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Reporting on the convergence of Gaming, Online Lottery, Scratch-Offs, Internet, Mobile, Video and Casino Gaming.

Feature Interviews



Terry Rich



Clint Harris



Stephen Martino



Jean-Luc Moner-Banet



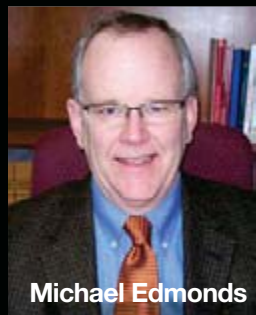
Jenny Canfield



Martin Kon & Tim Matusch



Simon Holliday



Michael Edmonds

Lottery Industry Hall of Fame Inductees:



(Clockwise, from upper left) Friedrich Stickler, Bill Thorburn, Jim Kennedy, Connie Lavery O'Connor

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

Thank you!



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Features

Feature Interviews

- 8 Jean-Luc Moner-Banet**
General Director, Loterie Romande, Switzerland
- 10 Clint Harris**
Executive Director, Minnesota Lottery
- Jenny Canfield**
Director of Operations, Minnesota Lottery
- 14 Stephen Martino**
Director, Maryland Lottery
- 18 Martin Kon**
Partner with Oliver Wyman
- Tim Matusch**
Associate Partner with Oliver Wyman
- 22 Simon Holliday**
Director of H2 Gambling Capital (H2)
- 24 Terry Rich**
CEO, Iowa Lottery Authority
- 26 Michael Edmonds**
Director, Wisconsin Lottery; President of the Multi-State Lottery Association (MUSL)

Articles and Editorials

- 6 Paul Jason: From the Publisher**
- 32 Hall of Fame 2010 Inductees**
Jim Kennedy, Connie Lavery O'Connor, Friedrich Stickler, Bill Thorburn
- 34 The New Italian VLT Market: Open for Business**
Development kits add diversity in a complex regulatory environment.
By Don Doucet, SPIELO Vice-President of Business Strategy, Products and Marketing
- 36 Energize Your Retailers**
The case for best practices approach to mobilize retail sales.
By Greg Houston, Principal, DeanHouston, Inc. and Consultant to Scientific Games Corporation
- 42 The Once and Future Players**
Meeting the challenge of lottery player base development.
By Matt Mansfield, GTECH Professional Services

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From the Publisher

Paul Jason, CEO, Public Gaming International Magazine

Congratulations to the newest members of the Lottery Industry Hall of Fame. The 36 current members of the Hall of Fame elected to induct **Jim Kennedy, Connie Laverty O'Connor, Friedrich Stickler and Bill Thorburn**. Please visit www.LotteryIndustryHallofFame.com to read about this group

of industry leaders. Also, turn to page 32 of this magazine to read about the four newest members. If you are attending NASPL, please join us in honoring them on Sept. 22, 2:00 pm. at the Pantlind Ballroom in the Grand Amway Plaza. Immediately following the Hall of Fame induction ceremony is the presentation of the Sharon Sharp Award for Good Causes.

This year's recipient is the **Delaware Lottery**, having produced an 11.09% increase in net funds contributed to its beneficiary. Funding for Good Causes is what this business is all about and Congratulations to the Delaware Lottery for its impressive performance!

Renowned Pulitzer-prize winning physicist Douglas Hofstadter thinks he's a wacko. Bill Gates thinks he's a genius. So maybe he's a wacky genius? **Ray Kurtzweil's** vision of a world in which artificial intelligence spawns bi-
onic brains, super-extended life-spans, and solutions to all manner of problems ranging from climate change to drug-resistant diseases inspires hope in some but extreme skepticism in many. Most of us who are grounded in evidenced-based research and making things actually happen in a real world don't relate too well to theories based more on a vivid imagination. But no less a scientific luminary than Albert Einstein opined that "Imagination is more important than knowledge." And Kurtzweil's "Singularity University" is housed at NASA's own Ames Research Center and funded by

Google, NASA, Microsoft and others who have turned far-out dreams into reality. The process of trying to accomplish seemingly impossible objectives is already producing very real-world results in biotechnology, robotics, and material sciences.

Thought-leaders in the lottery industry are certainly not starry-eyed dreamers who say things like "The Singularity is Near". But neither are their objectives and action plans constrained by someone else's notion of what is "realistic" or "do-able". Our interviews span a broad range of topics. There is a commonality, though, to all of our interviews. Like the funders of scientific visionaries, these industry leaders dream big and then circle back around to see what concrete steps can be taken right now to turn those dreams into reality. Some of the themes we delve into:

- Knowledge Management. Information is ubiquitously available but not entirely useful in itself. How does an enterprise unlock the brain trust of information that resides in the minds of its employees and the hard drives of its computers, and turn it into knowledge that can make a real impact?
- How does a lottery engage the support of its constituents for a progressive agenda of adding new games and making them available through new media and channels?
- How does a retailer double its sales? True story.
- How do we make the lottery experience come alive for the next generation of player? Then, how do we brand that lottery experience into a socially networked and vibrant part of the culture?
- How does a marketplace transform itself into the technological vanguard of the gambling industry? Think Italy.
- The dialogue about ownership-management structures is changing in a big way. Next up, turning the dream of private management into a

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reality. We continue to look deep inside at the process of outsourcing of the management of the Illinois Lottery.

- Why can't lotteries be a resource for improving performance of all government services? Envision a best-practices approach applied to all government operations, with the lottery as being the standard-bearer for entrepreneurial and technological leadership.
- How can our industry associations be catalysts for further collaboration between lottery organizations, for crafting marketing messages addressed to our political constituents and the general media, and develop national brand image power and consistency? (Answer: easier said than done.)
- Lotteries have traditionally had conservative growth strategies. How will they adapt when new media business initiatives, like i-gaming, mandate a scale-up fast strategy? How does a lottery implement such an aggressive growth strategy?
- Understanding the directional flow of investment capital is the best way of predicting the future. We talk with one of the leading counselors to large corporate and banking interests to see how they assess markets, regulatory and licensing frameworks, and gaming trends and how they think the industry will evolve.
- The Maryland Lottery is in the midst of implementing casino gambling. It's fascinating to observe the political mechanisms that get triggered by the build-out of a casino initiative. Interest groups of all stripes enter into the picture and need to be treated with the respect accorded all of us who are lucky enough to live in this sometimes quarrelsome democracy.

It's been over 40 years since **Peter Drucker**, in "**The Age of Discontinuity**", talked about how change and destabilized markets can be turned to work to our advantage. The rate and complexity of change have in-

creased, but the principle that change and discontinuity always open way more doors than they close remains relevant today. Lottery operators may feel constrained in some ways. But even with those constraints, Lottery operators are securely in the catbird seat. The power of their brand, the reputation for integrity, their direct connection with millions of consumers, their massive network of retail distribution, their public service mission, all contribute to a most formidable competitive advantage.

Digging deep to unearth the ideas and insights that will truly make a difference is the first step towards keeping our enterprises on the leading edge in this age of discontinuity. Industry leaders from the electronic games and i-gaming sectors, along with thought leaders from investment banking, regulation, and cultural 'trend-spotters', are convening with leaders from the lottery sector at **Lottery Expo Las Vegas** to do just that. The speakers at Lottery Expo are all engaged in uniquely interesting and forward-leaning initiatives, stretching to innovate, add value to their products and delivery, and reaching out to their customers in creative new ways. Please join us at the Wynn Las Vegas, Nov. 16 and 17. Our room block at the Wynn is limited and booking up quickly. Please stay tuned to www.PublicGaming.com for updates on Lottery Expo; and visit our conference website www.PublicGaming.com for more detailed conference info. ♦

was up 20%. GTECH helped us prove that we needed — and could sustain — more staff. Their work led to the state's approval of 21 new staff positions. We never could have accomplished this without our Partnership with GTECH."

Terry Bunting, Deputy Commissioner of Sales, Michigan Lottery

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A large, stylized handwritten signature in blue ink that reads 'Terry Bunting'.

Jean-Luc Moner-Banet

General Director of Loterie Romande, Switzerland

There are two parts to this interview. In the first part, we discuss the gaming industry and the operations of Loterie Romande. In the second part, we discuss the way that "knowledge management" is becoming a science, the importance of which needs to be elevated to a serious object of focus for the 21st century enterprise. The basic conundrum is actually simple. Information is free, ubiquitous, and by itself ... useless. Converting that information into knowledge that is useful and applicable to real-world decision making is one of the major challenges of our digitally enhanced times!

In addition to leading one of the most progressive lotteries in the world, Mr. Moner-Banet is very active in our industry trade associations. The generosity of Mr. Moner-Banet and his colleagues who share their knowledge and skills with others via our industry associations is tremendously appreciated by all of us. His particular area of focus and expertise is in the field of training and educating the next generation of lottery executives. Mr. Moner-Banet is Chair of the Knowledge Management, Congresses, and Seminars Committee for the European Lotteries Association (ELA) and also is a member of a 3-person Training and Education Committee for the World Lottery Association (WLA).

Loterie Romande and the European Gaming Market

Paul Jason, Public Gaming: *There are two lottery operators in Switzerland.*

Jean-Luc Moner-Banet: The lottery and sports betting are governed at the local level. The Swiss government is structured like the United States, albeit on a much smaller scale. There is a federal level and then a state, what we call canton, level. The organization of the lottery sector in Switzerland is also similar to the U.S. in that policy and regulatory frameworks are decided at the state level, while the casino side is regulated by the Federal state. The states have authorized two different operators for lottery and sports betting. But we operate in two different markets and do not compete with each other. Loterie Romande is licensed to operate in the French speaking part of Switzerland. Swisslos is licensed to operate in the German speaking part of

Switzerland. Like Loteries Romande, Swisslos is also a member of our industry associations, European Lotteries (EL) and World Lotteries Association (WLA). We are both licensed to operate on the Internet, offering both sports betting and lottery products.

Can people from eastern Switzerland who speak German and should play on the Swisslos website, can they also play on Loterie Romande, which operates on the French-speaking west?

J. Moner-Banet: They can. Just like anyone from other countries, they can buy lottery products at our land-based retailers. But not on the Internet. No matter where someone is physically located, they can only play on our Internet website if their residence is in one of our French-speaking states. And for Swisslos, only residents of eastern German-speaking Switzerland can play on their Internet site. I should clarify that the restrictions of who is allowed to play are based strictly on geographical location, regardless of which language you speak, especially since most of us speak both languages! These same restrictions will also apply to any expansion of the types of Internet games we are licensed to offer. Right now it is only lottery and sports betting but we expect that to change.

Switzerland is not a member of the European Union, so you are not subject to the decisions of the EU Courts, are you?

J. Moner-Banet: Switzerland is in an interesting position. Officially, we are not a member of the European Union. But we do try to have our laws be consistent with European laws and regulations; or at least as com-

patible as possible in order to facilitate trade and commerce. So we are very interested in the decisions that the European Court of Justice (ECJ) makes in regards to regulation of gaming. But regardless of what the EU Commission and ECJ decide to do, it is within the rights of the Swiss government to block operators who are not licensed by the Swiss government to offer Internet gaming and sports betting in our country. And I expect them to do that, with blocking of illegal IP addresses and illegal bank funds transfer. But that is not enacted into our laws yet and so it is not for me to say for sure what will happen.

What games are offered by Loterie Romande?

J. Moner-Banet: Loterie Romande offers a very wide range of games and programs. On a regular ongoing basis, we offer 25 to 30 different types of scratch card games. We have our national lotto. Plus, we are a member of the famous Euro Millions game. We have two daily kenos. We have sports betting. We have PMU pari-mutuel bets on horseracing that we operate together with the big French PMU. Our ratios and bet structures are all the same as in France to facilitate collaboration and cross-promotion.

In addition to that, we have five minute keno that we operate in bars and restaurants. And what we call the Electronic Instant Lottery, which are scratch tickets that are offered on the interactive devices in bars and restaurants. You actually scratch directly on the screen instead of a paper ticket.

Too, I notice that you have a very high sales per capita. Higher than most lotteries in Europe. The

...continued on page 28

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Clint Harris

Executive Director of the Minnesota State Lottery



Jenny Canfield

Director of Operations
for the Minnesota State Lottery

The Minnesota State Lottery has taken a leadership role in supporting its beneficiaries with progressive business and marketing strategies. Their e-gaming initiative is attracting new players and creating enthusiasm on the part of the 'core' players. New players + Enthusiastic Core Players = increased sales. This is a new space for most U.S. lotteries and the success strategies are being invented as we move forward.

Paul Jason, Public Gaming: *Could you describe the initiative that gives your lottery players the opportunity to play games on the internet?*

Clint Harris: The Minnesota State Lottery has been reviewing a variety of options to position our selves to provide our players with what we believe is the next level within the Lottery business. Our strategies focus on entertainment and loyalty, which allows us to position the Lottery to be a fun, safe and entertaining website for our players.

Our player's club and second chance promotions allow us the opportunity to readily provide this. In reviewing the statistics of how many individual are in fact playing games for fun

as well as for money (illegally), it's staggering. To us, it validated our philosophy that we need to look at ways to provide this entertainment and to position the Minnesota State Lottery in a responsible manner on the internet.

Internal discussions during our planning meetings have expanded beyond the traditional Scratch and Lotto planning. It now also includes interactive planning. We have been providing our players with interactive games for the past few years. We offer some easy and fast interactive games for fun such as a find and fishing games. We also offer longer playing, more advanced games associated with our Scratch ticket product, including interactive hold'em, Monopoly, etc. where players use their non-winning tickets. The play and feedback from our players has been very positive.

Internet gaming has become important revenue generators for lotteries all around the world. It is so good to see U.S. lotteries like yours building ambitious e-gaming programs.

Jenny Canfield: State governments and our beneficiaries need more funding. Lottery operators are in the position to help with that objective and we are pleased to do everything we can to exceed our revenues each and every year. We strive to improve the value of our product and to make that product available wherever our consumers might be. The Internet is a medium and e-commerce a channel which this multi-billion dollar industry simply can't afford to ignore. We owe it to our states and our beneficiaries to explore and position ourselves to integrate e-gaming into our operations at the appropriate time which will vary by jurisdiction.

Don't political realities include the possibility that somebody is always going to be against whatever the lottery does? And there's always going to be a reporter who is more interested in creating a dramatic story at the expense of accuracy. Is that a concern?

J. Canfield: Of course that is always a concern. We communicate proactively with our key legislators and government officials. There is an extra degree of sensitivity about anything to do with the Internet. Key officials would expect us to know the territory and anticipate questions and concerns.

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So we do need to be diligent, making sure that every aspect of an Internet initiative complies with the highest standards of responsible gaming. It is not enough to just be compliant with all state and federal laws, although that is imperative. It's our job to make sure we conduct every aspect of this business so that the general public and even those who do not support lottery at least respect the way we operate.

Would you say that at this point it's now firmly established that Second Chance Drawings are well within the bounds of federal gaming laws?

J. Canfield: Yes. There's lots of precedence at this point. Minnesota and other states have been implementing Second Chance Drawings so that we can all be quite confident in its legality. Too, we take caution to ensure that it is within the confines of our state law as well as other states and other countries. Safe guards have been built within our system to comply with these. We must also credit our commercial partners for doing their part to ensure that our initiatives are all consistent with the laws and also with political sensibilities. They put much time and effort to review this and ensure we are in compliance.

