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PUBLIC GAMING INTERNATIONAL

FEATURED INTERVIEWS:

Margaret DeFrancisco Georgia Lottery Corporation

Gordon Medenica New York Lottery

Tom Shaheen North Carolina Education Lottery

June Roache South Australia (SA) Lotteries

Dick Haddrill Bally Technologies, Inc.

(Counterclockwise from upper right)

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We see opportunity.

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From the Publisher

Paul Jason, CEO, Public Gaming International Magazine

"We look at the present through a rear-view mirror." It's been over half a century since Marshall McLuhan introduced us to his post-industrial world-view. Electronic media did indeed transform society into the "global village" of interconnectedness described by Professor McLuhan. But now, as we look at the present in our rear-view mirror, we can see even the post-information age zipping past us, and with it goes any vestige of the McLuhanesque vision of a homogenized culture shaped by a monolithic mass-media. Instead of vanquishing individuality, the consumer has more power than ever before. Liberated from mass-culture by the Internet, the individual coalesced into the "micro-markets" described by Chris Anderson in "The Long Tail." That model would seem to still have some legs on it. But to invoke our intrepid seer Prof McLuhan once again, "If it works, it's obsolete." A model that may still work for many practical purposes may soon be obsolete. A "Mass Customization" approach might even replace the conventional notion of market segmentation altogether.

What's next? It is peculiar, isn't it, that the "age" that we are currently in does not ever seem to be identified until after we're no longer in it. It's always a "post" age, a "post-fill-in-the-blank" age. What will the "age" we are currently in be called five or ten years from now? I think it's not an idle philosophical question. The answers won't be found by looking in the rear-view mirror.

Our annual conference stretches to address the most interesting and provocative questions facing our industry. Instead of reviewing the past, we're looking at the future. Please join us in New York City, in the heart of midtown, for a conference that is shaping up to be a truly exciting event. Below is described some of the topics of the presentations and panel discussions.

POWER TO THE PLAYER

Markets, also known as customers, are telling us what the future will be like. It's not, however, a linear narrative. It's up to us to connect the dots. The beauty of capitalism is that in the long run the will of the people usually prevails. So let's let that be our beacon as we try to understand and prepare for the most exciting decade ever. Power to the Player …That's our main theme and following are the topics for discussion at SMART-Tech 2010.

- Electronic games, VLT's (Video Lottery Terminals), are huge profit generators. Casino gaming is now within a half-hour drive of over half the people in the U.S. This trend towards making everything more accessible to the customer is driving the gaming industry. States are moving to capture this market for the benefit of the public and good causes, and are in the ideal position to do just that. What model will work best for the future? Large destination casinos? Distributed venues? What will the games be like? How will manufacturers and operators appeal to the new age customer who is looking for more entertainment, more excitement, for a multi-player gaming experience, and for social and skill elements to be integrated into the games?
- New Media is the future of gaming, especially for lottery operators. Wireless and Internet are not just distribution channels. They have reshaped the way we communicate with each other, get the information that forms our world-view, and enjoy recreational and leisure time. Lotteries are aggressively moving into these spaces, in ways that yield a short term ROI and position the lottery for the explosive change that will happen as the market (and the public and the customers) force regulatory modernization.
- Integration of new games and channels. Trust and integrity will be keys to binding the relationship between operator and player. Lottery organizations are rich with that most critical asset. The customer wants to do all their gaming with their trusted source, the lottery operator. Let them. Now is the time for lotteries to integrate as many new games and distribution channels as possible.
- The US lotteries have just taken a giant leap forward. The opening of the markets to selling the second super jackpot game (i.e. both Powerball and MegaMillions being sold in all participating jurisdictions. That's 36 and counting) promises to be one of the most important industry innovations since the introduction of Powerball back in 1992. The direct impact on sales will be significant. What's the next step? How can lotteries truly optimize the results of this cross-selling initiative?
- The true impact of the US lotteries' cross-selling of multi-state jackpot games will extend far beyond the increase in sales attributable to those specific games. The collaborative framework that was created for this groundbreaking initiative should form the basis for all manner of innovative strategies to compete in an industry that is poised to change at warp speed. A collaborative framework that harnesses the collective power of US lotteries is unstoppable and promises to make Team Lottery the most formidable player in the gaming industry. How else can lotteries capitalize on their ability work together and operate as a team?
- Modernizing the Lottery Business model. Government Lottery operators have always been required to comply with a more demanding set of regulatory and political constraints than others in the industry. As lotteries move into new spaces like electronic games and Internet gaming, they'll be competing for market share. How do businesses create a culture of maximum entrepreneurial creativity, drive, and innovation?
- Nobody has the direct connection with as big a customer base as lotteries do. Nobody even comes close. Not Harrah's or MGM or Indian gaming casinos, not Sony or even Apple, not Electronic Arts, Atari, Microsoft, and other publishers of video games, and certainly not the innumerable internet gaming operators waiting in the wings. Lotteries are truly in the catbird seat, ideally positioned to consolidate the incredible power of this special relationship it has with its customers. But enemy armies are gathering at our borders and preparing to invade. Slow growth strategies are a recipe for extinction when everyone around you is poised for expansion. Now is the time for lotteries to expand their product offering, consolidate their special relationship with the customer, and take the lead position in the gaming and wagering industry. What are the success strategies that will take them there?

Please join us for SMART-Tech 2010. Together we will forge new ground and kick the decade off with a bang. Visit www.PublicGaming.com for conference updates and registration materials. See you in NYC! ◆

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Margaret DeFrancisco

President & Chief Executive Officer, Georgia Lottery Corporation; President of the National Association of State and Provincial Lotteries (NASPL)

Public Gaming: *When did you start discussing the possibility of selling both super jackpot games in all the different lottery states?*

Margaret DeFrancisco: We started talking about this seriously just after NASPL in 2008. It wasn't until the recent NASPL, October 2009, that the push to pull it all together intensified. It has taken a huge effort on everyone's part to overcome all the obstacles, build a consensus, and then work out the countless details. It has been pretty all-consuming for a number of people to get it to this point. Sometimes we feel like we're approaching Heartbreak Hill, the hardest part of the Boston Marathon which defeats some of the runners just three miles before the finish line. But it's all coming together and we're ready for the January 31 launch. This needed to be done and I think everyone realizes that. The states need lotteries to stay strong and increase the funds generated for the various good causes that lotteries support. Continuing the status quo was and is really not an option. We have to move forward and be willing to change. We simply must take the lottery industry to the next step. And to do that requires us to get creative and most importantly to all work together. The amazing and wonderful thing about this cross-selling initiative is that it has required us to break down many barriers to working together, forced us to patiently work through our differences, find the common ground, and build something that will put all of us in a much stronger position than we were before. We anticipate the selling of both super jackpot games will be a revenue boost for all participating lotteries. But just as importantly, the collaborative relationship the lotteries have created will serve them well in the future in ways that we probably do not even understand right now.

It is interesting how quickly it has come together once you decided to move forward with it.

M. DeFrancisco: We needed to move as quickly as possible for two reasons. One, we all need to generate revenue growth sooner than later. The other reason, though, is that we knew that if we let anything slow us down it would possibly stall and get stuck. There were so many obstacles, you can't imagine. We all had to be cock-eyed optimists to think we could wade through everything and make it work. We couldn't let anything slow us down or we might have lost momentum. Everyone persisted to resolve anything that stood in the way. It was a team effort that required a huge commitment from absolutely everyone to make it all come together. The business of coordinating systems, procedures, and creating a framework for communicating and working together has been an exciting adventure. Difficult at times, but ultimately so rewarding for everyone. Having these two national games being sold everywhere will give us some great history, establishing a solid foundation for what it's like to collaborate on a project of grand scale.

What are some the elements involved in the execution of selling both games in 35 lotteries?

M. DeFrancisco: All the lotteries have their own central gaming systems. The vendors – GTECH, Intralot, and Scientific Games – had to work with the lotteries and with each other to develop the software and enable the technology and systems to implement both games across all lottery states. There is an awful lot involved just from a back-office and technology point of view. Our commercial partners have done a fantastic job, fully supportive and deserve much credit for the success of the whole venture. We're confident that the technical and operations sides of the execution will continue to go well.

Marketing will be the critical part of the equation. We need to educate retailers and players. Most players have some familiarity with both games, but some don't. We need to make sure that our marketing communications and promotions are effectively reaching out to all segments of our customer base. We need to think carefully about how something this new will be perceived by all the different market segments, in all different geographies, and customers with all varieties of playing experience and prior knowledge and attitudes. Again, we all need to get really creative to take full advantage of the opportunity to increase funding for good causes that this initiative provides. And we need to be very open-minded in finding new and imaginative ways to collaborate and produce even better results. Even though lotteries happen to be steeped in really complex technology, lotteries are fundamentally sales and marketing organizations. Our commercial partners and IT people are doing their jobs well. Now it's our job to execute where it matters most – sales and marketing.

We will be working on some national marketing and advertising campaigns. Many state lotteries including Georgia are working on in-state campaigns. As Gordon Medenica likes to say, we really now have two national games since we are in effect launching two games across the entire country.

It's only healthy to be anxious as you approach the actual launch on January 31. Any major concerns or uncertainties?

M. DeFrancisco: You're right in that there is always some healthy anxiety. But frankly, no major concerns. Remember, Paul, both of these games have already existed and are being implemented already. It's not as if we are starting from scratch with a brand new game that's never been tried, never been tested, never been played anywhere in the world. We actually have these games already and the vendors have years of experience in

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Gordon Medenica

Director, New York Lottery

Public Gaming: *On January 31, The NY Lottery will start selling Powerball in addition to MegaMillions. This is an incredibly fantastic accomplishment that will increase net funding for lottery beneficiaries. We can be quite confident that net impact on sales will be positive. But how positive? Is there any kind of projection as to the net impact on sales that selling a second big multi-state jackpot game will have?*

Gordon Medenica: We're reluctant to throw out a hard number, because the dynamics of this kind of initiative are actually quite complicated, but we firmly believe it's going to be significant. For example, MegaMillions has been our star game this year. I think year-to-date through nine months we're up over 28% on MegaMillions. So, we need to anticipate that next year MegaMillions will be down a lot. I don't know what "a lot" means, but it'll be down. Now, we also know that having the two games will smooth out some of the volatility because people will likely just play the game that is rolling up at the moment. We were hit last night with MegaMillions at $165 million, but Powerball is still rolling in the low $100s. We can't sell that now in New York but, hopefully, we will by February and that will keep the momentum going. Our sense is that you will see faster and higher roll-ups as a result of both games going all the time. So, to evaluate results, we'll look at the financial performance of MegaMillions and Powerball together. In fact, we're even having a discussion about our own financial statements and whether we should just consider that one line, Mega and Power. We'll probably show it separately just for our own information, but eventually, I think that will just be one category, the jackpot category.

The main point is that there was a ton of market research done on this. It was done state by state. It was done in total. It was done with a lot of different assumptions and variables. Most of us are hoping for, and expecting, double digit net percentage increases. We are all quite confident that this will be the biggest growth vehicle for the lottery industry for the next year and probably two years. But we probably should not get much more specific than that at this point.

Might the more frequent roll-ups and more rapid climbs to high jackpots raise player expectations for fresh and new and exciting game changes? How will the games evolve to meet those expectations?

G. Medenica: We've got a three phase strategy going forward to keep everything fresh and exciting. First is to implement the cross-selling in as many states as we can. Then, based on how we assess the dynamics of the marketplace, we may choose to take one or even both of the games to a $2 ticket. I think we're all looking forward to seeing how the player dynamics are going to develop with both games being available everywhere. And as you know, all of the Mega states that are going to be selling Powerball are going to offer the multiplier, Powerplay, with it. And all of the Powerball states that are going to be selling Mega are going to be putting a multiplier on Mega. Part of that is to preserve the matrices of both games. Obviously, neither consortium is changing the matrix, but to keep from disrupting the matrix and getting sales that generate too much coverage on the games, the multiplier feature basically absorbs some of the sales dollars into the multiples of the secondary level prizes. So, depending on how that goes, the second phase may include a change in the base rate of one or both of the games to a $2 game. And then the third phase is to add still another game, a Premium Game, which will be a totally new game that is in development now, at potentially an even higher price point such as $5. (I prefer calling it a "Premium Game" instead of 'National Game' because I think Powerball and MegaMillions will both be "National" games.)

We don't necessarily have all the answers yet and we don't know exactly how everything will evolve, but I can tell you we have thoroughly mapped out the strategies to truly optimize performance in all different kinds of scenarios. And, to use the cliché, it's all good.

You've pointed out that this is a top line driven business. To push sales into the double digit growth range would have quite dramatic impact on states and lottery beneficiaries. The net result will be somewhat determined by the things that you as the operator do in the way of brand management strategy. Can you explain a little bit more about what you'll be doing with respect to brand management strategy to optimize the net impact. For instance, what changes are you making to preserve the momentum of your in-state lottery?

G. Medenica: It's all about smart portfolio management. You want to have enough different kinds of games to appeal to all player types, but at some point there is a diminishing return when you get too many games. But let me go back to when we were first thinking about implementing Powerball almost a year ago. Our in-state lotto game had been in decline ever since we launched MegaMillions. Now, the revenue increases from MegaMillions always offset the decline in our in-state lotto, so we were okay with the shift from one product to the other. But last year, our in-state lotto was down some 16%. So it was finally getting to the point where Lotto was starting to die. As a percentage of our total sales it was less than 2.3%. That's hardly enough to keep it in the portfolio. It wouldn't survive the competition from the second super jackpot game, Powerball. So what are we going to do with Lotto? First of all, our in-state lotto is priced at two games for a dollar. So even though you can't buy one game, it's technically a fifty cent game. Years ago we had tried to raise it to one dollar per game, and it killed Lotto sales and we actually had to reverse that decision and go back to two games for a dollar. So even though we wanted to drive the price point on Lotto, our previous experience indicated that raising the ticket price would just exacerbate its decline even more. And then there was the other issue of being competitive on the size of the absolute jackpot. A Lotto jackpot of $12 million just does not generate the excitement and attention of the Mega jackpots that exceed $100 million. Yet, a common thing that we hear in the market research and in focus groups is people asking, "Why does one person have to win $100 million – why can't 100 people win $1 million each?" And so we thought, with a couple of little tweaks, we could change Lotto to a million dollar cash top prize, not annuity, with multiple top prize winners, at one buck a game. We could reposition it away from the jackpot arena and play to this segment that wants to play for better odds to win a $1 million cash jackpot. That was the genesis of Sweet Million, our reinvented in-state jackpot game. Then, of course, Powerball didn't

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Tom Shaheen

Executive Director, North Carolina Education Lottery
President of the Multi-State Lottery Association (MUSL)

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

Public Gaming: *Congratulations to you and all of the US Lottery directors for getting the cross-selling of the big multi-state jackpot games off to a fabulous start. When do you actually sell your first MegaMillions ticket?*

Tom Shaheen: Our target date is January 31st. However, this isn't like implementing your own in-state game. The implementation of any multi-state game requires a consensus involving all the different participating lotteries. I would estimate that 36 of the 45 US lotteries are targeting January 31st as the launch date. Reaching consensus from this many organizations on a multitude of issues is no easy task.

What's involved logistically for implementing MegaMillions and Powerball in a whole new set of state lotteries?

