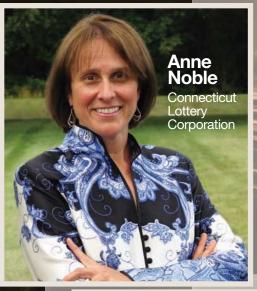
Reporting on the convergence of Gaming, Online Lottery, Scratch-Offs, Internet, Mobile, Video and Casino Gaming.



Jeff Anderson
Idaho Lottery
& President of NASPL

Warwick Bartlett Global Betting and Gaming Consultants (GBGC)





Doug Pollard
Pollard Banknote



Retrospective of European Lottery Association Congress Helsinki & Preview of Lottery Expo Miami

feature interviews

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best-in-class practices, analyzed our own efforts, and recommended a focus on instant and online sales for maximum impact. We saw a 10% increase in the first quarter of 2011 versus the same period in 2010. Our collaboration with GTECH really paid off."



Alice Garland, Executive Director, North Carolina Education Lottery

For more about this story and others like it, visit us at gtech.com/testimonials.

LOTTERY EXPO MIAMI: Unleashing the Magic of Brand Lottery

Gamification of Life: The next generation has arrived and lottery just happens to be in the sweet-spot of its cultural love affair with gaming. The game styles and preferences of the "millennials" have gone main-stream and Brand Lottery is poised to explode onto their menu of recreational activities. How can we leverage that proprietary position to reinforce and expand upon the most powerful brand in gaming?

Internet: Internet-based initiatives are revitalizing growth in the core business with the core customers. Progressive lotteries are using the Internet to refresh and extend the playing experience, gamify the traditional games for everyone in all channels, and drive double-digit growth in the multi-billion dollar core lottery business.

Social Networking: When it comes to lottery, it may not be about social "gaming". But it's definitely about the power of social media to broadcast a great idea to millions in an instant. Going "viral" is the holy grail of marketers, and progressive lotteries are laying the groundwork now and poised to break through.

Collaboration: Lotteries are making tremendous progress at leveraging the power of Collaboration. Modernizing and Nationalizing approaches to distribution, advertising, brand management, partnerships with other consumer brands, and nationalizing the games themselves promise to yield big dividends to each and every lottery.

Re-Imagining the lottery business: Regulatory constraints and government oversight can challenge the ability of the lottery to operate with the flexibility and entrepreneurial freedom of the private/commercial operator. How can Team Lottery achieve its full potential while operating within a capricious media spotlight, an unpredictable political environment, and the more vigorous set of rules and expectations coincident with its status as government operator? How can the lottery operator overcome those obstacles and unleash its full potential with the creativity, innovation, and market-driven focus that are needed to thrive in the hyper-competitive world of Gaming 2.0?

Portfolio Management: Regulatory change is enabling new games and channels, making the business of portfolio management more complex than ever. How can lotteries integrate all the different game categories (Instants, Lotto, VLT's, etc) and channels (retailers, nontraditional consumer touch-points, Internet, etc.) to work together synergistically, mutually reinforcing each other for optimal overall results.

Media Management: Picking up from the fabulous keynote speeches of Smart-Tech, how can lotteries get more creative at using the wealth of new channels, media event marketing, and innovative promotional concepts to generate new energy and excitement for Brand Lottery?

United We Stand: Commercial gaming and gambling interests are lobbying hard for regulatory changes that are not consistent with the interests of lottery stakeholders or the general public. Lottery operators need to join forces with their state representatives to defend the interests of their stakeholders and the rights of states to regulate the gaming industry.

Lessons from Europe: The European market has evolved in ways that have made the lottery business more challenging than ever. Lottery industry leaders have stood up to defend the rights of their stakeholders. We can see the same path unfolding in the U.S. How did our European colleagues deal with it and what can we learn from them?

Emerging Leaders Program: Introduction to a powerful new innovation in executive development, how it's different and why it works, and how to implement it in your own lottery.

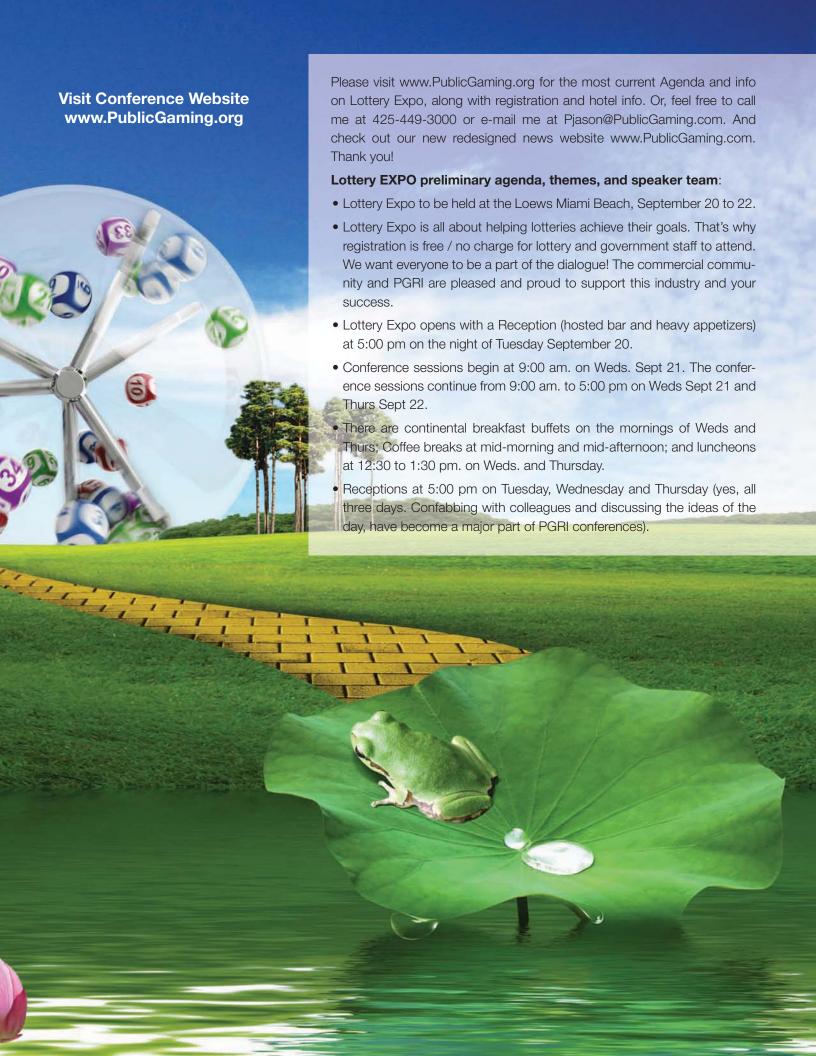
Not for the Faint of Heart: Panel Discussion. The leaders of the commercial community look into the future, the opportunities but also the challenges to overcome.

The Elephant in the Room: Panel Discussion. A team of lottery industry leaders wrestle down the most provocative issues that face our industry today.

Please go to page 29 to see the current Lottery Expo Team of Speakers and Panelists







Please turn to Page 24 for more photos from EL Congress!

2011 EUROPEAN LOTTERY CONGRESS

JUNE 5-9 IN HELSINKI, FINLAND

The European Lottery Association holds its main conference every other year (alternating with the World Lottery Association Conference). We want to congratulate the Veikkaus Oy Lottery Team and the EL Association for organizing a most wonderful event this year. Over 800 people came together in Helsinki to plan the future of Lottery and celebrate the incredible privilege it is to be able to serve the Good Causes. Nothing replaces the experience of being there, but you can read synopses of the presentations and more about the conference itself at http://www.el2011.org/news.html. For other EL events, and to learn more about the European Lottery Association, visit www.european-lotteries.org.

Mifal Hapais, the Israeli National Lottery, welcomes you to Israel for the next EL Congress which will be in June of 2013. Of course, there's lots going on before then, and we hope to visit with all of you at these magical events that serve such a valuable purpose. Now more than ever, lottery stakeholders all around the world depend on us to work together to make Brand Lottery the most powerful and respected name in gaming.

TO GIVE THE AWAR

Mr. Hansjörg Höl

EL Board Member





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Public Gaming INTERVIEWS...



Jeff Anderson

Director of the Idaho Lottery President of the North American Association of State and Provincial Lotteries (NASPL)

PGRI INTRODUCTION: Over the past couple of years, the U.S. gaming industry has been undergoing transformational changes. The explosion of new gaming options is changing the competitive landscape and represents a challenge for lotteries. At the same time, the need for states to increase revenues from their state lotteries represents an opportunity for lotteries to innovate and expand. So, now more than ever, Lottery Directors need to steer their organizations through some very tricky waters. The potential for collective action to enhance results makes it an even more complex puzzle. Collaboration between 40+ lotteries with their own unique sets of policy and business objectives is challenging indeed. But collaboration is key to the long-term success of each individual lottery business. As President of NASPL, Jeff Anderson discusses the focus and charter of the industry association, and how the members are pulling hard to implement an agenda that is ambitious while being targeted towards achievable objectives.

Paul Jason, Public Gaming: Congratulations to you and all the Directors for the break-through on differentiating the two superjackpot games. An "Enriched" PB that is More, Bigger, Better would seem to be the next logical step towards optimizing the performance of both games. As it happened, though, not all states agreed that raising Powerball to \$2 was the best thing for their particular state. To what extent does the in-state agenda conflict with a national or multi-state perspective?

Jeff Anderson: The need to deliver optimum benefits to the state is not in conflict with the need to have a national and multistate perspective and agenda, although there are distinct issues at the individual state level. For example, some states have legislatively mandated profit percentages that restrict the ability to increase prize expense for a game such as Powerball. Collaboration does create opportunities to enhance the performance and results of each individual Lottery, enabling the Lottery to generate additional funding for our Good Causes.

