

PUBLIC

May/June 2011

# GAMING™

I N T E R N A T I O N A L

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



**Ana Paula Barros**

Santa Casa da Misericórdia de Lisboa/  
Jogos Santa Casa, Portugal

**Juan Carlos Alfonso Rubio**

Spanish General Direction of Gambling  
(the future Spanish Gambling Commission)



**Fotis Mavroudis**

INTRALOT SA



**André Noël Chaker**

Veikkaus Oy, the Finland Lottery  
& Host of EI Congress 2011



**Rebecca Hargrove**

Tennessee Education  
Lottery Corporation

**SMART-TECH  
REVIEW**

[WWW.PGRITALKS.COM](http://WWW.PGRITALKS.COM)

**LOTTERY  
COLLABORATION**

feature interviews



# ONE BIG STEP FOR SPIELO. ONE GIANT STEP FOR GAMING.

**First to market    First to use G2S' messaging    First with a wide-area VLT jackpot**

When the Italian VLT program was born, SPIELO® provided a licensed end-to-end solution in record time.

We were the first supplier authorized to provide a VLT system in Italy.

We deployed INTELLIGEN™, an open-standards-based central system that's the first in the world to use Game to System® (G2S) messaging in a distributed VLT environment.

And we were the first to provide Italy with a fully configurable multi-venue jackpot that can be adapted to any VLT game type, and to any size venue.

We're proud to be the first to say *'Siamo pronti!'* in Italy.

For more information call 1.800.561.GAME (4263) or 506.878.6000

Email us at [lottery.gaming@spielo.com](mailto:lottery.gaming@spielo.com)

[www.spielo.com](http://www.spielo.com)

Game to System and G2S are registered trademarks of the Gaming Standards Association™ [www.gamingstandards.com](http://www.gamingstandards.com)



**SPIELO®**  
Performance Gaming. Dedicated Service.

# But Wait, There's More!



Players' MARK®

Extended Bonus Play

Linked Bonus

Lucky Sweeps™

Cross Play

MicroBrands

**GTECH Printing's Product Innovation: Extended Bonus Play.** Just when your players think their favorite instant game is over – there's more! With GPC's Extended Bonus Play games your players will enjoy additional chances to win in the designated bonus area. The real beauty of this feature is that Extended Bonus Play can be added to virtually any existing play style, maximizing your players' opportunity to win on their favorite games. Extend your players' experience with Extended Bonus Play today. To learn more about Extended Bonus Play or to see our complete Product Innovation Portfolio visit us at [www.gtechprinting.com](http://www.gtechprinting.com).



# GAMING

I N T E R N A T I O N A L



[www.PublicGaming.com](http://www.PublicGaming.com)

Subscribe to our new *Daily News Digest*. Industry news gets reported here as soon as it hits the wires. Gathered from hundreds of publications, government agencies, lotteries, commercial firms, and news wires from all around the world, [www.PublicGaming.com](http://www.PublicGaming.com) is the most comprehensive news and information resource in our industry. PGRI's *Morning Report* is our weekly electronic newsletter, providing you with a synopsis of the previous week's industry news

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

Thank you!

**PUBLIC GAMING**  
**PGRI**  
 RESEARCH INSTITUTE

## Features

### Feature Interviews and Editorials

- |  |   |
|--|---|
| <b>6 Paul Jason: From the Publisher</b>  | <b>30 The Impact of Jackpot Awareness on Sales</b><br>Maxwell Goldstein, Director of Sales and Marketing, Carmanah Signs  |
| <b>8 Synopsis of PGRI SMART-Tech New York Conference</b>   | <b>38 Lottery Internet Sales: The Untapped Potential for Europe</b><br>Scientific Games: Creating the Full Venue Cycle of Lottery-Retailer-Internet   |
| <b>10 Rebecca Hargrove</b><br>President and Chief Executive Officer of the Tennessee Education Lottery Corp., USA<br>Member of the World Lottery Association (WLA) Executive Committee | <b>40 European Lotteries and Amateur Sports Beneficiaries</b><br>The Urgent Need for a Global Approach to Defending the Integrity of Sports<br>By Philippe Vlaemminck, Legal Advocate for Lotteries |
| <b>12 Ana Paula Barros</b><br>Director of Legal and External Relations Department; Santa Casa da Misericórdia de Lisboa/Jogos Santa Casa, Portugal                                     | <b>41 PGRI Products of the Year</b><br>Diamond Games: LT-3 – The ITVM for Bars<br>Scientific Games Corporation: Flair™ Terminal   |
| <b>20 Juan Carlos Alfonso Rubio</b><br>Deputy General Director; Spanish General Direction of Gambling (the future Spanish Gambling Commission)   | <b>42 Customer First: An Actionable Growth Strategy</b><br>Redefining the lottery-vendor relationship: GTECH case studies.  |
| <b>24 André Noël Chaker</b><br>Director of New Business Development; Veikkaus Oy, the Finland Lottery  | <b>46 Innovation Key To Creating Winners All Around</b><br>Dianne Thompson, Group CEO of Camelot Group of Companies   |
| <b>28 Fotis Mavroudis</b><br>Managing Director of Europe and North Africa, Greece; Member of Board of Directors, INTRALOT SA   |   |

[www.publicgaming.com](http://www.publicgaming.com) Visit our website to get the latest breaking lottery news. And sign up to receive PGRI's weekly Morning Report.

#### PUBLIC GAMING INTERNATIONAL

##### PUBLISHER & PRESIDENT

Paul Jason  
[pjason@publicgaming.com](mailto:pjason@publicgaming.com)

##### EXECUTIVE VICE PRESIDENT

Susan Jason  
[sjason@publicgaming.com](mailto:sjason@publicgaming.com)

##### ART DIRECTOR

Lisa Robinson

#### HONORED FOUNDERS

Doris Burke  
 Duane Burke

#### CONTACT PUBLIC GAMING

Tel: (425) 449-3000  
 (800) 493-0527

Fax: (206) 374-2600  
 (800) 657-9340

Public Gaming International (ISSN-1042-1912) May/June 2011, Volume 37, No. 3. Published six times a year by the Public Gaming Research Institute, Inc., 218 Main Street, #203, Kirkland, WA 98033, (425) 449-3000. ANNUAL SUBSCRIPTION RATES: United States: \$145. Canada & Mexico: \$160(US). All other countries: \$225(US). POSTMASTER: Send address changes to Public Gaming International, 218 Main Street, #203, Kirkland, WA 98033. SUBSCRIPTION REQUESTS: Send to same address. NOTE: Public Gaming International is distributed by airmail and other expedited delivery to readers around the world. ©2011 All rights reserved. Public Gaming Research Institute.

# TRU\$ERV™



INTERACTIVE™

Moving beyond the technology limitations of standalone gaming machines to a library of games dynamically configured, managed, deployed and optimised by you for your different venues and players results in a truly improved player experience and ultimately improved yield performance.



## TruJackpoting

Exciting Wide area and in-venue Linked Jackpot Progressive games

## TruReliability

Proven 24/7 operation

## TruMarketability

Centrally managed marketing and promotions campaigns

## TruGame\$

Market leading game content from ACE Interactive and Aristocrat

## TruPerformance

High performance Server architecture

## TruManagement

Centralised management, decision support, monitoring and reporting

## TruFlexibility

Custom gaming your way, Game Development Kit supports 3rd party games

## TruServices

Comprehensive services including installation, maintenance and support

## TruResponsibly

Extensive and easily adaptable Responsible Gaming framework





# From the Publisher

Paul Jason, CEO, Public Gaming International Magazine

It's a little early in the year to make this call, but 2011 will likely get posted as a seminal year in the lottery industry. Just think of all the events that are happening now. Our interviews touch on most of these.

- The EU Commissioner for Internal Markets, Michel Barnier, published the "Green Paper" which set a course for evolving a rational regulatory guideline for gaming in Europe. There's no easy solution to the conflict between the EU principles of free-market capitalism and member states' rights to determine regulatory policy. But Michel Barnier has garnered respect from all quarters for his even-handed and thoughtful approach towards evolving regulatory guidelines that are consistent with the principles of EU trade and commerce laws and also sensitive to the differences in public policy objectives of the member states. Challenges definitely remain for the European lotteries to evolve their businesses within the new world of more gaming options and widespread availability through all varieties of media and channels of distribution. But there is now good reason to be confident that the leadership of the EU will not precipitously upend the lottery model that produces billions of dollars for Good Causes.
- The Council of EU member states came together to speak in one voice in a position paper that specifically petitions the EU Commission for more flexibility in how they are allowed to regulate the industry. Other seminal court cases have established that EU member states do have some rights when it comes to regulating the gaming industry in ways consistent with their own public policy objectives. Ana Paula Barros has been involved in virtually all of those court cases, contributed to the cause of preserving stability in the gam-

ing and lottery markets, and tells us where it all may lead from her unique perspective.

- The transformational "legalize and regulate" regimes implemented by France and Italy demonstrate that internet gaming operators can in fact be controlled and compelled to comply with regulatory and tax obligations. Enforcement mechanisms, and location and age verification systems are working. Of course, they have long been working in Scandinavian and other jurisdictions where i-gaming has been enabled for many years. On that point, André Noël Chaker describes the next stage that gamers are moving towards. Veikkaus was the first lottery to enter the i-gaming sector and continues to lead the way.
- The Spanish market is next to implement a "legalize and regulate" regime, turning underground and untaxed markets into a lucrative source for public funding and a regulated market that protects the players. Juan Carlos Alfonso Rubio spearheaded the drafting of the new Spanish regulatory laws while at Loterías y Apuestas. Now, he is shepherding it through the final stages as deputy Director of the Spanish regulator. His interview is a fascinating look into the logic and public policy rationales that go into the process of formulating such a complex piece of legislation.
- Illegal internet gaming operators were indicted for criminal violations of U.S. laws, further evidence that governments everywhere can enforce their laws which paves the way for rational regulatory and tax frameworks to be installed. Hopefully and presumably, this is the first step towards enabling U.S. states taking a proactive role in the management of the i-gaming industry. Concurrent with this event was the enabling legislation for the District of Columbia to

## GTECH works for me.



"A multi-state retailer was being courted by a number of lotteries, including ours. Knowing that the lotteries were meeting with limited success, GTECH orchestrated a single meeting with the retailer, so all the lotteries could be equally represented. Upon approval, GTECH went to great lengths to train the retailer,



regulate the i-gaming market within its jurisdiction. This opens the door for other states to do the same without fear that they will be conflicting with the U.S. DoJ. If states do not step up to take responsibility to regulate i-gaming, though, it is entirely possible that their right to do so will be usurped by the federal government.

- ▶ The internationalization of law enforcement is also the focus of Philippe Vlaemminck's description of the steps being taken to get control of sports betting. An international cooperation is needed to enforce the law in all forms of gaming, and action is being taken to make it happen. INTERPOL is involved in the U.S. DoJ/Manhattan D.A action against the illegal i-operators.
- ▶ Creative collaborations between lotteries, and between their commercial partners, are opening new paths towards optimizing performance. The regulators of France and Italy are exploring ways to work together, hopefully ushering in the next stage of international cooperation to enforce the laws of each nation and compel compliance on the part of off-shore operators. On another front, Rebecca Hargrove discusses the next stage in multi-state collaboration. The multi-state games are the best hope to reinvigorate growth in the lot-to brand category. Getting 30 + different lottery operators to wrestle down the countless details that enable a collaborative approach is not easy. The breakthroughs will happen, and each individual lottery will benefit by the patience and tenacity applied to make it all come together. The two Netherlands lotteries represent a novel approach towards producing efficiencies that yield big dividends to Good Causes. Fotis Mavroudis describes the unique collaboration between two lotteries that compete in the exact same geographical market. Very inspiring that once and future competitors can work together to achieve a shared goal! And then there is the Canadian

Poker Network, a collaboration between the provincial lotteries to implement a world-class i-gaming hub to serve the player while channeling the benefits back to Good Causes. There is also the collaboration between GTECH and Scientific Games to service the contract to manage the Illinois Lottery.

- ▶ Ownership-management structures continue to evolve in ways that create new options for legislators exploring ways to truly optimize the performance and value of that most valuable asset, the government lottery. In what is called a Private Management Agreement, NorthStar Lottery is committed to doubling the sales of the Illinois Lottery in five years. Will outsourcing a larger role to commercial operators be a key to unlocking the full potential of the lottery? Next up: The Spanish government is getting set to sell shares in Loterias y Apuestas, the giant Spanish lottery operator, in what will be the largest IPO in Spanish history, and one of the largest ever in Europe. Two strategies support two different objectives. Instead of a large upfront payment, Illinois retains ownership and control and increases operating income. Spain needs capital now, and lots of it, and so selling shares to the public will deliver that result.

Next on the agenda: Beyond Gaming 2.0, the theme of PGRI Lottery Expo . Please visit [www.PublicGaming.org](http://www.PublicGaming.org) to get details and updates. Being held September 20 to 22 at Loews Miami Beach, Lottery Expo will be host to lottery leadership from all around the world who will convene to chart a prosperous course for our industry. PGRI conferences are produced for the benefit of lottery leaders. That's why there is no charge for lottery employees to participate. So please join your colleagues and us for a most rewarding conference experience! And please feel free to email me at [pjason@PublicGaming.com](mailto:pjason@PublicGaming.com) with feedback.

ensure a trouble-free rollout, and implement specialized reporting tools. Thanks to GTECH's strength, expertise, and nationwide presence, the Georgia lottery successfully added a new outlet. I could not ask for a better partner for the Georgia Lottery Corporation."

**Bill James, Corporate Account Manager, Georgia Lottery Corporation**

For more about this story and others like it, visit us at [gtech.com/testimonials](http://gtech.com/testimonials).



**GTECH®**  
Architects of Gaming

## First Installment of SMART-Tech 2011 Synopsis: On Industry Collaboration

A theme that will shape the future of the government-sponsored gaming sector is *collaboration*. Enhancing the collaborative nature of relationships between lotteries and their commercial partners, between lotteries themselves, and between vendors who both compete and collaborate with each other, is a focus of the leadership of this industry. It's becoming an integral part of every forward-leaning lottery's vision for positioning its businesses for long-term success. And so it was an integral part of PGRI SMART-Tech NYC in March.

**Advertising & Promotion:** Gordon Medenica (NY Lottery) kicked off the conference with a hearty welcome to the great city of New York. He discussed a range of issues, and he raised some challenging questions about the huge overlap and duplication of effort that is involved in the production of advertising for 40 + U.S. lotteries. There should be a way to extract some major cost savings and end up with a far superior end result by working together to build a more nationalized approach to advertising, PR, and distribution. Nobody would propose that all advertising be nationalized, only that there are benefits to exploring the possibilities in some areas. Funding is of course an obstacle. But with what must be the most profitable multi-billion-dollar revenue stream in existence, surely there should be ways to fund initiatives that increase funds for Good Causes. **Kurt Freedlund** (GA Lottery) and Gordon both pointed out how, as a % of sales, investment in the advertising and promotion of Powerball and Mega Millions is far lower than other consumer brands. And how, given the margins of PB and Mega which no other consumer brand even remotely comes close to, the ROI on increasing the ad' budget would be off the charts. **Jaymin Patel** (GTECH) pointed up the importance of building a national brand awareness and consistency to leverage the tremendous success of the multi-jurisdictional jackpot games. **Margaret DeFrancisco** (GA Lottery) related an in-state collaborative venture that was both hugely challenging to pull together, and hugely rewarding in the results it produced. Of course there are differences between lotteries. Of course there are obstacles to collaboration that can be difficult to overcome. But the rewards make it all worthwhile.

**Collective Action:** European lotteries have been influencing the course of political and regulatory change in Europe in ways that foreshadow what their colleagues in the U.S. will need to try to do. (See the Ana Paula Barros and Juan Carlos Alfonso Rubio interviews in this issue.) **Friedrich Stickler** (Austria Lottery, also president of the European Lottery Association) and **Philippe Vlaemminck** (Legal Counsel to Lotteries on international regulatory matters) discussed why it is so vital that lotteries find a way to defend the interests of their stakeholders, how that requires an agenda to inform the shapers of public and regulatory policy, and how European lotteries overcome the obstacles to collaboration and forge a collective action approach. **Rebecca Hargrove** (TN Lottery) led the panel and the agenda to relate the European experience to the U.S. Lottery world. A great example of the impact of collective action to effect public policy was the defeat of the Harry Reid bill that would have been so detrimental to the interests of lotteries. **Anne Noble** (CT Lottery), **Jeff Anderson** (ID Lottery, also president of NASPL), **May Scheve** (MO Lottery), **Tom Kitts** (CO Lottery) and others encouraged a deeper exploration of how U.S. lotteries can build on that success, perhaps through its association, NASPL. Regulatory frameworks that drive the evolution of internet gaming are being formed as we speak. So, now is a very good time to speak up.

**Partnering:** The "Not for the Faint of Heart" panel is what we call our forum that attempts to push the envelope and drill down into supplier-vendor issues and opportunities. The panelists are top executives from the leading commercial companies. **Jim Kennedy** (Scientific Games), **Paul Riley** (GTECH), **Matt Pangborn** (CyberArts/INTRALOT), **Doug Pollard** (Pollard Banknote), and **James Oakes** (Roboreus/GeoSweep) discussed how the lottery operators can collaborate with their commercial partners to drive better overall performance. The old style of putting out an RFP/RFQ, acquiring a set of products and services, and implementing the terms of a tightly drawn contract are being replaced by a solutions-oriented approach. This is a market-driven

business. Vendor-lottery partnerships should be built on market-driven principles that leverage true partnerships and peak performance into superior results. This panel was led by the tenacious **Gardner Gurney** (NY Lottery), who will hopefully be joining us to continue the discussion at Lottery Expo in Miami.

**SMART-Tech 2011** was held at the Helmsley Park Lane on March 21-23 in New York City. You can view the SMART-Tech video-recorded presentations, and presentations from past PGRI conferences, at [www.PGRItalks.com](http://www.PGRItalks.com). Our model is the fabulous TED Talks ([ted.com](http://ted.com)), with the same mission to drive progress by giving a huge voice to "Ideas Worth Spreading", making freely available to the entire world the great ideas that are aired at a conference venue.

SMART-Tech is held annually, the third week of March in New York City. Attendance is free for Lottery and government employees. 140 to 160 industry professionals from all around the world convened with the focus on addressing the most cutting edge issues of the day. This is a forum for speakers and panelists to stretch for actionable solutions to real-world problems. It's not about 'education', no 'case studies' unless they're really focused on driving change and progress in the industry. It's about lively discussions and challenging proposals on how to approach the problems and opportunities our businesses face in completely new and different ways.

Coming up is **PGRI Lottery Expo**. September 20 to 22 at Loews Miami Beach. The theme is **Beyond Gaming 2.0** which includes internet gaming (finally poised to explode on the U.S. gaming scene), creative collaborations, and the integration of this expansion of games, channels, and partnerships to set a completely new standard of lottery performance. Follow our news website, [www.PublicGaming.com](http://www.PublicGaming.com), for updates. Better yet, check in with our conference website, [www.PublicGaming.org](http://www.PublicGaming.org), for complete information on the conference. Registration materials are available now and the program will be posted as it becomes confirmed (tentative program by the end of June).

