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ANNIVERSARY ISSUE

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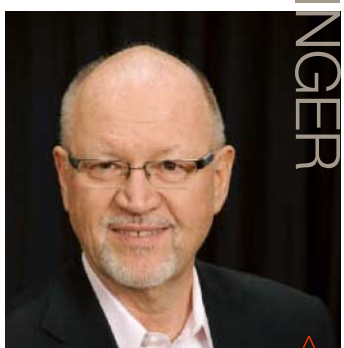
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# From the Publisher

By Paul Jason, Publisher, Public Gaming International Magazine

Even in the brief re-telling by Duane and Doris Burke about how and why they started Public Gaming Research Institute, it can be seen how the mission we have today has really not changed in forty years. Back in 1971, a gaming and lottery industry started to blossom in the U.S. and it was not clear what shape it would take. Duane and Doris started PGRI as “an information service to help the states and the companies interested in this *gaming for good causes* field.” The newsletter became this magazine and the “service” turned into conferences and trade shows. While much has changed from the time when only three U.S. states even had a lottery, the focus on supporting the development of an industry that channels the economic benefits of gaming back to good causes and the service of the public remains the same. Then as now, enabling legislation and the regulatory framework exerts a profound influence on the ability of government lotteries to maximize funds for *good causes*. Articulating the message in defense of the interests of lottery stakeholders in the political arena continues to be a major focus for PGRI. In the end, though, the leaders of government lotteries are charged with positioning their businesses for optimal success regardless of the regulatory model and competitive landscape.

**Christophe Blanchard-Dignac** explains “Markets and regulatory changes are being forced upon all of us. We can choose to resist those changes and hope they don’t happen too quickly, or we can choose to get out in front and position lotteries to stay the preeminent gaming operators in the world. At la Française des Jeux, we are choosing to embrace the opportunity to change and adapt.” Of course, we do also resist change that is contrary to the interests of lottery beneficiaries. But dealing with the reality that markets are being opened up to multiple gaming operators, la Française des

Jeux stays focused on the mission of maximizing funds for its beneficiaries, and Mr. Blanchard-Dignac on transforming the business to succeed in this new hyper-competitive gaming environment. Loto-Québec also operates the entire range of gaming products but under a very different regulatory model. **Alain Cousineau** explains the mission of Québec as being 100% focused on minimizing problem gambling and social costs. Raising funds for good causes is not the objective and evidence of that is found in decisions to reduce the accessibility of gaming where they think it can be done without causing the players to go to illegal operators. And how does the province of Québec go about the business of managing consumption of gambling? By legalizing and regulating the entire industry.

The forward-looking leaders in the U.S. are also taking decisive action to reshape their approach to gaming. The impact that a socially connected community of consumers sharing their lottery experiences will have on the bottom line transfers to *good causes* is much greater than online poker will ever have. With their live-streaming of lottery draws onto Facebook and other social media mega-centers, New Jersey is one of many state lotteries that are building the digital frameworks that are making this happen. **Carole Hedinger** explains the genesis of their social gaming strategy, the concrete steps they took to implement it, and the transformative impact it promises to have on their business. This entrepreneurial energy is also manifest in Florida, where **Cynthia O’Connell** is applying the principles of results-driven leadership to embrace stretch goals for the lottery. Lotteries have a wealth of talent and entrepreneurial capital that is being freed up to turn their businesses into operational and marketing powerhouses. U.S. lotteries and their legislators are seeing the benefits to empowering their lottery to operate as real businesses instead of being administered as government agencies.

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“Our overall business was not at the level we expected, and we wanted to improve our revenue contribution to education. Because GTECH knows all the variables that impact player behavior — game launches, instant ticket allocations, prize structures, odds, and more we asked them to help us develop a strategy to increase sales. They reviewed



And the U.S. leadership is running with the ball, implementing yet another collaborative breakthrough with 'Enriched' Powerball. The power of a smartly differentiated portfolio of multi-state games is key to staking out the high ground in a U.S. gaming industry poised for growth. **Terry Rich** explains the reasoning behind the decision to raise the price of Powerball to \$2, and how this is but one more step in a process of consolidating the position of U.S. lotteries on the national gaming stage. **Kurt Freedlund** has a vision for taking the national stage. Everyone agrees that multi-jurisdictional games have as much or more growth potential as any lottery product. So why would we limit its potential with a fractured marketing strategy? The obstacles may seem formidable, and the will to overcome them calls for vision, creativity, and fortitude. The first step would be to get this issue on everyone's radar and get recognition that coordination of strategy to maximize performance will benefit each and every individual lottery.

What would you say to the idea of obligatory player i.d. cards - as in, the consumer can't buy your product, not at a store, not online, not anywhere, without signing up for a personal i.d. card membership? Norsk Tipping is the first gaming operator to make player i.d. cards a requirement. Promotion of responsible gaming and prevention of underage play was the objective in the beginning. **Torbjørn Almlid** talked with me at the EL lottery Congress in Helsinki about how their player i.d. card system has now turned into a powerful tool that connects the lottery to its customer. One result is increased sales. The more important result is increased customer engagement and a sustainable growth strategy. Think of it as the ultimate Players Club. And just because you may not choose to make it obligatory, understanding how the Players Club can be used to such tremendous effect would be good for all lotteries.

**Philippe Vlaemminck** and **Delia Orabona** update us on the efforts of the EU Commission and member states to build a framework that rationalizes

a complicated European regulatory scene; **Mark Hichar** explains why all the talk about federal legislation of i-gaming is misguided - the solution is simple, is already in place, and empowers states to fulfill their role as regulators of gambling within their own borders.

I asked some of our commercial partners to share their visions of what it takes to position government-sponsored gaming to be the dominant operator in the industry. Interviews include **Bill Huntley**, **Nikos Nikolakopoulos**, **Todd Bauman**, **Richard Wheeler**, **Mike Veverka**, **Team Betware**, **Team NeoGames**, and **Team Kambi**; a feature article by **Team GTECH** on how consumer-facing Players Clubs and other digital initiatives require new tools to protect the players and preserve the integrity of Brand Lottery. The commercial community is a tremendous resource invested in the success of Team Lottery. It is a wonderful industry that can work together like this towards a shared vision of support for *good causes*.

And Congratulations to **Wayne Lemons** for a fabulous career! Mr. Lemons is being honored and presented with the PGRI Lottery Industry Statesman Award at a special ceremony held at Lottery Expo. This is only the second Statesman award ever, and recognizes the respect that Mr. Lemons has earned over 21 years of service to this industry.

We send out an electronic newsletter four times a week, dubbed the PGRI Daily News Digest. Please visit [www.PublicGaming.com](http://www.PublicGaming.com) or e-mail [Sjason@PublicGaming.com](mailto:Sjason@PublicGaming.com) to be put on the distribution list. It's free. Too, visit [www.PGRItalks.com](http://www.PGRItalks.com) to see video-recorded presentations by our industry leaders. And check back again in a few weeks for the video-recording of Lottery Expo.

Thank you all for your support. We need it and depend upon it and are dedicated to working hard to earn it. I welcome your feedback, comments, or criticisms. Please feel free to e-mail me at [pjason@publicgaming.com](mailto:pjason@publicgaming.com). ♦

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

**Alice Garland**, *Executive Director, North Carolina Education Lottery*

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## Christophe Blanchard-Dignac

President and Chief Executive Officer

La Française des Jeux, the French Lottery and Gaming Operator



**Introduction:** The regulatory framework in Europe especially for sports betting has been in quite a state of flux for the past number of years. The EU Commission has challenged the member states to change their regulatory frameworks to allow for more open competition. As a result, member state governments are reshaping those frameworks. This is affecting the basic lottery model which has always depended upon a stable, predictable, and exclusive marketplace. All lotteries are striving to defend the interests of their stakeholders, but the decisions about how the regulatory models change are being made not by lotteries as much as by political leaders. As shapers of public policy determine how the markets are to be regulated, lotteries are given the task of adapting to those changes, optimizing performance, and continuing to generate funding for Good Causes.

The EU Commission required France to make changes to its online regulatory model and France complied by implementing what is called a 'controlled opening'. The markets in many gambling categories (like sports-betting and Internet gaming) are opened up to multiple licensed operators. Other categories, like lottery, continue to be controlled by the state. The lottery and gaming community is watching to understand how this works because the French model meets the requirements of the EU Commission while also serving the needs of the state. Likewise, lotteries are watching to see how the French lottery, la Française des Jeux, adapts to a regulatory model that pitches the lottery operator into direct competition with an ambitious, sophisticated, and well-funded stable of commercial enterprises. La Française des Jeux is the world's third biggest lottery operator, with €10.55 billion of bets placed in 2010, a 5.5% increase over 2009. As Chairman and CEO for the past ten years, Christophe Blanchard-Dignac is charged with steering the lottery into this new age of more opportunity combined with more challenge.

*Paul Jason, Public Gaming: Is the 'controlled opening' the best regulatory model for France and La Française des Jeux?*

**Christophe Blanchard-Dignac:** The fact is that the world is changing, the markets are changing with it, and the regulatory frameworks are changing along with everything else. So, the issue really is not about what is best for society as an abstract exercise or philosophical discussion. The issue is how to optimize the position of our stakeholders in the context of the way of the world as it really works. We need to ask ... What can lotteries do to position themselves for success, not in an ideal world that doesn't exist, but in the real world that does? Markets and regulatory changes are being forced upon all of us. We can choose to resist those changes and hope they don't happen too quickly, or we can choose to get out in front and position lotteries to stay preeminent gaming operators in the world. At la Française des Jeux, we are choosing to embrace the opportunity to change and adapt. We want to meet the needs of the 21st century consumer

on their terms, evolving our approach to be the kind of service provider that keeps pace with its customers. That means facing a dynamic marketplace that is more difficult and challenging than ever. But it is also richer with potential for the entrepreneurial operator to create better products, innovate the business model, build new and better distributional channels, and connect with the consumer in new, forward-leaning and always sustainable ways.

Lotteries have some distinct competitive advantages that should empower us to do well in this dynamic new world of gaming. The thing is, we need to face up to the reality that some of our competitive advantages are being obsoleted by changes in the marketplace and regulations. Frankly, lottery products and business practices have been very fortunate to enjoy a life-cycle that has lasted as long as it has. Most businesses have to reinvent themselves and their products every three to five years to just stay relevant and avoid being displaced by a competitor: life cycles are going to be shorter and shorter. The

time has long since come that lottery needs to reinvent itself. Of course, we want to do everything we can to protect the model that serves the interests of our beneficiaries and stakeholders. The regulatory model that provides protection for the traditional lottery games is being preserved for the benefit of the general interest. But there's two things happening that require us to evolve our entire approach to the business. First, the regulatory model that governs the broader gaming and gambling industry is changing, opening up more recreational gaming options for the consumer. Second, consumer preferences themselves are changing and we need to evolve our products and business practices to keep up with those changes. So, la Française des Jeux is committed to accelerating its own evolution to stay out in front of the changes, stay ahead of the competition, and meet the needs of the consumer.

*Prior to the controlled opening, France had a flourishing underground market, didn't it?*

**C. Blanchard-Dignac:** Of course. Just like all



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jurisdictions that attempt to prohibit gambling. Complete prohibition of online gaming does not work. That just provides a fertile market for illegal operators to satisfy the consumer demand. That's why it is so much better for the state to regulate the market. Providing a regulated option for the players also gives the state the flexibility to prohibit the more dangerous kinds of games and ensures that licensed operators are held to high standards of integrity, security, and Responsible Gaming. Lotteries need to understand and embrace that fact and support the formation of a sensible regulatory policy, one that addresses the market realities, protects the consumer, and makes sense for everyone. Our transition is made easier by genuinely embracing the agendas of our political constituents.

*Could we get a brief overview of the French regulatory framework?*

**C. Blanchard-Dignac:** There's only one lottery in France, la Française des Jeux, and it has exclusive rights for all offline and online lottery gaming. The only gambling activity that is open to competition under a licensing process includes online sports betting, online horse betting, and online poker. Online poker was prohibited until last year. That does not mean there weren't hundreds of thousands of people playing online poker in France. There were in fact. They were just playing with illegal operators based outside of France, not paying taxes, and not complying with the highest standards of consumer protection and integrity. That is obviously the worst of all possible worlds – high social costs and no benefit to society. Another way to think of complete prohibition is that you are simply allowing the market to be regulated by off-shore operators who don't pay their fair share to the community or comply with high standards of integrity and player protection.

*Still, it must be a difficult decision to invite a regulatory framework that opens up the market.*

**C. Blanchard-Dignac:** Of course, it's always difficult for a lottery director to suggest to the government, in effect, to open up the online market to competitors. The decision is easier, though, when you re-frame the question. Would I rather compete with competitors who are regulated, and held to the same standards and tax obligations as la Française des Jeux, or would I rather compete with unregulated offshore competitors whose cost structures are so much lower since they do not pay taxes or normal salaries? From a business standpoint, our stakeholders are much better served by a regulated market in which la Française des Jeux is not at a competitive disadvantage. So now we have competition in the online sports-betting space. Offline is still under exclusive rights to la Française des Jeux and that represents nearly 10% of our revenue. Online sports-betting is only 1% of our activity and now that is legally open to competition. But at least now it is regulated and properly licensed; and society is enjoying the benefit of tax receipts from online sports-betting, and players have better protection. After one year, we represent about 14 % of the online sports-betting market; not as much as we would like, but much more than we had before the market was opened (4%). And - this is the most important - our off-line sports-betting business and lottery revenue base has not been damaged. In fact, it appears that all the advertising done by the online sports-betting operators could have benefitted our off-line sports-

betting business where la Française des Jeux is the exclusive operator. Most consumers still prefer to go to the off-line outlets than to the online operators. This has worked out very well for us, since la Française des Jeux has 36,000 outlets in France, with 25,000 of them able to sell sports-betting products.

*Weren't the retailers concerned that they would lose customers to the online channels.*

**C. Blanchard-Dignac:** The retailers were very anxious. They did think the customers would easily switch to betting and buying the products over the Internet. It did not happen that way at all. The customers are used to their retailers. They like to go to a place where they know each other, they can talk with the other, they can interact and enjoy being with and around other people. Our land-based outlets do very well and are our main competitive advantage. The younger players are definitely online more and we do need to make the products available to them on a variety of media and channels.

The main thing is that no matter what the channel or method of distribution, the games need to be secure and marketed in a responsible way. Security and integrity are two of our key brand attributes what we want people to think of when they think of la Française des Jeux.

*Everyone recognizes that Responsible Gaming is good public policy. But it seems to me that you are turning it into an effective competitive advantage as well.*

**C. Blanchard-Dignac:** Exactly. For la Française des Jeux, Responsible Gaming is the definition of gaming. It's embedded into our products from the beginning of the product development cycle. Just as a product is tested to see whether it appeals to the consumer, we test to make sure the psychological and emotional response will not lead to problem or addictive gaming. We also train our retailers to help us make sure the games are good for the consumers and not producing any negative effects. We cannot eliminate Problem Gambling, but there are many things we can do to minimize it, and monitor player behavior to respond quickly whenever there is evidence of a problem. We think of Responsible Gaming as our economic mission; and our social mission is of course to give back money to the society.

*You are now streaming live sports events on your website [www.Parionsweb.fr](http://www.Parionsweb.fr). I would think this would attract a much larger player group.*

**C. Blanchard-Dignac:** We hope so but it will take time. This would be a great example of how the need to compete with aggressive commercial operators is challenging us to develop new ways to connect with the consumer. We are developing a much better understanding of new media and how it can augment all of our business groups. Competing in new spaces puts us into a constant state of acquiring new capabilities that enhance every part of our business, including traditional lottery.

*La Française des Jeux transfers about 2.6 billion Euros a year over to its beneficiaries, one of which is grassroots sports organizations. The commercial licensees seem to always be complaining about taxes they are required to pay to support grassroots sports organizations.*

**C. Blanchard-Dignac:** We are pleased and proud to support grassroots sports. Along with protecting the players, serving our beneficiaries is our mission,

our whole reason for existence.

*The online operators seem to have a competitive advantage because they just transferred the underground market which they had been serving illegally over to their newly legitimized websites.*

**C. Blanchard-Dignac:** There are two conditions for lottery to be successful. The first thing is to have an enforceable regulatory framework that holds everyone to the same tax and regulatory standard. Lotteries that transfer a significant percentage of their revenues to beneficiaries, and adhere to a high standard of player protection and integrity cannot compete in an unregulated market dominated by off-shore operators who do not comply with those standards.

The second thing we need is time. Operators that have taken many years to build their market illegally have a big advantage when the markets are opened up. The huge customer base they have is easily migrated right over to their new licensed website. Games as online poker for instance require a sufficient volume of players. Operators which have been complying with the law have no base of players to start out with. That makes it almost impossible to gain any traction against the operators which acquired their base and experience illegally. So it is vital that the regulatory framework be implemented in a fashion that enables those which have been complying with the laws to have a chance against competitors that have been operating illegally for years. For other jurisdictions considering a similar regulatory framework, a simple way to remove that unfair competitive advantage would be to require the customer accounts that were acquired prior to having a legal license to do business, to simply close those customer accounts, giving back the money to the customers, so that we are all on an equal footing. Operators could then all open their virtual doors for business at the same time and compete for the customers. All that being said, we are making good progress in all product categories and distribution channels.

*That's been the big obstacle for la Française des Jeux in the online poker space?*

**C. Blanchard-Dignac:** Yes. We also needed time to build from scratch the IT and supplier infrastructure in these new spaces like online poker. We are very good in land-based outlets, but we did not have an online presence and that is a different channel with an entirely different player group. If we have a responsible regulatory framework that creates an even playing field for all competitors and laws and tax obligations that are enforceable, and we have time to prepare for launching a competitive product and business model, then we will be successful. France now has a consistent regulatory framework. It strikes a well thought out balance by allowing a competitive, dynamic marketplace to coexist within a framework that protects the consumer. Preservation of 'Public Order' and the highest standards of Responsible Gaming are key parts of the French regulatory framework.

*The EU Commission appears to be objecting to Germany's system of multiple operators in sports-betting but keeping the lottery exclusive to the government. The basic idea being that lottery is less likely to cause problem gambling than sports-betting, so if you allow multiple operators in sports-betting, you should allow multiple operators in the lottery space as well.*

...continued on page 70



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## Torbjørn Almlid

President and  
Chief Executive Officer  
Norsk Tipping AS,  
the Norwegian  
Lottery and  
Gaming Operator

PGRI Introduction: Norsk Tipping has a most unique bond with its customer – 100% of its players have a Player card with an electronic ID. What may have started out as a tool to promote responsible gaming and prevent underage play has turned into a powerful tool that connects the lottery to its customer. One result is increased sales. The more important result is increased customer engagement and a sustainable growth strategy based on an ongoing dialogue and mutual trust between lottery operator and the player.



*Paul Jason, Public Gaming: Before we get into the unique relationship that Norsk Tipping has built with its players, let's first get an overview of your business.*

**Torbjørn Almlid:** Norsk Tipping was created in 1948. We now offer a wide range of products, including number game products, scratch-offs, sport betting products. We have IVT's (Interactive Video Terminals), and the new family of products we're developing will be even more interactive. We have been expanding our retail network to get our products into different retail sectors. It may be a smaller number of the simpler products in some of these stores. Our goal is to be present where people are, which means that we need to have a differentiated offering to satisfy the need as it spans from the discount segment to the specialized gaming kiosk. . Our Internet and Mobile channels now account for more than 20% of our sales, and the

percentage of sales in those channels continues to grow. In addition we have appx. 3,000 IVT's (Interactive Video Terminals).

*Does Norsk Tipping have monopoly control over all the games and channels?*

**T. Almlid:** There is one other legal operator. Norsk Rikstoto operates horse-betting and their turnover accounts for about 15% of the gaming market in Norway. In addition, the traditional Bingo Halls are organized thru local charity and private operators. And then there is the gray illegal market based on the internet, which accounts for about 20% of the market. The Norwegian market is highly regulated to preserve public order, protect the consumer, minimize money laundering, and manage growth in a responsible way. Achieving that is the mission of Norsk Tipping, with the profit being channeled directly back to

the Norwegian people.

*What can be done to stop the illegal operators?*

**T. Almlid:** It's not easy. Even banning television advertising is problematic because we can't control broadcasts from foreign countries like the U.K. We do need some kind of international cooperation, a collective effort on the part of all countries to stop these companies from profiting illegally. The regulatory framework has been evolving, but not quickly enough to keep pace with changes in the marketplace and technology, especially as it relates to Internet gaming. The EU Commission is giving special attention to these issues, having released the "Green Paper" that sets out a plan for rationalizing the regulatory frameworks in Europe. While we are not part of the EU, Norway is a part of the European Economic Community and is very much affected by the laws and enforcement pro-

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cedures adopted by the Union. The courts all across Europe, including the European Union Court of Justice in Luxembourg, are in a constant state of arbitrating these regulatory issues. We pay close attention to how the courts decide matters in our neighboring countries.

*Do you think of the Norsk Tipping mission as being more about generating funds for good causes or channelizing the existing demand for the purpose of protecting the consumer?*

**T. Almlid:** There was much debate about that when the Norwegian government implemented the VLT reform some five years ago. The issue was resolved in much the same way as what you will find in most European jurisdictions. The reason for the monopoly is to promote responsible gaming and manage the growth of the market so that it meets existing demand but does not overly stimulate growth. Raising funds for Good Causes is actually not the justification for the government monopoly. It's all about channeling the players to responsible operators for player protection and integrity.

*There are lots of reasons to implement player identification cards, but increasing sales would not be at the top of most peoples' list of reasons. And yet, it's become a powerful marketing tool for Norsk Tipping, hasn't it?*

**T. Almlid:** The Player card was made obligatory two years ago. And last year our sales increased over 8%. That sales increase had more to do with the roll-out of our VLT's. But I can tell you that the Player card did not hurt us, in fact it helped us. We monitored it carefully and can say we saw no attrition, no player loss. And now that everyone is on board, it will absolutely be a sales driver. Players see the benefits and the value of the interaction and information the Playercard can give them.

*What are the benefits?*

**T. Almlid:** Most of them are just what you would expect; what you would find in most customer loyalty programs. First of all, it gives the player an easy way to play on all channels and an absolute certainty that all their winnings regardless of size will be paid out to their own player account. Easy access to all information regarding their play on all channels, and direct information based on their preferences is also highly appreciated. So they associate those benefits with their Player card. The card also creates a frictionless transfer of funds; fast and easy, just the way the consumer expects things to happen in this age when they buy i-phone app's, do banking, book flights, and conduct so much business all on their Mobiles and via the Internet. They want our customer-facing business processes to be in sync with their lifestyle of high-tech speed and convenience. They're no more interested in redeeming hard-copy re-

ceipts than they are interested in buying music CD's. It's a digital world and the Players card is a vital component of the digital relationship that players have with the lottery. By the time we converted to an obligatory system a couple years ago, the players valued their lottery membership and would not want to play the lottery without their player card, first of all based on the fact that they do not need to take care of their play-slip to insure that they would get their winnings

*And now you're going to the next step and introducing relationship-building programs that can only be done with the kind of dialogue and transaction-tracking mechanisms enabled by membership i.d. cards. Explain the Grassroots Fund and where you're going with that.*

**T. Almlid:** The Grassroots Fund enables the player to decide which charity should receive a portion of the turnover. Specifically, the player can register 5% of the amount played to go towards supporting a local sport or cultural organization.

*That just seems an incredible idea. Most industry marketing people acknowledge that promotion of the philanthropic mission of lotteries doesn't really get the players' attention, or have much impact on buying behavior. But it would seem that if you can get the player to engage in the mission of lottery in this highly personal way, that would make all the difference.*

**T. Almlid:** About 40% of the players have signed up and we just launched it less than two years ago. It does, as you say, create a personal emotional connection. It adds an interactive dimension to the relationship the player has with the lottery. They're deciding where some of the funds are channeled. That is a tremendous feeling of empowerment. And the recipients they choose from are mostly local organizations so that makes it even more tangible, more meaningful for the player knowing that it is helping a cause that's close to home and that they believe in. They may even be personally involved in the organization, or have friends who are. So they share that information on their Facebook page. Their lottery affiliations become a part of who they are, part of what defines them as individuals, much like the music they like or where they go on vacations. That creates more exposure for lottery and it is a really more positive and different kind of exposure than you could ever produce with conventional mass-market advertising.

*Is there any consideration for increasing the percentage that the players can assign to their favorite charity?*

**T. Almlid:** We do not have any immediate plans for that, we think that the level of 5% is at a balanced level for the time being. You do need to recognize that this percentage does come from somewhere. In our case, it is actu-

ally treated as a cost of doing business, which does not help our bottom line. But no matter how you treat it from an accounting point of view, the percentage that is going to the charitable organization of the players' choice is going to a Good Cause, but it is also money that is not going to the other Good Causes that also need more funds.

*Even so, the means of engaging the players directly in the philanthropic mission that is the basis for lottery would seem a hugely powerful concept. I would hope that everyone can see the value in it and be willing to share the benefits.*

**T. Almlid:** Everyone looks out for their own budgets as they should, but they do all understand that and that's why it will be increased at some point. And keep in mind, it's the Player card system that makes this kind of interactive relationship possible.

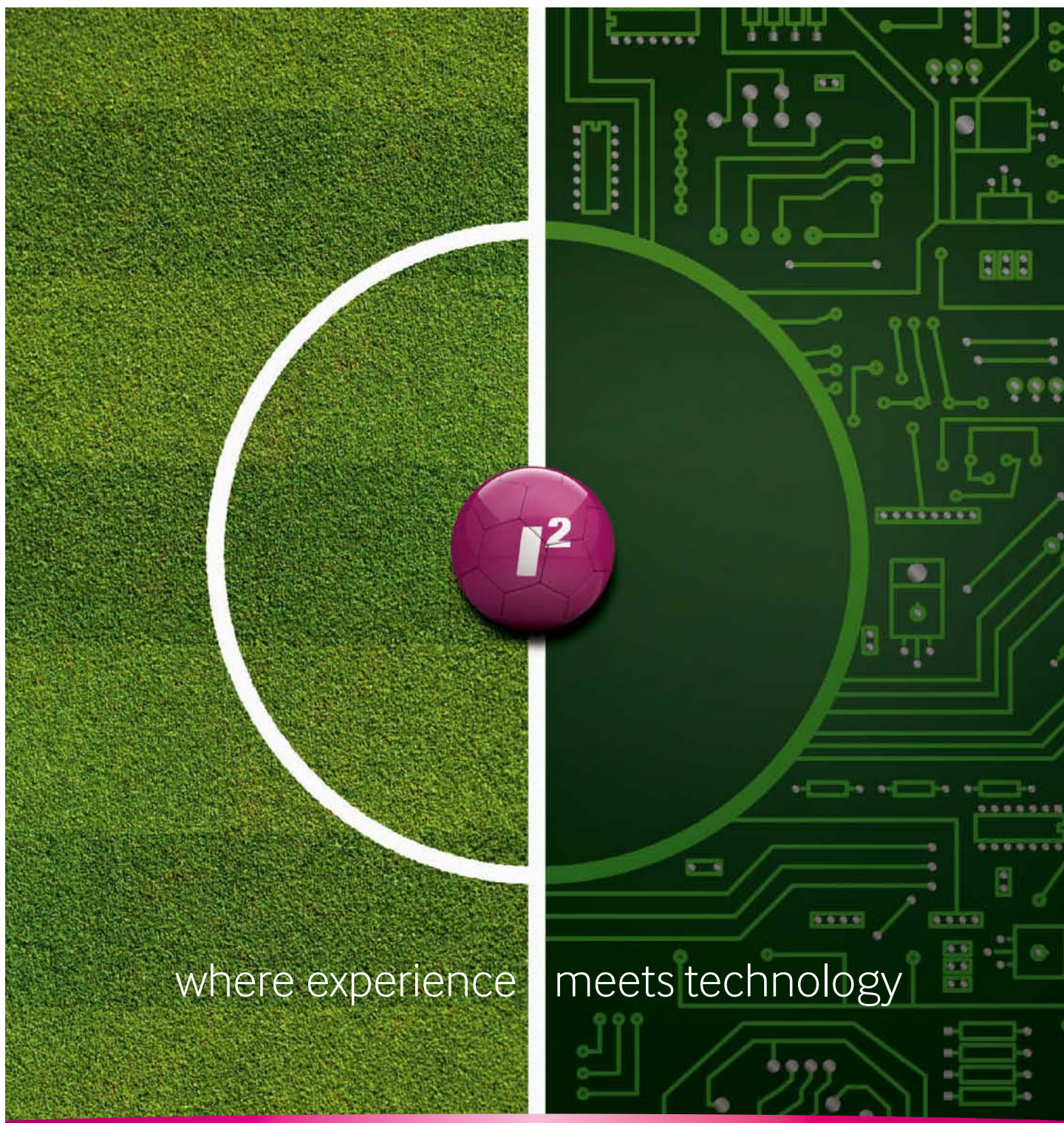
*That kind of interactive relationship would also seem to provide a broad canvass with which to promote new games and educate the players on exciting new game concepts.*

**T. Almlid:** That's true. It also changes the whole approach to Responsible Gaming, transforming it from a cost center that puts a damper on sales into yet another feature that players actually value. We have built tools that enable the player and the lottery to monitor their playing behavior together. We do have limitations on how much anyone can lose per day on Interactive Video Terminals (IVT's), for instance, but we strive to engage the player in the process of getting the most enjoyment out of the games, and to embrace the opportunity to manage their play responsibly. We help them to understand that it's no fun if you're playing more than you really want to, or losing more than you can afford to lose. The Players Card creates a wealth of options to create a dialogue with the players that improves the overall playing experience. And our public image is improved for having such an effective RG platform, which is something that our political constituents appreciate, and all of our stakeholders can be proud of. I really think there is still huge untapped potential to utilize the Players card to fully connect with our players, build loyalty, and engender a healthy and responsible approach to recreational gaming.

*How does a lottery operator go from having no Player i.d. card at all to having 100% participation?*

**T. Almlid:** You do need to begin with a voluntary system and develop your ability to build the programs that resonate with the players and it takes some time to build trust and an open dialogue. It took us years, having started back in the 90's. But it won't take nearly that long now.

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

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## Cynthia O'Connell

Secretary of the Florida Lottery



PGRI Introduction: Florida Governor Rick Scott selected Cynthia O'Connell to lead the Florida Lottery in February of this year. Secretary O'Connell is not new to the lottery business, having previously served as a Division Director of Research and Promotions for the Florida Lottery, where she developed the promotional launch of the Lottery's instant and online games, and oversaw a staff of 20 with a multi-million dollar budget authority. Previously, Secretary O'Connell served as a Senior Vice-President/GM at Hill & Knowlton, where she oversaw communications strategies for major national and Florida accounts. Along with her previous experience at the Florida Lottery, Secretary O'Connell has a long history of public service to Florida. She is an inaugural (2001-2011) Board of Trustee member of the University of Florida, where she oversaw committee assignments including educational policy, public relations and brand management. She serves as the Chairwoman of the Florida House in D.C, Florida's embassy on Capitol Hill, where she oversees Florida House's important mission of showcasing Florida's cultural and economic resources to the nation's capital. "Cindy brings an impressive record of leadership and brand management to the Florida Lottery and will improve the agency's important mission of maximizing revenues for the enhancement of public education in Florida," Governor Scott said.

The Florida Lottery recently announced that lottery ticket sales exceeded \$4 billion in fiscal year 2011. That's exciting, but the real story lies in the future. Under the leadership of Secretary O'Connell, the Florida Lottery has embraced quite ambitious goals to increase sales and transfers to education. Specifically, sales to increase by 5% (to \$4.22 billion) and net transfers to increase by 7.76% (to \$1.25 billion). The market is ready for progressive strategies that promise to meet the needs of the next generation of lottery players.

*Paul Jason, Public Gaming: You're coming off a very good year. Congratulations for topping \$4 billion in sales, a 2.8% increase over last year. More importantly, though, are the ambitious targets you've set for 2011/2012.*

**Cynthia O'Connell:** The Florida Lottery has taken a close look at everything we do, embarking on a total refresh of the lottery brand. This is a major initiative, and it's important for us to get it right. This will set the stage for enabling us to drive towards ambitious objectives. To do that, we need to position our products, channels and message to be relevant and competitive in an ever-evolving gaming environment. We're now in our 23rd year of operation, so it is the right time to update our corporate image. I was here at startup and had the privilege of being a part of the launch of our origi-

nal brands. Our FLORIDA LOTTO™ product remains one of the most dominant in-state games in the country, so we need to be very careful about how we change anything. But a refresh is due and we will take the opportunity to look at everything we are doing, looking for ways to improve in every product category and every area of business. In particular, we will be especially focused on building a more unified brand strategy, more active loyalty programs to maximize the synergy of our products, and reinforce our Florida Lottery brand image and relationship with our customers.