That's why we invest time and resources in working together - because that investment delivers a positive ROI for our respective instate constituents. In Idaho, Governor Otter

supports our involvement in national issues and understands that taking the time to contribute to problem-solving of national issues is important for the long-term success of the industry and is therefore something we should do. Even if there is not a direct connect between a particular initiative and the people of Idaho, issues that affect the national industry do ultimately affect us. I think lottery directors feel a sense of responsibility to contribute to the progress of the lottery industry nationally and realize that none of us can always be fully insulated from the events that happen around us.

There are many initiatives to date that demonstrate the significant benefits of multi-state collaboration to our in-state stakeholders. The multi-state games produce tremendous benefits for each and every participating state; benefits that there's no way any of us could produce individually on the scale that we achieve without collaboration. And our industry association, NASPL, is a vital organization that enables meaningful interaction between lottery directors. It's been an invaluable catalyst for education, disseminating best-practices more rapidly, and assisting new directors to ramp up quickly with objective guidance from experienced peers. This industry is evolving such that our future success will require ambitious collaborative initiatives.

State lotteries that see a benefit to a particular idea have the option to adopt it or not. Where consensus is required, like the decision to raise Powerball to \$2, then you perform as much due diligence as needed, take a vote, and everyone then moves forward with the group's decision regardless of which way we may have voted individually.

I frankly think that, as a group, lotteries and their directors can be very proud of the progressive attitude they have towards working together to achieve big-picture results. There are too many Directors to mention by name that contribute their time and talent to helping the industry and their colleagues to succeed, but their leadership has been decisive, important, and very much appreciated by all of us.

It would seem like all other interest groups have well-funded lobbying campaigns and that nobody is representing the interests of state lotteries. Is there any traction to engage NASPL in a more active role in communicating the benefits of lotteries to shapers of public and regulatory policy at both the federal and the state levels? And is unanimous agreement among all the members necessary on each issue?

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J. Anderson: It's true that many interest groups have well-funded lobbying efforts and that NASPL is somewhat restricted in following suit. However, on July 1, 2011 the NASPL members approved, without a single "no" vote I might add, a historic resolution clearly stating our position on the issue of the sovereign states' prerogative to regulate gaming within our borders. This is a legacy right based on the Tenth Amendment to the Constitution of the United States. The resolution, prompted by legislative ideas regarding Internet gaming currently being circulated in Congress, was shared with policymakers at both the congressional and gubernatorial levels. My theme as President of NASPL, "In unity there is strength" was evidenced by this historic vote. Margaret DeFrancisco, along with the NASPL Government Affairs Committee and our key vendor partners GTECH, Scientific Games, and Intralot were instrumental in making this a reality.

Most will recall the effort in the waning hours of the last Congress, when Nevada Senator Harry Reid attempted to enact Internet gaming legislation that would have benefited the casino industry. NASPL President, Ed Trees, mobilized quickly at the eleventh hour to state our industry's position in opposition. Our 2011 resolution allows us to get out in front of the issue before it becomes a lateblooming crisis.

For an issue such as this resolution on an important but somewhat unique situation, we needed alignment of purpose. It's not often we need to go in this direction but when we do, our collective strength at the state and local level makes us a formidable force. NASPL needs to be ready to defend the rights of states to decide for themselves which are the best regulatory structures to serve the sensibilities of their citizens.

Everything you're saying makes so much sense. The fact that NASPL couldn't and probably shouldn't get involved in most political issues doesn't mean they can't choose their battles carefully and exert influence where it is strategically most impactful.

J. Anderson: I think NASPL has a role to play in communicating the facts about the formulation of regulatory structures for things as important as Internet gaming. NASPL should have a seat at the table where the issues are being discussed; issues like security of the games and financial transactions, player privacy, technological interoperability among systems, age/location verification, etc. It is not our intent to dictate to commercial companies how to run their

businesses. But with Powerball, for instance, there is a set of standards that the commercial partner must comply with. I think we want to look at Internet gaming in the same way because we do not want those standards to be determined by people whose interests are not aligned with the interests of the citizens of lottery states. And we do not want a patchwork system of different technological platforms and protocols that become obstacles to inter-operability. Too, we need to ensure that the federal government perceives the importance of their role to help states enforce state law on foreign nationals.

But the federal government should not form policy, right? For one thing, that would be a small step away from getting a share of the tax pie, right?

J. Anderson: Once states' prerogatives are superseded by the federal government on the policy and regulatory level, it then becomes much easier for the same thing to happen on the determination of tax regimes. We need to be vigilant against the federal government encroaching on the states' domain. In my opinion, we need to prevent the federal government from inserting itself into Internet-gaming just as we would work to stop them from offering a national jackpot lotto game without the states. Common sense says they may want to cut into the states' lottery business to augment federal revenues. Their budgetary crisis is no less dire than the states', after all.

Most of the discussion about the benefits of i-gaming refer not to states tax receipts, but to the way it would kick in billions of dollars to the federal government. I don't understand why the fed' feels the need to insert itself into the states' business of regulating the gaming industry.

J. Anderson: It's simple and basic, really. Gaming policy is formed by the individual state. As such, intrastate gaming is regulated by each individual state. If the state wants to monopolize i-gaming through their lottery, that's their right. If they want their lottery to operate i-gaming but to also compete with private business which are also licensed to operate in that state, that's up to the state to decide. Maybe the state wouldn't want the lottery to operate i-gaming at all but would want to license multiple private operators, or to prohibit i-gaming altogether – these decisions all belong to the state, not the federal government.

NASPL can and should be an outspoken advocate for the rights of each state to control gaming and gambling and the tax benefits of this industry within its borders.

On a related topic - Why couldn't NASPL employ a publicist to just push out news more supportive of lotteries, beginning with the nationalization of PB and Mega winners, but also countering negative news in the general media as well?

J. Anderson: I think we're at the point right now where we need to get alignment of purpose among ourselves first. I actually think the other way around. First, we need to fully inform and educate the policymakers who are influencing regulatory and tax policy. The PR efforts to reach out to the general public would be the next priority. Though I would add that I am not speaking officially for the membership on all these issues, just my own opinions.

I would also add, though, that on the topic of nationalizing the publicity of winners, I think that role is being performed quite well on the state level.

Right now, NASPL is focused on two things. Education, and working with its members to establish standards for the industry. Collaborating to establish common standards is critical to success with the national "bigbox" chain stores. They simply require us to have a uniform, standard way of managing inventory and processing transactions. NASPL needs to help to bring us all together on this, meeting the needs of the big retailers for modernizing and standardizing our processes. The NASPL Standards Initiative (NSI) for Quality Assurance fills that bill. Now the challenge is to get everyone to participate so we're in alignment when it comes to how our inventory is handled in these multi-state businesses. It's something that NASPL has worked very hard to do. Now we're working at getting folks onboard.

Why couldn't a fund for nationalizing advertising be built into the structure of the game itself? To reinvest even the tiniest fraction, like a half a percent of sales of PB or Mega, would make such a huge difference and would also have an off-the-charts ROI. Just build it right into the game as a condition that everyone who sells the game comblies with.

J. Anderson: There are obstacles to doing that. One, states have widely differing rules regarding advertising. A national campaign that included messaging that goes into each state would need to comply with all those different state-specific constraints. Two, many states have restrictions on the amount of money that can be spent on advertising. It's not always just a budgetary constraint. The maximum amount may be based on the state's

...continued on page 29

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Public Gaming INTERVIEWS...

Anne Noble

President & Chief Executive Officer Connecticut Lottery Corporation



PGRI INTRODUCTION: As the lottery and gaming industry evolve and the demand for sustainable revenue sources increases, lotteries must seek new and creative ways to increase returns to their beneficiaries. Whether it is changes to multi-state game design, distribution channel expansion, or i-gaming, lotteries will be assessing how revenue opportunities for their own state can be enhanced by collaboration with other states. What kind of business decisions should be made and what is the best way to move forward?

Paul Jason, Public Gaming: What is the role of NASPL (North American Association of State and Provincial Lotteries)?

Anne Noble: NASPL is and must remain an important component of the Lottery industry, and we are fortunate to have a very talented leadership team at the helm of this organization. NASPL serves as a conduit of gaming information across all state lotteries. This includes state and federal legislation, data on commercial and tribal casino gaming, and per capita data on new gaming initiatives. Sharing of this type of information is a tremendous benefit.

NASPL is in a unique position to advocate for specific positions on behalf of state and or provincial lotteries. While one size does not always fit all with respect to gaming policy, there is significant value in NASPL being a resource in Washington. At the same time, NASPL has been and I believe will continue to be, sensitive to the interests of the individual lotteries, helping us all to carefully consider and balance the interests of small and large states, responsible gaming initiatives, and our relationships with our vendors and other gaming establishments.

The importance of government and regulatory affairs to our industry should not be underestimated and is growing. Whether it is internet gaming, privatization, responsible gaming, or removing regulatory barriers to growth, well coordinated information distribution and discussion will help foster greater awareness and advocacy at the both the state and federal level. It will also provide professionals with a stronger basis upon which to make informed decisions. I also believe that facilitating a cohesive dialogue beyond the Directors, with government affairs representatives, legal experts and other interested parties within our lotteries would vield additional value.

Going forward, lotteries must continue to recognize growth opportunities wherever possible in an evolving business and regulatory environment. NASPL will best serve its member lotteries by staying abreast of the issues and facilitating the rapid response that is often required in the legislative arena, even if that response must vary from state to state.

State Lotteries are pursuing more and more ambitious collaborative initiatives.

A. Noble: It's exciting to think about the opportunities that arise from well coordinated collaboration. We can do this even as we work to ensure that the interests of individual states are equitably recognized and preserved. Some possible areas for potential collaboration include expanding distribution channels, cost savings measures and information sharing, particularly in the areas of internet gaming and intellectual property.