# PRESS PLAY



INTRALOT's WinStation is the first fully functional self-service terminal providing instant tickets and the whole range of lottery games, with the simple push of a button.

INTRALOT has incorporated the most consistent, reliable, state-of-the-art technology and all-inclusive features and functions in the WinStation.

With its "Push a Button, Get a Ticket" functionality, WinStation makes the gaming process the most user-friendly, quick, easy and intuitive.

## ***intralot***

[www.intralot.com](http://www.intralot.com)

## **WinStation** *press n play*

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



## Rebecca Hargrove

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

Member of the World Lottery Association (WLA)  
Executive Committee

**PGRI INTRODUCTION:** The events of the past couple months are converging with trends in the government lottery business in most interesting and wonderful ways. The DC Lottery's entry into Internet gaming combined with the banishment of the illegal operators from the U.S. market will hopefully be the catalyst for legislators in other states to expand government-sponsored gaming. Consumer trends are driving other changes in play styles that pose new opportunities for lotteries to expand their businesses. Effective leadership is creating a collaborative spirit that promises to unlock the collective power of lotteries working together to achieve shared objectives. This more dynamic marketplace will require much more rapid adaptation for operators to keep up with their customers and the quickening pace of market and technological change.

I asked Rebecca Hargrove, CEO of the Tennessee Lottery (and renowned industry veteran who has successfully led the start-up of three different lotteries), whether the leadership of lotteries is prepared to adapt to a world in which lotteries are challenged to expand into new gaming spaces, new channels and media, and in some ways, entirely new ways of thinking about the business we are in. Adapting to rapidly changing regulatory and competitive gaming landscapes is just the beginning. **Industry leaders don't just adapt. They lead.** I was frankly surprised to find that this issue is front-and-center. Enter the "Emerging Leaders Program", an executive development program implemented first in the Tennessee Education Lottery. This program is described in an excellent article that appeared in NASPL Insights (see [www.naspl.org](http://www.naspl.org)). The following discussion with Rebecca attempts to drill down and explore in more detail some of the challenges of preparing the next generation of lottery leaders.

We also address the issue of how to grow the lotto brand games. Over the past decade or more, the growth in the traditional lottery games has all come from instant tickets. One reason for that is because Instant have a higher prize payout percentage than lotto. But that's the very reason why lotteries are trying to reinvigorate

growth in lotto. The higher margins delivered in the lotto category translate into more funds for Good Causes. So let's start with that.

**Paul Jason, Public Gaming:** *Lotto has been in a slow but steady decline for over ten years now. Does everyone agree that continuing on the same track is simply not an option?*

**Rebecca Hargrove:** I think everyone would agree that continuing the status quo is not an option. It is imperative that we change our approach. There is certainly lots of room for discussion about what that change needs to be. But I think that everyone would agree that change is necessary or lotto will continue to decline. I think everyone is quite aware that most lotteries have been trying for years and years to come up with an approach that would reverse the negative trend line. Generally, this effort has been unsuccessful thus far. Some promotions and games have worked better than others, but nothing has proven to be a sustainable solution to the current state of affairs. What we need is to reignite growth in the lotto category. And we're determined to get there, even if we haven't done so quite yet.

*Players have been migrating away from the in-state lotto games over to the multi-state lotto games*

*like Powerball and Mega Millions. Why?*

**R. Hargrove:** The lotto brand games thrive on jackpots. Big jackpots most especially. Only the very largest states can generate the sales to propel the game into those high jackpot ranges that create the huge consumer excitement that drives more and more sales that in turn create more excitement until the jackpot is finally won. But you don't get that positive feedback cycle until you have a large enough jackpot. A certain critical mass has historically been necessary. The first year of cross-sell has not had the jackpot run-ups that it is statistically destined to produce, so sales weren't as high as they could have been. But we can be confident that over time, the laws of probability will prove out and the jackpots will migrate to the norm as the number of draws increases.

*Everyone agrees that the jackpot games need a lift, an innovation to reignite growth. I would think it should be much more than that. We should be pursuing a strategy that includes a more comprehensive approach towards collaboration on all fronts, a long-term strategic approach towards national brand management, and development of an even broader portfolio of multi-state games. I see the raising of the*

...continued on page 16

# IT'S A QUESTION OF TRUST.

No matter where they are in the world, lottery directors, regulators and suppliers need to completely trust their test labs for accuracy, integrity and independence. After all, we help them guarantee the public's trust in the gaming industry. After more than 1,000,000 tests in more than 455 global jurisdictions, we at Gaming Laboratories International know we have earned our client's trust. And our clients have come to trust our innovative spirit reflected in our exclusive tools like GLI Access, GLI Verify, GLI Link, and Point. Click. Transfer. and the continuous training we offer in GLI University. Rely on GLI, and we'll earn your trust every day. Start now at [gaminglabs.com](http://gaminglabs.com).



[gaminglabs.com](http://gaminglabs.com)



POINT. CLICK. TRANSFER.™





## Ana Paula Barros

Director of Legal and External Relations  
Department Santa Casa da Misericórdia  
de Lisboa/Jogos Santa Casa

PGRI INTRODUCTION: My first impression of Ana Paula Barros was seeing her testify before the highest court in Europe, the European Court of Justice (ECJ) in Luxembourg. Mrs. Barros passionately defended the rights of each EU member state to regulate its own market for the protection of the consumer. In conflict with that are commercial i-gaming interests which would want to apply the principles of free trade, free and open borders, low taxes, and free market competition to gambling. This particular case involved a Maltese i-gaming operator which was suing for the right to operate in Austria. But just as U.S. Supreme Court judgments affect all U.S. states, ECJ judgments affect not only the litigants in a particular case, but all the member states of the EU. Mrs. Barros is from neither Malta nor Austria, but is asked to defend the rights of EU members in cases like this because of the success she had in defending her own country and lottery in one of the most important cases to date: Bwin vs. Portugal and Santa Casa da Misericórdia de Lisboa. Bwin contended that EU law required all EU member states open up their markets to operators which are legally licensed to operate in any one EU member state (a principle known as “mutual recognition”). Accordingly, Bwin contended that its license in Gibraltar entitled it to operate in Portugal. That was in conflict with Portuguese legislation, which restricted the right to offer internet gaming to the state lottery operator. In September of 2009, the ECJ ruled that a license to operate in one

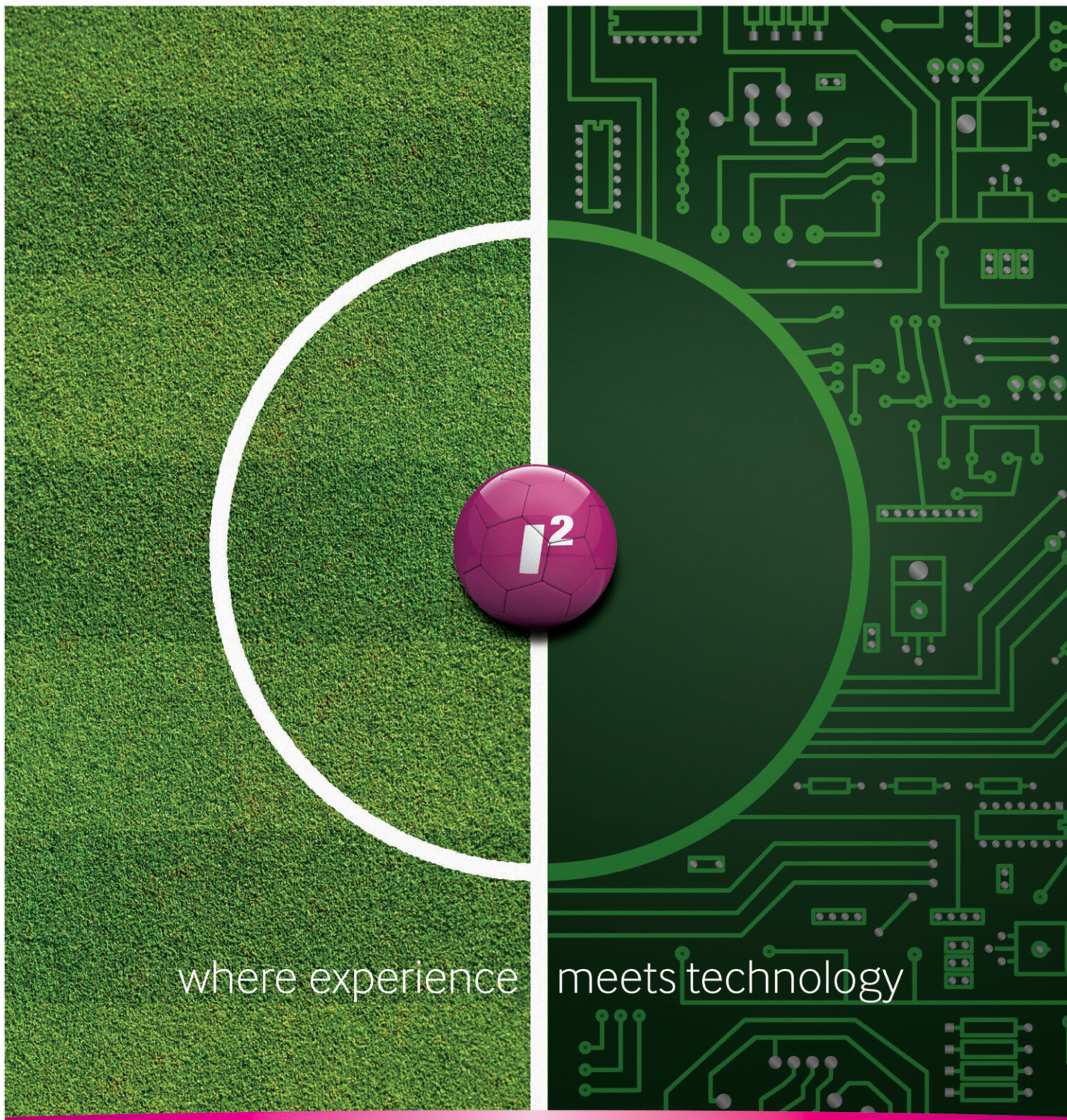
EU member state does not automatically confer the right to operate in all member states (i.e. that “mutual recognition” does not apply to the gambling industry). All operators must in fact comply with the regulatory restrictions of each and every member state in which they want to operate. This was a seminal victory for the preservation of member states’ rights to regulate i-gaming.

**Paul Jason, Public Gaming:** *Michel Barnier, the EU Commissioner for Internal Markets, recently released the “Green Paper” which lays the groundwork for clarifying EU laws and principles as regards the regulation of gambling. Mr. Barnier appears to be guiding the EU in a different direction than the previous commissioner, Charles McCreevy.*

**Ana Paula Barros:** Very much so. Charles McCreevy viewed the EU Commission as having authority over the member states with the mission to liberalize or deregulate the gambling industry. He thought that gambling

should be treated like any other industry in which goods and services are produced and consumed in a market-driven capitalist economy. Mr. Barnier’s position differs in two important ways. First he respects member states’ rights to organize themselves to cooperate and defend their own points of view. The efforts of member states should be valued and allowed to contribute to the formation of better regulation and gambling policy. So the Green Paper expressly reaches out to the EU members, inviting input into the process of formulating EU policy on gambling regulation. Second, Mr.

Barnier acknowledges that gambling is an industry that is different from others in many important ways (with potentially negative consequences for families and consumers health) and that the Treaties of Rome and Lisbon that created the EU do not require us to ignore those differences. For historical and economic reasons, gambling is a different kind of business. To build a healthy future for the gaming industry, each member state must understand the meanings of those differences. Geographical proximity makes us interdependent. Individual states must work together while at the



where experience meets technology

### Our experience shapes the new era in online gaming

INTRALOT Group's extensive experience has expanded to satisfy the needs of organizations as they enter the new era of Interactive gaming. INTRALOT Interactive steps up the game combining its in-depth experience and knowledge with the latest technological advances to bring you the next generation of interactive gaming solutions.

We are dedicated to delivering cutting-edge solutions to organizations that want to lead the way... Stay ahead of the game.

Find out more about INTRALOT Interactive Sports Betting at [www.intralotinteractive.com](http://www.intralotinteractive.com)



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

same time respect their differences. That's why member states need to share the commitment to prepare for a future of peace and prosperity; to discuss and cooperate to overcome their differences. We must not forget that no so long time ago, member states would start wars to overcome their differences.

In the three years prior to the appointment of Mr. Barnier, the EU Commission did not participate in the member states' Council meetings. Mr. McCreevy did not regard the opinions of the member states as relevant to the formulation and execution of EU policy. Conversely, Michel Barnier has emphasized that he would not be the commissioner that will liberalize the gambling market. Under his leadership, the EU Commission is working with the Council of member states, trying to understand the views of the members on issues like cooperation and gambling regulation. From his experience, Mr. Barnier knows the enormous accomplishments of the most respected European institutions. He also recognizes that cooperation and dialogue between member states is needed to build a sustainable understanding and progress. The overarching goal of both the Council of member states and the EU Commission is to work together and create gambling policy that is consistent with the needs of the members and the principles of the EU Treaty. That includes both the principle of subsidiarity and the principle of free movement of goods and services. Thus restrictions on competition are some times needed in certain activities to achieve other fundamental goals of the European Community. The ECJ defined them as reasons of common interest. The Commission is always invited to be at the member states' meetings. And it is a significant and welcome change that they are now working with the Council to clarify and implement a thoughtful and coherent approach to regulating the gambling industry. By being sensitive to different ways of doing things to achieve safety and efficiency, the member states set an example of tolerance and democracy. Gambling is a very specific industry based on two of the deepest human aspirations: trust and hope. As citizens, we trust in the people and institutions we know to be trustworthy and we think are qualified to sustain our hope. More than ever, gambling is about relationships, freedom and protection. The leadership shown by Commissioner Barnier will enhance the ability of the member states to cooperate not just with the EU, but also with each other. This is a much more productive approach to working out whatever differences exist between us.

*The leadership of the Council of the EU member states also showed leadership in forging a united front in the form of the Council statement*

*issued last year. Do you think that influenced the views of Michel Barnier?*

**A.P. Barros:** Yes. The Council played a central role on this issue. It is quite a unique Council initiative, with member states coming together to speak in one voice that there needs to be more consideration for the differences between nations and basically asking the European Union Commission to allow the individual EU member states more flexibility to decide their own gambling regulatory frameworks. Different cultures, different public policy objectives, different societal attitudes towards gambling require different approaches to regulation. The member states acted collectively and agreed that when it comes to gambling, we are all different and should be allowed to disagree. Each member state should be permitted to manage gambling as an element of cohesion and solidarity to obtain higher aims. Participation in a wide variety of structures allows us to achieve goals that can't be reached by acting independently. It's a strategic choice to reinforce a stable future and meet the needs of the citizens. I'm sure that Mr. Barnier took note of that statement.

This cooperative approach will ultimately be better for operators too. Markets, commercial operators, and gaming categories are converging. Technological platforms and all infrastructures to distribute and implement gambling can evolve much more effectively for everyone if we take a collaborative approach. The fact that regulatory frameworks differ from market to market does not preclude us from finding efficiencies wherever they exist and make them work to everyone's benefit.

*At issue in the Bwin vs. Portugal and Santa Casa da Misericórdia de Lisboa case was that Bwin was advertising, sponsoring soccer organizers, and operating in Portugal (collecting wages) and arguing that Portuguese law was not compliant with the EC rules and jurisprudence. Bwin decided to defy Portuguese law and sue the member state and Santa Casa. The case went to the ECJ and the Court decided that just because an operator like Bwin is licensed in Gibraltar does not give it the right to operate in Portugal and other EU member states. Your victory surprised Bwin and other remote i-gaming operators.*

**A.P. Barros:** It shouldn't have. The ECJ has ruled consistently over time that member states have the right to implement different gaming activities, and restrict the implementation of games and channels accordingly. The ECJ consistently says that member states have the power and authority to determine how many games they want to have, which types of games to have, and that the games should be implemented by operators whom they trust and who will channelize the benefits according to the

state's own public policy. I quote by heart §60 to 62 of Schindler case ECJ "it is not possible to disregard the moral, religious or cultural aspects of lotteries, like other types of gambling, in all the Member States; the general tendency of the Member States is to restrict, or even prohibit, the practice of gambling and to prevent it from being a source of private profit. Secondly, lotteries involve a high risk of crime or fraud, given the size of the amounts which can be staked and of the winnings which they can hold out to the players, particularly when they are operated on a large scale. Thirdly, they are an incitement to spend which may have damaging individual and social consequences. A final ground which is not without relevance, although it cannot in itself be regarded as an objective justification, is that lotteries may make a significant contribution to the financing of benevolent or public interest activities such as social works, charitable works, sport or culture. Those particular factors justify national authorities having a sufficient degree of latitude to determine what is required to protect the players and, more generally, in the light of the specific social and cultural features of each Member State, to maintain order in society, as regards the manner in which lotteries are operated, the size of the stakes, and the allocation of the profits they yield. In those circumstances, it is for them to assess not only whether it is necessary to restrict the activities of lotteries but also whether they should be prohibited, provided that those restrictions are not discriminatory. (...) the Treaty provisions relating to freedom to provide services do not preclude legislation (...) in view of the concerns of social policy and of the prevention of fraud which justify it."

My point is this. The ECJ simply agreed with us that preservation of Public Order, Social Policy, Public Health, and preventing crime and fraud in a coherent and systematic manner is in full compliance with the Treaty of the Union. Therefore, compliance with Portuguese law is required of all companies that want to operate in Portugal. Just as in the Dickinger/ Ömer vs. Austria case, the operators are claiming that all EU member states should be required to recognize the validity of a license in any one member state, like Gibraltar or Malta. Why does that make any sense? Each member state has its own standards and expectations and the right to require operators to meet those requirements. It is our position that overriding public interest considerations like Public Order, protection of the players and the public, is compromised by having multiple operators. The ECJ agreed with us.

*Both the Santa Casa da Misericórdia de Lisboa vs. Bwin and the Dickinger/ Ömer vs. Austria*

...continued on page 32



# ARE YOU GAME FOR INNOVATION ?

As a leading manufacturer in the gaming industry, Morpho is active worldwide and has already delivered close to 200,000 terminals. More than our capacity to meet the market's current needs, it is our commitment to provide the most innovative solutions that enables us to meet your future requirements. [www.morpho.com](http://www.morpho.com)

*ticket price to \$2 as being the most elementary step within a much more ambitious long-term development strategy. I can't imagine that raising the ticket price of Powerball to \$2 could do anything other than result in a sales increase. The number of tickets sold may decline, but it's inconceivable that they would be cut in half. And the players who preferred the \$1 game can always play Mega Millions or an in-state \$1 game. Why would anyone not support the ticket price increase of PB to \$2?*

**R. Hargrove:** First, not everyone buys into your grander ambitions for the industry. Still, that should not mean that they can't recognize and appreciate the logic of a very specific initiative that would, as you say, undoubtedly result in a sales increase.