*Unified brand strategy. That's somewhat self explanatory, but could you elaborate on what that means?*

**C. O'Connell:** The goal is to maximize overall sales. An integrated brand strategy

gives more attention to that objective. Instead of silos that are measured as independent revenue streams, we want to build an integrated approach to how the games are developed and marketed. We will look at everything we do from a big picture point of view as to how everything works together, in harmony. How do the look and feel of the games complement each other? How exactly is the promotion aligned with the game it's promoting and the motivation of the retailer to sell it? How can we better engage our media partners and retailers in our mission? A unified brand strategy is an approach that encourages a more cohesive process and more synergistic results. And, we are building sophisticated tools to measure the productivity of everything we do.

The Florida Lottery is a very strong lottery and it's gotten to the place it is today because

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we've had good leadership in the Secretary's Office. I am very grateful to all my predecessors for positioning us in the place we are. Now it is time to leverage this sound platform to drive for improved performance. The process is underway now and will continue for years to come.

*The potential of the business has increased with the number of products, variety of media and promotional tools, distribution channels and ways to engage retailers, etc. But the complexity has also increased.*

**C. O'Connell:** And that's why simplicity is so vital. It's a bit of a paradox, but the increased complexity requires us to define the messaging and the performance drivers even more clearly. The larger the number of moving parts, the more important it is that each is functioning with a clearly defined purpose. We are focused on projecting clear and simple messaging to our players, our retailers, our media partners, our stakeholders, and our team at the Florida lottery.

I have been personally working closely with our retailer network to better understand their goals and their needs, convert those into action plans for the Lottery, and nurture our relationship with our retail network. I am also personally invested in doing everything we can to optimize the performance of our corporate accounts. I am in the middle of a 100-day plan to visit our top 25 corporate retailers both here in Florida and at their corporate headquarters elsewhere to discuss how we can grow their lottery business on a unit level. That's what will increase their bottom line as well as our contribution to education. And we're having some success in that we're talking about plan-o-grams, point-of-sale campaigns, and communication between their district managers and our district managers within our nine offices. And, I'm seeing some real hand-in-glove improvements in performance just by virtue of better communication. We are focusing on unit sales and sustainable growth strategies with our retailers, embracing them as the face of the Lottery with our consumers and players.

*Do retailers always welcome you with open arms, enthusiastically embracing the challenge to increase their bottom line by selling more tickets?*

**C. O'Connell:** I think that the best tool of persuasion is simply a data sheet of information that shows their actual sales and compares that to the sales they're leaving on the table by not engaging in more aggressive

marketing practices. Every business is all about the bottom line. So we just need to show them how to improve their bottom line, and that lottery delivers great margins, great ROI, and drives traffic that buys other products. Retailers hate the idea that they might be leaving money on the table, losing sales to their competitors, or losing sales that they should be getting. So we show them the sales that their competitors are making and what their sales could be if they made some simple changes. That's a great motivator.

*Lottery brings people in to the stores that might not otherwise have come in. Does the residual impact that lottery has on the sale of all the other products in the store have much traction with retailers?*

**C. O'Connell:** That's where we have lots of traction. Especially when recruiting new retailer segments. The prospect that you can double your total sales just by installing lottery is of course very appealing, a big motivator.

It's because of our sales force and the engagement that we had with our Lottery sales reps and our sales management team that we were able to exceed \$4 billion in sales this fiscal year. It's a full-court press on the retailer front. And so those strategies will stay in place for the next three years.

*Your enthusiasm and focus must be galvanizing to the entire Florida Lottery Team. I'm sure the retailers are not the only ones anxious to get behind a leader who is so serious about making things happen.*

**C. O'Connell:** We do have a great team here and I am very proud of them and their efforts to transform the Lottery. We measure our performance-to-goals daily and weekly. We have a lot to do and we're working very hard together to accomplish those goals.

*Expanding the retailer base, increasing the POS's, seems to be a key focus of many lotteries.*

**C. O'Connell:** Of course, but we are looking just as much at the top performers and asking what we can do to increase those sales. We're not letting anyone rest on their laurels. We have a streamlined presentation that makes a clear and compelling case for everyone to optimize performance, including or even especially our top performers. And, we really don't take no for an answer. The retailers are embracing our sense of purpose and conviction, and giving it their best effort. That's all we need because that will produce the results we're looking for. Frankly, this is just how any product is marketed. We are just

applying the tried and true principles of all successful marketers.

And, I am very personally involved and just loving it. Last week I met with a very large company that has a significant footprint in Florida and does not sell our product. It is exciting to tell our story, to pitch to them how and why lottery fits in with their business plan and will help them accomplish their objectives.

*It was not too many years ago that large retailers were concerned that lottery may not be consistent with the brand and image they wanted to project. Is that still a concern, or has gaming become an accepted part of popular culture?*

**C. O'Connell:** I can't speak to the question of gaming as a part of our culture, but I can say that concern about lottery not matching with their corporate image is a minimal problem for us. The issue is much more about meeting their needs for operational and logistical efficiencies. Can the clerks handle it easily, what's the settlement process, inventory control, will there be any theft – all the gritty details of implementation are what they mostly care about.

*Are there fulfillment and transaction processing issues that are an obstacle?*

**C. O'Connell:** We have a new corporate reporting system which provides information very quickly and efficiently to retailers on their individual store inventory. That has become a key part of the settlement process and is helping them immensely. Other than that, it's all about working with each retail partner, addressing their concerns, helping them deal with the Lottery more efficiently, helping them be more successful, and focusing on their goals to make more money. The best way for us to increase sales is simply to help the retailer make more money with the Lottery, and to make sure they know how much the Lottery is contributing to their bottom line.

*How do you determine where to install ITVM's?*

**C. O'Connell:** Store traffic. ITVMs are expensive, so we install them where they generate the highest sales and that is mostly correlated to store traffic. Our ITVMs have been wildly successful, out-performing our sales projections. And, retailers continue to see significant growth from the installed base. ITVMs are currently averaging more than \$3,600 in sales per unit/per week. They've generated over \$410 million in sales since first being introduced in '09. Lottery retailers with ITVMs experienced

...continued on page 66

# LT-3

## The ITVM for Bars



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## **Diamond Game**

*Where Innovation Plays*

## Carole Hedinger

Executive Director of the New Jersey Lottery

PGRI Introduction: On July 1, the New Jersey Lottery live-streamed its winning number draws on Facebook. This first-ever combination of social media and live lottery draw coincides with the launch of New Jersey Lottery's new website, NJLottery.net. The new Web site is designed to give players a more engaging experience online with New Jersey Lottery and the thousands of other players and retailers who buy, sell, and play lottery games. "This is an exciting time for New Jersey Lottery players, retailers and staff," said New Jersey Lottery Executive Director Carole Hedinger. "Live streaming our draw online at NJLottery.net and Facebook will allow for players to interact with us and each other, making the draw a more dynamic experience. Advancements in technology and media now make it possible for us to capture and broadcast our live draws as part of a larger-scale initiative at minimal expense. There's a great deal more to be seen and heard from New Jersey Lottery than winning numbers – and soon!"

*Paul Jason, Public Gaming: I am thinking that social gaming is not what we in Lottery are really after. Isn't it more about social networking?*

**Carole Hedinger:** I think it's both, but that is an interesting distinction. Social on-line gaming like Farmville is an important phenomenon. But that is not what we are doing right now so much as social networking, leveraging the electronic social networks to increase exposure for all that is lottery. The amazing thing about the electronic media is its power to go viral, to recreate itself and roll out to an internet networked community that eventually can include everyone. And eventually can happen in just moments.

Young people are in a state of constant communication. Literally. But they don't actually talk to each other, right? They're texting, sending photos and links and practically living in this virtual world rich with new tools and ideas and ways to connect. Just think about the math. The average number of friends that each Facebook member has is 130. So an impression on just 1,000 Facebook members can have exposure to 130,000 people. If 10% of them respond in some positive way, perhaps by re-posting a message, that could then roll out to the friends of those 13,000 friends, which makes the one single viral connection potentially add up instantly to over 1.6 million people. And that is just the very beginning of a viral roll-out. I think it takes something like

eight iterations to reach a number that is larger than the entire population of the world.

Of course, that's just an illustration of the theoretical potential of socially networked marketing. The theoretical possibilities don't make it a reality. It's up to us to make ourselves relevant and worth texting about. We need to create a catalyst, give people a reason to take interest. We think of Live-streaming our numbers draws on Facebook as being a very good start.

*It is indeed. It must be a little early to gauge the response – any early returns?*

**C. Hedinger:** First, I can acknowledge that some players are not happy with the fact that we're not on television any more. I think there's a segment of the population that was used to turning on the TV and seeing the live draws on TV with a hostess in a traditional way. Some of these core players are not anxious to change their ways. We want to make sure we find ways to always connect with this group. Our research is indicating that the younger players are not scheduling their time around watching the Lottery do live draws on TV. They want their information instantly, or to retrieve it at their convenience. So they've taken to the conversion to the Internet very well. We need to accept that changes need to be made that will not necessarily meet with everyone's approval and you can't satisfy all the people all the time.

Our research indicates that while people





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continue to watch TV, they do not schedule their time around the TV schedule to watch news or do things like watch live lottery draws. There is a Pew Research Center report that finds that 65 % of people under 30 cite the Internet as their primary news source. The real deal-closer, though, is the trend-line. That 65% figure has nearly doubled from 2007, when just 34% said the same thing. The percentage of people who get their news from the Internet does decrease as the age range goes up. The older the person, the more likely it is that they get their news from TV. But still, the percent of adults aged 30-49 who report the internet as their major source of news is 48%, aged 50-64 is 34%, and it goes down to 14% of those 65 and older. There is another relevant skew. The higher the income and educational level, the more likely you are to get your news from the Internet. It is this kind of data that caused us to explore the possibilities to move forward with our migration to the Internet to publicize our draws. That said, we do value our connection to all of our players and will do everything we can to engage their ongoing attention and loyalty.

The two things that actually drove the decision to live-stream the draws on the Internet are our research with our players, and the fact that we could not broadcast on TV anymore. This last is of course decisive – broadcasting on TV was no longer an option so we decided to completely change our approach.

*The thing is, you've gone the extra step. You took what may have been a set-back and turned it into an opportunity to innovate and leap forward. The live-streaming would seem to have the potential to really capture the imagination of the socially connected crowd, which is almost everyone now.*

**C. Hedinger:** It certainly includes parents and grandparents who want to keep up with the activities of the children and grandchildren. We may not be able to talk to them as much as we'd like, but we can follow everything in their lives on Facebook. Sometimes more than we'd like to know! I just read that the fastest growing age group of Facebook members is the over 55 crowd.

We needed an alternative to TV and the timing is right to make this change. People don't even schedule time around their favorite TV shows anymore. So we are very thankful to have been pushed to find an alternative to TV. The technology is there, the timing is right, and we are excited about its potential to be a platform for a wide variety of social networking initiatives.

*Necessity being the mother of invention, the NJ Lottery is now blazing a trail in the next wave of marketing innovation.*

**C. Hedinger:** I like to think so. Marketing is about building individual relationships and the tools we have to do that now are so much better than the mass market media that homogenize our customer into a one-size-fits-all profile. The Internet allows us to speak to our customers and interact with them on their terms and on a more individual basis. It's not longer just the wave of the future; it's the way things are right now.

*And now we do have the tools. The notion of marketing to a mass market of one seemed hyperbole just a few years ago, but the internet is enabling us to tailor make our interaction on an individual basis.*

**C. Hedinger:** That actually describes our objective. We want to enhance the interactions between us and our players through the internet, through the VIP club, through interactive engagements that we can put on our website, by streaming our draws to our website, by engaging the Facebook community in an active and dynamic conversation. Reaching out to a mass market of one; building a special relationship with each and every customer. The trick of social networking is that it empowers the customer to do that for us. We can't do it without their active support. They are the ones to build their own relationships with whomever they choose. All we need to do is figure out how to be one of the chosen, how to connect to the individual consumer who then connects us to their social network. We are really in the initial stages of this process right now. But we are learning and are confident that our product is rich with intrinsic value to leverage into an exciting story. And it is a story that can capture the imagination of the socially connected community if we get creative and keep trying new things. It will happen, and the cost of trying things on the Internet is far less than the risk we take every time we produce and pay for the broadcast of a new TV commercial.

*Second-chance draws seem to be a great introduction to interactive gaming.*

**C. Hedinger:** Yes. The player must first sign on as a member of our VIP Club in order to enter into the second chance draws. So these initiatives are all working together to create that more engaged one-on-one relationship that is so important. Our VIP Club membership increased over 10% in this past year. Our Facebook page has been increasing at a much faster rate, with a big jump as a direct result of the July 1 launch of the live-streaming draws. This all clearly indicates that our VIP members have migrated over to

Facebook to become fans, friends, to chat and to get the live-stream of the draws. We think the underlying level of engagement between our players and the Lottery has been vastly improved and are excited about how it will evolve. Before the live-streaming, our second chance drawing had been a place you could go and enter some number information about your ticket and then wait for a draw. Now there's a lot more dynamic interaction.

I think of this as a series of stages and we are just entering stage 1. This includes targeting the media where people are going for information, now that TV is being supplanted by Internet and mobile. And we're creating a more interactive playing experience within the basic confines of our current products and resources. We now need to integrate a suite of reward programs and customer loyalty programs. Next will be to look at the game design and structures themselves, to see how they can be updated, converted into a more interactive and longer-playing format. We'll want the games themselves to match up better with the game styles and preferences of the socially connected generation.

*You refer to the "socially connected generation". That's an interesting change from "gen y" or "millenials", because the socially connected generation is really everyone. Social media has gone mainstream, the new media to reach the masses.*


**C. Hedinger:** Yes, it is. Think about the true meaning of network. It is inter-connected not just one with another, but everyone connected with everyone. So it's not just between Lottery operator and players and vice-versa; it's players with each other. That's where the power really lies, with the potential for player-to-player interaction to elevate Lottery to a position of relevance in this socially networked community. Players are chatting with each other, posting comments about their playing experience, how close they came to winning and congratulating each other for winning, etc. With traditional media you do not get to witness or be a participant in the conversation. The message goes out via TV or print ad' and is hopefully received and acted upon. But we have no insight into how people are thinking and feeling. Now we can actually read their thoughts in real time, responding to some and learning from all of them. It's an amazing thing to be a part of their real-time reactions. And it should come as no surprise that the chat is not always positive and supportive of Lottery. But it's real and it's out there and for that reason it is such an exciting privilege to be a part of it, to share our players' experience.

The unscripted events can become somewhat revelatory. A couple weeks ago, one of our retailers started posting his page on our

The Mark Six logo is a circular emblem with a dark blue background. It features the Chinese characters "六合彩" in white, with "MARK SIX" written in white capital letters below them. The logo is surrounded by a ring of white dots.

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The Hong Kong Jockey Club, founded in 1884, operates one of the worlds most prominent and respected lotteries. They have been conducting the Mark 6 lotto drawing for 36 years. When it came time to replace their aging draw machines Smartplay was proud to be chosen as the supplier for the new Mark 6 lotto machine. When a comparison was made between all the suppliers, we were honored to be regarded as their #1 choice.

A woman, Lilian Cheng, is standing next to a large, modern Mark 6 draw machine. She is wearing a grey suit and glasses. The machine is a tall, cylindrical structure with a large, clear, spherical top section that contains the drawing mechanism. The base of the machine is decorated with a red, stylized pattern. The background is a wall with the words "MARK SIX" and "六合彩" repeated in a grid pattern.

Lilian Cheng, Customer Service Manager, HKJC with new Mark 6 draw machine.

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page, a business to business post. He started featuring winning tickets and information about lottery prizes from his particular store. He became part of the chat, people talking about him and his posts. Store traffic and lottery sales increased. We incorporated some of the promotional ideas he was using right into our own content, posting pictures of winning tickets, talking about prizes or whatever. That experience also spurred us to include our retailers as a member of the community, and helping them to connect with lottery fans who are also their customers.

*The future has never actually been scripted. So an approach that embraces the unscripted feedback of the consumer and converts that into new products and better service would seem to be logical.*

**C. Hedinger:** I visited a retailer who is part of a nine store group. He described their efforts in social media, we connected our two social media experts, and are now working on some very interesting B2B collaborations. And of course, the things we figure out with him that prove out to be good can be rolled out to the rest of our retailer network. It is interesting to be a part of this unscripted and untested environment; figuring it out as we go along, and continually discovering new opportunities, new and better ways to deliver value to our customers. Not everything will work, but the cost of trying new things is so much lower in the digital world, the feedback is fast and much more information-rich, and it all becomes part of an authentic dialogue as opposed to a staged, unauthentic market-test. And we all know that 'Authenticity' is a big theme these days so I'm glad I could wiggle that buzzword into the manuscript!

*Aren't the intrinsic product attributes of lottery much more exciting than most other products? And couldn't the retailer leverage that for promotional purposes and to drive store traffic? Commodity products and Big Gulps are just not as much fun as Lottery.*

**C. Hedinger:** It's true. There really is hardly anything more exciting for a customer or the retailer who sells the winning ticket than winning the Lottery. So let's capture that in the form of pictures and videos and post that on the web. Let's help our winners share the good news with their friends and let everyone in on all the fun. It's not just about the big jackpots. Winning even \$100 is a big thrill for everyone and it's that much more fun when you can share it with friends. People love to see pictures of the winning ticket. And we have lots of those winner stories to tell on a daily basis.

*Where did the money come from to fund it?*

*Had you built this into the 2010/2011 budget?*

**C. Hedinger:** The costs were very low. We built our production studio from unused office space using all of our own personnel that we trained. Total cost of \$150,000. That's a far cry from televised draws. We took two offices. One is the studio that has the drawing machines and balls in it. It's very secure and very nicely laid out. The set design is beautiful. We have the cameras in there and that's where the draws are observed by the accountant. All the drawing machines are secured in that room. In the adjoining room that has a glass partition is the control room. That's where the operator sits to run the equipment that streams the draw. We have a TV monitor and a computer and whatever is needed. We can watch the live-stream on a TV monitor while we're doing it to make sure that it's all working okay. It's relatively simple. You might imagine it would be a very complicated thing to do, but it was actually relatively simple. From an electronic and technological point of view, what used to be very complicated is now very simple. The equipment is all easy to operate, nothing requiring extensive operator training or anything like that. We have a service-provider that streams the live interactive broadcasts directly onto the web. Sort of like a live YouTube. Facebook was excited about all this. They consider us trendsetters and have been a pleasure to work with. The draws are archived and can be viewed on demand. The possibilities are limited only by our imagination.

*Where is your imagination taking you next? Anything reach the Beta stage yet?*

**C. Hedinger:** Integrating retailers into the program is top priority. The ROI on engaging their support is very high, our ability to deliver benefits to them is high so our relationship is mutually beneficial, and there are some relatively easy ways to tie them into our whole social networking agenda. We also envision using our social media fan-base to collaborate with sports teams and hopefully with other consumer brands. The potential for mutually beneficial partnerships is huge and I think will connect us to untapped consumer categories in fresh new ways. We are expanding into more interactive activities. We'll be putting Tetris and Bejeweled on there to bring in gamers who may not have been interested in lottery. I think of it as building a digital destination resort where people can come and play games, get information, watch our draws, monitor their rewards and sweepstakes programs, and maybe even buy a lottery product. We are building that foundation that will enable us to expand into all kinds of new directions.

*Facebook is the ideal medium for event-based marketing, isn't it? Would there be events other than sporting events that could be tied in with Lottery?*

**C. Hedinger:** Of course. And you are right, partnerships are what it's all about, that's what we have to look at because the medium is ideal for adding value by sharing. Co-promoting enables us to connect with entire new market segments and does not cost hardly anything. And as we build our own social network of Lottery fans, what we bring to the table will be really valuable to other consumer marketers. Insofar as we can deliver access to millions of lottery fans and consumers, then what we will be able to negotiate in return will also be valuable.

I should not say there are no costs because there are. But the costs are so minimal compared to what we are used to in traditional media. For instance, the New Jersey Devils is our state's professional hockey team. They have what they call a control room. It's a bank of computer monitors with four people who do nothing all day long but are dedicated to dealing with and interacting with their fans on Facebook. That's huge. So there is a cost to employing those four people. But what those four people are accomplishing in terms of customer engagement is way more than any multi-million dollar TV campaign could even come close to. They are building an entirely new framework for dynamic interaction that will form the basis for launching all manner of new products and promotional initiatives. They're not reinventing the entire business, but they are reinventing our entire relationship with our customers.

We all relate to what it's like to be a fan of a sports team. Well, Lottery has fans too, players that are loyal to their games. There are Pick 3 players, Pick 6 players, Crossword Instant players, whatever, who feel a sense of loyalty to their games and enjoy talking about it just like sports fans love to talk about their favorite teams. Facebook and other social media vehicles give us the tools to support the impulse to share your enthusiasm for your favorite lottery games just like you do with your favorite sports teams. This would seem to have a much richer entertainment value than building virtual farms or fighting with Angry Birds.

*Is there anything you would suggest to a person who wanted to replicate your Live-streaming Facebook/Social media initiative?*

**C. Hedinger:** Try to map out the entire strategy, or as much of it as possible, before you begin. For instance, we now need to add audio to our program and that would have been much

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## Terry Rich

President and Chief Executive Officer  
Iowa Lottery Authority

Chair of the Marketing & Promotions Committee  
and Member of the Executive Committee of the  
Multi-State Lottery Association (MUSL)

**PGRI Introduction:** The U.S. Lottery industry is on a roll. Results are coming in for fiscal 2011 and the trend is clearly positive. The cross-sell initiative is beginning to fulfill its original promise, and the U.S. lottery directors are forging onward with new and ambitious plans. Most recently, the directors announced that the price of Powerball would double in January. Having been at \$1 per ticket since its beginning in 1992, the enriched Powerball is scheduled to launch in January 2012. Powerball is the most successful lottery game in history and the most powerful lottery brand today, so working through the countless details of a change like this is no easy task. Terry Rich credits his colleagues for their insight and direction of “looking at the big picture” in making this breakthrough happen. I asked Mr. Rich to give us some perspective on what enriched Powerball will mean to the 44 state lotteries which depend on this great product.

*Paul Jason, Public Gaming: Congratulations to you and all the lottery directors for overcoming the obstacles to collaboration and raising the price of Powerball to \$2. Why was it so important to make this price-point change?*

**Terry Rich:** Products can't stay the same forever. In my opinion, they need to be refreshed periodically. Powerball has been priced at \$1 since its introduction over two decades ago. It frankly was overdue for an update. But not just any reboot or change for change's sake. The change really is an enriched game. “More, Bigger, Better” has become the theme, and I'm confident we will be delivering on that vision.

“New and improved” has always been the mantra of premier consumer marketers like Proctor and Gamble. The customer expects it. Their needs change and they expect products to change with them. Just like any consumer products business, a Lottery is required to continually monitor consumer tastes, anticipate the direction they are going, and adapt to changing player preferences. The operative question for progressive businesses is never “Why fix it if it isn't broken?” If you wait until it breaks, it may be too late. We need to stay out in front of the trend-lines,

make the changes before they become necessary and always be improving and updating our products to keep players engaged.

More specifically, the research was telling us that changes were needed. When surveyed, many players asked why we gave all the money to one person and why we couldn't have more millionaires. But at the same time, lottery sales figures show that in reality, it's higher jackpots that cause players to buy more lotto tickets and buy them faster. Powerball is a jackpot-driven game, but the player perception is that they would like to have more millionaires. The change that the development committee of MUSL made gives the players both. We will have up to three times more millionaires with the match-five second prize. The \$2 price point brings a lot more money into the pot, raising the jackpot more quickly, so we can double the starting prize to \$40 million. So in one fell swoop, we're doubling the price, doubling the jackpot, providing more millionaires, and providing better odds. And the better odds come in with the matrix change from 39 balls in the Powerball pool down to 35. Reducing the number available in that pool improves the chance of winning.

Another important benefit to the change is

to differentiate the products. The other big-jackpot game, Mega Millions, is priced at \$1. Many states have in-state lotto games that also are priced at \$1. It really does not make sense to price everything the same. This gives us a much richer canvas with which to differentiate the value propositions of the different games. So those are some of the reasons for the change and we hope to build on the excitement and anticipation between now and the January launch.

Do I have concerns? Sure. Jackpots could roll up so fast that players will need to get used to buying at the beginning of the game to even get in on it. We're actually pretty excited about the launch and confident the consumer will share our enthusiasm.

Remember, we are not trying some untested strategy with our most important product. We're taking an already successful business model from the scratch-ticket category and converting that to the Powerball game. In the early days of scratch tickets, it was thought by everybody that all you needed was one \$1 scratch game. The thought was that offering more than one game at a time would confuse the consumer and oversaturate the market, being terribly destructive to the whole business model. In fact, the oppo-



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site is true. The consumer wants more options and we need to implement a wider variety of products with different attributes to differentiate them, beginning with different price points. Not only can the market absorb more products, the consumer is used to a constant influx of new options. The scratch ticket model really took off when the consumer was given multiple choices, more games, and different price-point options. Of course, brand-licensing also played a big role. But, who would have thought back then that it's possible to have the number and variety of scratch games we have now? Or that there would be \$10 and \$20 tickets. Or that the biggest growth sector would actually be the higher priced tickets. So creating a \$2 option in jackpot games became an easier decision, especially when everyone continues to have a \$1 option, whether it's with Mega Millions or their own in-state lotto game. When the evidence is in that the market will absorb this new price-point, the next step will likely be to offer a \$5 multi-state game or even create a \$10 lotto game. We should replicate the huge success of scratch-offs in the lotto games. And truly, when you think about games here, you have to think options,

refreshing the games so that players want to continue to play.

*Why raise Powerball – and not Mega? Or, do all states also have the option of creating a \$2 game on their own if they want?*

**T. Rich:** For the simple reason that Powerball is the most recognized lotto product across all lottery states, the one with highest brand recognition and most consumer appeal, one that I believe is perceived as the product of highest value. Products should be priced to reflect their perceived value to the customer. If you look at the business model on the scratch side, that is the way scratch tickets are priced. Bingo and Crossword are our top two selling scratch game, so we price those at the \$3, \$5 and \$10 price levels. Your best brands, your best known products, are the ones that have the most perceived value for the consumer and should be priced accordingly. Powerball appears to be the best brand in the lotto category and so it is the one that should have the highest price.

*It all makes so much sense. Why was there uncertainty on the part of some directors?*

**T. Rich:** I can't presume to speak on anyone else's behalf. But I will say that this is a very big step for all of us and extensive research and due diligence was warranted. And, some states have a very high percentage of their revenue derived from Powerball. It's only right that they be concerned about doubling the price of their bread-and-butter product, and the effect that will have on their overall revenues. But the research was done and shows that the effect will be positive. History will be the ultimate judge.

*And the example of the history of scratch-offs is so illuminating. Of course, this is all quite consistent with the brand, price, and product development strategies of all consumer marketing companies.*

**T. Rich:** Nobody has a crystal ball. But I think that raising Powerball to \$2 will clearly be a big positive for everyone, a calculated risk well worth taking. Again, lottery tickets are about choice and options. Players ultimately decide the success of all our games. And when we decided to cross-sell Mega Millions and Powerball, many players quickly realized the games were very similar. So you need choice, a fresh and updated approach. And the players



will all still have their \$1 option. The choice is theirs, but only if we give them the option.

*It's impossible to imagine that Powerball revenue could decline when you double the price. Individual ticket sales maybe, but not revenue.*

**T. Rich:** After doing research, that is the conclusion of the group. Many of us are very optimistic that this is just a start, that we are creating a platform from which we can grow this category like scratch-offs were grown over the past twenty years. The first big step was cross-sell, selling both games in the same market at the same price. Then one of them is changed to the higher price point. Next we introduce an even higher priced multi-state game that could have new attributes, different plays. And then an international game with a completely new and different consumer appeal.

There are directors who have been in this industry a long time. Their perspective is formed by many years of experience. They shared their experiences with pricing strategy and the evolution of scratchers and were able to put this decision into proper context. But a decision like this is not made without exten-

sive debate and cooperation to substantiate the historical lessons and data.

*What will MUSL and/or the individual state lotteries do to really optimize the impact of this change?*

**T. Rich:** "More, Bigger, Better" is going to be the theme that most lotteries will embrace for the launch of \$2 Powerball – more millionaires, bigger starting jackpots and better odds. That really captures our plan in a nutshell. We are also exploring innovative ways to do promotional add-ons to Powerball. Borrowing from the playbook of scratchers again, we are looking at ways to provide a second-chance feature or an extended-play option. We are also looking at creative ways to leverage the power of the brand to collaborate with other consumer brands and leverage that into free publicity and national promotion. We're looking for ways to promote nationally that will not cost the states any money.

There are also a number of "More, Bigger, Better" benefits that we look forward to being able to promote when we have the specific hard data to support our claims of a better-value proposition. If the research is true, we will

have additional sales points as facts for states to promote in the future. For example, we believe that as the game unfolds, it will be demonstrated that the number of millionaires created will be more than three times what it is today. But we don't want to say that until we can actually point at the facts. We expect the jackpots to roll up much more quickly. But we don't want to say that now because it will be a much more powerful promotional tool when the players see for themselves that's how the game works. We believe that the numbers show that Powerball will deliver an intrinsically more exciting play experience for all those reasons. And of course, we would like to promote that and we will. But not until we have some history to which that the players can relate. Give us a couple months into the new year and you'll begin to see a steady ramp up of these kinds of promotional directions that should add even more momentum to the excitement of the game.

*Once the players realize that the jackpots roll up quickly, won't they be more anxious to jump on the bandwagon earlier than before?*

**T. Rich:** That is what we hope and expect.

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Most people, I think, have a perception that you tend to get what you pay for. Or they are at least going to ask 'what's in it for me if I pay more'. Either way, that is what we want because they do get more for their \$2 over the \$1 they were paying before and so we welcome the opportunity to tell them about it. Then it's up to us to create the game changes in the matrix and otherwise create the value, and the perception of added-value, to close the deal in the customers' minds. High jackpots also are what really pull in the casual player. There will be more high jackpots, we will get to those high jackpots more quickly, and the consumers will buy the 'hope and dream' whether it costs \$1 or \$2.

We are confident that the jackpots will roll fast, which translates into a higher frequency. We're just not going to promote that until the reality is there for everyone to see, which should be accomplished in the spring of 2012. And once that happens, and the consumer is back into the routine of following the jackpots and buying in when it reaches their preferred threshold, I think the price increase will be completely forgotten and the \$2 ticket will be perceived as the norm.

But fortunately, it is not an either/or proposition. The players will likely always buy \$1 lotto just as they buy \$1 scratchers. It's a matter of more options, more consumer choices, empowering the consumer to be the 'decider' and that's the way it should be.

*Why shouldn't MUSL have a publicist who focuses and works hard to nationalize the winners, all winners, and nationalize the overarching story of why Lottery is such a great and inspirational thing? Maybe Lottery could replace baseball as "America's Game"!*

**T. Rich:** States do like to control their own public relations. Nationalizing the public relations and publicity machine is a tough sell. In fact, the current announcement of enriched Powerball that is "More, Bigger, Better" may be the closest we have come to a coordinated national campaign. I'm sure we will do more in the future, but nothing like what you seem to be suggesting. The states are not all supportive of it, and we do not have the funding for it. And to anticipate your next question, even though the cost could be limited by having the lotteries all pitch in a small amount, most states do not want to pool the resources to nationalize the PR of our multi-jurisdictional brands. They prefer to think of it as national in the sense of collaboration on the game, but the market is still local and specific to their own state. The vendors support us with many of these things, but we have already asked them to pitch in a lot and there is a limit to how much we should expect the commercial community to provide.

We will continue to standardize and nation-

alize where we are able, when it can be done consistent with the agendas of the member-state lotteries. The next step might be that that somebody creates a really great concept for a television commercial or an ad campaign of some kind that really captures everyone's support so that we all kick in the money to make it happen. Another way is to leverage the power of our brand by entering into a co-operative deal with another major consumer brand, perhaps like we do with some scratch-off campaigns like Monopoly, and let the other consumer brand bear the cost of promotion for a tiny slice of the profits. I'm sure there will be things we do to kickoff enriched Powerball in a really big and exciting way.