Would a next step in the evolution of Second Chance Draws be to increase the prize pools for the Second Chance portion? Perhaps even increase it a lot?

J. Canfield: That's possible. But I think you need to be very careful to not confuse the core player and not take away from the cash prizes within the games. The core player is the real driver of lottery revenue and we do not want to do anything to hurt our traditional sales base. We know that our players' primary objective is to win cash. There are some players that will be enticed to play or play more because of the second chance components but you need to find that balance not to compromise the actual game prize structure too greatly. And there's frankly no reason to do that. It can be a slow build. We're meeting the demand for products that appeal to a new generation of gamers in these channels and venues that they frequent. There's no reason why we can't do that without impairing our traditional sales base, or confusing the core player with value propositions that they do not relate to or perhaps have no interest in. Of course, it can and probably will eventually evolve in the way you're suggesting.

As its popularity increases and critical mass is achieved with different types of Second Chance Drawings, we can create new products that appeal to new and different play styles and prize structures.

C. Harris: Yes, the next step would include increasing the variety of interactive games we offer, both for free play which is tied to non-winning tickets. We are also working on adding internet-based subscription purchases. Players will be able to purchase most Lotto products online for a period of six weeks to one year and will have an option for group play as well. Later phases include other options which allow us to expand on our game offering and purchase period once we feel we are ready to move in that direction.

Another important component to moving forward is to analyze as much information and data as you can. We need to further define different segments for interactive and social networking features. We know that what we have implemented so far has worked. We know that offering a variety of games works well. But we really need to get a deeper understanding of the medium, of phenomena like social networking, of the ways in which cultural and lifestyle changes impact player behavior, and how we can produce games and make them available in ways that meet the needs of this changing marketplace. We are increasing the research that will help us to make more informed decisions about our interactive and social networking offerings.

Second Chance Drawings and extended-play/interactive games provide a fun additional element to the game, but it's not your objective to push the players onto the Internet. It's just your goal to make the overall game a little more fun, and to provide a product to those people who may not be buying the product in the traditional retail channel.

J. Canfield: You're correct, Paul. We have challenges to find more and better ways to keep the players engaged and excited, and Second Chance Draws and interactive features give us additional tools to work with. We know, for instance, that our players are interested in interactive games, and games that facilitate social interaction. The statistics show a trend-line that is astonishing. More and more players want, and expect, more for their entertainment dollar. They want more from their games. It's not just about payout percentage, although that is the most critical. We need to think about the value proposition

in a broader way that can include interactive games or other experiences. Social interaction adds a dimension that is clearly important to an increasing percentage of players. Not all of our core players may be interested in that yet, but there is a growing segment that is and we want to provide that component of fun and entertainment that they are looking for. We expect that as people become more aware of the entertainment and enhanced games, the interactive features, social features and Second Chance Draws, the positive trend-line will accelerate even more.

C. Harris: But we do take a conservative approach to the number of games we launch. MDI has a large portfolio of games and can implement them at a fast rate. We are selective, maintaining a steady timetable that we can be confident will work well for everyone, meeting the needs of our players but also being acceptable to all of our constituents.

J. Canfield: We think of this as both a long-term strategic plan and a short-term driver of lottery sales. We have spent a lot of time laying out longer-term strategies and using shorter-term initiatives to move us in that direction. We want to position ourselves so we can readily react to upcoming trends and growth opportunities. As a long-term plan, we do not need to move quickly, we do not need to put everything out there on a compressed timetable. We are being strategic with our digital plan in an effort to build a strong foundation in a responsible manner. We are utilizing resources and research to discern what our customers want. We want to be where our customers are, and that includes being on the Internet. And not "being on the Internet" just because marketing consultants say that's what everyone needs to do. We are committed to delivering really great products that appeal to the discerning Internet customer who wants more value in the form of interactive and social games. We want to position ourselves to be there for the next generation player who expects us to grow and evolve with them. Our long-term strategic plan is definitely to be a leader in the interactive and e-gaming space; but also to be keen on the difference between leading edge and 'bleeding edge'. We do expect our Players Club to position us to go to the next level, to position us for accelerated growth. But for right now, we're just providing a fun interactive social place for our

...continued on page 38



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Responsible Gaming is an integral part of INTRALOT's solutions. Our state-of-art technology and operational expertise enable us to implement responsible gaming practices on behalf of our customers. At INTRALOT... we care a LOT.

Stephen Martino took the helm of the Maryland State Lottery on April 26 of this year. It looks like a perfect fit. Director Martino comes to Maryland with five years of experience as the executive director of the Kansas Racing and Gaming Commission. His role there included the development of the regulatory framework for casino gaming in Kansas and overseeing the opening of the first state-owned casino in the country. Now he gets to shepherd the implementation of casino gaming in Maryland.

The soft economy has required casino developers to adjust revenue projections and build-out strategies. But everything is progressing according to plan. Director Martino's bold leadership style has already been evidenced when challenged to explain why the state should procure top-of-the-line slot machines. Respectful of all interest groups and political constituencies and ever frugal with taxpayer money, Director Martino is committed to holding fast to a strategy that ensures the long-term success of this giant project and delivers maximum benefits to the state of Maryland.

Paul Jason, Public Gaming: *Slight digression before we talk about Maryland. Why should states use casino gambling to subsidize horse-racing? Why not let horse-racing stand or fall on its own and have the state focus on maximizing the profitability of casino gambling?*

Stephen Martino: There are a few obvious reasons. One, the horse-racing industry is struggling and may not survive long-term without help or a new business model. Two, the facilities already process wagering transactions, so they already have some of the systems in place to jump start gaming activity. Three, you're not creating a new gambling footprint, you don't need to build a whole new casino; instead you're just expanding on a facility that's already in place.

Other advantages include the fact that you have a pre-existing customer base, people who know who you are and where you are. So instead of introducing an entirely new product to the marketplace, you're offering an enhanced version of a product that at least some people are familiar with. From a financial point of view, adding casino gaming to a horse-racing facility is less costly than launching a new casino. Expanding on a pre-existing facility like that enables the developer to scale-up in a way that doesn't require as large an upfront payment and as lengthy a payback or ROI period. And you can combine those reasons with the fact that most horse-racing businesses have long historical relationships with the political systems in the state and people don't want them to die.

There was a competitive bidding process in Kansas for the right to operate a casino. How did that work exactly? I don't quite get how racing facilities bid on something they were going to get it anyway.

S. Martino: They did not have to bid. The competitive bidding process was only for the casinos. However, the legislature was keen on preventing the racetrack owners from receiving a wind-fall profit. So the tracks are taxed at a higher rate than casinos. Casinos are taxed 22% and racetracks 40%. The goal was to level the playing field. Racetracks avoid the bidding process but in return are taxed at a higher rate that will likely make it hard for them to compete in the long-term.

And even with the casino side bringing in more customers to the facility, the racing side of the business may still not get into the black, right? So the casino side of the race-track would be paying those higher taxes and potentially be subsidizing the racing part of the business at the same time. Seems problematic.

S. Martino: One track ran greyhounds year round and then also had to operate horse racing. The gaming law required them to double the length of its horse meet in order to get slot machines, and lengthening that meet is an expensive proposition. The answer is that some racetracks will close because the business model just doesn't work. It is challenging to make gaming at a racing facility work when you have profound differences between how a state treats a casino and the racetrack. Every state is different, but markets obey the same economic rules. Tax structures and regulatory frameworks need to be established with that in mind.

The marketplace is infinitely complex. So it would seem imperative that the casino licensing terms, conditions, tax structures, and everything else that is determined in a political process somehow get aligned with a dynamic marketplace that doesn't play politics. It does not seem like state legislatures appreciate that.

S. Martino: Oh, I think they do understand and appreciate it. Keep in mind that gambling



Stephen Martino
Director of the
Maryland State Lottery

legislation and laws that authorize the expansion of gaming come out of a political process. That process typically includes different interest groups that have their own, oftentimes opposing, opinions on what they want the end result to be. Negotiation leads to compromise in order to reach a consensus. However, often what you end up with is not going to be a perfectly rational law to implement. Sometimes there are people whose heartfelt beliefs are not supportive of gambling under any circumstance or for any cause. Sometimes the end result includes provisions that are decidedly counter-productive for everyone. But I don't tend to think it's because people are not mindful of the need for alignment as you described it. Often, incongruities or difficulties in the law represent what had to be done to develop a consensus among interest groups and get passage. Licensing terms, conditions, regulatory frameworks and tax structures are all subject to this political process. The legislative process can be messy, but we shouldn't criticize legislators for

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doing what they have to do to make the system work and get things done. Likewise, regulators need to reconcile pieces of legislation that don't always fit together well.

You referred to the criticism that came out about the cost of the slot machines here in Maryland. First and foremost, that was a product of some misleading reporting. The press was developing costs for machines that were wrong. Taken on face value the way it was reported, it's quite understandable that people would be upset because it appeared that we were paying more for slot machines than commercial gaming operators in other states. Our contracts bundled the cost of maintenance over five years with the purchase of the machines. It is a format required by state procurement law and in the end costs no more than if you break service and maintenance costs out separately. Once we disseminated the information and clarified the issue, people understood that we negotiated competitive pricing and terms with our commercial partners. But the larger point is that the legislature wanted the Lottery to be the owner of slot machines in the state's casinos. There was not an outcry about this by legislators because we were implementing the law they passed. It was just a poorly reported story. Laws pertaining to gambling are imperfect because they are the result of competing forces that come to agreement through compromise. I don't know of any jurisdiction where gambling legislation was passed with unanimous approval.

So the political process may not be efficient and the resulting legislation imperfect. But that's the way America works and we should feel good about that.

S. Martino: I think that's right. Our job as lottery directors, regulators and public servants is to implement the policies to the best of our abilities and to be respectful of the process and the elected officials who are doing their best to translate the will of the people into sound public policy.

Maryland voters approved the casino gaming plan almost two years ago. Why does it take so long to implement a casino gaming agenda?

S. Martino: In my opinion, the idea that this is taking too long is yet another myth. The referendum allowing the state to implement gaming was passed in November 2008. Nothing could be done prior to the vote of the people to move the gaming expansion process along. We are looking to open our first casino at the end of September. That's 22 months to go from zero to up and running. That included a competitive bid process, the construction of the casino and

installation of facility infrastructure and acquisition of games. These things all take time and making it happen in less than two years is a respectable timeframe. In Kansas, it took two and a half years from passage of the legislation to the first casino opening in Dodge City. I think when you look at other states, they all took a similar amount of time. These things take time if done properly and responsibly.

Makes sense when you explain it that way. Specifically, what is the timeline for the build out of your casinos? How many are there and when do you expect them to turn on the first slot machines?

S. Martino: There are five casinos authorized for Maryland. Three licenses have been granted through a competitive bidding process. Penn National is scheduled to open its Hollywood Casino in Perryville, Maryland, on Sept. 30. We hope Ocean Downs, which is close to Ocean City on the Eastern Shore, will open by the end of the year. The third license has been granted to the Cordish Company to build a casino at the Arundel Mills Mall. That license has been tied up in the courts. The Maryland Court of Appeals, which is the state's highest court, decided in August that it is going to allow a referendum on the zoning for the casino. So that will go before the voters in November. If the voters uphold the zoning, that casino will go forward. And if the voters reject the zoning, then we might very well be back at square one. Then there are two other authorized casinos. One is in Western Maryland in Allegany County at a state-owned resort hotel called Rocky Gap. The RFP to operate the casino there was issued July 21. The responses are due back on November 9th. So we should know then how many people are bidding. The final authorized casino is for Baltimore City. That's gone through one round of competitive bidding. The applicant was rejected, has sued the city and the state, and so we're before various administrative boards and the courts on that. We don't know right now when an RFP for the Baltimore facility might be issued.

On the Cordish Arundel Mills project, did you say that it's subject to a local referendum?

S. Martino: It is. The Anne Arundel County Commission already approved it, but now it is being put to a vote of the people. A lower court struck it down and said the petition to put this to a referendum was unconstitutional. But it was appealed to the Maryland Court of Appeals, and they ruled in August that it was constitutional to have that county-wide referendum. And so it will be on the ballot in November.

The new electronic games/VLTs/slots deliver so much more entertainment value than ever before, don't they? With the intense competition in this region, I would think there is no better ROI than a product that is most likely to attract the customers. And no worse ROI than to invest in a legacy product that wouldn't attract a customer.

S. Martino: Yes, but it's not just a matter of buying the most expensive machines because they are supposedly better. You need an appropriate mix of machines. Maryland will have a good mix of slot machines at its casinos. Some are so-called "high-end", but it's not necessary or even desirable to have all machines be similar playing experiences. Many people enjoy the more basic slot machine. The state of Maryland is buying the slot machines. You'd think the casino operator would prefer the high-end machines since they don't pay for them. But even the casino operator prefers to have a diversity of product on the floor to appeal to the broadest range of player preferences. We get outside viewpoints, apart from the casino operator and the slot manufacturers, to ensure we have the cutting-edge technology and game content that attracts the players. Our objective is to maximize long-term ROI by having the optimal mix of lower cost as well as higher-end machines. But we also need to negotiate the very best deal for the state. The state retains 67% of the gross gaming revenue, so it is in our interest to invest in the machines that will attract the players and generate maximum revenues.

Casino gaming will constitute another gaming option for the consumer. Will that cut into traditional lottery revenues and what can be done to mitigate the negative impact?

S. Martino: I do not think casino gaming will have a significant impact on traditional lottery revenues. You have to keep in mind that casino gambling has been within a couple hours drive of Maryland for years, in places like Delaware and West Virginia. So, whatever impact casino gaming has on traditional lottery has largely already occurred. The Maryland Lottery just reported our 13th straight year of record-breaking sales and we are confident that having our own casinos in Maryland will not change that positive trend-line. Opening our own casinos will just re-direct the gaming revenues that were leaving the state to come back to Maryland.

I would think that legislators in all states would see it that way. Do you have any thoughts on the ways

...continued on page 39



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Martin Kon

Partner, Oliver Wyman (left)

Tim Matusch

Associate Partner, Oliver Wyman (right)

We recently talked with the Acting Superintendent of the Illinois Lottery, Jodie Winnett, about the initiative to outsource the management of the Illinois Lottery. An important idea that was emphasized in that interview (appeared in our June issue) is that this is not a “privatization”: the State of Illinois will retain ownership, exercise actual control, and have active engagement in terms of the operational parameters of the Lottery.

Oliver Wyman is the international consulting firm that has been retained to act as Transaction Advisor to the State as they select and implement a Private Manager for their Lottery operations. The work has involved valuing the asset under multiple future scenarios, working with a broad stakeholder group and legal advisors to craft and release the contract between the State and Private Manager, and preparing and managing the RFP process. Martin Kon is the Partner leading Oliver Wyman’s support of this initiative, and Tim Matusch is the Associate Partner managing the team on the ground.

In some respects, this initiative seems similar to the ways in which U.S. states already outsource many aspects of operating their Lotteries. But Martin and Tim clarify how the Illinois approach is different from what other lotteries are currently doing and also explain the role of Oliver Wyman in the process.