*Some states derive a higher percentage of their sales from Powerball, and so they can't afford to make a wrong decision on this. And are small states taking a bigger risk than big states?*

**R. Hargrove:** States that have a higher percentage of their sales in Powerball will benefit the most from increasing the ticket price to two dollars. Lotto is a liquidity-driven game. Lots of players must participate to build those high jackpots that drive sales. And remember: lotto yields a higher margin for lotteries. That's the business model and it's critical to this analysis. An increase in lotto sales produces more funds for Good Causes than the same increase in the top line of instant tickets-- or the top line of any other gaming category currently in existence, for that matter. That's why we need to focus on growing this category. The logic of the industry, and the public purpose we serve, demands it. And what if such an approach kicked in the kind of result that so many of us think that it would? We think the outcome would likely produce as much as a 7% or 8% increase in sales. What an incredible boost for our beneficiaries that would be! This is a great industry and we're all dedicated to our mission of supporting Good Causes. But we must address the market place and respond to our growth needs. Only in this fashion can we serve our mission to its fullest. Of all the new games and promotions that lottery directors take a risk on every month, year after year, typically with mixed results, raising PB to \$2 is as low-risk as it gets. Sure, it's a big change, so it's right for directors to expect the highest level of due diligence. But the due diligence has been performed again and again. What we've found it that that there is no real risk in going with this proposed change.

*It would seem that there is an element of risk with any kind of change, but the application of a*

*risk-assessment model that isn't completely broken would yield a resounding thumbs-up on the proposal to raise PB to \$2. Let's move onto another area ripe for collaborative progress. Nationalization of brand management, advertising, and public relations to support the growth of products that are sold nationally. That would seem necessary for the development of additional multi-state products.*

**R. Hargrove:** And what products are those multi-state products? They're lotto brands, not instant tickets. Like most concepts, nationalizing brand management, advertising, distribution, etc. has some very specific applications and we should focus on those. Frankly, none of us want to nationalize and collaborate more than is necessary to optimize results. When it doesn't contribute in a meaningful way to our mission of increasing funds to Good Causes, I think I can go out on a limb here and say that we would all rather focus our time and resources on our own in-state market.

*Because lotteries all operate in different markets, gaming cultures, etc.?*

**R. Hargrove:** Yes, and the fact that collaborating is time-consuming and hard work and so we don't want to do it if it's not going to generate a really positive ROI! Instant tickets lend themselves to this kind of state-specific marketing because they can be implemented on a smaller scale, have much more flexibility in the design and promotion of the game itself, and the product itself is a great medium for targeting the themes, pop icons or events, that resonate best within the state-specific market. In fact, lotteries and their vendors have been innovating in the instant ticket space for many years and generating sales increases because of it. Other than Quick Draw Keno, for which many states do not have enabling legislation, there's not been innovation in the lotto space that has worked to a significant degree. I think it's clear that because of the nature of longer runs, lower prize payouts, and lack of price point differentiation, lotto will continue to decline. Honestly, between all of us, 40+ lotteries, I think we've tried just about everything! We have very compelling evidence to support the notion that a nationalized approach to building the lotto category will turn the trendline around. Multi-state collaboration really is the key to growing the lotto category. More products, more differentiation between those products, giving price-point options to the players, getting all states to standardize procedures to enable national chain store distribution, and creating a more national approach to

brand management and advertising and promotion – these are the goals we should pursue.

From one year to the next, we can always hope that lotto will not decline by an amount that we don't make up for in the other product categories. And there are countless ways to justify a reluctance to change. But we know, all of us can clearly see, that if we do not accelerate the rate of innovation in the lotto category, the games will continue to decline, and as more exciting gaming options enter the market, lotto will eventually die and our beneficiaries will bear the unfortunate burden of less revenue for Good Causes. We owe it to our stakeholders to see to it that this does not happen. The key to saving lotto is to deepen our collaboration on the jackpot-generating multi-state games. That includes regional lotto games too, like Hot Lotto and Decade of Dollars.

*What are some benefits to the individual lottery of forging a national approach to advertising of lotto?*

**R. Hargrove:** The benefit that each individual lottery wants to achieve is increased funding for its Good Causes. That happens when you increase sales, increase operating efficiencies, and/or reduce costs. All three of those happen with a more collaborative approach to brand management and advertising. The cost reduction and increased efficiency is the most obvious benefit. We have forty-four lotteries spending tens of millions of dollars to produce commercials that have at least some commonalities. There are those that protest that our markets are different, etc. There may be differences, but there are also similarities, especially when it comes to the marketing of lotto. There are huge overlaps of commonalities and I can't imagine anyone contending otherwise. For instance, Gordon Medenica produced a fabulous ad' for cross-selling. The New York Lottery paid for this production. He made it available to all of us, the other lotteries. It cost me \$40,000 to retrofit it for the Tennessee market. I had the benefit of a world-class production that cost much more than my budget would allow, and it cost the Tennessee lottery just \$40,000. Why couldn't we systematize that process, creating production templates at a world class level and share the cost between forty-four lotteries? Seems compelling to me.

*Because the lottery is constrained to using a local ad' agency?*

**R. Hargrove:** In many cases, yes, but it shouldn't be the case at the expense of the

...continued on page 18

# A GAME THAT ELECTRIFIES



What's more shocking than gas prices?  
The chance to win Motor Trend's Car of the Year® — the in-demand, electric-drive Chevrolet® Volt™.  
It'll put a charge in your instant ticket sales.

**MDI**  
A SCIENTIFIC GAMES COMPANY

1500 Bluegrass Lakes Parkway, Alpharetta, GA 30004  
[www.mdientertainment.com](http://www.mdientertainment.com)  
1.800.572.7082

[www.motortrend.com](http://www.motortrend.com)  
MOTOR TREND Magazine, SOURCE INTERLM MAGAZINE, LLC

Chevrolet, Volt, the Chevrolet Bowtie and the related vehicle body designs  
are General Motors Trademarks used under license to MDI Entertainment.



Good Causes. We need to be creative. For example, there are also efficiencies to be gained by pooling our resources to support a far more sophisticated approach to brand management, advertising, and promotion. The result would not be just about cost savings, though of course savings could be quite significant. It would also produce a far more effective end result. As was pointed out at your last SMART-TECH conference, the amount that is spent on the advertising and promotion of PB and Mega Millions is far less than the amount spent to advertise consumer brands with comparable revenue streams (and far smaller profit margins). Collaboration would enable all lotteries big and small to have the benefit of world-class production values the likes of which might only be afforded by a New York or California. It's just smart business.

*And more effective advertising should result in more sales.*

**R. Hargrove:** Of course. But along with collaborating to produce ad's and promotions, we can also coordinate a more coherent approach towards building brand equity. Nationalizing the approach to these challenges would yield far superior results in terms of brand management. That will become increasingly important as we go forward with product differentiation and possibly the introduction of new multi-state products. And yes, each and every state benefits by participating in this kind of collaborative approach to our business. We do each sell within the borders of our own state, but that should not stop us from working together to create the brand equity, the world-class advertising, and the distributional efficiencies that will improve the performance and the funds generated by each individual lottery. I think of all of this as simply leveraging up the tremendous progress we have already made in collaborating on the multi-state games.

*I've heard it said that what's theoretically good for the industry is not necessarily good for each individual lottery. What might be good for forty states may not be good for the other four.*

**R. Hargrove:** That may be true for some things. But it's not true for the initiatives we are talking about to save lotto. In the long run, these initiatives should be good for both the industry and for each individual state. Raising PB to \$2, building a more nationalized approach to advertising and brand management, these will produce positive results for each individual lottery. The jurisdiction that had the biggest challenge with cross-sell was the District of Columbia. Buddy Roogow rec-

ognizes, however, that even for his jurisdiction, progress and innovation are necessary steps towards a healthy and sustainable future. He has been in the industry a long enough time to see the trend lines, to interpret the implications of short-term fluctuations in jackpot-driven games, and the importance of acting now to position our brands and market situation for long-term success.

*Why does it take so long to standardize the production details like bar-coding to enable the national chain stores to carry your products? The timeline for implementation of so many things seems to be so long.*

**R. Hargrove:** We've been working on some of those issues for twenty years. These things cost money, lotteries need to get approval to spend the money, the cycle to do that can take longer than the lottery director has to get it off the ground, so the process hits the reset button and starts over. It's unfortunate because if we do not accelerate the rate at which we take advantage of the opportunities we have right in front of us, we will go the way of Blockbuster Video and other obsolete business models. By the time we're ready to launch, technology and the markets will have changed and we'll never catch up.

That syndrome alone would seem to recommend an outsource-to-private-management type model. One way or another, the industry needs to find ways to align with its long-term interests instead of over-responding to short-term pressure. Easy for me to say since it is not my neck on the line, but true nonetheless.

*Moving onto your tremendous Emerging Leaders Program (ELP). What makes this special and different from other executive development programs?*

**R. Hargrove:** There are two main objectives to the Emerging Leaders Program. First, there are aspects of this business that are unlike other businesses and there is no MBA for lottery. We try to impart an understanding of how our business operates as a market-driven business with a public service mission. Our marketing agendas need to align with public policy, regulatory and legislative objectives.

Second, the emerging leaders' perception of the industry is shaped by the organization and leaders they are working for. In our case, we want them to know there's another world other than the world according to Rebecca. They all bring to bear their intelligence, talent, educational background and skill sets in their individual discipline, but we want to augment that with a diversity of perspectives. So I have

brought leaders in from WLA, from NASPL, from Camelot, from MUSL, from the vendor community. One of the first speakers I had was Tom Shaheen, who is now a top executive at Linq3. Tom came to work for me as a sales rep' in Florida in 1987, moved up to senior level positions, then joined me in Georgia, then went on to be the director of the New Mexico Lottery, then started up the North Carolina Lottery, was president of NASPL, and now works in the commercial sector. He's able to share with our emerging leaders the rich diversity of career paths that this industry has to offer. He's also able to explain exactly how and why we need to engage in an ongoing process of continual education, to acquire an understanding of all the different parts of this business and keep abreast of the changes in technology, market conditions, product development, etc.

I wanted them to understand that, while you may be a mid-level manager right now, there is a career path in the industry such that if you work hard and learn and do all the things you need to do, opportunities to grow and progress will open up you. A part of executive development that may not have been included a couple years ago is understanding the wider range of enabling legislation that ultimately determines the shape and direction of our businesses. We now have models like Camelot and NorthStar Lottery. Some lotteries offer a complete range of products, from VLT's to internet gaming. We also enable them to understand the importance of our industry organizations like NASPL, WLA, MUSL.

*There seems to be a trend in the corporate world towards integrating functional areas, to break down the silo effect of everyone working within their disciplines and being isolated from other departments.*

**R. Hargrove:** A great example of that: Our senior software developer has always been very responsive to requests from other departments for different kinds of reporting functionality. Sales would ask him for an addition to the kinds of data they get and he would make it happen, etc. In the very first ELP session we had, this senior software developer engaged with sales about how they were using the information, and between them they discovered additional ways that software development could assist the sales staff. Four things happened. One, our software developer, who is very good at the job, now enjoys what he is doing more since he better understands the purpose. Two, his in-house clients are getting more and better IT support.

...continued on page 37

# iVIZION™ IS HERE!

BETTER. SMARTER. FASTER.



CIS TECHNOLOGY



OPTICAL NOTE  
ALIGNMENT



FULL IMAGE  
CAPTURE



ANTI-STRINGING



FASTEST NOTE  
STACKING



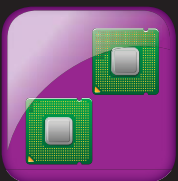
99%+  
ACCEPTANCE



85 MM WIDE  
SEALED BILL PATH



DUST/LIQUID  
RESISTANT



DUAL  
PROCESSORS



SENTRY 2.0 BEZEL



SELF-CALIBRATING



ICB 2.0 WITH RFID



JCMGLOBAL.COM

## Juan Carlos Alfonso Rubio

Deputy General Director Spanish General Direction of Gambling  
(the future Spanish Gambling Commission)

PGRI INTRODUCTION: Everyone knows that LAE is the Spanish National Lottery, one of the largest lotteries in the world, and operates El Gordo. As measured by the total prize payout, El Gordo (also known as the Christmas Lottery, and started in 1812) is considered to be the biggest single lottery game in the world. However, the following interview focuses on a very specific topic not related to the traditional lottery games operated by LAE. LAE is a branch of the Spanish Public Administration and is tasked with drafting the bill that will begin the regulation of the online Internet gaming market in Spain. This is a huge step towards building a rational regulatory framework in Europe. Until recently, Juan Carlos Alfonso Rubio was the Coordination Director for LAE, and led the team that drafted the bill that proscribes the procedures, terms, and conditions, for commercial gaming applicants; as well as the regulatory framework that will govern this industry in Spain. Now Juan Carlos is Deputy General Director of the recently established regulatory body that will become the Spanish Gambling Commission. Juan Carlos continues to lead the process of clarifying and drafting the regulatory framework that will govern the Spanish gaming market. The draft gambling law, after having been approved by the Spanish Congress on 12th May, was published in its Official Bulletin on May 18 and should be made publicly available by the first week of June. This interview was conducted in March while Juan Carlos was Coordination Director with LAE. Still in the vetting process, this bill is due to take effect within the coming six weeks.



**Paul Jason, Public Gaming:** *The government is in the process of finalizing the draft law that specifies all the ways that Internet gaming is to be regulated in Spain. You and your legal team have been responsible for writing that law. So LAE is, in effect, writing the draft law that stipulates how Internet gaming is to be regulated in Spain?*

**Juan Carlos Alfonso Rubio:** LAE is a wholly state-owned corporation and operates as the governmental authority for gaming. LAE is part of the Spanish Ministry of Economy and Finance (Ministerio de Economía y Hacienda). We are tasked with writing the draft law that regulates Internet gaming. Once the law is approved by the Spanish parliament, it will be implemented and enforced by the regulator. The office of the regulator is separate from LAE. Presently, I work for both the regulator and LAE. Once the law is approved, or possibly even before then, that will change so that I will work for one or the other but not both.

It has not been decided yet which I will work for. But for right now, LAE is the government ministry that has authority over the regulation of gaming and gambling in Spain. The Spanish presidency formed a working party council to create a regulatory framework for Internet gaming. I am in charge of the working party council that is drafting the law.

*What stage is the process of implementing the draft bill right now?*

**J. C. Alfonso:** As regards the regulatory framework for Internet gaming, the draft law is going through revisions as we speak. So the terms and conditions of that law may change between the time of this interview and the time that this is read in June. Parliament is reviewing the input from all the different interest groups, and then sends the draft back to me for revisions. It is very close to final form now, but probably will not take effect until June.

*Why is LAE the one to draft this law? Why not form a working council that has no ties to gaming as an operator?*

**J. C. Alfonso:** Our competence for drafting law that pertains to the regulation of gaming and gambling is stated in our royal decree of 1999. That decree assigns LAE the responsibility and what we call competence or authority over all regulatory matters in gambling. In the case of this Internet gaming bill, we will send the draft law to the government, and the final decision will be made by the Spanish parliament.

*Have you requested input from the different interest groups in the process of creating this draft law?*

**J. C. Alfonso:** I have had over thirty meetings with all the different interest groups. Of course, the private operators want low taxes and open markets and perhaps other terms that are not necessarily what the government and the people of Spain want. But we listen care-



## Build the Business you Want

The Betware Gaming Platform give you the flexibility and freedom to grow your business

We have been creating gaming solutions for the last 15 years and have the experience to meet the requirements of each market and understand the cultural requirements. Betware's Gaming Platform offers a seamless integration with 3<sup>rd</sup> party gaming vendors, which will enable you to choose the games that are right for you and scale your business accordingly.

**For more information** on how your business can thrive with Betware's flexible and robust platform contact us at [info@betware.com](mailto:info@betware.com)



**The Game.** We take it where you want it.

**Betware**  
- the best bet

fully and try to understand everyone's views and work hard to create a regulatory framework that is fair and balanced. The primary objective is to serve the interests of the Spanish people. Protecting the player, minors, preventing fraud and money laundering, and channeling economic benefits back to the people - these are the primary objectives of the draft law. But we also realize we need a framework that enables private operators to conduct business and make a profit themselves. I have personally talked extensively with all the different stakeholders in Europe. The texts have been revised three times already based on their input.

*So nobody will be surprised by the resulting draft law.*

**J. C. Alfonso:** People may disagree with some of the provisions and tax structures. For instance, some people do not think that taxes should be based on gross gaming revenue. But they will not be surprised by anything in the draft law because they were all a part of the process and are aware of how it has evolved every step of the way. It's been a fully transparent process.

It is not compulsory in Spain to have an open public consultation. But we announced in advance that the process of producing this draft law would include a public consultation and so it has. In fact, over just the past 14 days, I have received 200 different reports of allegations, requests for changes and such. The stakeholders, all of them including private operators, have received more information about this process than I can ever recall being done in a law-making process like this.

*Commercial Internet operators like Betfair and Bwin protest that they are willing to do whatever is necessary to comply with the laws and tax obligations. But then they proceed to protest mightily when the taxes are too high.*

**J. C. Alfonso:** And so they operate in Spain without paying taxes. They are not authorized to conduct online wagering in Spain which means they are acting illegally when they do take online bets. When the draft law is approved by the Spanish parliament and we implement a system of licensing in which commercial operators pay taxes, we need to ensure that operators based in Malta and other low-tax havens are prevented from doing business here without a license and without paying taxes. That is vital to assuring a fair competitive environment for the operators who are paying their taxes and complying with the laws of Spain. And yes, these commercial online gaming companies say they want to comply with the law, but notice that when the UK raised the tax rate, they moved to Malta and Gibraltar to evade the tax obligation.

*Companies that do business without paying the*

*correct taxes are acting illegally and that makes them, in effect, criminal enterprises.*

**J. C. Alfonso:** You said it, I didn't. But it's hard to disagree with that logic. It is sometimes difficult to understand how they can operate illegally and then expect to be considered for a license. They will all end up complying with the laws, but only because we now have the technological capability to stop them from doing business if they don't comply with the law and pay their taxes.

Too, it is a fact that strict oversight is needed to prevent outright consumer fraud. There are more and more instances of i-gaming operators promising more than they intend to deliver. For instance, the whole concept of bonusing can get confusing. Operators use that confusion to promise free bonuses and then make it impossible to actually claim the bonuses. We need to have the regulatory and enforcement mechanisms to prevent that kind of fraud. Player protection is a top priority and is the reason for strict laws requiring transparency and rigorous auditing procedures. Operators may claim it is unnecessarily burdensome to have this high a level of accountability. We really are trying to build a framework that is rational, functional, efficient, and no more costly to administer and comply with than necessary. But we are tasked first and foremost with protecting the interests of the consumer and the fiscal objectives of the government.