T. Shaheen: There are several pieces that must be in place. First of all, each lottery has its own governing board and legislative procedures. So the approval processes will be different. Even if all states sign on, the timing and launch dates may not be the same for everyone. Some states are structured like a corporation, having a lottery board. Other states may be a state agency with a commission. In these cases, the approval process can usually be completed by that board or commission. Some states, however, may have to go through rule changes that are approved by bodies outside of the lottery. Some may even need legislative approval. A lottery that reports directly to the governor may need the governor's approval. As you can see, the primary logistical issue impacting timing to participate is each state's approval process. In the case of cross-selling MegaMillions and Powerball, that could delay the start date until June or even later for some states. But almost every state is in agreement that participating in both jackpot games should benefit their state.

Any changes in prize structures and game matrices?

T. Shaheen: Right now we're not planning on changing prize structures for either game. The prize structures currently in place should accommodate the additional population and volume of play for now. We may need to look at changing one or the other or both in the future. For the January 31st launch, Powerball and MegaMillions will remain exactly as they are today.

What is the legal mechanism or arrangement that enables Powerball states to sell MegaMillions and vice-versa?

T. Shaheen: The Powerball states will participate in MegaMillions as a licensee. Powerball states will be granted authority through a licensing agreement from the MegaMillions states to sell their game. Conversely, MegaMillions states will be granted authority from the Powerball states to sell Powerball.

Each group continues to control the games just as they do today. Each lottery selling the new jackpot game will in essence function almost like a retailer that is licensed to sell lottery games. Licensees in either group will not have voting rights with regard to the rules, policies, procedures, etc. of the other game. So each Group continues to operate much like they have always operated; only now they have a new set of licensees. Of course, this new set of licensees will have a dramatic impact on the business, so they will still have input.

Keeping that management structure the same would seem to be the best way to minimize decision-making bottlenecks.

T. Shaheen: Exactly. This is the easiest, quickest, and cleanest way to bring the lotteries together. The challenge will be in training retailers and players. The games are very similar but do have small differences. That's good because it will give us a great opportunity to interact with our retailers and players by providing an additional revenue stream, a new story to tell, and an avenue to explain the differences.

What are some of the differences?

T. Shaheen: The second prize is a different amount between the two games. The drawing times are the same, but the draw close times are different. Starting jackpot amounts are different. The annuity factor is different. MegaMillions is 26 years at a straight line of payments, and Powerball is 30 years at graduated payments. There are enough nuances there that it's going to be a learning curve for players. But we don't think it will be overwhelming. It's similar to training retailers and players for any other game that we introduce. They have to learn how to play the game, learn the rules, when the drawings are, and what the payouts are.

I would think the market is ready for something new and different and the customer ready to be introduced to more options and variety in the products.

T. Shaheen: I think you're exactly right. Why have a product available in some places and not in others? Of course, what's been happening is those who live on the borders will drive over and play that other game in other states when the jackpot is high. What this means is that people who don't live near the border don't have the opportunity to buy the other game because the travel time makes it less enticing. Now everybody will have easy accessibility and opportunity to play both games and that's the way it should be.

So there are enough differences between the two jackpot games that you don't feel a compelling need to differentiate them further right now. Is there a point of time in the future, maybe 12 to 18 months from now, that you will explore additional ways to differentiate the games?

T. Shaheen: Our goal right now is to offer both games in as many states as possible. Then, as we continue to work together and learn about each other's rules, policies and procedures, we'll develop a best practices approach to smooth out the implementation of two multi-state jack-

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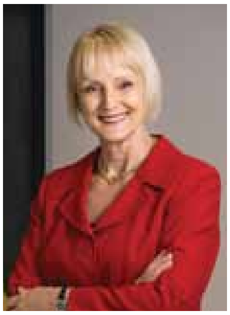

June Roache

Chief Executive Officer of South Australia (SA) Lotteries; Chairperson of the Asia Pacific Lottery Association (APLA)

Public Gaming: *Chairperson of the Asia Pacific Lottery Association (APLA) is a two-year term?*

June Roache: Yes. All the terms of the executive committee are two years. Since this term began in October of 2008, it ends in November of 2010, at the WLA World Congress in Brisbane.

From your perspective, how does the gaming industry and the role of the association in the Asia Pacific region differ from the other regions?

J. Roache: One of the issues with the Asia Pacific region is that it has great diversity, not only in its culture, but also with the lottery jurisdictions being in various stages of organizational lifecycles. Some have been around for decades, while others are quite young. Some operate many lottery games; some only a few. In Australia we operate many different games. We have about 40% of the world's population in the Asia Pacific region. And we also have some of the biggest, and longest standing lotteries, such as the Japan Lottery Association, Tatts Lotteries in Australia, and the Hong Kong Lottery. And there is the rapidly developing Chinese Lottery.

What are some of the agendas that APLA is trying to accomplish?

J. Roache: The next 12 months will be a time of sharing information amongst members that could benefit and add value to the younger organizations. We have a couple of opportunities each year to do that. One is an annual seminar. This year we held that in Macao in April. And the big one is our annual conference, this year held in Auckland, New Zealand. We are a relatively young organization, ten years old this year. So we're not as developed structurally as NASPL or the EL (European Lotteries Association). We don't have a full time secretariat or administrative office. An Asia Pacific Regional Member Lottery hosts the conference function, another member assumes responsibility for the administrative duties of the association, and another the Treasury function. Each require a time commitment.

The WLA (World Lottery Association) has developed responsible gambling and security control standards against which members can benchmark their controls and seek accreditation. WLA's accreditation program attests to the standard of performance achieved by the operator. This is a very important program that raises the level of performance and integrity for the entire industry. So, one of our regional priorities is to promote the awareness of these programs, to inform the public and political leaders about the importance of these efforts to raise the level of performance and to encourage our member lotteries to seek accreditation with the WLA security control standards, and the responsible gambling framework. The importance and relevance of these programs is really universal, they apply equally to all parts of the world. So in spite of the tremendous diversity of our region, these are initiatives that we can embrace because they apply to all of us.

When we look at the major challenges that face our members, we can see many similarities to other parts of the world. We all have to remain strategically relevant and socially acceptable to our market. We have to protect our government revenues and consumers from illegal or unregulated operators. The illegal operators really do take a lot of the turnover from the licensed operators, in Asia Pacific just like other parts of the world. This is a problem. And that is why we need to establish standards of performance which are required of all operators. Ultimately, we need to differentiate ourselves from these illegal operators. And the way we will do that is by being better, by achieving higher standards of performance in every category, but especially those that relate to protecting the public. That's why the two accreditation programs are of immense importance.

Is it important to convince the governments and lawmakers to make WLA accreditation a prerequisite for getting a license to operate?

J. Roache: That's an interesting question. But the answer is that I don't think it is the role of governments and lawmakers to regulate specific controls. That is a corporate governance issue. The benefit of accreditation is to differentiate ourselves from illegal and unregulated operators. I also do not believe that the WLA accreditation programs should be built into the licensing terms and conditions as it would not be realistic to expect or even want the government to do so.

What is important is that we raise the level of performance so that the interests of the players and the general public are protected. WLA Accreditation is the standard against which all operators can measure their controls.

The comments you made about how the diversity spans not only over 40% of the world's population, not only over a large geographical area, and not only across all different kinds of cultures …the interesting thing that I hadn't really thought about was that all the different lotteries would be in such different stages of evolution and maturity, and that would pose an interesting challenge to find the commonalities that you can be addressing as an association.

J. Roache: Absolutely. And in accordance with our bylaws, you know, sharing of information is the key objective. In spite of our differences, there is so much to learn from each other. There are younger lotteries who gain a lot of insight from the experience of more mature lotteries.

The diversity of our political and regulatory systems makes it difficult to deal with political issues on anything other than a jurisdictional basis. What might be acceptable in Australia may not be acceptable in a particular Asian country or countries, or vice-versa. We are quite different from the U.S. and Europe in this respect. There is diversity in all regions

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Dick Haddrill

Chief Executive Officer, Bally Technologies, Inc.

Public Gaming: *Since you joined Bally in 2004 the company's stock has more than tripled, going from $12 to over $42. Is there anything in particular that you would point at as contributing to the success of Bally in the last five years?*

Dick Haddrill: First, we developed a five-year strategic plan. The entire focus of this plan was based on how we can be better partners with our customers, how we can get every single aspect of the business to become obsessively customer-centric. Then we assembled a great team with key positions led by people like Gavin Isaacs as our chief operating officer, Ramesh Srinivasan to head our systems business, Bruce Rowe to lead strategy and business development, and Dan Savage to oversee marketing and product management.

We all like to think we are customer-centric. But with fully half of your employees concentrating on R & D, and tools like Business Intelligence that help the customer optimize the performance by making better use of information and data, that notion seems to have a genuinely substantive meaning for Bally.

D. Haddrill: It really does. We have doubled our R&D personnel in the last five years to ensure strong innovation and quality. We align every aspect of our business toward customer success.

The most important thing we do is to create a great player experience. We work hard to be very active listeners to both players and customers. Our business is really about two things; creating unique game play experiences for the player, and operating a casino for optimal business success. Obviously, the two are related, but optimal business success requires more than great games, and we partner with our customers in all aspects of building a successful business. Our entire cultuture is built around being a great partner to our customers.

How do you differentiate between the needs of the next-generation player and the core player that will continue to drive revenues for a long time? Is there anything interesting about the way you approach the whole business of getting feedback … focus groups and all that kind of thing?

D. Haddrill: We've continuously evolved our product management and marking functions. Our Vice President of Marketing, Dan Savage, joined us from 3M Corporation about a year ago. Dan brings more organization and discipline to the market data processes. We've got much more data than ever, but there still is an art to product planning. The art comes from the ability to manage the data, but at the same time realize that data isn't 100 % accurate. Game design and development teams are creative and you need to allow that creativity to flourish. We must encourge their imagination and ability to see connections that the data sometimes do not reveal. For example, we have the license for Playboy games. And yet the biggest players of our Playboy games are middle-aged women. I can tell you that beta-stage focus groups did not reveal that. That's just one example of how certain types of games can appeal to many different demographics in unpredictable and sometimes very surprising ways. Why are steppers more popular on the East Coast and video slots more popular on the West Coast? Why did some international video markets all of a sudden adopt steppers as we evolved steppers to include more bonusing and multi-line features? In the end it takes some good judgment calls to know when to bow to the imagination or stick with the measurable data-driven conclusions. And, to acknowledge that you will not always bat 1,000.

Information and data are ubiquitous. The challenge we all face now is how to inform with context and meaning. It seems like you're developing processes and tools like Business Intelligence that help you and your customers do just that.

D. Haddrill: Absolutely. Bally Business Intelligence™ is a great example. Data about what happens across an entire property as well as at the specific game stations themselves is critical to guidingssolid operating decisions. Our Business Intelligence products apply technology to the task of sorting through the huge amounts of data so that the operator can see patterns that guide the decision-making process. It isolates the most relevant indicators that drive their business This tool is only useful if it's coupled with solid judgment of the executives tasked with analyzing the data and making the decisions.

And use that knowledge to drive a more effective decision-making process.

D. Haddrill: Exactly. We try to combine as much of our own broad experiences and insight with the data of each customer so that our customers can optimize their decisions. . Our industry really is five to seven years behind other industries in its adaptation of new technology. As this wave of data is mined and tools like Business Intelligence are developed to convert this data into insight, we will see accelerated planning, development, and decision-making processes that ultimately drive a better entertainment experience for players, and more profits for operators. There will be a leap forward in data-management in gaming over the next few years.

Why is the gaming industry five to seven years behind?

D. Haddrill: There are three main reasons why the industry is behind. First, the regulatory environment has made it somewhat risky for suppliers to introduce new technologies that are not yet fully proven. Two, there are a fairly limited number of technology suppliers because of the very strict regulatory environment for licensing, which is necessary. And three, the suppliers grew up primarily box manufacturers, so technology is not part of the core DNA.

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happen last year when we thought it would. We were all prepared to actually replace Lotto with Sweet Million, so we went ahead and launched Sweet Million anyway, and kept classic Lotto as well. And given the games' characteristics, their player appeal, the similarity of matrices and things like that, we viewed Sweet Million, Lotto, and our Take 5 game as being very competitive to each other. And so we analyze the results of all three together. We have come to a better understanding of the dynamics of how these three games appeal to slightly different player preferences. And Numbers and Win 4 appeal to yet a different player group. We will be adapting our portfolio management strategy accordingly to fine tune the marketing and positioning of these different products to appeal to the different, narrower, player segments. And even though Sweet Million is still not a very significant game in terms of overall contribution to the portfolio, it has seen a net increase, it has stopped the decline in Lotto, and we have evolved a strategy to retain the interest of small but, when the games are all added together, important segments of our player base. So we are very happy with reversing the trend and getting growth back for our in-state lotto games. And I think we have learned something in the process about our customer base. There is a demand for more than just the super jackpot games and we want to have the products available to meet the needs of all of our customers. We don't expect our in-state games to cut into the momentum of the super jackpot games. And frankly, we won't over-invest in the marketing and support of these smaller categories. But no matter how dominant and profitable one game, like MegaMillions and Powerball, becomes, we never want to lose sight of the importance of smart portfolio management and meeting the needs of the smaller market segments. We need to truly understand our customer and portfolio management because now we will need to integrate the second super jackpot game and soon we will likely have the Premium Game. We need to find the most synergistic portfolio management strategy to get the biggest net increase from the addition of these new games.

Why did some of the Powerball states originally object to the cross-selling concept when it was voted on a few months ago?

G. Medenica: You should probably ask them instead of me. But I will make the observation that some jurisdictions really live and die by their Powerball sales. MegaMillions comprises less than 10% of our total sales. That's big but we can easily manage the risks of making a change to the portfolio of games. We can model the impact of introducing Powerball and know that we can manage the overall impact on our other games. But what if Powerball comprised more than 50% of revenue, as it does in some states? Of course, as was ultimately decided by those states, adding MegaMillions will be a positive change. But the nature of this change is quite a bit different for them and they were rightly concerned that something this major be done with thorough due diligence and forethought. We needed to eliminate as many of the uncertainties as possible and get the most well-conceived action plan in place before launching. That's what we have done, 36 states are on board and more will be joining, and so now it's full steam ahead.

What else can be done to minimize the risk and optimize the net results of the addition of the second super jackpot game?

G. Medenica: I think it comes down to marketing. Get your retail network up to speed on the new game. That is a big job and we can't underestimate the importance of retail education that has to take place for this to be successful. We've got a tremendously powerful story to sell. The increased number of draws and jackpot roll-ups sets everyone up to succeed at increasing sales. But it won't happen without solid marketing and retailer and player education. It comes down to basic execution, basic blocking and tackling. That's what will separate the single digit increases from the double digit increases.

Keep in mind that it's not as if we are establishing a whole new brand here. The consumer is already familiar with one jackpot game. And many of them are familiar with the other because of hearing about it in a neighboring state. I think everyone knows what to do and how to do it. And I think 2010 will be a very good year for U.S. lotteries.

The cross-selling Powerball-MegaMillions initiative required open-minded thinking and overcoming countless obstacles to make it happen. It seems to me that the success that lotteries have had in forging this collaboration should open doors to other opportunities and other kinds of collaborative initiatives.