Paul Jason, Public Gaming: *Oliver Wyman is owned by Marsh & McLennan, the professional services and insurance giant. After bringing together a number of consulting businesses over the past 5 years, you have become a global consulting powerhouse. What has driven this incredibly rapid expansion? How does size and international scope enhance value to your clients?*

Martin Kon: Oliver Wyman is a \$1.3b international management consulting firm and one of the fastest growing of the industry’s top 10 over the past several years. Our history of strong organic growth and selective acquisition has

been driven by three objectives: enhancing our ability to serve clients, offering deeper industry and functional specialization, and serving clients seamlessly across borders. Our clients’ problems are highly specific, and generic solutions simply don’t deliver the impact needed. Oliver Wyman made a decision to seek depth, in both select industry verticals and in important functional competencies, to bring our clients truly differentiated capabilities that complement their own. In addition, our clients’ businesses are increasingly global, and they tell us that perspectives and experience from analogous situations around the world is of great value to them, even if their own operations are focused on local markets. We operate in 40 offices in 16 countries and often bring together multinational teams to address client problems.

How does the size and depth of Oliver Wyman contribute to your ability to perform specifically on the Illinois Lottery assignment?

M. Kon: The opportunity that Illinois is addressing is high-stakes and complicated, and as such requires expertise and experience in a number of areas. We are able to bring together professionals with deep expertise both in the lottery & gaming sector around the globe and with public-private partnerships across multiple sectors. Our team supporting Illinois is comprised of individuals who have direct experience with leading lottery operators in the US, Canada, and Europe, and who have managed dozens of successful transactions in the public-private partnership

arena. Additionally, we can call upon a network of colleagues from around the globe for specific perspectives or insights that could be valuable to the process. At the same time, Oliver Wyman Group has been a part of the Illinois business community for more than 20 years, with more than 100 employees in our local office in Chicago.

Oliver Wyman has quite extensive and impressive experience in a wide variety of industries. What, though, is your experience with the lottery and/or gaming business? What experience, knowledge, competencies, internal resources and capabilities recommend Oliver Wyman for this assignment of being the consultant leading this Illinois Lottery initiative?

Tim Matusch: Our real value-add, and a core part of our proposal to the State when they were selecting their Transaction Advisor, is our ability to bring together cross-functional teams with expertise in many different areas. Oliver Wyman has served the broad lottery & gaming sector for over 10 years, including some highly progressive markets in other countries. We have been working with many leading operators to achieve significant improvements in both revenue growth and profitability across the value chain. This work has included brand strategy and new product launches, pricing and promotions, distribution channel redesign, customer engagement and loyalty, marketing effectiveness, labor productivity and procurement, as well as regulation, compliance, and responsible gaming. What that means is that we understand best practices from the leading operators in the world, how to

Continued...



Ross Dalton – 21 years
of lottery industry experience



Kathy Matson – 25 years
of instant ticket experience



Jean Turgeon – 25 years
of instant ticket experience



Will Higlin – 20 years
of lottery industry experience



Jacqueline Deragon – 16 years
of lottery industry experience



Todd Bauman – 13 years
of instant ticket experience

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maximize the value of a lottery franchise, and how potential bidders might themselves look at an opportunity like the one here in Illinois. This sector knowledge, in combination with our extensive experience with Public-Private Partnership deals, as well as other relevant State / Private Operator transaction structures and processes, means that we can help Illinois realize an optimal outcome.

M. Kon: This is a highly visible and highly sensitive transaction for the State, especially given the sector. Process integrity, the highest ethical standards, and probity assurance of bidders are of utmost importance. As such, we added our partner firm Kroll Associates to our team to conduct probity investigations of bidders, leveraging its global network of investigators to uncover any relevant issues that might be potentially of interest to the State. Additionally, we created a specific role of 'Chief Process Integrity Officer' for one of Kroll's managing directors, a former Assistant United States Attorney who has earned public commendations from the FBI, the US Secret Service, and the Department of Justice. We felt that a crucial part of our value proposition to the State was to ensure a completely ethical and fair process, backed up by someone with unquestionable credentials.

Is there anything you can tell us about the process going forward? Do you prepare some kind of "white paper" that analyzes the operations and performance of other lotteries as a way to provide context for exploring opportunities to improve the Illinois Lottery? Do you perform meta-analyses on the lottery and gaming industries to see how to position the Lottery for optimal long-term success?

T. Matusch: One of the first exercises was to build a comprehensive perspective on value creation opportunities for the Illinois Lottery. That comprised a full international review of lottery and gaming operators, best-practice insights and benchmarks from relevant out-of-industry analogues, as well as a detailed appraisal of current Illinois Lottery strategy and operations. The primary objective of this exercise was to understand the potential future overall value of the Lottery, as well as the specific strategies and activities that might be required in order to drive that value growth. Ultimately, the State wanted to have a clear idea of the potential value of their asset to ensure that they can structure an optimal deal and drive maximum value creation for the State. Subsequently, an inclusive and iterative process integrating input from a broad stakeholder group, the entities who registered themselves as Interested Parties, and an experienced Legal Team, yielded the contract between the Private Manager and the State: the Private Manager Agreement (PMA). Some of the biggest challenges we have faced have dealt with finding the right balance between State control and a reasonable operating environment for the Private Manager, especially with respect to scope, governance, and incentivization. The formal RFP process, where Interested Parties received relevant information to help determine their bidding decisions and bid preparation, has been run in parallel to comply with the tight timeline laid out by the Illinois State Legislature. Finalists' bids were due on September 3rd, and after a Public Hearing and committee evaluation, the Governor is set to announce the winner on September 15th.

Other lotteries already outsource large portions of their operations. Typically, the online "lotto" side of the businesses is contracted to one vendor and the instant scratch-offs to other vendors. I am thinking that the defining characteristic of this Illinois initiative is that instead of creating multiple contracts with various vendors and then managing those contracts with a relatively smaller team of state employees, you will combine all these functions so that one commercial partner is responsible for implementing all aspects of the

...continued on page 37

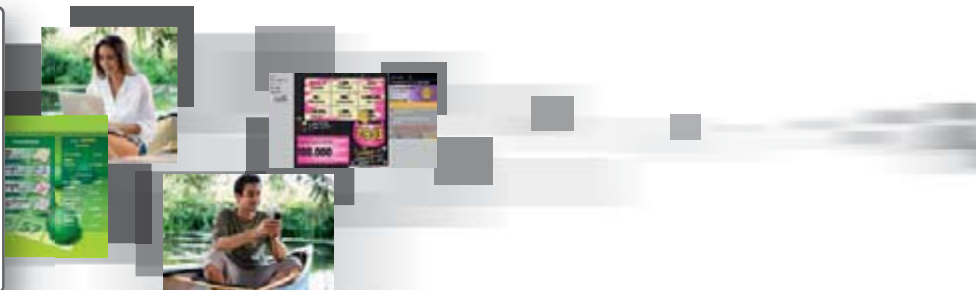


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Simon Holliday

Director H2 Gambling Capital (H2)

H2 Gambling Capital (H2) has become one of the most respected resources for information about how the gaming industry is evolving. In addition to advising over 500 organizations, H2's projections have been influential in shaping legislators' views of the gambling sector in both Europe and the United States.

Paul Jason, Public Gaming: *What is the primary focus of H2 Gambling Capital?*

Simon Holliday: H2 has two sides to its business off the shelf gambling industry data products, covering regulated markets, interactive gambling and daily Internet poker data, and bespoke work on behalf of clients. In the case of the latter corporate clients generally hire H2 to assist in the understand where the sector is headed, evaluate specific market opportunities, advise on how business models should be adapted and help identify potential partners. Financial institutions hire us to review gambling related factors which might impact investment opportunities in the sector. The commonality to everything H2 does is that we utilise deep understanding of the gambling sector together with a data-driven approach to provide the best market intelligence.

Do you produce source data yourself or rely on data that is public information?

S. Holliday: It's both. We collect all of the publicly available data but most of resource is allocated to modeling this and making projections regarding the sector based on developing an understanding of the more qualitative factors that impact the sector. We typically combine all the publicly available data with personal interviews and investigative fact-finding. We also have developed bespoke software which tracks the value and volume of activity on Internet poker sites (international and dot fr sites thus far). This has been a valuable tool to our clients and so we are looking at developing means of tracking other sectors of the gaming industry in a similar way. Much of this information is analysed on a daily basis and reported to our subscribers on a weekly basis.

I'm thinking that the wave of corporate mergers in the Internet gaming space has important implications for operators everywhere. For instance, one of your

reports indicated that the market share of Poker Stars and Full Tilt Poker has increased from 30% to 60% over the past three years. What's driving that extraordinary consolidation?

S. Holliday: First, Internet gaming is a very large space encompassing a lot more than Internet poker. Poker Stars and Full Tilt have come to dominate the poker space, with these figures relating to volume of real money players though the impact on revenues is believed to have been fairly similar. It is, as you say, a quite interesting development. This is a phenomenon that one can expect to see in all P2P (Peer-to-peer) gaming. Larger community of players generates greater liquidity, more game options and larger lottery style jackpots. At any point in time there can be as many as 85,000 real money players playing on either Stars or Tilt across as many as 16,000 tables. It is impossible for a smaller platform to offer the variety of playing experience and the guaranteed prize pools to compete with that. It just shows how liquidity breeds liquidity and that people want to play where the money is. It's all about attracting the largest number of players.

Once these operators get beyond a critical mass, the player experience is really defined by the single attribute of how many players there are. Other product features become less important or even irrelevant. Liquidity is king in all P2P business models. In Bingo, the amount on the prize boards, the amount you have in jackpots is the most important driver. And from the point of view of a betting exchange, liquidity is crucial and that's why, Betfair dominates this space. Even in house games such as slots aggressive jackpots drive increased player engagement and so that too is a function of volume of players.

Explain Betfair's model.

S. Holliday: It's a sports betting exchange. It's based on a P2P model and the rational of a the financial markets as opposed to traditional



fixed odds bookmaking which involves the customer betting against the operator and the latter managing its risk. Players bet against each other with Betfair taking up to a 5% commission on the winnings. They are the dominant betting exchange where as in fixed odds sports betting, there are lots of operators such as Ladbrokes, William Hill, Bet365, PaddyPower, Bwin, Unibet etc. These conventional bookmaking operators set the odds against which they take bets.

The exchange model seems more fun.

S. Holliday: Many people feel you get a better value with the exchange. P2P models are capturing the interest of the players and happen to work particularly well on the internet.

Since liquidity breeds liquidity, it would seem important to scale up as quickly as possible. Poker Stars and Full Tilt are unlikely to lose market share unless they make a major blunder, right?

S. Holliday: It is very hard to claw back market share from the dominant player/players under any P2P model once a market has matured. It is not quite the same in a new market or restricted market. Here there will be new race for liquidity with perhaps a few more players able to have a significant share of the market unless one or two succeed in dominating in the early days for whatever reason. Canadian operators are creating a multi-provincial poker network that will have the potential develop massive scale that will challenge the position of any offshore players that decide to continue in the market. The extent of its success will depend on the type of

offer and the ability to attract and retain more serious players. In Sweden the National Lottery, Svenska Spel, has an Internet poker platform that appeals mainly to the mass market player. As a result they have secured only 30% of the nation's market and in fact have become kind of a feeder ground for the off shore sites. In the case of the U.S. It would make sense for the states to collaborate and create a multi-state platform to create maximum liquidity. They already do this with lottery games now so I would think many will seek to do this with Internet gaming at some point. The advantages to that kind of collaboration are evident in any kind of jackpot-driven game, like lottery or progressive slots. But it becomes even more compelling when the jackpots are derived in a peer-to-peer format.

There are provisions in the U.S. legislation that threaten to prohibit licenses to operators who have offered Internet poker illegally in the past. Given that's exactly what they have done, are Poker Stars and Full Tilt nervous about legislation that might prevent them from getting licensed to operate in the U.S.?

S. Holliday: It is our understanding that PokerStars and FullTilt would contend that they

have not knowingly broken any U.S. law. The decision regarding the licensing of these entities is for the relevant authorities in the U.S. It would appear that many U.S. organisations would not be in favour of Stars or Tilt being licensed. Ultimately it depends on the regulators and we have recently sensed in other progressive Internet gambling jurisdictions that there is a desire to make the 'black or grey' market 'white'.

Will legislators look at how the Internet gaming industry has evolved in Europe when deciding what to do in the U.S.?

S. Holliday: I think they already have and it would make sense to continue this process. Though European states are looking at each other it appears that the majority are conservative and so end up announcing they will start from a similar position including just sportsbetting and poker with relatively high tax rates rather than moving straight to a more operator and consumer friendly environment with lower taxes and more products which is the direction that Italy has ultimately taken.

Europe seems to finally be rationalizing the regulatory framework of the markets.

S. Holliday: Yes. The interesting paradox is that a regulated market can be a much more fertile ground for the expansion of our industry than an unregulated market. The EC is supporting the right of operators to establish themselves on-shore anywhere a local monopolies are promoting playing their gambling products. The vast majority of operators, including Stars and Tilt, desire the increased legitimacy of being official licensed in all the jurisdictions in which they are present though they do not relish the thought of numerous sets of regulations to comply with. As onshore regulated alternatives develop offshore operators will find it increasingly difficult. Survey work by Poker Players' Research has shown that given a credible alternative the vast majority of players would rather play on regulated sites. Their findings suggest that this is particularly the case in the U.S. where strong patriotism means that the majority of players would like to support operations that are paying taxes and creating jobs in the nation.

Capital markets also tend to gravitate towards the predictability and stability that a

...continued on page 41



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State agencies all have important and worthy objectives built into their mission-statements, but none of them includes performing the variety of business functions that a state lottery is tasked with doing. None of them is held to the commitment to generate huge revenues for public service benefits as is the lottery operator. As part of the dialogue about whether to “privatize” this or that state-run activity, why couldn’t states look at how their own lottery operates and explore the possibility of exporting some of the competencies into other state agencies? Apply a “Best Practices” approach to the overall management of government and look at the operation of the lottery for some of those “best practices”. We’re not presuming that the lottery is the perfect, shining example of everything that is good and should therefore be emulated all across the land. It is to say that the lottery operator is charged with integrating public policy agendas with ambitious fiscal objectives in a way that is unique; and that other government agencies could possibly learn something about how to apply private industry practices in a state-run operation. We suggest this with all due humility and appreciation for the fact that all of us along with lotteries themselves have lots of room for improvement. This topic came up in a different media interview context with Terry Rich, so I asked if he might not elaborate ...



Terry Rich

CEO, Iowa Lottery Authority

Paul Jason, Public Gaming: *I hear you want to do more than sell Lottery products for the state.*

Terry Rich: Let me be clear ... As leaders of the Iowa Lottery, our highest priority is to provide entertainment for our players and proceeds for our vital state causes. But lotteries have a mission that is much different from other state entities. Government-sponsored lotteries are created to generate funding for causes that might otherwise have trouble getting public funding. The interesting thing about our mission, though, is that it requires us to operate much like a private enterprise. We have a cost and profit structure that drives business decisions. Our operation is structured with sales, marketing, finance, operations, IT, and legal departments that function much like private enterprise. Each day we weigh risk-rewards and return-on-investment scenarios for most business decisions. We brainstorm for creative solutions to problems and to optimize opportunities. We work hard to integrate the most progressive manage-

ment techniques into our everyday operation. Our focus is on the investment of resources for better returns. Our mission requires us to operate in a business manner and we think that other state operations might benefit from the lottery’s experience, technology and entrepreneurial model.

It seems like Iowa has always been a leader in new ideas.