*I still don't see why all the states would not agree to pitch in for a nationalized approach to advertising, promotion, or at least publicity. I know they want to control the messaging for their states. But they can still do that. A nationalized effort would just augment it and reinforce the brand and really give it a different kind of look and feel that comes with a truly national brand presence like Coca Cola and McDonald's and Starbucks and such.*

**T. Rich:** You know you're preaching to the choir here. I agree but would also say there are obstacles that need to be overcome to get everyone on board and supportive. Every state does want to control their messaging because it is their lottery. I don't have a problem knowing that each state wants to control all the marketing that is specific for their state. But there is no reason why a program to distribute copy points nationally and publicize winners nationally needs to conflict at all with the in-state messaging. And I know it seems odd, what with the margins this industry works with, that funding is a problem. But the reality is that many states have an advertising budget that is small and they do not want to part with it. The other reality is that state lotteries enjoy their autonomy and their role of crafting campaigns that appeal to their markets in perhaps a unique way. For example, Buddy Roogow just did a spot that was off the wall. It showed a lady stepping in some dog doo-doo as she walks out the steps. That worked really well in D.C. and he's getting great buzz on that. People in other places might not have the same sense of humor. So in one way, we may even have an advantage over the giant consumer brands by having the benefit of scale that collaboration provides, while preserving the benefit of a more targeted marketing approach that autonomous state lotteries provide. But we do definitely want to have at least some national coordination and messaging to complement the state-specific agendas.

*Digression: Any progress towards standardizing transaction processing mechanisms?*

**T. Rich:** A big challenge is that the lot-

teries all have different systems and different costs related to upgrading to make them compatible with a single standard. Everyone senses that we need to do it. We are all agreed on that and it is a high priority, but it will still take time, a few years actually.

*Your legislature in Iowa is actively discussing the options to regulate Internet gaming.*

**T. Rich:** Yes. Legislation was passed during the 2011 session calling for a study of the issue to be completed by late this year. We've been asked to be an active part of that. The knowledge we have from the lottery industry perspective will be relevant to this effort. But the business and professional opinions we render will be as citizens of the state and not as lobbyists for lottery.

I've noticed, though, that people refer to this as a potentially huge incremental expansion of gaming, the Internet working its transformational magic on the world of gaming and lottery. I think it should be kept in proper perspective and that characterizing it in a way to say it's the next "huge dollar" is not only inaccurate, it probably isn't helping us to get down to the serious business of focusing on the lottery to handle regulation and oversight. The numbers I've seen from other countries do not support the notion that the "Internet changes everything." It should be seen as incremental (not gigantic) revenue, and regulated for the safety of the players. I see it as a way to provide a convenient channel for distribution to the players, and to enable the state to properly tax it. It will certainly make our products more accessible and appealing to everyone. At this point, though, we need to start looking at the mobile, smart-phone, and personal communications world. And how do we make everything easier, more convenient, and more accessible, while maintaining the integrity and social responsibility of the industry. We need to think of regulations of new channels like Internet and mobile not so much as a means to increase sales, but as a means to create a climate of sustainable growth. It appears the answer is not to prohibit electronic delivery systems because the problem gambler will easily find other outlets. The answer is to regulate all channels and focus on creating a healthy recreational gaming environment. We try to strike a balance between meeting the demand for gaming, delivering funds for good causes, and protecting the players.

*It seems like that's the power of the government-lottery mode: the ability to strike that balance between agendas that are not naturally aligned with each other.*

**T. Rich:** We try. Lotteries and their directors really are progressive and entrepreneurial. We are operating within a set of expectations

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## Alain Cousineau

President and Chief  
Executive Officer  
Loto-Québec, the Quebec  
Lottery and Gaming Operator

PGRI introduction: Based in Montreal, owned by the Provincial government of Québec, Loto-Québec operates the lottery, four casinos and related restaurant and hotel services, a video lottery network, network bingo activities, and a comprehensive suite of online gaming activities at [www.espacejeux.com](http://www.espacejeux.com). In addition, Loto-Québec exports multimedia products to international markets and holds a financial interest in Casino Développement Europe and its subsidiaries, the third largest casino operator in France. A multi-faceted corporate enterprise, Loto-Québec anticipates changes in the marketplace and is an innovative early-adopter of new technology and progressive approaches to managing the business of gaming, gambling, and lottery. Following is a discussion about how those changes are impacting government lotteries, and how Loto-Québec integrates its public service mission into a highly competitive market-driven business model.

Alain Cousineau assumed the office of Chairman, President, and Chief Executive Officer of Loto-Québec on September 29, 2003. Prior to his appointment, he held a number of senior-level positions in both the academic and business sectors. The term of Mr. Cousineau's mandate expires Sept. 30, at which time Mr. Cousineau will leave the office of president and CEO of Loto- Québec.



*Paul Jason, Public Gaming: Let's start by briefly describing the regulatory framework and how that has evolved in Québec, and Canada.*

**Alain Cousineau:** The framework for the provinces in Canada is derived from the criminal code, which stipulates, with a limited exception for charitable gaming, that all gambling activity is illegal unless conducted and managed by the state, similar to the system in the U.S. The Canadian federal government assigned the responsibility to determine regulatory policy over to each of the provinces. Now, each of the provinces has total respon-

sibility for determining the regulatory framework and conducting and managing gambling activities. Aspects of the operation can be outsourced to commercial firms, but the law specifically requires the state to conduct and manage all gambling activities. Provinces are prohibited by federal law from outsourcing that fundamental responsibility. That applies to all the Canadian provinces.

In Québec it was decided at the outset that all gaming and gambling activity, other than horse racing, would come under the state controlled operator Loto- Québec. Other prov-

inces allow for the management of casinos to be outsourced to private operators, but not Quebec. Loto-Québec is charged with managing all aspects of lottery and gambling - not just the casinos, but the hotels, restaurants, the VLT networks, network bingo, and now Internet gaming and i-poker. And of course, all lottery products.

*So as per Canadian law, BCLC for instance is required to exercise oversight and full responsibility for managing the casinos even though they opt to outsource large portions of the day-to-day management. Whereas, Loto-Québec opts to ex-*



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ercise hands-on operating control over all business functions of the casinos and even the hospitality and other businesses ancillary to the casinos.

**A. Cousineau:** That's exactly the way it is. I think we're the only province that really operates every aspect of the lottery and gambling industry. That's very different from what you see in the U.S., and actually different from almost anywhere in Europe too.

*What do you see as the advantage or disadvantage between exercising more operational control versus outsourcing portions of that control?*

**A. Cousineau:** The jury is still out on what is the best model. For that matter, it would certainly vary depending on the circumstances and public policy objectives of each jurisdiction. So I will not attempt to make a judgment call on that. Besides, lottery directors don't make those decisions. We basically inherit the model we work within and focus on optimizing the return to our stakeholders within that construct. What is more interesting about the Canadian provincial model and the Loto-Québec model in particular is the breadth of gambling activities that are under its control. There are two main reasons for this model: protecting the player by channeling the economic activity in controlled circuits, and minimizing social costs by "managing" the consumption of games of chance. It is not about generating funds for Good Causes or government. It's not that we are trying to reduce consumption; it's more about maintaining equilibrium between supply and demand. When it comes to gambling, consumer demand will always be satisfied one way or another. If Loto-Québec does not provide a safe and secure option that endeavors to minimize problem gambling and social costs, then the demand will be met by the underground market and that does not have the interests of the players or the general public as core to its mission.

Having oversight over the entire gambling industry changes the whole perspective about how you think about phenomena like the Internet. A new channel of distribution like the Internet is seen not as a way to sell more product or great way to connect with the 'millennial generation' or anything like that. It's seen as impacting the equilibrium of an entire industry. It's our job to make sure that the impact is positive or to at least minimize the negative impact. It's our mission to make sure that technological, cultural, economic, and sociological change is all integrated into the fabric of the gaming industry such that social costs are minimized. Anything that

has the potential to upset the equilibrium of the broader gambling industry must be dealt with in a proactive manner. We monitored the i-gaming markets over the past many years. Insofar as demand stayed below a certain threshold, it was not necessary to provide an additional option to the marketplace. As the i-gaming activity increased, though, the negative impact of a thriving underground economy changed that. It became necessary for Loto-Québec to provide a safe, secure, and controlled outlet for that demand to be met. Our entry into that space was really not for the purpose of increasing sales, but to minimize social costs and protect the player.

*The role of Responsible Gaming, then, is much different when you are responsible for more than just lottery.*

**A. Cousineau:** Exactly. It is a well known fact, and very well documented with extensive research, that lottery has much lower social costs than VLT's and casino-style gambling. Of course, the operator focused solely on lottery also gives attention to Responsible Gaming matters. But the incidence of problem gambling amongst lottery players is not as high as it is for VLT's and casino-style gambling. So the perspective and overall mission for the operator that conducts all forms of gambling is different than it is for a lottery-focused operator. Responsible Gaming must be the cornerstone to our corporate mission. Our DNA is Responsible Gaming. The DNA of Loto-Québec is not about Good Causes, or financing public services, or bringing back money into the government. These are consequences not the finality of our "raison d'être". The state created our organization to channel the demand into controlled circuits for the purpose of protecting the player and to minimize the development and consequences of problem gambling by "managing" the consumption of games of chance.

*A private company is certainly capable of implementing an effective Responsible Gaming agenda, isn't it?*

**A. Cousineau:** Absolutely. I would respectfully submit, though, that the very nature of private enterprise could not embrace Responsible Gaming in the same way as does a state-owned operation. It could never be the cornerstone to their mission for the reason that shareholder value is, almost by definition, the DNA driver of a commercial corporation. Again, that's not to say that private enterprise is not capable of delivering the highest standards of goods and services that enable the accomplishment of a mission that

includes social responsibility. It's just that policy-makers in Quebec feel that control is best kept within this framework that really frees us up to value these non-monetary objectives higher than the profit objective.

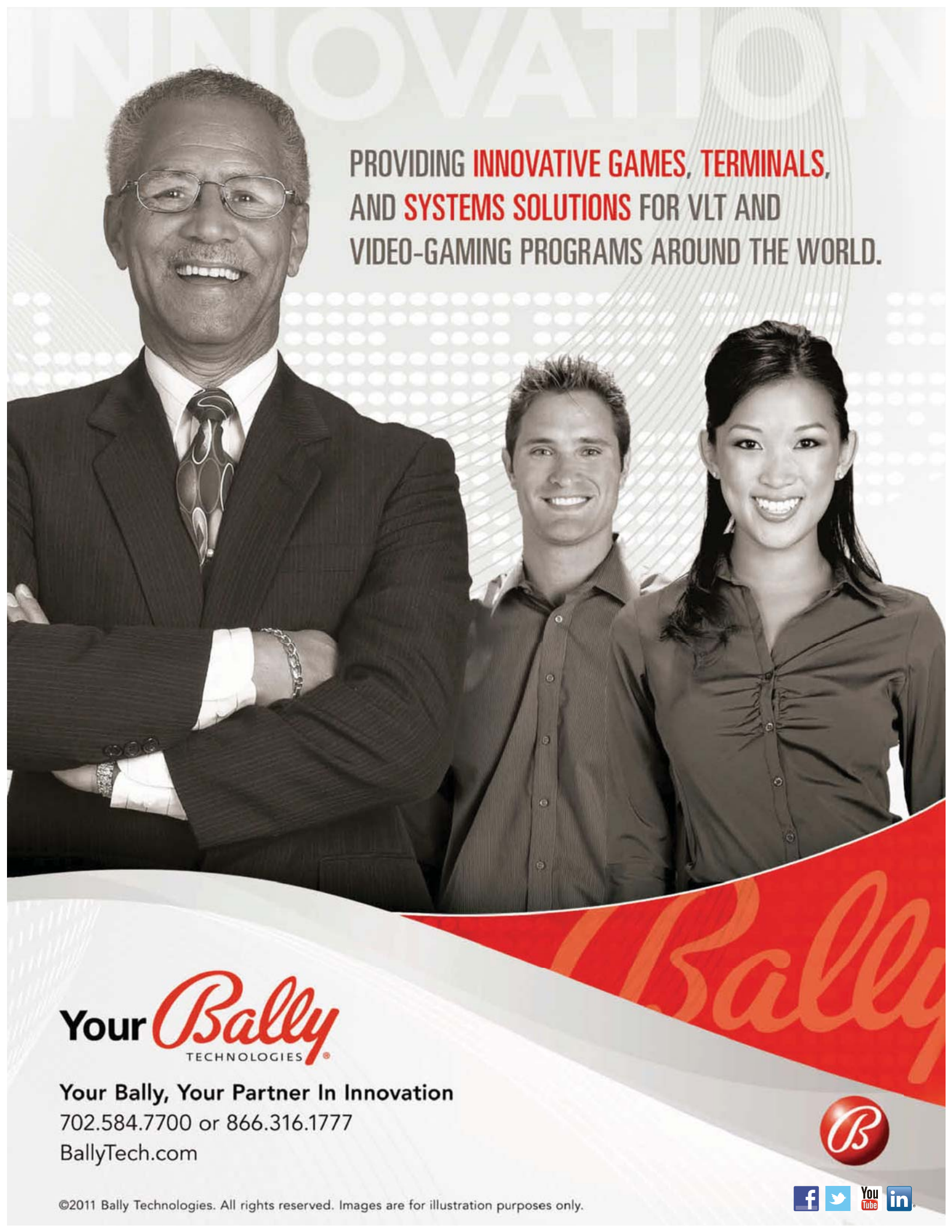
*That is the same reason Loto-Québec entered the VLT market?*

**A. Cousineau:** There were between 25,000 and 50,000 illegal units operating in Québec that were generating an estimated CA \$600 million for illegal operators. No player protection, no management of consumption, no taxes to the state. It was the responsibility of Loto-Québec to channelize that into the regulated sector. And that is precisely the same reason we are implementing an ambitious Internet gaming agenda – to channel the illegal activity into a safe, regulated, and taxed circuit.

We have an interesting challenge. Our games and value-proposition have to be engaging enough to attract the players. Otherwise they will stay with the illegal operators. But our objective, paradoxically, is to manage the consumption. We want all players to play on Loto-Québec's site, but we do not want to stimulate or maximize consumption. We want to manage consumption so that nobody plays too much. This is an even bigger theme than minimizing problem gambling. It's about sustainable development, which is a concept that should be applied in some fashion to all economic activity. Because of the nature of our business, we are scrutinized more than almost anyone. That creates a wonderful opportunity for Loto-Québec to be a model for sustainable development which has the potential to influence other sectors of our economy, many of those completely unrelated to gambling and lottery. We take that responsibility very seriously and hope that we can serve as an example, hopefully contributing to that broader societal goal of nurturing sustainable development in all sectors of the economy.

*How do you determine the right time to enter a market?*

**A. Cousineau:** There are two major drivers. One, we've already talked about, which is to channelize the demand once it hits a certain threshold. We started to seriously monitor the Internet gaming market in 2005. The market was not as big then and we determined that it did not require our attention at that time. As the market grew, the need for a safe and secure player option increased. The other driver is the political environment. The political and public debate over the proposal to move our casino closer to downtown Mon-



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treal had died down. Our research data, by 2010, clearly showed that the market needed a safe and secure I-gaming option. BCLC and ALC were going forward with acquiring a fine tuned and ready for prime-time Player Account Management (PAM) system that would support a multi-jurisdictional approach. That is a critical component to the i-gaming model, especially as it relates to the social games like poker where liquidity and high number of players are required for success. For these reasons, we determined that this was a window of opportunity for Loto-Quebec to obtain government authorization to move forward on the internet.

*It is interesting how quickly you moved from concept to implementation in the Internet gaming space.*

**A. Cousineau:** We do have the resources to invest in whatever objectives become high-priority. Our in-house IT infrastructure was already as sophisticated as anyone's in this industry. We have built that IT and acquired the operating competencies over many years of running the whole range of gambling products and services - from casinos, to distributed VLT networks, to lottery. So it was not difficult for us to form the team necessary to fast-track our Internet gaming agenda.

*As you are speaking, it occurs to me that one of the most important ingredients is the management of public perception of gambling and Loto-Québec's role as caretaker of that industry. How difficult is it to enable the public and your political constituents to understand the public service mission and purpose of everything that Loto-Québec does?*

**A. Cousineau:** We do not always succeed at that as well as we would like! For instance, we feel that a majority of the public supported the Cirque du Soleil Casino project in Montreal back in 2006 and that it was shouted down by a minority. The lesson learned is that it is vital to have political support, and that comes not just with a compelling business plan, but with the research that shows public support. Alignment with public image and public relations objectives is critical. So now we do extensive research, communicate that to our company shareholders and create alignment of purpose with our political constituents, and then communicate with complete transparency and integrity our agendas to the public. So you are right to acknowledge the critical role that public image plays in our industry.

*Loto-Québec's commitment to Responsible Gaming and security is reflected in the certifications you earned from the World Lotteries Association (WLA). (These certifications are awarded*

*lottery operators that have proven the highest levels of achievement.) Do your political constituents recognize the relevance of those certifications?*

**A. Cousineau:** Absolutely they do. Our minister is sometimes challenged to defend the actions of Loto-Québec and he uses the WLA certifications to support our claims to superior operational competencies and ability to deliver a higher standard of performance. The process of earning the WLA certification is very rigorous and only awarded to those operators that complete a most challenging program and are able to demonstrate the integration of the principles into a fully operational programme. The certifications do serve a useful purpose to help our constituents appreciate what we do and how we do it. But that's actually not the primary benefit of completing the certification process. The real benefit is derived internally, within our organization and the way it has guided us to think about our business. In short, we need to integrate the principles of responsible gaming and a wide variety of other considerations into every aspect of our business, from product concept to product development, to marketing, distribution, and advertising, into everything. That can be a difficult process because some of those considerations may appear to conflict with each other. We learned to embrace Responsible Gaming as an integral and complementary part of marketing for instance, and not as something that conflicts with marketing agendas. The certification process taught us how to internalize our mission in a holistic way so that everything we do is understood as an important part of the value we deliver to society. The real benefit of the WLA certification process is how it has improved the operation of Loto-Québec itself, completely apart from any PR agenda.

*Is there a trade off between the missions of minimizing the social costs of problem gaming on the one hand and channelizing gaming revenues away from illegal operators on the other?*

**A. Cousineau:** First, increasing revenue is not our mission. As regards to channelizing demand, that has more to do with creating access than with putting out games that are over-stimulating and likely to cause problem or addictive gambling. Attracting players away from illegal operators is really about making your products accessible and known to the consumer.

For example, we saw that our VLT revenue was increasing faster than we had projected, and possibly contributing to an expansion of the market. The revenue increases were not

caused by the VLT's themselves, though. It was not anything we were doing in game development that was over-stimulating player response. It was simply a matter of accessibility. There were over 3,700 outlets, with 15,000 units. The research indicated that we did not need to change the games, just reduce accessibility. That was the responsible move, that is what we did, and it had the intended effect

*Reduce Sales.*

**A. Cousineau:** Yes, but not that much. The impact on revenues was not significant - Just enough to get us back into a supply-demand equilibrium. What really affected the revenues in 2006 was the smoking ban. That precipitated an immediate 20% drop in revenue. We estimate that the revenue decline of 2006 was 70% was related to the smoking ban and 30% related to diminished accessibility. Now we feel that we are providing adequate accessibility to prevent the proliferation of illegal machines and that is really our primary goal. And our patrons are not subjected to second-hand smoke!

*You have mentioned that lottery has a much lower incidence of problem gaming than other activities like Casinos and VLT's. And that your mission is really driven by the public policy concern to minimize social costs and problem gaming. Doesn't that mean that lottery should then be promoted much more aggressively, that an increase in lottery revenue is in strategic alignment with the goal of minimizing social costs?*

**A. Cousineau:** An increase in lottery revenue, especially if it were to come as a migration from other gaming sectors, would theoretically be, as you say, in strategic alignment with our mission. But there are two reasons why that notion is misguided. First, we have always promoted lottery and our per capita/per year revenues are already very high. The projections for demographic change over the next 10 years indicates that our target market of 35 to 65 year-olds (where the rate of play is the highest) will be decreasing as a percent of total population. Furthermore the 18-35 year-olds segment will also be decreasing over the same period while their three months rate of play has fallen from 70% in 1980 to 40% in 2010. This is what would need to be classified as a mature market, one which still has great profit-legs, but not necessarily as responsive to increased marketing expenditures.

Second, there is very minimal relationship between the lottery and the VLT/casino markets. You can't really compare them. Increasing

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## Kurt Freedlund

Senior Vice President and General Counsel  
Georgia Lottery Corporation

PGRI Introduction: Collaboration is as much about finding common ground for agreement, overcoming differences, and creative negotiation as it is about marketing. My discussion with the Senior V.P. and General Counsel of the Georgia Lottery began with that topic, but ended up being much more about marketing anyway. We agreed that the main obstacle to collaboration is the vision to see the benefits, the reasons why Team Lottery should subject itself to the sometimes grueling process of working together to accomplish a common objective. We have no delusions to having the silver bullet solutions to anything. We do, though, have a shared passion for all that can be accomplished by Team Lottery with the will to collaborate on a national scale.

*Paul Jason, Public Gaming: Before we get into the big picture of how and why collaboration between lotteries is really the new frontier that can reshape our industry, let's review some of the ben- nies to raising Powerball to \$2.*

**Kurt Freedlund:** Collaboration has proven to be the most effective way, if not the only way, to generate the high jackpots in lotto. And raising the price to \$2 will definitely generate faster roll-ups. The thing to recognize, though, is that high jackpots have a super powerful residual impact on all the other products. High jackpots create excitement, attract media and consumer attention to the lottery, and result in higher sales in the non-jackpot games that the lotteries offer. That's not anecdotal observation, it is fact supported by the data that show a direct correlation of sales that go up in all product categories when the lotto jackpot gets high. The peaks, and the valleys too, go hand in hand. So the goal is to have high jackpots as frequently as possible because of that positive lift to all revenue streams. Unfortunately, now it takes about \$200 million to generate the excitement that not too many years ago we saw at \$50 million. But that too is being addressed by the "More, Bigger, Better" approach to the Powerball matrix. We hope and expect that the faster roll-ups will bring attention to the game above a threshold so that it never completely leaves the players' radar. Hopefully, the casual players will all be watching more closely on a continual basis instead of waiting for the media to announce a giant jackpot.

And hopefully the media will in turn get in step with their readers by giving ongoing coverage that will include the \$50 to \$75 million jackpots that will now be reached quickly and frequently.

*Do some states benefit more from the Enriched \$2 PB?*

**K. Freedlund:** I do not see why that would be. Really, we are all in this together, attached at the hip. Our objectives are aligned and we are in agreement on how to get there. In fact, it is important to each individual state that all the other states are maximizing sales. Maximizing sales in all markets everywhere is what will drive the jackpot roll-ups, increase consumer excitement, and, ultimately, increase sales. We're interdependent in that sense. That's why it is so important to collaborate on national advertising and promotion.

Think about the relationship that each individual lottery has to the national brands of Powerball and Mega Millions. It's really the same as an NFL franchise or a McDonalds, or any other franchisee of a national chain. Those national advertising campaigns need to be funded in some way, either by sharing among the franchisees or as part of the dues they pay to be a franchisee. The funding has got to come from somewhere. An NFL advertisement in L.A. is not doing anything for the Atlanta Falcons or Chicago Bears, but they still promote the brand nationally and they all share the costs. The McDonalds commercials appearing in New York don't do much

for the McDonalds in Texas. But that national branding and advertising is a vital component to the whole brand management strategy. They recognize that it is important to augment the local advertising with a nationally coordinated and consistent approach. Why is lottery any different than that? Why don't we look at it the same way? In short, lotteries have historically been concentrating on the direct sales advertising which is conducive to the local advertising approach, but now, with true national brands in Powerball and Mega Millions, lotteries need to include in their marketing portfolios the "national branding" approach as illustrated by the NFL and the McDonalds examples.

*With the highest margins of any business in existence, it would certainly seem that funding should not be an obstacle. The ROI would be off-the-charts. Another obstacle, though, is that many lottery operators like to control all the messaging in their markets. And they seem to be skeptical that national advertising would accomplish anything different or better than what they could accomplish themselves.*

**K. Freedlund:** Well then, just like anything else, we need to sell the benefits better. We need to articulate how doing a national campaign would contribute to their own individual in-state objectives; and why a national campaign does not need to conflict in any way with any and all in-state advertising and brand management agendas. Not only do we need to show

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# A MARRIAGE MADE IN GAMING HEAVEN

Scratch Cards and Instant win games comprise over half of the U.S. lotteries' sales. And they are coming on strong in Europe now too. Brand licensing and increased price-points have been the main drivers in the U.S. market. The Internet is what's driving the more recent burst of sales in Europe. European lotteries have been into Internet gaming for many years and are discovering the appeal that Instant Scratchers have for I-gaming players. The U.S. lotteries that have long been tapping into players love for Instant Scratchers in the off-line world are now moving into Internet gaming. The combination of Scratch Cards/Instant win games and the Internet is the marriage made in heaven that is taking both markets by storm.

And now, after the first few years of togetherness, the relationship just keeps getting better and better. The success of Internet-based Instant Scratchers in Europe is telling, but reflects a small fraction of the potential for the U.S. market. Internet gaming in Europe is already saturated with options and competition for the players' attention. That's not the case in the U.S. where most forms of i-gaming are currently prohibited. U.S. players are anxious for new product and game offerings to be offered on the Internet. Too, the U.S. players have long had a love affair with Instant Scratchers. With over 50% of their revenues from Instant Scratchers, the U.S. lotteries are ideally positioned to introduce that incredible customer base to a whole new level of enjoyment of their favorite games. We have always known that the interactive and instant gratification characteristics of Instant scratchers are very appealing to the players. What's taking everything to a whole new level is the ability of the Internet to incorporate even more interesting player-engagement features and game constructs.

Lotteries have been talking about the importance of reaching the "younger demographic". How ironic is it that "dot com" commercial I-gaming operators are now looking enviously at the traditional lottery customer base as being the far more desirable one to have! What they are discovering is what lotteries have known all along (but maybe not appreciated!). The 35 + demographic is more loyal, stable, has more money, and is more interested in the game itself than the social. Sure, the 20 to 35 age group is more adventurous and willing to try new things. But that can translate to fickle, less loyal, and more likely to move onto something new without even a polite peck on the cheek. And Lottery has core assets that no other gaming provider has. Leveraging those assets - their fantastic brand credibility, their customer base of millions of consumers, their tremendous portfolio of products, their intimate understanding of games informed by decades of gaming industry experience - leveraging those assets into an I-gaming strategy that is built on Instant Scratchers is capturing the imagination of the players and re-establishing Brand Lottery as the coolest kid on the block. Brand Lottery already dominates by most financial and market penetration metrics. Now it's time to reclaim

its status as the progressive and innovative leader in the gaming industry.

Following are the key ingredients for accomplishing that:

**1 PARTNER WITH THE BEST OF BREED PROVIDER** - find the supplier of choice who focuses on the games you wish to offer and has the most advanced and wide offering. Your partner should bring the relevant internet proficiency and experience into the partnership by knowing how to drive revenues and optimize online activity.

**2 OFFER A WIDE VARIETY OF GAMES** - There's no reason to keep repeating the same games, or a limited selection of games. There are new approaches to game engine logic that provide powerful platforms for identifying the cause-effect relationships between product attributes and player response. The business of keeping the games and player experience in a constant state of refresh has actually been automated.

**3 USE THE INTERNET TO ENHANCE THE TRADITIONAL LOTTERY PRODUCTS** - Lottery customers have grown to love the traditional games. The Internet enables the Lottery to endow those traditional games with exciting, innovative, and interactive concepts. The result is that Lottery can now leverage its tremendous assets back into a high-growth cycle. And the player gets a major refresh while getting to stay with what they know and love. It really is the best of both worlds for both player and operator.

**4 FRESH CONTENT ON A MONTHLY BASIS** - Fresh content is important to improve player loyalty and site stickiness. It provides the ongoing reason for players to return to the website and results in increased average yield per player. In addition, it allows targeting a wider player demographic, by introducing different games to appeal to different play styles and preferences.

**5 LOCALIZED GAMES** - Taking popular games from the offline, both of successful printed cards as well as local games that are known by the public, will facilitate player engagement in the online arena, especially for new internet players.

The goal is to build a platform that supports a dynamic and evolving relationship with the players. The players expect the wide variety of options and game concepts to be refreshed on a regular basis. Giving the players what they want has never been more do-able, both on a technological level and from a political/regulatory point of view. Giving the players what they want, updating the image and appeal of Brand Lottery, staying aligned with regulatory requirements, generating more income for Good Causes ... all this and more adds up to a win for everyone.

Major innovation is also driving the success of the Instant Scratch-offs space. Adding graphically enhanced 3D elements, video animations, audio, and other fun and interactive features are key to engaging the players interest in the online environment. The Internet enables tailored marketing programs to take into account individual player styles and preferences, CRM programs to cross-sell new products and promotions, and new ideas that can be tested and refined at a fraction of the cost in the off-line world. The potential for creative new concepts to sustain a whole new era of growth is limited only by our imagination.

Appealing to its core players while also attracting new demographic profiles is the key strategic mission for Lottery. The amazing convergence of those goals is now fully enabled by the Internet. NeoGames' mission is to empower Lottery to step into that space with the forward-looking products and services that migrate the huge success lotteries have in the off-line world onto the Internet. With a complete suite of I-gaming scratch cards, instant win games, slots and lottery products, NeoGames is dedicated to helping its clients expand into a whole new era of sustainable growth and prosperity. ♦

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how the in-state advertising is different from the national branding campaigns but we also need to clearly demonstrate, however, how each is beneficial to every individual lottery. First, we do not need to make this into a theoretical discussion. We could start with just one good idea, one promotional concept that could be nationalized.

These might not be the perfect ideas, but let's just run some up the flagpole. One objective would be for a partnership to essentially offload all the costs of promotion over to our partner. That actually should not be hard to do since we have lots of ways to add value to a partnership like this. For instance, there is a show called 'Extreme Makeover: Home'. I'm not even sure where the funds come from to do the home makeover other than TV advertising revenues. But they fund the makeover of a needy person's home, showing before and afters, showing the process, and filming the person's excitement at seeing their home all refurbished. The appeal to the audience is to see how a home can be fixed up and, often, remodeled to better fit the family's needs. Also, the audiences get to share in the lucky recipient's good fortune at having all that done for them. Why couldn't lottery enter into a collaborative arrangement with the producers of 'Extreme Makeover: Home', such that the lottery bought a set of 'Makeovers' for some amount of money, say fifty 'Makeovers' for \$10 million, and built a national game around winning an "Extreme Makeover"? In return, the show would promote lottery products or at least the lottery's sponsorship of the show and the 'Makeovers'. A lottery player would be one of the lucky recipients of the 'Makeover', and, we could create it so that each lottery state would have a winner. I would think we could negotiate a really great deal with the producers of Extreme Makeover because lottery would be paying for the 'Makeover', or a portion of the costs! I would think they would be anxious partners and quite willing to promote lottery in a big way. To me, this kind of thing would be a double win. First, a great new game concept, something new and different for Brand Lottery. Something like this kind of a feel-good story is consistent with what lottery is all about; in fact, it creates a more expansive story that people can really relate to. Second, and most important, it would give us the kind of national platform that is priceless, way more impactful than any kind of conventional advertising we could ever dream up.

Or find a way to integrate lottery into reality shows. Maybe as additional prizes, or consolation prizes. Or maybe develop a whole new reality show concept that could include winners of lotteries. Instead of 'Keeping up with the Kardashians', we could have Lottery Millionaires for Good Causes and have a initial set of ten lottery winners engage in a televised competition of

some kind to win \$1 million for their favorite charity like the "Apprentice". Or maybe another \$1 million for themselves. Just flip the channels and you see that reality shows can be based upon anything. From "Toddlers & Tiaras" to "Cupcake Wars" the viewing audience is watching these shows. Whatever, the point is to just start thinking of non-traditional ways to secure a national stage for brand Lottery.

Here's another idea, why not include a coupon for a Powerball or Mega Millions ticket in a box of detergent. Maybe Proctor and Gamble or other major consumer marketing companies would even include that extra value in their own advertising, or with a little lottery logo on the box. That would deliver an amazing promotional value to Lottery. And it would cost us nothing.

I'm sure there are much better ideas that would come with a concerted effort to think creatively and open-mindedly about the possibilities. The point is that there is huge untapped potential if we have the open-mindedness and ingenuity to think them up.