In fact, collaboration comes easily when interests are aligned. MUSL's launch and ongoing branding of Powerball is a success story we all know well. Another example of effective and efficient collaboration is the recent regionalization initiative among the New England states to bring to our players a bigger better game, with each state able to market the game in a manner that serves that particular state's interests. This is an exciting endeavor for the New England states and it is the first time we have partnered together on a New England game.

Marketing and brand manage-

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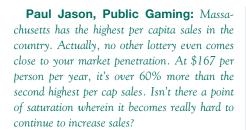
Public Gaming NTERVIEWS...

Paul Sternburg

Executive Director Massachusetts Lottery

PGRI INTRODUCTION: The ability of lotteries to succeed depends on lots of different factors, many of which are outside of the control of the lottery director. Working those areas that are controllable is one obvious key. Reaching out to try to influence areas that tend to be outside of our control has the potential to deliver a great ROI. Proactively enlisting the input of state legislators is proving to be a successful recipe for the Massachusetts lottery.

Paul Sternburg was appointed to the position of Executive Director of the Massachusetts Lottery in January of this year. Prior to that, he served as Vice President of Sales & Marketing at the Connecticut Lottery (since 2007), and prior to that as Director of Sales at the Massachusetts Lottery (since 1997). His mission is to put the Massachusetts Lottery back on its growth track. No small task since the MA market is by far the most developed of any in the U.S. If anyone ever implies that prospects for growth may diminish as the industry matures, just point at the MA Lottery and suggest they come back when they've reached \$167 per capita sales per year.



Paul Sternburg: Of course it's challenging. One tool that delivers a very predictable increase in sales is to increase the prize payout percentage. The evidence is quite conclusive that increasing the prize payout percentage produces an increase in sales. Sometimes the impact is dramatic, as in the most recent case of California. Unfortunately, we have already leveraged that option, paying 80% on our \$10 and \$20 games, 76% on \$5 ticket, 72% on \$2 tickets, and 70% on \$1 tickets. I don't know the point at which increasing the prize payout percentage would start to have a diminishing return, but we cannot go any higher on our own prize payout percentage, so that removes one of the ways that our lottery has to increase sales. The next place to look is distribution, more retailers, more POS, increase exposure and accessibility to the consumer. We already have a retailer to population ratio of one retailer for every 933 people, which is very high. But I think we can improve on that, hopefully getting into new box stores and retail chains like CVS Pharmacies.

We are also looking at the ticket mix and how to refresh the playing experience that still appeals more to the core player while attracting new players. Extended-play tickets are definitely adding value and we can see the impact on sales already. Our extendedplay portfolio is up by 34% over last year. Ultimately, that's what this business is really

about - doing the research and evolving our products so that they appeal to the consumer. That's what we're doing and we are seeing the results. Sales were up last month over the same month in the previous year and we are confident that we can continue to grow. The Mass Lottery is a mature lottery with high per cap' sales, but there is always room for improvement and growth.

How did the MA Lottery get to such a high level of per cap sales?

P. Sternburg: Increasing the Prize-payout percentage and the number of retailers are the two 'low-hanging-fruit' measures that all lotteries can and should do to achieve maximum market penetration. In addition, the Mass Lottery has always considered its retailers to be true business partners. It's so important to recognize the critical role the

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retailer plays in the success of a lottery. We pay 5% commission, which is not the highest in the country, but about average. But with the high sales, the average retailer makes about \$37,000 from their lottery business. Also, our lottery products are held by the retailer on consignment. They don't pay for product up front, which helps with cash flow. And they don't pay for anything they don't sell. We feel that retailer-friendly policies generate goodwill and support on the part of our retail partners and that results in higher sales. We try to make it very easy for them to carry lottery. We also make sure the POS materials are updated and displayed properly. And we even have a secret-shopper program in which the retailer and the clerk are rewarded for pitching the product.

One thing that detracted from sales was eliminating the agent incentive program, which was done a couple of years ago under a previous administration. While it was perceived to save \$14 million, the reality is that it helped contribute to the loss of \$300 million in sales. Obviously, other factors contributed to the decline in sales. But I can guarantee you that taking away that added agent sales commission contributed to the decline in sales, and to a much greater degree than the \$14 million in cost reduction. Retailer motivation is key to selling more lottery. Retailers are our face to the consumer so keeping them happy is a top priority. We bring the retailers in to our lottery offices for them to educate us on their business and what we can do to help their businesses operate more efficiently and sell more product. Of course, we can also educate them on lottery and on things like the high correlation between lottery product sales and sales of other merchandise. We have gas stations that sell over \$12 million a year. You've got to be a motivated retailer to get \$12 million out of a gas station - that's an average of over \$33,000 a day, 365 days a year! I can definitely say that whatever is saved by cutting retailer commissions is lost 10 times over in sales. There are lots of things that lotteries would like to do but we're not able to do. Keeping our retailers happy and motivated is one of those areas that we can control and do something about. We concentrate our energies on that and other areas where our actions can make a real difference.

Now that the vote is done and the decision is made to implement changes, including raising the price of Powerball to \$2, do you feel that your fellow lottery directors are going to all work in concert to really optimize the results?

P. Sternburg: Of course. The directors

are all sophisticated, forward-looking leaders. Once a decision is made, everyone gets behind it, just as we would expect the management team of our own organization to do. We're all invested in this process and we'll do everything in our power to work together to make it a success.

Do you see a potential for lotteries to collaborate on advertising and brand management, creating a truly national brand, perhaps with Powerball or Mega Millions? Wouldn't a cooperative effort like that contribute to the in-state performance of the individual lotteries?

P. Sternburg: Nationalization of advertising and marketing would probably not work well. I know it must seem that a product like Powerball is basically the same wherever you go. If they can create a national commercial for Coca Cola or Starbucks or Tide detergent, why can't they do it for Powerball? The answer is that other consumer brands have neither the wide variety of product attributes nor the legislative oversight that go with all lottery product marketing. While there are commonalities to the product and consumer buying motives, there are also big differences between Regional demographics and their preferences. What works in one state won't work as well in another. Massachusetts, Florida, Kansas, Oregon; these are really quite different consumer markets. The New York consumer might find humor in things the Midwesterner thinks is just weird. Californians may be inspired by something that Texans think is corny. Too, rules and regulations about what can be advertised and how it can be advertised differ from jurisdiction to jurisdiction. An advertisement that complies with the different rules of all the lotteries would actually be very hard to even create. I see some great commercials that would not necessarily be allowed in Massachusetts and many other states. So I believe that advertising should all be done by each individual lottery to serve its marketplace. I would not say a national campaign can never be done successfully. Just that as a rule, advertising, promotion, and brand management should all be done by the individual state lottery operator.

What about a publicist, perhaps employed by NASPL? Someone to work up interesting story angles on lottery winners, push them out to the national media, and try to gain much more press for the many tales of good fortune that are created by lottery; the publicist could also push out positive stories in general, supportive of Team Lottery, to counter the negative press.

P. Sternburg: That's a great idea. Helping

to nationalize the stories of lottery winners would generate positive PR for the games, no matter what state the winners are from. And it would help to have someone to share the mission of the lotteries, like funding good causes, protecting the player, taking a more responsible approach to promotion of the games, supporting the public policy agendas instead of undermining them like offshore operators do. I agree, a publicist to promote the entire community of state lotteries, their stakeholders, and the players, could make a real difference. While each lottery has its own publicist, it would be great to have someone dedicated to nationalizing our stories, to creating national exposure so that good news is shared by all of us and not just contained in our local jurisdictions.

To push it a little bit further - A publicist costs money. Do you think that lotteries should be willing to allow for a small increase in NASPL dues to pay for the publicist?

P. Sternburg: I can't speak on behalf of other lotteries, but I definitely do. It's not like we would be talking about a lot of money overall. Look at what Las Vegas spends, or the gambling industry in general spends to influence the news and create positive press for themselves, often to the detriment of lottery. Our story is just not getting out there like theirs is. States probably need to do their own in-state lobbying. Lottery operators probably need to do their own advertising. But there's no reason that I can see why NASPL shouldn't direct an effort to shape the news on the national stage, to nationalize the stories that are currently almost all limited to local news stories. For that matter, I would support NASPL taking charge of lobbying at the federal level. States do not have the resources to do it. NASPL would need to stay focused on issues that the membership is all agreed on. For instance, defending the rights of states to decide gaming and regulatory policy would be an example of an issue that I would think all state lotteries and their political constituents would support.

We really do need to defend the interests of our stakeholders at the federal level. If it wasn't for a handful of political leaders who stood up to aggressively fight the Harry Reid bill, it could have passed and that would have been disastrous for lotteries, and all the states except for Nevada and New Jersey. Massachusetts Treasurer Steve Grossman and some others from states around the country took it upon themselves to mount an outspoken protest. Of course, the president of NASPL

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Public Gaming NTERVIEWS...



Doug Pollard

Co-Chief Executive Officer, Pollard Banknote

PGRI INTRODUCTION: There was much discussion at the European Lottery Conference about how Internet gaming remains a relatively small percentage of sales and an even smaller percentage of profits. The silver lining is that creative Internet initiatives are driving sales in the revenue streams of the traditional games. I asked Doug Pollard to help me sort out the implications of this. Further, even though there is no simple formula for Lottery success, I pressed Mr. Pollard to try to step up with some concrete ideas about what lotteries and their commercial partners can do to really connect with the modern, socially connected consumer.

Paul Jason, Public Gaming: We were just talking about how 'social gaming' is a misnomer. As regards to the traditional lottery games, maybe we should be thinking more about how lottery can fit into the phenomenon of social networking.