T. Rich: Our belief is that if you don’t take some calculated risks, things won’t improve or advance. Through the years, the Iowa Lottery has been on the forefront of new products and ideas with a goal of helping the entire lottery industry move forward. A few years ago, the Iowa Legislature and our management staff also did a smart thing by carving out the Iowa Lottery as an independent authority. It allows us to take calculated risks to try new ideas that benefit the entire state as well as the lottery’s business operation. Once technology is installed, we can look to see if other state entities may also be able to benefit from those applications. One example was our use of lottery terminals to sell advance-admission tickets to this year’s Iowa State Fair. We increased Fair pre-sell outlets by a factor of 10, while at the same time bringing in new citizens to purchase from our machines for the first time. It added convenience for citizens and a sampling of what a lottery product might look like. As a bonus, our retailers liked it because they got a commission as part of the sale.

Talk more about how the Lottery becomes a leader in innovation for the state.

T. Rich: Iowa law as it applies to the lottery was written in a way that is more conducive to business practices, which doesn’t happen everywhere. By Iowa Code:

- Lottery games are defined as an entrepreneurial enterprise.
- The Iowa Lottery is to operate in an entrepreneurial and businesslike manner.
- The lottery is to be free from “political” influences.
- The lottery can issue bonds for property, allowing long-term savings on select big purchases.
- The lottery CEO’s job definition includes a provision that encourages research and development of best lottery practices.

Innovation is at the heart of any entrepreneurial enterprise, and we believe we are fulfilling our mission as defined by state law when we investigate and seek out new opportunities. Not every idea will work, but you have to try. The Governor and Legislature set up a great business entity to accomplish that goal.

One of the areas where we’ve demonstrated entrepreneurialism in the past couple years is in social media. The Iowa Lottery was one of the first in the country to begin to incorporate into its daily work the use of social media platforms such as Twitter, blogging, YouTube and Facebook. Those efforts came with the business understanding that much of the public is already engaged in conversations in those arenas and reaching out to consumers there brings the lottery within their circle of influence. Doing so also helps cement the lottery as a relevant part of those consumers’ entertainment options—it lets them know that we “get it.” That’s important in terms of giving people a reason to buy our products!

What other ideas are in the works?

T. Rich: Another recent project that’s received positive comments is a summer travel initiative we undertook with the Iowa Tourism Office. Tourism negotiated special offers with in-state hotels, attractions and businesses, and those deals were then offered to people who presented non-winning lottery tickets. We used our strong media buys to encourage residents to buy our tickets and vacation in Iowa. It’s been another win-win for all.

As we find successes, others’ ideas may follow. Maybe some state licenses could be sold through lottery terminals or our massive network could be used to process state payments, etc. As I said, not every idea will work, but there is a benefit in investigating the possibilities. In the coming era of electronic tickets, it also gives us other ways to drive customers into our loyal retailers’ business locations.

The bottom line is that more cooperative projects with lotteries could reduce costs for state entities overall and help lotteries raise more money for state causes by having other “third-party” organizations praise the lottery’s work. ♦



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Michael Edmonds

Director of the Wisconsin Lottery; President of the Multi-State Lottery Association (MUSL)

The Multi-State Lottery Association (MUSL) is a U.S.-based, non-profit, government-benefit association owned and operated by its member lotteries. Each MUSL member offers one or more of the games administered by MUSL. All profits are retained by the individual lotteries and are used to fund projects approved by the legislature authorizing each lottery. Formed in 1987, MUSL's first multi-state game was "Lotto America". That game ran four years before being replaced by "Powerball" in 1992. MUSL now offers six multi-state games and provides a variety of support services to its 33 member lotteries. Most recently, MUSL and the Mega Millions Group collaborated to enable members of each group to sell both super-jackpot games (Powerball and Mega Millions). Michael Edmonds, the current president of MUSL, clarifies the mission and some of the agendas of MUSL.

Paul Jason, Public Gaming: *What are the most important objectives on your agenda for MUSL?*

Michael Edmonds: The most important thing is to continue to offer games that maximize the profits of its member lotteries. This year we will continue to develop a premium game that will be offered by MUSL member states as well as the Mega Millions bloc states. In addition, we are looking at enhancements to the Powerball game.

How can MUSL be used as an agent for positive change and progress?

M. Edmonds: I view MUSL as a means to generate greater profits, not as a means for positive change and progress. The profits from MUSL games may further the mission of a particular lottery, which may result in positive change and progress, whatever that is. However, it is not up to MUSL to promote change.

What do MUSL members expect from their association, from MUSL?

M. Edmonds: Greater revenues. That's always been the expectation. In addition, MUSL staff provides expertise in game design, security, IT and law.

How have the expectations and needs of MUSL members changed over the past 3 years; and how do you expect them to change over the next 3 years?

M. Edmonds: I don't think the expectations will change in the next three years, although the types of games MUSL offers might change. We started with lotto and have branched into slots. Internet and wireless games are next, if lotteries hope to continue to be profitable.

What is MUSL's role in the development of the next multi-state super-jackpot game (the

"Premium" game)?

M. Edmonds: The Premium game is being developed by all of the state lotteries. And it's too early to say whether it will be a "super-jackpot game" or even if it will be one game. We are using the research, design and technical expertise of MUSL staff to assist in the development of the games.

Why couldn't MUSL be used to coordinate an initiative for states to pool resources to implement a national approach to branding? Why couldn't the cost for creating a national Powerball campaign just be built into the membership fees? I know there are obstacles, like the fact that different states have different rules about advertising etc. But the benefits would be huge for everyone, wouldn't they? At the very least, shouldn't the branding of Powerball have a more unified, consistent, national approach instead of each individual state reinventing the wheel and ending up with mixed messaging?

M. Edmonds: I dreamt about this, once upon a time. Seriously, you're right: we should have unified and consistent advertising. But I don't think it will happen. My favorite lottery ad' is a commercial featuring lottery winners shopping in a warehouse store. But instead of ordering lumber or flat screen TV's, the winners are ordering sports cars, private jets, and yachts. That ad' could not run in Wisconsin. In Wisconsin, we can't show money, we can't show what a jackpot can buy and we can't have a call to action. Add in the restrictions from all of the other states and what do you get? Boring ads. And if I'm not restricted in my advertising, why would I want to run a boring ad?

Will the branding and messaging of the future "Premium" game have a more unified approach? If so, what will MUSL's involvement be?

M. Edmonds: I'm a little more hopeful here. I think we can have a unified campaign to launch the brand that will satisfy almost all of the states, at least their lawyers. Then it's a simple matter to agree on the creative, right?

Simple indeed! Couldn't MUSL take a more proactive role as a national public relations agent for all its member lotteries, finding the angle to turn local winner stories into nationally celebrated events? Too, lotteries need someone to address the need of the general media for positive story angles to counter the negative spin pushed by our adversaries. Why couldn't MUSL be the agent for that?

M. Edmonds: I think this is best left to the state lotteries who know their media best. MUSL is not representative of all of the U.S. lotteries. Furthermore, a negative issue in one state may not be an issue in another.

What can MUSL do to engender more awareness and a positive image for lotteries at the federal level? The U.S. DOJ and Congress are making decisions that directly affect the benefits that accrue to states and Good Causes from their lotteries. It doesn't have to be a "lobbyist" or anything like that. Just someone whose job it is to make sure shapers of public policy in Washington DC have all the information and facts about the situations they are deciding on. In other words, keeping it really basic and focused so that states don't feel that MUSL is overstepping its charter with the federal government.

M. Edmonds: I think this is a good idea, but for NASPL not MUSL. Not all lotteries are members of MUSL. And while there are more MUSL states than non, the MUSL states account for only 43% of all the votes in the House of Representatives. The non-MUSL state lotteries account for 53% of the votes in the House. ♦



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variety and number of games, the turnover and the net profit, and the way you distribute over the Internet and interactive channels, I think makes Loterie Romande one of the most progressive lotteries in the world. That is impressive given that you're not as large as many so your resources are limited. What percentage of the population plays the lottery?

J. Moner-Banet: It's about 55% of the population that buys our products. It is important to engage a large percentage of the population so you don't have problem gambling with a small segment playing too much. Loterie Romande was one of the first lotteries to be certified by both the European Lotteries Association and the World Lottery Association for meeting the highest standards for Responsible Gaming. It is so important for lottery operators to exceed the highest standards for responsible gaming and corporate social responsibility. The long-term survival of our industry depends upon it. Too, from a practical business point of view, it is what sets us apart from other operators so we should reinforce our competitive advantage in these areas that will become increasingly relevant in the future.

Do the shapers of public policy, the political leaders who decide regulatory structures and licensing terms and conditions, do they recognize the legitimacy of the EL and WLA Certifications?

J. Moner-Banet: I cannot answer for France or for other jurisdictions. But the regulators and politicians in Switzerland do give consideration to those certifications. They require us and any potential licensee to prove that they have the systems and mechanisms in place to protect the players and the public. The EL and WLA certifications are typically not required, but they are definitely recognized as evidence of our capabilities in those areas.

I think they also recognize more and more the invaluable service their own state-sponsored lotteries provide to the public and the good causes supported by lotteries. For example, about 2 million people live in my jurisdiction of Switzerland. Loterie Romande contributes about 130 million euro per year to grass root sport and good causes. That's huge, and that is what lotteries all around the world are doing for their people. It is a wonderful mission and I think it is starting to get the attention and respect from our political leaders.

Why do the EL and the WLA have two different certification systems for Responsible Gaming?

Why not just have one?

J. Moner-Banet: That could be a long answer but I will try to make it concise. Basically, the industry is in different stages of growth and maturity in different regions around the globe. WLA needed to have a system that enabled younger lotteries to develop their systems and be recognized for making progress. So the WLA has four different levels of achievement, with level one being a first step for newer lotteries to begin the process of building effective RG programs. Since European lotteries are all in a similar stage of development, we have only one level, you're either certified or you're not certified. It corresponds to the level four of the WLA, the highest level of certification for the WLA.

Could you explain the casino gaming industry in Switzerland?

J. Moner-Banet: We have 19 land-based casinos in Switzerland. They have a very classical type of operation, with slot machines, table games, roulette, blackjack, etc. Very traditional. They are privately owned and operated by French companies like Barriere and Partouche, and also Casinos Austria and local companies. Casino-style games are not yet allowed on the Internet. But the government is actively working on a change to Swiss gaming laws that will license and regulate some casino-style games to be offered on the Internet. That is expected to happen within two years. Of course, we have the illegal operators, those who are operating on the Net without a valid Swiss license. The Swiss government will be taking aggressive action to stop these illegal operators. These operators may be operating legally in other countries, but Internet sports betting casinos and poker is not legal in Switzerland and so they are in violation of Swiss laws. You can find all the regulatory information you need at www.esbk.ch.

Knowledge Management

One of the missions of the associations is to educate newer lotteries so they can get up to speed quickly. How does a newer lottery prioritize the learning process? Do they need to concentrate more on certain areas, like security, when just starting out?

J. Moner-Banet: In my opinion, everything is of equally high priority. A lottery needs to be operational and competent in all areas from the very beginning. You can't scale-up one step at a time. Before you even sell one ticket you need to have designed the

games, set up your retail network to sell the tickets, installed the terminals and communications infrastructure, implemented security measures that are 100% effective; there really is no part of the business that can be allowed to slide until it's more convenient to deal with. In our business as in all businesses, it is a global market and that is the standard that everyone needs to perform at. That means that the benchmarks used to measure performance are not your peers in your local or even regional markets. From the very beginning, you're expected to perform, in every business area, to a level comparable to well-run lotteries wherever they might be located. That's why the requests for training and education are increasing so much from the emerging economies and younger lotteries. That is why this is becoming such a vital part of the mission of both the EL and the WLA.

How are the skill sets and knowledge required of our leaders likely to change over the next 10 to 20 years? What will be expected from the next generation of leaders, and how will it be different from the current generation of leaders?

J. Moner-Banet: In my opinion it won't be so much different. More than ever before, a leadership role in this business requires a broad range of competencies, a working knowledge of all the different disciplines. A marketing executive needs to have at least some understanding of finance, logistics of distribution, IT, sales, product development, even production. Leaders will need to be inter-disciplinary because the ability to integrate the different functions will be important. And they will need to be educated on how lotteries and gaming operates all around the world because the Internet and Mobile are connecting us whether we want to be connected or not. Another change that is already happening, in my opinion, is the need to integrate a keen awareness of the public service mission into all aspects of the business. Responsible gaming and corporate social responsibility will be cornerstones to the missions of all lottery and gaming enterprises. And that fact needs to be built into the training and education agendas of our trade associations so that our next generation of leaders is shaping their organizations around a solid and principled foundation. It is what will be expected of us by our players and our political constituencies. Again, from a practical perspective, it will also be expected of other operators and we have the opportunity to differentiate ourselves by shoring up our

strengths in the areas of RG and CSR. And we can do that through education and training.

More specifically, the very nature of gaming is evolving and the next generation of leaders needs to be ready and able to take us to the proverbial next step. Social gaming isn't just about community and chat and making friends. It's about integrating games into our social lives and vice-versa. The sense of that and of how business is changing to be interactive at all levels will be hallmarks of the next generation leader. All lotteries need to create an image of progressive leadership to attract young adults. We need to continue to educate in the fundamentals of our business, because most of those will remain the same. But we also need to make room for execution of those fundamentals to be informed by an understanding of how lifestyle and technologies are changing and how that will change the behavior of our customers. So, we educate and train on the fundamentals of operating the business, but we are also evolving to put more focus on forward-leaning priorities like Responsible Gaming and the interactive world of the 21st century.

The rate of change is accelerating and so the ability to learn, the capacity to assimilate new information in very large volumes will be increasingly important for the next generation. But we can't really teach that.

The main thing, though, is that there are no institutions of higher learning that teach lottery, how to run a lottery. And yet it is a complex business that needs leaders to be educated in the business of running a lottery. That's what WLA and EL are dedicated to providing. The teachers are not professorial academics. They are lottery executives with direct experience and knowledge about organizing a lottery, designing the games, setting up retail networks, creating promotions, building RFP's, and mission-critical functions like security. There's really no other educational forum that teaches these things.

Knowledge management. Should we think of it as the knowledge that's held within the minds of employees and also in various digital forms, and the challenge in larger organizations as how to leverage that knowledge and free it to actually contribute in a meaningful way to real world applications. We have an explosion of information, and the trick of it now is to enable that knowledge and information to be applied in a way that actually makes a difference.

J. Moner-Banet: You're right. Too, you make a distinction between knowledge management and information management. That is the key. The amount of information has exploded. We also have incredibly powerful tools to share information. What we need are the tools and systems to convert all this information into useful knowledge. I don't have the answers to this problem. But it will have to do with organizing information in ways that enable us to separate the relevant from the irrelevant so we can focus on precisely the information that will make a difference to our understanding and ability to make effective decisions. Converting information to real knowledge is the challenge.

What can companies do, or what do you do at Loterie Romande, to convert information into useful and applied knowledge?

J. Moner-Banet: A particular area of importance and focus for us is Responsible Gaming. We are dedicated to understanding the topic, implementing the tools, and conducting our business operations to fulfill the highest standards. In the course of doing that, we collaborate with universities to do studies that guide us on how

Continued...