G. Medenica: Of course. We simply need to ask ourselves, "Where do we have common goals and agendas?" Two such issues jump immediately to mind, and you're very familiar with both of them. The first would be Internet gaming, and the issues we have vis-à-vis the federal government, and particularly the DOJ (U.S. Department of Justice). Several jurisdictions are working together to communicate our thoughts and concerns to the DOJ, and to other areas of the federal government as well. The second issue is closely related to Internet gaming, but is actually a more immediate concern. That's the whole credit card coding issue, which, thankfully, has been pushed back another six months due to the delayed implementation of UIGEA. Still, it continues to be a constant struggle about how our credit card transactions are classified so they can be legally processed. This is definitely an area in which cooperation and unified effort on the part of all lotteries will produce results that will benefit all lotteries. These are issues which affect all lotteries in the same or similar ways and so we have common agendas. This is where a natural cooperation between lotteries, and vendors too, will evolve. I've never found it to be difficult to get other states and lottery heads to join forces and to work together to accomplish a common agenda. While we do work together on these kinds of issues, we are never sure of the results we'll get. Our ability to lobby and exert influence at the national level is quite limited. We are sort of confined to dealing with our individual constituencies in terms of political influence.

Why couldn't NASPL be used as an agent to lobby at the national level?

G. Medenica: Maybe it can. We are exploring those possibilities now. Think about how the MPA, the Motion Picture Association, operated and the power they exerted on the movie industry; the way it was regulated at the national level, the way that the rating systems were developed, and all those other things that were very much influenced by their industry association. We don't really have that mechanism to advocate for the lottery industry right now. But we are definitely looking at our options and, specifically, how NASPL could be used to exert more political influence to advocate for lotteries at the national level.

Creating the Powerball – MegaMillions deal involved a tremendous amount of work. Many problematic issues had to be overcome. Now that the two consortiums are learning to work together, working through our differences, learning to trust one another and dealing with different work-styles and approaches to problem-solving, I am hoping that working together, as a whole industry, on a nation-wide basis, will be easier to do. I hope that our success in this endeavor will perhaps lead to bigger and better ways of cooperating nationally as an industry.

I would suspect that a year ago there were some people who wondered how much time they should spend on something that they were not confident would ever get off the ground. The success of this initiative should give everyone the confidence to go after ambitious goals that require mutual support and collaboration. Like creating an entity, or using NASPL, that could lobby on a national basis for the interests of state lotteries. State lotteries can't get budgetary funds allocated for a purpose like that but

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perhaps there is a way to use your association to do it.

G. Medenica: That's the tough issue, funding. How do specific state rules apply to the application of NASPL funds towards a purpose like lobbying at the national level? I think the vendor community would be willing to participate and contribute to funding that kind of an effort. But it gets tricky on a political level. Can NASPL accept money from the vendor community that would be a contribution to lobbying? Can state lotteries pay dues to an organization that acts as a PAC? It would be a very good thing for both states and lotteries if we could address our concerns satisfactorily, because we really do need to have an advocate on Capitol Hill. Everyone else in the gaming industry is spending huge sums to lobby on their behalf, and lotteries have no voice, no advocate to even explain our point of view. So, our congressional representatives who are making decisions on issues like Internet gaming, sports betting…they get an earful from everyone except state lotteries. That is not good for the interests of the state or the public.

A slightly different area that I am wondering might have potential for collaboration between lotteries… When I see all the TV commercials competing for the Batchy Awards, I'm quite astonished at the quality that's being produced and the amount of money that must be spent to create all this television advertising. It seems to me that there are many commonalities between all these commercials and that the 40+ U.S. lotteries could get together and share some of those costs. Wouldn't there be potential costs savings of tens of millions of dollars. Do you have any thoughts on the possibility of creating a collaborative effort between lotteries to produce TV commercials?

G. Medenica: It has been discussed. The problem lies in the fact that lotteries have restrictions about what can be said and done in the advertising. And those restrictions and guidelines differ from state to state. That makes it very difficult to produce a commercial that is compliant with all these different rules. For instance, the Washington State Lottery made a wonderful commercial called 'Every Bird Should Fly' and made it available to other lotteries to use. It won the best of the Batchy's. But I don't think it has been used by other lotteries. (Editor note: the WA Lottery confirmed that nobody has used it as of January 1, 2010.)

Now you're going to point out that just because you can't get everyone to sign on to a cooperative cost sharing program doesn't mean you couldn't benefit by getting ten or even five or even, for that matter, two lotteries to split the costs. You know we have considered the possibilities because we've all discussed it together with Leo Mamorsky (DDB New York advertising executive who manages the NY Lottery account). The analogy I use is that on the systems, support, and ticketing side of the business, we have just a handful of major vendors between GTECH, Scientific Games, Intralot, Pollard. All the lotteries benefit by having a lot of commonality so that the cost of providing solutions is brought down and the quality and effectiveness of those solutions is brought up. I think the vendors benefit as well from economies of scale and being able to leverage their R & D and product development to support a large number of customers, and receive the increased revenue from those extra customers. Think about how less cost effective it would be if every online contract were serviced by a different company which needed to incur all the R & D and product development costs as well as acquire the skill sets on the human resources side of the business to service just one contract. Obviously, the costs of doing that would be much higher. Theoretically, this same dynamic would apply to the advertising side of the business too, with significant efficiencies to be gained by spreading the costs between two or more lotteries. DDB New York is our agency and they are a part of the Omnicom Group, which houses a large number of agencies all around the world. There are a number of lotteries which are serviced by agencies which are also a part of the Omnicom Group. You'd think we could at least get these agencies to work together. But the advertising world does not seem to work that way. Even in the case of the Omnicom Group, the agencies work independently from each other. They don't really operate as divisions of the same company. Looking at the way these agencies within the same company tend to compete with each other instead of cooperating makes me think that getting advertising agencies to work together is difficult at best. There are other obstacles, and when you add them all up, it may just be more trouble than it's worth to try to collaborate on advertising.

I suppose everyone likes to think that their market is unique and what works in New York wouldn't work in other markets.

G. Medenica: And of course there's something to that, of course there are differences. I respect the fact that advertising creatives do try to be relevant to their specific markets and produce campaigns that really resonate with the citizens of the specific regional market. But still, there are also many commonalities and so we shouldn't necessarily allow the fact that there are differences in regional markets to prevent us from leveraging those commonalities. But it's true that this perception of differences is certainly an obstacle. And, most of the ad agencies would not see this as a benefit to them and would want to convince the lotteries that it would be a big mistake to try to forge a collaborative approach to advertising. Maybe what we need is a visionary from the advertising side of this industry to champion this kind of innovation. Lotteries themselves have always been very generous about sharing this kind of thing with one another, so I think they'd have a receptive audience.

Having said all that, I do think there are benefits to be gained by lotteries working together on advertising. And in fact, there's an interesting effort going on right now related to the Powerball MegaMillions launch to collaborate on a campaign that would be national in scope. For example, we explored the possibility of buying a Superbowl spot. Something like this has never made sense before and may well not make sense ever again. The Superbowl is scheduled for February 7th, one week after the targeted launch date for many lotteries to sell both multi-state jackpot games. This fortuitous timing created the impetus to do something on a big scale, like a Superbowl ad.' We offered to produce the spot and to put a significant contribution towards the media purchase. GTECH also agreed to be a sort of charter funder. We opened it up to all the member lotteries, and we got a lot of support. Lots of support and lots of people willing to pitch in. But it looks like it's not going to happen. A Superbowl spot costs something on the order of $2 million to $2.5 million, and we ended up short by about half that number. But we're going ahead and producing a spot, and the spot promotes both games, Powerball and MegaMillions. We're going to offer it basically for free to anybody who wants to use it. As we talked about, that doesn't mean it will be used by everyone because all lotteries have their own set of rules and restrictions when it comes to advertising. Also, we need to work out the residual rights fees issues for talent, music and the like and how those are charged. These seem to be two stumbling block for producing ads that are shared between lotteries: the residual rights' fees issues and the need to re-work the ad for use in the individual jurisdiction.

The selling of both games in most of the lotteries does create even more incentive to overcome those obstacles. For example, to buy the Superbowl spots through the local affiliates would cost around $300,000 in New York If we could purchase the national spot for $2 million and share the cost between 35+ lotteries, then that would obviously be a hugely cost effective campaign. So I think it's something that will happen eventually. It may not happen for the January 31 launch, but everyone's aware of the benefits and, I think, very supportive of the concept in principle. Everyone wants to find economic efficiencies, especially in advertising, since budgets are so tight everywhere. ◆

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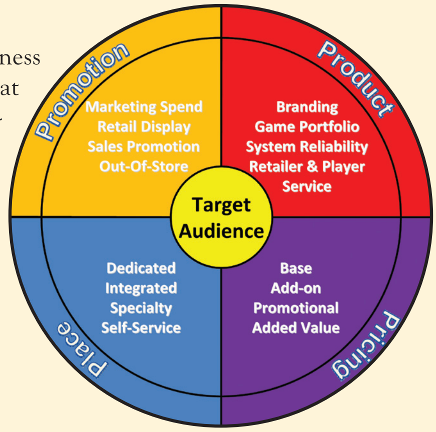
The 5th "P" of Lottery Marketing:
Improving Performance

By Matthew Mansfield, GTECH Professional Services

Traditional business theory holds that a successful marketing mix is a continual balancing of four elements known as the "4Ps" – product, pricing, place or placement and promotion – within internal and external constraints to achieve optimal sales results.

There is no doubt that this approach applied to modern lottery start ups and still holds true for many facets of lottery business development today. However, the expansion, or inflation, of this early universe has accelerated into multiple markets requiring more sophisticated technology and tools to support and measure its growth.



Current Lottery Marketing Mix

At the center of this expansion is the "Target Audience" or, for the lotteries, the players and prospects.

As they have gained experience with lottery, other forms of gaming and other technology over the past thirty years, players have settled into fairly consistent groups across different game formats. Some of this may be due to the need for lottery managers to establish classifications but anecdotal field reports appear to confirm these "clusters":

- CORE: a group of people playing with higher frequency, possibly multiple times weekly, accounting for a large volume of sales (relative to the size of the player base), comfortable with risk-taking and spending on a variety of games, including ones with higher prices or add-on pricing
- CASUAL: a larger group of people playing in a range of low to medium frequency on a monthly basis, accounting for average, at best, but more likely below average sales, spending on low to mid priced games, generally impulse buyers or jackpot chasers
- CURIOUS: other than those opposed to gaming, everybody else who try lottery games once in a while but need a great deal of motivation to play and still are not committed after trying and represent marginal sales

As a result of this evolution, lottery portfolios have diversified, though recent development seems to be focusing on the more predictable income from niche games appealing to Core players to offset the high potential return but random nature of broad-based games for all players.

As portfolios have increased in diversity and complexity from traditional retail to browser-based game offerings, lottery "Product" development has required more creative resources and in-depth research efforts. In response, GTECH has initiated an internal global game development team pooling its design experience with online, printed products, video, sports betting, promotional and internet games with self-funded research support such as the recent World Player Survey.

To support the new portfolio mixes, parallel changes in central system simplicity, open standards, compatibility, reliability and security as well as speed of service have been needed to improve operations. Recent worldwide Blackberry crashes have been dramatic examples of what happens when the back end does not match the front end of a system. In addition, player protection with better ticket checking and age verification has been necessarily upgraded to maintain public trust in the reliability of the lottery.

While base "Pricing" is needed for Casual and Curious players, Core players spend more with add-ons such as Joker and Plus for online games, Multiplier or Bull's Eye for Keno-style games, video lottery progressives or sports betting with intricate mix options.

Added value has also altered pricing, especially with the growth of player registration. Player cards extend the convenience of accessing lottery games and promotions as well as managing their accounts. GTECH Design Concept research suggests that player cards will appeal to Core players and can lead to new compelling "market-within-the-market" content and tie-ins to lottery websites.

An area of major transition is "Place" which has been and continues to be primarily a dedicated clerk-activated "family of terminals," potentially adaptable to low and high volume outlets for which a shared operating system with a common platform and applications is essential to lower total cost of ownership.

With the growth of lottery distribution and retail management demands the need for a portfolio of flexible retail solutions has expanded beyond clerk-activated terminals.

For example, GTECH has been working with several global and national retailers to integrate online game sales into retailer front-end and accounting systems with its Lottery Inside and quick pick cards using end-to-end encryption for transaction security while simultaneously delivering sales tracking.

The new GTECH Gemini series of vending machines, including the Slimline for Europe, redefines the one-touch ease and simplicity of self-service for printed product and online games. Whether standalone or on-counter, self-service offers more than player convenience but player traffic management for retailers and increased game visibility for lotteries as well.

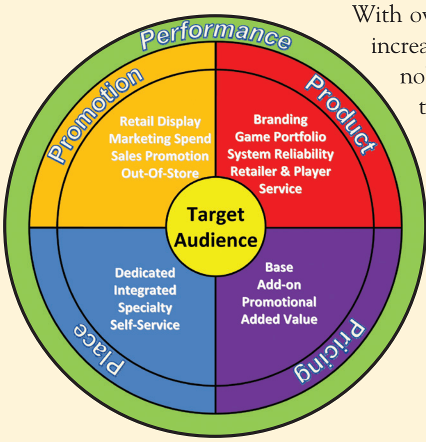
Of course, the ultimate self-service is internet game delivery through player PCs and PDAs, the new channels of distribution for gaming and sports wagering anywhere, anytime. G2 with its Finsoft, St Minver and Boss Media groups have been creating solutions for European lotteries and are now starting to work with progressive lotteries in the Americas.

Finally, "Promotion" has been under pressure to innovate in view of static or declining marketing budgets. The spending impact has been to focus marketing communications efforts at the point-of-sale – retail, destination or internet locations – in the form of more competitive branding efforts and state-of-the-art display technology with digital screens quickly rotating a menu of messages.

To offset display development by non-lottery marketers, GTECH has launched its Enterprise Series MultiMedia digital screen program with several lotteries yielding impressive sales results for promoted products. With year-long testing of digital signage during 2009, Wal-Mart has seen new and seasonal product sales increase by 23% — 25%.

While in-store online promotional offers reach Core players, lottery central systems can also handle direct mail coupons bringing in outside Casual and Curious players. These efforts add to the "news" of game launches, special buying opportunities, media-driven promotions such as the London Daily Mail EuroMillions Sweepstakes developed with assistance from IGI Europrint, part of GTECH Printing Corporation, to create marketing "events" on which to focus precious advertising investment for maximum sales return.

With over thirty years of expansion and increased productivity through technology "Performance" of the lottery marketing mix has grown to be the all-important fifth "P," especially as modern lotteries mature. Fine-tuning growth strategies is now essential to sustain sales and revenue since the low hanging fruit of retail expansion and game development through prize payout increases may not be as easy to find.



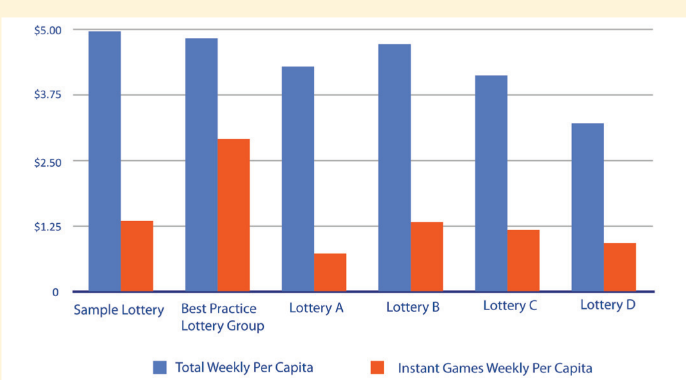
Lottery Marketing Mix
with the 5th "P"

To gain insight for marketing strategy improvements and financial management presentations, lotteries are looking for independent reviews to benchmark their performances. This also means learning from global Best Practices, accessing credible databases and deriving useful interpretations.