Doug Pollard: When you look at the popularity of Facebook and Zynga games and Twitter, it's really about sharing experiences and information with friends. There are those little like/dislike icons, the countless comments about good experiences and bad, requests for guidance on buying decisions, relating the events of your day, participating in shared experiences like building virtual farms and such. It's become like a town hall meeting, broadcast e-mail list, family get-together, and local bar scene, all wrapped into one and put on steroids. When we think of the goal as being to fit traditional lottery into this socially networked world, instead of transforming it into a community-based peer-to-peer competitive game, the pathway becomes much clearer.

Just one example. Our research shows that most Instants players are playing to win. They're not thinking about a huge jackpot, they just want to win something and are excited to win \$50 or \$100 and that's what keeps them playing. Now, think about the kinds of banal information people share on Facebook and Twitter. Awards and accomplishments, no matter how insignificant, like expanding your virtual farm, are announced with great joy and fanfare. Winning the lottery, even if it's not the big jackpot but just \$100, is far more interesting and exciting than most of the stuff we presently deem worthy of "sharing" on Facebook and Twitter. And of course, lottery players win smaller prizes like that all the time. They're excited about it and we know they love to share their excitement with their friends - that's why we all call them "chatter" prizes. They want their friends to join them, having fun with the same recreational activities that they enjoy. If we could make it easy and fun to share the good news of winning the lottery, to enable the players to broadcast the good news via social networking media, that alone would bring more people into the lottery world. And it would be the demographic profile we're trying to reach: the socially-connected community that isn't defined by age but by their affiliation with forward-leaning trends, cultural ideas, and the media that connects them. Social networks provide the way for us to turn our players into lottery ambassadors, reaching out and inviting their friends to join in the fun of playing and winning the lottery. In a similar way, we can make way better use of social networks to broadcast all the good things that lotteries do in their communities in a much more tangible and meaningful way for the playing public.

That would seem like yet another opportunity for lotteries to collaborate on a program to create a new nationwide socially networked community of lottery players. A current industry concern is that Internet gaming is not producing the results that were expected. It is still a relatively small portion of the revenue for almost all lotteries.

D. Pollard: The dialogue seems to be revisiting some original assumptions about the very role that the Internet can play in this industry. Is it a channel, a game, a 'medium', what is it exactly? It's actually a uniquely powerful combination of all these things plus the key to unlocking the power of social networks and also the ability to truly 'gamify' (enhance the gaming entertainment value) traditional lottery games. As strictly a gaming destination, the role of the Internet is not only marginalized, it probably falls below minimum ROI expectations for the lottery operator. While you will pick up some new players by just making the product available on the Internet and Mobile, most non-players are not likely to change their behavior if it's just the same game offered on a different channel. And most of the traditional players would have bought the product at the store anyway. It's not enough to just "be where the consumer is". In the end, it's really about much more than the Internet. It's about extended-play gaming, player-to-player interaction, and other enhancements of game content. It's about social networking and sharing and reinventing the gaming experience, appealing to a consumer that wants to enjoy a genuine game playing experience as well as the possibility of winning a prize. The Internet isn't some kind of Holy Grail answer to accomplishing all those things or to

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How to Value a Government Lottery?

by Warwick Bartlett and Gordan Zoric, GBGC – Global Betting & Gaming Consultants

Following the economic crisis of 2007, governments are now in the process of improving their financial health. That process includes the re-evaluation of its policies as regards the gambling markets and, in particular, exploring creative ways to leverage the tremendous asset that is their lottery. Greece has proposed raising € 700 million by changing its gambling laws and opening the market to competition. Spain is following suit with a new regulatory framework that allows for the expansion of gaming, and plans to sell 30% of its stock in Loterias y Apuestas (LAE) to the public, hoping to raise over €7.5 billion. Serbia has announced that it will introduce new online gambling laws with a tax rate of 5% of gross profits. The shareholders of Camelot Group, the operators of the UK National Lottery, decided it was time to cash out and sold their shares last year to the Canadian Ontario Teacher Pension Plan for £400 million (US \$650 million). In an effort to improve the financial return, the state of Illinois outsourced the management of its lottery. The bid was won by Northstar Lottery Group, a collaboration between three leading commercial companies: GTECH, Scientific Games, and Energy BBDO. The Illinois Supreme Court just approved that transaction, making the Illinois PMA the closest thing to a "privatization" that the U.S. lottery industry has seen. In this case, the state of Illinois is outsourcing the management of the lottery not for the purpose of generating an immediate cash infusion, but to improve operating performance and income over the next five-year period.

The operative questions as regards to valuing a government lottery include:

- How to align the state's fiscal and public policy agendas with the "best" owner/management model?
- What exactly constitutes "best" when it comes to measuring the performance of a lottery?
- Insofar as the predictive indices that inform a 'present value of future earnings' methodology are difficult to interpret for

- lottery, how does one determine the monetary value of a lottery?
- How to assess the trade-offs between optimization of longterm income versus immediate infusion of capital, which is a public policy more than a business decision.

These are just a few of the vexing issues that governments encounter as they explore the various options for realigning the capital and/or management structures of their lottery asset. First, let's look at a couple recent examples where valuation was established by virtue of an actual transaction. How was the value for Camelot determined to be £400 million, or New South Wales (bought by Tatts Lotteries in 2010) to be AU \$1 billion? These are both leases, not outright purchases. As one private equity analyst who explored the possibility of purchasing Camelot explained to me, the present value of a lease contract should be assessed like that of a bond. Just like a bond, these licences generate income for a pre-determined period of time. A bond exists for a period of time as does a lottery licence. The bond carries a coupon of interest. A lottery once established builds to a peak quickly and maintains that peak producing similar returns year in-year out. At the end of the term the bond is repaid in full by the issuing company or government. The lottery business either loses its licence and the shareholders hold equity in an asset that generates no income and therefore has no value; or a second term is won and the shareholders' equity retains value because the asset retains its income-generating capacity. The value of a lottery company comes down to the income it produces over the term of its contract, whether the operator can win that renewal of its licence, and whether the operator can leverage its expertise into the acquisition of new licenses in different jurisdictions.

The Camelot licence was for ten years. If the UK government had issued a 20-year licence, the bidders would have paid a lot more; and Camelot Group would have commanded a higher selling price when sold last year. But governments prefer short-term licences in case circumstances change with the economics surrounding the gambling market, or public policy objectives change, or because the status or condition of the licence holder may change. Such concerns can be mitigated by contract and conditions attached to the licence, as evidenced in the New South Wales 40-year lease to Tatts Lotteries. With governments' current need for money, we expect longer terms to be negotiated which create more value for the state and enable the operator to invest in building a business with a longer ROI timeline.

Analysts performing conventional business valuations rely on data and the process of benchmarking. Comparing the performance of lotteries is problematic, though. As few lotteries compete with each other in the same jurisdiction, benchmarking one against another creates more questions

than answers. The laws, regulations, tax rates, and level of competition can vary widely from one jurisdiction to another. Public Policy objectives also vary widely, such that the very mission and purpose of the lottery rarely aligns with conventional capitalist business models. Profit maximization is but one of many objectives.

To illustrate our point, we have benchmarked five lotteries. All do a good job, but each lottery is trading in a market where the circumstances differ and impinge upon the performance as measured by conventional benchmarking metrics. Camelot, for instance, operates in the UK, the most competitive gambling market in the world. Horseracing, greyhound racing, betting shops, casinos, bingo, slot machines and Internet gambling both on and off-shore are all competing with Camelot for the players' money. As expected, Camelot's per capita sales are not going to be as high as lotteries that operate in markets with fewer gaming options. On the other hand, Loto-Quebec operates virtually all the gambling in the province, from lotteries to casinos and VLT's, with the exception of horse racing. All lotteries excel at the promotion of responsible gaming, but Loto-Quebec goes even further than most. Loto-Quebec actually reduced the number of VLT's, not because the market wasn't supporting them, but because they deliberately wanted to manage demand by reducing supply. So, in the case of Loto-Quebec, it would be a mistake to interpret a negative CAGR as poor performance since this was in fact its public policy and therefore business objective.

Revenue Growth 2006-2010 (CAGR: Compound Annual Growth)

CAGR 2006-2010

NY State Lottery 4.5%
Florida Lottery 2.4%
Loto Quebec -7%
Camelot Group Plc 2.7%
FDJ 3.4%

Source: GBGC Analysis

The NY State Lottery tops the bill with a CAGR of 4.5% over five years. But the New York State Lottery is one of only two lotteries included in the analysis that operates VLT's, and it has reaped the benefit. In 2010 they had 12,500 VLTs in operation. NYSL takes 47% of the net win from the state's racinos. NYSL is a great example of how smart enabling legislation combined with a favourable competitive landscape can produce enviable financial results.

Government Transfers 2006-2010

	Transfers Total (US\$m)	Transfers/Gross Revenues	CAGR 2007-2010
NY State Lottery	12328.7	33.3%	4.9%
Florida Lottery	6306.0	31.4%	0.4%
Loto Quebec	7070.5	37.8%	-4.5%
Camelot Group Plc *	15232.5	38.2%	1.4%
FDI	17333.8	27.0%	0.0%

Source: GBGC Analysis



Lotteries have been granted monopoly status for two primary reasons. One, to provide government and charitable enterprises with funding for good causes. Two, to minimize social costs and prudently manage the growth of the gambling industry. As regards to the objective of maximizing transfers to its beneficiary, La Française Des Jeux tops the list, with Camelot coming in at a close second. However, FDJ's transfers as a percentage of gross revenues are much lower than Camelot's. It is likely that Camelot's total transfers would be higher were it given the flexibility to increase prize payout percentages (that would be made possible by public policy that focused more on the total transfers rather than transfers as a percentage of revenue). Of course, total transfers are determined mostly by top-line revenues which are much lower for the lower population markets of the Florida and Loto-Quebec lotteries. The NY Lottery growth in transfers coincides with its growth in top-line revenue, which reflects thoughtful business strategy.