*That seems brilliant to me. Create a great new game. And a revolutionary promotional concept that would completely reposition Brand Lottery on the national stage.*

**K. Freedlund:** What lottery can bring to the table is a game and prize structure. What the TV show brings is the actual show and all the costs and audience that go along with producing a show like that. We both have a business model that would derive huge value from a collaboration like this. It's a way for lottery to get its name and brand out there on a national level at no cost other than the prize, which the partner would pay for.

We all know that the effectiveness of traditional mass-marketing is diminishing. We're all looking for more clever ways to create viral marketing in the social media; or coordinate a non-traditional multi-media/multi-channel/multi-event marketing campaigns. It is similar to all of our baseball MLB collaborations. Except with something like Extreme Makeover, there would be a potential to leverage into multiple co-operative arrangements. All the commercial supporters of the show, companies like Proctor and Gamble, Sears, Home Depot or Loews, could all become brand licensing partners or do their own promotions that feature lottery. Lotteries are trying to do this kind of thing right now with their MLB and sports franchises, trying to add the second tier of partners to co-promote with.

*Why isn't somebody exploring these kinds of opportunities?*

**K. Freedlund:** They are, but for the reasons we have discussed earlier, there is not a groundswell of support at this time. Currently, the ex-

ploration is starting to come from a few advertising/marketing directors who want the industry to expand into this area. If you recall, the start-up of the cross-selling initiative was in the end of January, 2010. Prior to launch, Gordon Medenica, a strong supporter of national branding, put out a request to all lotteries asking which lotteries wanted to contribute to a national Powerball/Mega Millions ad to be air during the Super Bowl which was to be played in the beginning of February. In all, four state lotteries signed up. Not enough participation to purchase national time during the game but enough to air it locally during the game. Gordon's attempt was a beginning, but it's just that there is so much more that can be done. Perhaps people assume that consumer brands do not want to affiliate with lottery, or assume that we can't get agreement between the different lotteries to work on this together. There may be some validity to those concerns, but that should not stop us from pursuing these opportunities. That's what entrepreneurialism is all about. Moreover, in the current economy, we are starting to witness more consumer brands reaching out to lotteries in an attempt to start to form partnerships. In Georgia, we are currently partnering with Waffle House in connection with the Atlanta Falcons instant ticket. Among the many contributions provided to us by Waffle House in this promotional partnership, Waffle House is offering a free waffle (a \$2.75 value) to anyone presenting a non-winning Falcons ticket. Also, it should be noted that we are providing no direct compensation or payments to Waffle House, only promotional consideration.

Maybe Good Causes would benefit by having this industry turned over to commercial managers who are more aggressive at opening the doors to new and creative ideas. I prefer to think that states can depend on their own lottery operators to do it instead. But we need to do it or step aside and let the people who will do it take over.

It's not just about co-promoting with TV shows or the big consumer brands. It's about raising our sights to deliver a better product to our customers, a better business model for our stakeholders, and more funding for Good Causes. Sometimes it seems like the idea that "we serve at the pleasure of our governor" is used as an excuse to abide bureaucratic stasis. We need to start being creative and trying to capitalize on the value of those brands.

*Gamification is a concept that has gone mainstream with marketers. They all want to add an element of fun and games to the experience of buying their products. How does one 'gamify' the experience of buying a box of detergent? Well, you gamify it by putting a lottery ticket in there. That is such an in-*

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## Bill Huntley

President, Lottery Systems,  
Scientific Games Corporation

PGRI Introduction: Scientific Games is bullish on the prospects for accelerated growth in the traditional lottery products space. Wanting to understand the basis for that optimism, and also get insight into decisions regarding capital investments, and how IT providers are differentiating their product and service, I asked Bill Huntley to share his views on these and other issues. Also included are some thoughts on what lottery operators can do to further optimize the performance of their businesses, and what Scientific Games is doing to help them in that mission.

From 2000 to 2006, Bill Huntley served as president of Lottery Systems at Scientific Games. He then served as president of Scientific Games Racing, Sports and Gaming Technology from 2006 to 2007. In 2011, Bill returned to Scientific Games as president, Lottery Systems.

In this role, he is responsible for U.S. Lottery Systems, European Lottery Systems, Video Gaming, Systems Support and Project Management. In the years prior to rejoining Scientific Games in 2011, he provided consulting services for several of the company's key business development initiatives.

*Paul Jason, Public Gaming: SG is recognized worldwide in the lottery industry, predominantly for its strength in the instant tickets business, but not everyone in the industry is aware of the size and depth of the company's systems business. In the big picture, though, couldn't it be said that systems really drives the technology behind everything?*

**Bill Huntley:** Well, when a company invents something as game-changing as the world's first secure instant ticket, there will always be that initial perception – even 40 years later. But our company's systems division has been here all along and we really do drive the technology behind everything happening at Scientific Games. Right now we have over 40 gaming systems globally, including systems within our instant ticket services contracts. In Europe, we are actually a leading systems technology provider, and manage an engineering center out of Vienna, Austria. Our gaming control systems monitor more than 97,000 slot and video gaming machines throughout the world. We launched the China Sports Lottery a few years back and that's grown from 1,500 terminals in one province, to tens of thousands of terminals throughout every province in China. In the U.S., we've completed several large systems conversions

for lotteries in Indiana, Pennsylvania, and most recently Iowa. So, yes, you could say that our technology systems and engineering teams are definitely enabling some exciting programs here at SG and for the industry.

*By most conventional measures, the lottery industry would appear to be in the mature stage of its life cycle. Still a lot of profit legs left, but not necessarily poised for the kind of growth associated with the early to middle stages. And yet, Scientific Games appears to be doubling down on the future of the government-sponsored gaming sector and the lottery business in particular. Do you see the traditional products getting back into high single-digit growth or even higher; and what factors will drive that growth?*

**B. Huntley:** That is a great question. SG is actually very bullish on growth opportunities within the industry. We believe in the potential of the core product offering and the potential for growth through new game content, platforms and distribution points. Given the fiscal crisis facing many states, lotteries are challenged to not only maintain their current proceeds in the face of increased competition from other forms of gaming and entertainment, but to meet the growing financial needs of the beneficiaries that depend upon them.

We think there are tremendous opportunities to evolve the traditional lottery products, improve marketing and penetration to reach new players, and create more engaging and entertaining gaming experiences.

From a product perspective however, many lotteries are still offering the same draw games that they've had for the last 20 to 30 years – and for the most part at the same \$1 proposition. So, we see the industry as a whole looking to move to more fun and entertaining offerings, adding to the product mix, extending the game experience with website interaction and incorporating what we've learned on the instant product side of the portfolio.

In addition to the product side, there are still plenty of opportunities to enhance retail performance – to increase the presence of the lottery category at retail. But we all have to educate retailers, particularly chain accounts, that lottery can be positioned as its own business within the business. With our SalesMaker™ program, we've seen some fairly dramatic results – participating retailers have experienced 20 to 30 percent increases in sales. In fact, as part of our partnership with the lottery in Maryland, we're launching a statewide program to increase execution at retail. As for sales distribution channels, we see lotteries

expanding into non-traditional retailer locations, to the internet, to mobile devices and to third-party networks.

Growth is also expected to come from engaging players with loyalty programs and interactive game content, where legally permitted. So far, we're having great success with our Properties Plus® program. And Sciplay, our joint venture with Playtech, is developing new interactive products for the next generation of players who have grown up with the internet.

The challenge for the industry remains the ability of state lotteries to have the flexibility to function like private businesses, to have the ability to procure products and services that will have the largest return on investment in actual dollars to their beneficiaries. More state procurement policymakers are recognizing that the growth opportunity is not with the least expensive offer, but with an investment approach in programs, games and technologies that generate the greatest profits.

*What is SG doing to position its lottery operator clients to truly optimize the growth potential over the next three years (ROI timelines being more compressed now!)?*

**B. Huntley:** One of our key areas of focus as a company is to customize our offerings to meet the dynamics of each individual jurisdiction – to optimize the lottery's current game portfolio, including adding categories such as monitor games, exploring avenues for price point growth, positioning products at retail, and re-engaging with existing and new players through web-based platforms like loyalty clubs. We are working with our customers to capture the next wave of gaming opportunities as platforms develop with internet and mobile. The key is listening to our customers, understanding the dynamics in their business and bringing proven programs and games that work.

*Do lottery operators, and more importantly their political constituents, necessarily even aspire to truly optimizing their growth potential? Aren't there systemic factors that cause there to be an underlying ambivalence about achieving their full potential?*

**B. Huntley:** We see lottery organizations around the world working diligently to deliver revenue performance to the governments they serve. This is a complex business with many stakeholders: government, retailers, beneficiaries, players, employees, vendors. Lottery leaders do have the accountability to maximize performance within the boundaries of social responsibility, and for the majority, we see a focus on managing to the potential. Where policy restrictions present barriers to business execution, lotteries are exploring how to strategically outsource the management of business functions. This creates in essence a

public-private partnership model that maximizes the strengths and capabilities on both the government side and private business side.

*Hasn't IT become a commoditized business? Can a more effective IT strategy serve as a competitive differentiator? How can the lottery systems business in general evolve to deliver a competitive advantage to the operator?*

**B. Huntley:** Yes, IT has absolutely become commoditized, in our industry and in broader technology industries. But, fortunately, we are not solely in the business of providing IT deliverables. While technology infrastructure is a significant part of our product offering, we consider technology the enabling platform that supports our business mission – and SG is in the business of helping our customers fulfill their mission of maximizing lottery transfers to beneficiary programs.

While some states have recognized that the procurement for a systems contract is not simply buying new computers and terminals, others are restricted by state procurement rules that focus only on lowest cost – not on investing in programs that maximize net profit to Good Causes. A lottery's ability to dramatically grow profits by focusing on retail sales growth exponentially exceeds the saving opportunities on already lean operating expenses. So, the lotteries coming out of fiscal crisis in the best position are those that have been able to invest in growth – not cut expenses to the point of restricting growth. This is why SG has been selective in which opportunities we bid, as well as how we bid. It adds no value to our existing customers, or our company, or our shareholders, if we assume contracts that are not structured to be profitable. We'd rather invest in innovative products that help our existing customers grow their business than take on contracts that are financially unprofitable.

So, back to your question Paul, the shift from growth-based solutions to lowest-price solutions has accelerated the commoditization of the industry and led to stagnation. It's time now to focus on innovation and growth, reinvigorating the brand of the lottery, attracting new players and increasing distribution points.

*The traditional lottery products have had a life-span that is virtually unmatched in modern economic history. How much longer can it continue without a major refresh? What can Team Lottery do to reboot its products, its distribution strategies, its marketing and pricing strategies, its broader portfolio management strategies, its retailer optimization strategies, and everything else?*

**B. Huntley:** Lotteries in general need some flexibility within the confines of state government to be able to "invest" in their business. For example, during times of fiscal

constraint, advertising is almost always the first line item to get cut – and sales suffer as a result. The Pennsylvania Lottery is a great example of a lottery that has invested in the future by investing in more retailers, both traditional and through self-service, as well as exploring non-traditional means of communicating with their players such as digital content at the point-of-sale. The combination of these efforts has resulted in a 4.6 percent increase in total sales for fiscal year 2011 over last year – and an all-time record sales year for instants of almost \$2 billion. Many of these programs are available to lotteries through their existing contracts as options. It is a matter of working with lotteries to implement these options and really drive sales. The Iowa Lottery recently challenged the vendor community and sought innovation through its systems RFP. We were fortunate to win that bid and just completed a very successful technology conversion. Iowa exercised a number of creative product options to grow their sales and engage their player base, such as our new iPhone app and our web-based player loyalty program. They've just completed a record of \$271 million in total sales in fiscal year 2011 – up 6 percent over last year.

The key for lotteries is not accepting status quo. We as an industry can't manage the product set with the same business assumptions from 10 or 20 years ago. For example, an area like retail licensing needs a refresh if we are to bring on new retailers and grow distribution. Keeping an eye to the future, incorporating new business methods, and listening to the people that sell the games, retailers, and the people that play the games – the players – will keep the industry moving forward.

*What can be done to enhance the lottery playing experience, to lengthen the playing experience, to 'gamify' it or add the play into the lottery experience?*

**B. Huntley:** Gamification seems to be taking off as the latest buzz word in our industry! At SG, we remain very focused on new product development. Re-engaging players and reaching new players is a key focus across the company, in all business units. We recently announced the formation of MDI Interactive for this very purpose, and will continue to launch and develop new products including interactive games, second chance promotions, linked games like Wheel of Fortune®, third party games and games with a national focus. Our mission on the systems side is to develop the enabling platforms to support these products. And of course, to guide our customers to ensure that the player experience is seamless and delivered with the best consumer marketing principles.

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## Nikos Nikolakopoulos

Managing Director, INTRALOT Latin America

**PGRI Introduction:** Gaming models and management structures vary widely in Latin America. INTRALOT has extensive experience in these markets, serving as operator in some jurisdictions and commercial partner in others. I asked Nikos Nikolakopoulos to help us understand how the lottery and gaming business works in South and Central America.

*Paul Jason, Public Gaming: There is a wide variety of gaming models, regulatory frameworks in South America. Could you give us a brief overview of the different kinds of regulatory and owner/manager models that exist in South America?*

**Nikos Nikolakopoulos:** INTRALOT's experience from all over the world has taught us that the most effective gaming models are supported by regulatory frameworks that offer transparency, accountability and stability, and operate without unexpected changes or other surprises. It is important for the regulatory model to provide all the necessary information to the public and also the investors, control the operators on their obligations, such as payment to the winners, have mechanisms to prevent addictions to gambling and in general provide a social responsible framework, helping in parallel the investor to maximize the investment subject to the above conditions.

Gaming regulatory frameworks and models in Latin American countries vary significantly. Currently we mainly see three gaming models in Latin America that range from strictly state-controlled to more autonomous and flexible.

In some countries, Argentina as an example, the lotteries are owned by the country/

state. The latter are responsible for the lotteries' operation having cooperation with vendors in areas, such as technological expertise.

On the other hand, in other countries, like Brazil, there is one federal lottery, which operates country wide, where each state has the ability to operate its own lottery. In some cases (like the state of Minas Gerais) an operator is selected to perform most of the tasks (technology, marketing, sales, etc.) and the State Lottery controls.

Finally, in other countries, like Peru, the market is open, and lottery operators are able, through specific processes to apply and acquire licenses to establish lottery operations.

*INTRALOT has the resources and capability to adapt to this diversity, to help its clients accomplish their goals as a commercial supplier and as the full-service operator. Who are your clients in South America and how do their needs differ?*

**N. Nikolakopoulos:** INTRALOT has established a strong presence in Latin America, currently operating in Argentina, Brazil, Peru, Jamaica, Dominican Republic and Suriname. In Argentina INTRALOT through its subsidiary Tecnoaccion is the technology provider in 11 states. Our operations in the country are empowered by our production facilities based in Argentina, where we produce technology (terminals, mobile terminals, etc.). In Brazil after the signature of our contract with Loteria

Mineira we launched a very promising operation in a very challenging jurisdiction. Brazilian States are starting to launch their own lotteries and we are closely monitoring these developments, so as to seize any opportunities that might meet our strategic plans in the country. In Brazil, we cover the country's need for entertaining gaming, such as FAST KENO.

In Peru we are lottery operator and we have managed to become the market leader offering a variety of exciting games and numerous entertainment experiences to the Peruvian people. INTRALOT entered Peru in 2003 realizing the great potential of the country. Recently, INTRALOT has become the first company in Peru to receive a license to use its iGEM Gaming System by the Directorate General of Casino Games and Slot Machines of the Ministry of Tourism. Moreover, we have enriched our gaming portfolio, introducing sports betting 'Te Apuesto'. In Peru, INTRALOT also manages La Tinka, Gana Diario, Ganagol, Kabala, RapiTinkas, Rapi-gana, Super 3 and El Reventon.

In Jamaica we have invested in Supreme Ventures Limited acquiring a strategic stake of the company. As the dominant lottery company in Jamaica, SVL has developed an extended network of 1,000 Points of Sale currently owning a large portfolio of lottery games that includes Cash Pot, Lotto, Pick 2, Pick 3, Dollaz, Lucky5 and Winquick (Instant

Win). SVL also operates VLT gaming lounges and holds a license for Fixed Odds Betting. In Jamaica our future plans entail the continuous enhancement of Fixed-Odds Betting and the revitalization of casino business through monitoring systems & expansion of VLTs.

In the other countries of Latin America, we have contracts to offer our technological expertise to private operators.

*How do the macro-economic conditions, gaming and consumer cultures, and general gaming markets differ among countries in South America? Is there a wide diversity of discretionary income, maturity of gaming market, regulatory framework, etc.?*

**N. Nikolakopoulos:** There is indeed a big diversity of the regulatory frameworks and the macroeconomic conditions that create the uniqueness of each country in the region. However, this is not the case just in Latin America. INTRALOT before entering a new country carefully examines all the parameters, legal, economic, cultural, habitual: the population per country, the existing regulatory framework, the GDP per capita, as the gaming spending is usually in strong correlation with per capita GDP. We also study gaming and consumer cultures, etc, so as to develop and offer products and services that will meet the particular needs of each jurisdiction.

In Latin America, we find countries with significant income and per capita gaming spending, such as Argentina and Jamaica and others where the market is developing and we are helping to build it, as we have done in Peru. Moreover, there are cases among the countries of the region that do not have the critical mass to attract a sustainable investment. Typically these countries are those which have small populations and additionally have a low spending capacity (low GDP per capita). Moreover, regions with pure telecommunications infrastructure represent a challenge for suppliers and subsequent investments.

An important factor that everyone should understand when doing business in this region is that every country in Latin America cannot be treated the same way. There is not a "one size fits all" approach, as there are clear differences and segmentation in the countries of the region.

As far as gaming is concerned, one thing we learned from our operation in the area is that games that have appeal in many parts of the world, are not necessarily popular in Latin America. So, before launching a new product we have to take into consideration the special characteristics of every country in order to determine the applicability of the game.

A general 'rule' in Latin America countries is that the simplicity of the games is important, since simple games are more popular. Scratch games are not so popular in Latin America, compared to the US or other European countries, but there is a lot of room for their development. Sports betting represents an example of a game that has targeted appeal as it is a skill game (in the sense that there should be knowledge of the player) and complicated. Latin American players, being great sports fans, are getting more and more acquainted with betting.

Therefore, information and prior research is very important. General characteristics serve as guidance but adaptation to the local reality is essential. Every strategy and design should be adapted to the specific market needs and demands.

*I am wondering if the land-based communications networks are less developed than in North America and Europe and whether that means that South America is migrating more to a wireless/satellite infrastructure? How relevant or important is the technological and communications infrastructure to how you do business there?*

**N. Nikolakopoulos:** Telecommunication networks in Latin America are in a development phase. In telecoms, even though there is a strong progress in the infrastructure in the region, there are still parts of this area where technologies, like GPRS or ADSL cannot be applicable for an acceptable standard of operation. This is why many times a combination of telecommunication solutions (usage of different types of technology or cooperation with more than one vendor) is necessary to produce in spite of the much higher cost. We should never forget that telecommunications and lottery are currently tightly connected and there is a correlation between the telecommunications penetration growth and the growth of Lotteries. The increasing penetration of telecommunications can provide an opportunity for the expansion of lottery operations.

*Distribution: I would guess that the percentage of the population that is clamoring for Internet gaming is smaller in South America than in the more mature economies of North America and Europe. What is the projection for I-gaming in South America? Is that market totally about land-based retail, with less i-gaming potential in the short-term?*

**N. Nikolakopoulos:** i-Gaming is the most promising medium for growth and at the same time represents an area with less clear regulation and disputes. In Latin America there are counties where gaming through the

Internet is totally prohibited and in that sense and unless the legal framework changes, there is no room for a legitimate operator to establish its presence.

I-Gaming is an area that INTRALOT is closely monitoring worldwide and, through its subsidiary INTRALOT Interactive, seizes the opportunities that arise from the controlled opening of the market, wherever regulatory framework allows it.

*Is there illegal gambling in Latin America? How can suppliers and official lotteries work together against it?*

**N. Nikolakopoulos:** In Latin America the illegal gambling represents a multi-billion market. Illegal gambling represents a major problem that affects all stakeholders: countries, players, lotteries, vendors, society, etc. Usually it is the major source for criminal activities such as money laundering. Players are not protected, since there is no control against gambling addiction, the governments are not receiving taxation, no money is raised for good causes and that eventually discourages investment from legitimate companies as they realize they cannot have a fair competition.

Many Latin American Governments have expressed their will and taken certain measures to diminish illegal activities in their counties in order to increase their revenues. We hope that this endeavor will soon expand to the gaming sector as well.

Whether to enforce prohibition or move towards a controlled opening of the specific market is a decision for each government. There are examples worldwide where a controlled opening of the market created benefits for all parties and helped the reduction of the illegal activity. Italy is a good example of the success of a controlled opening of the market. In fact, Italy constitutes the most successful model of market liberalization, as licensed organizations such as INTRALOT, among others, developed POS networks alongside online games. The increased sales of lottery games had multiple benefits both for new players and for the Italian state. Taxation has been maximized and the most important thing from this example is that players have chosen to participate to the legal network of operators.

Another example, popular in Latin America, is the VLTs market, where governments could proceed into a controlled opening, establishing the terms and conditions of the operation and putting in place systems and mechanisms to control, such as the monitoring systems, where each machine could be connected with, in order to establish credibility, proper tax collection and player protection. ♦



# A MODEL FOR RESPECTING STATES' RIGHTS IN REGARD TO INTERNET GAMBLING – THE INTERSTATE HORSERACING ACT

by Mark Hichar

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The federal legislation considered in the past two years to legalize and regulate interstate Internet Gambling in the United States – 2009 “Frank Bill”,<sup>1</sup> the 2009 “Menendez Bill”,<sup>2</sup> the 2010 “Reid Bill” (never introduced), the 2011 “Campbell Bill”<sup>3</sup> and the 2011 “Barton Bill”<sup>4</sup> – all contemplate the establishment of a significant federal infrastructure. Among other things, they would establish a federal licensing regime (although subcontracted, in part, to state and tribal regulators) to license operators and their major vendors. (Other federal oversight would come, for example, from the “Office of Internet Poker Oversight,” which would be created pursuant to the Barton Bill.) This would be inconsistent with earlier findings and actions of Congress in regard to Internet gambling, and ignores the fact that a successful interstate Internet gambling infrastructure has been in place in the United States since 2000 without such dependence on the Federal Government. Specifically, the Interstate Horseracing Act of 1978, as amended in 2000 (the “IHA”),<sup>5</sup> created an environment that respects the rights of states to regulate gambling occurring within their borders and in which states have actively cooperated with each other in order to establish consistent regulatory licensing requirements. Indeed, with the recent passage of legislation in Kentucky, there is the promise of even greater state cooperation in the future, in particular in regard to the operators that accept Internet wagers on horse races (i.e., “advance deposit wagering” or “ADW” operators). With this as background, it is disappointing that the Federal Government has not considered using the IHA as a conceptual model for federal legislation relating to interstate Internet gambling in the United States.

The IHA authorizes interstate Internet wagering on horse races in a manner that respects states’ rights to regulate gambling while at the same time providing states necessary federal assistance. It offers a model that Congress should consider should it finally decide that Internet wagering (besides wagering on horse races) should be regulated and taxed, rather than prohibited. Pursuant to the IHA, a person in one state may place a wager on a horse race occurring in another state, and that wager may be transmitted via “electronic media” and accepted in the person’s state (the “off-track state”) or the state hosting the race (the “host state”). The interstate wager must be lawful in each state involved, and a number of consents must be obtained, most notably, the consent of the racetrack where the race occurs, the group representing the horse owners and trainers at the track, the host state’s racing commission and the off-track state’s racing commission.

In passing the IHA, Congress made and stated explicitly the following findings:

- (1) the States should have the primary responsibility for determining what forms of gambling may legally take place within their borders;
- (2) the Federal Government should prevent interference by one State with the gambling policies of another, and should act to protect identifiable national interests; and
- (3) in the limited area of interstate off-track wagering on horse races, there is a need for Federal action to ensure States will continue to cooperate with one another in the acceptance of legal interstate wagers.<sup>6</sup>

In 2000, the IHA was amended to make clear that an “interstate off-track wager...includes pari-mutuel wagers, where lawful in each state involved, placed or transmitted by an individual in one state by a telephone or other electronic media and accepted by an off-track betting system in the same or another state, as well as the combination of any pari-mutuel wagering pools.”<sup>7</sup> Thus, the 2000 amendment made clear that wagers via the Internet were within the scope of the IHA. (The United States Department of Justice (“DoJ”) maintains that the Wire Act<sup>8</sup> and certain other federal laws prohibit Internet wagering on horse races, even where legal in the states involved, notwithstanding the express provisions of the IHA. The DoJ’s position has been that under the principles of

1: H.R. 2267 (111th Congress, 1st Session). 2: S. 1597 (111th Congress, 1st Session). 3: H.R. 1174 (112th Congress, 1st Session). 4: H.R. 2366 (112th Congress, 1st Session). 5: 15 U.S.C. §3001, et seq. 6: 15 U.S.C. §3001(a) (emphasis added). 7: 15 U.S.C. §3002(3). 8: 18 U.S.C. §1084. 9: See President Clinton’s Signing Statement upon signing the amendment to the IHA in 2000, 2000 U.S.C.A.N. 2455, and the April 5, 2006 Statement of Bruce G. Ohr, Chief of the DoJ’s Organized Crime and Racketeering Section, Criminal Division, with respect to H.R. 4777 (the “Internet Gambling Prohibition Act”) before the Subcommittee on Crime, Terrorism and Homeland Security of the House Committee on the Judiciary, 109th Congress (2006). 10: See 146 Cong. Rec. H 11230, 106th Cong. 2nd Sess. (2000), statement of Rep. Frank R. Wolf, in which Rep. Wolf “want[ed] members of [the House] to be aware that [the amendment to the IHA] . . . would legalize interstate pari-mutuel wagering over the Internet.” 11: 15 U.S.C. §3001 (a)(3). 12: See <http://racinglicense.com/owner.html>, last accessed July 18, 2011. 13: See <http://racinglicense.com/mission.html>, last accessed July 18, 2011. 14: See <http://racinglicense.com/accepted.html>, last accessed July 18, 2011. 15: KY S.B. 24, enacted March 16, 2011, Article III(B). 16: KY S.B. 24, enacted March 16, 2011, Article V(A) and (C). 17: Bloodhorse.com, at <http://www.bloodhorse.com/horse-racing/articles/62809/kentucky-racing-compact-bill-signed-into-law>, last accessed July 19, 2011 (emphasis added). 18: See, for example, U.S. v. MacEwan, 445 F.3d 237, 244 (3d Cir. 2006); cert. denied, 549 U.S. 882, 127 S.Ct. 208, 166 L.Ed.2d 144 (2006); United States v. Carroll, 105 F.3d 740, 742 (1st Cir. 1997) and United States v. Kammersell, 196 F.3d 1137, 1139 (10th Cir. 1999);

statutory construction in the United States, because the IHA (a civil statute) did not explicitly repeal or amend the Wire Act (a criminal statute), the IHA is therefore trumped by the Wire Act, which, among other things, prohibits gambling businesses from using a wire communication facility to accept interstate wagers on sporting events.<sup>9</sup> However, the plain language of the IHA amendment contradicts this position, as does its legislative history.<sup>10</sup> In addition, the IHA was enacted long after the Wire Act, and later enacted statutes usually supersede earlier ones where they are in conflict. Finally, the IHA amendment is specific to horse racing, whereas the Wire Act applies more generally, and specific statutes usually trump general ones. In any event, the DOJ has never prosecuted Internet gambling businesses accepting wagers in accordance with the IHA, nor has it prosecuted those assisting such businesses.)

The purpose of the IHA is to “ensure states will continue to cooperate with one another in the acceptance of legal interstate wagers,”<sup>11</sup> and such cooperation has indeed occurred. Several states have passed legislation authorizing their membership in or participation with a cooperative interstate organization known as the “National Racing Compact.” The National Racing Compact “is an independent, interstate governmental entity authorized by participating states and the FBI to issue a national license for participants in horse racing with pari-mutuel wagering.”<sup>12</sup> Its purpose is “[t]o establish uniform requirements for and issue licenses to participants in pari-mutuel racing to ensure that all participants who are licensed meet a uniform standard of honesty and integrity, and to reduce the regulatory burden on those participants in pari-mutuel racing who are indisputably welcome to race in every state and province by providing them with a single license recognized in all racing states and provinces.”<sup>13</sup> The National Racing Compact currently is recognized in 24 jurisdictions – 15 member states and 9 participating states,<sup>14</sup> and a national racing license now exists for several participants in the pari-mutuel racing industry (e.g., owners, jockeys and trainers). Although the National Racing Compact currently does not establish uniform requirements or issue licenses to businesses that accept Internet wagers on horse races, a law enacted in Kentucky in March, 2011 contemplates the establishment – pursuant to an additional state compact – of a national racing and wagering commission – “an interstate governmental entity of the member states, to coordinate the decision-making and actions of each member state racing commission...”<sup>15</sup> The compact would “allow each member state, as and when it chooses, to achieve the purpose of this compact through joint and cooperative action,” and the member states would have the power and duty, “by and through the compact commission: [t]o act jointly and cooperatively to create a more equitable and uniform pari-mutuel racing and wagering interstate regulatory framework...[and] [t]o create more uniform, effective, or efficient practices and programs, with the consent of each member state that shall participate in them, relating to any part of live pari-mutuel horse or greyhound racing or pari-mutuel wagering activities, whether on-track or off-track, that occur in or affect a member state...”<sup>16</sup> The compact will become effective when five additional states adopt related legislation. As reported in the media:

The law allows Kentucky to join other states that conduct pari-mutuel wagering and racing to adopt and implement uniform rules and regulations governing the sport...The compact is designed to allow each member state to maintain control over how racing and wagering is regulated in their individual state. Every proposed rule would go through a public comment period, and states must publish regulations in their respective administrative registers.”<sup>17</sup>

In this manner, the states’ rights to control gambling within their borders are respected, and yet a national infrastructure is possible.

It is clear that both Congress and the states have the power to regulate Internet gambling. Congress enjoys this power through its power to regulate interstate commerce under Article I, Section 8 of the United States Constitution (the

“Commerce Clause”). Congress’ power likely exists even over Internet wagering where the wagers are made and received in the same state, because several courts have deemed use of the Internet to be automatically an activity in interstate commerce.<sup>18</sup> On the other hand, states enjoy the power to regulate Internet gambling under the Tenth Amendment to the United States Constitution, which reserves to the states the powers not granted to the Federal Government nor prohibited to the states, and thus protects the rights of states to regulate gambling activities within their borders pursuant to their police powers.

It has been argued that a comprehensive federal regime overseeing Internet gambling is needed. A recent White Paper commissioned by the American Gaming Association states:

Although each state should have the discretion to decide whether or not to permit online gambling within its borders, as is done under the Interstate Horseracing Act, individual states should not be able to create their own online gambling regimes. The result would be a legal patchwork that would make little economic sense, with online poker permitted in one state, a state lottery offering casino games in a second state, and a third state authorizing only Internet blackjack. The result would be confusion for consumers and an inefficient overlap in regulatory effort.<sup>19</sup>

Such inefficiency need not occur under federal legislation modeled upon the IHA. The states have shown that they can work together on gambling licensing and regulatory issues – such cooperation is evidenced not only by the National Racing Compact, but also by multi-state lottery games such as “Mega Millions” (involving the cooperation of 41 states, the District of Columbia and the U.S. Virgin Islands)<sup>20</sup> and “Powerball” (operated by the Multi-State Lottery Association, with membership including 31 states, the District of Columbia and the U.S. Virgin Islands).<sup>21</sup> States that accept some Internet gambling within their borders could agree on uniform licensing, security and operational standards, leaving them free – as indeed they should be – to determine which games will be permitted within their borders. Internet gambling operators today are able to determine the location of bettors, and they also have the capability to make available different games to bettors located in different jurisdictions. It might not make “economic sense” that different states permit different types of online games, but it would be no different and no less confusing than it is today, with different gambling states permitting different mixes of gambling products within their borders. Federal legislation should not adopt an approach where states are forced to choose between permitting no Internet gambling (other than pari-mutuel wagering on horse races) and permitting only those Internet games deemed appropriate by the Federal Government.