To assist lotteries with these efforts, GTECH has put together an independent group of long-standing lottery professionals, GTECH Professional Services, to conduct a comprehensive review of game portfolios and sales performances in a four-step process:

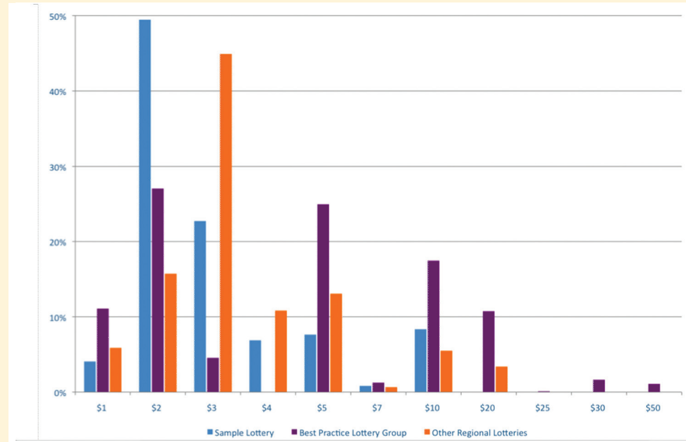
1. Analysis of sales by major game portfolio segment with comparative performance benchmarks using both industry and exclusive GTECH databases
2. Retail and other site visits to player-facing locations for a qualitative review of in-field and organizational execution of lottery business programs
3. Synthesis of the quantitative and qualitative data into a situation analysis and considerations for future sales, marketing and management development
4. Reconciliation of considerations with lottery planned programs and working with lottery staff to implement business strategies for growth, including full implementation plans and benchmarked sales forecasts

For example, an analysis of a "Sample Lottery" Instant Ticket business might start with a comparison of Total and Instant Games per capita sales indicating that Total Portfolio Sales are fine but the Instant Game portion is performing below average.



2009 Comparative Total and Instant Game Sales per Capita

Additional data drill down indicates that the entry-level price and, in particular, the $5 games are under-developed – a condition being reinforced by a distortion in the games launched by price point. Parallel to this finding will be the need to compare sales and profitability performances by price point to determine if gains through higher prize payout at higher price points justify the absolute dollar return.

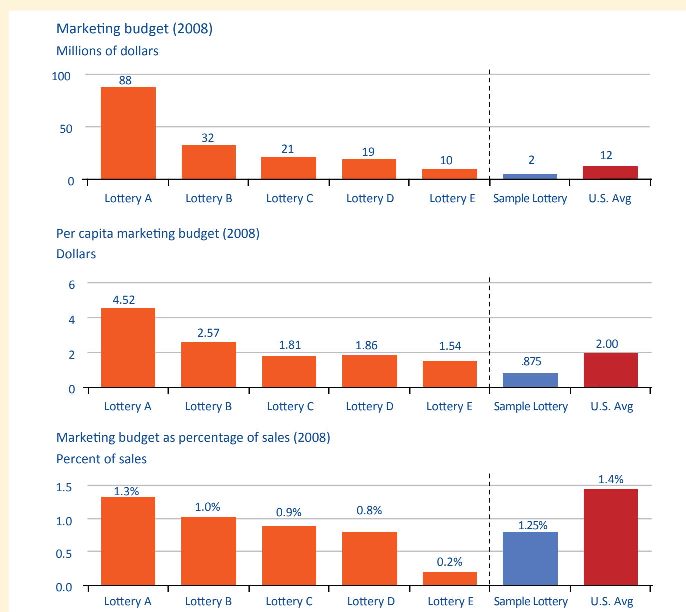


2009 Comparative Instant Game Sales by Price Point

2009 Comparative Instant Game Launches by Price Point

	#of games FY09	FY09 $1	$2	$3	$4	$5	$7	$10	$15	$20+
Sample Lottery	64	9	29	17	0	5	0	4	0	0
Avg Best Practices Lottery Group	60	13	14	4	0	16	1	6	0	2
Avg Other Regional Lotteries	76	14	20	21	3	12	1	3	0	2

While the review will discover other factors causing the sales performance differences, the overall marketing spend is also looked at to determine its impact on reaching players with Out-Of-Store communication. In this case it is evident there is room for expanding the budget, which can be used to support the development of $5 Instant Games.



Comparison of Peer and Best Practice Market Spending

In the lotteries of today the fifth "P" is the ultimate benchmark by which the dynamics of the original "4 Ps" are measured. Quantitative tools such as correlation and regression analyses combined with direct observations of the "real life" situations and thoughtful interpretation are essential. With this perspective the influence of other gaming galaxies can be measured and lottery game portfolio performances improved. ◆

Philippe Vlaemminck & Annick Hubert

The EU Gambling Debate after the ECJ Ruling in Liga Portuguesa de Futebol Profissional Case

In the fall of 2009 the European Court of Justice has been very active in the EU gambling debate. Not only did we see, on September 8, the long awaited judgment in the Liga Portuguesa de Futebol Profissional case, but in the meantime we had oral hearings as well as the opinion of the Advocate-general Bot (AG) in the Dutch Ladbrokes and Betfair cases, and oral hearings in the German Markus Stoss, Carmen Media, Winner Wetten and other cases.

The ruling in Liga Portuguesa is a clear victory for the EU Member States, as the European Court of Justice has clearly recognised the right of the EU Member States to regulate and control their national online gambling markets and therefore the application of the principle of mutual recognition in the gambling sector was explicitly denied.

The delivery of the judgment, almost a year after Advocate-general rendered his Opinion in this case, has proven to be a very challenging task for the 13 judges of the Grand Chamber. Nonetheless, the Court has managed to deliver a very clear and even concise ruling, establishing the core principles of the power of the Member States in the field of online gambling.

The Court was asked to rule upon the validity of the extension of an exclusive right for the organisation of lottery and gambling activities to an online offer, under the European free movement principles. The case concerns the Portuguese legislation which confers on Santa Casa de Misericórdia de Lisboa, a centuries-old non-profit making organisation operating under the strict control of the Portuguese Government, the exclusive right to organise and operate lotteries, lotto games and sporting bets via the Internet. The aim of this restrictive legislation is to prevent the operation of games of chance via the Internet for fraudulent or criminal purposes and to protect Portuguese consumers against gambling addiction and other gambling related risks. The Portuguese legislation in question also provided for penalties in the form of fines which may be imposed on those who organise such games in breach of this exclusive right and who advertises such games.

Bwin and the Portuguese Professional Football League were fined 74500€ and 75000€ respectively for offering games of chance via the internet and for advertising those games within Portuguese territory. According to a sponsorship agreement between Bwin and the Portuguese Football League, Bwin logos were displayed to the sports kit worn by the players and affixed around the stadiums of the First Division clubs. The League's internet site also included references and a link allowing access to Bwin's internet site, making it possible for consumers in Portugal and other States to use the gambling services thus offered to them.

In its ruling, the European Court of Justice first confirmed its previous case law. According to the case law the Member States are free to set the objectives of their policy on betting and gambling and, where appropriate, to define in detail the level of protection sought. It must however be recalled that national legislation is appropriate for ensuring attainment of the objective pursued only if it genuinely reflects a concern to attain it in a consistent and systematic manner.

The Court extended its previous case law on the validity of an exclusive right in the gambling sector to an exclusive right system regarding the online provision of gambling services. Indeed, in the Liga Portuguesa de Futebol Profissional ruling, the ECJ acknowledges that the grant of exclusive rights to operate games of chance via the internet to a single operator which is subject to strict control by the public authorities may, in circumstances such as those in the proceedings, confine the operation of gambling within controlled channels against fraud on the part of operators.

The key point and most important achievement of this ruling is that the European Court of Justice has explicitly denied the application of the EU principle of mutual recognition in the gambling sector. According to the basic "mutual recognition" principle a Member States has in principle to recognise a license granted in another EU state without duplication. The Court considers that this basic principle cannot be applied to gambling services.

The Court states that in the absence of harmonisation, a Member State is entitled to take the view that the mere fact that a private operator such as Bwin lawfully offers gambling services via the internet in another Member State, in which it is established and where it is in principle already subject to statutory conditions and controls, cannot be regarded as amounting to a sufficient assurance that national consumers will be protected against the risks of fraud and crime.

According to the Court, in such a context difficulties are liable to be encountered by the authorities of the Member State of establishment in assessing the professional qualities and integrity of operators.

The Court also recognised that games of chance accessible via the internet involve different and more substantial risks of fraud by operators against consumers, compared with the traditional markets for such games, given the lack of direct contact between customer and operator. Thereby the Court thus ruled that internet games are more dangerous than physically offered games, even when regulated and controlled by the competent authorities of the Member State of residence of the consumer.

This assessment goes very far and means the end of gambling hubs like Malta and Gibraltar. The ECJ indeed rules that the competent authorities in those jurisdictions, being the jurisdiction of establishment of the operator, cannot sufficiently guarantee the integrity and quality of operators providing their games in another Member State. Therefore, the Member State of residence of the consumer can maintain its own

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restrictive conditions and can legitimately prohibit access to its market for operators established abroad.

Although the legal counsels of Bwin and other companies operating from such jurisdictions have heavily criticized this ruling as being 'irrelevant' or very limited to the particular circumstances of this case, there is no doubt that they need to put an end to the abuse of the internal market committed by providing their games all over the EU without abiding by the restrictive legislation in the Member State of their consumer. Several of their legal counsels have tried to find escape routes by inventing terms like 'conditional mutual recognition' and presenting the solution for the Member States to engage in bilateral agreements. Admittedly these thoughts are very creative but unfortunately they are not only very unclear as to their meaning but also in blunt contradiction with European law.

The answer the ECJ formulated to the question referred by the Portuguese judge leaves no room for interpretation.

In the Ladbrokes and Betfair cases the AG Bot confirms the ruling in the Liga Portuguesa de Futebol Profissional case, in which the Court clearly has taken the position that the principle of mutual recognition does not apply to a licence to offer games on the internet.

He further states that a system of exclusive rights has precisely the object of preventing any operator other than the holder of those rights from engaging in the activity covered by that system. Such a system is justified and therefore compatible with EU law, it is immaterial that the operators wishing to offer games in the Member states where such a monopoly exists are authorised to do so in their Member state of establishment.

Meanwhile, the Swedish Presidency of the EU came to its end and the Progress Report on the discussions held between the Member States within the Establishment and Services Working Group was be presented to the Competitiveness Council. A special attention was paid to the issues of responsible gaming and the need for proper regulation. A large task is still waiting for the upcoming Spanish and Belgian Presidencies, shaping the position of the Member States even more, by determining which gambling related elements should remain national and which elements require a European solution. The different cases in the European Court show us the issues which remain under discussion and will require rather a regulatory approach.

In the Ladbrokes and Betfair cases the AG pointed to two main difficulties which remain unresolved: the possibility for exclusive right holders to expand their activities and still to fulfil the consistency test and the discussion regarding the procedure for allocation of operating licences.

Similar to the position of the Commission in recent German cases, the AG limits the recognition of the theory of controlled expansion to the objective of the prevention of crime and fraud. He states that an attractive alternative is indeed necessary if a Member State aims to prevent fraud and crime, but he doesn't recognise this regarding consumer protection (prevention of gambling addiction). Therefore, one cannot conclude, based on this opinion, that an attractive alternative, requiring a wide range of games, advertising to a certain extent, and the use of new distribution techniques, might be necessary to channel the gaming desire into a highly regulated offer which aims to protect the consumer against gambling addiction etc.

The AG concludes that the fact that holders of exclusive rights to operate gaming in The Netherlands are authorised to make their offers attractive by creating new games and advertising is not, as such, inconsistent with the aims of the Dutch legislation, because it contributes to the prevention of fraud.

However, in so far as the Dutch legislation also aims to protect consumers against gambling addiction, the creation of new games and advertising must be strictly controlled by the national authorities and limited so that they are also compatible with the pursuit of that aim. Accordingly, the reconciliation of the two aims pursued requires that the games offered by the holders of exclusive rights and advertising for authorised games be sufficient to induce consumers to remain within the legal gaming system without constituting an inducement to excessive gaming, which would lead consumers, or at least the weakest among them, to spend more than the share of their income available for leisure pursuits. If this balance is not respected, the policy is not consistent and cannot be upheld.

The AG also argues that the case law concerning the obligation of transparency is also applicable to a licensing system limited to a single operator in the gambling sector.

The obligation of transparency appears to be a mandatory prior condition of the right of a Member state to award to one or more operators, other than the state, the exclusive right to carry on an economic activity, irrespective of the method of selecting the operator(s). According to the AG, the particular nature of gaming does not justify authorising a Member state to create an exception to that obligation. Once a Member state decides to entrust the operation of one kind of gaming to the private sector, the Member state must respect the principle of equal treatment of all economic operators who would be potentially interested.

He does not believe that a call for tenders for the contract would have detrimental effects comparable to those of competition in the market. In the context of a system of an exclusive right granted to a single operator, protection for consumers against the risk of addiction to gambling and the prevention of fraud are ensured by means of conditions imposed by the Member state on the single operator in order to strictly limit its activities. A call for tenders would also enable the competent authorities to grant the licence to the operator who appears best able to comply with all the conditions in question.

The AG emphasizes that transparency is the fair counterpart of the constraints which the Member states, in exercising their sovereign rights may impose on the freedoms of movement.

The grounds capable of justifying such constraints on the freedom of movement in the gambling sector may also legitimise the grant of exclusive rights for a sufficiently long period of several years. A Member state may consider that the protection of consumers against the risks associated with unauthorised gambling, in particular through Internet, necessitate a degree of stability in the selection of the holder(s) of exclusive rights. However, the grant of exclusive rights for an unlimited period is difficult to justify in principle, because it closes the market of a Member state to all the operators who would be potentially interested with no limitation in time.

When it comes to the renewal of the exclusive licence, it may be justified by the defence of an essential interest or by reason of overriding reason in the public interest, such as the protection of consumers against the risks of excessive expense and addiction to gambling, as well as the prevention of fraud to renew the licence without a call for tenders. It is for the Member state to show that the derogation from the principle of equal treatment and obligation of transparency are justified on one of those grounds and that it conforms the principle of proportionality.

To what extent the European Court will follow the reasoning of the AG regarding consistency and transparency in licence allocation , is not yet totally clear, but clearly it will have a serious impact on the way games of chance are operated in the EU, unless the Member States decide to provide for a regulatory consolidation of their model through European legislation. ◆

Victor Duarte & Robin Drummond

Victor Duarte, President and Chief Executive Officer, SPIELO; Robin Drummond, Vice President, Sales, SPIELO

The variety of games that are readily accessible to almost everyone is exploding, as is the variety of media and channels of distribution. The player will want to easily navigate this new superstore of options, migrating from one game style to another and using the most sophisticated account management tools to facilitate access to all the different gaming options. The technological infrastructure and central system server will be required to support a far more complex environment that manages customer relationships. The operator in this new gaming environment needs to enable all this to happen. These are positive trends for those operators positioning themselves now for the next generation of gaming enthusiast.