Marketing Efficiency 2006-2010

	Advertising Spend Total (US\$m)	Advertising/Revenue
NY State Lottery	407.62	1.102%
Florida Lottery	172.03	0.856%
Loto Quebec *	118.92	1.415%
Camelot Group Plc	562.94	1.238%
FDJ	559.02	0.851%

Source: GBGC Analysis

Continued on Page 24

^{*} Includes National and Olympic Lottery Distribution Funds + Lottery Duty

st Advertising spend only for lotteries and sports betting games

More Photos from the EL Congress Helsinki



There are different ways to interpret the advertising/revenue ratio as a measure of performance. From one perspective, Camelot deserves credit for optimal ad' spend performance because of the highly competitive market in which it operates. Loto-Quebec invests a higher percentage of revenue in marketing, but this is a reflection of the regressive economy of scale competing in a market with a population of only 7.9 million compared to France and the UK populations of over 60 million.

Revenue per Capita (US\$) in 2009

	Revenue per Capita	Revenue per Capita Adjusted for Wealth
NY State Lottery	392.0	290.6
Florida Lottery	212.8	196.0
Loto Quebec	432.5	511.3
Camelot Group Plc	136.5	154.5
FDJ	224.1	267.9

Sources: World Bank, Board of Trade of Metropolitan Montreal, US Department of Commerce, US Census Bureau, GBGC Analysis

Note: Revenue per capita adjusted for wealth was calculated using GNI per capita.

Looking at revenue per capita, Loto-Quebec is the leader. Loto-Quebec comes top even more so when we adjust the revenues using gross national income per capita. Camelot's less admirable metric reflects the UK's dismal economy and competition in the market place. On the other hand, Florida has the double challenge of a very low ad' spend per cap and a high percentage of revenue transfer, so it is not surprising that it's per cap sales are lower.

Again, we see that results as measured by conventional indices do not accurately reflect performance as measured against the mission and objectives of the lottery stakeholders. We need to find ways to integrate these other factors into the value-assessment model.

Revenue per employee in 2010

	Revenues (US\$m)	Number of employees	Revenue per Employee (US\$m)
NY State Lottery	7818.3	350	22.3
Florida Lottery	3907.0	440	8.9
Loto Quebec	1788.3	250	7.2
Camelot Group Plc	8534.4	750	11.4
FDJ	13974.8	1065	13.1

Source: GBGC Analysis

Note: Camelot and Florida revenues and employees only for lottery games, Lotto Quebec and FDJ for lottery and sports betting games, and NY Lottery for lottery games and VLTs

In conventional businesses, revenue per employee is normally a good measure of efficiency. That's not necessarily so in the case of lotteries. The revenue per employee ratio is high where the lottery outsources a large number of business functions and lower where the lottery performs those functions in-house. Both are perfectly valid approaches to running the business. Loto—Quebec's business model includes control of more business functions which results in lower suppliers costs and more in-house control of quality. New York State Lottery operates a model in which more of the functions are outsourced and the result is a super-high revenue per employee of \$22.3m.

So who is the winner on this crazy benchmarking metric? The reality is they all are. They all return something around 1/3 of revenues to the state, far more than any other sector in the gaming and gambling industry. So the real winner is the Good Causes funded by government lotteries.

The reality also is that government lotteries have a more complex set of business and public policy objectives, along with constraints that typical businesses do not face. We still need to build models that enable an assessment of lottery performance. But those models need to incorporate all these mitigating factors if we are to arrive at an accurate picture of lottery performance and value. •



ACE Interactive Becomes...

ARISTO CRAT. —LOTTERIES—

Aristocrat Lotteries is the new name for ACE Interactive, reflecting the server-based gaming division's focus on delivering premium content from its parent and on expanding its lottery client base.

Successful history

Aristocrat, the Sydney-headquartered global gaming supply company, acquired ACE Interactive in Sweden in 2006. Leveraging on ACE Interactive's many years of lottery industry experience and Aristocrat's strong gaming expertise the business has since then refined its server-based gaming platform, TruServ™, to be an outstanding delivery mechanism for distributed gaming operations seeking robust central control and monitoring.

Continuous Growth

In 2008, the Norwegian lottery state monopoly, Norsk Tipping, went live with $TruServ^{TM}$ and the cashless Indago terminal. It

was Aristocrat Lotteries' first implementation of the industry's strongest responsible gaming framework (e.g. mandatory use of player card).

In 2010, Cogetech, as one out of 10 Italian state concessionaires, joined Aristocrat Lotteries' customer base using a Comma 6B compliant TruServ™ implementation with Viridian™ terminals, top performing Aristocrat games, and the new multi-level progressive mystery jackpot.

In 2011, Norsk Tipping added an additional environment to their VLT landscape, with different games and different responsible gaming rules, all run from the same, multi-jurisdictional $TruServ^{\mathsf{TM}}$ system.

Today, Aristocrat Lotteries is an important division of Aristocrat with healthy existing business and a strong positive outlook.

Synergies and Focus - Outlook

The rebranding to Aristocrat Lotteries shows a closer integration between parent company and subsidiary; Aristocrat Lotteries is making stronger use of the globally well-known Aristocrat brand, and Aristocrat is demonstrating its stronger focus on server based gaming and lotteries / state concessionaires.

Aristocrat Lotteries' strategy is to bring together a robust and reliable system with the world's greatest gaming content. Aristocrat's library and ongoing development provides access to some of the most well-known and entertaining game titles in the world. The new name reflects the ability of Aristocrat Lotteries to tap into that source of value.

Lotteries and state concessionaires benefit from the best in class games and Aristocrat's experience in the casino market worldwide, and as casinos are starting to build on the advantages of true server based gaming technologies, they will be looking for a stable and robust technology such as provided by Aristocrat Lotteries' TruServ[™].

Aristocrat Lotteries remains a wholly-owned subsidiary of Aristocrat Leisure Limited. It's a new name, but the same commitment for the Aristocrat Lotteries team to their current and prospective clients. WLA members will start to see the name more as the Aristocrat Lotteries brand is used for the company's Platinum Sponsorship of this important organization.

CASH FOR

Family of Games Builds Foundation for Record Instant Sales in Illinois

Exciting results mark the start of the Northstar Lottery Group and Illinois Lottery relationship.





Governor Patrick Quinn signed the first ever Private Manager Agreement for a U.S. lottery on January 18, 2011. Despite multiple challenges on many fronts, early sales results are strong. April, May and June were record instant sales months in the history of the Illinois Lottery.

On April 15, the Illinois Lottery launched three new Cash For Life instant ticket games with the promise "The longer you live, the more you get." Players can win \$500, \$1,000, or \$2,500 every week for the rest of their lives by playing the \$1, \$2, and \$5 versions of the game.

Instant ticket sales from the past four weeks since the launch of the Family of Life Games are up over 23% compared to the same weeks last year. The "Life" family of games represents over 20 percent of the instant game business. The new instant ticket product marks the first step toward a transformation of the Lottery brand for Illinois players, retailers and stakeholders.

The Cash For Life rollout shows that, when a lottery is allowed to establish a holistic approach to instant game planning, development,

marketing, and sales, it breeds success. The creation of a new category of games with high consumer value has built a player base that is loyal to the play experience. Going forward, the Illinois Lottery now has a foundation for future sales and increased player loyalty for all of its instant ticket games.

At a launch event in Chicago's James R. Thompson Center, and on morning television newscasts, the Lottery unveiled an interactive Cash For Life calculator. The giant calculator allows players to enter their birthdates on a touchscreen to see how much money they can expect to collect over the course of their lives. A physical trainer was on hand to demonstrate exercises that help players stay healthy, live longer, and increase the amount of winnings they could receive over a lifetime. "Everyone wants to live a long, healthy life," said Jodie Winnett, acting superintendent of the Lottery. "Cash For Life is even more incentive to do exactly that."

On May 3, Dan Kaiser of Machesney Park, Illinois, became the first big winner of Cash For Life. Kaiser bought his \$1 ticket at The Corner Store in Rockford's Cherryvale Mall after proposing to his soon-to-be bride. Kaiser and his fiancée will receive \$500 a week for life. "We are truly blessed to win on this ticket," he said. "It is a great way for us to start our new life together."

The same can be said for the new partnership between the Illinois Lottery and its new private manager, Northstar Lottery Group. Virtually everyone at the Lottery and Northstar played a role in planning and executing the first major product launch under the new management model.

The Lottery's sales representatives had more than 3,000 retailers place dedicated Cash For Life game dispensers on their counters. Northstar's marketing team and Energy BBDO produced a humorous campaign with a winner named Steve, who wears a special safety suit to keep him alive longer to collect winnings. They worked closely with Lottery sales representatives to conduct more than 400 promotions all over the state.

The Cash For Life game has been successful by concentrating on a small number of critical tasks, and then executing extraordinarily well. "Working with the Lottery, Northstar conducted a comprehensive brand audit of the instant ticket product line in Illinois," said Northstar CEO Connie Laverty O'Connor. "We found that only 20 percent of instant sales before Cash For Life came from staple instant games when compared to 30 percent among the top-selling instant lotteries in the country. We also understand that regular people have a great desire for lifetime security, the underlying key consumer value proposition of Cash For Life."





As the Lottery continues to grow, new games include Wheel of Fortune, which was launched at the Taste of Chicago last week, along with a variety of other new games with richer prize structures, better winning experiences and enhanced consumer play value. With the Cash for Life category as a solid foundation, there is tremendous opportunity for continued sales momentum resulting in greater profits. The Northstar Business Plan is expected to generate more than \$1 billion for the Capital Fund over a period of five years. This will only be accomplished with Northstar, the Lottery and all of the key stakeholders working together in complete alignment toward a common goal. •

at the time was Ed Trees and he also made public NASPL's position on the issue. But the need for this kind of representation is more important than ever and lotteries should find a way to be more proactive at promoting their interests. I can't say for sure that NASPL is the right vehicle to do this, but I would think the possibility should be explored.