Accordingly, Congress should consider legislation modeled on the IHA, that encourages the states to cooperate on licensing, security and operational rules, but permits the states to determine the games to be offered within their borders and, through a state compact, to license, regulate and have jurisdiction over Internet gambling operators accepting bets from persons within their borders. Allowing states to make their own choices with respect to Internet gambling would be consistent with federalism principles and the Tenth Amendment to the United States Constitution, and would permit those states involved to make their own decisions regarding the taxation of Internet gaming revenues generated by persons within their borders.

This is not to suggest that the IHA is without flaws or should be slavishly copied as the model for federal Internet gaming regulation, except in regard to purpose – to “ensure states will continue to cooperate with one another in the acceptance of legal interstate wagers.” The IHA has recently been criticized as establishing “a flawed business model”<sup>22</sup> in that it mandates an obsolete revenue sharing scheme that pays too much of the track takeout (portion of wagers de-

...continued on page 70

cert. denied, 530 U.S. 1231, 120 S.Ct. 2664, 147 L.Ed.2d 277 (2000). 19: “Online Gambling Five Years After UIGEA,” by David O. Stewart, Ropes & Gray, LLP, May, 2011, White Paper commissioned by the American Gaming Association and available at <http://www.americangaming.org/industry-resources/research/white-papers>. 20: <http://www.megamillions.com/about/history.asp>, last accessed July 20, 2011. 21: [http://www.musl.com/musl\\_members.html](http://www.musl.com/musl_members.html), last accessed July 20, 2011. 22: “The Guardians of Racing’s Slow Death,” by Jim Squires, New York Times Horse Racing Blog, June 10, 2011, at <http://theiral.blogs.nytimes.com/2011/06/10/the-guardians-of-racings-slow-death/>, last accessed June 19, 2011. 23: Testimony of Jess Stonestreet Jackson before the Commerce, Trade and Consumer Protection Subcommittee of the House Committee on Energy and Commerce, June 19, 2008, 110th Congress (2008). 24: In addition, many feel that under the existing IHA, the industry has been unable to rid the sport of performance enhancing drugs. This has resulted in the Interstate Horseracing Improvement Act – H.R. 1733 (112th Congress, 1st Session) – federal legislation introduced May 4, 2011 and designed to eliminate drugs from horse racing. 25: *Thomas v. Bible*, 694 F.Supp. 750, 760 (D. Nev. 1988), aff’d, 896 F.2d 555 (9th Cir. 1990) and *Chun v. New York*, 807 F.Supp. 288, 292 (S.D.N.Y. 1992). 26: *Rouso v. State of Washington*, 239 P.3d 1084 (Wash. 2010), quoting *Johnson v. Collins Entertainment Co.*, 199 F.3d 710, 720 (4th Cir. 1999).

# MANAGING THE NEW RISKS: LOTTERIES AND THE CYBERCRIME LANDSCAPE

To manage potential connectivity risks in the Internet age, lotteries can take steps to protect themselves and their players. Risk management elements include: monitoring the latest threats, assessing third-party providers, adhering to security best practices for software and hardware development, and following industry and jurisdictional standards and laws.

**THE NEW RISKS:** Lottery security has traditionally been system-based, operating in a relatively isolated environment, with anonymous data encryption wrapped around every access point of the transaction path from terminal to host. In the enterprise operation, there was extremely limited exposure to public-facing networks, and the small amount of exposure that did exist was tightly controlled.

As lotteries open up doors of opportunity to more and more public-facing interfaces and move more toward direct interaction with players through third parties, the potential for security risks increases dramatically. Public-facing connectivity is a different security ballgame altogether, and one that has many companies losing millions of dollars.

**CASE IN POINT:** PlayStation Network is a consumer-facing gaming/entertainment system that is not all that different from lottery (transactions, Internet-facing, gathering of Personally Identifiable Information [PII] [e.g., drivers license, SSN, bank account, etc.] and retailer databases).

On April 20, the Sony data center in San Diego was breached. According to Howard Stringer, Sony CEO, the theft compromised as many as 100 million accounts and millions of credit card numbers. Stringer estimates that company losses are close to US\$1 billion. A \$1 billion class action lawsuit has been filed, and many countries are looking into whether there was criminal negligence. Unfortunately, this is the shape of things to come. When it comes to preserving the integrity of financial transactions and privacy of our players, it's not a brave new world; it's a hazardous new world.

## HOW THE WORLD HAS CHANGED

When modern lotteries started in the U.S. almost 50 years ago, there was justifiable concern about security. The public wanted to know "How can we be sure the lottery winners are picked fairly?" "How can we be sure that players' money is all accounted for?" and "How can we be sure that insiders don't have an advantage?" Gaming of any sort was thought by many to be infested with unethical – even criminal – behavior. The public's trust in state-sponsored lotteries was not earned easily.

Fortunately, pioneers in the industry established technology, processes, and procedures that would, over time, allay players' concerns. The industry has usually been able to stay at least one or two steps ahead of criminal minds by understanding how they think – i.e., how somebody could beat the lottery system. This type of thinking led to many innovations over the years, such as secure instant ticket creation and validation, encrypted transmissions, independent Internal Control Systems to verify winner selection processes, identification of anti-forgery techniques to prevent insiders from creating winning tickets, ticket stock



control, and many other defenses.

Until relatively recently, the methods of selling and cashing tickets were stable: tickets were sold by retailers to anonymous players, the ticket was treated as a bearer bond, and whomever presented a winning ticket for payment was given the prize. Gradually, that model changed, particularly in non-U.S. lotteries, to include betting via the Internet, which entailed a new model of buying tickets, where the player buying the ticket has a pre-established account with an authorized lottery vendor, and all winnings are automatically credited to that player's account. The Internet betting model brought new security challenges, but the lottery industry quickly recognized most threats and built systems – or specified systems to third parties – that would mitigate those threats.

But today, the industry is facing many more player access channels, especially via mobile phones, and many third-party providers who want to implement player-friendly features on those channels, with access to information that has typically been controlled by the lottery. This is potentially very dangerous to the industry if these features cause unanticipated security or integrity issues.

## POTENTIAL THREATS IN THE NEW ENVIRONMENT

Most new access channels are player-facing. i.e., the channel somehow connects the player with the lottery, usually bypassing a traditional retailer. This connection can be to sell tickets, enter tickets into a second chance draw, or make inquiries about tickets on behalf of players, even for tickets purchased at a retailer. Most of these technologies have one thing in common: they connect a player with a specific ticket, and that information is stored somewhere. Personal player data in and of itself is a target, along with the player relationship to the game/ticket. This is where one of the fundamental dangers lies in a world that is experiencing daily attacks from the global cyber crime community. In response, lotteries must develop new security protocols to protect their players and the lottery organization.

The fact that these new “outside-of-the-system” access points allow direct connection to the player via public-facing tablet computers, mobile phones, etc. means that lotteries may now have very limited visibility or control into hosted third-party systems. As a consequence, new considerations arise such as “Who now owns consumer liability?”

- If a lottery ticket number is mistakenly posted as a winning number by a third-party vendor, who is responsible for any damages experienced by the consumer?
- If a winner file is transferred to a third-party vendor to allow tickets to be checked via a QR code scanned through a cell phone, how does the lottery ensure that the player’s personal information associated with that cell phone is not accessible and thereby vulnerable to criminal activity?

## THE CALL TO ACTION

Vendors and lotteries have spent years developing protocols in the traditional security environment that have resulted in an impressive record of integrity in lottery transactions and assurance of protection of player privacy. The message to be received by all stakeholders in our industry is that new technologies introduce a new level of risk that supersedes the proven traditional control parameters. The call to action is to ensure that current technologies and vendor security practices continue to adhere to the highest standards as we collectively expand connectivity to lottery gaming and services.

Everything we have done to date as an industry to ensure “safety” in our business model will not be enough to continue to keep our players and lotteries safe if we do not proactively pursue the strongest levels of control. As we face a world in which nearly 60% of computer hacking activity is connected to organized crime, traditional security controls are not enough to ensure player protection.

## NEW TECHNOLOGIES: NEW SECURITY CHALLENGES

If we were to look at lottery products over the past decades, we see very few access points into lottery systems. As new technologies are employed to more directly connect to players, the opportunity for system penetration increases exponentially. With increasing pressure to open up more sales channels, lotteries, like all Internet commerce entities, expose their technology to threats of all types – from script-kiddie, to hacktivist, to organized crime, to nation-state actors. There are literally thousands of opportunities for external agents to insert themselves into the process, as witnessed by many recent incidents of Cybercrime.

In 2010, Verizon compiled a security breach report in conjunction with the United States Secret Service and the Dutch High Tech Crime Unit to identify the scope of hacker crimes. Statistics from Verizon’s 2011 data breach investigation report validate the fact that cybercrime is a reality in Internet commerce. The data now covers seven years,

## THE TRADITIONAL SECURITY ENVIRONMENT

In the current lottery environment the following security standards have preserved the integrity of our industry:

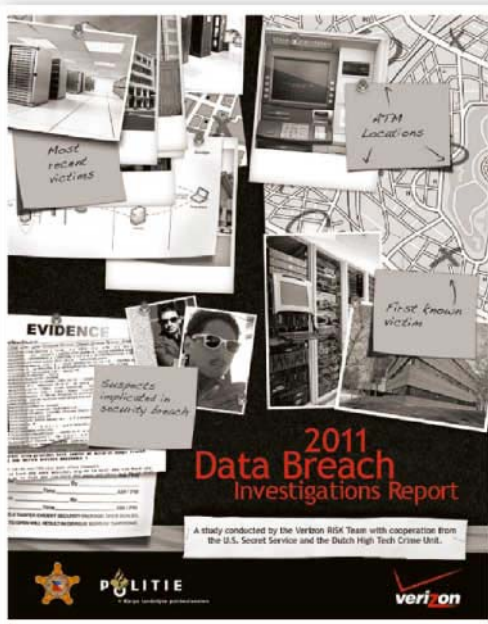
- All wager data and winners data reside on systems that are:
  - > In a highly secure physical environment with controlled access.
  - > Copied onto multiple media in real time to prevent loss.
  - > Remotely copied in real time to prevent loss in case of a disaster.
  - > Protected from changes by unauthorized people or programs.
- The vendors that supply and manage lottery systems are few, and all adhere to high standards:
  - > Vendors are subjected to intense background checks.
  - > Background checks are performed on all vendor personnel with access to sensitive information.
  - > Vendors are subject to liquidated damages for security breaches.
  - > Vendors are required to carry multi-million-dollar performance bonds to cover possible malfeasance or mistakes by their employees.
- When personal player or retailer information is involved (e.g., account betting or retailer bank account numbers), vendors are required to employ the highest levels of protection for personal data.
- Vendor systems are usually subject to yearly financial and security audits, typically paid for by the vendors.
- Typically, all-important software must be held in escrow.
- All random number generation must be certified as random.

more than 1,700 breaches and 900 compromised records. The statistics reflect actual breaches, not hypothetical scenarios, and prove that any transaction that processes financial and/or personal data is in danger of compromise in the form of organized entities willingly, and in some cases rather openly, engaging in targeted attacks on critical data.

The present reality is that, when the potential exists to access valuable, profitable data, a security attack will occur. The only question is when. The more lotteries open up system solutions to direct contact with end users over public networks, the more opportunity exists for external agents to try to break into previously secure systems.

Often, parties interested in providing third-party services to lotteries do not have the experience or expertise to identify and mitigate the risks and are not subject to the same scrutiny as vendors that service retailers. The risks are many:

- If a vendor has a database of players and the tickets they own, and can determine whether a ticket was a winner (via inquiries to a host system or an internal winner selection process), that vendor has the ability to know exactly who has a winning ticket and how much that ticket is worth. Of course, this usually isn’t a problem, but let’s say the ticket wins \$100 million. Could an employee of that vendor somehow coerce the real ticket owner into giving him the ticket?



- > If the vendor can also know where the player is (e.g., via GPS on a mobile phone), this increases the risk.
- > How does the vendor control its databases and facilities such that employees can't copy and sell the data?
- How can the lottery be assured that the winning amounts are given to the correct player?
  - > If the vendor validates a ticket on the host system – and gets money from the lottery to pay for that ticket – what auditable controls are in place to be sure the money goes to that player?
- What happens if the vendor simply makes a mistake (e.g., a programming error) that causes players to be paid incorrectly? Perhaps the contract with the lottery states that the vendor is liable, but if the lottery has somehow permitted this to happen, the lottery may also be held at least partly liable? Some vendors do not have “deep pockets”, and if they are not bonded, the lottery could ultimately be forced to pay for the vendor's mistake.
- If a player makes a wager and is given some kind of receipt by a third party, how can we be sure that the receipt reflects the numbers that are recorded on the host system?
- When the vendor communicates with the player, how is the information secured? What standards are enforced? Is there any log of the activity that the lottery could review in the event of a dispute?
- If a player has a complaint or question, whom do they call? Is the vendor set up to handle such calls? Will the vendor be acting as a licensed agent of the lottery?

## WHAT IS THE SOLUTION?

Whenever large amounts of money are involved, there are always risks. But the risks must be carefully measured, and protecting the player must be of utmost concern. Lotteries cannot relax their standards; all vendors involved in player or retailer interactions with the lottery must be held to the highest technical, business and ethical standards and subject to continual scrutiny by the lottery.

For all lotteries, even those with long-standing Internet gaming sectors, the best security defense in this age of professional cyber crime and expanded public-facing connectivity is a strong offense.

GTECH'S prescription for protection from system compromise fundamentally entails five basic components:

1. Risk Management—continual risk assessment of new gaming channels with a focus on the latest threats (e.g., Mobile malware, application privacy in social media, etc.) to identify potential risks to player privacy and business operations.
2. Third Party Assessment—perform due diligence assessments of third party providers, with the same vigor and to the same high standards as has been historically applied to traditional vendors, to ensure both business and architecture stability. Business credibility and technology validity are critical to ensuring the secure integration of alternate technologies into the lottery's core central system. GTECH has standards for the assessment of any third-party provider that may potentially access a lottery's core central system or gaming data.

3. Adherence to Software Development Lifecycle (SDLC) security best practices in code development, infrastructure design, and maintenance.
4. Rigid adherence to each and every applicable requirement associated with ISO and WLA certifications as well as the breach laws of a jurisdiction and industry security standards.
5. Continuous monitoring of public-facing network environments.

Going forward, the challenges become greater as cybercrime matures both in terms of how it is organized and the sophistication with which criminals operate. Cybercrime is exhibiting traits traditionally seen in the corporate environment. Cybercrime organizations are growing to the point where mergers are now taking place, hacker toolkits are readily available for purchase or lease from many websites, ongoing “exploit” support is offered, malware kits are going undetected due to techniques like double encryption, etc. Given these factors, we must proceed in embracing the evolution of our connection to our players with a heightened awareness of the threats and liabilities growing in the Cybercrime landscape, as well as devoting resources to mitigating these risks. ♦

## FACTS

### WHO IS BEHIND DATA BREACHES?

**92%** resulted from external sources (+22%)

**17%** were caused by insiders (-31%)

**<1%** implicated business partners (-10%)

**9%** involved multiple parties (-18%)

**58%** of all external breaches were linked to organized criminal groups, and **40%** were linked to unaffiliated person(s).

# BLAME IT ON MONTANA

## On the Occasion of the 40th Anniversary of Public Gaming Research Institute

by Doris & Duane Burke

It has been amazing to see how the world lottery industry has grown over the past 40 years! We are very proud of the men and women in government and industry who have created this great success. You have done an inspirational job!

It is also amazing to see that Public Gaming Research Institute continues to be a part of the industry. We feel privileged to have been a part of this great industry and to have, perhaps, made a small contribution to its success. We are also proud of Susan and Paul Jason for continuing, and improving upon, this tradition.

Some (a few; actually, one person) expressed interest in what inspired us to start Public Gaming Research Institute. So, here is the short version. While working in new business development at the Boeing Company's Boeing Computer Services subsidiary, we developed a plan for using the company's computer and human resources to help New York City and other regions of the state, as well as other states, use off-track betting on horse-racing as a way to raise money for good causes, in lieu of increased taxes. New York was one of three states that had lotteries at that time (1971). The tipping point, though, for starting Public Gaming to foster lotteries and other gaming for good causes, was legislation filed in Montana that proposed to legalize all forms of gaming with no provisions to benefit good causes. We concluded that states needed help and so we started an information service to help the states and the companies interested in this "gaming for good causes" field.

Well, enough of that. The important thing is your continued success. So, we wish you all the very best for continued growth and success on behalf of good causes! ♦



Photo of Duane, Susan, Paul and Doris

### The Founders of Public Gaming Research Institute and Pioneers in the Lottery Industry: **Duane and Doris Burke**

Introduction by Paul Jason: I am often asked about my in-laws, Doris and Duane Burke. Doris and Duane retired five years ago and invited their daughter, Susan, and Susan's husband, me, to take the reins of Public Gaming Research Institute. I am happy to say that Doris and Duane are doing fantastically well. The four of us live just east of Seattle, Washington and get together at least twice a week. While they are very happily retired, they do enjoy the news of the industry almost as much as we enjoy sharing it with them. I asked Duane to describe how he and Doris got started in the business and below you'll see his story.

I will fill in a few of the blanks. The Burkes dedicated 36 years to promoting the health and prosperity of the lottery industry. But for Doris and Duane, it was never so much about "the industry". It was about people, connecting with people and helping wherever and however they could. The list of their accomplishments is lengthy, including the creation of this publication, representing the early association of lotteries (NASL) as a lobbyist on Capitol Hill, the creation of the first industry conferences and trade-shows, the founding of the Lottery Industry Hall of Fame and Major Peter J. O'Connell Lottery Lifetime Achievement Awards, and founding a Guatemalan company to operate video lottery salons and generate funds for children's health programs. But it was always really about the people and the Good Causes supported by government lotteries.

Their advice to us four years ago was simple. Never ever lose sight of the mission of supporting the lotteries. Let's just extend a Thank you for all they have done for the industry. And a personal Thank you from us, from Susan and Paul, for being a friend, mentor, and for guiding us in life as well as in business. ♦



## Player's Clubs: The Next Stage is with Player Communities!

**Árni Pétursson**

Chief Marketing Officer, Betware

**Ingvar Hjalmarsson**

Chief Sales Officer, Betware

PGRI Introduction: Most Lotteries now have Facebook and social media initiatives, Players Clubs, Loyalty Clubs, and the beginnings of an extended-play format with second-chance draws. Some sell subscriptions over the Internet, and some have non-money i-gaming. The DC Lottery will soon be implementing a full range of i-gaming options. Of course, lotteries all over the world, especially in Europe, have been implementing all manner of i-gaming products and initiatives for many years.

The next stage is to integrate all these so that they work together, creating a dynamic and interactive community that includes players, operator, retailers, and fans of the lottery. Traction and critical mass will not happen with isolated initiatives operating independently from one another. It's when all the moving parts start working together that the momentum gets reinforced and the result is magical. It happened to Facebook and it can happen to Lottery. Betware executives Árni Pétursson and Ingvar Hjalmarsson share their vision on how to make that a reality.

**Paul Jason, Public Gaming:** *We talked at the European Lottery Conference in Helsinki about how the Players Club is being used by some lotteries to reinvent the player experience and the entire relationship between lottery and the consumer. And that it is more about the traditional products and the off-line business than about i-gaming.*

**Ingvar Hjalmarsson:** Lotteries have made so much progress over the past couple of years with their Players Clubs, Loyalty Clubs, second-chance draws, and now some forward-looking Facebook and social media initiatives. The foundation has been built for lotteries to enjoy the kind of explosive impact that a genuinely engaged consumer delivers. Facebook built their business out of whole cloth, from nothing other than the overpowering need of people to connect with each other. Lotteries have something that Facebook did not have and is trying to get. Games are fun, they provide a vehicle to stimulate social interaction, and are proving to be the most effective marketing tool ever. Lotteries have most of the pieces in place already to achieve this goal of a socially-networked community of players that can drive the explosive impact that Facebook has had. The missing link for lotteries is integration of the different parts that will enable that to happen.

The relevant line of communication has shifted from operator-player to player-player. Building a consumer products business is no longer about marketing communications. It is now totally about creating a platform that attracts, nurtures, and supports a socially-networked

community of players. The Players Club that most lotteries already have is the ideal starting point to create that vibrant community of fully engaged consumers. The key is to integrate the games, the retailer, the operator, and the players together to provide the players with a rich canvass of recreational activities built on a platform of social interaction.

*Facebook is the most astonishing phenomenon, but it is not the only example of a consumer products company that has nothing to do with games using games to engage the interest of the consumer. The business of lotteries is in fact games. Can we do a better job of using games as a marketing tool?*

**Árni Pétursson:** I think you know what the answer to that is. Absolutely. Lottery needs to use all the tools at its disposal to drive the convergence of games, media, and players. That's what will unlock the ability of the games themselves to be the most powerful marketing tool that lotteries have. The Players Club is the platform that enables player-to-player interaction, but it is the games that will galvanize the players to action. The action we want is massive player-to-player communication. Second-chance drawings are a good example of using the games to foster this kind of consumer engagement. But it's just the start. There is so much more that can be done and needs to be done. The business objective is to sell more of the traditional products through all the channels, including or even especially the land-based retail channel. But the catalyst for that is the player-to-player community that is created on the Internet via the Players Club.

*Explain what you mean. How exactly do lotteries do this?*

**Árni Pétursson:** First, lotteries need to recognize that the key is to create that active and engaged community of players, and the Players Club is the key to doing that. Second, design the approach so that the Players Club pays for itself, so that it is not seen as a cost center that is expected to yield some undefined benefits in the future, but a revenue-generator that can deliver a positive ROI right away. Third, stop thinking about the “mobile” as if it is somehow different than the Internet. These are all just media that enable the consumer to communicate with each other. The consumer is “online”, i.e. on the Internet, via their home computer and via their smart-phone and it no longer matters what device they are using. It’s all the same in the sense that regardless of the medium, the Internet is the enabler of this incredible network of socially connected consumers.

*How does the Players Club become a direct revenue-generator?*

**I. Hjalmarsson:** One way that everyone already knows about but not everyone is doing, is selling subscriptions. This is an easy project that accomplishes the first step towards building a Players Club which is to simply get players to sign up; open a player account.

The more important mission for the Players Club is to become the target-marketing tool that enables you to market directly to the interests of even the most narrowly defined customer profiles. The key to understanding this is to recognize that people love to share. They love to interact and tell you about themselves, what they like, dislike, what they’re doing. Of course, everyone does want their financial information to be secure. But the Facebook phenomenon has revealed that the whole notion of “privacy” was completely overrated. People don’t want privacy nearly as much as they want social interaction. Realizing this is the key to turning the Players Club into a super-charged direct-marketing machine. With this data-base of player information, the lottery operator is able to custom-design promotional campaigns to appeal to the specific interests of each player. A fully engaged Players Club membership loves to tell each other all about their hobbies and activities and what sports teams and musical artists they are fans of, and almost everything a marketer needs to know to appeal to their specific interests. They want to share and communicate for example “I just won \$100 in the last week Lotto”, “Have you heard about the huge Jackpot this week”, “I entered my losing instant scratch ticket in the second chance game and won!”, “Hey...

who wants to play with me in the Checkers tournament”...This means that the community of players promotes the games for the lottery – registered players become more dedicated to the games and this means the lottery can spend less of their budget on traditional marketing.

*That sounds good in theory. But is anyone actually doing that, and isn’t it costly?*

**I. Hjalmarsson:** Some of our Scandinavian customers have been utilizing our classic play-money multiplayer games to their advantage. Those games suit very well as they take on the player community aspects which is so important for lotteries. Gaming is inherently a social activity. Our games offer the opportunity to play social games that everyone knows, such as checkers, backgammon and more. By offering players this interaction the operator has a unique opportunity to create a social platform. Operators can even monetize this social platform and get their investment back by offering players extra features through VIP subscriptions and even selling Play-Money to players. Of course, the Betware Players Club has also fine-tuned the integrated marketing tools to implement subscriptions, second-chance draws and other ways to engage player interest both on and off-line. And I think everyone would regard those initiatives as having a positive impact on sales. But we are focusing on delivering concrete, measurable results directly attributable to the Players Club itself. The Betware Players Club revolutionizes the concept of what can be accomplished online, with non-money games that generate very real money sales. Think Facebook combined with American Express’s direct marketing machine. It works, it’s powerful, and it is totally do-able within the limited budgets that many lotteries have to allocate to new initiatives. The financial breakeven point is reached quickly and the Players Club becomes its own profit center while also becoming the foundation for player engagement that is the cornerstone to all future integrated marketing initiatives. The Players Club isn’t just a tool or promotional campaign to drive sales. It is a business model that reinvents the entire relationship that the lottery has with the consumer.

*It all depends on building a giant community of actively engaged players. How hard is that to accomplish?*

**Á. Pétursson:** It is all about scaling up quickly, building that community of players talking to players. The good news is that there is a huge demand for truly fun social interaction. Combining that basic human impulse with the excitement of games and winning the lottery is the most natural

fit. Look at the phenomenal success of the Zynga games. The only explanation for the success of Zynga games is that people are craving more outlets to satisfy their desire for social interaction. And that is true for all age groups, not just the ‘millennial’ young adults. The business of lottery is in fact games, so that is what our customers use as the marketing tool to drive consumer engagement.

The first step is to offer a large suite of interactive non-money games where players can play with one another. Playing with other players is the key success driver. This might sound complicated or expensive. It’s not. The second step is to scale up quickly so that people are able to instantly step right into an active community of players. That too might sound problematic. Again, it’s not. Betware has solutions that enable both those component parts to come together quickly and get the Players Club to be a profitable revenue-driver. Once people start to bring even a few of their friends into the exciting new world of lottery online play, the growth is exponential. In the end, it isn’t about having a direct marketing tool. It’s about creating a community that takes on a life of its own and becomes its own viral marketing engine. The management of the community doesn’t even have to be controlled by the lottery. Our experience shows that it is best to have supervisors for the community within the player base. These supervisors are usually dedicated players those who want to be leading the community and managing. This normally does not require any costs to be incurred by the lottery. These supervisors like to be in control, just as someone likes to be the chairman of the PTA at their child’s school. They do it out of pure interest. We now know what works and how to implement it quickly so that Players Club profitability can be reached quickly.

The Players Club connects the lottery to its players such that game and product development is informed by a direct translation of player response into manageable data. The tools to capture, categorize, and assess player response are built right into the system. This direct link to the actual behavior of all the players virtually eliminates the costly and sketchy player profiles yielded by traditional market testing procedures. It is in this way that the Players Club with community features becomes the primary resource for driving new product and promotional concepts into the marketplace. That’s the short-term benefit that positions the Players Club as a profit center almost right away. The big dividend comes as your community of players evolves into an engaged network of Lottery Fans. That’s when the magic happens. And that is what the Betware Players Club is really all about. ♦

**Betware** has a portfolio of over 200 games divided into eight game zone categories. The games are developed by Betware and its subsidiary Certus. Betware also partners with other gaming providers such as Microgaming for casino and poker games and Ingenio for instant games. Offered to licensed gaming operators, these games can not only be integrated with Betware’s platform but also have the flexibility to be integrated to a large variety of 3rd party systems. Betware games are channel independent and can be provided via the Internet, mobile phones, IPTV and terminals. Visit [www.Betware.com](http://www.Betware.com) for more info.



# Risk Management and Sports Betting: Optimizing Risk and Profitability

Sports Betting has become a huge business in Europe, Asia, and is poised to expand the U.S. market. Regulatory frameworks contribute to the integrity and sustainability of the market. However, in Sports Betting more than any other gaming sector, the integrity and a sustainable approach to building the market depend on the full support, cooperation, and competence of the operators themselves.

An effective Sports Betting Solution addresses the needs of a market that depends upon the Operator's ability to manage risk; along with creating the Optimal Player Experience. The material question is: How can a sports betting operator limit bets from unprofitable players without introducing unnecessary restrictions on the profitable players and without losing access to the 'expert' market knowledge gained from studying the bets of unprofitable players? Security is the Key to an Optimal Sports Betting Solution.

To remain competitive, sports betting operators are offering ever-more events and increasingly exotic bets at enticing odds. At the same time, operators are struggling to manage risk and defend their profits against the expertise of a growing number of well-informed and sophisticated players. Failure to optimize risk management has two likely outcomes, both of which result in lower overall profits:

- Too restrictive: set bet limits too low, or be too aggressive in discriminating against sophisticated players, and you run the risk of eliminating both unprofitable and profitable players – and that means lower profits.
- Too generous: set bet limits too high, or be too encouraging to sophisticated players, and you'll allow successful players to stake – and win – significantly higher amounts than losing players. You will also attract a disproportionate amount of unprofitable players. Either way, the result is lower profits.

The sports betting industry is in constant development, driven by changes in technology, product development, access to information and player behaviour. The risk management process must constantly evolve to keep pace with these changes or otherwise erode operator profit margins. It is a challenge to stay competitive as both operators and players act on a truly global basis. The Internet provides almost universal market access to competitors and allows them to make instant comparisons between operators. The most popular events will generate countless 'me too' bet offers and the player is free to choose the best odds he can find.

To remain competitive, sports betting operators must offer an increasing number of events. Often, these 'extra' events generate a smaller volume of publicly available information, and that gives the informed player a real advantage. More exotic bet offers, such as whether a specific footballer will be booked during a game, can invite uncertainty about the integrity of the sport in question.

Professional players constantly seek new ways to take advantage of both imperfections in odds compiling and the availability of better information. Channels like Twitter and Facebook provide new, fast ways of acquiring and sharing information – all of which makes it harder for traders to stay ahead. The nature of the Internet creates 24/7 demand for sports bets, which means that operators are having to restructure

their businesses to provide risk management resources around the clock.

Live betting is the fastest growing segment of the gaming industry and today typically comprises around 50% of total revenue for a European sports betting operator. The rapid growth of Live betting has created new challenges, particularly in the areas of real-time probability and information. And increasingly, the market is being driven by the growth in ownership and use of smart phones. Indeed, the placement of bets via smart phone is now the fastest-growing channel in the sector. The downside is that smart phones create a disadvantage for operators by allowing players far better access to real-time information.

## Risk Management starts with answering two key questions

- 1 Who wants to bet?
- 2 What is he betting on?

Both are equally important from a risk management perspective. The trader must have an in-depth knowledge of his customers in order to make the right trading decisions and to extract the best information possible from every bet. But he must also consider what the event is, what information is available, and what is the associated risk.

The trader must start by making a judgment on the person looking to place a bet. If a player has a long history with the operator, it is relatively simple to categorize the player against a risk profile, i.e., is he a Normal customer, a Winning customer or a VIP customer? If the customer is relatively new, the judgment becomes far harder. Sometimes there are reliable clues, for example when a new player is placing large stakes at high prices and has signed-up from a country outside the operator's key markets. In this scenario, the player is likely to be a winner. Usually, though, the clues are less obvious, the judgment-calls much tougher to make, and the trader will need to rely on the best risk management tools. When an operator believes 'wise' money is being staked on an event, the right course of action is to use that information and cut the price. A key advantage of outsourcing trading to a third-party supplier handling several operators is that this kind of 'wise' betting information will be shared among the operators.

Different events carry different risk assessments. Factors that an operator should consider are:

- The quality of the odds compiler
- Is it a high or low profile event, and how much information is available in the public domain?
- The difference in impact, for example, of an injured participant, in sports such as football (where the difference might be minimal) or tennis (where it is likely to be critical) could be significant.
- What sources of information are being used to price Live betting events? These factors matter because the operator may be at a disadvantage in terms of access to other information. Operators should also consider the following:
- Is the team motivated to perform? This question becomes most compelling in the latter part of a league championship or competition.

- Is the outcome of significant importance? For example, who takes the first throw-in during a football match is unlikely to determine the final result of the game.

These factors also touch upon the difficult issue of integrity in sports.

A trader's reaction to a bet depends entirely on who is betting and what they want to bet on. Each time a player places a bet there is an opportunity for the sports betting operator to acquire customer knowledge and form an opinion on whether the player will have a positive or negative long-term impact on the margin. By comparing a new player's bets with historical betting patterns from existing players (who are known to belong to a particular segment), it is possible with advanced algorithms to predict a new player's future profitability at a relatively early stage of his betting career.

There are a number of tools and techniques the sports betting operator can use in order to segment new players. For example:

- Comparing a player's betting pattern with that of known customers
- Comparing the operator's own odds with other bookmakers at the time the bet is placed

Once a player has been categorized, individual risk limits are applied, reflecting the likelihood of the player's long-term profitability. The trading philosophy should be to allow an uncategorized player a relatively generous stake but limit players who show clear signs of being long-term winners. It's important not to draw conclusions too fast, as that runs the risk of missing out on some of the more profitable customers. In markets where the operator is not active, the standard limit should be set lower to reflect the fact that winning customers are likely to be over-represented.