*All the member states have different regulatory frameworks. So without a mutually agreed upon set of standards, and mutually agreed upon processes for enforcing violation of those standards, the concept of "mutual recognition" doesn't make sense.*

**J. C. Alfonso:** Exactly. This I think is the main issue and we made it central to the conclusions of the Spanish presidency (the presidency of the EU was held by Spain last year). Do you know how much it costs to incorporate a gambling company in Malta? 45,000 Euros, which is around \$60,000 U.S. With \$60,000 you have the bylaws, the board member, the website, the technological system, and one or two years of free maintenance. That gets you set up and compliant with Maltese laws and regulations. And the tax rate on the Maltese gambling companies is 1%. 1% would not produce a significant tax receipt if it were collected only on the gambling revenues generated by the citizens of Malta. But if a small country like Malta can collect 1% on gambling revenues generated in the more populous countries like Spain, Germany, France, Italy, etc., then that would add up to a lot. Now, we don't have the right to tell the Maltese how to do business in their own country. But we do have the right to require a standard of performance that may exceed the ability of these low-cost operators to comply with. We are not obligated to reduce our stan-

dards because these private operators can't afford to raise their level of performance. It costs money to build the systems that provide sufficient protection of the consumer and business accountability that guarantees the transparent tracking of online transactions and remission of taxes to the state. The operators would all be based in Malta and Gibraltar where the taxes are low. And the nations where all the players reside would have no recourse to enforce their laws and protect the players. Gambling is clearly a case where the subsidiarity principle confers the authority onto the member state government to determine the regulatory framework that is best for its citizens.

*And since the governmental authority best able to determine the acceptability of an operator is the member state, that means that the European Court of Justice and the EU Commission could and should simply refer all these disputes back to the court of the member state.*

**J. C. Alfonso:** The member state still must comply with EU laws requiring consistency in the application of its laws. But yes, the ECJ and EU Commission do not want to be in the middle of these disputes. As long as the member state is not showing unfair favoritism to one group over another, the state government should be the arbiter of gaming applications and claims to have the right to operate. And if an operator is not complying with Spanish law, we should have the right to deny their license and prevent them from doing business with the people who live in Spain.

*Would you consider giving value or recognition to an applicant that has a license in another state that does enforce higher standards, like France and Italy.*

**J. C. Alfonso:** Sure. Like I said, we support ways to make the process easier for everyone. We have decided that we are not creating a formal process which obligates us to recognize the licenses of other countries. In the end, the decision of whether an applicant should be granted a license is made solely by the Spanish Gambling Commission, with absolutely no obligation to recognize the validity of licenses held in other jurisdictions. But we do communicate with our colleagues in France, Italy, and other countries. All of us want to make the process efficient and avoid increasing the different administrative requirements for different operators. The license that an operator has in a state like France or Italy would certainly recommend it for being approved in Spain. We would take that into consideration, assess the licensing documentation, and give value to the standards which the applicant has demonstrated in other markets. But we do reserve the right to make our own assessment which may differ from that of France and Italy. In that important sense,

this is distinctly different from 'mutual recognition' which should not apply to the gambling industry.

*Don't you need to cooperate to create an international effort to enforce the laws and regulations?*

**J. C. Alfonso:** That's true. There will be an increase in cooperation and information-sharing between all of the highly regulated markets, including the United States. And I hope that we can be mutually supportive of each others' laws. And help each other enforce those laws. For instance, if PokerStars or Full-Tilt Poker violate U.S. laws by operating illegally in the U.S., should we license them here? Wouldn't that be condoning their illegal, criminal activities? Insofar as we respect each others' laws, we should help each other by denying licenses to operators which are violating laws anywhere in the world. Even if these operators have legal licenses in some jurisdictions, even if they could demonstrate that they would comply with all of our own laws and tax obligations, governments everywhere should cooperate to force these companies to comply with laws in all countries, not just their own. Sports betting is another issue entirely. That will absolutely require an international collaboration to get control and prevent corruption.

*Are you recommending that there be more than one licensee, that there be more than one operator for the internet games?*

**J. C. Alfonso:** Like other European countries, we will preserve the lottery monopoly. There are different models for governance, ownership, and management of the lottery, but nobody wants to open up the lottery to multiple operators. The commercial operators are all asking the question, How many i-gaming licenses will you assign? The answer is that we do not have a set number, neither a minimum nor a maximum number of licenses to assign. It is completely based on the quality of the applicants and the maintenance of stability and health in the online gambling market. The Spanish Gambling Commission will regulate the markets and award licenses based on the qualifications of the applicant. It's not entirely different from the way business licenses are awarded in other sectors like the stock market, telecommunication, et cetera. The Minister of Finance will be the owner of one of the main operators, LAE. That is why the regulation and licensing will be performed by a different agency, and not LAE. But the position of the Spanish government is to open the market. Open the market for multiple operators of sport betting, Internet gaming of all different kinds including Internet poker, casino games; basically all forms of gaming except lotteries. But it's true that we don't want an absolutely free and open market with too many operators because that would be impossible to control. You can't protect the players and it would not be healthy for the long-term sustainable growth of the industry to saturate the market. I don't think the serious operators themselves would want that either. In fact, the serious operators who comply with all the laws and tax obligations are among the most vocal about wanting us to prevent illegal operators.

*Commercial operators who pay their taxes and invest in quality service and effective responsible gaming tools are at a competitive disadvantage to illegals who have lower costs because they don't do those things.*

**J. C. Alfonso:** The Spanish government wants a high quality of services for our citizens. This high quality of services costs money and requires investment and a commitment to support a sustainable growth plan for the industry. You need excellent technical solutions, modernized systems of controls, smart advertising, and these all require investment. The consumer needs to be absolutely confident that they are playing with licensed operators who meet the highest standards of service and integrity.

...continued on page 34



## Lottery terminals with a sense of family.

Tailor-made solutions  
for maximum cost efficiency?  
Only in the best families!

The KeWin multimedia, KeWin micro and KeWin check maintain the family tradition of fitting exactly into the individual terminal mix in line with the lottery ticket volume of the sales outlet. As a result of outstanding flexibility, efficiency and availability, the KEBA terminal family ensures that tailor-made solutions are also the most cost-efficient.



# KEBA®

Automation by innovation.

AT: KEBA AG, Gewerbepark Urfahr, A-4041 Linz, Phone: +43 732 7090-0  
Fax: +43 732 730910, E-Mail: keba@keba.com

## André Noël Chaker

Director, New Business Development  
Veikkaus Oy, the Finland Lottery

**PGRI INTRODUCTION:** Born in Montreal, Canada. Law degrees at McGill University and an MBA from the Helsinki School of Economics. Pursued a career as a telecom entrepreneur (his company was ultimately sold to Nokia in 2007 ), but not until after passing the state bar exam in New York. I suppose it shouldn't be a surprise that André Noël Chaker has emerged as one of the foremost evangelists of new-age thinking that is driving government-sponsored gaming into a new era of growth and prosperity. It's not just about "internet gaming". And it's not just about making ourselves relevant for the "younger demographic". It's about how connecting with the modern-day consumer requires creative new approaches to business; about how the forward-leaning ideas of yesterday have become mainstream today; about a gaming industry rich with potential for government lotteries to be the proactive market leaders.

**Paul Jason, Public Gaming:** *The business of building a more intimate relationship with the consumer is about so much more than internet gaming. Even so, let's start by asking what drives Veikkaus' push to be the technology leader, always needing to be the first to pioneer new ways of doing business.*

**André Noël Chaker:** One of the drivers for our early entry into new technologies and business strategies is Finland's tech-savvy consumer. Our culture is really one of forward-looking, ready and willing to innovate, early-adopters of technological innovation. We introduced our first internet games in 1996. But we did it more or less in stealth mode, testing and trying new things. The gradual launch made it easier for our retailers to adjust. Sweden came into i-gaming in 1997, maybe six months after us. The numbers through the nineties were quite small, but it enabled our players and channel partners to get used to the concept, familiar with the games and new ways to access and play them. The numbers were relatively small so that growth rates did not mean anything until about ten years ago. Beginning in 2000 and then over the next couple years, more and more people got comfortable with the concept of purchasing products and transferring money online. Social Security number and registration is required to register for online play. That enables age and location to be verified in microseconds. Funds must be deposited into the

player's internet account in advance for them to play. No credit card payments are allowed. One of the things that helped us is the same thing that will help every lottery succeed in this space. That is the tremendous brand equity that most lotteries have. The trust and name recognition that lotteries have with the consumer is perhaps the most important and powerful asset there can be in this business of internet gaming. I don't think anyone is worried that their government lottery will be indicted and the officers scampering around the world trying to evade capture by the police as seems to be the case with some illegal operators in the U.S.!

*Your retail distribution channel – did they lose sales as a result of the growth of your internet channel?*

**A. N. Chaker:** No. There is no trade-off. The growth has been consistent in both channels. They really work together, synergistically bringing in different kinds of players with different play styles.

That creates additional cross-marketing opportunities. We did not want to lose the land-based connection to our customers. Think about banking. As the customer moved to self-service options like ATM's, drive-ups, and internet, banks lost their ability to become diversified financial services enterprises. Our customers are exposed to new gaming and entertainment ideas in one channel and then make a purchase in the other. Promotions will cause the customers to interact with both channels, driving them to redeem points in the different channels. Our strategy has always been to support the growth of our retail channel. Of course, the growth rate is not as great in the land-based channel since the baseline is so much bigger.



# SUPPLIER TO EUROPEAN SPORTS BETTING OPERATOR OF THE YEAR IN 2006, 2008 AND 2009



Kambi is the Japanese word for perfection, which tells you something about our ambitions. Our awards, such as Sportsbook of the Year at eGaming's annual EGR Awards, also tells you that we are well on our way. If you let us run your sportsbook, you'll get the most competitive one in the business as well as complete security. You get Kambi.



KAMBI SPORTS SOLUTIONS

[sales@kambi.com](mailto:sales@kambi.com) | [www.kambi.com](http://www.kambi.com)

LONDON – STOCKHOLM – MANILA – MALTA

*Has your retailer channel grown every year consistently even during the economic downturn?*

**A. N. Chaker:** Absolutely. Again, not the high growth rate of the internet business, but it is growing between 1% and 4% each year. The main idea is that our internet business has exploded without hurting the other channels. It all works together. Now, 26% of our sales come from the internet. That is up from 17% just three years ago. But in absolute numbers, I believe our retailers are benefitting by the growth of the internet business and we will make sure it continues to work that way.

*Don't consumers tend to like what's familiar and buy from the channel that they know and understand and are familiar with? Slot manufacturers, for instance, have a pipeline of incredible game enhancements, but adoption of innovation is stymied by the fact that there continues to be so much revenue generated by slot players who don't want to change, they don't want new and exciting because it's different and unfamiliar and they just like the slots games they have come to know and love. Couldn't the same be said of the lottery player? And should we care? Does it matter as long as the customer keeps buying? How important is it to engage the consumer in a wider of games, to push them into new and different play styles and channels whether they are asking for them or not?*

**A. N. Chaker:** Absolutely it matters and yes we do care. There's really no dilemma here. The short-term results can be maximized with selling more of the same products to the same core customer. But the longer-term impact will clearly and emphatically be negative. And by "short-term", I mean one or two quarters, and "long-term" is next year. Timelines for consumer migration have been dramatically shortened by technological change and the ability and willingness of the consumer to change with it. We employ very deliberate strategies to integrate new games, completely new concepts into the product mix and to use promotional tools to accelerate the consumer adoption of these new concepts. Driving innovation is a vital component to maintaining our competitive edge. The consumer does need to be given a good reason to adapt to change. But it's not hard to do when the games you have are more fun and engaging and you have promotional tools to motivate the players to try new things. The end result is much better consumer engagement.

The internet is not the only place to drive innovation. As Jaymin Patel (CEO of GTECH) points out, there is lots of room for innovation at retail. We invest more in that

channel than we do in any channel. Integrating our systems with their cash-registry systems, upgrading inventory management systems, developing self-service options, making the product available in the major national chain stores – we are committed to doing everything we can to make our retailers as successful as possible. They see the investment we are making and recognize that commitment. Too, they understand that lottery attracts new customers into their stores, brings in a clientele that buys other products in addition to lottery and who may not otherwise have come into the store. The retailers know that our products drive traffic and sales, partly because we constantly tell them so, so they value our relationship.

*Even though the customer may not be clamoring for change, you still want to push change and innovation into the market?*

**A. N. Chaker:** Yes. For one thing, it's not the customers' job to tell us how to engage their attention, interest, and loyalty. And they do actually tell us in their own fashion, right? They vote with their feet. And if we go happily along with a slow-growth strategy that does not challenge the customer with new ideas, thinking that the twenty-somethings will become thirty-somethings and their world-views and lifestyles change accordingly such that they will just "grow into the core lottery player" and then buy the "hope-and-dream" for the next 30 years, I think we are kidding ourselves. We can't just wait for the other guy to come up with something better and think that we will then respond and evolve when we need to. It's been over half a century since the economist Joseph Schumpeter described how innovation and progress can only occur when you allow a process of creative destruction to eliminate products and ideas before the end of their life cycle. More recently, Jack Welch of General Electric exhorted his lieutenants to anticipate change and proactively obsolete their products before their competition did it for them. We need to have the vision and guts to evolve out of products and games even while they appear to have some earning potential left. The reason we do that is to smooth the path for evolving into the games that will continue to appeal to the customer in the future, keep us constantly ahead of the competition, and be the market-drivers not just for today, but next year and three years from now. It is also a corporate social responsibility issue. Growth really needs to be driven by attracting new players. It may be easier in the short-term to sell more product

to the same core players, but in the long run it is not only bad business strategy, it's also not the responsible approach that our stakeholders expect of us. Lotteries need to be the leaders of this industry. And that means we need to drive change and innovation with new products, gaming experiences, refreshing the entire way in which our customers interact with us. The internet also happens to be a wonderful vehicle to educate our customers on how to play new games. The consumer isn't going to hold up the queue at the retail store by asking the sales clerk to explain new games, right? We're used to taking our time to explore and learn new things at our leisure on the internet.

*And the games they learn on the internet can be games that they buy at the retail store. Yet another way in which the internet is supporting sales growth in the retail channel.*

**A. N. Chaker:** Exactly. Tickets that are bought in the store may require the player to redeem points or a second-chance draw on the internet. And the internet can be a means to educate and promote games that are bought at the store. The growth of our internet business has reinforced the growth of our other channels in many product categories and customer segments. And our retailers understand this. Creating a more diverse playing experience and more ways to interact with us is, we feel, a key to retaining customer attention and engagement.

*The EL Congress in Helsinki promises to be the most exciting event ever. Unfortunately, by the time people read this, the conference will already have begun. I see that included in the program is a session titled "Gaming in the Multiverse". What does that mean?*

**A. N. Chaker:** It's derived from a new book, not even out yet, by Joseph Pine. He will be presenting at the EL Congress. His previous books were about the Experience Economy and Authenticity, how the customer is buying not just a product but an "experience"; and how the customer relates to merchants on new and deeper levels than just product attributes and value proposition. He has a gift for capturing the essence of where cultural trends converge with marketing strategies; of how we need to evolve our customer-bonding and sales strategies to align with underlying shifts in customer expectations and sensibilities. I should refer your readers to his new book on Infinite Possibilities instead of imparting an inadequate explanation, but the Multiverse is about the

...continued on page 36

*"Expect the Unexpected"*

## Indianapolis is waiting for you!

Expanded Convention Center, New Lucas Oil Stadium,  
revamped airport and the first-of-it's-kind hotel complex  
which will house the NASPL '11 delegates.

***For more information visit [naspl11.com](http://naspl11.com)***





## Fotis Mavroudis

Managing Director of Europe and North Africa  
Member of the Board of Directors INTRALOT, S.A.

**PGRI INTRODUCTION:** The Netherlands has two lotteries which operate and compete with each other in the same markets, both selling lottery products. In 2008, these two lotteries, De Lotto and De Nederlandse Staatsloterij, embarked on a unique project. They collaborated to share the IT infrastructure that supports both of their online lottery businesses. The same central server and the same terminals in the retail stores support both lotteries and are provided by INTRALOT, S.A. The other topic we discuss with Fotis Mavroudis is the opening up and evolution of the gaming markets and the migration towards a “legalize and regulate” regulatory framework.

Fotis Mavroudis, one of the founding executives of INTRALOT, has greatly contributed to the evolution of the lottery industry. In the gaming sector for more than 18 years, and holding a series of senior leadership positions at INTRALOT, he is an integral part of the company's success.

Jurisdictions all across the world are moving to a “legalize and regulate” model. Protecting the consumer and channelling the economic benefits back to the general public are just two of the compelling benefits to that model. Key to its success, though, is the elimination of illegal operators. Operators that do comply with the laws and tax obligations have a cost structure that puts them at a severe competitive disadvantage against the illegal operators who do not have those costs. That's why governments and agents of law and regulatory enforcement need to purge the industry of operators that do not comply with the laws and tax obligations. Fortunately, these are very solvable problems and it is clear that a healthy and sustainable gaming industry is starting to take shape for the benefit of everyone.

Fotis Mavroudis, one of the founding executives of INTRALOT, has greatly contributed to the evolution of the lottery industry. In the gaming sector for more than 18 years, and holding a series of senior leadership positions at INTRALOT, he is an integral part of the company's success.

**Paul Jason, Public Gaming:** *You provide the terminals, central server and support for the lottery at both De Lotto and de Nederlandse Staatsloterij in the Netherlands. Could you describe exactly how this implementation works.*

**Fotis Mavroudis:** In 2008 we undertook this highly demanding project following an unprecedented dual international tender by the leading lotteries of the Netherlands, De Lotto and De Nederlandse Staatsloterij. We are very pleased to say that we tackled all issues so that, today, this

technologically advanced project represents a new potential for the sector.

In the Netherlands we had to face three challenges. The first challenge was to manage successfully the change of the operating status of both lotteries, as we signed a full service management agreement. The second challenge was to establish cooperation between these two autonomous lotteries that would remain in competition with each other. The third challenge was to produce tailor-made terminals and, mainly, printers to simultaneously serve both Lotteries from one terminal.

Indeed, in spite of problems, we managed, in cooperation with the two Lotteries, to improve the Lotteries' efficiency, reducing their complexity and better support their retail outlets.

*What are some of the cost-savings and efficiency-gains?*

**F. Mavroudis:** The Dutch lotteries have benefited from economies of scale, and INTRALOT delivered a solution and service that minimizes risk, maintaining stringent security, and, in parallel, optimizing performance. I believe that currently the Lotteries benefit from lower CAPEX and OPEX (capital and operating expenditures) as there is one infrastructure for both Lotteries, thus avoiding duplications. Moreover, the Lotteries benefited from lower training costs, since the employees and the retailers of both lotteries were trained in only one system. Last but not least, the lotteries and retailers benefitted by saving significant space on their PoS due to the usage of one terminal for the games of both lotteries.

*On hindsight, what would you suggest be done differently to make this kind of implementation go better?*

**F. Mavroudis:** We learned much from the Netherlands project. It was complex and demanding, but we managed to design a customized solution to fit the needs of both Lotteries.