It wasn't too long ago that legislators were concerned about the image of lottery and whether the state should be associated with gaming. Doesn't it seem like the political climate is changing such that legislators are recognizing that gaming and gambling is being offered in all shapes and sizes by all varieties of venues and operators, and that their own state lottery operator should be positioned to be the dominant player in the gaming and gambling industry? Or do legislators even think of this as a business in that way?

P. Sternburg: Of course, legislators do recognize this as a business and understand the potential of lottery to generate funds, but they have lots on their plate. They are tasked with making lots of big decisions and they do not always have as much time as they would like to pour through all the data and information related to the issues pertaining to the lottery. It is our job to communicate with them in a fashion that enables them to quickly digest lottery facts and figures. I do think, though, that legislators all around the country are paying more attention to the ability of their state lottery to play a bigger and more important role in this industry, the broader gaming and gambling industry. Lotteries are really quite unique. Unlike any state agency, lotteries are market-driven businesses operating in a highly sophisticated and complex competitive environment. Unlike any private enterprise company, lotteries serve the interests of the general public and not a limited set of private shareholders. When you think about it, lotteries are in a uniquely interesting position to deliver maximum value to the broadest range of societal interests. Lottery, gaming, and gambling are special industries. They generate huge profits and they come with the potential for social costs that need to be managed properly. Those factors make this industry really quite different from any other. I'm sure you've heard CEO's of the major casino operators complain that their industry is unfairly singled out for more oversight and higher taxes than other industries, literally asking "why can't we be treated like other industries?" The answer is that gambling is not like other industries and the fact that they don't understand that, or want to accept that, is the very reason why state lotteries are the best vehicle for states to satisfy the demand for gambling. I think that shapers of public policy are beginning to realize this. Lottery is a special industry that requires an approach that is neither free-market capitalism nor administrative-driven government agency. That combination of core attributes calls for a special approach that state lotteries are in the best position to deliver. And society would be well-served to apply those core values to all forms of gaming, gambling, and Internet gambling.

Back to your question, if there is any lack of understanding on the part of legislators, that's our fault, not theirs. We need to communicate effectively with our political constituents. We encourage our legislators to visit our offices and operations to get a better idea of how this business works, just how much there is to it and how complicated it can be. I can say that it is always an eye-opening experience for them.

Lottery Directors are in the ideal position to understand both the interests of the state and the gambling industry. The legislative agenda is always so crowded though. How do you prevail on the legislature to even give consideration to your input?

P. Sternburg: Lotteries are doing a great job and are typically excited to talk about it. My boss, Massachusetts State Treasurer Steve Grossman, believes in transparency, openness and being straightforward. For instance, the Lottery used to meet with the legislature once every six months. That kind of semi-annual update on the performance and results is too infrequent to effectively engage the legislators in the business, and certainly not in the role of contributing to the strategic decision-making process. What good does it do anyone to come in after six months with a report that sales are down by 3%? That's no way to run a business. We send updates to the legislature once a month. We present our report with specific sets of recommendations for how we can improve the results. That way the legislature knows they are a part of the real ongoing process of weighing the pros and cons of different strategic options. I would say that our legislators have responded positively and that Treasurer Grossman has been quite effective with this approach. The legislature has approved funding for a number of exciting initiatives that we proposed and expect to keep us on a growth trend-line.

Funding for new games and such?

P. Sternburg: Exactly. Funding for new raffle games, ticket vending machines, we're looking at the possibility of entirely new games to add to the portfolio, all initiatives that will deliver a great return for the general fund. We're also increasing funding on research and product development.

On the other hand, your \$2 million advertising budget seems unreasonably small.

P. Sternburg: Of course I would like to have more. But these issues are never as simple as they seem. Yes, it is the case that doubling that amount would absolutely result in a significant increase in sales. In fact, increasing the ad' budget would deliver a huge bottom-line ROI. The reality, though, is that these legislative decisions are not made in a vacuum. Government budgets are not managed like a fluid on-going cash-flow as in private enterprise. They are allocated at the beginning of the budget year. So, legislators are faced with the decision in June of whether to cut \$1 million from social services in order to give it to the Lottery for advertising. But, you might point out, the Lottery can return \$2 million or more to whomever has been cut by the \$1 million, right? The thing is, they need the \$1 million now, in this year's budget, and can't wait till next year's budget to come around, even if the funding would double. These social services need that \$1 million on July 1 of 2011 regardless of how much you might give them on July 1 of 2012. These are difficult logistical problems, unfortunate but that's the real world.

What do you see as the most important trendline or opportunity for lotteries over the next six months?

P. Sternburg: Every state has different demographics and are at different stages of development. In Mass., updating technology, as many lotteries have in recent years, as well as tapping social media platforms to diversify and expand our player base will be key to our success over the coming months and years. •

NEBRASKA LOTTERY LAUNCHES

first 3-D scratch game



The Nebraska Lottery is bringing movie magic to players with its first 3-D Scratch game: Green Lantern®.

Based on the popular DC Comics® characer, the \$3 Green Lantern Scratch game feature

ter, the \$3 Green Lantern Scratch game features images from the Warner Bros. Pictures "Green Lantern" movie and offers a top prize of \$30,000. Special glasses are provided with the purchase of a Green Lantern ticket in order to experience the groundbreaking 3-D ticket artwork.

"Offering a 3-D ticket is another way to keep our product line fresh and appealing to players," said Jim Haynes, Nebraska Lottery Director. "The 3-D graphics are also featured on the point-of-sale materials to break through the clutter at retail and introduce the 3-D concept to players before they reach the counter."

In addition to being the first 3-D Scratch game offered by the Nebraska Lottery, Green Lantern is also the first time the lottery has offered a ticket based on a major motion picture. To bring the game to market, the lottery partnered with Alchemy3 to license the Green Lantern brand. SKAR Advertising, the Nebraska Lottery's advertising agency, developed the game artwork and associated materials.

The April launch of the Green Lantern was scheduled to establish the game in the market before the release of the motion picture on June 17. As promotion for the Green Lantern film began, the game was already in stores ready for purchase. "The advertising push for the movie should indirectly generate sales for our Scratch game as more people become aware of the Green Lantern brand," said Haynes.

The Nebraska Lottery is also promoting Green Lantern through a

variety of online and traditional media. A microsite at nelottery.com/GreenLantern provides information on the Scratch game, the official movie trailer, and a second-chance contest where players can enter their

non-winning Green Lantern tickets online for a chance to win a Sony® 3-D home theater system. Links to Facebook and Twitter allows site visitors to post information about the microsite to their social media accounts. A direct marketing piece was sent to emerging market players along with a pair of 3-D glasses to drive traffic to retailers. Radio and intheater advertising is also being utilized, and the lottery also partnered with a popular Omaha radio station to host a sneak preview of the Green Lantern movie two days before the official release.

At the retail level, point-of-sale materials like door clings and an on-counter standup were developed to promote the Nebraska Lottery's first 3-D Scratch game. The 3-D glasses also attract a lot of attention at retailers. "Some of the clerks have started wearing them as a way to promote the game," said Haynes.

Sales to date of the Green Lantern game have meet the lottery's expectations and plans are already underway to develop additional 3-D Scratch games incorporating the feedback received from players and retailers. "Green Lantern was definitely an experiment for us," said Haynes. "One of the comments we've received from retailers is that players don't want the glasses. Only the ticket art is in 3-D, and once you've scratched the ticket, the glasses are not necessary. In our next game, we'll be looking at ways to expand the 3-D experience."

Lottery Expo Miami: Unleashing the Power of Brand Lottery

The specific program, agenda, panel discussions, and presentation team are still being updated. Check in at the conference website www.PublicGaming.org for more info and updates. The Lottery Expo Speaker / Panel Team Includes:

Ana Paula Barros

Director of Legal and External Relations, Santa Casa da Misericordia/ Jogos Santa Casa, the Portugal Lottery

Warwick Bartlett

Founder and CEO of Global Betting & Gaming Consultants (GBGC)

Tracey Cohen

Chief Operating Officer, D.C. Lottery

Margaret DeFrancisco

President and Chief Executive Officer of the Georgia Lottery Corp.

Don Feeney

Research & Planning Director, Minnesota Lottery

Kurt Freedlund

Sr. Vice-President and General Counsel to the Georgia Lottery Corp.

Kevin Gass

Vice President, Lottery Gaming, BCLC (British Columbia Lottery)

Gary Grief

Executive Director of the Texas Lottery

Gardner Gurney

Deputy Director & Director of operations of the New York Lottery

Rebecca Hargrove

President and Chief Executive Officer of the Tennessee Education Lottery Corp.

Dennis Harmon

Deputy Secretary, Florida Lottery

Clint Harris

Executive Director of the Minnesota Lottery

Marcy Jackson

Chief Financial Officer, Florida Lottery

Martin Kon

Senior Partner with Oliver Wyman Group

Cynthia O'Connell

Secretary of the Florida Lottery

Nikki Orcutt

Deputy Director for Marketing, West Virginia Lottery

Terry Rich

President and Chief Executive Officer of the Iowa Lottery Authority

Buddy Roogow

Executive Director of the D.C. Lottery

May Scheve

Executive Director of the Missouri Lottery

Team Delaware Lottery:

Deputy Directors Vernon Kirk (Principal and Sports Betting), Jim Logue (VLT's), Richard MacDonald (Table Games), Brian Peters (Marketing/Sales)

Wanda Young Wilson

Executive V.P. & General Counsel, Tennessee Education Lottery Corp.

Lottery Industry Statesman Award honoring Wayne Lemons, Director of the Delaware Lottery

Jeff Anderson ...continued from page 12

determination that there should be limitations to the amount that lottery is promoted, from a social responsibility point of view. So a state legislature might look at the amount peeled off to promote a multi-state game as being a part of the lottery's ad' budget and reduce the amount the lottery can spend by that amount that was spent on the national campaign. Many lotteries would not want that. I know I wouldn't.