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to create and market the games in ways that are both appealing and fun for our players but not dangerously addictive or over-stimulating to vulnerable players. That creates a lot of information; a lot of studies; hundreds of pages of studies. In practice, the volume of information is really too much for anyone to process and apply. For mature lotteries, the challenge to convert too much information into applicable knowledge is just overcome with time. If you've been chunking away at it from the beginning, an ad hoc system of organization emerges. The task of separating the wheat from the chaff is done in increments over time and it's possible to end up with a process of identifying quickly the most important and useful information and integrating that into the portfolio of other useful information and in effect re-create an action plan as you go along. Not necessarily very efficient, but it does work.

When you think about it, that describes the rather clumsy process in which vast amounts of information is turned into useful and applicable knowledge in most situations, doesn't it? Necessity being the mother of invention, we needed to do something to enable new lotteries without the time or resources to wade through this giant body of information to get started immediately with a Responsible Gaming program. Our programs have evolved over many years. The new lottery does not have the luxury of that much time to build an effective RG program. They are not able to implement everything instantly. They need an agenda that enables them to go from A to Z in a compressed period of time, say two to five years. So we created an RG program that is organized in a way that enables the new lottery to implement the program in stages. The EL and WLA organizations took that huge volume of information and converted it into a comprehensive but coherent action plan.

In my mind, this is an example of converting information that could be useless into real knowledge that is applied for a very useful objective and done so to very effective purpose. That's what has been done for RG. But I would propose that this same process could be applied in many areas of business. Areas like marketing, product development, game design, retail management, even IT and finance, could benefit by taking a more scientific approach towards the business of organizing the vast amounts of information into a form that can be more readily applied to real world challenges and

opportunities. That is what is meant by Knowledge management.

That puts into a new context the mission of the WLA and EL educational mission. It's not just about training and imparting information about how to do things. It is about taking that information and turning it into real knowledge before sharing it with the members. It is about sharing the results of a more far-reaching knowledge management agenda.

J. Moner-Banet: Exactly. These associations, the EL and WLA, are actually in a uniquely interesting position to help their members. You have two basic dynamics. One, there is a range of developmental stages that our members are in. Some lotteries have been around for decades and longer, have developed processes and technological expertise, and other skill-sets and knowledge resources, that would be impossible for a new lottery to acquire in a short period of time. Two, we all operate in separate markets and do not compete with each other. So it is an ideal circumstance for knowledge to be transferred in a most efficient way. That is why education and knowledge management has become such a high priority for our associations. Of course, there is no single template that is applied to all lotteries. But we can create a knowledge resource that is tremendously helpful to all lotteries, whether new or mature, to help them understand the business, analyze and assess their particular objectives and formulate stratagems that are unique to them but informed by a wealth of experience.

You use the words "workshop" and "seminar" in the association literature. I'm thinking that topics like interactive gaming and forging collaborations with business partners and other lotteries, and integrating an increasingly complex variety of products into an optimal portfolio management system, many of these things that will need to be accomplished in the coming years are so new that there's not prior knowledge about. In fact, sometimes, younger people are going to perhaps know more about a particular topic than the senior management just because they grew up with digitally interactive type activities. Is there a difference between a seminar in which there's a teacher and student relationship and a workshop in which all parties are engage as peers in the business of finding solutions.

J. Moner-Banet: Precisely. I think that there is still a place for teacher-student relationships that a seminar format is appropriate. Even then these sessions are far more interac-

tive than the old style of professorial lectures. Enabling a teacher to more efficiently transfer knowledge in a traditional sense continues to be a useful method of accomplishing that task. But your point is also right on because we are definitely evolving towards a more and more interactive workshop approach in which all parties are actively engaged in the process of building solutions. The workshops are usually focused on the objective of producing a result is uniquely applicable to each individual participant.

The learning experience of the future is going to be one in which there's not a wealth of prior knowledge.

J. Moner-Banet: That's why one of the main benefits of our associations is the creation of a communications network. Not Facebook or Twitter, but the network each of us can build for ourselves for the benefit of our organization. A network of colleagues doing the same things in other jurisdictions, engaged in the same mission of helping our lotteries grow and prosper; people that you can call, that you can collaborate with when it is needed.

Do you think that this could also form the basis for other creative forms of collaboration? Could these knowledge management objectives along with multi-jurisdictional games form a foundation that could spawn new and creative collaborative ventures?

J. Moner-Banet: Absolutely. I am a huge supporter of multi-jurisdictional games of all kinds. I think the Internet could be the new frontier for collaborative ventures. Lotteries have the unique advantage of not competing with each other. We are typically the biggest and strongest operator of games of chance in each of our markets. I think there are huge opportunities for us to consolidate that strength even more with a collaborative approach to the business. We should be open to these possibilities because whatever success we achieve benefits our good causes. Our public service mission makes it even more imperative that we have the vision and the fortitude to innovate on every front and stretch to improve our operation and the results we produce.

International collaboration is also required for activities like sports betting. The challenge to protect the integrity in that space can be problematic.

J. Moner-Banet: Yes. But again, we're coming back to our main topic, which is about knowledge management and ex-

changes of knowledge. It requires a specific knowledge about a complex issue about which we have much information but not so much knowledge. We need to forge an international collaboration to harness the knowledge and put that sort of structure in place to fight against match fixing. We have initiated a collaborative venture between the European Football Federation (UEFA) and the World Wide Football Federation (FIFA) to try to address these issues.

There are so many different operators, and there's going to be more and more operators that conduct sports-betting. How can they all be controlled?

J. Moner-Banet: It's not easy but it can definitely be done. There are already effective methods of controlling Internet wagering and they are being improved as we speak. But it's not only about the number of operators, but the number of matches that are wagered on. The huge increase in the number of operators combined with the number of events that are used to bet on them does pose a challenge to ensure integrity. I think that everybody - all the governments, all the official entities, official bodies and the sports federations, the sports betting operators, lottery operators, they all have the same interest. If we want our industry and the sport itself to be safe in the future, we all need to have these security supports in place. It's a challenge that must be addressed on a global scale. The matches may be in Europe, for instance, but the betting operators based in Asia. This is a new problem. It used to be very limited in the past when only a few bookmakers were operating sports-betting. But now it has changed and will be addressed, but will take time.

I sometimes criticize operators who don't comply with the laws and of each member state. I would side with Portugal over Bwin, and Netherlands over Ladbrokes. But am I wrong in thinking that when it comes to protecting the integrity of sports betting, that their interest is actually aligned with yours; that it would be as important to them to cooperate with you on a system to protect the integrity of sports betting because their business model and ability to make money depends on the confidence of the customers?

J. Moner-Banet: I think that's right. Those who are serious operators do have the same motivation to protect the integrity of sports betting and the confidence of the customers. But there are always among them some who have a very short-term approach, people who are not interested in creating the awareness to deal aggressively with the problem of match fixing. Those are the dangerous ones. The operators you have just mentioned such as Bwin or Ladbrokes or Unibet, they are serious operators. They need to respect our laws and not offer the games where they are illegal, but they share our interest to protect the integrity of sports betting. There are some, who shall remain nameless in this manuscript, who may say they are aligned but who are unwilling to work in a cooperative way to address the problem. There needs to be a way to enforce a system and process of security on everyone for it to be effective. ♦

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We invite you to visit www.lotteryindustryhalloffame.com to read about the Hall of Fame and its membership



Friedrich Stickler
Deputy Managing Director,
Austrian Lotteries; President of the
European Lotteries Association

Friedrich Stickler was appointed to the board of directors of Austrian Lotteries Ltd. in 1986. For the next 20 years, he was responsible for sales, marketing, public relations, law, and personnel. In 2006, Mr. Stickler was appointed to the position of Deputy Managing Director of Austrian

Lotteries. As President of the European Lottery Association, Friedrich Stickler has been at the vanguard of the movement that promotes preservation of a healthy regulatory framework in the European Union.

Mr. Stickler is a member of the Executive Committee, and chairman of the Club Competition Committee, for the UEFA (union of European Football Association). He is president of the Austrian Soccer Association, Principal of the Trade Association of Lotteries of the Austrian Chamber of Commerce, and served on the Intertoto/World Lottery Association Executive Committee until 1999.



Bill Thorburn
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Accountant with over 20 years experience in the gaming and wagering industry. After working at Ernst & Young, Mr. Thorburn joined Queensland TAB Ltd. Bill Thorburn was appointed as Chief Executive of Golden Casket in 1995. Mr. Thorburn was a key executive in the execution of the first super-long-term lease of a major lottery (the acquisition of a 65-year operating license of Golden Casket Lottery by Tatts Group in 2007). Tatts Group appointed Mr. Thorburn as Chief Executive of the total lotteries strategic business unit, Tatts Lotteries. Tatts Group acquired the long-term license to operate the New South Wales Lottery in April of this year. Mr. Thorburn is a member of the Responsible Gambling Advisory Committee in Queensland, a unique committee involving a tripartite arrangement with government, industry and the community.



James C. Kennedy, Jr.
Senior Vice President,
Sales & Global Marketing,
Scientific Games Corporation

Jim Kennedy joined Scientific Games in 1985 as SG's on-site account manager for the Colorado Lottery. From 1985 throughout the 1990's, Mr. Kennedy worked alongside lottery professionals in states across the country designing thousands of games, and scores of marketing programs to learn the business

from the giants of the industry from the ground up. In 1999, he was named President of Scientific Games International's Retail Solutions division and in 2000 Vice President of North American Sales and

Marketing. In 2005, global marketing for the full-line of SG lottery products was added to his list, as well as new business development for the company's on-line, Cooperative Services and instant lottery business segments throughout North America. Mr. Kennedy and his team hold a patent for the invention of the SGI Marketing, Analysis and Planning System, which today contains over 20,000 instant games.



Connie Lavery O'Connor
Senior Vice President and
Chief Marketing Officer of
GTECH Corporation

Connie Lavery O'Connor is responsible for the review and enhancement of GTECH's marketing processes, measurements, and information systems. Prior to joining GTECH in 2006, she served as the Chief Operating Officer of the Georgia Lottery Corporation. Prior to that, Ms. Lavery O'Connor spent more than

30 years with the New York Lottery, with her final 14 years serving as Director of Marketing and Sales. During that period of direct responsibility for sales and marketing at New York Lottery, from 1990 to 2004, overall traditional (non-VLT) lottery sales tripled, from \$2.058 billion to over \$6 billion, and Instant sales increased fifteen-fold, from \$200 million in 1990 to over \$3 billion in 2004. That was a period of dynamic change in the lottery industry, and the largest lottery in the U.S. evolved its retailer relations, portfolio management, and game design in major ways. ♦

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The New Italian VLT Market: Open for Business

Development kits add diversity in a complex regulatory environment

By Don Doucet, SPIELO Vice-President of Business Strategy, Products and Marketing

Italy's first VLT network debuted to great fanfare at the Time City gaming parlor at Parco Leonardo in Fiumicino, Rome, on July 16. The red-carpet celebration heralded the beginning of Europe's largest planned VLT program, which will see up to 56,700 machines installed in dedicated gaming centers across the country over the next 12 months. The launch was an especially significant moment for those who have worked tirelessly on the program. Italy's VLT program was created to provide urgently needed financial resources in the wake of the 2009 Abruzzo earthquake. Lawmakers, concessionaires, and suppliers immersed themselves in the logistics of developing the rules and products for a fair and profitable gaming program—and they did it at an unprecedented pace.

While the program is now officially up and running, the work has only just begun. There's still a narrow window of opportunity for those who want to be part of this fast-moving and dynamic new market—especially for systems and terminal suppliers, as well as content providers. Indeed, some of those associated windows of opportunity have either already closed, or are closing fast. For instance, the country's current 10 operators, or concessionaires, were assigned their machine share based on a percentage of their existing share of the Amusement with Prize (AWP) market. Many have since selected their central system and content providers. At the time of this writing, no new concessionaire licenses have been issued.

The unique nature of Italy's VLT network gaming structure has limited the number of central system suppliers who have been able to partner with these concessionaires. Italy's gaming regulator, l'Amministrazione Autonoma dei Monopoli di Stato (AAMS), established a network model that requires each concessionaire to report to the AAMS central control system, and offer Server Based Gaming (SBG) suited to a wide-area, or distributed, gaming environment. Because the program is based on a Central Determination of Win (CDW) outcome generation model, game outcomes must also be delivered to each VLT by the random number generator on each network's individual central system or systems.

The legislation also requires each concessionaire to link its entire network together so that a single server in each network is ultimately sending and receiving messages and accepting commands from the AAMS' central control system. This format allows AAMS to send and receive relevant data from each terminal and venue, and to control each network. For instance, the central control system has the power to remotely perform integrity checks on the terminals, games, and software, and disable non-conforming terminals at a moment's notice. These required special features and functionalities are making it difficult for many would-be suppliers to develop a licensed and approved central system and game platform to enter the Italian market.

Considering those challenges, it would appear as though concessionaires would also face limits in product and content diversity—a critical need in this market. Any new terminals and games must interface with these specialized central systems to meet AAMS' requirements.

Why is diversity so important? Prior to the launch of the VLT program, players craving a casino experience would travel to one of the country's four casinos, which are clustered in Italy's northern region. Under the new program, however, up to 150 VLTs will be permitted per venue in dedicated gaming halls or mini-casinos located throughout the country. Each of these mini-casinos will have to offer a broad selection of games and terminals to prevent those players from crossing the street to the next venue in search of variety. To attract and maintain a broad spectrum of players at each venue, diversity in both terminals and content will drive the Italian VLT program's success.

For concessionaires who want to improve the diversity of machine and game

choices in their VLT networks, Terminal Development Kits (TDKs) and Game Development Kits (GDK) are an efficient option. They're also an effective and affordable solution for content providers or terminal suppliers who want to seize the narrow window of opportunity in this new market. TDKs allow gaming machine suppliers to integrate another suppliers' gaming platform into their own gaming cabinet. In a case where the TDK manufacturer's platform is approved and operating in the Italian market, suppliers of new terminals can offer the TDK manufacturer's games on their own machines and connect to approved and existing central systems. Considering the complex regulatory environment in Italy, this is a much quicker and simpler way for a supplier to introduce their gaming cabinets into the market.

Similarly, GDKs are packages of software tools that allow third-party suppliers to invest in building a game library on the GDK manufacturer's platform, instead of diverting resources and devoting years of development to creating their own platform. Using both a TDK and GDK, concessionaires can introduce a new manufacturer's cabinet using an approved supplier's platform, and port the new manufacturer's games to the approved platform. Even though one supplier's platform is approved to communicate with the central control system, concessionaires can introduce other suppliers' cabinets and games to their line-up without worrying about the new supplier's interoperability with another manufacturer's central system. However, the new games must also be certified in the Italian market.

As complex as Italy's VLT program is, it has stimulated a new level of cooperation between competing suppliers, many of whom may have to work together to provide their products to this new market using solutions like GDKs and TDKs. For those late to the Italian VLT market, the benefits of TDKs and GDKs are immense: new suppliers can still enter the Italian market without the need to develop and license a specialized multi-game platform, and/or a central system tailored to the needs of a distributed VLT market.

As of this writing, SPIELO's VLT system has become the first approved in Italy in partnership with the concessionaire Lottomatica Videolot Rete. Several other suppliers are nearing certification. SPIELO has also entered into agreements with third-party content providers that will use SPIELO's GDK to develop games for the Italian VLT market. For operators and regulators in other jurisdictions who are interested in developing a tightly controlled server-based program, the Italian model is certainly one to watch. ♦



Players and stakeholders crowded the Time City gaming parlor at Parco Leonardo in Fiumicino, Rome, at the launch of Italy's first VLT network on July 16, 2010.