SPIELO and its affiliate, GTECH, are on the leading edge of this trend towards convergence of products, games, and distribution channels. Public Gaming visited with Victor Duarte and Robin Drummond of SPIELO at the G2E Las Vegas trade show to talk about the strategies and products that operators are implementing to meet the demands of this new gaming environment. We also talked about the different approaches taken by Sweden, Illinois, Italy, Oregon, the Canadian lotteries, and other jurisdictions.

Public Gaming: *SPIELO has had long-standing relationships with many lotteries that operate in highly regulated gaming environments. How have those relationships informed your research and development process?*

Robin Drummond: We've been very fortunate to have developed these relationships that contribute to our R & D. Most are focused on the lottery and VLT business. When you look at the trends in our industry, those relationships position us very well for the new jurisdictions coming on board. Svenska Spel in Sweden has been in the VLT business for decades, and is unquestionably one of the leaders in the industry. A lot of the trends that we see coming into the industry start in Europe, then migrate to Canada, and then migrate to the United States, to jurisdictions such as Oregon. So the fact that we've had that long-standing relationship with Svenska Spel and with customers in Canada like Atlantic Lottery Corporation and Loto Québec, and the other Canadian lotteries, helps to keep us on the leading edge in technology and games. Now we're starting to see more of the U.S. customers, like Illinois, follow Oregon's lead. SPIELO is in a unique position to help those new programs because of the relationship that we've built up in the lottery business over the course of the last 20 years.

Our customer-directed product development has taken place in three fundamental areas of the business. We credit our relationship with Svenska Spel for facilitating the development of our latest generation central system. The INTELLIGEN™ Central System has very well-developed and advanced value-added features that have never been seen in a central system before. These value-added features allow our customers to invest only in the functionality they need, and help customers manage their businesses and player bases more effectively, while introducing concepts like Responsible Gaming to the marketplace.

The second element of customer-directed development is the machine itself. As a result of cooperation with various lottery customers, the WinWave Vu™ and the prodiGi Vu™ cabinets were developed to meet and exceed the expectations of the government-sponsored market. These are innovative, value-driven cabinets incorporating the features and functionality that our customers want. They are easy to service, reliable, and do exactly what the lotteries need them to do, for as long as they're needed to do it. The replacement cycle is typically in the 7-to-10 year range, often in distributed networks that are difficult to reach and service, since they don't have dedicated onsite personnel. This is a very different situation from the traditional casino. It is imperative that you have a product that's robust, and that has long-standing capability to perform day after day.

Of course, the most important part of this picture, from a revenue-generating standpoint, is the games themselves – this is the third element. Bars and taverns are different from big casino floors. The player styles and preferences can be different as well. Our R & D team studies those differences and creates content that appeals to each specific market. There are new ideas and new markets being created all the time. Community play and appealing to the players' desire for social interaction is becoming more important. Networking bars and taverns for progressive games, creating other games for players to compete with each other, or at least allow them to be dialed into the activity of the other players… these are some of the things we are working on to truly maximize the appeal of our games in each market. And we rely on the special relationship we have with our customers, the operators, to help us develop and produce the best products. This enables us to help new jurisdictions launch their programs and generate income as quickly and efficiently as possible.

So there is sort of a positive feedback cycle where the work you do for each jurisdiction drives your R & D process, and ultimately helps you be a better partner with all of your clients.

Victor Duarte: Exactly. The impetus for developing the INTELLIGEN Central System was Svenska Spel and their needs. We spent a lot of time listening to their needs, playing back to them what we thought we heard, and making sure that we were on the same page. And we didn't stop there. We actually took that information and went to all of our customers, such as Oregon, Atlantic Lottery Corporation, and Loto Québec, and validated those needs with them. Once we really understood the needs, we were able to build products and functions that met those needs. So it becomes a self-fulfilling prophecy, or a positive feedback cycle, as you put it. We make sure we have heard our customers correctly. We then build the product to meet their needs. And when a new requirement comes up, either from a new jurisdiction or from an existing customer, we are in a great position to combine what we already know about the market with the new idea that we integrate into our knowledge base. Everyone benefits – especially new jurisdictions that are just starting out. Our depth of experience and knowledge in meeting the needs of markets all around the world enable us to help new operators launch their programs quickly, and with the right products.

It's sort of a unique thing, isn't it, to be the supplier to customers who are in essentially the same business, and yet they aren't competing. And so everyone can feel free to help each other succeed. And everyone benefits by helping you to produce a better product since that will contribute to their own success. Are there any obstacles to cooperation that I don't really see, or the fact that everyone is basically operating in different markets means that no, there are really minimal obstacles to full and open collaborative efforts?

V. Duarte: I really don't see obstacles. In fact, I see the opposite. I see the Canadian jurisdictions getting together with Oregon and Sweden to actually talk about how to move the industry forward, and getting suppliers to meet their needs as well. The jurisdictions then come back to us and tell us what they need collectively, and ask us what we can do to meet those needs. Not only is it not competitive, it's actually a very collaborative environment, and we help facilitate and participate in that.

R. Drummond: From a vendor's standpoint, this also reinforces your need to live up to all the commitments that you're making. These jurisdictions are all communicating with each other – some on a daily basis. Because the communication is so quick and so collaborative, what happens in one jurisdiction like Svenska Spel is immediately known by another, such as Oregon State Lottery, and what you do in Oregon is immediately understood by the Alberta Lottery, and so on. Of course, that can have both positive and negative implications. Our reputation is something that we value extremely highly. We realize that our performance is being evaluated every day, and those evaluations are shared among all of our customers in real time.

Convergence…Is there any reason why all different products can't be distributed through all different channels and games? Like using the VLT cabinet to sell lottery tickets?

R. Drummond: GTECH is well-positioned to take advantage of the potential created by convergence of channels, products, and markets. There are four different parts of GTECH's business that are positioned to specialize in different areas of the gaming industry, but most importantly, they're positioned to build an integrated approach to the business. The players want the operator serve up these products in ways that support the kind of flexibility that young people in particular expect. We have the core online lotto business, the printed product business, the new media and sports betting business with G2, and of course we have the video lottery gaming and casino gaming business with SPIELO and ATRONIC. The operators want to be able to manage a more complex relationship with the player – one in which players easily migrate from one game type to another. The players want something similar. They want to be given the tools to manage their play across all of the different channels and games. The primary vehicle for doing that is the central system. The central system enables the kind of dynamic dialogue between operator and player, and provides the technological tools to manage a more complex set of distribution channels and wider variety of games. You need a system that provides a player account, so that if the player wins on a scratch ticket provided by printed products, they can use that scratch ticket money to go and play a VLT, and when they go home they can use their VLT winnings to play on the Internet, and then take that and purchase a PowerBall ticket. Their account allows them to manage their play across all four of those product lines. That would also facilitate doing things like playing PowerBall or Mega Millions on the VLT. These capabilities exist, and will become increasingly relevant. In the short-term, there also is the question of whether or not one wants the player to be able to migrate easily across all game types and channels. It raises questions about the effect convergence could have on time-on-device, for instance. In the short term, the operator will want to think carefully about how to introduce these capabilities, and make sure they are implemented in ways that contribute to revenue for their operation and satisfaction for their players. In the long-term, the young players will demand this kind of flexibility and will be quite capable of managing a wider variety of interests without being confused or distracted by the variety of options. We need to move now to build convergence into our systems to meet the needs of our players, because it is definitely the direction our players are going in.

I read that you just signed on with a distribution partner in Illinois. Are you required to partner with a local distributor to maintain and service the product?

R. Drummond: This is a new program in Illinois, so they didn't want people parachuting in and taking advantage of the new program and becoming a distributor with no track record as an Illinois company. The requirement in Illinois is that the distributor has residency and that the company has been operating in the state of Illinois for four years or more. GTECH has been the provider to the Illinois Lottery for more than four years, so we could distribute our own product if we wanted to set up the infrastructure. We could be our own distributor because we do meet the residency requirements. However, an existing distributor has the advantage of pre-established relationships with the operators, as well as connections to those contacts and the places where the equipment is located all around the state. We decided that we would serve the customers best by partnering with AG&E, the subsidiary of Wells-Gardner, primarily because they have those relationships with the community that put them into a better position to deliver great service and support.

The VLT program is overseen by the Illinois Gaming Board. Are there any kinds of dotted-line connections between the Illinois Lottery and the Illinois Gaming Board? Does the State Lottery have anything at all to do with the VLT program?

R. Drummond: No. They are separate organizations. However, they are both obviously agencies of the State of Illinois.

Will the Illinois program be a performance-based system allowing the best machines to replace the under-performers, like it is for many of the state lotteries?

V. Duarte: Illinois would operate in a very similar fashion, except that the individual operators are making the decisions, not the lottery. In states like Oregon, Rhode Island, New York, Delaware, and in jurisdictions in Canada, the lotteries make the decisions. Commercial partners win or lose machines on a regular basis through a structured process. However, in Illinois, the operators are going to be making the decision about what machines they'll buy. And they'll be making that decision presumably on the basis of how those machines are performing. The speed with which they choose to replace those machines will be very dynamic. The business model they have for their five machines, 500 machines, or 1,000 machines – depending on how large the operator is – is one they can adjust on a daily basis. It is a very entrepreneurial situation, with each operator deciding every day, "Do I want to stick with the same machines that I have? Are they already written off? And even if they aren't already written off and paid for, is there a benefit to switching to a higher-performing machine anyway? What can I do today to maximize the profitability of my business plan?" Those decisions will be made by the individual operators. ◆

Michael Waxman

Executive Director, Safe & Secure Internet Gambling Initiative (www.safeandsecureig.org)

Public Gaming: *Please describe your mission and advocacy position.*

Michael Waxman: Our mission at the Safe and Secure Internet Gambling Initiative is to reverse the federal prohibition against Internet gambling. We believe that Americans should be given the freedom to gamble online in a regulated environment where operators are required to protect against fraud while preventing problem gambling and underage gambling.

There are some who would argue that federal law doesn't explicitly prohibit Internet gambling. What's your view?

M. Waxman: While current law – UIGEA – does not expressly prohibit Americans from gambling online, since it requires the financial service sector to block payments for unlawful gambling activity, the intention is quite clearly prohibition. The financial service sector has argued that this approach is burdensome and doomed to fail, which should encourage Congress to forge a new path.

In moving forward, Chairman Barney Frank has drawn from the playbook used during the reversal of the prohibition of alcohol in the 1920s. In that case, the federal government removed the federal prohibition and allowed the states to determine how best to control and distribute the product, or if they choose, to prohibit it. Chairman Frank's approach is similar. He proposes having the federal government regulate Internet gambling activity and grant licenses to qualified operators, while allowing the states to decide how, and even whether, Internet gambling would occur. States would also have the authority to impose additional fees or taxes on Internet gambling as is allowed with other similar economic activities.

You referred to the Frank bill. What are the differences between the Frank and the Menendez bills?

M. Waxman: They are more similar than different. Both want to expand the opportunity for Americans to gamble online. And both require licensed operators to impose stringent safeguards to protect consumers. The most significant difference is that Chairman Frank's legislation would allow for Americans to play a wider range of games including poker and casino games. The Menendez bill would only allow for games of skill, which I would presume implies to be games like poker, chess and bridge since it isn't defined in the legislation.

The other significant difference is in the way that fees on the activity and industry would be charged and allocated.

To clarify, in the House, the Frank bill is more focused on the non-financial regulatory requirements, only specifying that licensed operators collect and pay all applicable taxes. A companion piece of legislation, introduced by Rep. Jim McDermott, lays out in more detail the fees that would need to be paid. This includes a two percent licensing fee on all player deposits that would be paid by the operators.

In the Senate, Sen. Menendez wrapped all the provisions into one bill. He proposes a flat 10 percent license fee paid by the operators on all deposits, which would be evenly split between the federal government and the states or Indian territories where the online gambling activity is taking place.

And the state government can apply additional taxes if they choose, correct?

M. Waxman: This would be the case with approval of the McDermott bill, which would grant states the authority to regulate the activity and impose fees beyond what is mandated by federal law. Sen. Menendez's bill would not have this flexibility. States would only be entitled to the five percent fee on all deposits, as well as other applicable taxes on business operations and income generation, which is also going to be a hefty sum.

With so many cash-strapped states, I'm shocked there aren't more elected officials at the state and local levels calling for the regulation of Internet gambling in order to protect consumers and collect substantial revenues otherwise lost to offshore operators who accept wagers in the US.

To give you a sense as to the size of the underground marketplace and opportunity to generate new revenue, if this regulation is enacted, it's estimated the federal government could receive up to $42 billion over the next ten years. This figure doesn't even factor in what could be collected at the state level.

Do you have an advocacy position that favors one bill over the other? The Frank bill versus the Menendez bill?

M. Waxman: Passage of either of these bills will be better than what we have now. The first step is just getting the door opened and expanding the opportunity for Americans to wager online in a safe and secure environment.

Do either of these bills allow for an evolutionary process to occur without going through this burdensome process of having things approved by Congress?

M. Waxman: With the passage of either bill, Congress would determine how the industry is regulated and which activities would be permissible. However, any legislation passed to regulate Internet gambling can be improved over time. For example, in the future, we would hope that Congress would consider permitting online wagering on sporting events.

As previously stated, the key first step is getting legislation passed that creates a framework for expanding online gambling activities while protecting consumers.

What is the likely timing for the passage of any of this legislation?

M. Waxman: Momentum has clearly swung in our direction and we believe passage of legislation to regulate the industry is inevitable.

One major factor working in our favor is the support of key leaders in Congress. Not only is our most ardent supporter – Barney Frank – chairman of the Financial Services Committee, but among the growing number of co-sponsors are George Miller, John Larson, John Conyers and Charles Rangel – all key power brokers in the House.

Another factor is Congress' opportunity to collect billions of dollars in new revenue through Internet gambling regulation. These monies are desperately needed for critical unfunded or underfunded programs.

It's hard to predict when this is going to get done. It could be accomplished this year or, most likely, sometime in the next couple of years.

There is so much money on the table in the form of tax receipts. It seems such a shame for Congress to let what would appear to be a minimum of $15 billion in tax receipts go out the window every year. And that's actual tax receipts, not just taxable revenue. The states need that revenue desperately.

M. Waxman: I agree with you that the incentive is there for Congress to act quickly. However, Congress moves at its own speed and we will not be able to get this done until more members come on board. We have some great champions on our side, and we need to support them. But, we also need to continue to push to get this done. As previously stated, I ultimately believe we will be successful, and am hopeful it will be sooner rather than later. ◆

Lotoclic: A Source of Interesting Findings

By Carole Pinsonneault, Ingenio

Around two years ago, on October 15, Loto-Québec launched Lotoclic, its gaming portal. Since then, over six million rounds of interactive lottery games have been played by the corporation's Web clientele.

Like many of the world's lottery corporations, Loto-Québec continuously invests a great deal of effort in its gaming line-up in order to meet the ever-changing needs and demands of its customers. The Web has become a top source of entertainment for consumers, so Loto-Québec must position itself strategically to meet that demand.

"Loto-Québec decided to introduce the Lotoclic gaming portal as a way for the company to make its first foray into the world of interactive Web-based gaming without launching into online gambling per se," says Nathalie Rajotte, director general of Ingenio, Loto-Québec's R&D arm. Rather, Lotoclic brings together a large variety of short-play multimedia games called Quick Play Games, which are part of the greater family of instant interactive lotteries that require customers to purchase a ticket at a retail outlet.