When we talk about common interests and working together, we need to realize that there are a lot more moving parts to this puzzle that can't always be pushed into a simple solution. Peeling off a small slice of the proceeds from a multi-state game to fund a national ad' program may seem like a simple thing to do, but it's not.

Likewise transaction-processing and inventory control for national distribution, or establishing standards for inter-operability of Internet-gaming technology platforms. How do we do the banking? How do we do player identification and responsible gaming agendas? Lotteries have different public policy and business needs that make it difficult to create consensus on even the broadest issues, much less the countless details that need to be wrestled down to enable these things to actually happen.

Frankly, we all realize that we need to accelerate the rate at which we evolve our busi-

nesses. And we are all committed to making that happen. But just as the federal government needs to respect the rights of individual states to determine regulatory policy, NASPL and our industry groups and associations also need to appreciate the rights of individual lotteries to decide how best to serve the interests of their constituents.

U.S. lottery directors have overcome many obstacles to forge a collaborative approach, whether it be on a change to a national multistate game or staking out a position on national gaming issues. Fortunately, there is a lot more upside potential on the collaboration front! We just need to have the patience and persistence to work hard to make it happen; to be focused on the objectives but also sensitive to the concerns and differences among all the different lotteries.

It is disheartening to read that not everyone knows that age and location verification technology is tested, proven, and reliable, and has been working effectively without incidence for many years in Europe and Canada.

J. Anderson: I have directed NASPL staff to engage with the appropriate stakeholders to develop some basic foundational standards that can free lotteries up to move forward on Internet gaming more quickly as regulations change. Of course, enabling legislation needs to come from the individual states for a lot-

tery to implement Internet gaming. It's my understanding that Age/Location verification is one issue that is, as you say, no longer a technological obstacle.

More pressing are the technological issues that have mostly to do with inter-operability, enabling the consumer to buy tickets in the same way in different states. Basically, there is a need to establish some common standards for the operator of the central server that supports lottery transaction processing functions, typically GTECH, Scientific Games, or IN-TRALOT. We all need to adhere to a certain standard of security and integrity, and technological inter-operability. It's not much different from the way we approach the contract to join a multi-state draw game. If you want to sell Powerball you need to agree to operate according to specified technological processes and standards.

We will always be a defender of the right of each individual state to make its own policy decisions regarding the regulation of gaming and gambling. We're ready to fight overtures from the federal government and other gambling interests that want to carve out a slice of resulting net revenues that belongs to the states and the good causes we support, and that means having these issues all worked out ahead of time for states to move quickly if they feel a need to do so.

reaching the 'younger demographic'. It can be, though, a vital catalyst to re-imagining our businesses; to rethinking how all these things can work together to create entirely new gaming experiences.

The industry recognizes this and has begun the process of modernizing, or gamifying, traditional lottery. There are Second-chance draws, player clubs, extended-play games and clever ways of displaying the outcome of a lottery game with animated displays of characters engaged in humorous or competitive narratives. These are great concepts that point the way towards an exciting future of progressive game development and creative use of the different channels and media to mutually reinforce each other. We just need to accelerate the process. A lot.

You're talking about using new media to sell more of the traditional products.

D. Pollard: Internet gaming is in itself not the thing to focus on. The margins for casinostyle games and poker are much lower than traditional lottery margins, due to the higher prize payouts. And, the competition for those lower margins will be very high if lotteries have to compete with casino operators from Nevada and elsewhere. Look at how the Internet gaming world has evolved in Europe. The margins are inevitably driven down in all the non-lottery categories. Instead the lottery business should focus on driving higher growth in the traditional products, the billion-dollar revenue streams with high margins. And in fact, even though they have been around in their present form for decades and do need to be refreshed, they are still going strong. What we need to do is leverage all the tools at our disposal to tap into the powerful new consumer trends like social networking, the impulse to want to share and the implications that has for marketers, and the "experience economy" phenomenon in which entertainment value is being built into everything.

This would seem to address another objective - That is to increase sales by broadening the base of players as opposed to increasing the amount that the core player plays.

D. Pollard: Of course, everyone wants to broaden the player base. I find that in the more mature markets like those in Europe, that's become a critical part of their strategic focus not just because they want to increase sales. They see broadening of the player base as being a vital part of their responsible gam-

ing agenda. Connecting with the media savvy, socially networked community is really so critical for everyone for all the above reasons. And the commercial community is stepping up with new products and game designs that will support those goals.

Do the game plans to push Lottery into Internet-based social networks conflict with the business model of selling billions of dollars of product in the traditional way through land-based stores.

D. Pollard: Not at all. They complement each other. It all works together. The last thing anyone wants is to shift sales from the land-based channel over to the Internet. Next to the brands themselves, the retail network is probably the most valuable asset that lotteries have. And those thousands of consumer touch-points are proprietary to lottery. No other gaming operators have that ubiquitous connection to hundreds of millions of consumers on a daily basis like Lottery has. Internet, Mobile, new media in general, are all mutually reinforcing with the land-based channel. In fact there are ways to use the power of interactive technologies to drive the bricks and mortar business - bringing new players, new promotional tactics, new gaming experiences that marry both options. And integrating social networks into the marketing mix does not impair our ability to create great games that appeal to new players or the traditional core players. There are no tradeoffs; all these things work together and in fact reinforce each other.

Second-chance draws would seem to be a good example of how an effective use of the Internet really benefits everyone - player, retailer, and operator. But what's the next step?

D. Pollard: The next step would be to recognize that it's no longer just about reaching the "younger player". The things we need to do to entice the younger player are the same things we need to do to attract the non-player and in truth those are all the same things we need to do to continue to appeal to our core player. Everyone is on the Internet, everyone responds to a more enjoyable gaming experience, and everyone wants to have a second chance to win. We simply need to think abstractly about what it is that appeals to the consumer so that we can build on that and expand the portfolio of game concepts and promotional strategies.

For instance, word-of-mouth has actu-

ally been one of the most important drivers of growth in the Instants category over the past two decades. Consider how prize structures influence buying decisions. It's not necessarily shocking that better prize structures always sell more. Except when you consider two things. First, the difference between a prize structure that is consistent with best practises versus one that is less favorable actually seems very small, when the payout percentage is held constant. Second, it is not the case that the typical player carefully analyzes the prize structures before they play. That's really not what happens and it's not how the player decides which games to buy. They make their buying decisions based on what the clerks and their friends tell them are the best games, or when they see someone winning ten bucks on a particular game, or when the clerk sees someone win on a game and proceeds to tell other customers. Now, we want to transfer this basic dynamic over to the Internet, creating a super-charged social network that taps into existing players, lapsed players and even non-players who are sharing their experiences online in ways that go viral, impacting their whole social network instead of just the handful of people we each cross paths with on a daily basis in our journey through the terrestrial environment. Traditional "word-of-mouth" does not really capture the potential for information to explode into everyone's mind-space in an instant like it can on Facebook and Twitter. Slight digression - Look up "Arab Spring" in Wikipedia. Right in the very first paragraph of the explanation of these events is a reference to the vital role that Facebook and Twitter played in inspiring and then organizing these huge social uprisings that are changing the world. I know we're not in the social uprisings business, but this is a reflection of where the media power has shifted to. Social media has become the mass media with the power to move entire populations. And they're free to anyone clever enough to figure out how to make their concept relevant, how to engage their customers' interest and make it easy and fun to share that interest with their friends. And when it comes to Facebook, when we say "friends", we mean an average of 130 people for each Facebook member! They must all be very popular. Think about that. 750 million

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LOTTERY EXPO: Unleashing the Power of Brand Lottery

Lottery Expo 2011 will be held at the Loews Miami Beach Hotel, Sept. 20 to 22. The conference begins with a Reception on Tuesday Sept. 20 at 5:00 pm; conference sessions on Wednesday the 21st and Thursday the 22nd; Receptions to follow both conference days in addition to the opening night reception. Registration is free for all Lottery personnel. So please join us and your colleagues from Europe, Canada, and the Americas for this special event.

Please go to www.PublicGaming.org for more details and registration information.

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ment have typically been left to individual states so coordination on those fronts is challenging. Each state has a unique product mix and is bound by its own individual advertising guidelines. Whether it is style, regulatory constraints, responsible gaming limitations or budgets, uniformity in marketing and advertising content and strategy, beyond the adoption of voluntary best practices and game rules, may chill the local creativity and distinctiveness that have made many lotteries successful. That said, joint media buys that can result in cost saving for lotteries is potentially an area of opportunity along with other areas of procurement. The use of social media to promote winners is another area that is ripe for cooperation. While uniform product branding can buttress a consumer brand in a nationally competitive environment, distinct product positioning within an individual state is equally important to success. Most importantly, we need to be nimble, well informed and ready to act collectively when the interests of state operated lotteries are aligned. But we must also recognize that difference is acceptable and appropriate when interests diverge or when the return does not warrant the huge effort that is required when over forty states try to reach consensus.

What can be done to facilitate the expansion of distribution into national "big-box" chain stores?

A. Noble: Expanding distribution of lottery products is an important business objective for lotteries, and I applaud the good work that has already happened in this area. Opportunities abound. State laws will affect the supply chain differently, whether they are banking requirements or the consumer protection measures unique to a state. Uniformity in some standards could certainly help break down obstacles to lottery sales in some national chains, which is important to all of us.

Do business strategies and methods differ between large and small states, and do those differences interfere with an agenda to collaborate?

