in the Instants category. But I would say that there is lots of room for growing Instants in many of the European markets.

Do we have any read on whether the results would be improved in Europe if they increased the number and frequency of new product launches?

Will Higlin: That's hard to measure without being able to isolate the different factors. Payout percentage, for instance, would likely have more impact on sales than accelerated product launches. The big revenue driver in the United States has been the higher price points that have been implemented over the past few years. $50 tickets are now available in some markets, and $20 and $30 tickets are becoming increasingly more common. Instants have a higher prize payout percentage than lotto which is noticed by both players and retailers, ultimately helping to drive sales.

J. Deragon: Higher price points have not worked well in Europe, possibly because the positioning of the price point and prize payouts has not always been optimal. But it's changing. Italy, the UK, and France are experiencing great results with higher price points and it is creating a great impact on sales as these price points are bringing in new players. Everyone recognizes that the markets need to be pushed towards higher price points – it's just a matter of time and available funds.

Why couldn't GPC produce the whole marketing, advertising, and promotional campaign for your lottery clients? Your in-house capabilities and resources are far superior to those of advertising agencies. And your ability to augment your capabilities with more creative would be far more do-able than the ability of advertising agencies to replicate your knowledge and experience. Why don't lotteries just have you do everything that ad' agencies do, or at least do a much bigger chunk of it than you're doing now?

J. Deragon: That is an interesting question. With our licensed products, we are offering "turnkey" solutions for the lottery that include a much more comprehensive and integrated approach towards marketing, advertising, and promotion. Our Aerosmith program is a good example of bundling a larger suite of services. TV, radio, and prints ads, along with POS materials were all prepared and made available to the lotteries at a much lower cost than what would have been incurred if they'd produced these items themselves. The fact that lotteries all have different approaches and different regulatory laws and guidelines for marketing communication efforts makes it hard to produce a 'one size fits all' package for advertising and POS. But the benefits in terms of costs savings and the quality of the finished product and campaigns, all made it very worthwhile. I think this is a very good start towards what you described.

Will Higlin: Another benefit of this turnkey approach to the Aerosmith campaign is the approval process. There are so many licensing requirements that need to be approved with the brand licensor. We're now able to do all of that more expeditiously than ad' agencies could possibly do and offer lotteries pre-approved materials. Our customers are looking for more marketing resources and may want their suppliers to provide more turnkey solutions.

I noticed GTECH G2 recently won contracts to support the Austrian Lotteries and Loto-Quebec's Internet gaming ventures. Aren't games and promotions being implemented across product categories and channels in a way that requires someone to figure out how to integrate them? Does the ability of GTECH Printing to collaborate with GTECH G2 facilitate that process of integration?

J. Deragon: We are constantly incorporating the different business units within GTECH, and that does give us the ability to produce a more integrated approach. Operationally, we can create a synergistic approach to managing different games and channels together, building integrated sales, marketing, and distributional efficiencies and cross-promotions that increase sales. GTECH Printing's Instants programs can easily integrate with G2's Internet platform and other New Media services to create a powerful synergy for new lottery or promotional games.

W. Higlin: Another cornerstone to our corporate strategy is our respect for the fact that each lottery is different and we are focused on building a customized approach to helping each lottery accomplish its objectives. We appreciate that each lottery understands its business and its priorities better than we do. We bring to bear a wealth of research and customer information gleaned from our operations all over the world. But this information is useful to inform the process, never to dictate what should be done based on what has worked or has not worked in other jurisdictions. We take our Customer First approach throughout every division of GTECH. Our primary mission is to listen to and understand our customers' needs.

K. Matson: Lotteries are all unique and they need their suppliers to understand their individual needs. Our understanding is informed by our knowledge of how the industry works in other markets and other jurisdictions. We have tremendous research capabilities so we can help our clients with Best Practice solutions and a better understanding of how other jurisdictions have overcome similar obstacles or changed strategies successfully. But in the end, we need to customize our approach with each of our customers as no two lotteries are the same.

Are there mechanisms to integrate the research and customer data that the different GTECH divisions are accumulating?

K. Matson: One of GPC's primary tasks is to integrate customer information and data from all of the different GTECH divisions and turn it into an analyses and framework that helps us to understand player's needs and wants, and how to drive sales in each product category. The industry is in the infancy stage of adopting an integrated approach that promotes all the different products through all the different media and channels. Understanding the player will enable us to provide the right mix of game content to our customers, whether they are instant, online, or Internet based games, with consistent and relevant marketing messages and POS. In gaming, the potential to enhance the overall player experience by leveraging what we know about their preferences is immense. We are selling entertainment and we are limited only by our imagination combined with the knowledge and acceptance of our customers.

By adopting a Customer First approach we utilize all of the resources within GTECH to ensure we're providing the best intelligence and actionable solutions for game planning and product positioning.

What about the willingness of lotteries to collect the information and the willingness of players to disclose personal information?