In addition to gaining an in-depth knowledge of the player, implementing risk limits and understanding the risk level on the event, the trader needs quick and proactive support and intervention from back-office systems designed to identify and act upon unwanted betting patterns or other important new information.

There is a wide range of tools and services essential to the needs of the operator. For Live betting, an operator needs services to deliver real-time information beyond that provided by broadcasters. There are excellent services available for conducting IP searches (or to provide even more granular identification techniques) to aid with the detection of multiple account holders. Realistically though, most tools will be developed in-house in a close collaboration between traders and developers. The trader needs tools powerful enough to extract key, actionable information from the kind of data that would not usually lead to any action.

A trader needs detailed information on instances of very high stakes placed by players from the normal customer segment, but also needs information relating to aggregated risk and on all bets placed by sophisticated players. A trader needs tools to tell him if a new player's betting pattern correlates with that of known winning customers.

The trader needs to know if the operator is offering arbitrage (for any reason) against other bookmakers. It's a long list, but the importance of having proven, intelligent and effective back-office tools cannot be over-emphasized.

For each sport and league, the system must set a risk limit in order

to define how much any individual operator can risk on a single outcome. This will determine the maximum amount a player can win on any event. If a player prefers a higher risk, this can be actioned after manual approval by a trader.

When a limit is reached, the operator has three options. The option chosen depends upon the operator's risk policy and judgment of the specific situation.

The operator may decide to:

- adjust the odds
- take on a larger risk

In rare cases the operator may decide to:

- hedge some of the risk
- close the offer and accept no more bets

### Compliance to rules and regulations

The compliance officer's role is to make sure the operator complies with internal and external rules and regulations. Externally, he or she acts as the point of contact for regulators, independent betting adjudicators and security associations working closely with sports organizations. Internally, the role is a cross-departmental function with responsibility for ensuring that all parts of the organization comply with internal rules and external service level agreements. The department acts as an advisor in instances that have escalated in importance due to their potential impact on the business. An effective compliance department ensures that operators have a quality control function that can be relied upon to provide customers with the best possible advice.

### Concluding & Summary

Successful Risk Management is crucial for the success of a Sports Book. Along with sustained business growth, the bookmaker's ability to effectively manage risk is the most important factor in determining an operator's profitability and long-term success.

Efficient risk management is dependent upon (1) segmentation of the players based on knowledge gained from customer intelligence, (2) understanding of the true risks associated with the event the player wants to bet on and (3) the back office tools available to the trader.

The final decision to accept a larger bet will always be taken by the trader based on personal judgment, experience and compliance to risk policies.

The trader depends upon support from IT based tools and from risk management processes in order to manage risk for large number events. However, a fully automated system can't take extraneous information into account and, consequently, the most important decisions should be based on the personal judgement of experienced traders, not on systems that have been developed purely to optimize profitability.

Effective risk management and the integrity of the industry are based on transparency and the ability to identify who the player is. Player accounts and player cards are necessary to provide that. In the retail channel, players are most often anonymous. To implement player cards in the retail channel and make them mandatory for sports betting would help the lottery in performing effective risk management, and help the industry preserve the integrity of sports betting. ♦

Kambi Sports Solutions is a part of the Unibet Group Plc. Kambi is a high quality sports betting B2B supplier to the gaming industry and offers its clients a fully serviced Sports book solution including odds compilation, risk management, event creations/translations and second-line support. The Kambi product portfolio consists of an extensive Pre-match odds offering, and market-leading, state-of-the-art Live betting and Pool betting products. Kambi's Sports book solution has helped Unibet win the prestigious EGR prize, "European Sports Betting Operator of the Year", in 2006, 2008 and 2009.

**KAMBI SPORTS SOLUTIONS:** Tel: +44 20 8545 8021, [www.kambi.com](http://www.kambi.com). Contact: Ulf Rehnström at [ulf.rehnstrom@kambi.com](mailto:ulf.rehnstrom@kambi.com) or +46-73-920-8950

# The Internet-Retailer Model

Mike Veverka, Founder and CEO of Jumbo Interactive

Just like so many industries before it, lotteries are going through transformational changes driven by technological innovation. The Internet is completely changing the way lotteries do business; not because of the revenues it generates in the short-term, but because of the impact it has on overall media, promotional, and distributional strategy. The short-term revenue impact certainly has the potential to be meaningful. The long-term impact is absolutely transformational.

Jumbo Lotteries follows the traditional retailer/agency model common to virtually all lotteries around the world, and applies this model to the modern environment of the Internet. Via partnership agreements with The Tatts Group and NSW Lotteries in Australia, dating back to before 2000, Jumbo Lotteries has been operating the hugely successful [www.OzLotteries.com](http://www.OzLotteries.com) website, and lottery players are finding online play to be easy, engaging and often reinvigorating. Internet sales on [OzLotteries.com](http://www.OzLotteries.com) have increased an average of 48% since 2008 and have helped increase overall sales of the Australian lottery. The trick is to effectively integrate an Internet marketing strategy in with the overall strategy that includes a larger portfolio of products and channels, most notably the land-based retail network. Lotteries all across the world are ramping up to meet that need right now.

*Paul Jason, Public Gaming: Starting over ten years ago, you and your partners were early adopters of the Internet?*

**Mike Veverka:** That's true, but Jumbo Lotteries has actually been in the lottery business since 1984 selling Australian lotteries via terminals in countries around Australia. However things really started taking off in 2000 when the Australian government passed a law permitting lotteries to be sold on the Internet. Jumbo seized the opportunity and developed some innovative software that integrates with the land-based retail network. And we've learned some very valuable lessons about selling lotteries on the Internet.

*What are some of those lessons about the Internet and lotteries?*

**M. Veverka:** Well first of all, it has become quite clear that lotteries and the Internet are a match made in heaven - they are a perfect couple! Many other products have delivery issues or need to be physically seen before purchased. Not lotteries - they are very Internet-friendly and the consumer is often reinvigorated when buying on the Internet.

Having said that, there are some traps. I've seen both good and bad examples of lotteries on the Internet. The biggest error is to allow inexperienced people loose with your lottery. I've seen some dreadful campaigns that have damaged brands, all because of a lack of Internet inexperience. I know that sounds obvious but it really is the biggest issue. The second biggest error is thinking the Internet as just another channel of distribution like the others. It isn't. The interactive nature is quite unique and needs to be treated as such.

*What are some of the "DO's"?*

**M. Veverka:** Do look at ways to give your customers a richer, perhaps longer play experience. Prepare to be innovative. Do involve media part-

ners, especially those companies that have proven they really get the Internet, such as companies like Google, Facebook, and of course, Jumbo!

*Should a lottery handle the Internet in-house or with a partner?*

**M. Veverka:** Both. A lottery needs to build on internal expertise plus benefit from outside specialized experience. Then over time both the internal team and the partner learn from each other and work out the best way to use the Internet for that particular market.

*What are some examples of innovation?*

**M. Veverka:** We've innovated with loyalty schemes and bonus draws adapted for the Internet as well as smartphones and they have worked very well. We are also currently releasing our next major version of our [LotteryResults.com](http://LotteryResults.com) which is an ambitious project giving players a much better experience when getting their lottery results. We hope this will open new markets and reinvigorate players by enhancing that moment which could become one of the best moments of their lives!

We also have a full pipeline of new innovations currently in development to be released in the coming months as they come out of testing and onto the world stage.

*Sounds exciting - How do you enlist the support of traditional resellers for these Internet initiatives?*

**M. Veverka:** Traditional resellers can't be ignored or alienated because they are responsible for most of the sales. They have built livelihoods selling lotteries and have built up considerable experience that can be harnessed in a productive way.

The Internet will never "take over" the lottery industry. I believe we will reach a complementary balance between online and traditional. Each delivers different consumer benefits and provides a different playing experience.

The retailers do need direction and guidance to

help them understand how they can fit into the whole picture. In Australia we've worked out ways that motivated traditional resellers can earn an income from the Internet as well as their store.

*How?*

**M. Veverka:** By developing a software system that gives them a way to run their own web site and look after their own customers by directing them through a primary sales web site. This web site then tracks each sale so those resellers get credited with every dollar their customers spend. Like an affiliate program but adapted for lotteries.

*How does a Lottery go about appealing to the Internet consumer?*

**M. Veverka:** First of all, understand how they think and how they use the Internet. The Internet has become second nature to today's consumer. They like the entertainment aspect of lotteries but are looking for something fresh. This is the market that we have in mind when designing the products we have in our labs right now. I think if I had to sum it up in one word, it would be "Interactivity".

*Now what is your take on the evolving legal landscape of the US Internet gaming market?*

**M. Veverka:** I think it's inevitable that Internet gaming will become regulated in the USA. Other markets have already dispelled the myths of the Internet and there is too much money not going through the right channels. I'm looking at it with the benefit of 11 years experience in the Australian market - a market very similar to the US market. I can clearly see the benefits it has brought to Australia with minimal negative aspects and the US is poised to reap those benefits. It's those benefits that we seek to bring to the US for our partners. ♦

More information can be found at [www.jumbolotteries.com](http://www.jumbolotteries.com)

# Richard Wheeler

Senior Vice President,  
North America, Camelot Global Services

**PGRI Introduction:** As governments assess the pros and cons of different management structures, some basic questions come to mind. How do the different approaches affect lottery performance? And what exactly will a “private manager” do that could not be done by a lottery operating under a state-agency model? Camelot Global Services is the division of the Camelot Group that provides consultative and management services to lottery operators outside of the U.K. Richard Wheeler is forthcoming with thoughts on these and other questions about how the management structure can unlock lottery performance.

*Paul Jason, Public Gaming: The “private manager” model would seem to afford more flexibility in the day-to-day management of the Lottery. Or do government constraints and sometimes politically-driven oversight impinge on lottery operations no matter what the model?*

**Richard Wheeler:** The lottery can be a tough area for governments to get their arms around – they understand it’s an asset that generates significant amounts of cash for the state, but often are not clear on how they should position and develop it in a way that is both profitable and responsible. That can result in a lack of clarity for the state-agency operated lottery as regards its business objectives and its public policy mandates. That is why it can be such a challenge to operate as both a state agency and a consumer-facing, revenue generating marketing business.

The clarification of public policy and fiscal objectives can happen under any model, including the state agency model. But the private manager model is certainly a helpful vehicle to clearly reset these objectives. Further, we believe a private manager model based on the fully aligned economic incentives is a helpful construct for driving the behaviours required to achieve long term growth.

In the UK, we deal with a very specific regulatory framework – including the types of games we can offer, and the economic model we operate within, which mandates us returning 41% of revenues back to government. Regardless of any specific constraints, governments must realize that the lottery needs a singular focus on the consumer, one that is driven by a complete commitment to responsible gaming – expanding the player base, and making lotteries less regressive.

*What are government lotteries not doing now that they should do and that a private manager would likely do right away if given the chance?*

**R. Wheeler:** Each lottery is facing its own specific challenges but, there are some structural principles that all governments should consider adopting that would be consistent with a private management philosophy of running the lottery more like a business:

- Freedom to attract and incentivize individuals and teams, particularly the sales force.
- Create an operating framework that encourages

innovation rather than stifles it.

- Look at alignment of incentives – this is central to Camelot’s theme, and should be to any business. Specifically in the US, most suppliers are paid on a percentage of sales basis, while the lottery itself is ultimately judged by the amount of net income it brings to its beneficiary. As a result, there are numerous instances where sales have increased at a much faster rate than profit. The mandate to increase profit will not be achieved if the economic incentives of all parties involved are not properly aligned to this ultimate goal.
- An assessment of ROI across the entire business – Identify which activities, investments and areas of operation are contributing effectively to profitability and which are not. We see many examples across the US where decisions are taken, or worse being perpetuated, without being subject to sufficient rigorous analysis to assess their long term profitability to the state. This manifests in a number of ways, including the introduction of new games, the effective use of prize payouts, planning media spend, or the size and shape of the retail network. Understanding ROI can be complicated, but there are numerous tools/practices available from the consumer goods industry that can be applied to provide new insight.
- Interactive is clearly a huge opportunity and state governments should work hard to establish clarity on the federal legality as soon as possible.
- Formally identify all key stakeholders, measure the level of relationship and immediately put in place a plan to manage and improve those relationships from day one.

*What about the unfortunate dynamic that a lottery director is much more likely to get fired for a small mistake than promoted and given a big bonus for achieving stretch goals ... doesn’t that create a pretty profound structural impediment against change and innovation*

**R. Wheeler:** Great point, and clearly an impediment to state-operated lotteries reaching their full potential. As I mentioned before, one of the first things we would do as a private manager is incentivize our entire team to reach stretch goals, starting



with senior management. Rewarding for performance and having the ability to attract and pay for the best talent, both inside and outside the lottery universe, is essential to long term success. Look at the relative success of the semi-private lotteries in the US who are allowed to incentivize their employees and properly pay their senior management as an indicator of proper incentives.

*Based on your California experience and elsewhere, what are some low-hanging fruit actions that a lottery can take to unlock some of their entrepreneurial capital?*

**R. Wheeler:** I think there are four main things:

- 1 **A profitability assessment of the business** – develop an objective, detailed and data driven understanding of what is delivering on the bottom line, and what isn’t. This should be a short sharp two- month process.
- 2 **A wholesale refocus on the consumer**—where games are carefully differentiated and designed to appeal to all segments of players, including core, occasional and lapsed.
- 3 **Talent and personal development** – there are some US lotteries that have adopted first class management development programs.
- 4 **Focus on doing the basics better. Innovation is clearly important** – but there are so many other simple things that we often don’t think about in day to day business that are fundamental. For instance, we have a program in the UK called ‘Site-Stock-Sell’ – it’s about doing the basics of retail management better and backing that up with data we can use with store managers and chain head offices. Basic execution that yields improved results. For example, we have been able to show that positioning of a playstation in a single store can impact sales by a few hundred pounds per week in certain cases. This is very powerful when our sales teams are discussing playstation positioning with store managers. Looking at other consumer based industries is a great start in understanding and adopting best practices. True best practices never involve adventurous risk-taking. It’s about basic execution of tried and true business principles. ♦

# SERVING OUR READERS FOR 40 YEARS

PGRI CELEBRATES 40TH ANNIVERSARY

The lottery industry has always depended on the talent, creativity, and capital investment from the commercial community to drive innovation and progress. The mission of lottery operators and their commercial partners to channel the economic benefits of the gaming industry to the support of Good Causes and Public Service interests is embraced as the fundamental advocacy position of the Institute. On the 40th Year Anniversary of Public Gaming Research Institute, we are pleased to extend a very special Thank You to the commercial partners whose steadfast dedication to the mission of government-sponsored gaming has been so vital to its decades of success.



Public Gaming Research Institute and  
the Florida Lottery present  
**Lottery Expo 2011**  
Loews Miami Beach Hotel, September  
20 to 22

PGRl Conferences are held twice a year. The conference coincident with this issue is Lottery Expo. The next one is SMART-Tech which will be held the third week of March in New York City. Please follow our news website [www.PublicGaming.com](http://www.PublicGaming.com), and our conference website [www.PublicGaming.org](http://www.PublicGaming.org), for updates on our conferences. The conferences are video-recorded. The presentations and panel discussions can be viewed at [www.PGRltalks.com](http://www.PGRltalks.com).

Our mission with all of our 'products' (this publication, our digital products, e-newsletters, websites, and conferences) isn't about delivering news and providing a forum for sharing. It's about making a difference. By giving as widespread exposure possible to the ideas that are shaping this industry, by doing what we can to magnify the impact of everything our industry leaders say and do, we hope to influence the direction that the gaming and lottery industry takes. The content is always made freely available to everyone everywhere. And hopefully our e-newsletters

are bringing more and more people into our circle of influence. Our goal is to do everything we can to help government-gaming and Team Lottery be the operator of choice – by legislators who are creating the regulatory frameworks, and by consumers who are the ultimate 'deciders'.

There are reasons why this industry progresses slowly. But that should not mean that we must be resigned to a fate of never really tapping the full potential of what Lottery can do for its beneficiaries. The leaders of this industry, from both the lottery operator and the commercial sides of the business, are struggling mightily to accelerate the rate of adaptation. Adaptation of new technology is the least of it. Our industry needs to adapt to a world that didn't exist a few years ago. And the rate of change is accelerating. Our mission is to do everything we can to help the leadership of this industry galvanize us to act now, to boldly embrace the ambitious agendas that will drive us towards a successful future. ♦

The good news is that gaming as a recreational activity is more popular than ever. The trick of it is to evolve Lottery products and distributional channels to match up with the game styles and preferences of this socially and digitally connected generation. That is what the following four pages is really all about. These are the leading commercial suppliers to the world-wide lottery industry, producing the products and innovation that are key to unlocking the power of Brand Lottery.

## Retail Sales Optimization "Best Practices"

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signs

When Northstar re-branded the Illinois Lottery they chose Carmanah Signs to deliver fresh, new & exciting looking jackpot signs incorporating the new Illinois Lottery logo.

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**INTRALOT:** In less than 20 years, INTRALOT has become a leading supplier of real-time Gaming and Transaction Processing systems, Innovative Game Content, Sports Betting Management, Video Lottery Central Monitoring and Internet Gaming services to government-licensed gaming organizations worldwide. INTRALOT's highly specialized products and services, the dedication, professionalism and keen sense of client relations of its 5,000 employees around the globe, along with its portfolio of leading-edge technology solutions, give them the ability to blaze new trails in the international gaming market. INTRALOT's passion and commitment to customer satisfaction, as well as its focus on continuous improvement and solid growth in a socially responsible manner, have enabled the company to expand its reach with contracts in 50 countries, including 13 in the highly-competitive U.S. marketplace.

INTRALOT prides itself on keeping one very important goal in mind: establishing successful, long-term business partnerships with its clients and offering them a complete range of innovative products and services. The company's reputation precedes itself as INTRALOT is recognized globally for offering real value to its client/partners and their beneficiaries, timely commitment to customer needs, dedication to quality and flexibility to adapt to local markets. The integrated Lottery systems developed by INTRALOT rank among the most advanced and flexible systems available worldwide. INTRALOT products are distinguished by their quality, reliability, adaptability, expandability and security. These hallmark traits are made possible through ceaseless investment in Research & Development on advanced technologies and software development processes and creates the conditions required to quickly and efficiently utilize innovations in new products and value-added services.

The gaming market is evolving rapidly and exciting new opportunities are continuously becoming available to INTRALOT. Internet gaming is expanding globally to become a viable product channel and INTRALOT has been paving the way for the future in Internet Gaming through its new subsidiary INTRALOT Interactive (I2). In addition, INTRALOT has made a significant investment in CyberArts, a company that delivers the most advanced enterprise-grade gaming software in the marketplace today. INTRALOT places security as the cornerstone of its operations and consequently has become the first International lottery vendor certified by the World Lottery Association (WLA) Security Control Standard certification along with ISO/IEC 27001:2005 certification. INTRALOT, publicly listed on the Athens Stock Exchange since 1999, closely associates the growth and development of its business operations with the promotion of the concept of Corporate Social Responsibility, contributing to the enhancement of the quality of life and the cultural development of the local communities in which it operates. INTRALOT plays an active role in the International gaming community and contributes decisively to the future development of the industry. The global company is a member of all major international gaming associations, including the World Lottery Association (WLA), European Lotteries & Toto Association (EL), the North American Association of State & Provincial Lotteries (NASPL), CIBELAE (the Hispanic association that covers South America and the Iberian peninsula), as well as the Gaming Standards Association (GSA) in the USA and the Asia Pacific Lottery Association. ♦



**GTECH®**  
Architects of Gaming

**GTECH** is a leading gaming technology and services company, providing innovative technology, creative content, and superior delivery. GTECH is a single source of accountability for online central systems, system design, flexible retail solutions, game development, marketing services, and ongoing support operations worldwide. Lottomatica S.p.A. is the world's largest commercial lottery operator and a market leader in the Italian gaming industry. GTECH leverages Lottomatica as a vital component to its robust R & D investment in new products and services as well as providing deep understanding of our customers' needs and business challenges. GTECH and Lottomatica together create a fully integrated gaming technology company, providing end-to-end, full-service lottery services and solutions. GTECH is a comprehensive business partner to its lottery customers, with worldwide scale, considerable financial strength, and industry-leading customer solutions.

**GTECH Overview:** As a global leader in the world's online lottery business, the name GTECH is synonymous with the industry it pioneered and helped to build. GTECH is a full service technology and business solutions partner catering to all of the systems and support needs of online lottery operators worldwide. This comes from GTECH's ability to analyze the specific needs of each customer and to design solutions that meet the widest array of operating requirements. Excellence in software design, point-of-sale, instant ticket vending machine and video lottery terminal manufacturing, full suite of self-service vending solutions, local area network/wide area network communications, sports betting/new media expertise, and central system installations on six continents are the hallmarks of GTECH's technical and customer service competencies.

**Lottomatica Overview:** Lottomatica is a leader in the Italian gaming industry, with a dedication and focus on responsible gaming and corporate social responsibility. Lottomatica's extensive real-time, online distribution network, with approximately 190,000 terminals in 90,000 points-of-sale throughout Italy (including approximately 17,000 points-of-sale where Lottomatica provides only Processing Services for third parties), is comprised of tobacconists, bars, petrol stations, newspaper stands, and motorway restaurants. Since 1993, Lottomatica has been the sole concessionaire for the Italian Lotto game, the largest online lottery in the world in terms of wagers.

**GTECH Gaming Solutions:** GTECH is a single source of accountability for online central systems, system design, game development, marketing services, and ongoing support operations worldwide. The combined strengths and experience of GTECH and its subsidiaries ATRONIC and SPIELO, leading providers of gaming machines and related services, make a powerful partnership in the supply of technology and support services to the worldwide gaming market.

**GTECH G2 New Media & Sports Betting division:** GTECH G2 is comprised of four subsidiaries – Boss Media, St Minver, Finsoft, and Dynamite Idea – focused on providing software and services in the Internet and sports betting market. GTECH G2 delivers best-in-class sports betting and interactive white label solutions and services to the regulated commercial and government-sponsored gaming industry.

The overarching strategy of GTECH is to bring all of these capabilities together to future-proof our customers and maximize revenues for the good causes that government-sponsored lotteries support. ♦



**SCIENTIFIC GAMES** is a leading provider of secure, high quality, player-engaging products and services to lottery and gaming organizations around the world.

For nearly four decades, Scientific Games has been at the forefront of the lottery and gaming industry. Starting with the introduction of the first secure instant lottery ticket in 1974, Scientific Games has been a leader in creativity and innovation. The Company has pioneered a variety of inventive industry “firsts” that have helped advance the marketplace, many of which were developed as customized solutions to meet the unique needs of our customers.

This innovative and customer-driven approach has made Scientific Games successful in the world of instant lottery games, and drives all of the Company’s endeavors, whether in its Printed Products Group, Lottery Systems Group or Diversified Gaming Group.

Through these three divisions, we are able to deliver the full spectrum of gaming products, services and channels to customers around the world. This comprehensive array of products and services includes:

- Instant game manufacturing, systems and services
- Lottery gaming systems and Operations services
- Extensive portfolio of licensed properties for lottery games
- Marketing and research expertise
- A comprehensive video gaming suite (systems, software and terminals)
- Server-based interactive gaming machines and associated gaming control systems
- Amusement-With-Prize (AWP) and Skill-With-Prize (SWP) betting terminals
- Best-in-class sports betting solutions
- Internet, mobile and other interactive games and solutions, including players’ clubs, rewards programs, second chance drawings and poker/casino-style games

Scientific Games serves its customers on six continents with its state-of-the-art manufacturing and operational facilities in North America, South America, Europe, Asia, and Australia, with additional facilities throughout the U.S. and around the world based on customer requirements.

The Company prides itself on its global experience reaching new customers in existing and emerging jurisdictions and its demonstrated track record of meeting strict protocols of international regulatory bodies.

Scientific Games is committed to the highest levels of security, integrity, compliance and ethical standards, as well as to the industry’s responsible gaming principles and sustainable best practices. In 2009, the Company’s game programming groups in Alpharetta, Georgia (USA) and Leeds, England earned ISO 27001-security certification. A dedicated internal team continually seeks ways to reduce waste, use energy more efficiently, and operate more sustainably.

With nearly 40 years of proven experience, Scientific Games differentiates itself through its creative and responsible revenue-enhancing game content, the security of its offerings, as well as its proven ability to deliver state-of-the-art secure technology and network solutions to its customers worldwide. For more information, please visit the Scientific Games website at [www.scientificgames.com](http://www.scientificgames.com). ♦



**POLLARD BANKNOTE:** With over 25 years focused on serving worldwide lotteries and their customers, Pollard Banknote is the lottery industry’s most trusted and reliable full service partner. Committed to helping clients achieve their goals, Pollard Banknote aims to understand unique client requirements, however big or small they may be. As a result of this personalized service, over 50 lotteries world wide have put their trust in Pollard Banknote’s expertise and track record. Whether its unrelenting customer service, a continuous push to raise the bar on quality and efficiency, or the fact that Pollard Banknote has NEVER missed a ship date; this commitment to clients is unwavering and second to none.

What started as high security printing at Pollard Banknote has since evolved into art design, game programming, pull-tab games, sales support and a growing portfolio of licensed games. Pollard Banknote tickets themselves, have the utmost in quality and security as well as featuring special elements such as our patented Scratch FX®, Spectrum FX® and Shine FX™.

Looking forward, continued evolution and growth for the future is evidenced by the commitment to innovation and technology. With the newly launched innovations group and products such as 3D Tickets and the industry first ‘Social Instant’, Pollard Banknote continues to be at the forefront of the lottery industry.

Pollard Banknote clients also enjoy services such as world class market research to provide in depth analysis and insight into a lottery’s consumer base. Moreover, the in house marketing team uses this research to provide clients with a tangible, detailed and specific marketing plan aimed to effectively reach both new and existing players. To handle the increased distribution and sales, the proprietary Lottery Management System is available to clients. This program which includes warehousing, distribution, telemarketing, financial reporting and validation, are all housed under one simple user interface.

Listed on the Toronto Stock Exchange (TSE) and with five plants in North America, total operations encompass 510,000 square feet and employ over 1,000 people. As a member of the North American Association of State and Provincial Lotteries (NASPL), World Lottery Association (WLA), and the Asia Pacific Lottery Association (APLA), Pollard Banknote is also committed to the growth and sustainability of the overall lottery industry.

In addition to being committed to the lottery industry, Pollard Banknote believes in corporate responsibility and makes an ongoing commitment to the communities in which we operate. For example, Pollard Banknote launches a successful yearly United Way campaign. Over the past three years, the company has averaged over \$150,000 per year in donations, with 68% employee participation, which is double the national average of 34%. ♦

# LOTTERY EXPO



release of the subsequent SSAE 16 standard has resulted in questions arising amongst State Lottery entities. A-align CPAs can provide the guidance needed to ensure that State Lottery entities' needs are met with the new reporting standards.

A-align™ CPAs is founded on the key principle that an unparalleled client service experience is the greatest differentiator amongst professional service firms. Our greatest strength is that we focus specifically on delivering services to companies with regulatory or customer compliance needs. Our scope and competence are global, so there are no barriers for our professionals to work directly with all of our clients onsite at their location. Personal service is the key to our excellent client satisfaction.

Learn more about our unique approach to regulatory compliance services by contacting us at 1-888-702-5446 or [info@aligncpa.com](mailto:info@aligncpa.com). As compliance issues change constantly, we are here to respond to your needs. Visit [www.aligncpa.com](http://www.aligncpa.com) ♦



to our partner's goals and tailored solutions at every level of lottery operations – from award-winning sales and marketing to innovative technological and multi-channel sales solutions – designed to unleash the inherent potential in lotteries.

To find out how Camelot Global Services can unleash the potential of your lottery through our consulting solutions and other services, contact us at [CGSenquiries@camelotglobal.com](mailto:CGSenquiries@camelotglobal.com) or call Richard Wheeler, Senior Vice President of Camelot Global Services (North America), at 916.955.8721. [www.camelotgroup.co.uk](http://www.camelotgroup.co.uk) ♦



**A-LIGN™ CPAs** provides risk advisory and compliance services to companies worldwide. Companies that support the Lottery industry often have compliance obligations which include SAS 70/SSAE 16 and PCI examination needs. Our experienced professionals can assist in achieving these compliance goals. A-align's streamlined methodology and competitively fixed-fee pricing makes us a premier choice for service organizations.

Historically, many State Lottery entities contractually required their outsourcers to undergo a SAS 70 audit to provide verification of controls. The retirement of SAS 70, and the

**THE CAMELOT GROUP** is owned by the Ontario Teachers' Pension Plan. It is a private lottery operator with 17 years experience, having launched the UK National Lottery in 1994, which in 2010 was the world's 7th largest lottery and 3rd fastest growing lottery behind the Chinese Welfare and Chinese Sports lotteries; and is dedicated to running Lotteries around the world with the utmost integrity and social responsibility for the benefit of the public good.

Internationally, Camelot offers the complete suite of services for lotteries – from private lottery operations, online and interactive development through to a wider commercial services offering for lotteries. Within the Camelot Group of companies, Camelot Global Services partner lotteries to deliver sustained growth in Net Income, maximizing both profitability and returns to lottery beneficiaries. It's an approach built on aligned remuneration

**CARMANAH SIGNS, INC.** has been providing the lottery industry with LED signage which increase sales and raise revenues for good causes since 1997. Carmanah Signs is a world leader in regards to LED wireless jackpot signs with over 50,000 jackpot signs updated through lottery terminals in more than 20 jurisdictions. Carmanah Signs is the only wireless jackpot sign supplier which designs and specifies its own electronics to exacting standards which have been recognized by lotteries and on-line vendors alike as best in class.

Recently, Northstar Lottery Group, private manager of the Illinois Lottery chose Carmanah Signs to produce and deliver its wireless triple jackpot signs for its entire retailer network. The signs advertise Mega Millions, Powerball and Lotto games. The signs incorporate the new Illinois Lottery logo and communicate the fresh, exciting new look and feel of the Illinois Lottery retail experience. The signs not only communicate jackpot values and increase jackpot awareness and sales, but also identify the over 8000 stores in the Illinois Lottery network as lottery retailers and include the call to action "Play Here". Carmanah jackpot signs are included in "lottery best practices" for retail sales optimization. Visit us at [www.CarmanahSigns.com](http://www.CarmanahSigns.com) or e-mail [Mgoldstein@CarmanahSigns.com](mailto:Mgoldstein@CarmanahSigns.com) ♦



**DIAMOND GAME:** LT-3: The ITVM for Bars. We Get You In The Door!

The bar market has traditionally been difficult for lotteries to penetrate for a variety of reasons. The LT-3, an innovative new ITVM from Diamond Game, resolves that problem.

The patented LT-3 reads and dispenses a pre-printed instant ticket on each play and displays the result on a video monitor in an entertaining manner. It also validates and redeems winning tickets, thus accelerating the play and alleviating the bar staff from performing this normally time-consuming function. The footprint of the machine is 3 sq feet, less than half the size of a standard dispenser, thus allowing one or more to fit easily in even the smallest of bars. It comes with a 22 inch HD touch screen display, secure ticket validation and fraud prevention, as well as a sophisticated accounting and sales tracking system. Further, the patented Multi-Bet feature allows the player to purchase

the same ticket at different price points.

The LT-3 allows lotteries to greatly expand their retailer base and generate significant new instant ticket revenue. Both the DC and Ontario Lotteries have recently announced their intention of deploying the LT-3. The LT-3 suite of products by Diamond Game has the ability to be customized to fit the unique needs of any lottery. Contact Diamond Game's Sales team today at 818.727.1690 to discuss how your state can benefit and to schedule a demonstration! Visit [www.DiamondGame.com](http://www.DiamondGame.com) ♦



**IGT:** Since 1981, IGT has been a proven leader in the gaming industry. With a long history of innovation, IGT remains at the forefront in developing the latest gaming technologies that bring the industry more value, performance and exciting gaming experiences.

Starting in 1989 when South Dakota was the first state to implement Central System technology, IGT has been involved with video lottery markets. Since this time, IGT has worked with every video lottery market that has opened and is proud to be the only gaming company that still provides machines in every video lottery market in the United States. This unmatched experience helps IGT provide a wealth of knowledge and expertise to regulators and operators.