Population can provide a lottery with great latitude and advantage in game design, whether it is the ability to generate larger call outs or more attractive jackpot games. Larger states may also be able to support more substantial advertising budgets and devote greater resources to research and development as well as secure more competitive pricing than some small states, though the corporate structure and maturity of lotteries also affects these variables. Additionally, larger states may have more diversified portfolios and less vulnerability to cross-border sales' volatility than smaller states.

These differences are not obstacles to collaboration. In fact, they provide options that might not otherwise exist. Small states can

benefit from industry innovation lead by larger states with greater resources. The lynchpin of states working together, regardless of size, is identifying common interests and demonstrating a healthy respect for the notion that, in certain cases, agreement is not possible. Disagreement on certain topics should not mean that cooperation should be foreclosed in other areas. Leadership accounts for differences, leverages common goals, and encourages decisions that are made in a fair, timely, transparent manner. Sound, informed business decisions that deliver better games and better value to an ever growing player base will serve us all well.

Is there a will to collaborate and can it be done?

A. Noble: Absolutely. An individual state's lottery's interest must be preserved as well, and we can do both. Indeed, state run lotteries share a desire to offer innovative games to a growing player base. We also share a common interest in preserving the integrity of our games and in protecting consumers from fraud. In addition, we share a common interest in mitigating the risk of harm from gambling products and in growing the economies of our states. And, tremendous profit and good can come from collective action on responsible gaming measures and supplier diversity. These are just a few examples. I am confident that together we can and will be successful in the changing marketplace.

Doug Pollard ...continued from page 30

people spending over 700 billion minutes a month on one social media site. We want to design the games and the tools to connect with that, really integrate lottery into the fabric of the community of socially networked consumers.

Another step is to maintain the instant win essence of our games, but to offer an extension that uses interactive strategies to enhance the game play. When second-chance draws were introduced, they were just a simple second chance draw to win. They had less than a 2% redemption rate. When we created an interactive element to it, like Asteroids and Bingo in Michigan, poker in Minnesota, the Double Bubble game in Maryland, the redemption rates skyrocketed well into the double digits.

And people were playing online for 15 or 20 minutes instead of one minute just for fun – in fact we've anecdotal evidence that some players were buying tickets just because the second chance interactive games were so fun to play!. So the next step is to get people to play online, engage them in longer play experience, and integrate player-to-player chat and interaction into the whole online gaming experience.

I bet there is a last step that ties it all together?

There is! I call it "Gamification". We're a couple steps removed from it right now but it's good to have a vision to pull us forward. The ultimate transition is totally within our grasp and we have the power to make it happen now. It's basically just combining

those first two steps. We need to build on the incredible success of our core products instant win games with strong brands and a great retail presence. We need to see our current online extensions to these games as a modest beginning, tip-of-the-iceberg first generation betas, but the perfect platform from which to create a truly engaging, "gamified" playing experience. Then we need to combine it with breakthrough social networking strategies that will connect the newly gamified lottery playing experience to everyone on a daily basis. To some extent, this is what every consumer marketer in the world is trying to do. Our Ace-in-the-hole is that we have the greatest product in the world to work with combined with an established and loyal customer base of millions. •



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Responsible Gaming: New approaches to an evolving issue. How technology addresses operators' concerns about player acceptance.

By Mark Poltarowicz SPIELO Product Manager, Responsible Gaming

Corporate Social Responsibility programs are increasingly recognized as a key element in business sustainability. That, combined with public misperceptions surrounding gaming programs, has prompted Responsible Gaming (RG) to become the public gaming industry's fastest-growing priority. Today, we see significant lottery operator resources channeled into RG, including entire departments devoted to the issue, where few had previously existed.

The absence of an RG program can leave an operator vulnerable to politically-driven decisions and policies that can affect the lottery's mandate. Some jurisdictions have scaled back their total VLT numbers in response to public pressure and negative optics. An RG strategy can be a powerful tool for maintaining a successful VLT program and presenting it in a positive light.

Yet operators face what they see as two competing goals when implementing RG-enabling technology: they are expected to implement programs that minimize harm, while at the same time they must achieve their primary goal of sustaining gaming revenues. Many doubt that both can be achieved simultaneously. However, our research has shown that operators can mitigate these concerns through the newest features of RG technology.

For example, some operators worry that RG features like spending controls will discourage participation. They assume that when the player spends time engaging in the RG program, this will "cannibalize" the time on the device, thereby reducing revenues. They are also concerned that players will resist participating in an RG program, especially one based on a player card or player account, because of a perceived lack of anonymity. Operators see player concerns about privacy as a major impediment to administering an RG program through player registration and accurately tracking player data.

Technology has presented a solution for each of these misapprehensions. For instance, the VLT does not have to be the sole point of access for RG information. Simplified program participation via alternative points of access, such as kiosk-based or web-based access, means players can continue to dedicate their VLT time to game play.

A player card or account accessed with a Personal Identification Number (PIN) can enable anonymity while also ensuring the validity of player-level data. While government IDs or biometrics could also provide authentication, player acceptance, technical feasibility and overall practicality all need to be considered when choosing the right approach.

For those operators who assume that voluntary limits reduce revenue from the core player segment, the potential risks can be offset by the introduction of highly entertaining games intended to attract and increase casual player participation, including new or non-players.

The industry as a whole, and not just the individual operators, stands to benefit from RG programs built into platform convergence. To lessen the stigma associated with VLT gaming, an RG program can be offered across all gaming channels, such as online gaming and traditional ticket lottery retail networks. A multiplicity of gaming platforms can weaken the association between problem gambling and VLTs.

By making RG programs voluntary and anonymous, yet building in incentives to participate, the operator can provide a complete program that does not affect overall game performance and continues to offer a positive player experience.

The need for player-centric applications is driving the development of SPIELO's INTELLIGENTM Central System portfolio, which includes integrated Responsible Gaming features, Player Loyalty and Rewards, and Account-Based Play. It provides an account-based infrastructure with alternative points of player access, and is seamlessly integrated with game features to incentivize participation. For example, additional games or bonus rounds can be "unlocked" after a player has chosen a greater level of participation in the RG program.

INTELLIGEN'S RG infrastructure can also offer holistic benefits to the entire gaming program, not just the RG interests. Because the RG features are part of an overall Player Services Manager infrastructure, the operator can also leverage the advantages of Player Loyalty and Rewards and Account-Based Play — enabling and/or enhancing strategies such as direct marketing, gaming platform convergence, and sophisticated data collection.

Data collection models that "drill down" beyond basic player behaviors and identify complex actions like chasing losses, switching between games on a multigame machine, and speed of play also offer valuable insight into problem gambling behaviors. Should the operator wish to collect this information, the INTELLIGEN RG features can provide that granular level of player data.

Ultimately, gathering detailed player data related to gaming behaviors can benefit the entire gaming industry, as well as the individual operator. There is a dearth of research on the effectiveness of RG solutions, and longitudinal studies are needed to validate them. Gathering and analyzing player-specific granular data will help us better understand player behavior, and in doing so, advance the science of Responsible Gaming toward more complete solutions and more sustainable gaming operations.

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Is Responsible Gaming in your future?

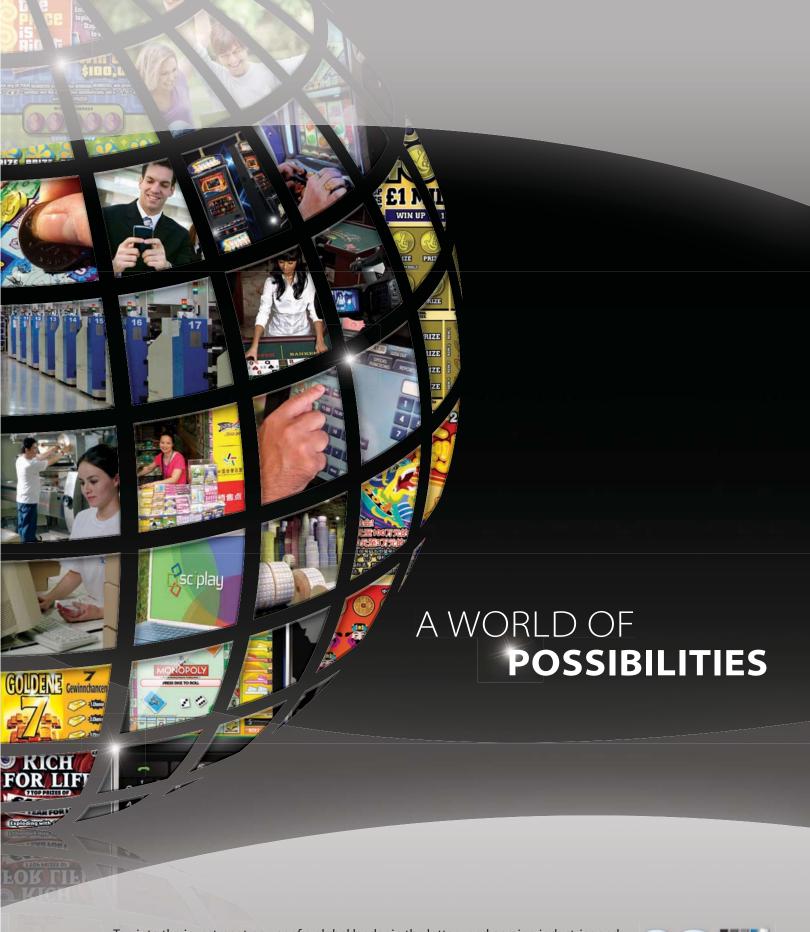


The INTELLIGEN™ RG solution is designed to enhance your VLT program.

SPIELO's INTELLIGEN Central System includes Responsible Gaming features and options that seamlessly integrate with VLT games to **encourage participation**. Its account-based system can provide **a single view of the player** across multiple lottery channels.

INTELLIGEN. There's stability in your future.





Tap into the investment power of a global leader in the lottery and gaming industries and gain access to a broad and rich portfolio of products and services designed to help you optimize revenues.