K. Matson: Each lottery has complete control over the process. They decide the kinds of questions to ask and sometimes they ulti-

mately decide that they do not want to collect data on their customers at all. We appreciate that it is a sensitive issue. We contend that collection of customer information can be done in ways that do not infringe on the privacy of the players; and that 100% security and confidentiality can be guaranteed. I am not aware of an issue either with a player or with a lottery over the manner in which data is collected or the ways that we can use the data to improve the products and service to the customer. That said, it is imperative that we always stay consistent with the lottery's agendas in every way, including the collection of customer information and marketing data.

Players have the option of giving us feedback on their likes and dislikes. The kind of information that is most useful to us right now does not require the player's identity to be revealed to us or the operator. We do not need to connect the information to the player for it to be an extremely useful tool that drives our game development and promotional strategies. The information about their behavior and preferences helps us to understand the markets in a broader context and enables us to improve our products and service, and it can do all that without the players disclosing their identity.

My generation shares personal information on a "need to know" basis. Facebook and Twitter reflect a completely different attitude towards sharing personal information. I read an article that explained why that this new culture of openness and transparency is not likely to change; the good news being that it will be easier to connect with the customer. The ability to build a more nuanced and intimate relationship will become a new customer expectation, won't it?

J. Deragon: I think that is true in Europe. There is more willingness to be open and share personal information today, with both Facebook and Twitter creating a culture in which everything is shared. I do think of it as a great opportunity for lotteries to build more proactive programs to engage the players in a dynamic and ongoing dialogue. And yes, it should create a more receptive climate for gathering customer data and market information.

K. Matson: I would say that is true in the U.S., Canada, and many other parts of the world as well. That attitude invites a more personal connection and will enable the operator to communicate with its customers in ways that will enhance the playing experience.

Second Chance Drawings, Players Clubs, Loyalty Programs, and other new ways to connect with the customer generate a positive ROI in the short-term in the form of increased sales. These are also the things we need to do to position ourselves for a future that might include regulatory changes allowing more forms of Internet gaming. So I would think that lotteries should make sure the platforms that they invest in today will enable the different games and channels to be effectively integrated in the future.

K. Matson: Second Chance Drawings and Player's Clubs have really skyrocketed in the past few years. Many lotteries are taking a stair-step approach to building and connecting to their player base through the Internet. The beginning might be a Second Chance Drawing that simply has additional prizes for some small number of non-winning ticket numbers. That is an excellent way to get double exposure for the brand, deliver more value to the player, initiate an Internet relationship with the consumer, and hopefully stimulate sales.

The next stage might create a Players' Club and Loyalty Program in addition to the Second Chance Drawing. That would enable the operator to develop a dialogue and raise the level of interaction with the customer. The operator can email special promotions and the results of the drawing, create chat rooms for the players, and educate players about new games. The operator could also ask the customer to anonymously share demographic information, their likes and dislikes, etc.

The next step is for the operator to do all those things with an eye towards an end result that includes a bigger variety of Internet games. Even though it may not be happening next month or even next quarter, there is no reason why the operator could not integrate a long-term vision into these shorter-term initiatives like Second Chance Drawings. Having that longer-term objective gives shape and focus to the short-term initiatives. For instance, implementing non-money games that are played just for fun delivers great value to your player, engages your player in a more dynamic and interactive relationship, introduces the concept of extended-play games, and is a great way to promote the products and increase short-term sales. It's also a great way to position the Lottery's Players Club and website as the Internet destination for fun and games which is exactly where the next generation of gamers wants to be.

So, in terms of investment in systems, plat-

forms, and IT infrastructure, the decisions of how to allocate resources do not need to involve a trade-off between short-term profit and long-term positioning. Does the same hold true for the games and products themselves? How do you decide how much to focus on the next generation gamer as opposed to meeting the expectations of the core player?

W. Higlin: First, we always focus on meeting the expectations of the core player. That's who drives the revenue for now and for the foreseeable future. Engaging the interest of the next generation player isn't a project that is somehow separate and apart from the core player. Their preferences are not as far apart as you may think. For instance, it is a mistake to think that the core player is not on the Internet today. They are on the Internet and that's why Second Chance Drawings are so successful. Second Chance Drawings are being driven by the core player, as well as attracting new players. Promotions that include an Internet component appeal to core players just as much as they do to the next generation players. Second, it is mistake to say core players do not like the new and exciting innovative play styles that appeal to younger players. Yes, it's true that we need to make sure we continue to provide product to the core player that is more traditional and may not appeal as much to the next gen' player. But the core player is just as anxious as the next gen' player for fresh, exciting, and new games.

K. Matson: There needs to be careful consideration of all the different objectives. While it may appear that some of the objectives are not aligned, they really aren't in conflict. With a little creativity and open-mindedness, strategies can be created that accomplish everything without these trade-offs.

W. Higlin: Keep in mind that we do not need to convince twenty-somethings to buy lottery products. What we do need to do is make sure we meet their needs when they move into the target market segment a few years later. We don't want to be sanguine and think we don't need to innovate and evolve our products and promotions. We do need to accelerate the integration of the Internet and social media into our strategies. The twenty-somethings will turn into thirty-somethings, but they will still be on Facebook and Twitter and they will be expecting the same kind of game play experience that they grew up with. ◆

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