It's a priority for IGT to continue to make the best games and products for all segments of the gaming industry. And by offering the latest, specifically tailored products, IGT is able to help its lottery customers compete with traditional gaming markets and border-state competition.

An exciting recent addition to IGT's lottery market portfolio is the new MegaHits link. The first interstate wide-area progressive link between the lottery jurisdictions of Delaware, Rhode Island and West Virginia, MegaHits has a starting jackpot reset amount of \$100,000. Through innovation and considerable investment in research and development initiatives, IGT has developed numerous technology firsts that help the public gaming sector "level the playing field" between video lottery jurisdictions and traditional casino markets. IGT has a strong history of leadership in the video lottery market and will continue to be a leader for years to come. IGT is proud of the partnerships developed with existing customers and looks forward to offering the experience, expertise and support needed in new emerging markets. Visit [www.IGT.com](http://www.IGT.com) or please contact Jaclyn March at 775.448.8337 or [JaclynMarch@IGT.com](mailto:JaclynMarch@IGT.com) or contact Shelle Murach at 775.448.0221 or [Shelle.Murach@IGT.com](mailto:Shelle.Murach@IGT.com) if you have any questions ♦



**JUMBO LOTTERIES:** [www.jumbointeractive.com](http://www.jumbointeractive.com). JumboInteractive Ltd is an innovative and successful online lottery business, owner of Jumbo Lotteries ([www.jumbolotteries.com](http://www.jumbolotteries.com)), and partner to lotteries all around the world dedicated to growing their online presence and driving online sales. Jumbo Lotteries follows the traditional retailer/agency model common to virtually all lotteries around the world and applies this model to the modern environment of the Internet. Employing

the right combination of assets, skills, experience and momentum, Jumbo Lotteries has proven over the past ten years its ability to grow new markets on the Internet for its lottery partners. Jumbo Lotteries owns key Internet lottery properties – akin to owning well located traditional storefronts – designed to appear wherever lottery players are searching on the Internet.

Two new exciting initiatives created to further increase awareness of lotteries are Lottery Results and Jumbo Mall. Lottery Results is a portal providing players with the latest results for many of the major lotteries. Also included are some great widgets like Result Simulator, which will tell the player if their numbers have ever won a major prize. Players also have the opportunity to pay a subscription to access SMS alerts and other premium services. The strategy behind Lottery Results is to build a database of players then when we're able to we offer tickets sales. See [www.lotteryresults.com](http://www.lotteryresults.com).

Jumbo Mall is your traditional retailer but on the internet. The shop is focusing on technology offering a range of IT accessories, casual games and Lottery Results subscriptions. Our strategy is to reach out to potentially non-lottery players and provide them with a quick convenient way to purchase their tickets. The Internet is a very big place. One website is never enough to reach all your customers! Visit [www.jumbomall.com](http://www.jumbomall.com). ♦



**SCHAFER SYSTEMS INC.** was founded in 1986 by local entrepreneurs Chris and Betty Schaffer. A wild idea conjured up in a garage quickly became a rapidly growing commodity within the industry. SSI's current location in Adair, Iowa, was erected in 1991 and has undergone expansion multiple times to increase production capacity. After having established a well known name, SSI

branched out becoming one of 4 sister companies under our parent company Owner Revolution Inc.

Schafer Systems Inc. is under the direction of Teresa Immel, Director of Sales and Marketing and Stefany Fagan, Sales & Marketing Manager. Teresa has been with the company for 19 years and continues to provide product expertise, new product ideas and a familiar face to clients. Stef joined the force in 2007 and works hand-in-hand with Teresa to continue providing the best service and product knowledge for our customers.

Currently, 44 U.S. States, 38 International countries, 7 territories, and one province make up SSI's clientele base. As one may imagine, this diverse composition creates the need for an expansive product line that focuses on individual needs rather than an industry standard. In lieu of this, Schafer Systems Inc. has recently launched a new product that has been of interest to many clients. The "After Glow" Strips are one of our newest products that are cost efficient, easy to install, and drive attention to on counter lottery tickets. This product is an additional piece that can be added to your current MM® dispensers creating a "glowing" appearance. If you would like to see this piece or would like additional information, please don't hesitate to contact the SSI Sales Team at 1-800-222-4489. Visit [www.schafersystemsinc.com](http://www.schafersystemsinc.com). ♦

increases in Scratch-Off sales of 18% in 2010 and of 13% in 2011, as compared to the same period the previous year.

*It sounds like the market could absorb more ITVM's; that there are some retailers that would like to have them but can't.*

**C. O'Connell:** That's correct, the ITVM has to perform. Our retailers understand that. The criteria for where the ITVMs are placed is sales transaction volume. If a location can't meet the minimum threshold, the unit will be moved to a different location to try to get its sales up.

*So, you're trying to get authorization to acquire more?*

**C. O'Connell:** Yes, but that decision is driven by current sales. That's why it is important to keep the sales growth rate high.

*Have there been any incidents of underage play or something that would be otherwise undesirable as a result of a self service unit?*

**C. O'Connell:** Not that we know about, and we would probably know about it if there were. We are very careful about where the ITVMs are installed, and we have a 'kill switch' for the clerk to use if they see a minor playing.

*Your in-state lotto continues to be a big performer.*

**C. O'Connell:** It does. FLORIDA LOTTO was the first jackpot game in Florida, introduced in April of 1988. Our players embraced it from the very beginning and it really has become a part of the very fabric of Florida. We just picked up POWERBALL® two years ago. And though POWERBALL is America's favorite jackpot game, FLORIDA LOTTO is Florida's favorite game. Some of our early lottery jackpots set industry records. The enthusiasm that was created

early on set the stage for the brand equity that's only increased over the years, and envelopes the game today. Here we are 23 years later, and even with the addition of POWERBALL, the Florida Lottery is still the highest selling jackpot game in Florida. Scratch-off games come in at 55% of our annual sales, making it the top-selling category. FLORIDA LOTTO is approximately 10.3% of sales, followed closely by POWERBALL at about 9.8% of the sales. POWERBALL did ramp up quickly to get to that level after only two years. Florida now produces 12-15% of Powerball's national sales.

*Do you care where the revenue comes from? If Powerball were taking share away from your in-state lotto, would that matter to you? Would you want to take measures to try to reinforce the brand equity of your in-state lotto?*

**C. O'Connell:** We always guard against the cannibalization of any of our products when we introduce a new product. I'm sure every state does that. The purpose of introducing new products is to create incremental sales, not just migrate sales from one category to another. And, so, yes, it does matter where the revenue comes from because if the revenue just comes from cannibalization, then the business will not grow. You really want to challenge each new concept, each new promotion, each new product to carve out its own brand equity. Thankfully, we do not have this problem in Florida, but that may be because we do definitely guard against it.

*Are you considering Mega Millions?*

**C. O'Connell:** Not at this time. FLORIDA LOTTO is our strong in-state game. It provides the price-point alternative to \$2

POWERBALL and so we will stay with a system we know works very well.

*And so the raise in price to \$2 Powerball works well for your state?*

**C. O'Connell:** It fits very nicely. We intend to promote it widely and we'll be watching closely to see how our other products and our players react to that new price point.

*There are many obstacles to nationalizing an advertising and promotional campaign. Do you feel that there are compelling benefits to nationalization of brand management, advertising, and promotion – not all but just some portion of it?*

**C. O'Connell:** Florida would benefit from a national campaign because we have so many tourists and seasonal residents from other states that might end up making some of their purchases here in Florida. I do feel, however, that there are many challenges to getting 44 lotteries to agree on anything including, or maybe even especially, a national advertising campaign. Creating a campaign that would be both effective in each and every state and compliant with the rules of each and every state would be difficult to say the least. That said, I also feel that if we could find a way to work through these issues, a nationalized campaign could be a very worthwhile initiative for the jurisdictions involved.

*And in closing?*

**C. O'Connell:** I just want to welcome your Lottery Expo guests to the Sunshine State! We very much look forward to seeing you here and promise you'll have a great time and also enjoy a memorable conference experience as well. ♦

## Terry Rich ...continued from page 30

that are more complex than the commercial community works within. We would like to accelerate the rate of change and adaptation, but we also need to respect the political process that governs this industry. Likewise, most legislators respect the fact that we are them, that we are on the same team and we are all pulling for the same objectives. That's why they are turning to us for objective input on the ramifications of different approaches to governing this industry. We are not just the lottery, we are a part of the state and we want to help the state accomplish

its fiscal and public policy objectives.

*There is a new Powerball logo.*

**T. Rich:** We passed a resolution last year that all lotteries will use a uniform Powerball logo by the end of 2011, but state lotteries are reluctant to lose their state-specific identity. They do like to differentiate their Powerball from their neighboring states' Powerball. We agreed to enable states to do that in a fashion, but hope that we can create a template that will be used by everyone and also create a national consistency to

the brand. It is actually not a simple matter – it costs a lot of money. Add up the costs for everyone to change their logos in all of their advertising, POS materials, everything else; we're talking over \$20 million. So, many of these things might seem easy and we sometimes wonder why they can't be done yesterday. Collaboration by a committee of 44 is tough, interesting and fun. We have made huge progress over the past two years and will continue on this positive track, so stay tuned. ♦

# PGRI LOTTERY INDUSTRY STATESMAN AWARD PRESENTED TO WAYNE LEMONS DIRECTOR OF THE DELAWARE LOTTERY



Wayne Lemons has served as Delaware Lottery Director since being appointed by Delaware's Governor in February 1991. He holds Bachelor of Science and Master of Science degrees from the

University of Arkansas, where he served as Assistant Professor. Lemons is a former President of the Multi State Lottery Association (MUSL). While President, he led the organization through the development of its first strategic operating plan. He is currently on the executive com-

mittee of both MUSL and the North American Association of State and Provincial Lotteries (NASPL). Wayne has been a pioneer in the successful implementation of video lottery games in horse race-tracks. In 1994, the Delaware General Assembly passed Video Lottery Legislation. Lemons has led the Delaware Lottery to become one of the most successful Video Lottery operations in the U.S. Prior to joining the Delaware Lottery, Lemons was Director of Marketing International for Hercules Incorporated, based in Wilmington, DE

Included among Wayne Lemons accomplishments over his 21-year lottery career are:

- Longest Serving Lottery Director in one jurisdiction
- Only state lottery director to oversee four major product groups: Traditional lottery games, video gaming, table gaming, and sports-betting
- The second U.S. state to implement video gaming
- First state to fully automate lottery drawings, saving \$500,000 a year
- Increased Delaware Lottery revenue each year except for the first year of the smoking ban
- Member of the Lottery industry Hall of Fame

And now we can add to the list ... only the second person to receive the "Lottery Industry Statesman Award" reserved for outstanding leadership and respect of his peers in the industry. ♦

# Mix Together & Chill



MIXING UP SMART COMBINATIONS

## NASPL 2011

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## Todd Bauman

Senior Business Intelligence Manager,  
GTECH Printing Corp.

**PGRI Introduction:** Like everything else, the field of Market Research is evolving to keep up with the needs of its clients. The need to improve the ROI is driving the focus more and more towards the 'applied' side of the field. As a result, researchers are creating new ways to analyze player behavior and turn their research into insights that truly inform and shape product development and marketing.

Todd Bauman served in various marketing and research capacities with the Missouri and Washington state lotteries as well as with Oberthur Gaming Technologies prior to joining GTECH Printing Corporation in 2008. As Senior Business Intelligence Manager for GTECH Printing, Todd is on the cutting edge of new tools and methods that are improving the utility and ROI of market research. A conversation last spring with Todd about one of those new concepts (Visual Conjoint Instant Methodology in which instant product attributes are isolated and manipulated to yield a more quantifiable picture of what the player likes and dislikes about an instant ticket) prompted this further exploration into the field of market research.

*What is the state of marketing research within the lottery industry today?*

**Todd Bauman:** The entire approach to research and market testing has improved dramatically over the past 15 years. I have held four marketing research-oriented positions in the lottery industry – two on the lottery side and now two on the vendor side. It has been gratifying to observe during this time how marketing research has been given increasing value in terms of how lotteries incorporate research into the management of their products. However, it has been nearly equally as frustrating to see how research, as a budget item, is among the first to suffer during poor economic times or a downturn in sales. In the U.S. there are many lotteries that maintain research departments that execute their own research projects, but there are also many lotteries who have found creative ways to maintain their “pipelines” to players and retailers through either their instant or online vendor contracts. There are a lot of great experts in this industry – both on the lottery side and on the vendor side. They deserve credit for recognizing that with rapidly shifting technological and cultural landscapes, there are still more things yet to be learned about our products, players and retail agents.

*What factors other than increase in prize-payout percentage and price-point have contributed to the success of Instant-Scratch-offs?*

**T. Bauman:** Certainly, the strategy of higher payouts largely driven by the diversification of instant portfolios into higher price points has been a strong driver of the success during the last 15 years. But keep in mind, high payout in and of itself is no guarantee of a great product – would a

lottery offer an 80% payout \$1 game where every ticket wins \$0.80? Higher price-points do more than just increase the average unit price of the product. They also provide a powerful tool for differentiating the product. It enables you to create a far more dynamic portfolio of products to give the consumer choices and options more specific to their needs. It enables the consumer to assess the relative value of the price-points in making a choice based on top prize, playstyle, or previous success experiences which can be manipulated by the types of prize structures underlying the games. Or a combination of all of these along with whether to go with Bingo or Crossword or their favorite pop icon branded game. That adds a little more fun and gaming dimension to the purchase. Add to this all of the efforts that have facilitated sales at retail during this time: cross-validation, expanded retailer networks, expanded ticket vending machine programs and ticket-by-ticket accounting. And it makes more sense to the consumer that different products should have different prices. Diversification is such an important element of any strategic approach to expanding the portfolio of products and increasing sales. For instance, a good example that is in the works now is the increased Powerball price to \$2. This seen as necessary not so much because sales are expected to increase as a result of the increased price point, but because it positions the lotteries to diversify the entire product line with a wider variety of value propositions to augment the other product differentiators.

*How much does the player value prize-payout percentage in the purchase decision?*

**T. Bauman:** The evidence is quite clear that increasing the payout percentage, in conjunction



with other product strategies, has been a primary driver in increased instant sales. However, the specific consumer attitude towards prize-payout is hard to test in the marketing research environment and therefore hard to measure with precision. Simply informing a player of a game's payout or odds isn't enough; these things must be experienced by players for them to understand their value (or lack thereof!). The actual player experience of changing prize-payouts is very difficult to replicate in an artificial research environment. The experience of winning and losing, and frequency and types of wins, engages the player emotionally such that they do not necessarily know why they act in particular ways and their behavior is different when those emotional elements are mitigated as they tend to be in a market research environment. You can tell a player that the odds of winning are one in 4.25, but the player does not necessarily understand exactly what it means and in fact it can mean different things. The effect of price-point, different play styles like extended-play formats, prize call-out messages on the ticket and branding are much more tangible attributes that can be more easily tested and measured.

*Now that many lotteries are hitting a ceiling with respect to prize payout percentage, they will need to turn to more sophisticated research tools and methodologies to discern player preferences and behavior drivers.*

**T. Bauman:** That's true but really, what's wrong with having a deeper knowledge of player preferences and behavior drivers? Maybe the silver lining of having tapped out the increase of prize-payout as the lever to increase sales is that lotteries will now get closer to the consumer by investing in the research needed to understand the motivations and behavior of the consumer. And that understanding will yield benefits across the board. Reinforcing the bond with the customer like this will inform all aspects of product development, marketing, promotion, and other components that go into any business optimization

agenda. That is the real goal of market research, not to just predict the sales of a specific product or promotional concept.

*I just read an article in Harvard Business Review that dealt with the problem that while we are drowning in data and information, we are lacking the means to effectively convert the information into actionable strategies. What can we do to translate the power of this data into something that is better at informing and driving real-world decisions?*

**T. Bauman:** We need to think of research in a more holistic way, as being the engine that drives the intelligence gathering process and deploying it throughout the organization in an ongoing manner. The process is too often designed as specific task-focused projects when there needs to be a broader agenda applied to get the full benefit. Too often, there is no follow-up to the project to assess what was correct and what was not. It is so important to capture and organize that follow-up information, to analyze the prediction-to-performance in a much more detailed manner. That is how we build the foundation of truly useful information that will guide future efforts. And coincidentally, to both reduce the cost of future research and increase its effectiveness because it enables you to more quickly isolate the elemental factors.

*So follow-up is not about spending money just to come up with a report card on something that is already done and over with.*

**T. Bauman:** It's about capturing the information to drive better research product development in the future. It's about isolating the attributes of the product and the multiplicity of buying motives of different consumer profiles. It's about doing the proper follow-up analysis with the proper metrics. The permutations and combinations are endless. But it is not hard to categorize these interacting elements and build the relational databases that begin to reveal all manner of interesting correlations. For instance, a lottery decides that it wants to create a game that expands the player base into a new segment. Through research and testing and product development, a game is designed to appeal to that narrow segment, say young adult males. The game gets released, indexes poorly against other games in the lottery's mix and is so deemed a failure. But how did we determine this game's index? By using weekly sales? Indexing based on weekly sales is great for comparing generally similar games, but for games aimed at a specific player group? It's akin to using a calendar to time a track meet – it's no longer a specific enough measure. We have to roll our sleeves up and determine ways to get this extra information. In the simple example above, perhaps a second chance drawing could be associated with this game and basic demographic information is captured as a condition of entry. If there is a significant proportion of entrants who are young males, we now have evidence supportive that our target audience was being reached – even if the game performed comparatively poorly overall. If follow-up research and analysis are properly done, you can have a blueprint for retaining the product attributes that work, identifying those

that don't, and fine-tuning the approach in a way that will better meet your marketing objectives. The cost of extensive pre-research is already built into the research model for most lotteries. That's because the cost of implementing an unsuccessful product or promotion is high such that business is willing to invest in whatever research is needed to minimize the risk. The post-research stage is almost always short-changed because the ROI is not as readily apparent. I would submit that whatever is spent in post-research has at least equal ROI as the money and/or effort spent in the pre-research stage.

*Likewise, it would seem that research that is based on trying to predict the performance of a specific product or promotion would be limited in scope and be a poor platform for creating new and innovative concepts.*

**T. Bauman:** That is the conundrum of research everywhere. In the short-term, applied research, such as web-based instant ticket concept testing, is perceived to have more immediate ROI. In the long-term, basic research has more potential to produce the breakthrough discoveries that can yield far higher ROI. In fact we avoid the term 'basic research' because it is perceived by most as being dispensable. So I prefer to call it 'hypothesis-driven research'! And yes, our industry is not doing enough in this space. For instance, I might hypothesize that extended play instant players are more satisfied by breakeven and low-tier prizes than are core players who do not prefer extended play games. That's a testable hypothesis and there are so many like that which could yield some very interesting insights and potentially breakthrough strategies.

*A lack of hypothesis-driven research would restrict our perspectives to what is at least partially known, prevent us from being exposed to something genuinely new and different, almost making inertia systemic.*

**T. Bauman:** We need to respect the fact that funds are very limited and need to be focused on the investments that yield the highest ROI. There's no getting around it and it would be naïve to think otherwise. But yes, it's the difference between tactical and strategic research. Tactical is what you need to do to optimize the success of your near-term initiatives. That will always need to be done, and the ROI seems obvious to everyone. But the information we need to evolve the longer-term strategies that will keep us connected to the consumer and on the leading edge of the consumer products industry will only be gleaned through hypothesis-driven strategic research. There is so much more that we could learn about player behavior that would absolutely yield a high ROI. We need to take the slightly longer view whenever we are afforded those rare opportunities – and I do.

*I found quite interesting our discussion about designing a quantitative research method that attempts to abstract a variety of product attributes and player behavioral drivers.*

**T. Bauman:** I have been working with Axiom Consumer Research in developing what we call a 'Visual Conjoint Methodology' for instant tick-

ets. The Nebraska Lottery is leading the way in the use of this methodology. This is a marketing research methodology where you manipulate the various attributes of an instant product visually to see precisely how each one affects player behavior. Players have a hard time articulating why they liked or did not like a ticket. By isolating and manipulating these elements in a visual fashion that maintains realism in the presentation of hypothetical instant tickets, we are able to zero in on the specific response to specific elements, be they price-points, call-outs on the tickets, top prizes, playstyles or a number of other factors. The goal is to replace the qualitative aspects of the research with quantifiable results. Though we are still smoothing the rougher edges, so far, it has proven to be a great research methodology for taking a player's own attempts to verbalize what's going on in their heads out of the picture.

The Visual Conjoint Methodology is complex and is not the most inexpensive research tool. But tools such as these provide the robust results that are needed to build a more strategic approach to the business, towards consolidating the lottery's relationship with the consumer.

*And lastly, why do I consider it a win if I start with \$200 at the blackjack table and walk away three hours later with nothing more than my original \$200?*

**T. Bauman:** So glad you asked that question! In gaming parlance, one could think of it more as a 'success outcome' than a 'win'. Even though you broke even, you still feel as if you came out ahead because of other intangibles, not the least of which is that you probably enjoyed playing for three hours – experiencing the thrills and excitement of winning hands, and yes, the losing hands as well! The point is an interesting one from a lottery research perspective and it brings up a number of issues related to things as simple as how we ask players survey questions. For instance, if you ask a group of players if they consider receiving a \$1 prize from a \$1 instant ticket purchase to be a winning experience, an overwhelming majority will likely say no. One could conclude that breakeven prizes are to be avoided in instant games as they clearly do not meet most players' definition of a "win". However, if in the same survey, you ask how satisfied they are with a \$1 prize for a \$1 ticket, an overwhelming majority will likely say that is a satisfying or very satisfying outcome. So, what is the conclusion now? Clearly a breakeven prize is not considered a win, but players still feel pretty good about the outcome! This example (from an actual lottery research project, by the way) highlights the importance of how we frame survey questions and how thorough we are with our questioning. It also opens the door for new lines of questioning as to how player attitudes towards winning and satisfaction with outcomes may differ by player types. That is, does a core player have different definitions and/or thresholds for what they regard as positive play outcomes than do casual players. And if so, how may this knowledge affect instant game design and portfolio management.

Which, of course, can lead to even more questions as we dig deeper! Such are the challenges for the curious researcher! ♦

**C. Blanchard-Dignac:** The French government has taken a proactive role at evolving our regulatory framework to allow “controlled” competition among multiple vendors consistency of the national regulation. The online gaming market is an especially dynamic, diverse, and competitive marketplace. The regulatory model is designed to support an industry that will grow and evolve, provide economic opportunity for a diverse commercial community, and also to respect the consumer, preserve the integrity of sports, protect the interests of the state, and serve the interests of the general public. The end result is a model that balances this wide variety of objectives. Gaming and gambling is a complex, multifaceted industry and we think our regulatory framework addresses the many considerations in a fashion that works well for everyone. Commercial operators would prefer lower taxes, we would prefer exclusivity, but all of us now have an equal opportunity to pursue our goals and meet the expectations of our stakeholders. As pertains to the lottery, the exclusive arrangement is for the purpose of protecting the players and the interests of the state. The French online experience provides the foundation for a responsible and dynamic marketplace that respects the specificity of gaming while being compatible with EU Treaty.

#### More About la Française des Jeux

La Française des Jeux is the world's third biggest lottery operator, with €10.55 billion of bets placed in 2010, a 5.5% increase over 2009. Offering its 28 million customers a range of lottery games and betting services for major sporting events, it is committed to responsible, recreational betting in secure conditions. Together with its subsidiaries Lotsys and LVS, the group has over 1,200 employees, a network of 35,800 local points of sale and a multimedia gaming service with some 900,000 registered users. It operates in the online poker market through *barriere-poker.fr*, a jointly held subsidiary set up with Groupe Lucien Barrière.

La Française des Jeux has an active sustainable de-

velopment policy. In 2010, it redistributed 95% of its gaming proceeds, representing almost €10 billion, to its customers and retailers, sport and the community.

The scratch games range posted a 10.6% increase in sales to €4,290 million. The growth of the lottery activity is being driven by a range of 19 scratch games with 21 million customers, with, in particular, €1,189 million in sales for Cash 500,000€, which is now FDJ's third most popular game.

The draw-based games range continues to set the standard. The 3.7% decline in sales to €3,490 million reflects a calendar effect (1 Friday 13 in August 2010 compared with 3 Friday 13s in 2009). With €1,538 million of sales, Loto is set to become the leading lottery game. Euro Millions sales were up to €1,104 million thanks to the effect of super draw rollovers.

Rapido, a fast keno game, with €1,552 million in sales, continues to be penalised by the difficult operating conditions following implementation of the smoking ban in bars. The company's testing of Amigo, a new generation of point-of-sale games, continues in four regions.

The 24,700 ParionsSport outlets recorded €1,051 million of sports bets, a 42% increase from €741 million in 2009. These products, which are simple to use and well adapted to leading public POS betting (800 bets per week on five different sports), were used by some 2.9 million customers.

The company successfully negotiated the opening up to the competition of online sports betting by prioritising operational and technological performance and preservation of core values. The surge of ParionsWeb, an online service which caters for experienced gamblers (5,000 bets per week, including live betting, on 12 different sports), boosted the company's online sport betting sales by 112%, thereby quadrupling its market share and furthering its aim of winning a quarter of the online sports betting market by 2012.

#### Winnings up 7.6%

95% (almost €10 billion) of all gaming proceeds were redistributed. Players' winnings rose 7.6% to almost €6.8 billion and FDJ paid out on 800 million

prizes. 92 winners became millionaires and in July 2010 there was a record win of €42 million in Euro Millions.

FDJ redistributed €177 million to the national sports development centre (Centre National de Développement du Sport - CNDS). This brings the total it has redistributed into grassroots sport over the last 30 years to €4 billion.

It has redistributed over €500 million to 35,800 FDJ retailers located in 12,100 towns and villages, equivalent to more than 25,000 jobs.

#### Digital plan: a goal focused on 28 million customers

Priority to the network: The FDJ gaming model relies on the 27.8 million customers who actively frequent its unique network of local points of sale. The plan prioritises these points of sale, with the aim of promoting them, boosting their effectiveness through new technologies and continuing with their digitalisation. The group will invest €170 million in this network between now and 2015. The first new-generation lottery terminals will be installed in the coming months, and location search software, dynamic jackpot display systems and the first elements of a local community programme will also be gradually put in place.

Development of *fdj.fr*: Another aim under the plan is to raise the lottery website's profile and boost its supporting role for the points of sale (96% of visitors to the site are network customers) while using it to promote a gaming model based on the values of local access and responsible, recreational gaming. The company will continue to make the website more user-friendly and to promote it through new services and innovative products, such as the revamped online bingo, smartphone applications (2011).

FDJ's commitment to customer service will be similarly evident in its efforts, through its 2011-2015 digital plan, to ramp up sales through its extensive network covering some 27.8 million customers and to support its increasingly successful multimedia gaming service, which has 900,000 registered users. ♦

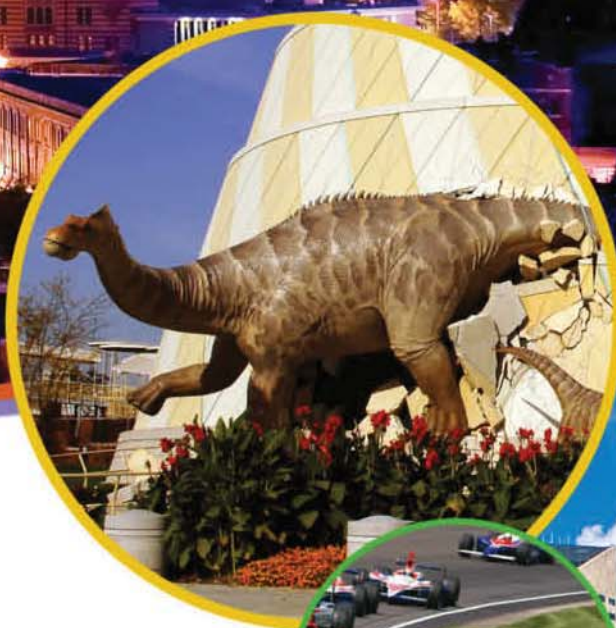
## A Model for Respecting States' Rights ...continued from page 49

ducted from the pari-mutuel wagering pool and used to fund purses, operating expenses and to pay other stake holders) to the off-track wager recipients and gives too little power to the horse owners. However, the revenue sharing scheme is not mandated by the IHA and could be changed in negotiations among the relevant parties, and the balance-of-power issue is not so much a flaw in the IHA as a need (as perceived by the horse owners) for an exemption to antitrust laws permitting them to organize.<sup>23</sup> In any event, Internet gambling on poker and games of chance involves fewer stakeholders (primarily the bettors, operators, their vendors, financial transaction processors and the states) and different issues than the horse racing industry, whose stakeholders include not only those aforementioned, but additionally, the racehorse owners, tracks, trainers, jockeys, breeders and off-track betting facilities.<sup>24</sup> The often stated concern in respect of Internet gambling in the United States, that a federal regime is necessary to avoid a chaos of inconsistent licensing requirements, has not been borne out by the experience of the IHA, and in regard to operational rules, the states are cooperat-

ing – albeit belatedly – to streamline such rules.

The Federal Government has historically viewed the regulation of gambling as primarily reserved to the states pursuant to the Tenth Amendment of the United States Constitution, except when a federal law was required to ensure necessary cooperation among them.<sup>25</sup> The uniqueness of the Internet suggests a need for federal legislation with respect to Internet gambling, but legislation only to assist the states and ensure that they cooperate with each other in regard to licensing, security and operational rules. “The State wields police power to protect its citizens' health, welfare, safety, and morals. On account of ties to organized crime, money laundering, gambling addiction, underage gambling, and other societal ills, [t]he regulation of gambling enterprises lies at the heart of the state's police power.”<sup>26</sup> There is no need for a federal licensing regime and overlay as has been contemplated thus far in proposed federal legislation, and in particular, the Federal Government should not dictate to the states which online games may be permitted within their borders. ♦

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For one thing, nothing takes that long now. For another, the concept of Loyalty programs and the cards that go with them have become a well-accepted part of everyone's lifestyle.

Most lotteries do have Internet-based loyalty programs. If they don't, they certainly should. The Players card is a natural off-shoot from that. They work hand in hand. You can use promotional benefits to engage their interest, and entice the players to become more and more involved. It's all voluntary and benefit-driven until you have the support of a critical mass that will embrace the transition to required membership. Or, it will happen naturally, the players all wanting to have the benefits of membership and it may be a logical decision to not require membership at all.

*Some people might think that the players would not be receptive to player cards. "Piercing the veil of anonymity" and invasion of privacy concerns.*

**T. Almlid:** This Facebook generation is much less obsessed with privacy than their elders. They are used to sharing all kinds of information with everyone. And the Facebook generation is no longer just the "millennial". It's really everyone, spanning all generations, young and older. Social interaction is something they look for in all recreational activities, especially in gaming. That's why non-money games like Zynga are becoming such an important component to the strategic plans of sites like Facebook. Google and Yahoo are also very actively tapping into that impulse as well.

*Congratulations for finalizing the Eurojackpot deal! If I understand it correctly, it basically includes most of the European countries that are not part of Euromillions. So, Eurojackpot includes Denmark, Estonia, Finland, Germany, Iceland, Italy, Netherlands, Norway, and Slovenia. (Euromillions includes Austria, Belgium, France, Ireland, Luxembourg, Portugal, Spain, Switzerland, and the U.K.) When does it launch?*

**T. Almlid:** We just signed the agreement (June, 2011) and we hope and expect to launch in March 2012.

*That's huge. How is it different from Euromillions?*

**T. Almlid:** You're right, it is huge; and it is in fact very similar to Euromillions.

*There was a lively interaction in a panel discussion at the EL Congress over the appropriate role for commercial companies to play in the operation of the lottery business. Some people expressed the opinion that the commercial community should drive innovation; accelerate the rate of technological change and new game development. Others said that it was the job of the operator to drive innovation and that the operator*

*should not turn that responsibility over to the suppliers. To what degree should the operator depend on guidance from the commercial community for how to progress and evolve their business models; or should the operator preserve control and think of the commercial community less as partners and more as suppliers of goods and services?*

**T. Almlid:** That was an interesting interchange. But I do not see it as a trade-off. The commercial suppliers do need to drive innovation in the creation of technological solutions; to accelerate the rate of technological progress and game development; and to guide us on the various options and counsel us on the most effective application of new technology, games and innovation in general. We do want the commercial supplier to be invested in our success and partner with us to optimize the performance of the lottery. On the other hand, the operator does need to control the assets that are mission-critical. Those include anything related to the preservation and extension of brand value, and the relationship with the customers. The focus of the lottery operator must always be on the customer and the operator should never turn that function over to its commercial partner. The operator needs to determine the strategic direction and always be the sole face to the customer, the one that stays close to the customer and understands the needs of the customer.