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Energize Your Retailers: The case for a best practices approach to mobilize retail sales

By Greg Houston, Principal, DeanHouston, Inc.; Consultant to Scientific Games Corporation

By 2008, Brad Alwood had sold Delaware Lottery products for 16 years. He'd been around the block a time or two and had heard all the pundit pitches—or so he thought—on ways to build foot-traffic and drive incremental lottery profits at his off-the-beaten-path c-store in Lewes, Delaware.

None of them worked as advertised. And so when he signed up for a seminar to hear Scientific Games outline its best-practices formula for increasing lottery sales and profits, the co-owner of the Daily Market and veteran Delaware Lottery retailer was understandably skeptical.

"When they came in and told me what I needed to do, I was very resistant to any type of change that I'd have to make," Alwood candidly admits. "When they swept-in in their groups, it was overwhelming ... and I found myself putting up walls and saying, 'This is my store and I'm going to do what I want to do.' And so I was a little negative and a little resentful at first. But I did it."

No. 1 Goal: Make More Money

Alwood, with the backing of his longtime business partner Tim Wallace, decided to give it a try—cherry picking and eventually implementing the best practices he believed would give him the best chance of accomplishing his goal.

And that goal?

"I wanted to sell more tickets and make more money," he says, without hesitation.

In Alwood's words, "pretty much immediately" he started seeing more foot-traffic, more lottery sales, and more winners.

"And when I started posting the winners," he says, "that just built more excitement and lottery became a much more fun product to sell, rather than just thinking that all I was making was my five cents on the dollar. It became a real tangible product."

In rapid-fire order, the negative feelings and tinge of resentment he felt during the seminar subsided. His lottery commissions went up. His walls of resistance came down.

Doubling His Money

Since implementing Scientific Games' best-practices formula, Daily Market lottery sales have doubled—from about \$10,000 a week to around \$20,000 a week. Alwood credits both Scientific Games' best practices as well as a strong portfolio of instant scratch-off games for the increase.

The Delaware Lottery regularly runs a bonus program in which its retailers can earn an extra one percent for growing lottery sales over a six-month period versus the prior-year period.

"In the four bonus cycles since rolling out Scientific Games' best practices, I've made bonus every time," he says. "If I looked at the last two years, going through the recession and all, lottery is the only category that has seen any type of consistent, sustained growth. Deli, gas, newspapers, groceries ... everything is flat or has decreased. Nothing has

grown. And yet I've grown twice as much with lottery. It's now very easy for me to put more time and effort into lottery because that's where I see sustained growth, large commissions and the future of me staying in business."

Setting His Sights High

Even before implementing Scientific Games' best practices, lottery products had sold well at the Daily Market. For years, and until 2008, the store consistently ranked between 30th and 40th in the state based on total lottery sales. Today, it ranks among the Top 10.

Due to his store's location, Alwood is realistic about his chances of ever becoming the top-selling lottery retailer in the state, but that doesn't keep him from setting his sights high.

"I'm never going to be a \$10 million agent or anything like that," he concedes, "but I'm hopefully going to join the million-dollar club this year, where, I think, in Delaware, there haven't even been ten agents who have ever achieved a million dollars in sales in a year. And if you knew where my store was—on Delaware Bay...at the end of the road...off of the main highway ... you wouldn't see how I could do that. I'm continually amazed."

Can't Do it Alone

Success in the lottery industry very often can be traced to how well a lottery, its suppliers and its retailer network work together in partnership. Alwood knows this firsthand and says he has a good relationship with the Lottery as well as the staff.

"You can't really do this by yourself," he says. "You need support. You need the advertising. You need the second-chance drawing products. You need the voided tickets. So whether it's SciGames, or whether it's your state lottery rep, you have to have a partnership. They can't do it themselves; they need you. And you can't do it by yourself; you need them."

Keep An Open Mind. Be Creative.

Knowing what he knows now, what would Alwood say to other lottery retailers considering Scientific Games' best-practices program, or, as in his case, might be dubious of its merits?

"I'd say give it a shot. I'd say be creative and think beyond what's being presented. Keep an open mind about it and see what happens. You're not going to see the results in one week or two weeks. You have to do it over a period of time. I mean, I made more money on the lottery last year than I've ever made in 18 years."

"I didn't think there was ever enough money made on the product for me to be spending my own money. And as I've seen the sales grow and the bonus program we work on...and the way I can continue to grow my commissions ... I can see by putting a little bit of my own money back into the lottery ... I can make more money." ♦

Scientific Games is committed to working in partnership with its customers to support lottery retailers looking to increase foot-traffic and add incremental profits to their businesses through the adoption, implementation and proper execution of lottery industry best practices.



Instant Player

business, from online to instants to advertising and HR, IT and all other aspects of operating the Lottery. Is that correct and can you clarify this?

T. Matusch: You're right that one of the key benefits in this transaction is that a single commercial partner is responsible for implementing all aspects of the business. We see significant strategic gains in having a Private Manager with deep operator-side knowledge and experience have a complete view over all aspects of the business. No doubt they will look to streamline some areas as well as grow others. The ability to make 'holistic' decisions will enable both efficiency and effectiveness gains to be made. How they choose to structure their operations, however, is flexible. We've taken great care in drafting both the RFP and the PMA to ensure that no one particular structure is necessarily considered preferable - we want to leave that to be proposed by the Private Manager based on their own experience and expertise. And we might expect some Interested Parties to continue to subcontract operations and others to look to consolidate operations. So the transaction allows for both 'unbundled' as well as 'bundled' structures. We will not, of course, mention any specifics of comments made by Interested Parties through this process, but it would be fair to say that many different options have been taken under consideration.

So much of the earning potential of the Lottery is determined by regulatory constraints. Legislation enabling expansion into new games (like high-speed keno) and new channels (like Internet) would have dramatic impact on revenues and profits. Does Oliver Wyman assist in the process of promoting this enabling legislation?

M. Kon: It's important to make clear that we are a strategy and operations consulting firm and not a lobbyist, so we play no direct part in influencing legislation ourselves. However, what we can do is lay out potential alternatives to current legislation based on external analogues, and put a value, in dollar terms, of their potential impact. Indeed, when we built up the initial valuation perspective of the Illinois Lottery, we ran scenarios that conform to current legislation, as well as a number of others which incorporated potential future changes to scope of products and services offered. Our role is to provide the information and insights to our clients that enable them to make the best decisions possible.

Outsourcing the management of the Lottery might be expected to result in a higher level of entrepreneurial and creative energy. Is that one of the objectives? State employees would contend, though, that given the same latitude and flexibility as a Private Manager would have, they would achieve the same or better results. How is the culture of business potentially different from the culture of state government?

T. Matusch: The Illinois Lottery has very talented management and employees, and they've done a great job of running the Lottery under its current structure and parameters - and those include both Federal and State Lottery legislation and policy as well as broader operating and employment legislation and policy. As we helped draft the PMA for this transaction, one of our key objectives was to provide flexibility on a number of dimensions to enable the most effective and efficient operation of the Lottery. It goes without saying that simply removing constraints would allow the current team greater latitude and flexibility. But the Private Manager will also bring a new culture of innovation, talent management, incentivization, best-practices from other jurisdictions, etc., which will reinvigorate the entire business. One way to look at this transaction, and its enabling legislation, is that it represents a 'reset' of the Lottery - a new structure, a new management team, a new culture, a new incentive scheme, and a new set of parameters - all to maximize the overall value of this important asset and the returns to good causes in the State. It's very much the hope and expectation that a large proportion of current employees will continue to work within the new team, so they'll be able to leverage their talents and be part of the overall growth story. It will be an exciting opportunity for them.

One of the rationales for why "private" industry is more effective than state government is that the profit motive is a powerful performance driver. How do you ensure that the public service focus (like avoiding the temptation to make the games so stimulating that they could encourage problem gaming, for instance) is preserved along with that profit motive?

T. Matusch: Profit maximization is indeed a powerful performance driver, and that's a key part of the incentivization in the deal. The higher the profit of the Lottery, and the higher the resulting compensation

...continued on page 45

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players. And doing that in a way that drives short-term sales.

Could you talk a little bit about the interactive features? How exactly do they work?

J. Canfield: We provide a variety of games. Free games are simple, easy play games such as a reveal a game that does not affect the predetermined outcome but invites the player to play a game as a prelude to having the outcome be revealed. And then there are games that are a little more involved and have more of an interactive component and are longer playing games. It creates the feeling that skill is involved and that the skill of the player affects the outcome, but it doesn't because the outcome is predetermined. Like interactive Hold 'Em' and Monopoly, they will use a non-winning ticket to play these games and may receive points for merchandise redemption and/or second chance drawings. If the player enjoys that experience, they might feel better about buying a ticket knowing that even a non-winning ticket gives them the opportunity to play these games and put in for a Second Chance Draw. The objective of these e-gaming initiatives is, after all, to increase sales.

You are talking about games that have predetermined outcomes. The play has no influence on the outcome and no money is won as a result. But aren't you launching some interactive games that result in a prize?

J. Canfield: The interactive games result in a chance to win a prize. We have already done this with interactive games such as Hold'em and Monopoly. Our next phase will include more of a social element which is a very popular trend. We will have an interactive Hold 'Em game where players will compete against other players. This game is not predetermined. It's still chance because you never know what cards you're going to get. And since it is a Second Chance format, the player is not wagering anything on the game. And they're not even playing for money. They're playing for entries into a Second Chance Drawing.

The way it's played is really quite simple. The player buys a scratch Hold 'Em ticket. They take their non-winning ticket and enter it at the MN Lottery player website.. They then have their choice to play against virtual or live players. The number of entries to the second chance drawing is determined by how they place; first, second, or third. I

do believe however that we will eventually get to a point where interactive games will be available on the internet for actual prizes, cash or otherwise. My belief is that it's not 'if', but rather 'when'.

Just like regular off-line poker, there is an element of both skill and luck. The actions of the player do influence the outcome, but the element of luck makes this fundamentally a game of chance. Too, there is actually no wager, no ante or bet. Entrée into the game is a free bonus for holding a non-winning ticket. It's more about appealing to the social networking motivation, isn't it?

J. Canfield: Exactly. Bragging rights, recognition, chat, all the social networking benefits. There will be a feature added that enable players to share their game results on Facebook. We are not creating the Facebook page or implementing a push strategy. We are just creating the tools and mechanisms that make it easy for the player to link to his or her own Facebook page. Supporting the social networking aspect of the interactive game formats is key. It all goes hand-in-hand. It will also provide the platform for viral marketing to attract new players'

Part of the evolution of extended-play/interactive games will be to segment the market into different player profiles and preferences, won't it?

J. Canfield: We know our online lotto and our scratch-off players really well. We have different games to appeal to all different player preferences and a robust brain trust for evolving those products to meet their needs. But in my opinion, we still have a lot to learn about the Internet player. We're focusing on that by doing more research. The more we learn, though, the more questions we have. That's to be expected and it is a positive thing because there is a lot of potential to grow and improve our approach to e-gaming, interactive features, and the social media components. Increasing sales is certainly our primary objective. To maximize on that, understanding the players, their play styles and motivations is also an important part of building an effective responsible gaming strategy and achieving our sales goals.

Can tickets purchased by subscription include a Second Chance Drawing feature?

J. Canfield: We're positioned to have that at a later stage if and when we decide to implement it. We need to be sensitive to the interests of our retailers who may think of

that as competition. Retailers will be the primary sales driver and distribution channel for many, many years. The way Second Chance Drawings work now is that the tickets must be bought at the retailer so the retailer benefits by this Internet initiative. Again, there is no reason to move too quickly and agitate one or more of our constituency. It is a slow but steady progression.

C. Harris: There is a segment of the population that wants to play the lottery but does not go into retail stores. We do want to enable them to buy our products. That segment will grow but the percentage of customers who buys from the retailer will continue to dwarf the percentage that only buys online. As long as we are sensitive to the interests of our retailers, and create products like Second Chance Drawings that increase sales for our retailers, we'll also be able to meet the needs of that segment which only buys online. Managed properly, we do not need to incur any disruptive channel conflict.

It seems like by definition you need to create a critical mass of players that are interacting with each other before an interactive game becomes truly dynamic and engaging. In fact, a slow start could even cripple your ability to attract players in your follow-up implementations.

J. Canfield: That is a key point, Paul. We all realize how important it is for a scratch plan to have a strategy that includes new games being rolled out in continuous fashion to keep things alive and fresh; as well as different types of scratch games to appeal to different player preferences. If you leave a void, you risk losing that player and can have an uphill climb to get them back. We believe that it is also important to keep things fresh and new in e-gaming. For one thing, the typical e-gaming player expects a more stimulating and dynamic gaming environment. For another, this segment is a little less accessible to traditional media and promotional campaigns. So we can't afford to lose them once we get them. That's why it is vital to have a well-conceived plan to keep everything fresh and exciting. The product launch schedule needs to be in place and also needs to be flexible to adjust to new information. Not really different than what is needed for lotto and scratch-offs. Having a digital strategy in place is a key element. ♦

of cross promoting between the different gaming categories? Would you anticipate promoting traditional lottery in the casinos and/or vice-versa?

S. Martino: Yes. Penn National is going to be a Maryland Lottery retailer. So we will be selling traditional lottery products in the casino's retail space and through instant ticket vending machines (ITVMs). We believe that's going to be a good revenue generator for us. We are going to have a conversation with Penn after they open about adding our monitor games, Keno and Racetrax. Cross-promoting in the other direction, running casino gaming promotions through our retailers, will be more challenging. But we are kicking around some ideas. I think once all the facilities are open we will be able to explore ways to cross promote in both directions in a more coordinated fashion. In the meantime, there will be a prominent Maryland Lottery presence in the casinos when they open.

What kinds of second-chance drawings or other Internet-based marketing initiatives does Maryland Lottery do?

For the second year in a row, we are proud to partner with the Baltimore Ravens to offer the Ravens Cash Fantasy scratch-off. Last year's Ravens Cash Fantasy was the best-selling \$5 scratch-off ever sold by the agency. The ticket features three instant top prizes of \$1 million. The ticket also features an Internet Promotion. Players enter the EXTRA YARDS from the perforated portion of the ticket at mdlottery.com/ravens. The accumulated yards can be used to enter drawings for incredible football-themed prizes such as Ravens season tickets for life, season tickets for 2010 or 2011, an away trip with the team and the chance to hang out on the sidelines during a Ravens game. Some lucky player will even score a trip to NYC for the Ravens Draft Day Party. There are numerous other prizes as well, from autographed footballs, photos and mini-helmets to framed jerseys and more.

Another exciting second-chance contest going on right now is our Reese's scratch-off "Hit It Here" promotion. This is in affiliation with the Baltimore Orioles and offers the shot at winning up to \$100,000. Players just have to mail in two non-winning Reese's scratch-off tickets for the chance to be chosen as a Fan of the Game. A Fan of the Game is then randomly selected for each 2010 Orioles home game. If an Orioles player hits a home run that hits the Maryland Lottery "Hit it Here" sign located

past the left centerfield fence, the Fan of the Game wins \$100,000. If it doesn't hit the sign, the Fan of the Game wins \$100 worth of Reese's scratch-off tickets along with entry into the Grand Prize drawing for a trip-for-two to Orioles Spring Training 2011 in Sarasota, Florida. Judging by the amount of entries, players seem to love the second-chance contests. The added opportunities to win are not only popular with our loyal players, but appear to be attracting new players to the Maryland Lottery as well.