Our first two years have taught us that something can always be learned about online player behavior. "The portal helps us understand the market and establish a direct relationship with consumers without an intermediary," says Nathalie Gemme, head of the Loto-Québec Marketing branch's Instant Lotteries department. As a result, we get virtually instant feedback: a Quick Play Games portal can be used as a nearly real-time lab for testing games, gauging user preferences and honing overall approaches.

MAJOR SURVEY

When it was launched, the portal hosted nine games. Today, Lotoclic players can choose from some 30 small games in three categories: action/sports, discovery and word games/puzzles. The site now also includes a "Game Trivia" section about the games, a list of the five most popular games, and a background that changes with the passing seasons. Plus, each player can view a list of the games he or she plays most often.

To paint a picture of Lotoclic fans, a survey hosted on the site itself was launched in winter 2009. Over 5,200 customers accepted the invitation to take part, and the responses of 2,035 of them were retained as a representative sample of people who purchased four or more Lotoclic product tickets.

Among the survey findings, "click and reveal" games turned out to be just as popular as "skills" games, a statistic that supports an approach based on diversity. While confirming that it was successfully reaching the intended target market, namely women in their mid-forties, it was pleasantly surprising to note that 20% of Lotoclic clients were in the 34 or above range, despite the fact that none of the advertising campaigns targeted them in particular.

A BRIDGE BETWEEN LOTTERIES AND CASUAL GAME PLAYERS

The findings also led to a very interesting conclusion for Quick Play Game developers. According to the survey, 80% of Lotoclic clients are also fans of online casual games. Quick Play Games just happen to meet the criteria of these kinds of games: they're easy to play and entertaining.

"This particular finding has confirmed what we've said all along, that fans of Web-based casual games are attracted to Quick Play Games, multimedia instant lottery games that give players an opportunity to have some fun combined with the added value of maybe winning cash prizes," adds Nathalie Rajotte.

Loto-Québec is not the only ones who can see a market for this product category. A large number of online gambling Web sites operating in parallel with our industry have understood just that. For some time now, they have been peppering their traditional gaming offer with their own brand of instant multimedia games; marketed under a variety of names, each one is clearly related to a lottery game.

A MORE VARIED LINE-UP, WITHOUT ADDITIONAL RETAIL COSTS

One of the big benefits of implementing a Quick Play Games portal is the ease with which the gaming offer can be managed. When it comes to paper instants, adding a new product usually means withdrawing an existing one, a choice that is not always easy to make.

"In comparison, there's no additional cost to the Lottery to keep all interactive games on its portal once it has been launched, because the space it takes up is only virtual. At the same time, consumers are offered a wide selection and can therefore customize their gaming experience," says Nathalie Rajotte. A closer look at this product also revealed that it is an excellent example of the Long Tail phenomenon popularized by Chris Anderson of Wired magazine.

A number of lottery corporations, including the British Columbia Lottery Corporation (BCLC) and Denmark's national lottery, Danske Spil, have added Quick Play Games to their product line-up. The Kentucky Lottery is also conducting a pilot project involving this kind of game, while GTECH features a Game Lounge portal among its lottery products.

"In the age of 2.0, where now more than ever consumers can access a wide array of custom products, and where using the Web space as a commercial, and yet state-of-the-art, responsible gaming tool, Quick Play Games constitute a key transition solution for Lotteries seeking to take their first steps in that direction," says Nathalie Rajotte. ◆

all operational aspects of the business and the implementation of these games. The launch is still very complicated, but I do think everyone has all of the technical and operational aspects well under control.

It seems to me that this cross-selling initiative really introduces a whole new level of complexity to the concepts of brand management and optimization of the whole portfolio of products.

M. DeFrancisco: It absolutely does. The introduction of the second super jackpot game into our product mix does dramatically impact the entire brand management strategy. The goal, of course, is to maximize net sales. Some games will likely decline as a result of a change like this. We need to make sure that the net effect is positive. Ideally, we will find creative ways to reposition all the different products so that everything appeals to different player preferences and all products in the portfolio continue to increase or at least maintain their positive sales trend line. And we definitely need to explore new concepts and strategies to make that happen.

Isn't it the case that all participating lotteries would expect a minimum net sales increase of 6% or 7%? And nobody will really get in trouble for delivering a 6 and 7% increase. Isn't it also the case, though, that there will be some state lotteries that are going to execute in a way that delivers decisively more than that. I know we do not want to raise expectations because nobody knows for sure precisely what the impact will be. But can you point at some of the things that can be done to truly optimize the net impact on overall sales?

M. DeFrancisco: I think it's about creativity, collaboration, energy, enthusiasm. It's about knowing your customers, bonding with your customers so that they know you and understand your products and you understand their wants and needs. We all do pretty much the same thing, which is sell lottery tickets. We will go about the business of doing that in different ways. And with a smart, collaborative, 'best practices' approach, we should be able to move rapidly up the learning curve and identify the strategies that work best and fine-tune the skills to implement them. I also want to assure you that I do not have all the answers! We're all learning a great deal as we go along.

The Mega Millions lotteries have a different way of managing the jackpot game and their working relationship than the Powerball lotteries.

M. DeFrancisco: Yes, of course. MUSL is an institution, handling many of the functions of administrating and implementing Powerball for its 30+ members. The Mega Millions group is 12 states. We have no organization like MUSL, so our game is operated within and the work is done by the Mega member lotteries. We have twice weekly conference calls and are directly involved with all the decisions required to operate the game. So both groups needed to adjust their work styles and to understand each other's operations in order to create the consensus needed to make this work.

With two rolling jackpots, is there a concern about jackpot fatigue syndrome, and is there anything that can be done to minimize the negative aspect of that?

M. DeFrancisco: Of course, that continues to be a challenge. But the selling of both games should give us a wider variety of marketing and promotional options. We're already working on the next stage, the Premium/National game. I honestly feel we have never been in a better position, with more momentum and creative ideas to drive us forward in positive ways. Challenges like jackpot fatigue will never go away, but I don't see it being exacerbated by having two games. I see us as having more tools in our bag to deal with this and all other challenges that come our way. Really, it's our ability to work together as a group that will empower us to accomplish so much more than we can as isolated lottery organizations. It won't necessarily be easy, but it is fun.

You mean if you like extreme torture and hard work?

M. DeFrancisco: Yes, exactly! Seriously, as difficult as it has been at times, it's something that you know will reward all the hard work a hundred-fold. That's what makes it fun. It's a real tribute to all the lottery directors, all the lottery employees, our commercial partners and all their employees, that they pulled together to make it happen. In fact, sitting at the table the other day with my friends and colleagues from all around the country, it struck me that this is what this industry is all about. It's just flat-out exciting to work with really smart people to solve problems and figure out how to deliver more funds to the lottery beneficiaries.

This cross-selling initiative has probably consumed so much time that there's not much time left over for another important initiative, the national retailer 'big box' channel.

M. DeFrancisco: I'm afraid that's not how it works. Nothing ever stops. We need to keep the pressure going on all different fronts at the same time. Opening up new channels of distribution is more important than ever. Of course, states need the revenue. But one of the things that the bad economy did was to cause everyone, even the big national retail chains, to look for new revenue opportunities, new products to sell. Many of us have pilot programs going. We get very positive feedback, and so we hope for some breakthroughs to happen at some point. We've engaged our three major commercial partners, Intralot, Scientific Games, and GTECH, to help get better access to the very top management level, the CEO's and COO's of the big companies. We need all the help we can get because we have a powerful story to tell and know that the national chain stores will benefit from selling lottery products. GTECH was instrumental in helping move the Dollar General account forward. Now is really the time to push hard to open these new channels and get positioned for the economic recovery. Can't say I have a crystal ball, but I think we are all hoping to see some improvement in 2010.

You're saying that the national chain stores might be more receptive than ever because of the down economy, that now is perhaps the time to strike while the iron is hot?

M. DeFrancisco: Yes. Every retailer, in good times and bad, is looking to expand the customer base. Of course, we believe that it is always the right time to offer customers entertaining lottery products. For instance, we have had inquiries from other lotteries asking about our airport retail project. Everyone is thinking about new channels, new strategies, new and better ways to reach more customers. Where can we go that we haven't been in the past because that will likely mean brand new customers. Transportation centers are certainly a great target because there is huge traffic there. The Atlanta airport alone has over 90 million passengers a year. Think about that. The entire population of Georgia is less than 10 million. To have that kind of exposure to nine times our entire population is amazing. And businesses of all kinds are more receptive than ever to opportunities to enhance their sales and profits. To go back to your original question, obviously we need to focus on all these different things at the same time. We can't afford to drop any balls for any reason.

The term "modernizing" the basic model for lottery organizations. What does that mean to you?

M. DeFrancisco: I think it has been used in different ways. To me it refers to the need to allow and encourage lotteries to be entrepreneurial enterprises. In Georgia, our enabling legislation actually refers to the lottery corporation as an entrepreneurial enterprise. But not every jurisdiction sees its lottery that way. Modernizing the organizational structure could mean that we function like a results-oriented sales and marketing operation; an organization and culture that is innovative, creative and driven to accomplish great things, like increased funding to good causes. Our mission is fundamentally different from any other governmental agency.

What are some of your other priorities as president of NASPL?

M. DeFrancisco: John Musgrave, the immediate past president of NASPL, created a strategic planning committee that I think should play a very important role for all of the members. As important as it is to achieve our short-term objectives, we also need to clarify long-term agendas and make sure that our activities are aligned with those long-term goals. Cross-selling of the jackpot games, for instance, is aligned with the long-term agenda of getting us all to work together. Our ability to collaborate on large scale projects, on a national scale, will be instrumental to putting us into the leadership position in the gaming industry. If we can harness the combined power of all the state and provincial lotteries and have at least some of our agendas be implemented as a unified force, that would clearly be good for all individual lotteries. Working together to build relationships with national retail chains would be another long-term agenda that should guide our short-term efforts to crack these big accounts. Clarifying the common interests when it comes to new media like internet gaming involves long-term strategic perspectives to guide our more immediate actions.

It's my goal to enlist the active participation of past-presidents of NASPL and others to take a serious look at where our industry is going and what we can do to position us for success two, three, and five years down the road. We used to talk about ten year plans but I think everything is a little more compressed now. Better to have a well-conceived five-year plan that is updated quarterly. NASPL is a great vehicle to mobilize a strategic planning committee to address these long-term issues.

In addition to the tremendously valuable services that NASPL has been performing for years, we are taking stock to find new ways for the organization to be used to promote the interests of its members. For instance, NASPL is clearly in a perfect position to facilitate additional collaborative projects between its member lotteries. Perhaps it can take a more active role in regulatory and legislative affairs at the national level. We're exploring all those kinds of possibilities for our association. Another purpose of the long-term strategic planning committee is to create better continuity for all of the programs. We all serve in our offices at NASPL for just one year. That's not enough time to see most projects through from beginning to end. The strategic planning committees can help to ensure continuity and follow-through.

2010 is a huge gubernatorial election year. There will likely be some new faces at the beginning of 2011, so now is a good time to set NASPL on a course to maintain continuity and a strong strategic focus. That will help all lottery organizations be more successful and it really is vital to each individual lottery that our colleagues around the country be strong members of a healthy nation-wide industry. ◆

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pot games in all, or at least most, of the lottery states throughout the country. We'll integrate what hopefully will be a sophisticated best practices approach to optimize performance of both games. The next step is the National Game. Of course, we are working on all these initiatives simultaneously. As we move forward toward a national game, we need to focus on the priorities and the importance of execution. It is vital that we execute well each step of the way.

The addition of the second jackpot game has the potential to impact sales in a dramatic way. Obviously, we do not want to raise expectations unrealistically. But we do want to execute in ways that truly deliver the full benefits of what this initiative has to offer. We need to take this time to study and learn as much as we can about the dynamics of selling two big multi-state jackpot games. We will be learning a great deal in the next six months and fine-tuning our approach continually to improve and implement the best practices. It's an exciting opportunity but the end result will be determined by how well we execute.

Everyone anticipates achieving sales increases. The true measure of success, though, will be whether we leverage the maximum potential that this initiative has to offer. For instance, 7% net overall sales increase would seem to be an impressive result. But what if we could have achieved 20% or even higher? Implementation of these two games presents us with a tremendous opportunity. But along with that we have a massive responsibility to work diligently to ensure that we achieve the best possible results.

National Game?

T. Shaheen: The things we learn over the next several months while implementing both games in all the different states will make us that much more prepared and effective when it comes to implementing the National Game. We believe the greater opportunity ultimately lies with a National Game. The strategy is that we will have gained excellent experience executing our two big jackpot games, we will have learned how to maintain harmony within a large contingency and, finally, we will have gained experience in how to deal with each other's policies, procedures and rules. We will have built a set of Best Practices that can be applied to additional initiatives like a National Game. So the development and implementation of the National Game should actually be a more seamless process.

Will the National Game be a third big multi-state jackpot game, or will you re-brand one of the two multi-state games?

T. Shaheen: That's the beauty of the whole plan, Paul. We don't need to decide that right now. Instead, we can take this opportunity to closely analyze what works best during the implementation of cross-selling Powerball and MegaMillions. We can apply the Best Practices approach towards the development of the National Game, leveraging our experience with the cross-selling initiatives that we do this year, analyzing all the elements that produce the best results. We'll take advantage of the mistakes we make along the way to learn what not to do and what areas need the most attention. To answer your question, the National Game could be a third large jackpot game, or it is also possible that the National Game could eliminate either Powerball, MegaMillions or both. We really don't know right now. The National Game will likely be similar in playstyle to Powerball and MegaMillions , but there may added features that incorporate secondary plays, T.V. shows, etc. The game will most likely be at a higher price point, such as $2, or $5. The jackpots could possibly grow to nearly a half billion dollars or more. Having different jackpot sizes, price points, and features will appeal to a broader range of player preferences. There may be some players who look only at jackpot size, others may look at the odds of winning, and others may want to spread their play around to enjoy a variety and higher frequency of draws and winning opportunities. Mainly this gives us the ability to create a game that has appeal to a broad base of players.

So often we are confronting choices in which the wrong choice has severe downside consequences. Sometimes we even choose between the lesser of two bad choices. In this case, it seems like the challenge is that everything is so good that you need to press hard to not settle for merely good when, with the extra effort, you can produce great.

T. Shaheen:I think that is correct. This will open doors for new opportunities for all lotteries in the U.S. to build their business. And most importantly, raise more money for beneficiaries while creating more options for the players.

You are currently president of MUSL, the Multi-State Lottery Association. Could you explain the mission and purpose of MUSL, and how it works to achieve those?

T. Shaheen:MUSL serves a management, administrative, operational function for all the games under the Multi-State Lottery Association umbrella. The product most people are familiar with and talk about is Powerball. But there's also Cashola, 2 by 2, Hot Lotto, and Wild Card 2. MUSL's responsibility is to manage the administrative, financial, and operational functions of all of these games.

MegaMillions has a less formal structure than that, doesn't it? What role did MUSL perform in the cross-selling of MegaMillions and Powerball?

T. Shaheen:MUSL staff have been participating in the meetings and handling documentation of the processes that both parties are agreeing upon. Member representatives from both organizations are involved with all aspects of decision-making such as building the licensing agreements. As you might imagine, there are many details that need to be worked out and that require involvement from members of both organizations. Each lottery has its own set of issues, especially legal and compliance issues, which need to be addressed. So while MUSL may perform some administrative and support functions, these multi-state initiatives require the active involvement of all parties to the agreements. MUSL staff does not have any decision-making authority. That is the domain of the lottery leadership and the representatives appointed by the Powerball and MegaMillions Groups. The lottery directors serve as a Board of Directors.