Indeed, the Lottery Industry has recognized this advanced solution that was implemented in the Netherlands. To this effect we were awarded a similar project in Morocco following an international competitive selection process held jointly by the two gaming operators of Morocco, the National Lottery ('Societe de Gestion de la Loterie Nationale') and 'La Marocaine des Jeux et des Sports'.

*I would think that outsourcing the management of IT would enable the lotteries to focus on their “core competencies” of product development and marketing. Has it worked out that way?*

**F. Mavroudis:** I strongly believe so. But the question should really be addressed to the various Lotteries in the industry. What I can mention is that wherever INTRALOT is the operator, having our hands free from the everyday technological operation definitely allows us to focus on the market.

*Could you tell us about the process of coordinating decisions between the two lotteries and INTRALOT? Wouldn't they be competing for the “mind-share” of the store operators? Wouldn't there be different perceptions about who is getting more support from the retailers? How do you resolve disagreements between the three parties (Intralot, De Lotto, and Staatsloterij)?*

**F. Mavroudis:** In short I could answer that we

have an excellent cooperation with both Lotteries and no such issues exist.

*INTRALOT owns a 51% equity stake in the Slovakian lottery, Slovenske Loterie. What products do you sell in Slovakia? Will you attempt to expand into the Czech Republic?*

**F. Mavroudis:** INTRALOT expanded its operation in the Slovakian market in 2008 through the acquisition of a majority stake in Slovenske Loterie which holds licenses issued by the Slovak Ministry of Finance for the operation of Video Lottery Terminals (VLTs) and Automated Roulette. Currently, INTRALOT operates a nationwide VLTs network, being one of the leaders in the local market.

On the Czech Republic: we have established a partnership with Fortuna for a new lotto, well before recent Sazka problems. We are determined to make this project a success.

*In Bulgaria, you operate sports betting. What is your experience from this operation?*

**F. Mavroudis:** Eurofootball, an INTRALOT affiliate company, is the leader in the betting market in Bulgaria. So far, our presence in the country has yielded very good results. During 2010, though, we have experienced a significant pressure on our sales due to the abnormal high taxation posted.

It is our opinion that the Bulgarian Government should seek other ways to decrease its national deficits, as in the long run the tax increase will only lead to negative results for the State. This negative effect will be reinforced if the lack of regulation of online betting continues for long. We believe that the Bulgarian State should protect the licensed operators, such as Eurofootball, from the unfair competition coming from illegal betting and create a clear legislative framework that will firmly set the terms of the 'game'.

*How has INTRALOT's relationship with OPAP evolved over the past couple years?*

**F. Mavroudis:** In Greece several developments are currently taking place and INTRALOT is carefully monitoring them. We have a long lasting relation with OPAP, supporting its exceptional growth with our technology and games. Today OPAP is running a tender process for a new technological system. A draft law was published, including online games and VLTs. The law's approval by the European Commission and the Greek Parliament is pending.

Having said that, and as a general comment, please allow me to mention that, as in all the territories where we operate, we do believe that in Greece too, the long-term success depends upon the establishment of a robust regulatory framework that will shield the market from illegal activities and set equal terms for the companies that will operate in the country.

*How is the internet gaming market evolving in France and Italy? What concessions does INTRALOT operate in those two markets? And what are*

*some of the strengths and weaknesses of the two different regulatory approaches?*

**F. Mavroudis:** Internet gaming is a huge trend in the lottery industry. Indeed, many countries around the world are exploring the options of how to open their market. Italy and France were the first countries in Europe to proceed with the liberalization of their markets. Italy was the first country to do so and it has become the typical successful example. Italy applied the model where licensed organizations, such as INTRALOT, among others, received licenses to develop both retail networks and online games. The combination of these two, together with a reasonable tax regime, has led to the healthy development of the market. INTRALOT is currently one of the top 4 of the Italian gaming market and the leading foreign operator in the country, continuously offering exciting new games to the players and increasing its market share. We are covering both B2B and B2C solutions, offering products and services to consumers and also business solutions to operators.

In France, the liberalization of the market concerned only online gaming, as retail gaming remained a State Monopoly. The first phase of the market opening in France has created competitive imbalances leading to the necessity for the Government to reevaluate its goals and set a new path for the achievement of a fair and balanced regulatory framework. INTRALOT has entered the French market through the award of a license by the French Online Gaming Regulator, ARJEL, to operate online sports betting, but we are on hold until the changed on the taxation will happen.

*Does IP blocking work well as a way to prevent unlicensed operators from accessing a market? Is it working well in France and Italy?*

**F. Mavroudis:** The opening of the market in France needs to be re-examined. The Government needs to set again its goals and manage to establish a fair and balanced regulatory framework. With the current status, some of the biggest international players are left out of the market and that costs the French Government earnings. IP blocking is a measure but it needs much more, so as to have a well protected and successful gaming model.

In Italy, the effects of illegal Internet operators is small, due to the enforcement of regulatory laws that seem to be working to prevent offshore, unlicensed operators. After all, the biggest players of the global market have already received a license to operate in the country. There are some grey areas, such as CTDs and PDCs, but overall Italian authorities are trying to guarantee equality before the law for all the operators.

*Is there a concern that supply of gaming is increasing at such a rapid rate in Italy that it might cause people to gamble more and cause an increase in problem gaming? Or is it more the case that everyone was gambling anyway so the only real difference is that now they are gambling in a safe, secure, regulated and taxed environment instead of on "gray market" machines?*

**F. Mavroudis:** Over the last years, Lotteries, which aim to benefit all citizens by channeling the desire of gaming in a responsible manner, are forced to diversify from their competition by introducing new and exciting games and by expanding in alternative sales channels in order to increase sales and contributions to beneficiaries and local communities. However, increased sales and easier access to games emphasize the need for greater commitment to social responsibility by the gaming industry, which, now more than ever, must provide adequate solutions to protect the players by reducing the likelihood of any problems associated with excessive gaming. This is an equally important challenge for both Lotteries and Technology providers.

INTRALOT has both the technologies and the operational know-how required to develop a tailored set of industry best-practices and implement the appropriate Responsible Gaming strategy and programmes in any jurisdiction globally. We are committed to provide well designed games in a secure and supportive environment, while preventing underage, illegal and problem gambling and minimizing any potential harm to society. We are also committed to communicate and promote the concept of Responsible Gaming and its necessity to all stakeholders as part of our activities in the gaming industry.

*How will Spain's new i-gaming "draft law" affect your sports betting license? Will sports betting be offered over the internet and will INTRALOT be the exclusive operator or will it be opened up to multiple licensees?*

**F. Mavroudis:** We are interested in getting one of the on-line licenses in Spain. Pending on the final decrees of the law we would welcome the opportunity to establish an operation that would combine retail and online gaming.

*How will Eastern Europe open up? Is there a regulatory model that they will likely follow, or will each be different? Poland, Estonia, Slovakia, Russia, Ukraine, Georgia ... are there any commonalities to the ways that the regulatory frameworks and the markets will evolve?*

**F. Mavroudis:** The European market is more evolved as far as the gaming sector is concerned. All big players are closely monitoring the developments taking place in the European countries, such as the regulated opening of the markets in Italy and France. The European Commission is offering guidance to its state members on matters concerning the gaming industry and recently it published a Green Paper on Online Gambling, its first-ever comprehensive effort to map what is the trend of things on an issue that has been subject to heated discussions in the EU for a decade.

Many new member states of the Central Europe are also targeting the opening of their markets. It depends on each country how it wishes to proceed and the regulatory framework it will establish. ♦

We all know that sales rise as jackpots get bigger. And sales really spike up when jackpots get really high. Winning the lottery is a life-transforming event. Everyone knows that when they think about it, so what can we do to get them to think about it more? What can we do to better leverage the impact of that magical possibility, the thrill that winning the lottery would be for anybody and everybody?

## The Impact of Jackpot Awareness on Sales

Public Gaming Interviews  
Maxwell Goldstein,  
Director of Sales and Marketing,  
Carmanah Signs Inc.

The event of a rising jackpot is, to some extent, its own story and generates its own publicity. But what if we could augment the impact and awareness by even 15% or 20%; create even more excitement among the core players, and capture the attention of consumers who are not core players? The potential to drive sales by increasing consumer and player awareness, generating more excitement for rising jackpots would seem to be huge.

Since 1993, Carmanah Signs has been a technology leader in signage for branding, in-store retail marketing, and casino gaming. As an early adopter and innovator of the LED technology (Light Emitting Diode display), Carmanah is now producing dramatic, attention-getting signage to help lotteries create maximum impact at retail. I asked Max Goldstein, Director of Sales and Marketing for Carmanah Signs, to talk about how an effective in-store sign impacts consumer awareness at that most critical moment when they are considering their purchase.

**Paul Jason, Public Gaming:** *Carmanah has been a member of the lottery vendor community for quite some time. How has the market changed in recent years for Carmanah?*

**Max Goldstein:** The biggest single driver for our explosive sales growth was the agreement reached at NASPL 2009 for Mega Millions and Powerball states to cross sell both games. This brought to everyone's attention the incredible potential of the jackpot games. It also attenuated the importance of optimizing that potential. The other driver was a very active on-line contracts period over the last two years in regards to contract awards and extensions. And Lotteries began to include more peripherals, including jackpot signs, in their RFPs. That caused them to pay more attention to the role that these peripherals could play in overall performance and sales generation in particular. Coupled with cross sell this was a sort of "perfect storm" for a company that specializes in wireless updatable jackpot signs.

*What did Carmanah do to enhance the impact of signage on lottery sales?*

**M. Goldstein:** Fortunately, Carmanah has always had a substantial product development and engineering team for a sign company. We had an existing base of jackpot sign customers before the cross-sell initiative. We had successfully integrated wirelessly updated jackpot signs with on-line vendors and lottery jurisdictions including New York, New Jersey, Oklahoma. So, when cross-selling was approved, we had the technical expertise, proven track record and were ready

to quickly respond by increasing production capacity accordingly. We now have approximately 90% market share for wireless jackpot signs based upon number of retailers with a Carmanah wireless jackpot sign vs competitors, of which there are few.

*90% market share — what do you attribute this impressive market share to?*

**M. Goldstein:** We started back in 2004 to meet with various lotteries and stakeholders to explore their needs in regards to signage and jackpot signage in particular. We did the research to identify what were the main objectives and concerns. That early identification of what lotteries wanted enabled us to push the technology and product design in the direction that would best accomplish those objectives. Some specific needs are common to all. Lotteries want an attractive, contemporary, effective sign to advertise jackpots at the retail level. They do not want to pay any fees to update the jackpots and need a reliable and secure system to display the correct jackpot value all the time. Long life, energy-efficiency, and low maintenance costs are also important. We designed and engineered a transceiver which could connect to a lottery terminal and push out a packet of information with a jackpot value to a sign using the lottery central system. At this time the games were Mega Millions, Powerball, and in-state games.

*It is widely recognized the incredible impact that jackpot awareness has on lottery ticket sales. Is there data that supports this direct correlation?*

**M. Goldstein:** There is some data and research done not just on jackpot signs but lottery retailer identification signs as well. But there is no one definitive document I can cite. Lotteries have cited a range of sales lift that follow the installation of an effective jackpot sign. One lottery measured sales comparing two sets of like groups according to trade styles. The group of like stores with our triple jackpot sign showed a 6.65% increase in on-line sales vs the control group which did not have the triple jackpot sign. This was during a low jackpot period for both PB and MM and a small sample group. During a high jackpot period the increase was 19.7% for MM compared to the control group. Other states have cited an average of between 7% and 15% increase in same store on-line sales post sign install.

*The ability to increase sales by 7% to 15% or more is amazing, isn't it? How have your jackpot signs evolved over the years? What new features do lotteries value?*

**M. Goldstein:** We made a number of product enhancements based on input from our lottery customers. Lotteries wanted the ability to change or refresh the graphics for games so we designed our signs to have replaceable and interchangeable graphics. It was important to make this a tool-less operation so field sales staff could swap out the graphics. We also developed a modular system so a lottery could add new or additional games to an existing sign. New Jersey was the first to take advantage of this feature. New Jersey had 6,200 triple jackpot signs in the field. When the cross-sell of Powerball was launched, Jersey Cash 5 was up in sales by double digits so they decided to add a fourth jackpot to the existing triple-jackpot sign instead of swapping out the existing Jersey Cash 5 game graphic. We also added hardware at the back of the sign to allow a lottery to display a non-illuminated graphic message instead of leaving the "real estate" unused. Most lotteries used this to educate players on the draw dates for both PB and MM, although this can also be used to promote instant tickets or a retailer message.

*Rolling out large scale signage programs like 6,200 signs in New Jersey must be complex - What have you learned along the way ?*

**M. Goldstein:** After the lottery approves the final design and pre production units, the most important factor is partnering with the on-line vendor and their field service operations. I can't say enough about how excellent these teams are in regards to project management of these massive undertakings, whether it is a full scale system and terminal conversion or installing our signs as a standalone project.

Carmanah provides pre-install field service training as well as on-going technical support. We have created a number of software tools which field

service and install teams can use to trouble shoot any communication issues. This reduces install time and associated costs. Additionally we have designed an adjustable hanging hardware system which makes for a quick and simple install of the sign itself, again reducing cost of install. Recently, some lotteries are using their sales force to identify the optimal place to hang the sign well in advance of the install. The sales rep has a printed template the same size of the sign which he or she uses to identify the best location. This has also had the effect of getting the retailers excited about the new jackpot sign as they know it will help grow sales.

*You mention some of the install best practices – what about marketing best practices regarding jackpot signs?*

**M. Goldstein:** Some lotteries have been very creative in the way they use the roll out of the sign to get retailers excited. Unless you are rolling out to all stores like New Jersey or Illinois or Arkansas for example, most lotteries choose their top performing stores to get a jackpot sign first. One lottery had an especially creative program to generate retailer excitement. They had a sales contest where the top 10% (1,600) of stores which showed the highest sales increase pre sign delivery were given the signs first. It was so successful that they repeated the contest again for the next 1600 signs. This got the whole retail network involved and also had the effect of creating buzz around the signs. Engaging retailer support is, as we all know, so vital to lottery sales. They think of great signage as a big benefit to them and so that inspires loyalty and engagement.

Carmanah Signs Inc. Toronto Office, +1.416.322.2860, [www.carmanahsigns.com](http://www.carmanahsigns.com) ♦

Increase revenues for good causes with

# Wireless Jackpot Signs!

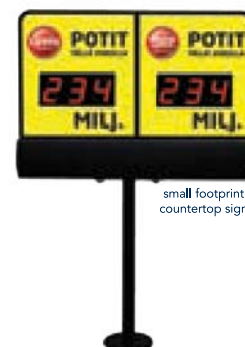
Cross selling multi / jurisdictional jackpot games is one of the most significant opportunities for revenue growth for "good causes" in lottery history.

Update jackpot values instantly at all retail locations through your existing online terminal with a jackpot sign from Carmanah Signs.

Ask about our NEW ultra bright jackpot digits



window sign



small footprint  
countertop sign

*Now with over 50,000 signs deployed, Carmanah Signs is the trusted choice for lotteries worldwide.*

Maxwell Goldstein  
+1.416.322.2860  
[mgoldstein@carmanahsigns.com](mailto:mgoldstein@carmanahsigns.com)  
[www.lotterysigns.com](http://www.lotterysigns.com)

cases were largely about the principle of mutual recognition of gambling licenses. And the judgments of the ECJ seem to be that, as it relates to gambling regulation, the principle of subsidiarity trumps the principle of mutual recognition.

**A. P. Barros:** It is not that simple, but yes, the ECJ is upholding the rights of each member state to implement and enforce its own regime, and thus its own set of licensing terms and conditions, as long as it does so in ways consistent with EU principles. However, a cooperative approach to many of these issues will serve everyone's interests. The member states should work together, share information about criminal records, cooperate in research, improve minimum rules for consumers protection, conduct investigations into pathological gambling and minimize social costs triggered by gambling problems, and perhaps even build procedural standards that enable them to reduce duplication of mere formal administrative effort. The process of investigating and vetting an application for the existence of previous criminal activity, for instance, should not need to be repeated in every jurisdiction. It will be better for all of us, operators and governments alike, to take a collaborative approach to the licensing of operators. But in the end, it must remain the right of each member state to decide whether a standard or procedure is consistent with its own public policies and regulatory approach. Otherwise, standards will be diminished to the lowest common denominator. Mutual Recognition applied to licensing of gambling operators would result in the imposition of lower and lower standards, with the standards of the most lenient EU member becoming the standards of the entire Union. That's why the fact that Dickinger/Ömer is licensed in Malta does not mean that Austria should be required to give them a license to operate in Austria.

At issue is whether the regulatory constraints are there to preserve Public Order or whether they are there solely for the purpose of channeling funds to the government. Among the interesting points you made in your testimony is that the multiple operator model may be fundamentally contrary to an effective responsible gaming and player protection system. As an example, you point out that a basic player protection and responsible gaming tool is to apply maximum betting amounts and/or enabling the player to do self-regulate. And that a multiple operator model makes that virtually impossible since the player can set up accounts at more than one operator.

*It would also seem to me that the multiple operator model would require expansion of the market. The fundamental concept of capitalism is that competition and free trade drives operators to deliver a better product and better value proposition, which in turn causes demand to increase, the market to expand, and all this driving a positive feedback cycle. But couldn't a case be made that when it comes to gambling, market growth is actually not the goal, and that high taxes are a useful tool to preserve Public Order by making sure the value proposition isn't too compelling? The result being more money for Good Causes and responsible public policy at the same time.*

**A. P. Barros:** Yes, and that works best in a monopoly system that is controlled by the government. Look at the markets that are opening up now. The high-tax model is on a collision course with the pressure for multiple operators to compete. When the UK, France, Spain, Germany and others decide to apply a tax rate that is higher than the commercial operators feel is appropriate, those operators protest that the cost burden will make their value proposition unappealing to the players who will then migrate to illegal or underground operators. But what are the operators really saying? They seem to be saying that if the tax rate is higher than they like, then they will be forced to offer their products in a gray or underground market and evade the taxes.

We should emphasize that "high taxes" do not necessarily mean 50%. Or even 30%. Private operators state that they want to pay taxes. One might assume that private operators are pushing for tax rates similar to other services industries. But that is not the case. What they are really doing is pushing member states to impose on them the Malta or Gibraltar tax rates that are less than 2%. Commercial operators are trying to convince governments to treat gambling like every other industry in all aspects, including low taxes (none ideally) and large margins. Most legislators recognize that is just really wrong-headed and bad public policy.