There seems to be a lot of flexibility to create new and different games and promotions using the second-chance drawing concept.

S. Martino: There is. The real luxury of second-chance contests is that they allow you to be innovative. Tying in to sports teams is a natural in ways that don't work nearly as well with the printed scratch ticket. But giving the player an additional chance without an extra cost to win is like doubling the value proposition. So it's not surprising that the players enjoy it.

And building an Internet-based relationship with your customer. Don't you think the Internet enables a whole new way of interacting with your players?

S. Martino: It does. We are getting ready to launch a redesigned Website, using blogs, Facebook, Twitter and Flickr. We are going all in to generate excitement about social media opportunities and to connect with our players and enable them to connect with each other.

One of the things we're dealing with is a dramatic cut to our advertising budget during the last four or five years. We expect our investment in Internet initiatives to deliver a far better ROI than most traditional forms of advertising, and so that's one thing we're seeking. We intend to use the Internet to keep our image fresh, new and exciting with the players. We'll be trying new things but also just jazzing up the way we display the traditional games like Pick 3 and Pick 4, PowerBall and Mega Millions to make those more accessible for the core players.

I do want to add that we are very mindful of the need for effective Responsible Gaming tools. As we move into new media like Internet and mobile, we need to guarantee that age restriction mechanisms work effectively and that our players enjoy a responsible gaming play style. ♦

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Lottery Expo is turning out to be a far more exciting event than anyone expected. It is being held to coincide with G2E (Global Gaming Expo), by far the biggest gaming exhibition and conference in North America. The mission of Lottery Expo is to bring these two worlds together for the benefit of the lottery operator, to strengthen the position of lottery operators in the broader context of the gaming industry. Feeling that we could learn from leaders with expertise in areas of gaming but not specifically lottery, we've engaged their participation in Lottery Expo. There is a hugely exciting future in store for lottery operators. We're excited to be a part of that future and to have the privilege of hosting the brain trust that will take us there.

Lottery Expo is being held at the **Wynn Las Vegas** on **Nov. 16 & 17**, with a Welcome Reception on the evening of the 15th (and another reception on the 16th). It's true that the Wynn Las Vegas Hotel is the only destination casino resort in the world to receive the Mobile 5 Star, AAA 5 Diamond and Michelin 5 Red Pavilions awards. But what's even better is the super-low room rate for Lottery Expo attendees. At least for right now. The room block is limited and rates will definitely go up so please register and make your room reservations ASAP! Go to www.PublicGaming.org to do both.

regulated market affords. The financial community is much more comfortable with businesses that are in stable and predictable political and regulatory environments. Higher taxes impinge on profits, but knowledge that the businesses are premised on legitimate government licenses is important to them. Taxes do tend to decrease as markets grow and governments realize the way to optimize the return is to improve the value proposition to the player and not to burden the operator with extreme taxation. However, generally investors are a fairly impatient breed that do appear a little concerned regarding the initial licensing and compliance costs and the level of marketing spend that will be required to ensure success in a regulated market. It may take as long as three to five years for even the larger players to turn a profit in the majority of onshore regulated markets.

Responsible gaming will always be a high priority for governments, but that is a good thing. It's good not just for the protection of the players and the public. It also is integral to the long-term growth and sustainability of the gaming industry. The status as a legitimately licensed onshore operator is clearly an objective that will be even more important in the future. I think that once the U.S. has a clear regulatory system in place for Internet gaming, you will see PokerStars and FullTilt make every effort to be compliant or drop out of the market. It probably won't be worth it to them to try to fight the system at this stage. They have worked hard to be licensed everywhere in the past 12 months or so and will want to protect that status. We believe that together they still generate as much as a third of their combined revenues from the U.S.

The EU Commission and the ECJ have been deciding in favor of the member states in disputes over whether they have the right to prohibit unlicensed operators from entering their markets. What is the future? Is it possible the EU Commission may change direction?

S. Holliday: Infringement cases continue worked on by the Commission and the issues are still being debated. A Green Paper is expected next month which may clarify some issues. However, in the meantime it appears that the nationally regulated ring fenced model is gaining in popu-

larity with EU member states. Of course, they are still required to comply with laws prohibiting anti-competitive controls and so it is likely there will continue to be some debate over exactly what that means in actual practice. There are now hopes that in the next couple of years the likes of Germany, Spain, Belgium, Poland and Greece will all join the United Kingdom, France and Italy with a regulated Internet gambling market open to all operators that can meet the licensing conditions. These developments are set to be the key drivers of growth in the sector in the short to medium term.

As an industry, gambling has a unique capacity to both stimulate the economy and generate tremendous tax receipts which is a great motivator in the current economic climate in which we find ourselves. National governments are highly focused on the preservation of public order and high responsible gaming standards and so are the best ones to oversee the healthy growth of the industry.

Charles McCreevy was fanatically devoted to deregulating the gaming market. He was just replaced as the Commissioner for Internal Markets with Michel Barnier. Do you have any read on the sentiment of the current Commission for Internal Markets?

S. Holliday: Commissioner Barnier stated back in February that these issues should be clarified once and for all. But to date, at least publicly, he is not being nearly as aggressive as McCreevy was and so it is not clear to what extent the moment will continue. The general view is that the infringement cases remain and that the majority of the nine Member States still involved (the case against Italy has now been dropped) will seek to comply. Ultimately all 27 EU members are required to comply with the basic laws requiring free competition across the region. It is very doubtful that the EC would try to impose a pan-European regulatory framework for gambling so it is expected that member states will move forward with their own regulatory and tax structures initially and then will seek to establish a more efficient regulatory and operational framework across national boundaries. Once governments have resorted some measure of control, they won't be in the business of prohibiting gambling but expanding it. ♦

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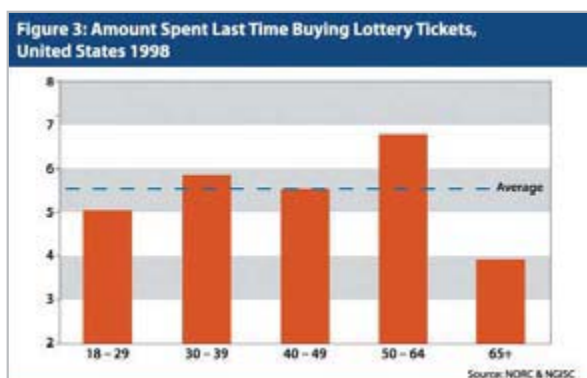
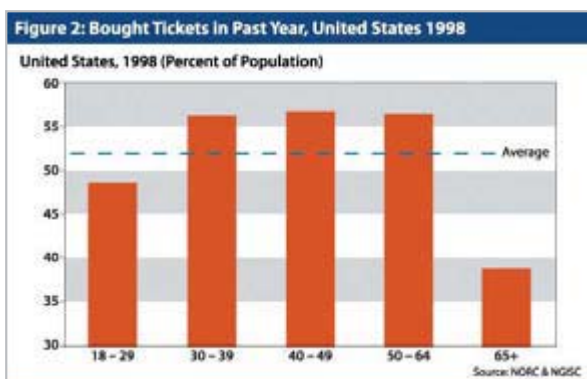
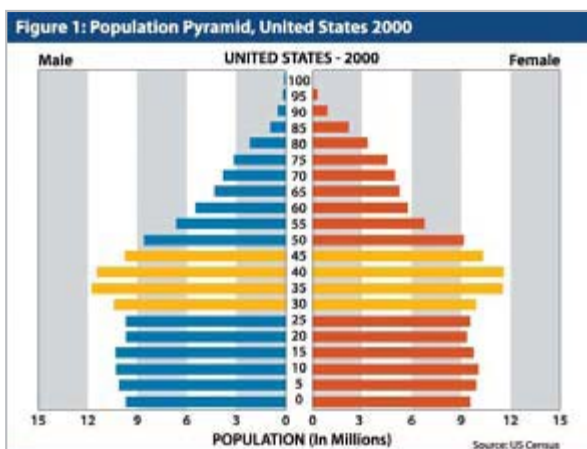
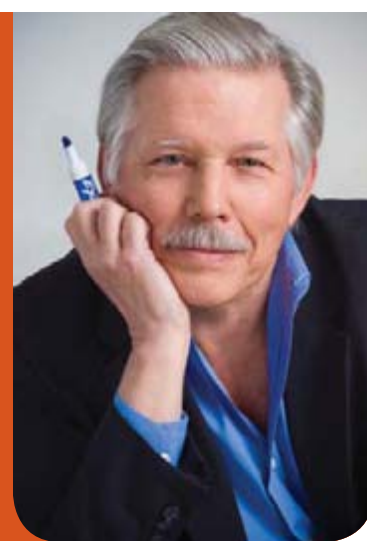
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The Once and Future Players

Meeting the Challenge of Lottery Player Base Development

By Matt Mansfield, GTECH Professional Services



A topic of lively, if not anxious, discussion in many lotteries today centers on how to attract new players. After years of growth through increasing prize payouts and retail expansion, lottery sales—and possibly the player bases—are maturing.

It is a source of legitimate concern.

THE INEVITABLE DIRECTION OF DEMOGRAPHIC DYNAMICS

About 10 years ago, the 2000 U.S. Census indicated that the largest population groups were 30-49 years old, the “Baby Boomers.” (Figure 1)

Coincidentally, the National Opinion Research Center (NORC) and the National Gambling Impact Study Commission (NGISC) determined that the primary lottery playing age groups were 30-64 years old, with a big participation drop off after people reached 65+. (Figure 2) These findings should not be very surprising since many lottery player-tracking studies since then likely indicate similar results.

The interesting observation came when these two groups showed that the above average amount for the last lottery purchase was highest among the 50-64 year olds, about average for the 30-49 year olds, below average for the 18-29 year olds and way below average for the 65+ group. (Figure 3)

Clearly, the amount spent per visit has grown over the past decade—the GTECH 2008 World Player Survey suggests that in the U.S., the amount spent per visit for “any game” just under \$12 has almost doubled, if compared to the NORC/NGISC study levels. However, looking at the 2010 U.S. Census population, the inevitable demographic progression of the larger population toward 40-59 year olds raises concern for sustained sales growth—now. In the meantime, the smaller population of “Echo Boomers” at 20-29 years old is just reaching playing age. (Figure 4)

BEYOND DEMOGRAPHICS—WHAT PLAYERS FEEL

One approach to increasing sales has been to encourage “casual” or lapsed players to play more and become frequent or “core” players. While mixing certain games or promotions, especially with an “event” element, with staple games appealing to “core” players can work periodically to attract “casual” players, there are certain psychographic factors possibly affecting the pace of transition.

The 2010 WMS Active Gambler Profile Internet survey of more than 2,800 Americans and 600 Canadians who had visited any casino venue at least once during the past 12 months looked at player demographics in broader social groupings (Figure 5). Some of the differences among the groups have interesting implications:

- Millennials (ages 18-31) and Xers (ages 32-45) prefer one big win while Matures (ages 65+) prefer small wins.
- Millennials and Xers are comfortable with technology and more likely to bank, shop, and watch TV online. Boomers (ages 46-64) are likely to experiment with technologies while Matures may be intimidated by new technology.
- Millennials and Xers are more likely to take advice from others while Boomers and Matures are more likely to rely on instinct.

Figure 4: Population Pyramid, United States 2010

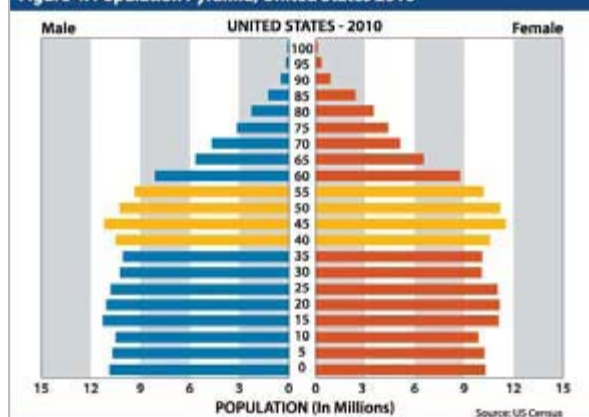
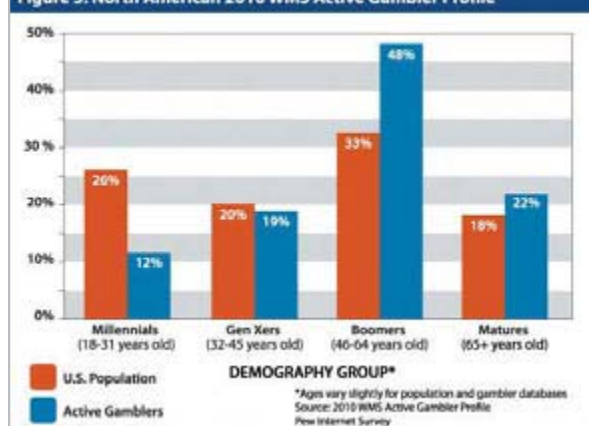


Figure 5: North American 2010 WMS Active Gambler Profile



This last observation correlates with the more “active” players are, the more apt they are to rely on instinct—more than 85% of frequent players in the survey. This observation is also seen by the GTECH Gaming Solutions staff for video lottery patrons. The GTECH World Player Survey also found that 66% of world lottery players and 69% of U.S. lottery players purchased tickets alone with another 6% either alone or with others.

In essence, the “core” player is likely to be more independent and less social about gaming than the “casual” player, which is a tendency that increases as players get older. In addition to lottery and casino players, this observation has also been noted for European internet gamers by the GTECH G2 digital gaming and sports betting managers. Consequently, it may be a question of time and mindset before a “casual” player shifts to being a “core player,” if at all.

Another approach discussed for growing sales has been increasing participation among younger players, especially those in the 18-24 age group, typically under-represented for share of lottery sales relative to share of population. However, this below average level may be driven by certain preconceived attitudes and experience priorities that have to evolve before lottery play increases.

As part of its player services program development during 2008, GTECH conducted qualitative research among Massachusetts and Rhode Island college students in separate age groups of 18-24 year-old undergraduates and 25-35 year-old postgraduates to explore attitudes toward lottery play. The research produced the following results:

- **18-24 Year Olds:** Lack of awareness of lottery games (jackpot games only); lack of reasons to play due to other spending priorities such as music, socializing with friends on Facebook, readily available free games; perception that no one their age wins, skepticism about where the money goes; and lack of identification with lottery players who are seen as older and not current.
- **25-35 Year Olds:** Broad awareness of lottery games (jackpot and daily draw games, scratch-off games); some playership up to once or twice a week and participation through pools; more comfortable with taking chances although the winnings may not be worth the risk; still skepticism about where the money goes; lottery players perceived as more likely men but definitely adults, e.g., lottery as “an arcade for grown-ups.”

These findings suggest that younger people simply may not be ready to be lottery players, “casual” or “core,” until their attitudes have changed due to maturing expectations with age and work place experiences as well as finding products where they shop such as big box stores or chains. The research also provides some basis for explaining participation patterns of NORC/NGISC and WMS studies.