Why couldn't MUSL be used to do other things? For instance, when you develop a national game, won't there be a need for management of a national brand and advertising campaigns and all the things that go with promoting a product nationwide? Won't there be a need to operate differently on the national stage than is done presently with each state operating in its own independent orbit? And couldn't MUSL be a useful tool that is already in place to coordinate something like that?

T. Shaheen:MUSL does have a marketing division that performs research and make proposals to its members. For instance MUSL staff may have an idea or may have been contacted by an outside organization about a multi-state scale promotion such as a Superbowl package. MUSL staff can contribute to the development of a big picture plan for this type of multi-state initiative. They can do research, vet the pros and cons, make presentations to the directors and/or invite third party researchers to make presentations to the directors. But at the end of the day, everything comes down to a vote of the directors. Take your specific idea - developing a national marketing and advertising campaign for a national game. MUSL is a great resource for conducting the research, proposing some campaigns, and then possibly, subject to the approval of the directors, even be involved in aspects of coordination and implementation. But everything that MUSL does is contingent upon the approval of the lottery directors that comprise the membership of MUSL.

Let's say you're sitting in a room having a general meeting of MUSL member directors. Someone proposes that you build a truly national brand for a national game and that you build a national advertising and marketing campaign to promote that national brand. Let's suppose that as a group you decide in principle to explore this possibility. You've already said that MUSL does research and works up proposals so let's go to the next step and suppose that MUSL did all that and now you've decided to pull the trigger and create a truly national brand with campaigns that span all lottery states. How would you implement that?

T. Shaheen: The members of the association would operate much like a lottery would in that we would outline the details of implementation and the roadmap for implementing them. And yes, MUSL could very well be the resource we rely on to implement it. Let's say the directors decide and vote on the need to retain a public relations firm. The directors could vote on a proposal to give MUSL the task of drafting an RFP seeking services, then evaluate the proposals submitted, and make recommendations or perhaps come up with a short list of public relations firms that could then make presentations directly to the directors. Likewise with advertising firms. MUSL definitely has the ability to do all those things and more.

You were the inaugural winner of the Sharp award for Good Causes. This award was named in honor of Sharon Sharp, industry veteran and friend to everyone who passed away last year. You increased the amount that the lottery contributed to its beneficiary by an astounding 19%. What were the primary drivers of that increase?

T. Shaheen: There were two major drivers to that increase. We raised the Instant Ticket prize payouts from the previous year. And we received approval from our legislature to increase the prize payout percentage to the players. That change in the value proposition to the players was instrumental. We also introduced a second daily drawing for our Pick 3 game. As a result, we sustained a 42% increase in Pick 3 sales for the year. It was phenomenal. We never would have expected it. The industry average is 5-9% for a second drawing in the same day. It's still holding strong at 42%, and so you're close to doubling your Pick 3 sales as a result. By increasing our instant prize payouts, we were able to introduced two large order $10 games last year that sold out in seven and eight months respectively. Multiply the increased number of games by a higher price point and you get the big surge in revenue. And those were primarily the drivers for the increase in sales. Interestingly enough, though, the increase to our beneficiary nearly matched the increase in sales. Our sales went up 20%, and our return to our beneficiary went up about 18.9%. Usually, sales increase by a much larger percentage than net.

It seems like there are two takeaways. The obvious takeaway being that increasing the prize payout in an intelligent and prudent way improves the value proposition to the player and drives sales. The other thing, though, is that if the directors and their organizations were given the latitude to operate more entrepreneurially, you are able to produce the results. Lottery organizations have a wealth of talent and creativity in-house that can drive superior results for their beneficiaries, if they are given the freedom to do so.

T. Shaheen: Yes. One of the keys is to stay genuinely open to all ideas. We welcome any and all kinds of new ideas in North Carolina. I can't guarantee that we'll do all of them, but we keep an open mind to all the ideas that are out there.

What are you trying to do this coming year to try to get close to what you achieved in '09?

T. Shaheen: We opened this summer with a Mustang ticket. We followed that up with our Ric Flair wrestling ticket, then our first $20 instant game, which is selling very, very well. Right after the beginning of the calendar year 2010, we will introduce another $10 game in January. Then on January 31st we will have MegaMillions going on sale. Then we'll have instant games tied to Valentine's Day and St. Patrick's Day. And then the Powerball with the 10X multiplier promotion before the end of the fiscal year, and that should about wrap it up for us. Most lotteries do similar games and campaigns. The timing of when you introduce the new games is always very critical to their success. You look historically at what's happened and then you try to time it accordingly. Right now we're running over 17% ahead of last year, but we're still a little cautious because of the economy and so are projecting a year-over-year increase of 7% to 10%.

Must be nice to have a 7% increase be on the conservative side. Don't you expect the economy to come back in 2010? Perhaps not gangbusters, but at least an improvement over 2009.

T. Shaheen: Hopefully. But we do not want to raise expectations since nobody really knows what will happen next with the economy.

Whenever I see the videos of TV commercials competing for advertising awards at the NASPL and WLA conferences, I am always astounded at the creativity and quality of the work. It would seem that there is tremendous commonality between the four marketing "P"s across all US state lotteries. The product and the reason people buy them is similar everywhere, isn't it? Why couldn't MUSL be used as a resource to coordinate and implement advertising campaigns for all its member lotteries? Why do we have 40+ lotteries spending hundreds of millions of dollars to produce a similar end result? Why not use a mechanism like MUSL to create some templates and tools that could be used to defray the cost of all this advertising? Is something like this a possibility, or is it ultimately a non-starter?

T. Shaheen: It certainly is a possibility. MUSL is capable of doing that if the members decided to entertain such an idea. The problem with universal advertising is that different states have different issues with advertising. Take our state of North Carolina. We have an enormous amount of restrictions here. In fact, we probably could not participate in any national campaign because sooner or later there is going to be something in the campaign that we are not permitted to do in North Carolina. There have been efforts at times to do joint advertising. MUSL conducted a campaign several years ago utilizing Ray Charles. The series of commercials utilizing Ray were tailored for each state with their name and other local information on them. That campaign was very successful. In fact, state lotteries had Ray Charles promoting Powerball, utilizing the same spot in every state, and the only thing that changed was the name of the lottery. So those types of things have been done before.

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

of course, but there are also opportunities to speak in one voice and have a shared political agenda in those regions that we do not have in Asia Pacific.

How is internet gaming regulated in Australia?

J. Roache: Australian gambling policy and legislation is the domain of the various states and territories. It's not regulated at the federal level. There are, however, two important federal laws in Australia. One is the Commonwealth Interactive Gambling Act, which was enacted in 2001. And the other one is the High Court of Australia Decision on Betfair, which was handed down in March, 2008.

The first one, the Commonwealth Interactive Gambling Act was enacted under the telecommunications powers in the federal constitution. Essentially what that does is prohibit an interactive gambling service. However, lotteries have a general exemption with the exception that the exemption doesn't apply to electronic instant scratchies and a provision exists for a regulation to be made preventing the exemption of highly repetitive or frequently drawn games such as Keno. There are other exemptions under the Act allowing for internet and telephone betting where it occurred prior to this Act, such as off-track betting or wagering on horses, dogs and sport, etc.

It is interesting to note that a recently released Draft Report on Gambling released by the Australian Government's independent research and advisory body, the Productivity Commission, includes a draft recommendation that the Interactive Gambling Act be repealed with a managed liberalization of online gaming.

Can people in Australia play on websites that are operated in a jurisdiction outside of Australia?

J. Roache: Yes, they can. And I think one of the issues facing our industry gets back to these illegal or unlicensed operators because our players can't tell whether it's a legitimate site or not. Some of them look very real and legitimate. People play on these sites without understanding that they are not legal. Of course the real test is whether prizes are paid and sometimes the players do not know if they are genuine until they attempt to redeem a prize.

These operators are allowed to operate until and unless someone complains about them.

Well, then, why wouldn't somebody complain?

J. Roache: Two things about that. First, it is often-times vulnerable people who play on these illegal sites and do not understand when they are cheated or what to do about it if they are. Second, as you know, these operators set up new sites with new ISP's and move around in ways that make it difficult to block them.

Wouldn't your governments want to collect tax on that economic activity?

J. Roache: You're absolutely spot on. And perhaps I'll just talk about the other law in this country, ie the High Court "Betfair" Decision.

Betfair is licensed by the Tasmanian state government to conduct online wagering in this country. The Western Australian government legislated against Western Australians being able to bet with Betfair. Betfair challenged the legislation in the High Court of Australia. And the decision came down against Western Australia's right to legislate against using a betting operator authorized in another state. The High Court Decision effectively means that any licensed online operator can sell on the internet, by telephone, or other electronic means and advertise anywhere in this country. That means that since Betfair is licensed in Tasmania, they are legally allowed to sell into all the Australian states and territories.

Does Betfair have to pay taxes to those states and comply with all of the regulatory standards of each of those states?

J. Roache: States do have the right to collect taxes from online operators like Betfair. In South Australia, for example, legislation has been passed relevant to betting operators who must be 'authorized' to sell into South Australia and to pay taxes.

Another issue is that state lotteries, e.g. SA Lotteries, are subject to very, very strict consumer protection measures. We must adhere to strict responsible gambling and advertising codes of practice. Unlicensed operators don't have to adhere to those strict consumer protection measures. Unlicensed operators don't pay the taxes nor do they comply with the stringent consumer protection measures that we are required to do.

It is complicated, though, because the High Court Decision is a reinforcement of the promotion of free trade and commerce across borders. Much the same issue as you see in Europe.

A license in just one jurisdiction does allow the operator to do business in all states.

Can each state have different tax rates, or is that pretty uniform throughout the whole country?

J. Roache: No, it is different from state to state. And the same applies in the lottery industry. There are different taxes because that is determined by the individual states. Our whole country with six different states and two territories has a population of just 22 million people. To put that in context, the state of California has 36 million. We have a very diverse and complicated regulatory framework, given the population of Australia.

What are some problematic issues that we face as an industry?

J. Roache: I believe that privacy is a key issue. As more and more jurisdictions have player customer registration card services for their games, and as more and more jurisdictions sell online, I think the privacy issue is a key one for us. We introduced our first customer registration service in 1984, and we enhanced that service in '94, which predates my time. We now seek additional information from registering members. And we use that data to micro market to those customers. Therefore, we have to be very mindful of the controls around the retention and use of that data. That's very, very much a key focus. As increasing numbers of lottery jurisdictions sell on the internet, the player identity security and the protection and system security control for online players will be paramount. Identity fraud and theft is a major and an escalating issue everywhere. And it will be a critical flashpoint of reputation vulnerability if we don't get that right, if the controls are not tight enough to protect our players' identity.

Registration is not a requirement to play, is it?

J. Roache: The registration process results in a large database of player information. It captures the data of when those players play, what they play, how much they spend, etc. There's also the personal profile information including name, address, phone number for contact, birthdays, bank account information etc. We do hold a lot of that very important and private information for the individual. So it's a very powerful tool. This is a tool that helps in a responsible gaming framework as well as marketing. Creating a dialogue with our players is an important step towards helping the players to play responsibly. I think you will see more and more operators implement player registrations systems in the future. So security and the methods of guaranteeing confidentiality of that data is of critical importance.

Privatization: The whole world is watching how things unfold in Australia. Golden Casket, the Queensland Lottery, was sold in the form of a long-term lease to Tattersalls and now New South Wales is likely to be similarly privatized. Does the privatization of a different province have any implication for the province like South Australia which has a government operated lottery?

J. Roache: It's very interesting in our country at the moment, since we too are very conscious that the whole world is watching, Paul. And when New South Wales Lotteries is privatized, there will be only two state owned lottery organizations as government business enterprises in the country. And that will be SA Lotteries, and Lotterywest.

There may be a significant impact upon those two jurisdictions depending on the purchaser of New South Wales Lotteries. That said, it would probably be better if I not speculate on what the implications may be. What is happening in the lottery segment of the gambling industry in Australia is really no different from what has happened in the off-track betting segment and the consolidation that has taken place in the gambling industry in Australia over the last few years. So it's a very interesting situation, and it's definitely got a lot of my attention at the moment.

Scratch-off games versus lotto…Why is the ratio of lotto to scratch-offs so much higher in Australia than in the US where scratch-offs seem to have had the momentum?

J. Roache: I can't say exactly. I can say that in South Australia our instant scratches really suffered with the introduction of poker machines here. Now, we run 3-1/2 minute keno, we're the only jurisdiction in the country to do so. Initially keno also took a hit when poker machines came in. And if you think about instant money games, and 3-1/2 minute keno, they're both impulse products. Gaming machines are also impulse products. We're not truly competitive with gaming machines when it comes to speed of play because one can play a game on a machine every 2-3 seconds.

That's very interesting. I suppose that explanation could have implications for the US market if casino-style gaming continues to proliferate. That is, instant scratch-offs being more vulnerable than lotto to competition from electronic gaming machines. How do the player motivations differ by age group, what are younger players interested in?

J. Roache: I think one of the key things with players in general, but the younger generation in particular, is that they do want control. They want player choice and control of games. And choosing who they play with, when they play with that person, leading more to the community style games. They don't really want to be told what their spend limit is or how long they can play. Community and social ethics are also very important to a younger demographic. I believe we're going to have to provide games that meet those requirements if we want to engage the interest of the younger demographic.

Do you have self-service check-out in the US?

Yes. You mean at a grocery store where you scan the barcode yourself and weigh produce and punch it into the system yourself without a check-out clerk?

J. Roache: I believe we have to create games that allow for a similar level of control. We need to realize that for our generation we may prefer to have a check-out clerk do it for us because we don't feel like learning how to check ourselves out. But that's not so for the younger generation.

I didn't do it until one time when all the regular check-out lines were all too long and so I went over to the short line and discovered I had to learn how to check myself out. Even now, I typically only go to self-service check-out when the other lines are long.

J. Roache: Exactly. The thing that we need to understand is that young people actually prefer to do it themselves. They don't even want to be assisted by a clerk. They are very comfortable with figuring out how to operate in a world where they are constantly needing to learn new technologies and procedures. They know that the payoff is good in terms of time saved, they have gotten quite efficient at minimizing the learning curve since they are doing it all the time, and so now they actually would prefer to do it themselves than have clerks assist them. But it's more than just a matter of time savings. It becomes a way of thinking about your relationship to other people and the world around you. These young people assume that everyone would want to be independent and self sufficient in matters of technology and this attitude transfers over to an important shift in game styles and preferences.

We need to evolve our products to appeal to this consumer attitude of wanting control and independence and multiple options about how the game is played, how payment is made and transactions executed, who they play with, when and how much they play…just about everything needs to be revamped to appeal to the attitudes of the younger demographic.

As you're describing it, it would seem that player cards and registration would be an important component to this trend line.

J. Roache: Well, yes, but…that is a bit of a conundrum because younger people are not patient with anything that is inconvenient. If they want to buy something, they won't necessarily be keen on needing to have a special card that they enter a number or swipe at the counter. That whole process is not necessarily consistent with their notion of control and freedom.

Another point is, the use of the mobile phone or iPhone as the scanning device and payment device. There are discussions now about using the mobile phone as a payment device. There will be new ways to execute transactions, younger people will be the first to adapt to them, and that's why I think we have to figure out how to get into these spaces as quickly as possible.