*But these operators know that the technology exists to block ISP's and therefore prevent illegal operators from accessing the markets, right?*

**A. P. Barros:** Yes, of course they know that. And they also know that if everyone is doing business with the same cost basis, then everyone has an equal ability to compete. As long as everyone complies with the rules, pays the taxes, and access to the illegals that are not paying taxes is blocked, then the op-

erators can be confident that a better product and service will win market share. The problem is that a competitive marketplace that does not expand will not necessarily support the increasing number of operators. That is the fundamental problem with the opening up of the market to multiple licensed operators. A system like that depends, like all capitalist markets, on growth. What if, as is often the case with gambling, the government would prefer to apply high taxes for the purpose of controlling growth as a matter of public policy and Public Order? A static market with slow growth may not be able to absorb the capital investment flowing in from the commercial operators. It's not for me to say that a monopoly system is the only solution. But neither is it the government's obligation to solve this problem for the benefit of the private operators. Governments are entitled to have the model and the tax rates that they deem best for their citizens; and should not be required to adjust their public policy and fiscal objectives to meet the expectations of commercial operators.

You want to realize that this is not just about internet gaming. The Green Paper is about all gaming and gambling. Internet gaming is about 1.5% of the overall lotteries gaming revenue. No one knows the exact percentage, but it is very small. These discussions about online gambling actually target gambling in general. In fact, it is really more about the off-line markets, including lottery and land-based casinos. Internet gambling is crucial to this industry, with its new distribution systems and reshaped games. But the focus is to work towards a regulatory framework that addresses the entire structure of the gambling industry, especially the off-line sector.

Just last week I attended a meeting of operators in Stockholm, and private operators made it clear that gambling on the internet is only the beginning. They call it the little fish used to catch the big fish which is the off-line market.

*You seem to be saying that even though i-gaming is growing at a faster rate than off-line gaming, it will always be a relatively tiny portion of revenue and an even smaller portion of profits.*

**A. P. Barros:** That is the way the operators themselves look at it. They see the internet as the future, but not by itself. The big revenue streams, and the most profitable revenue streams, will always be tied in with the off-line world.

*How do the recent indictments of PokerStars, Full-Tilt, and Absolute Poker in the U.S. affect*

*events and policy in Europe?*

**A. P. Barros:** I was at a meeting four years ago in Europe to discuss ways to stop the growth of international illegal gambling. It was attended by an agent from the FBI who told us even back then that they were working with Interpol to develop and implement legal strategies to identify and prosecute illegal operators regardless of where they base their home office. Illegality must be stopped no matter where it originates from. And just because it may be legal in one location does not make it legal everywhere. I am amused at the logic that you can't prosecute those i-poker companies for operating illegally in the U.S. because they are legally licensed to operate in other countries. It is encouraging to see that the cooperative efforts of the FBI, Interpol and other agents of law enforcement are producing results and bringing these "alleged criminal" operators to justice, or at least stopping them from operating.

*It would appear that they have laid the legal groundwork for making the charges stick and enforce the rule of law.*

**A. P. Barros:** Effective regulation isn't just for the benefit of the players and the general public. It is also for the protection of the commercial operators which are complying with the laws. How can they compete with the illegal operators who do not pay taxes and don't comply with other "heavy" obligations (like contributing for local development)? Prior to the UIGEA, the dominant i-gaming operator in the U.S. was Party Poker, right? Party Poker chose to comply with the law and withdraw from the U.S. market as required by law. PokerStars and Full-Tilt moved into the vacated space, made hundreds of millions of dollars which subsidized their European operations, and that enabled them to take over the European market. Their market dominance was fueled with illegal funds and the law abiding operators in Europe are among the victims of their "criminality". Tolerance for illegal operators is harmful to everyone including, perhaps even especially, the operators who endeavor to comply with the laws. The only way to stop these illegal operators is to make it impossible for them to make money and to prosecute the individuals who violate the law.

*You have personally been at the center of the legal battleground in Europe to create a regulatory framework that protects the public from these illegal operators. It would seem to me that an important component to making it impossible*

*for them to make money would be for each country all around the world to respect each others' laws and assist in the enforcement of each others' laws. How do you think it will affect the licenses that PokerStars and Full-Tilt have with European countries now that these companies and the principals of these companies are under criminal indictment in the U.S.? Why would France, Italy, UK, and all other countries want to license operators who are under criminal indictment?*

**A. P. Barros:** I agree with your reasoning. But gambling law in Europe is based on the principle that each member state is free to determine its own regulatory framework. The only basic requirement is that it complies with EU trade laws described in articles 101<sup>o</sup> and 102<sup>o</sup> of the Union Treaty. Each member state must analyze the conditions that exist within its own culture, its own markets, and its own historical gaming industry and decide what is best for those conditions. The regulatory frameworks of Malta and Gibraltar will be different than those in France and Italy. And France will be different from Italy and Italy from Spain and Spain from Portugal (usually a product/service that works in Spain doesn't work the same way in Portugal and vice versa, two member states with two different cultures). Each will have a different set of licensing terms, conditions and requirements and that is as it should be.

Insofar as a licensed operator was engaged in illegal activities that were not disclosed or that the regulators were not aware of when the licenses were granted, then perhaps they will review the licenses in light of this new information. But it is the prerogative of each jurisdiction to determine its own licensing requirements and standards. They may or may not choose to penalize a company for operating illegally in another jurisdiction.

*I understand that each country has different regulations, some allowing multiple i-gaming operators and all variety of games and sports betting, and others not allowing as much. I suppose I was hoping that there was a possibility that countries like Portugal, Spain, Italy, France, and the United States could come together and agree that out of respect for each others' laws, they would require as a condition for being licensed to operate, the status of not being under criminal indictment in the other countries. An agreement like that would enhance the ability of each country to enforce its own laws by making it very punitive for the operators to violate the laws of any one country anywhere.*

**A. P. Barros:** I totally agree. There are discussions on that very topic in the European Council. There is still not agreement, though, on what exactly constitutes illegal gambling. You are presuming that the determination of illegal gambling is based on the laws of the consumption country, the jurisdiction where the consumer resides. I do agree with that definition of illegal gambling. This definition constitutes the biggest achievement of the Spanish presidency report to the Council. All member states except Malta agreed on that definition. But of course, the European Union does not decide for the entire world, and with so many offshore we still are far from universal agreement. That is what we are working towards. The cooperation between the U.S., the FBI, and the international agent for law enforcement Interpol, is a big step towards establishing that criminality as it exists in even one country will not be tolerated by the international community. You know that Interpol only engages in the most serious matters of international crime. Their resources are limited and channeled only towards those activities that are deemed serious and unequivocal violations of laws and pertinent to the international community. Interpol does not care about protecting the basic lottery model or helping governments collect taxes on i-poker. So it is possible that these recent actions by the FBI and Interpol are moving us closer to a recognition that the legal status of gaming is determined by the jurisdiction where the consumer resides. And if an operator is indicted for criminal activity in one country, they should be held accountable for that in all countries.

*Or at least have their licenses reviewed to assess whether their conduct in other markets reflects the level of integrity that every country should expect of their licensed gaming operators?*

**A. P. Barros:** Again, I do not think the international community has the right to require a particular course of action like that. In fact, the international community should be on the side of respecting our differences. The authority to regulate and award a license should be the domain of each nation and not an international body. But as a concept, of course it would be best if we could all agree that the laws of each jurisdiction should be respected by all operators wherever they are based; and that criminal activities will be punished not only by the jurisdiction where

...continued on page 45

*Will it be a problem to prevent illegals from accessing the Spanish market?*

**J. C. Alfonso:** Of course it is a challenge. But the technology is there to block consumer access to illegal i-gaming websites. And hopefully an international effort will be made to completely put them out of business, because they continue to try to do business in spite of the laws. The Italian gambling commission is blocking more than 3.5 million attempts each day to access illegal websites.

*And even then we can only hope that none of the illegals are slipping through.*

**J. C. Alfonso:** Improving security and fighting illegals will be an ongoing challenge. But the technology is there, and it is improving, and it does appear that we are able to marginalize the illegals, so that they will not be able to run a profitable business. They do seem to realize that since they are all lining up to try to become legally licensed.

*Correct me if I misunderstood what you said earlier. Did you say that the draft law will penalize operators, perhaps even deny licenses to them, who violate the laws of other countries? Like the i-poker operators who do business illegally in the U.S.*

**J. C. Alfonso:** Definitely that will be taken into consideration and potentially be a reason to deny a license. Nobody likes operators who break the laws of other countries. I know that we would not like it if the U.S. and others were to provide good business opportunities for companies that violate Spanish laws and so we should act accordingly ourselves. Obviously, if all countries were to apply this logic, denying licenses to operators who violated laws anywhere in the world, that would make it very, very hard for illegals to do business. And why shouldn't we? We don't provide asylum for people who commit other crimes in other countries, so why should we make an exception for the illegal gaming operators? We want all operators in Spain to comply with our laws and hope that other nations like France, Italy, the U.S., and eventually even Malta, will help us make it impossible for the illegals to do business anywhere. And we will do the same for them. All of us are set up to block financial transactions associated with illegal operations and to penalize the operators who do not comply with the law. In spite of the Internet's ability to create connectivity that is virtual and borderless, there are ways to prevent criminal activities and we will succeed at marginalizing illegal operators.

The ultimate sanction would be to make it impossible for i-gaming operators to access the major markets throughout the world. I was told that Betfair was rejected in Italy.

Maybe that is evidence that even giant i-gaming operators can be held accountable.

*How does your draft law differ from France and Italy? Sounds like it will be more open than France?*

**J. C. Alfonso:** Like other European countries, we are preserving the monopoly lottery model. As regards the other forms of gaming, we are opening more than some others in principle. Our point of view is that we will not compromise when it comes to protection of the consumer and enforcement of laws and tax obligations; but that the best way to do that is to proactively regulate all the games. Instead of prohibiting them we want to actively regulate and control the way in which the industry evolves. All countries have their own public policy priorities and legacy gaming industries that inform the decisions they make as to the right kind of regulatory framework. Those will differ from place to place and that is why it is perfectly logical that the resulting regulatory framework be different as well. For us, we want to design a framework that will encompass all aspects of gaming and wagering and we want to have flexibility to evolve as technology and the markets evolve. We'll study the games, the markets, the competitive environment, and the ways that others like France, Italy, Finland, and the UK are regulating to guide our efforts to evolve the most effective approach for Spain.

*Having flexibility to adapt to changes in the marketplace and technology would seem to be so vital, and what is missing in some frameworks, like the U.S. Is there a conflict between the goal of providing clear, unambiguous terms, conditions, guidance, etc. and the goal of being flexible to adapt to changes in markets and technology?*

**J. C. Alfonso:** The bottom line is that it has to be done. Things change and the framework needs to adapt. Too, the fact is that we don't have perfect knowledge and need to be able to change to improve upon our original framework. This is a very complex sector. We do not have perfect visibility into how technical requirements and capabilities, market conditions, and the competitive economic environment will all coalesce into a functioning gaming industry. We are doing everything we can to anticipate and prepare for everything, but you simply must have the flexibility to adjust as circumstances change and new information becomes available.

*Does the bill empower the Spanish Gambling Commission to discuss with other governments and regulatory bodies ways in which you can share procedures for licensing, perhaps even co-*

*ordinating some commonalities into a standardized template?*

**J. C. Alfonso:** There is certainly the potential for us to share information and learn from each other, and even factor in the track record that an applicant has established in other jurisdictions. But we feel that it is difficult and undesirable to try to formalize a coordinated approach to licensing operators. Licensing procedures should be wholly controlled by each member state. The business of enforcing policy can certainly be shared. And as we go forward, I'm sure there will be other aspects in which we can cooperate more with other jurisdictions. But the business of licensing and policy making itself should remain within the government and the regulator of the member state.

*Does the draft bill require the operator to incorporate in Spain and/or have their transaction processing servers physically located in Spain?*

**J. C. Alfonso:** Incorporating as a Spanish company is not a requirement, but the applicant does need to be incorporated in a member state of the European Union. We don't require that the applicant for a gaming license locate the central servers in Spain or even in Europe. We need to have 100% certainty that we can see the transactions and verify accurately the volume, prize payouts, and other elements that define a transaction. But we do have the technological ability to do that without requiring that the main server be based in Spain. And as long as we can do that, we don't mind if the server is based in Palo Alto, Mumbai, Bucharest, or Malta. Online operators do business in multiple countries and we do not feel that it is necessary to require them to have numerous servers based all over the place.

*This is a good example of how the bill is genuinely intended to open up the market while protecting the citizens, and ensuring your ability to enforce tax collection. Your are giving attention to doing those things necessary to protect the players, etc., but trying to minimize the cost burdens and barriers to entry for the operator.*

**J. C. Alfonso:** We will demand that they comply with the highest technical standards and that will cost them money. It's true that we do not intend to impose costly requirements that do not serve a useful purpose. Make no mistake; the investment to meet those high standards of performance that qualifies an applicant to operate in Spain will be significant. But it is all highly focused on achieving the objective of building a healthy, sustainable gaming industry that serves the interests of the Spanish people. ♦

**P G R I  
LOTTERY  
EXPO  
2011  
CONFERENCE  
SEPTEMBER 20-22  
LOEWS HOTEL, MIAMI**

**Open  
the Door  
to a  
World  
of  
Possibilities**

## **BEYOND GAMING 2.0**

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 Tuesday the 21st and Weds the 22nd; Receptions following 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](http://www.PublicGaming.org) for more details and registration information.

merging of the real with the virtual worlds. Virtual worlds like video-games and media like Facebook are influencing the ways we relate to each other and the way we relate to marketers in the real world. The interaction of these two worlds creates a new world of infinite possibilities for marketers. That is especially true for those of us in the gaming and lottery business. The synergistic relationship we're building between our digital and brick and mortar businesses is an early-stage example of that. It's about becoming a full-service source of gaming entertainment for our customers.

*Is there any specific Veikkaus initiative that you could point to as an example?*

**A. N. Chaker:** We realized five or six years ago that we had a business where people would come into the land-store and basically spend very little time with us and our products. It does not take long to buy a lotto ticket or scratch a card. That isn't good. There's no enough customer engagement. We knew that a sustainable business model depends on carving out a bigger share of mind, engaging the customer in a more meaningful way. More specifically for the bottom-line folks out there, we needed to create a more extended-play experience in order to up-sell and cross-sell our other products, as well as creating a playing experience that would retain the loyalty of the core player. So we created what we call the Game Room. That is a virtual space, on our website, where the player can go and always find something fun and exciting going on. There is always a large population of players engaged in different games and chat rooms. We recently broke the world record for number of Bingo players playing the same game at one time. Over 2,500 people playing at one time in our Game Room! They play Bingo, they take a break to chat and explore other products and check out what's new, and basically hang around just like kids do in a video arcade and adults do in a casino. We have an animated game called Syke. Very cool. Lottery balls navigating their way through a planet of hostile animals and trying to survive with all kinds of adventures along the way. The player hopes the winning numbers don't get eliminated before the lotto draw which happens hourly.

*That's a fantastic example. The Game Room as destination resort for lottery players.*

**A. N. Chaker:** That's exactly it. We are

trying to create a resort-like or day spa virtual environment that our customers can check in with on a frequent basis, sort of like they check in to Facebook or their favorite news website. There's always something going on and we hope our players will want to spend more time there. Not necessarily buying tickets or placing wagers, but staying engaged and thinking of us as a virtual destination resort where they can discover new games and entertainment options.

*What percentage of the population has signed up as registered players?*

**A. N. Chaker:** Over the last five years, 33% of the adult population of Finland has signed up with either our loyalty program or opened an internet account with us. That's over 1.2 million people. The interesting thing is, the vast majority of those registered players are our land-based customers. Close to 900,000 players registered for the loyalty and rewards program without opening an internet account. They signed up for the benefits and rewards programs. Of course, we can migrate them to the internet with rewards and benefits that steer them in that direction. But we want to do that in ways that align with their play styles and preferences. There is no need to push them out of their comfort zone, just gently lead them to new games and channels as they are ready. It's all very rewards and benefits driven. The consumer needs to be given compelling reasons to sign up. That's easy to do because there are lots of civic organizations, the arts and cultural events, sports organizations, that partner with us to deliver great bennies to the consumer with very little cost to us. It's a great way to create a broader variety of experiences for our players and create player loyalty.

*Plus you're able to capture lots of valuable data about the players who are registered.*

**A. N. Chaker:** Look at the big players of the corporate world right now. What makes Google, Amazon, Facebook and others so powerful? It's their knowledge of their customers' buying behavior that enables them to stay constantly aligned with their customers' wants and needs. They evolve their core products, launch new products, and improve their service based on all that they learn from the direct connection they have with their customers. That is what we are doing at Veikkaus. We have an incredible amount of

insight into our customers based on the data we glean from our registered players. You can spend all kinds of money testing and surveying and then guestimating about what it all means. Or you can analyze real-time customer behavior, real numbers based on what customers are actually doing as opposed to what they say they will do – what they buy, how long they spend on a game, where they migrate to between games, etc. Patterns emerge that enable us to improve everything we do to create better products and services, and reinvent entirely new concepts like the Game Room.

*An example of a data driven change or improvement?*

**A. N. Chaker:** There is a basic insight that is revealed by this data that would take expensive trial and error testing to figure out without it. That is the customers' predilection to buy a product based on time, place, and relationship to other products. The data reveals patterns like that a certain product is more likely to be bought at a certain time and place, and by the player who has just bought this other product. That enables us to target cross-sell and up-sell initiatives with much more precision and predictability. Obviously, the data enables us to identify the game preferences such that we can segment and target specific promotions and games to the customer profile that is most likely to buy. These are things that all marketers do already with or without the benefit of the customer data. The difference is that it costs us very little money to see the whole picture perfectly instead of spending a lot of money and ending up with survey and focus group results that never actually tell the whole story. It enables us to create offers that produce a 90% opt-in within some selected segments. It informs the product development process in a way that enables them to create products the customer has no idea they will like, but we know they will like them because of the information we've gleaned from their actual playing behavior. It enables us to create whacky or edgy promotions that would never appeal to the majority of players but will get the attention of the small segment we target. Knowing our customer is the first step towards creating the experience that resonates with the customer. And creating that experience is what ties us to our customer, what keeps the customer engaged and willing to change and grow and evolve with us as we change and grow and evolve with them. ♦

be clear, compelling and effective so as to sufficiently inform, excite and retain the average spend – and frequency of play – of our EuroMillions players. The same clear and comprehensive communications process also needed to be followed with our 28,800 National Lottery retail partners. As well as communicating the game mechanics and rules, we needed to help them understand how the game worked and how to make the most of the fantastic sales opportunities it presented. On top of this, we had to build interest, anticipation and excitement in the game prior to launch – and then maintain it post-launch.

The introduction of UK Millionaire Raffle has had a hugely beneficial impact on EuroMillions sales in the UK, with average underlying sales (i.e. excluding Rollover uplifts) in the first six weeks after launch 51.2% higher than the original game. For the full 2009/10 fiscal period, the new-look game helped to drive a 42% year-on-year increase for EuroMillions. The sales uplifts have also allowed us to hold periodical UK Millionaire Super Raffle events.

The first of these took place in November 2010 and created 10 guaranteed UK millionaires in one night, while the second, which took place a month later on Christmas Eve, created 25 guaranteed millionaires throughout the UK – breaking the previous world record for the largest number of lottery millionaires created in a single evening. Since launch, UK Millionaire Raffle alone has created over 110 new UK lottery millionaires. Now that EuroMillions featuring UK Millionaire Raffle has been in market for 18 months, average underlying sales have established themselves at 35.4% above the original game – making it one of the UK National Lottery's most successful innovations.