DEVELOPING THE LOTTERY PLAYER BASE: FOUR STRATEGIES

Given these challenges and the evolutionary nature of playership, it appears that lottery player-base development has to work along two parallel directions:

- *Maximizing immediate opportunities for current player participation.*
- *Preparing future players for participation.*

A brief discussion of some strategies to pursue these two paths follows:

1. Expanding the Game Portfolio

Within the current portfolio of online, instant (scratch-off), and monitor games one of the major directions is the creation of a “national premium lottery game” now that Powerball and MegaMillions are being sold across 41 lottery jurisdictions. The key drivers for this concept are:

- More jackpot game sales opportunities to attract “core” and “casual” players, especially as jackpot games have broad demographic appeal (almost 90% of U.S. and world players have played a multi-state/jurisdiction game at one time and 52% within the past four weeks according to the GTECH World Player Survey).
- Ability to attract more “casual” player participation as jackpots roll.
- Potential cost efficiencies through national marketing to an increasingly national player base with its own communication network.

Consortium lotteries and the vendor community are collaborating on various game concepts with possibly new media and social-style components at different price points. Player research is planned to assess the best offering and validate positioning within the overall game portfolio in order to execute this plan in the near future.

Beyond optimizing and growing the current game portfolio, video lottery has been tried for several jurisdictions though many have had to restrict distribution for legislative compliance so that the game category is more reflective of its trade class such as “social environments” than traditional retail lottery outlets. The result is player-base expansion that is modest at best for now.

Continued...



BEIJING



MARYLAND



SPAIN



DENMARK

The other portfolio area being explored is variations of Internet lottery ranging from playing games for fun (in anticipation of offering games for money) to purchasing current games to actually playing games for money.

Clearly, the Internet offers many advantages for attracting new and “casual” players, subject to age and jurisdiction verification, so that sales growth is promising. It is a case of whether the demand for increased state revenues will be sufficient to counter potential DOJ challenges by either passing new Federal legislation or finding another acceptable in-state solution that complies with current legislation.

2. Increasing Game Accessibility

Another strategy has been to extend the traditional lottery strength of convenience into more forms of accessibility for players and prospects so that regular and impulse purchases can be more easily realized.

Specific examples are programs invested in and developed by GTECH that provide primarily current players:

- More in-lane purchase opportunities such as Lottery Inside integrating online game Quick Pick sales into third-party Point-Of-Sale (POS) equipment.
- More self-service such as the Gemini™ Family of Self-Service Terminals selling instant and online games with push-button ease in the industry's narrowest footprint.
- More retail locations, especially in big box stores with DASH Store Services offering an independent lottery store-within-a-store for both retailer and player convenience.

During 2009 GTECH-funded quantitative research among U.S. players indicated that debit card concepts may offer a fresh approach to personal convenience with multiple benefits appealing to current players and spurring even moderate interest among light and non-players.

3. Enhancing Game Entertainment

As the casino industry quickly learned, adding non-gaming entertainment generated more revenue streams and brought in more non-players for exposure to playing, even if just “casual.” Recently, vendors have been exploring enhancements to the physical playing environment to appeal to younger players such as more elaborate sound systems and chairs that vibrate in concert with visual screen action such as driving down streets.

While lotteries do not seemingly have the same control over the environments within which games are sold as casinos, certain lottery retailers around the world have realized the potential of creating a “social atmosphere” for attracting and keeping players.

An examination of four different retail locations—one in Asia, two in Europe and one in the U.S. (see photos at left)—reveals that each location has designed its environment to encourage players to stay through the use of monitors, tables and chairs, other amenities and immediate service for placing wagers. It is apparent that as these players come in, they meet or bring friends with them so that, like a casino, they expand the pool of prospects.

A consideration for lotteries might be to capitalize on this concept by working with a select number of retailers in different areas of the jurisdiction to create “showcase” or ideal locations optimizing the lottery playing experience and image as well as driving positive word-of-mouth to light and even non-players.

4. Branding the Lottery Experience

While the first three strategies primarily address maximizing current player participation, a strategy for preparing future players for participation (they are either not playing or just beginning to play now) has to consider additional factors and evaluate how they can work for or against preconceptions about lotteries and their current players.

The role and dynamics of social networks are particularly worth examining, since younger and “casual” players are more likely to seek the advice of others compared to “core” players and destination gaming locations are leveraging their social atmospheres to increase traffic.

In their 2009 book, “Connected: The Surprising Power of Social Networks and How They Shape Our Lives,” Nicholas A. Christakis and James H. Fowler go beyond Stanley Milgram’s experiments in Nebraska in the 1960s that showed nearly everyone is connected by “Six Degrees of Separation” to establish the “Three Degrees of Influence” rule. This rule states that everything we say or do tends to ripple through our immediate network of friends and acquaintances to our friends’ friends, and even their friends before the effect runs down. In fact, we shape and are shaped by these networks and the networks themselves have their own lives. Facebook, Twitter, and other applications simply enhance the communication but are not the true networks.

This pattern applies to a broad range of attitudes, feelings, and behaviors as diverse as political views, weight gain, and happiness. Both positive and negative impacts can move through the networks. Needless to say, it has significant implication for lotteries and their images.

Lotteries are challenged by multiple reports of long odds, limited winner news, older player and game perceptions, and skepticism about where the money goes being exchanged across various social networks—every day.

The challenge is how to create positive attitudes toward lotteries to travel through the same networks. This is where branding the “lottery experience” plays a very important role, for not only current players, but also future players while they are receptive.

While the excitement of playing and winning money are obvious messages, there is another element, much more emotional, that can resonate within the social networks: *We all share the opportunity to feel lucky and dream of winning, what we could do if we won, and how we would see ourselves as winners.* That’s the lottery experience aspect that people enjoy talking about with each other.

There appear to be at least four ways to capture this branding concept, all involving sustained mass communication efforts to achieve lasting impact:

- Advertising that can be linked to a broadly appealing game and shows

a winner doing something that many people can either identify with or admire. The New York Lottery had achieved this branding with themes such as “All You Need is A Dollar and A Dream,” “Hey, You Never Know,” and “If I Had A Million Dollars”—and an ongoing brand investment making the lottery very much part of the popular culture.

- Another key has been showing winners in advertising as down-to-earth, likeable people such as the New York Lottery’s tollbooth collector who with humor and charm gives away part of his winnings to pay other people’s tolls as they pass through his station. All of these are dreams that players, prospects, and the public can aspire to and share.
- Meaningful explanation of how lottery revenues are used that people understand and appreciate. This is a different approach to sharing the dream of winning but can be just as powerful for social networks. It’s why people buy raffle tickets for local causes even though they do not expect to win. The Georgia Lottery Corporation’s Hope Scholarship Program is among the best examples of this branding.

This approach may not be strong enough to achieve sustained playing but it may help people with ambivalent feelings about playing to give the lottery a shot and also reinforces public trust in the lottery.

- On a tactical level, re-energizing the specific lottery brand with a new, refreshed retail identity followed immediately by a series of new games and promotions demonstrating that the lottery is up-to-date and competitive with other marketers as well as specific reasons for players and prospect to try the lottery portfolio. The Irish National Lottery “Wishing Star” campaign has just successfully executed this branding change.

All approaches can work together and will help reinforce positive associations wherever players and prospect see lottery retail displays. It is the long-term investment that helps current players feel good about playing the lottery, win or lose, and provides positive reinforcement through the social networks to future players. ♦

Martin Kon and Tim Matusch Interview ...continued from page 37

to the Private Manager, the greater the returns to the public causes that the Lottery supports; it’s a win-win situation. But social responsibility is of special significance in the lottery industry, and the notion of responsible gaming has been at the heart of all aspects of the process. Firstly, bidders have had to demonstrate a deep practical understanding and experience in managing the tension between profit growth and responsible gaming, showcasing specific programs that address identity/age-compliance and problem gaming, among other things. The State needs to be completely confident that the chosen Private Manager respects these constraints and abides by them. Secondly, it’s critical to remember that, although the Private Manager will be the day-to-day operator of the Lottery, the State will always retain actual control over operations, and can countermand any decision proposed by the Private Manager should that be deemed necessary. So there will always be a ‘dual responsibility’ of sorts when it comes to protecting the public to ensure that responsible gaming is paramount.

A state lottery is a more complex enterprise than, say, a state toll-road or waste collection system. How

difficult will it be to anticipate all the various contingencies and address those in a contract? For instance, one basic conundrum of this business is that we do not want to be so successful at the business of creating exciting games and promoting those highly stimulating games that we exacerbate problem gaming. How do you measure “success” and performance when you have that kind of highly subjective criteria? And if performance expectations can’t be measured or otherwise clarified in a specific and concrete way, how can they be contractually defined and agreed to?

M. Kon: There are a number of tensions that we’ve had to address in this transaction, all of which have a bearing on ‘success’ in the business. We’ve already discussed the tension between profit growth and responsible gaming, for example. Fundamentally, however, this is about growing income to the State, which means growing the profitability of the Lottery. So in hard terms, success is defined along those lines, and the Private Manager will be incentivized to keep its closest eye on the bottom line of the business. Flexibility and adaptability—the ability to react to a dynamic marketplace—are an important part of driving optimal bottom-

line performance, and as you say, the contract needs to anticipate all the contingencies and unknowns over the coming years in order for this to be possible. The PMA lays out not simply how the Private Manager will operate today, but also the process as to how the PMA will adapt to the changing market tomorrow. If, for example, the scope of products and services that the Private Manager can offer changes, then the governance and incentivization will change accordingly. That all said, growth in profitability is only acceptable if it is accompanied by strict compliance with Federal and State legislation, as well as by respect for all other social and ethical considerations. Insofar as these can be articulated unambiguously, they will be defined clearly in the Private Manager Agreement. At the same time, some elements will always require judgment, and this is where the governance structure which dictates the relationship between State and Private Manager comes into play. These are all examples of how complex this assignment is, and why it is important to secure the right level of support to anticipate issues, structure the transaction, and manage the process! ♦



Philippe Vlaemminck & Annick Hubert

By questioning the German monopoly, the European Court of Justice calls for stricter regulation of gambling services in Europe.

On September 8, exactly one year after the famous *Liga Portuguesa de Futebol Profissional* ruling, the Court of Justice of the EU has delivered its ruling in the preliminary cases *Markus Stoss e.a.*, *Carmen Media* and *Winner Wetten*. All three cases concern the question of compatibility of the German monopolies on lotteries and sport betting with the EU Treaty principles.

The main question was whether the German regime, whereby lotteries and sport betting are subject to a state monopoly, whereas at the same time more dangerous games like slot machines and casino games are provided in a more liberal way (by private operators), is considered to be consistent with EU law. This consistency question has been the debate in many previous cases and the Court has now provided clear guidelines regarding this element of the so-called proportionality test.

In the factual circumstances of these cases, the Court finds that the German monopoly is not consistent and therefore is in breach with EU law. According to the Court, the choice of an EU Member State to maintain a monopoly rather than a non-exclusive legislative framework is only proportionate in so far as, as regards the objective of a high level consumer protection, it is accompanied with a consistent legal framework. Such a framework should be suitable for ensuring that the monopolistic operator will in fact be able to pursue, in a consistent and systematic manner, such an objective by means of a supply that is quantitatively and qualitatively planned and is subject to strict control by the public authorities.

The court rules that a restrictive gambling policy is not consistent, when at the same time:

- advertising measures are not limited to what is necessary in order to channel consumers towards the offer of the monopolistic operator by turning them away from other channels of unauthorised games, but are designed to encourage the propensity of consumers to gamble for the purpose of maximising the gaming revenues;
- other types of games of chance may be exploited by private operators with an authorisation and
- in relation to other types of games of chance with a higher potential risk of addiction, the competent authorities maintain a more liberal regime and are conducting or tolerating policies of expanding supply.

These were the specific elements on the basis of which the Court found the German monopoly, in its current state, to be in breach with the EU Treaty principles. The Court has however not ruled that the German government should opt for a liberalisation of the market, nor that the German market should be suddenly opened to competition. On the contrary, the Court has stated that a monopolistic approach can still be in line with the EU Treaty, but that the German model in its current state can not fulfil the consistency test for the above-mentioned reasons.

The task for Germany now consists in adapting its regime—not abolishing it—according to the guidelines of the Court given in its rulings. Despite the fact that the Court ruled in the *Winner Wetten* case that no transition period can be maintained when a regime was found to be contrary to EU law, there is no need for Germany to change its policy overnight. Indeed, these are preliminary rulings, which are directed to the national judges which has referred the preliminary questions. Only upon judgment of the national judge concerned, Germany will need to adapt its policy.

Although it might seem these cases are purely about the non compliance with EU law of the German system, the rulings provide us with a clear guidance from the Court regarding their view on the regulation of online gambling in Europe.

First of all, it is clear the Court does not favour a liberal approach over a monopolistic approach. On the contrary, the Court explicitly states that the authorities controlling a monopoly have additional means of influencing the latter's conduct outside the statutory regulating and surveillance mechanisms, which is likely to se-

cure a better command over the supply of games of chance and better guarantees that implementation of their policy will be effective than in the case those activities are carried on by private operators in a situation of competition, even if the latter are subject to a system of authorisation and a regime of supervision and penalties.

In the German cases, the Court yet again emphasizes the specific dangers of online gambling, and acknowledges that illicit transactions on the internet may prove more difficult to control and sanction. In that light, the Court is of the opinion that Member States cannot be deprived of unilateral legal means enabling them to ensure, as effectively as possible, compliance with the rules which they lay down in relation to actors operators on the internet and falling, for one reason or the other, within their jurisdiction.

These findings emphasize not only the need for the Member States to strictly regulate and control online games provided by private operators, but also to put effective enforcement mechanisms in place to tackle the increasing unfair competition from the operators providing their games illegally in the different EU Member States. In a context in which the Court acknowledges again that the principle of mutual recognition doesn't apply in the gambling sector, it seems the need for a better coordinated approach between the Member States on EU level has become of utmost importance.

It is clear that these judgments were intended to give a clear guidance to the EU Member States, in the light of the activities of the Council Working Group, in what direction to look for a sustainable solution for gambling services in the EU: a frame which allows the Member States to effectively regulate online gambling according to high level standards and to apply effective control mechanisms to tackle the ever increasing illegal provision of gambling services within their territory.

On September 9, the Court delivered another preliminary ruling, in the *Engelmann* case, which touches upon the multiple concession system for casinos in Austria. The most relevant question was whether, in a multiple concession system, all licenses could be granted to an Austrian public limited company with its seat within Austrian territory, without organising an open competitive procedure. This question was indeed highly relevant since the Court had ruled in the *Dutch Betfair* case, one June 3, that no open procedure was required for the granting and/or the renewal of the license in a sole licensing system.

In its ruling in the *Engelmann* case, the Court clearly distinguished the granting of a license in a monopolistic system, as was at hand in the *Betfair* case, with the granting of licenses in a multiple concession system. In the latter, the Court requires the national government to organise an open and non-discriminatory procedure, allowing for foreign companies to compete with domestic companies. However, the Court does grant the discretion to the EU governments to limit the number of licenses (12 concessions in the case at hand) and for the license to be granted for a sufficiently long period, even up to 15 years.

These 4 very recent judgments taken together, we can conclude that the Court has given a clear signal to the national governments that an exclusive and non-competitive environment is the most appropriate for the gambling sector, given the specific public interest objectives which are at stake. Let this be a very stimulating kick-off for the upcoming meetings of the Council Working group organised by the Belgian Presidency. ♦

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