Relating the privacy issue to the younger demographic…I'm thinking that younger people would perhaps be less concerned about the privacy issue than older people would be.

J. Roache: I think that's got a lot of basis, but am not sure. I think that younger people may be less concerned about the privacy issue than about the inconvenience. With them it's more about how can I become famous quickly, how can I be a part of the hot community. Delivering the benefits they care about and minimizing the inconvenience is what will smooth the way for them to register.

You mentioned that about 30% of your players are registered. That seems like a high number. Are you pleased with that level of engagement?

J. Roache: From where I sit, Paul, I'd like to see 99%. The more information we have about our players, the better we will be able to create products that appeal to them, and work the best distribution channels, and communicate in ways that get their attention. Capturing the customer information is the key to evolving our products and business to stay relevant with our younger players. And staying relevant with each new generation of players is obviously critical to future success. Player registration is the most useful means of capturing that information. ◆

Are you saying that it is actually a perfectly logical thing that our industry lags in the adaptation process? If the new iPhone or even Microsoft operating system does not perform as well as we'd like, nothing terribly bad happens as a result. The gaming industry is different in that it has much less room for error, doesn't it? You can't really take the risk of pushing the beta version out the door and then fix it on the fly.

D. Haddrill: That's exactly right. But it doesn't need to be a five-year lag. We believe that the industry should perhaps be one year behind because of this need to fully vet technology before it's in the marketplace. Integrity, security, responsible gaming, political sensibilities…these are all issues that need to be dealt with carefully and take more time than other industries. But there is no reason why we can't accelerate the cycles and deliver customer benefits much more quickly than has been done in the past.

So our objective is to help move the industry much closer to current standards. There is no reason we should be behind the retail industry in areas like database management and sophisticated player-marketing techniques. You can see the changes happening already, though. Some casino operators are moving forward quickly.. I think it's going to be very exciting as we see operators create a better player experience, build a better business model, and set a higher standard for the industry.

You've worked in our sector of the industry since the early nineties, haven't you?

D. Haddrill: Yes. I first got into the public gaming arena in 1994 when I joined Video Lottery Technologies and Automated Wagering, Inc. (AWI). I became the CEO of that company in '96. It was evident to us then that the public gaming sector was poised to grow. With the current budget shortfalls, the video-lottery market is now again growing. It's a tremendous opportunity for new jurisdictions to get off to a good start. But there are also plenty of pitfalls and ways to get off to a bad start.

Like what?

D. Haddrill: Most important, it is necessary to get the regulatory and tax environment correct. Regulations need to ensure that players are protected, and an appropriate regulatory body established. This regulatory framework should facilitate a diligent but efficient product approval process. Certain jurisdictions are much more efficient than others. So, the time to get a new product into the marketplace is much faster. The tax structure needs to be consistent with a long-term goal of optimizing the return to the public. That does not mean that a high tax rate results in more money to the state. It is important to have a balanced business model that allows the operator to invest and be competitive. The public has many, many options when it comes to gaming and entertainment. And, those options are increasing rapidly. So implementing a business model that positions the operator to compete effectively is imperative, and a fair tax rate is key. It is also important to partner with the right operators and suppliers to implement the gaming program. Along with creating an entertaining gaming experience, that means implementing a good 'back-of-the-house system' for marketing, monitoring, and reporting, andtwo-way dialogue between the players and the operator.

Would you say that part of the concept here is to use a buzz word that may be useful, 'future proofing' ourselves to ensure that the big capital investments required to launch a new gaming program will have a long life-cycle and be flexible to adapt to changes in the market and changes in technology?

D. Haddrill: Absolutely. The need to download game content and change device configurations is going to increase. You want to make sure that the system and the suppliers are G2S and S2S-protocol compliant so that you can have reliable interoperability and flexibility to adapt to new technology.

Would you say that it is a priority for the operator to insist that all suppliers provide them with the flexibility and the back-of-the-house infrastructure that really supports genuine interoperability? I'm sure that Bally has great games, but do you support the operators' ability to implement other games provided by third-party game developers?

D. Haddrill: I absolutely agree. All commercial partners should be supportive of interoperability and enabling the operator to have flexibility and choice to implement the best games and devices as they become available, and from whatever supplier that produces them. In addition, the jurisdiction or the customer ought to have the ability to develop their own products to roll out into their marketplace. However, I will add that gaming is new to interoperability and it is not as easy as in business-to-consumer industries. When you're doing business-to-business systems, it's not as plug-and-play as it is with your cell phone. In consumer software, you sell millions of copies at a very low price and you throw it out in a year and you buy a new one. Business-to-business enterprise applications involve millions of lines of code. This is all very powerful and sophisticated software. But it's also very complicated, and requires complex integration.

When you upgrade to newer versions of your enterprise software, the ability to plug in the other software, the third-party software, requires that the interface must also be upgraded. Keep in mind that G2S and S2S are sets of code that aren't perfect. Jurisdictions should demand openness and interoperability, but should be reasonable in their expectations of just how simple that is. For our part, we do our very best to minimize the cost for the operator and third-party supplier to create that interface. We've developed the Bally Interface Gateway, which is a product to make it easier for our customers to integrate their own software and third-party systems into ours. It's still not plug-and-play, but it makes it much, much easier.

That does cut to the heart of my questioning. It is up to the commercial partner to genuinely embrace the spirit as well as the letter of the concept of interoperability. The operator should assess the degree to which the commercial partner is genuinely committed to providing the flexibility to integrate the newest and best technology and implement the best games, regardless of whether those products are provided by a competitor.

D. Haddrill: Exactly. I think the summary point is that the jurisdiction should expect interoperability and a focus on future-proofing the operator. An informed customer needs to recognize the reality that interfaces cost money. At Bally, I can tell you that we do go to great lengths to serve the interests of the customer and support their ability to have maximum flexibility.

You commented earlier that you don't want to over-control developers. Is there a trade-off between the amount of direction you provide, and the freedom to be imaginative? In Academia, they differentiate between applied and basic research. For instance, you might tell your R & D team to create a game that leverages this new brand license you acquired. And we need it next week. That versus take all the time you want to let your imagination go wild to create something magical and let me know what you come up with in six months.

D. Haddrill: It is a challenge. We have some of our development teams that are really doing very disciplined coding of specifications that are derived from our system customers, for example. And that requires high intellect, high work ethic, and a great engineering background. Then, on the other end of the R&D spectrum, we have game studios charged with developing creative game content in very short time frames. Each studio will include a mathematician, a graphic artist, a coder, and a game designer on a team that brainstorms ideas based on a combination of our market research, their own ideas, and their own skill sets. I call it a loose/tight kind of management style where you have certain areas you manage tightly, and others you allow more freedom to roam. Creative people expect to be respected for their creativity. If you manage too tightly, you won't retain those creative people. So it's that classic loose/tight management of the game studios versus the tighter management of core big systems development.

To what extent do the games that you're developing and the markets you're appealing to differ between the next-generation player and the core slot machine player? I would assume that winning money will always be a universal motivation. But does the next-generation player demand more in the form of entertainment? And to what extent does the product you develop have to appeal to a core player that perhaps is more oriented towards the traditional spinning wheel slots versus more elaborate forms of entertainment?

D. Haddrill: The younger players are used to higher video and sound capabilities, more community-style gaming, and more multilevel gaming. So those are some aspects that we would be looking at to appeal to younger players. That said, older players like community-style gaming as well, and they also like good sound and graphics. So by appealing to younger players, we can also develop better games for more mature players as well. We suppliers have done a relatively poor job in the last 20 years of appealing to younger players. But, that is starting to change.

Your presentation yesterday at the G2E show was titled "Selling the Sizzle for Slot Manufacturers."

D. Haddrill: There's been a lot of innovation in gaming devices in the last few years by Bally and our competitors. During this same period of time, the operators have been under-investing. So there's a lot of pent-up potential for the operators to unleash to create greater player experience from these new game innovations. There's also been cool new system technology such as our player-communication network (iVIEW) and data mining (Bally Business Intelligence). So, - there's lots of incredible innovation that is ready to be implemented and positively impact this industry.

One of the innovations is to think of the gaming machine as a distribution channel through which you can sell all varieties of products, isn't it?

D. Haddrill: Yes. Say it's 4:00 in the afternoon, and you've got 40 seats still open in your 6p.m. show that you're not likely to sell. Why not give them to your good players who might stay until 6instead of leaving at 4:30? Or, send dinner coupons to get the players to try out your restaurants. The promotions options are endless. Combining powerful databases with a player-communication network like iVIEW explodes the entertainment potential because you can then target the specific preferences of each individual player.

You refer to two different types of games and how one game appealed to people on the East Coast and a different one appealed more to the people on the West Coast. It is interesting that game preferences would differ in what I would have thought was a somewhat homogeneous market and gaming culture.

D. Haddrill: Game preferences do vary somewhat and are driven by a number of factors. Analyzing this is somewhat of an art form. I can share a few insights.. First, you can't be 100 percent sure about player preferences until you're actually in a market and seeing the players actual response to the games. Second, some games will play well initially but "burn out" quickly as players lose interest. For a distributed gaming network, it's important to have devices that have good maintenance records, because maintenance is more expensive where you have games distributed in small numbers over a large geography, and a good system to monitor the games so that you know immediately if a game is down, can diagnose problems, and can see if play is lagging and the games need to be changed. Bandwidth will be increasing, so having a robust central system capable of serving up a variety of games will become more important in the future. Distributed venues will want to have the flexibility to download game content. Finally, a good indicator as to what kinds of games will be successful is to look at the neighboring jurisdictions that already have electronic games. The players in Maryland, for example, will likely favor the types of games that are popular in New York and Pennsylvania because that's where they may have recent experience in playing.

We've talked about Business Intelligence. What about Command Center™ and iVIEW™?

D. Haddrill: These are the three products that are probably most relevant to distributive venues. Bally Command Center is our server-based solution that allows operators to view, examine, and manage the games, whether they are on a casino floor or spread out over a large geography. Command Center is a powerful product to enable changing of game configurations and downloading of game content and analyzing game performance and player preferences. The iVIEW network is an especially interesting tool for the distributed gaming environment. If you only have five or 10 games in a venue, you might not have a big enough volume to build an interesting bonusing experience. But if you connect all the games in a jurisdiction, you could have very exciting bonusing programs, fun player communication, and the ability to implement marketing promotions across the entire jurisdiction.

It sounds like these products are ideal for the distributed venue in the sense that their capabilities are really put to the test much more in that environment than they are in the large casinos.

D. Haddrill: The needs for monitoring and downloading game content and analyzing data are the same in a casino as for the distributed environment. But you are correct in pointing out that the distributed environment depends even more on the central system to manage and control the entire operation. In developing a jurisdiction that's going to be distributive venues, I'd start with the system side of the business. From a player experience point of view, you have to counteract the fact that you don't have 2,000 games in a big sexy casino, and yet you still want to create a great player experience. Without a robust and reliable central system and monitoring system, you won't be able to manage and implement the games in ways that gets the right product to the right people and the right places.

It's also about protecting the security and integrity of the operation. So, the central system is key to the distributed environment. Players have many ways to spend their entertainment time and money. In spite of the need to operate this business in a disciplined way on all levels, it still comes down to one primary mission – to create the most fun and exciting player experience. Creating a new customer and then delighting the customer is what this business is ultimately all about. ◆

A Lesson from Facebook: Multi-Player Games

By Roy Weiss, Executive Vice President, MGT Lottery Technology
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OThe discussion the lottery industry is having about social networks far too often leads to a review of some new marketing app for Facebook, instead of addressing how lotteries can benefit from the factors that are driving the dramatic growth and popularity of game-play on these social sites.

Social networks like Facebook confirm, once again, that people love to play digital games. New games of all types take off everyday, however competitive and collaborative multi-player games like Zynga Poker, Mafia Wars and Farmville are, by far, the most popular. In fact more than 30 million people played Texas Hold 'em Poker in December 2009, in spite of the fact that a major attribute of the game was missing – you can't win money. The fact that millions choose to play the games through a multi-player format, rather than alone (i.e., single player vs. the computer), is a key factor particularly relevant to lotteries.

What this means to lottery administrators is that social networks provide something much more important than simply another generic audience to advertise to. Social networks show how multiplayer games appeal to the basic human desires for thrills and the fun of playing web games against other people.

Lottery professionals who recognize the importance of the multiplayer game trend occurring in social networks might rightfully wonder how to use that information in an industry that deals almost exclusively in single player tickets. The answer could be second-chance lottery programs.

Interactive Games are Fun

Second chance web-based lottery games offer lottery players additional value out of an otherwise non-winning lottery ticket, and can be linked to any printed lottery ticket purchased in a store. These games extend the excitement and enjoyment of the lottery ticket purchase by offering lottery fans a second chance to play and compete for prizes, while providing lotteries with a second opportunity to stay engaged with each lottery player after the point of sale.

Everyone, including the core lottery player and online game fans, are looking for more fun and entertainment value, and games that allow them to compete or collaborate with other players to win a prize, are interesting, exciting and can attract repeat play.

State lotteries with second chance web-based games, will find that as the player fun-factor increases, so too will the number of recreational players making return visits to the lottery web site after each new ticket purchase. For the 24/7 web-based lottery game center, this means new and returning traffic. Web-based multi-media lottery games can be created for virtually any type of game genre including cards, casino-style, word and discovery games, as well as tournament versions of standard games that keep players coming back for more.

Play-by-Play: Connecting Retail Sales to Web Based Game Play

Connecting in-store ticket sales to web-based multi-player games through a second-chance ticket programs can extend the excitement of playing the lottery and double the entertainment value of every lottery ticket purchase.

Second chance game programs all start out with the purchase of a lottery ticket in a store, which turns out to be a non-winning lottery ticket. While the traditional game is over as soon as a player finishes playing the printed version of each game, in states with second chance web-based games, lottery players who have a non-winning ticket are only halfway through the experience.

Players with a non-winning lottery ticket in second chance game play states will have an opportunity to play another game, or to enter tournaments being hosted on the lottery website. Once registered, lottery players can be directed to a specific second chance game linked to the original ticket purchase, or be presented with a menu of single player games like spin the wheel, or multi-player games where card skills, word puzzle ability or trivia knowledge can be used to compete for different prizes.

Facebook-like tools provided in the online game area might allow players to invite friends on the fly, or to arrange a game table in advance, where friends or groups can meet at a designated time to play a competitive game together. This type of multi-person game play will create a social dynamic that reaches far beyond what game fans can find or experience on any social network site. Lotteries can offer popular word, number or card games, multi-media versions of state lottery scratch ticket games, and customized games that are linked to regional/local promotions.

Behind the scenes, everything from player registration, contest administration and web-based game play takes place digitally, and is seamlessly connected to the player-managed user profiles. High-quality game administration software will enable lotteries to provide players with access to their favorite games through personal computers, mobile devices, or in-store lottery terminals. Simple self-service registration software streamlines the age and location verification process and allows lottery players to access the second chance game center through a secure login.

Lotteries working under the premise that every lottery ticket purchased, can actually be two games, (i.e., traditional lottery game printed on the ticket, and a second chance game played online), can create games that appeal to a whole new audience, eager for interactivity and game socializing. Lottery games offered on a lottery website, like second chance winner programs, are a bridge lotteries can start to build today towards a fun interactive web centric future. ◆