International experience shows that the only way to maintain and

grow long-term lottery sales growth is by diversifying the portfolio of games – with different games offering different winning experiences. Our strategy for long-term, responsible growth is no different – we aim to strengthen the UK National Lottery brand by offering players a constantly-refreshed range of games to better satisfy their needs, and by coming up with innovative and convenient new ways to play to best suit their lifestyles. Our introduction, and subsequent enrichment, of EuroMillions has played a significant role in the success of this strategy and has further strengthened the already-wide range of games that we offer our players. We now offer a portfolio of differently-themed games from 25p to £5 to suit all tastes, pockets and prize preferences. With the addition of EuroMillions with UK Millionaire Raffle to our portfolio, we are, in effect, offering something that no other UK lottery game does – the chance to win huge prizes in the main draw while guaranteeing lots of UK winners, something our EuroMillions players told us they wanted.

With around 70% of UK adults playing National Lottery games nowadays, the success of new game launches, such as EuroMillions with UK Millionaire Raffle, proves that diversification and product differentiation works. This is borne out by the figures – Camelot has grown sales by 17.9% since the start of the second UK National Lottery licence in 2002 and seen the number of players rise by over 5% in the last five years alone.

All of this means that we have been able to raise even more money for the Good Causes, which is what the UK National Lottery is all about. To date, our players have raised over £25 billion for the Good Causes, with more than 350,000 individual awards made across the UK, making a difference to millions of lives. ♦

## Rebecca Hargrove ...continued from page 18

Three, the change actually resulted in lessening the burden for IT because they discovered things that had always been done but don't need to be done so they discontinued those legacy reports and procedures. And four, sales is now in the loop, getting educated on how to translate their needs to software engineering. Win-win and it speaks to the need to engender a more collaborative relationship between the different functional areas of the business. When the team learns to trust one another's skill-sets and understand why they do what they do, everyone becomes even more of an advocate for each other and better engaged in the mission of our business. If you interview any of the 12 people in the program, they'll tell you it's one of the best experiences of their lives.

*You refer to a market-driven business working within a rather unique set of government structures. How do you teach that?*

**R. Hargrove:** I think one of the most eye-opening days this class had was sitting in on a legislative committee hearing. I wonder how many finance, sales, product development people are informed about that side of this busi-

ness? And when you think about it, how much more effective they are for appreciating that this business includes that level of accountability. Sales people and product development staff appreciate better why they need to comply with rules and closely adhere to procedures, Finance people communicate better with legal, etc. They came back from the Capitol literally saying "Oh, now I get it!"

*The world is changing so rapidly. To what extent does that obsolete the knowledge gained in any kind of educational forum?*

**R. Hargrove:** It's true that the pace of change has accelerated. But change has always been the one constant in our business. I ran the Illinois Lottery back in the 80's when we sold four instant games a year and we sold them one at a time and they weren't bar coded. The change that has happened over the past 25 years has been enormous. Anyone who was in the business then and is still in the business now has had to re-educate themselves constantly along the way.

And there remain many skills that do not become obsolete even in the rush of internet

time. The art of managing and adapting to change being one of them. Developing teamwork and a spirit of collaboration among employees being another. Fundamental principles that guide the process of analyzing problems, framing the issues, asking questions, these are skills that won't be obsolete in this or any other successful business.

In fact, the solution to many of the challenges we face, challenges that often seem to be without precedent, can be found in developing the skill sets that are foundational to all our tasks. Forging collaborative relationships with our colleagues in other lotteries is not so very different than building trust relationships within your own organization. The ability to adapt to change, to contribute to progress in uncharted waters, really just goes back to having the interdisciplinary skills to effectively analyze the options, communicate with your colleagues, and stay on a path of open-mindedness and continual learning. In that fashion the industry will do more than just survive, it will prosper and thrive, all to the benefit of those we serve. ♦

# LOTTERY INTERNET SALES:

## The Untapped Potential for Europe

Lotteries, like other businesses, complete transactions and generate revenue through marketing and distribution channels. The most successful lotteries in the world – and indeed the most successful businesses in the world – carefully observe what their customers are doing, what their customers want, and proactively help shape behaviors to ultimately create the optimal sales environment.



Today, consumers are choosing the Internet in addition to traditional retail channels to make their purchases. Virtually every consumer industry understands that their customers are on the Internet and that they must build Internet-based sales channels...or risk obsolescence.

This doesn't mean that it's time to close the store and move sales exclusively online to the Internet. Growth-oriented businesses, including pioneering lotteries around the globe, are finding ways to use the Internet to increase – not cannibalize – overall sales and to drive consumers back to retail stores for both advertised and impulse purchases.

As always, the bricks-and-mortar location remains the backbone of the consumer interface with lottery products. But like all consumer product companies, lotteries must educate their consumers and drive them to retail locations through a combination of marketing and entertainment value. Internet sales have become a cornerstone of future success for European lotteries and their retailers. They are a key component of future growth for all – and crucial for ongoing player engagement.

### CONSUMER DEMAND

Around the globe, the number of Internet users making purchases over the web has begun to grow significantly. And while most European's online shopping habits don't yet rival those in Scandinavian coun-

tries or the U.S., their purchases represent hundreds of billions in Euros.

Leading the way is the U.K., where last year online purchases of goods and services totaled €48 billion in sales. In Germany, web users generated €39.2 billion in sales and France followed with €25 billion.

Viewing the popularity of online buying in European countries in terms of growth, ecommerce in France grew 31 percent from 2009 to 2010. In Spain, ecommerce grew 25 percent and Italy experienced a 21 percent growth. Remarkably, in Poland, which has the lowest level of online sales (€3.4 billion), ecommerce grew at the highest rate – 36 percent from 2009 to 2010. (Source: Fact-finder.com, 2011)

With lottery and casual game sites among the most heavily trafficked sites on the Internet (Source: Alexa.com, June 3, 2010) it only makes sense that to optimize sales, lotteries must adapt to European consumers' changing habits by not only offering their products for purchase online but also engaging with their players to extend the relationship and create connections back to the retail store.

### THE FULL VENUE CYCLE

The growth of the Internet and e-commerce in Europe is a compelling reality, but this reality does not change the interdependence of lotteries and their retailers. Without a doubt, the lotteries and retailers face the same challenges in finding a way to use the Internet to drive sales.

Continued collaboration is essential to maintaining the ability to drive





traffic to the retailers rather than away. Increased traffic to retailers means increased sales not only of lottery tickets, but of other retail items as well.

The focus should be on the areas of mutual benefit and joint promotions such as:

- Cash and in-kind prize redemption at retailers
- Special promotions that tie in-store goods to virtual goods
- Advanced Deposit Wagering (ADW)

#### UK LOTTERY SUCCESS STORY

Introducing Internet sales in 2003, the UK National Lottery has become a relevant case example of the possible impact on overall lottery revenues and the direct effect on traditional retailer sales.

This new channel has been cited as a key reason for the National Lottery's solid sales growth since that time. Total sales grew from GBP £4.6 billion in 2003 to almost GBP £5.2 billion in 2009. In 2009, Internet sales exceeded GBP £677 million or 13 percent of total sales.

During the same time period, retailer commissions (a proxy for retailer sales) grew from GBP £229 million to GBP £248 million or 8.2 percent. This was reflective of continued growth in sales of lottery games at traditional retail outlets even while the Lottery was building its new Internet channel.

#### THE ITALY EXPERIENCE

During 2010, the Italian government re-launched the most successful instant ticket lottery in the world. The visionary group that grew that

lottery from the hundreds of millions to ten billion euro in annual sales has now been given the ability to market and sell through the Internet.

Internet sales in Italy happened not because the government or the joint operating venture believed it would cannibalize sales of a critical operating partner but because they recognized the synergies and growth to be achieved through targeted advertising that would increase lottery sales both on the web and in the stores – and drive higher overall general sales through more traffic to bricks-and-mortar retailers.

#### UNTAPPED POTENTIAL

In 30 European countries, more than 50 percent of the population uses the Internet. In 15 of these 30 countries, the percentage of the population using the Internet has soared to 70-100 percent. (Source: InternetWorldStats.com, December, 2009). With this growing number of Europeans using the Internet, making purchases online has become just as much a part of everyday life as visiting local retailers to buy goods and services.

As more and more Europeans embrace ecommerce, the potential for lotteries and retailers to grow revenues together in the coming years is vast. By engaging players both online and in-store, the Internet offers entertainment value, extends player relationships and creates a community of lottery enthusiasts. There is no uncertainty that the Internet is leading the way to the future of lotteries in Europe.

For more information on growing lottery sales through the Internet, visit [www.scientificgames.com](http://www.scientificgames.com). ♦



# European Lotteries and Amateur Sports Beneficiaries: The Urgent Need for a Global Approach to Defending the Integrity of Sports

By Philippe Vlaemminck  
Legal Advocate for Lotteries

The sports-betting market has been growing at an accelerated rate, especially since the advent of the internet and all the possibilities it offers (i.e. betting from anywhere, 24 hours/day and 7 days/week; possibility of cross-border services/plays; etc.). Betting operators never stop the innovation of new types of bets, with live and in-play betting, spread-betting, and more sophisticated betting exchanges to handle it all. Combined with the fact that players can now bet on sport competitions all across world, this has created a fertile ground for an increase and diversification of fraudulent practices. The growth and increased complexity of the sports-betting industry has created considerable risk of fixing and corruption.

Prior to the innovations in betting venues, media, and exchanges, sports-betting was almost exclusively about a simple bet on the final outcome of a game or match. Unlocking the ability to place bets at any time during an event has created new ways to manipulate results and the outcome of the bets. Private betting operators are multiplying their offers and increasing pay-out ratios in order to attract more customers whilst reducing their monitoring and surveillance system. By making it difficult to impossible for the single jurisdiction to guard against internet-enabled corruption, the globalization of the gambling market further complicates the challenge of implementing an anti-corruption monitoring and surveillance regime. Transnational solutions and cooperation are essential. Lotteries and other legal gambling and betting operators, regulators, and international sport federations and bodies need to establish a strong triangular cooperation, set up educational programs, im-

prove monitoring systems, define conflict of interest rules regarding sponsoring, and decide about the need for independent audits of all activities of betting operators. Finally a regulatory framework must be established to define the necessary financial contribution to be made by the betting operators to enhance grass-root support and protect the integrity of sport. Ultimately a European, or global, regulatory and enforcement body with the authority to take all necessary measures to fight corruption and defend the integrity of sport is the only solution.

There are at least two major European political institutions that are giving more attention to these issues. The Council of Europe (consisting of 47 member states) has always been very active in protecting the integrity of sports. Indeed, several initiatives in the sector of sport came directly from the Council. Most recently, on 21 April 2011, the Council discussed a draft of the Enlarged Partial Agreement on Sport which provides for recommendations to Member States regarding the promotion of sport integrity and ways to fight against the manipulation of results, like match fixing. As usual, Lotteries are here fighting against private betting operators who try to minimize the problem, insisting that sport betting does not have those problems and that it does not create the potential for crime and corruption in the sport sector. The reality, as recognised by all major international sport bodies like the IOC and FIFA, is that corruption in sports is in fact a problem that probably exceeds that of doping.

Protecting the integrity of sport has also become a high priority for the European Union (bringing together 27 member states). According to the European Court of Justice (ECJ), the decisions

Philippe Vlaemminck is the managing partner of Vlaemminck & Partners, a Belgian law firm specializing in EU & WTO law and for more than 20 years experience defending the cause of lotteries at all levels (ie: internet gaming, privatizations, regulatory approaches, ...). His e-mail address is Ph.Vlaemminck@vlaemminck.com

and actions to protect the integrity of the sport sector falls under the EU rules. The lack of a clear and sustainable framework for all sports and sports-betting operators has caused these EU institutions to make recommendations and create guidelines in order to clarify the situation. Discussions on the possible regulation of sport at the EU level really started with the adoption of the White Paper on Sport and the Pierre de Coubertin action plan of July 2007. The White paper provided for different actions to be taken in terms of societal role, organisation, and the economic dimension of sport. Article 165 TFEU affirms the role of the EU in the creation of the rules and mechanisms to enforce the rules that protect the integrity of sports. In order to achieve these objectives, the Treaty calls for a strong cooperative approach between the EU and the Member States, as well as between all the different sporting organisations and/or federations. After the insertion of Article 165 in the text of the Treaty, the EU has stepped-up the number and impact of initiatives: the EU Commission communiqué of the 18 January 2011 on the Development of a European dimension in Sport; the draft Resolution of the Council of Ministers of 2 March 2011 on a European Union Work Plan for Sport; the Hungarian Presidency's note on the "Sport-related aspects of on-line betting" adopted by the Council on 20 May 2011; the EU Sport Programme for 2014-2020 which is being prepared by the EU Commission, etc.

The EU actions regarding the sport sector are still expanding in order to promote, control and secure the integrity of sport in the EU. In the framework of the EU debate on online gambling, for instance, the EU Commission organised an expert working group on the question of the integrity of sport. And credit belongs to both European Lotteries (EL) and the World lottery Association (WLA) for advocating for a strong and global answer to this problem. European Lotteries again advocated for global action to protect the integrity of sport. Earlier, the World Lottery Association President discussed the matter in a face-to-face meeting with the President of the International Olympic Committee, while both EL and the WLA signed an agreement with SportAccord, a world body bringing together all important sport federations, to establish an educational program. The integrity of sport is fundamental for society and the future of sport at all levels, and will be a focus of the upcoming EL Congress in Helsinki.

In Europe, the amateur sport model is largely based upon grass-root support and the participation of large numbers of volunteers. Today, Lotteries in the EU are the largest, and sole, sustainable contributors to the grass-root sport, by more than 2 Billion Euros a year. The model has made it possible to provide millions of people with access to sport and its healthy social environment. That is why defending the cause of Lotteries is so vital to the survival of the amateur sport sector in Europe; and protecting the integrity of sports is so vital to the long-term survival sports in our society. ♦



Public Gaming Research Institute is pleased to announce the winners of the 2011 Lottery Product of the Year. The award was made at the SMART-Tech 2011 Conference held at the Helmsley Park Lane Hotel in New York City on March 24, 2011. The conference was attended by industry professionals from almost every lottery jurisdiction in the U.S. as well as many from Canada and Europe.

The PGRI Lottery Product of the Year Award has acquired a status that is important to lottery operators from all around the world. Conceived as a way to recognize the most innovative products and concepts impacting lottery performance and results, the Award has evolved into a reference guide for lottery operators to quickly discern the most reputable and accomplished commercial suppliers in each product category. Congratulations go to the 2011 winners for creating products that meet those high standards and for winning the 2011 Lottery Product of the Year Award. For more information on the Lottery Product of the Year Award, see [www.PublicGaming.com](http://www.PublicGaming.com). The Video- recorded presentations can be viewed at our conference website [www.PGRItalks.com](http://www.PGRItalks.com).

#### **INSTANT TICKET VENDING MACHINE (ITVM)**

**Diamond Game: LT-3:  
The ITVM for Bars**

Diamond Game's LT-3 ITVMs modernize the sale of instant tickets. By adding entertainment and audio / visual effects to the dispensing of instant tickets, Diamond Game puts the "play" back into the game.

Diamond Game's LT-3 especially appeals to bar owners, opening up an important retail outlet for state lotteries. The LT-3 suite of ITVMs "gets you in the door" at bars and taverns, creating new lottery retailers and generating significant new revenue for the state. The patented LT-3 dispenses a pre-printed instant ticket on each play, reads the ticket and displays the result on a video monitor in an entertaining manner. Our patented Multi-Bet feature allows the player to purchase tickets at different bet levels and credit values. Additional key features are a small footprint, attractive touch screen display, secure ticket validation and fraud prevention, and a sophisticated accounting and sales tracking system. Through the unique play style of the LT-3 and an expanded retailer base, lotteries can generate new revenue from ticket sales with the LT-3: The ITVM for Bars.

For more information on the Lottery Product of the Year Award, see [www.PublicGaming.com](http://www.PublicGaming.com). Also, visit the conference website [www.PGRItalks.com](http://www.PGRItalks.com) to view the presentation. ♦

#### **LOTTERY TICKET TERMINAL**

**Scientific Games Corp.:  
Flair™ Terminal:**

The Scientific Games' Flair™ Terminal. Flair is the smallest full-function all-in-one lottery terminal in its class, developed by Scientific Games to minimize required terminal space at retail, thereby maximizing valuable countertop space for retailer sales. Research-driven and field-tested, Scientific Games' Flair™ is designed to help lotteries address the most current challenges and opportunities at retail.

Scientific Games is a global marketing and technology leader in the lottery industry with over 120 customers world-wide, including many of the world's highest revenue-producing lotteries. Over the last decade, Scientific Games has earned accolades for its new online lottery networks and terminals that lower operating costs, significantly shorten start-up times, and are tailored to meet the needs of its customers. Over the last five years, Scientific Games has successfully implemented lottery gaming systems (online, instant, charitable games) and retail systems (clerk terminals, player self-service terminals, ticket checkers, in-lane systems, monitor game systems) in 28 lottery jurisdictions around the world.

# CUSTOMER **first**

## AN ACTIONABLE GROWTH STRATEGY

### PGRI INTRODUCTION:

As consumers, lotteries, and governments continue to wrestle with the uncertainty of the current global economy, lotteries are working hard to develop their businesses by engaging the broadest possible player base with new products, promotional offers, and consumer communications strategies. All of these efforts provide continuing opportunities for substantive collaboration among lottery industry professionals and their vendor partners.

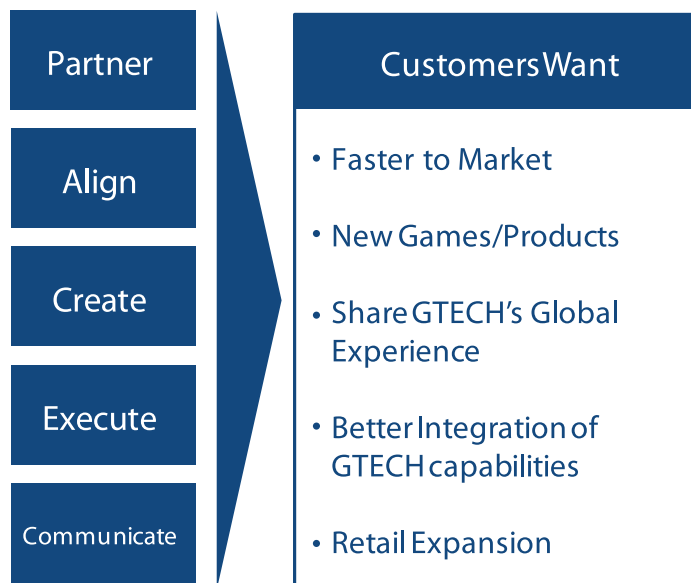
In 2010, GTECH began addressing these opportunities through its *Customer First* operating strategy. As GTECH CEO Jaymin Patel has explained inside and outside the company, GTECH's "Customer First" operating philosophy blends each lottery professional's knowledge of their business needs with consumer insights, product offerings, and execution plans that will drive results.

In the year since Patel challenged all GTECH employees to align their people and solutions with each customer's specific needs, the company has observed the kinds of business outcomes that help its customers meet their goals in a difficult climate.

### IN-DEPTH RESEARCH: VALUE-ADDED RESULTS

Alignment with lottery needs started with extensive surveys and

### Customer First Research Results



Identifying the key actions that begin the customer value chain was the first step in developing a Customer First strategy that is implementable, actionable, measurable and transferable.

## Customer First: What Does It Mean?

*Customer First* provides an enhanced level of customer focus based on better insight, redefined relationships, and delivering the highest value products and services. In working to identify the execution plan to launch and sustain this initiative, we asked ourselves two central questions:

1. "When considering the customer's perspective, what creates value, and what does not, across all phases of the customer relationship?"
2. "Which actions are implementable, actionable, measurable and trainable?"

The answers to those questions helped us to define Customer First Value Drivers; these are important touchstones that provide expectations and direction to deliver value to our customers. These drivers include:

<b>PARTNER</b>	Create win-win scenarios through listening, understanding, and aligning with customers' strategic business objectives and plans.
<b>ALIGN</b>	Ensure actions and communications consistently demonstrate GTECH's alignment with customers' business objectives, processes, and needs.
<b>CREATE</b>	Design the most cost-effective, flexible solutions based on best practices that meet customer needs.
<b>EXECUTE</b>	Consistently deliver timely, high quality products/solutions that meet customer needs.
<b>COMMUNICATE</b>	Ensure consistent, timely, accurate, and candid internal and external communication at all levels.

By understanding and investing in what our customers value most, we are better able to tailor our solutions to each of our customers, develop the right innovations where it matters, and improve our customer responsiveness.

interviews to identify our customers' top business priorities. Hundreds of lottery professionals whom GTECH serves—including Executive Directors as well as members of marketing, sales, technology, legal, finance, and security departments—responded. As we analyzed the results of the surveys, five key business areas rose to the top of the list:

Over the course of the last year, we have looked at each potential company initiative through the lens of the five customer value drivers. For example, development of marketing growth opportunities considered input from a collaborative study of market research issues discussed during GTECH's **Global Gaming Market Research Exchange forum**, which took place at GTECH's Rhode Island offices in October 2010.

## SHARING GTECH'S GLOBAL EXPERIENCE TO ACHIEVE BETTER MARKET UNDERSTANDING

To further define Customer First opportunities, GTECH combined the information gathered from the Customer First Research surveys, which defined the value drivers, with feedback received at the Global Gaming Market Research Exchange in order to determine where and how survey results could impact execution of the Customer First Value Drivers. The Global Gaming Market Research Exchange gives market research professionals from lotteries across the world the chance to discuss with representatives from Lottomatica, GTECH, ATRONIC, SPIELO, GTECH G2, and GTECH Printing Corporation insights on how to improve research methodologies and to identify commonalities and differences among the various approaches to market research.

Through such forums, collaboration between GTECH marketing resources and industry marketing professionals will increasingly improve the planning and execution of future marketing programs among participating jurisdictions and eventually throughout the industry as a whole. However, evidence of success in executing Customer First objectives already exists within several jurisdictions.

By continually soliciting customer input through contact such as the Global Marketing Exchange program, we have worked closely with GTECH customers to address their opportunities in such areas as portfolio expansion and retail optimization, for example, as evidenced in the following case studies.

## CUSTOMER FIRST CASE STUDIES FASTER TO MARKET:

### Texas: Building Powerball® Brand Awareness at Retail

The timetable for Texas Lottery Commission approval of Powerball led to a compressed marketing rollout timeline, so the Texas Lottery accepted GTECH's offer to collaborate on establishing a Powerball marketing presence at retail as quickly after game approval as possible. We worked with the Texas Lottery to design, produce and print the POS for retail, to allow the Lottery to focus their attention on managing all of the additional marketing and operational related initiatives that ensured a successful and timely game launch.

GTECH Texas sales managers brainstormed creative POS items that could be used to promote Powerball. At the same time, the Texas Lottery worked in-house on developing the messaging and graphics around the campaign. We designed and placed into production over 25 different POS items (special counter displays, LED light frames, play station posters, terminal toppers and more). Texas was able to launch Powerball and Power Play on schedule and has generated \$52.3 million to date for the school children of Texas with a comprehensive retail merchandising and promotion program.

## NEW GAMES/PRODUCTS

### Rhode Island: GamePRO Live Game Testing

The Rhode Island Lottery and GTECH wanted a way to move be-



Special Texas Powerball counter displays placed at the point of sale facilitated play action and added to the overall retail marketing package.



Extra large sized LED light frames attracted player attention to the Powerball game.

yond traditional player research for new games. The goal was to enable the Lottery to place a game in a retail location and observe how players would respond to the concept when they spent their own money to play.

Our system architects designed GamePRO to have the security and automated functionality of an actual production system, without the need to conduct full system integration testing of the pilot games on the Lottery's transaction system.

The benefit of this system, which is now available for use in other jurisdictions, is that it allows a lottery to take secure, auditable wagers and validate winners on a new game while still allowing the lottery and GTECH to make quick changes to the game within a matter of days. With this system capability, lotteries can, for the first time, gather feedback from players and retailers as they play and fine tune games based on the feedback.

As a result of the GamePRO testing in Rhode Island, the Lottery just launched a new add-on feature to Keno, called Multi-Chance, which gives players the opportunity to win free games and larger prizes.

The Security and automation features of GamePRO mirror a full production system, even though the game may only be available in one or two retail locations.

## INNOVATION TO GUARANTEE INTEGRITY

- Secure network communications.
- Draw sealing to prevent insiders from inserting fraudulent winning tickets after draw.



The first-ever GamePRO pilot went live in Rhode Island in December 2009, followed by three additional pilots in early 2010.

- Data redundancy based on RAID-configured hardware.
- Real-time, algorithm-based confirmation of every ticket's authenticity at the time of validation.
- Round-the-clock system monitoring of GamePRO systems, complete with the monitoring tools and operator oversight available to any live system

This solution allows lotteries to focus on how games are being received by players and retailers, which greatly reduces the risk of rolling out a game to the entire retail base before it is ready.

#### RETAIL EXPANSION/OPTIMIZATION

##### West Virginia: T.A.G. Sales Improvement Program

GTECH's Texas marketing and sales teams working with our Corporate Marketing team developed a program that combined sales and demographic analysis with lottery retail sales best practices to increase the sales of high-potential lottery retailers. This program, "Double Blue," has since been adapted to a national sales and marketing program, called "T.A.G." (Train, Act, Grow).

In Fiscal Year 2010, instant ticket game sales in West Virginia declined 14% from Fiscal Year 2009. The Lottery and GTECH's Sales Director worked together to identify retailers with the potential for sales growth.

T.A.G. was introduced in West Virginia on September 1, 2010. The goal was to increase sales at selected retailers, by a minimum of 10 percent during the initial 13-week period. Named for the three main program features, T.A.G. touches the navigation points that are critical to lottery sales representatives:

- 1) **Train:** Sales reps are trained on lottery best practices to optimize retailer sales.
- 2) **Act:** Sales reps introduce strategies to retailers and sales clerks to help them grow sales.
- 3) **Grow:** Targeted retailers realize sales growth by carrying out the optimization strategies.

In November 2010, the sales force in West Virginia completed a 13-week T.A.G. program cycle. Retailers that participated in the program saw weekly average sales increase 12.7% over the prior period, compared to 6.5% average increase for non-participating retailers.

Encouraged by the sales growth of retailers involved in this first phase of T.A.G. execution, a second T.A.G. rollout was initiated in January of this year. During this second phase of T.A.G., overall sales for the

participating retailers increased 34.7% over total average weekly sales for the same quarter the previous year, while sales for all other retailers increased an average 19.4%.

In addition to the T.A.G. program, the Lottery launched a few other notable things which contributed to the success of the program's second phase including a \$25 Instant Scratch-off ticket, as well as high jackpots for both the Powerball and Mega Millions games.

The Virginia Lottery, Tennessee Education Lottery, Georgia Lottery, and Kentucky Lottery all have either completed T.A.G. programs or have programs underway, with additional lotteries considering their own implementation.

#### BETTER INTEGRATION CAPABILITIES

##### New Zealand: Customer and Vendor collaboration support smooth Instant Game Transformation

When the New Zealand Lottery Commission (NZLC) embarked on an Instant Kiwi Optimization Program, it undertook a route and branch review of the category. Instant Kiwi has always been a strong brand in the portfolio, but had come under increasing pressure from the Pokies in recent times, which offered both higher payouts and instant wins. Instant Kiwi has always been positioned as a chance for people to "get out there and live a little," and is a great way to remind people that "instant Kiwi games are for people like me."



Integrating the customer knowledge and industry experience of GTECH with the NZLC's instant ticket vendor produced a successful new branding of the Instant Kiwi product

As part of the process, the NZLC requested that GTECH and its instant ticket provider review the current situation and proposed response plans. The GTECH Instant Ticket Team was able to provide recommendations regarding sales and operations that were designed to encourage the expansion of the group whom they called “people like me.” Those recommendations expanded on the already excellent work undertaken by the NZLC of benchmarking with analogous global markets that had faced similar challenges. In addition, they were able to suggest further improvements to enhance the plans over the medium to longer term.

The program focused on three key areas of the Instant Kiwi value chain: product, communication and distribution. The portfolio of games was refreshed and a new brand proposition was developed: “It can all change in an instant.” This was supported by a new advertising campaign designed to celebrate the changes and ensure all of New

Zealand was aware that Instant Kiwi is now bigger and better than ever. The results thus far have been extremely encouraging, with Instant Kiwi sales for the first year forecasted to go up from 2010’s \$104 million to \$132 million. This is an increase of 29 percent. On average, there are 30,000 more winners per week winning \$450,000 more in prizes. As a result, the brand is more visible and viewed more positively by players.

## CONCLUSION: A NEW WAY OF THINKING AND ACTING

To thrive in this constantly changing market and sustain our industry’s relevance, it requires inventive thinking and relentless, superior retail execution. Recognizing our common goals and working collaboratively toward progressive change are the cornerstones of *Customer First*.

Partner, Align, Create, Execute and Communicate. Our lottery customers’ business challenges are our challenges. We have common goals. We are committed to earning our customers’ trust every day. ♦

Ana Paula Barros ...continued from page 33

the infractions occur, but throughout the entire community of nations working together to compel operators to respect the laws of each nation. Maybe an International Treaty on gambling is needed. So yes, I would hope that insofar as these companies are found to act criminally in the United States, their status in markets where they are currently operating might be re-assessed. And that markets that are opening up in the future should factor in the track records of applicants who have been found to violate laws in other countries.

There is another “court” that can be the most powerful. That’s the court of public opinion. Public awareness of these issues and the fact that illegal i-gaming poker sites can be dishonest, violate laws, not pay taxes, and potentially defraud the players; this could lead to a respect for the importance of laws to protect the public and to hold these companies accountable. As the public and the players become more knowledgeable about this, our legislators and shapers of public policy will be more likely to support regulatory frameworks that hold operators to a higher standard. That’s why we need to nurture an international awareness, or at least a trans-Atlantic awareness of these issues. European and North American lottery operators need to work together more to create a better understanding of our industry on both sides of the Atlantic.

*The European Lottery Association has become a force for positive political and regulatory change. How does the EL Association get its members to agree on political positions and the actions to take?*

**A. P. Barros:** First of all, the majority of lotteries belong to the member state and could never bind the member state political position. The EL, however, doesn’t represent

the lotteries themselves, and thus unanimous consensus is not required for the EL action. The EL acts on its own behalf and its position doesn’t bind the lotteries or the Member states’ position. EL has a Board and an Executive Committee that take the daily decisions, according to the general declarations. The EL General Assembly approves general declarations and frameworks, e.g. on responsible gambling and such, and the EL has many groups for studying and preparing documents that can be accepted by the members to present to their member states, if they wish to do so.

Individual lotteries are free to take positions that are not always consistent with the EL Association. And vice-versa. For instance some members of EL, like Camelot and Lotomatica, are private companies. And all German lotteries, Veikkaus from Finland, the Belgian lottery, and many others, are all public operators. Santa Casa is a private entity but totally controlled by the state.

The second point is that the EL has been very engaged in European issues for many years. Some of the EL internal resolutions that establish main principles on lotteries and betting have taken more than ten years to be approved. Proposals are made, resolutions are formulated, resolutions are reworked, followed with votes by the general assembly, back to committee for further revisions – this is a complex process that takes time and a conviction on everyone’s part that it is important and worth the effort and the need to compromise. Some European lotteries, as they are part of the Public Administration of the member state, are not allowed to lobby themselves. But the European Lotteries Association is able to lobby.

*So, the European Lottery Association has lobbyists in Brussels?*

**A. P. Barros:** Yes. And while the positions it defends are usually consistent with the majority of its members, we do not require a unanimous consensus for the EL to take those positions. And sometimes we do not agree. For instance, in the early stages of the case with Bwin, the EL had different positions from Santa Casa on how to tackle the problem of Bwin, and recommended a different legal strategy. It was up to Santa Casa to decide what to do in “Brussels”. We pursued a strategy based on the conviction that the Court could be convinced to uphold the principle of subsidiarity against mutual recognition. Of course, once in court, many member states supported us, but there were different opinions about the best way to achieve our shared objectives.

The important thing is that differences of opinions not impede action and the need to always move forward. European Lotteries do not agree on everything with all its members. But we do agree that our interests need to be defended in Belgium, just like the interests of U.S. lotteries need to be defended in Washington, DC, I would suppose.

The distinction is that the EL can speak on behalf of the Association of the European Lotteries but they do not speak on behalf of any specific lottery. They do not represent Portugal or any other lottery in “Brussels”. The EL did not always have lobbyists. Ten years ago, the members wouldn’t allow it. That has changed over time and the evolution required patience and persistence and is in fact an ongoing process. We really have no choice. Other interests that conflict with lotteries, like the remote i-gaming operators, lobby hard in Brussels. We all recognize that the interests of lotteries in general need to be defended in Brussels or our stakeholders, especially the most vulnerable people, will be the ones who suffer. ♦



# CREATING WINNERS ALL ROUND

How an innovative, consumer-focused and bold approach to enriching EuroMillions in the UK has been rewarding for its players, driven sales even higher, and benefited UK Good Causes

by Dianne Thompson  
Group CEO of Camelot Group of Companies

In the lottery business, innovation is everything. All national lotteries generate huge excitement when they first launch – but, understandably, tend to go into decline as the novelty and initial excitement begins to wear off.

What we've tried to do at Camelot is to turn that 'norm' on its head by continually finding ways to keep the excitement going – new games, new ways to play, new marketing approaches. Continuous innovation has underpinned our long-term growth and that's the road we will continue to travel – not just here in the UK but also overseas, as we look to export the skills, resources and experience that we have developed over the last 16 years in operating one of the world's most successful lotteries.

The addition of EuroMillions to the UK National Lottery portfolio in 2004 – and its subsequent enrichment by the addition of the UK-only Millionaire Raffle – is a perfect example of such innovation in practice. Innovation implies risk – you can't have one without the other.

Someone once said that the real problem isn't aiming high and falling short – it's actually aiming low and getting there. In our bid for the second licence to operate the UK National Lottery, we proposed setting up a game that would be run in partnership with other lotteries in Europe. The powers that be at the time put a red line through it – and didn't even consider it as part of our application because they felt it would be impossible to achieve.

Well, we proved them wrong – and launched EuroMillions in February 2004 with France and Spain. Here was a game that allowed players to enter into a draw with other players from lotteries across Europe for the chance to win bigger jackpots than ever before. Today, EuroMillions involves nine countries, three currencies and two time zones. It's raised billions for good causes across Europe, with more than £1.1 billion being raised in the UK alone.

In keeping with this inventive approach, we review our range of products on an ongoing basis to ensure that we continue to offer players an enhanced and regularly-refreshed range of games, and focus on innovation to give them what they want, when they want it. As part of this strategy for long-term growth, we carried out extensive research with our players with a view to enriching EuroMillions in the UK. This clearly demonstrated what they enjoy about the game and what they want from it – namely, the excitement of playing for huge jackpots and lots of UK winners.

Following extensive product and marketing development, in November 2009 we launched the UK Millionaire Raffle game – an exciting UK-only addition to EuroMillions which creates a guaranteed UK millionaire each and every week. This add-on to the game required a 33.3% price rise, taking the price of a EuroMillions ticket in the UK to £2.00.

We know from experience that many UK National Lottery players follow consistent routines in terms of where and when they buy their tickets, the number of lines they play and the amount of money they spend. With this in mind, we were very conscious that any game development that included a price increase would represent a significant change – and could lead to our EuroMillions players feeling unsettled and even discouraged from continuing to play the game.

Clearly, logic dictates that consumers aren't going to ask for a popular product to be made more expensive. We therefore knew that a ticket priced at £2.00 had to represent good value for money in order to excite and retain the average spend – and frequency of play – of our EuroMillions players.

This focused approach to gaining a thorough understanding of the wants and desires of our players has been wholeheartedly vindicated – in meeting player demand to create even more UK millionaires, on top of the chance to win multimillion-pound mega-jackpots and other prizes in the main EuroMillions draw, the introduction of the UK Millionaire Raffle game has gone on to really capture the UK public's imagination.

But this resounding success can't be solely attributed to coming up with a great game. Given that this was the first price rise for any draw-based game since the launch of the UK National Lottery in 1994, it was absolutely essential that all of our players – both regular and occasional – needed to be aware of the new £2.00 cost and the inclusion of UK Millionaire Raffle before they reached the point of purchase.

Our communications to players across all media therefore had to

...continued on page 37

# Reliable Performance ...ALL THE TIME



The California Lottery has worked with Smartplay for 17 years and we currently conduct about 180 drawings a month using their equipment. I'm very comfortable with the quality and reliability of their products... they have performed flawlessly.

Smartplay is large enough to meet any of our needs, yet small enough to customize any equipment and provide personalized custom service...and that service is amazing. Their capable staff meets all our needs...on time. In my experience Smartplay International is the world leader in drawing equipment!

*Jeff Aills*

**Jeff Aills**  
Gaming Security Manager  
California Lottery

**calottery**<sup>SM</sup>

**SMARTPLAY**  
INTERNATIONAL

From one end of the world to the other, no one can service your needs like Smartplay. As the world's major supplier of drawing equipment, from traditional ball machines to Digital Draw Systems, we service more lotteries throughout the world. With 176 clients in 85 countries, the world is our back yard.

Our attention and response to our clients needs, no matter how small, makes for great teamwork.

For more information contact us at [info@smartplay.com](mailto:info@smartplay.com) or (609) 880-1860 and visit us at [www.smartplay.com](http://www.smartplay.com)



# A WORLD OF **POSSIBILITIES**

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.