*How can we as an industry accelerate the rate of progress and adoption of new technology and ways of doing business?*

**T. Almlid:** I think our industry needs to have a much broader range of suppliers. This is a multi-multi billion euro business. It's huge. Everyone will benefit, including the incumbent commercial community, by engaging more people and more resources in the business of developing the products and systems that will enhance the player experience. There's lots of opportunity for growth in this industry, and for those who create the better products, services, and innovation that improve the way we operate as a business. We need to be more flexible and make it easier for new ideas to be adopted, regardless of where those ideas come from.

*Do you feel that the technological platforms and infrastructure are evolving to be inter-operable and to facilitate the deployment of content and systems from different suppliers.*

**T. Almlid:** The gaming industry is evolving quickly and the rate of technological adaptation, new game development, and innovation of business practices all need to accelerate. To do that, we need to remove the barriers to making that happen. For example, technology

platforms that rely on different communication protocols impede our ability to deploy the best game content. There is no reason or purpose for that. The industry needs to standardize in those areas where it can in order to help the operator be positioned to always deliver the very best products and service to the customer. We need technological infrastructures and platforms that support a seamless communication between servers, networks, game content, and all the partners in the supply chains and distribution channels. Open standards and inter-operability are key to enabling that to happen.

As lottery operators, we all depend upon the healthy and productive relationship we have with our commercial suppliers. It's true that a more dynamic marketplace can create competitive challenges for the commercial sector. But it also creates more opportunity for the commercial suppliers that are creating the best products and services. The entire industry will benefit by smoothing a path for the best products to get to market faster. The alternative is that nobody benefits, including the suppliers, because the lack of innovation will stymie progress and lotteries will not be as successful as they should be. Inter-operability and open standards will result in more suppliers, contract terms that will likely be shorter and allow for more flexibility, and more competition. But this is the way of the world, and it is the only way that the lottery industry will grow and prosper.

There is another aspect to this picture. The lottery operator needs to recognize that its most valuable assets include its relationship with the customer and its brand. In my mind, management of those two assets should never be outsourced. Along with a deep understanding of the games themselves, that's where the operator should focus and build its core competency. Almost everything else can be outsourced. As the industry grows, and lottery operators succeed and grow with it, our reliance on our commercial partners for support in all varieties of ways will increase as well. We all just need to embrace the reality that change is inevitable and focus on how we can better serve the customer.

*And just as you are focused on serving your customer, the consumer and the player; likewise commercial companies need to focus on their customers which are the lottery operator.*

**T. Almlid:** Exactly. We make it our business to understand the consumer, not to over-control the consumer because that would be an ineffective approach. Likewise, we need our commercial partners to understand us and our needs and work to meet those needs and not try to over-control the lottery operator. ♦

ing lottery sales would not have any effect on VLT/casino sales. You will not succeed at channeling demand away from VLT/casinos over to lotteries. 70% of Quebecers already buy a ticket at least once a year. The percent of Quebecers that go into a casino once a year is about 16%; and that play VLT's is about 9%. So they are totally different market segments. Getting more Quebecers to buy lottery, or getting the 70% who already buy lottery to buy more, will have no effect on the relatively much smaller percentage of people who play VLT's and casino games.

Another interesting lack of cross-over. We promoted an Internet card membership to our casino players and had just 2% of the casino players sign up. This would appear to indicate that people who go to casinos will not be the ones who play on the Internet. That is fine, of course. We are not trying to promote cross-over sales, or convince players to try out new venues and media. We just want to make sure that players come to Lot- Québec instead of playing with illegal underground operators.

*You said that past generations of 18 to 35 year-olds played more lottery than the current generation?*

**A. Cousineau:** Yes. Much higher rate of play in past generations. And we do not see the current generation of 18 to 35 year-olds 'growing into the lottery' like they did in the past.

*Why the dramatic decrease in lottery play among the 18 to 35 crowd?*

**A. Cousineau:** Because there are so many other alternatives in our world today. Not just because of VLT's and casinos. There is an explosion in recreational gaming options that appeals to social gamers, player-to-player competition gamers, etc.

*What you're describing doesn't bode well for the future of traditional lottery.*

**A. Cousineau:** I'm talking about the situation in Québec. We have a mature market with high per cap' sales. Increasing sales will be a serious challenge. And I don't think the Internet will provide a major boost for traditional lottery products.

I don't see in the near future any new implementation of casinos. We just got a new one in Tremblant, but there are no more planned for now. Our overall growth will probably come from getting a greater share of the internet gaming market. But even if we were to get 100% of the Internet gaming market, which will not happen, that would only add about \$100 million to our revenues. Our

total revenues are CA \$3.6 billion, so that would be less than 3% of our revenues and an even smaller percentage of net transfers. It is important that we channel the I-gaming demand to Loto- Québec's safe and secure website, but it frankly will not impact financial results in a meaningful way.

We thrive to produce the games that the consumer likes to play, because that is what they will end up playing one way or another. For example, we implemented electronic table games when we could not do live-dealer tables. Then, when we could have live-dealer games, the players migrated over to that. Players clearly prefer live-dealer games, so that's what we provide.

*How difficult was it to build the consensus necessary to collaborate with the other provinces on the Canadian Poker Network?*

**A. Cousineau:** Collaboration was necessary because the social games require scale, volume of players, and liquidity. Even for casino games that do not require liquidity, the consumer still expects to find a broad product offering when it joins in a site. Collaboration is really the best, and probably the only, way to meet consumer expectations. In the end, we need to provide a broad platform of all the games, and the scale to compete in the social gaming space, like poker. In order to accelerate the process, we made the conscious choice of not reinventing the wheel, not developing our own products, but using those products that are out there, proven to be successful, and can be efficiently integrated into our network platform. We will have the entire range of casino-style games, poker, bingo, sports-betting, and lottery games.

Scaling up in the social games is a challenge. Poker Stars has had up to 240,000 players worldwide playing at the same time. Since our access, by law, is restricted to players in Quebec and these of other canadian provinces that have agreed to participate (only BCLC for the time being), the most we have had is 3,000 quebecers playing at one time. We have to get the number of active players up to compete with the alternatives, even though they are not legal in Quebec.

*Why don't you do what the United States did and kick them out?*

**A. Cousineau:** That is a political decision which is not made by us. We do need to find a way to overcome that differential between us and the underground market. Keep in mind,

though, that the U.S. actions to indict the illegals was a complex affair and was the result of more than three or four years work.

*Similar dynamic happened in France, where the 'gray' market operators were licensed to operate legally. They just ported their illegally acquired customer base over to the newly licensed sites. Now the operators that were complying with the law all along, like the state operator la Française des Jeux, are having a challenging time clawing market share away from them.*

**A. Cousineau:** That's it. And it will happen again and again unless there is the realization that all the lottery operators have to join forces in order to create the scale and liquidity necessary to compete. The Canadian Poker Network is a good start. In the U.S., the challenge is even more pressing, because the casino operators are going to be strong players in the Internet space. If the lotteries come online with just lottery products, I do not think that will work. You really need to have a broad gaming platform – that's what the consumer wants and expects. And you need to have major scale for the social gaming products like poker. We expected poker to be the main revenue generator and it's not. And the reason, we think, is that it's all about liquidity.

*On hindsight, is there anything else of particular import that you would have either done differently or that you think should be pointed out to your colleagues in the United States who are figuring out now how to enter the Internet gaming market?*

**A. Cousineau:** Just that the contenders for the Internet gaming business are formidable. They are big, well-funded, and very sophisticated operators. PokerStars budget just for hiring celebrity poker players to be their spokes-persons probably exceeds our entire annual marketing budget. The same could be said about Caesars Entertainment and the other commercial operators.

Scale and liquidity are critical and extensive collaboration is, as far as I can tell, the only way to get it. Collaboration is also the only way to build the kind of strategic approach to marketing and operational efficiencies that will be an essential component to success. And international collaboration is very do-able. Euro-millions in Europe is one example, the impending World-Game another. We should explore additional opportunities to collaborate because that could ultimately be a decisive competitive advantage that lotteries have over 'gray' market operators. ♦

*teresting idea. It could result in advertising that could also be co-branded, as in "I went in to just buy a box of Tide and won \$1,000 at the state lottery!"*

**K. Freedlund:** Exactly. Marketers want to gamify because it engages the consumer. There are even business books out that talk about the "experience economy". It's not enough to have the best product. Consumer marketers need to create an engaging experience for the consumer at every level of interaction. The iconic example of how this works is Apple Computer. Apple is now the most valuable company in the world right. More valuable, at least at this time, than Exxon-Mobile, General Electric, Microsoft, than anyone. And they did it by creating a unique consumer experience not just with the way the products work or even the design of the products. It's about the whole experience, the packaging, the retail stores, the advertising that creates a feeling of being a part of a club, a community of the hippest, smartest people. Consumer marketers all want to re-create that kind of experience for their customers. And lottery can help them do it by gamifying the transaction. At the same time, lottery can also reach to recreate their image to be a community of the coolest, hippest, and smartest people, just like Apple did. There is nothing intrinsically exciting about the raw material that Steve Jobs had to work with. Our product is certainly as exciting as computers and phones. Likewise, with some imagination and ingenuity, we can strive to create a similar brand image and consumer experience for lottery. Also, let's never forget the one demographic that is more about gamification than any other; that portion of the population that every lottery is currently trying to tap; Gen Y.

*Tangential to that is the consumer demand for player-to-player competition.*

**K. Freedlund:** We think of it as player-to-player competition as it manifests itself in our gaming industry. So we are trying to create game concepts and platforms that create at least the feeling of player-to-player competition or social gaming. But this too has its counterpart in consumer products. Think about all the reality shows. What are they all about? Would we want to watch people go through the mundane tasks that we see on shows like the *Apprentice* or *Survivor* if it weren't for the competition? Or even shows like the dating and dancing shows - they would not be fun if it weren't a competition that created winners and the emotional engagement of people striving to win.

The idea is that all of us, all consumer marketing companies are trying to create a more engaging consumer experience. This has two broad

implications for lottery. First, we want to stretch to create a more engaging consumer experience for our players. Second, we have a product that can help other consumer marketers enhance the playing experience for their own customers. It's this second idea that I am focusing on. We could collaborate with these TV shows like the *'Apprentice'* and *'Extreme Makeover'*, to further gamify their product, get national exposure for Brand Lottery, and reshape our own image as being in the exclusive club of the hippest, coolest consumer products.

I know it's all easier said than done. But so is everything worth doing. Nobody handed the highest market cap in the world to Steve Jobs on a platter. In fact, I don't know if anyone remembers back in 1996 when he was brought back and named CEO of Apple. Everyone thought it was hopeless, that Apple had tried everything and failed. If some of these ideas seem unrealistic or hard to figure out how we can make them happen, well, that's what all successful companies have had to face and they overcame the obstacles and made it happen. The ways and means of lotteries working together to create a national campaign to partner with TV shows and major consumer marketing companies is actually a pretty simple roadmap compared to what most companies have to do to reinvent themselves. Lottery does not have to do any reinventing. All we need to do is to join forces and expand our advertising, marketing and promotion ideas beyond our borders. We need to take advantage of the opportunities that are right in front of our noses. Sure it's outside of the box of what lottery has traditionally done. And it requires lotteries to all work together to accomplish a common goal. But these are easy things to accomplish compared to what our counterparts in the commercial community have to do.

*This is quite an interesting vision. I am always struck by the oddity that funding is a challenge when the industry has such rich margins.*

**K. Freedlund:** Why couldn't the lotteries just allocate a portion of their top marketing executive's time to serve on a committee that includes representatives from all lotteries? That would be a team of 44 marketing exec's from each of the state lotteries.

*It's mind-boggling to imagine what amassing a team like that could accomplish.*

**K. Freedlund:** And I'm sure there are a thousand reasons why it can't be done. And maybe it wouldn't include everyone in the beginning. But let's stop finding reasons why these things can't be done, and just begin somewhere at finding a

basis for moving forward. Look at the way the commercial community collaborates with each other, and those companies are intensely competitive with each other. Apple, Microsoft, Cisco, IBM, Dell, HP, are all competing with each other, often even litigating against each other, but also, they recognize the value and strength in collaborating with each other. Las Vegas casinos are cross-promoting with Atlantic City casinos. Major operators like Caesars Entertainment and MGM are co-branding with other hotel and hospitality groups. Commercial gaming interests are collaborating with Indian Tribal gaming to implement Internet gaming. And here we are, with interests that are aligned for the same public service mission, we have monopolies in each of our jurisdictions so we don't even compete, and we can't figure out how to take advantage of the huge potential for national campaigns that could completely reshape our industry. The first step might be to just convene an A-team of lottery marketing pros to create a short list of ideas. Maybe take it a step further to discuss the possibilities with the TV show producers and other major consumer brand marketers. Then pitch it to the lottery directors.

*Have you discussed this with James Hutchinson (Georgia Lottery Marketing V.P.).*

**K. Freedlund:** He's ready. Now, I can't speak for whether he agrees with the specific ideas we have been talking about here. But we have talked a lot. I do know that he agrees that we are missing huge opportunities and would like to work with his colleagues around the country to explore the possibilities. The recreational gaming world, and the entertainment industry in general, is changing all around us. We may have a monopoly as you point out. But what good will it do if the channels of distribution, the business model we operate on, and the products themselves become obsolete? Our competition sees this reality and are taking action to re-position themselves accordingly. Cross-sell and differentiating the games with Enriched Powerball are two important steps for the lottery industry. But for all the challenge involved in making those things happen, they are very modest beginnings. There is so much more that we can do and need to do. Our stakeholders and Good Causes depend on it.

*The Internet too is all about collaboration, isn't it?*

**K. Freedlund:** There's still a lot of people who think that internet sales is about selling Cash-3 tickets, or Mega or PB tickets, or personal scratch instant tickets. That's not what

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*The products themselves: Anything genuinely new under the sun? Any game concepts that represent something innovative and/or non-traditional, something that will depart from the fundamental forms and structures of traditional lottery?*

**B. Huntley:** We start with the player and work our way back from that point. It is all about enhancing the player's experience. Once we make that leap, opportunities continue. We are seeing tremendous movement in the area of loyalty-based rewards programs and products that connect with players on multiple levels and provide an entertaining experience. If you widen the view beyond the U.S., there are many examples of games, promotions and delivery mechanisms that have been instrumental in growing the draw game portfolio. There is no reason that some of these programs can't be adapted and implemented right here in the U.S. As you know, many states are turning to slot and video gaming machines for additional funding. Especially in the distributed model outside of large casino facilities, we see tremendous opportunity to introduce technology and services to continually bring fresh content to players to enhance their gaming experience.

*Creating alignment between the objectives of lottery operators and their commercial partners would seem to be a key component to success. It does not seem like it should be so hard to create compensatory and organizational structures that support a clear embrace of mutually desirable goals. And yet it's not always been done to great effect. What can both*

*vendors and lotteries do to create a keener alignment between lottery operator objectives and the focus and investment strategies of their commercial partners?*

**B. Huntley:** It's always been a core part of SG's philosophy to align ourselves with our customers' goals. The challenges come with constraints placed on the lottery to invest in growth and the general hesitation to trying new things in the marketplace. Government administrations that embrace an entrepreneurial spirit and support the lottery in their plans to grow proceeds have the greatest positive impact. We see our role as supporting our lottery customers in educating their stakeholders and constituents. In fact, we just collaborated with the Pennsylvania Lottery to increase their retailer network. Wawa is a very successful Pennsylvania-based convenience store chain – and they have successfully integrated technology, including self-service, into their retail model. The Pennsylvania Lottery made it a priority to bring Wawa onto the retail network, and we enhanced our self-service solution to integrate into their infrastructure and business model. As a result, the Pennsylvania Lottery has added over 200 highly profitable Wawa stores to their retailer base. Creating a business relationship that is built on trust with common definition of business goals naturally creates alignment.

*Having left the role of president of Lottery Systems in 2006 and returned to it early this year might give you an interesting take on a standard journal-*

*ism question: How have the key issues changed in this industry over the past five years? What areas have become more problematic? Where have interesting opportunities emerged?*

**B. Huntley:** The challenges facing the industry remain the same, but some of the issues have become dire – more budget deficits, more focus on cost control versus growth, less consumer discretionary dollars available for entertainment – and increased competition from other areas of gaming and entertainment. This has created a call to action to address the challenges. Coupled with this, and likely as a result of the current environment, I do also see more collaboration in the industry than five years ago – not only between lotteries themselves but also between lotteries and their vendors, and even between vendors, to allow for interoperability and open systems that embrace products that can help grow the industry as a whole. In Canada, we see how new product development on a national basis has come about as a result of strong, ongoing and goal-oriented collaboration. We applaud the leaders in the U.S. and worldwide that are working across jurisdictions for the betterment of the industry. For centuries, government sponsored lotteries have been in existence to provide a unique and much needed service to those in need of financial support. We believe the lottery industry is on the verge of an exciting new period of growth and innovation, and I am glad to be part of this forward movement. ♦

Kurt Freedlund ...continued from page 74

it's about. When you talk to someone like Buddy Roogow, you get to understand that it's about a whole new style of gaming that has as its focus not the 'hope and dream' of winning the lottery, but the impulse to share and compete and visit with other people online. Games like Farmville and Angry Birds have become Mobile and Internet phenomenons because of the shared experience. You're winning prizes, points, and bragging rights instead of money. Viral marketing is really just a shared experience multiplied, right? Two people sharing with four, and on and on. But this too is all about scale. And, like having the participation that builds big jackpots, building scale requires collaboration. Please do not misunderstand what I am saying. There will always be a player base for the traditional games focusing on "hope and dreams", but the days of year-over-year double-digit increase in sales are over. There is so much more gaming competition today, and with a ma-

turing player base the industry must broaden its offerings to attract the younger, and the hippest oldsters, to move the needle on growth.

In closing, I do want to acknowledge the tremendous pressure on lottery directors to avoid making mistakes of any kind. This is a risk-averse industry, and with respect to the integrity and security our games, drawings and validations, it has to be that way. Lottery directors are rightly anxious to avoid doing anything that might possibly tarnish the brand, or upset the business model. But we are not talking about anything that would compromise that integrity and security of the gaming processes, we are talking about strengthening our brand on a national level. Can you imagine the security processes in place to safeguard the formula for Coke, or the regulations and procedures in the manufacturing process? Coca Cola wants to ensure that every time a consumer opens a can of soda, the product will

have a consistent taste. Similarly, lotteries strive to ensure that players always know that they have a fair and random chance of winning a prize on an instant ticket, or that a Cash 3 drawing is fair and random. The difference is, however, Coca Cola does not allow this security aspect of its company to bleed over into the advertising and marketing of its product. I notice that you've talked with others about a publicist whose job it would be to push out positive stories about lottery. I don't know what the solution is, but it is definitely the case that the media always picks up negative stories about lottery and we do not see much positive press. Maybe it's not the media's fault for printing what's given to them by people who do not support lottery. Maybe they just aren't being given the other side of the story, the story of Lottery and the grand mission of a game that is fun, rewarding to the players, and benefits society and Good Causes. ♦

easier had we done it in the beginning instead of adding it in after everything else is completed. And we have decided that adding a voice will definitely enhance the whole experience.

I would have to say that the entire project is really neither expensive nor technologically difficult. Plan on getting negative feedback but be confident that what you're doing is the right thing to do. And far more people do like what you're doing than don't. So I would say don't be faint of heart because probably fear is the biggest obstacle for people venturing into this world. Too, as already mentioned, this is a world where everyone is used to and expects to see lots of fresh ideas, many of which will not be keepers. No big deal. Doesn't cost much to test new ideas, the harm is minimal, and it's the only way to get at the good ideas that will carry us forward.

*Was security of the draws an issue?*

**C. Hedinger:** Security is always an issue. But we are no less secure with this than we were doing televised drawings. If anything we may be more secure because we're now in-house, we're not offsite in a studio. Unlike before, we are now in total control of our equipment. We haven't scrimped on any of those parts of the draw that would make it less secure. Everything is the same as it was before, with two differences. We don't have hostesses telling you what they're seeing, and we're distributing it in a different way. Before, it was distributed over a TV channel, now it's distributed by USTREAM to a Facebook page. But other than that, the draws and the procedures are exactly the same as they were.

*Did the decision to do this require a special sign off from Lottery Commission?*

**C. Hedinger:** No, it didn't require any special permission or sign off from the lottery commissioner. I kept them fully informed of this just as I do with anything of importance. But they were on board and required no special meetings or sign-offs.

*Did you encounter any friction with the Facebook organization?*

**C. Hedinger:** Not at all. Signing up for a Facebook business page is easy and anybody can do it by simply going to Facebook.com and registering. There is a back end administration dashboard that allows us to update and modify our page so we can post, insert photos and other basic components that we want to put up there. It's simple. Live-streaming the draw was a little bit more of a challenge, but there again we used the third party vendor USTREAM. They are

an interactive broadcasting company that has an agreement with Facebook. So that was the key to being able to do that. Everything is really quite established to facilitate this kind of social media-marketing. USTREAM has an agreement with Facebook, Facebook makes it easy to develop the business page, so everything is pretty simple. So simple that even our small retailers have been inspired to create their own pages to be a part of our network.

*You are a CPA and in fact president of the and clearly an inspired marketer. Any other alter-egos we should know about?*

**C. Hedinger:** Thank you but I do not consider myself a marketer. I think of my job as being an enabler. We have a great team here that not only implemented the program, but created the ideas in the first place. I don't pretend to be the creator of all this. I just get them what they need to do their jobs. I'm not afraid to make decisions, and I'm not afraid to walk down a new path when it makes sense to do that. I secure the votes and support from our constituents on the Commission, but then it's up to our talented team to make it all happen.

*Nothing happens without the guts and fortitude of a lottery director willing to try new things. We know that there are consequences when something does not go right. But how about something goes really well and generates a 15% + jump in sales? Would there be a mixed reaction to good results too?*

**C. Hedinger:** There are people that are anti-lottery, and those people are our constituency too. Fortunately, there are a great many more people in government that favor the lottery, and the revenue that it produces. I think that support would greatly outweigh whatever pushback there might be if sales went up by a lot.

*Does a private management agreement like Northstar in Illinois free the operator up to have more flexibility to innovate and do more to increase sales and transfers to Good Causes?*

**C. Hedinger:** I think the honest answer to that is yes. Decisions can be made faster, and the commercial operator would likely have more flexibility to invest more in promotions and product development as needed. I also think that no matter what management structure you have, the operator must stay aligned in purpose and in action with the best interests of the public. And the mechanisms that cause that to happen are fundamentally political. In the end, there is no getting around that aspect of lottery management. It is a fact of life, it's necessary, and Northstar or any operator will

need to comply with it. Along with that, whoever is operating and managing the lottery will be subjected to the same media scrutiny and ultimately the same legislative oversight that we all work under. We are all charged with optimizing the business within a framework that includes a complex mix of interests and considerations. That's the nature of the business and frankly, that's what makes it so fascinating.

I would point out that lotteries have been very innovative and forward looking over their entire history. Lotteries do need to exercise a higher degree of due diligence that may cause a conservative bias. But that's not a bad thing. It just causes us to do everything we can to get it right before we go rushing into anything. The New Jersey Lottery has been in business for 40 years. It's been a leader in the business, very progressive, and has always delivered great results. So my answer to your original question is that I firmly believe that lotteries and legislatures can all choose to work productively together and accomplish their objectives, and that is true whether it is done under a PMA or as a government entity. I know we have that kind of relationship with our legislature and I think most lotteries do. And all lottery directors that I know work very hard to nurture a mutually supportive relationship with their legislatures.

*Enriched Powerball. Do you agree that differentiating the games with the new price-point is a good and necessary move?*

**C. Hedinger:** Of course. I'm looking forward to the \$2 price-point. The differentiation is a necessary step and I am confident that it will be good for Powerball and good for the whole portfolio of games.

*From a portfolio management point of view, does it matter if your in-state games lose sales to the big jackpot games?*

**C. Hedinger:** Cannibalization is not good if you just go sideways in sales. But I do not see a problem with changing consumer tastes that cause the migration from one product to another. There are typically loyal player bases for each game and so that does not happen as much as one would think. But if times change and one game becomes more popular as another game declines in popularity, I do not see any reason to fight the consumer trend-lines, even if it is from an in-state game over to a multi-state game. It's all about increasing revenues for Good Causes, not protecting any sacred cows from the impact of progress and changing consumer tastes. ♦

until present), the IMCO committee of the European Parliament decided to hear Philippe Vlaemminck on the case law of the CJEU. In September, the European Economic and Social Committee, another EU institution, is also hearing Philippe Vlaemminck on the same questions.

### **Summary of the Presentation of Philippe Vlaemminck on the Caselaw of the Court of Justice of the European Union to the European Parliament**

1. The principle of mutual recognition is not to be applied in the gambling sector. In the current status of EU law, the EU Member States are allowed to prohibit or restrict market access for foreign operators, who claim they can provide their games within the territory of the Member State based on the license they have obtained in their country of origin.

Therefore, a Member State can impose a national authorisation upon an operator who wants to provide his games within its territory, and can refuse or grant such an authorisation according to its own policy. In this light, advertising measures which promote unauthorised cross-border gambling, can also be prohibited.

2. The Member States are free to opt for a monopoly or a licensing system. The Member States have a very wide discretionary margin in that regard and can determine freely, in accordance with their own scale of values:

- the objectives of their restrictive gambling policy.
- what is required in order to ensure the level of consumer protection and preservation of public order
- whether to allow online gambling or not.
- which enforcement actions to take.
- to impose criminal (or other) sanctions on the unauthorised provision of games, or the advertising thereof.

Given the specific nature of gambling services, the Court believes a monopolistic approach is more appropriate than a competitive licensing system.

3. Online games require a strict regulation: The Court has acknowledged that online games entail a higher risk for crime and fraud and gambling addiction compared to traditional games. In this context, internet is explicitly considered to be a channel through which games of chance may be offered, and not a different type of game.

4. The consistency of a restrictive gambling policy: As a general requirement, the Member State needs to have a legislative framework suitable for ensuring that the monopolistic operator will be able to pursue in a consistent and systematic manner the public interest objectives invoked by the government. This framework should be based on particularly on a high level of consumer protection, if the Member State opts for a monopoly.

In order to channel the players towards his highly regulated and authorised offer of gambling services, the monopolistic operator needs to be able to represent a reliable and attractive alternative and can in that regard: Maintain a wide range of games; Advertise on a certain scale (in particular); Use new distribution techniques (internet).

Within a monopoly, advertising must remain measured and strictly limited to what is necessary to channel consumers towards authorized operators. Therefore, advertising cannot encourage consumers to gamble by stimulating their active participation. It is possible under EU law that different models are maintained for different types of games (lotteries, sport betting, casinos, slot machines, etc.) within a Member State. The fact that some types of games of chance are subject to a public monopoly whilst others are subject to a system of authorisations issued to private operators cannot in itself point to an inconsistency in a restrictive gambling policy.

A restrictive gambling policy in a Member State is however considered to be inconsistent when a monopoly is maintained for certain games (lotteries and sport betting), while for games with a higher potential risk of addiction the authorities develop or tolerate a policy of expanding supply.

5. The allocation of gambling licenses: When a Member State has opted for a sole operator providing (a) certain type(s) of games of chance, and invokes legitimate public interest objective(s) to that end, the obligation of transparency does not apply regarding the grant or renewal of such license. However, it must involve a public operator whose management is subject to direct state supervision or a private operator whose activities are subject to strict control by the public authorities.

In a multiple licensing/concession system, however, the obligation of transparency must be complied with. In such a system, the authorities must ensure a degree of publicity sufficient to enable the service concession to be opened up to competition and the impartiality of the award procedure to be reviewed. Moreover, licensing conditions need to be non-discriminatory and proportionate.

Restrictive conditions which may be justified. Operators may be required to adopt a particular legal form as a condition to participate. The obligations binding public limited companies, in particular, with regard to their international organisation, the keeping of their accounts, the scrutiny to which they may be subject and relations with third parties would justify such a requirement, having regard to the specific characteristics of the gaming sector and the dangers connected with it. The number of concessions may be limited (in the light of limiting gambling opportunities). Concession may be granted for a duration of up to 15 years (giving regard to the concessionaire's need to have a sufficient length of time to recoup investments required by setting up a gaming establishment.) ♦

**PHILIPPE VLAEMMINCK** is widely regarded as a leading player in the current debate on gaming and gambling in the EU, and has been involved in every gambling case before the CJEU and the EFTA court. He joined the ALTIUS partnership on 1st July 2011, where he heads the EU Regulatory and Trade Practice. (e-mail: philippe.vlaemminck@altius.com)

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**REGARDING PHILIPPE VLAEMMINCK & HIS TEAM JOINING ALTIUS:** "I am pleased to join ALTIUS, an independent Belgian law firm with an excellent reputation, and a strong international experience in various legal areas, which are not only very complementary to my practice, but also will enable me to better serve clients. I look forward to co-operating with the various practice groups of ALTIUS and to bring on board my EU regulatory, trade and litigation experience." said Philippe Vlaemminck.

**CARINE VAN REGENMORTEL**, Managing Partner, adds: "We are delighted to welcome Philippe and his team to ALTIUS. Philippe's excellent reputation in the lotteries and gambling sector on a national, European and international level, combined with ALTIUS' well-known expertise in IP, IT, M&A and Competition law will allow us to approach this sector in an integrated manner."



# Developing the Online World: Where is Progress in Europe?

By Philippe Vlaemminck & Delia Orabona

The deadline for the submission to the EU Commission Green Paper consultation on online gambling expired in July. During the period of the consultation (March-July), the legal and political debate in the European Union has been progressing consistently. In fact, on different levels, the EU Commission, the European Parliament and the EESC (European Economic and Social Committee) have all been working on the direction of establishing an extensive dialogue for the EU regulatory framework on online gambling.

Currently, the Commission is continuing to organize workshops on efficient national enforcement measures and administrative cooperation, having as an objective the debate on how the Member State ensures its achievement of the public interest objectives behind its national gambling policy. The Commission is also following up on what the Council of the EU had already identified as a priority in its Conclusions of December 2010 on enforcement tools and cooperation between regulators and other authorities.

From its side, the European Parliament is expecting to vote upon a Report on online gambling in the upcoming October session.

During a hearing of IMCO (the Committee on the internal Market and Consumer Protection) on "On-line Gambling in the EU - New Rules of the Game?" which took place last June, MEPs discussed the Green Paper together with various legal experts, scientists, gambling addiction experts, stakeholders, and representatives of different associations. The EU Commission has been represented by Pamela Brumter Coret, the newly appointed Head of Unit of DG MARKT (European Commission) which has highlighted the priority of the Commission as being the understanding of the current regulatory framework on online gambling and the convergence in the discussion on the discretionary power of Member States which are all challenged, in different ways, by illegal operators coming largely from third countries.

In the autumn of 2011, the Commission will publish a Report to follow up on the consultation.

The intervention of MEP Christel Schaldemose – shadow rapporteur in IMCO – has focused on the importance of the subsidiarity principle and on the possibility to investigate whether further recommendations can be made to improve the protection of consumers and on also how enforcement can be enhanced through the improvement of the cooperation between the Member States.

The so called "Creutzmann draft Report", from the name of the MEP at IMCO- Committee on the Internal Market and Consumer Protection- rapporteur for the Green Paper on Online Gambling at the European Parliament, addresses important issues such as: the fragmentation of the internal market, the need for a larger cooperation between national regulatory bodies in developing common standards, taking joint actions against the illegal market, and the need for a strategy for ensuring the integrity of sport in sport betting.

Two different positions can be detected in the draft Report: on one hand,

Creutzmann recalls the implementation of the principles of the Court of Justice of the EU: the non application of the principle of mutual recognition in the gambling sector, the proportionality, the need for "enforced solutions" (see Council Conclusions), and the need for a common definition for gambling fraud.

On the other, he calls upon a "European framework" of rules which could apply to all Member States. In this way, he gives a compromised answer to opposite positions of the different stakeholders and governments. Furthermore, he highlights that in the absence of a specific European legislative act regulating Internet gambling, there is a need for "European minimum standards" to protect players and consumers and to prevent crime. Along the same lines, Creutzmann suggests the introduction of a "licensing model and common regulatory framework" laying down binding high-level minimum standards, a pan-European code of conduct for Internet gambling and a Directive on minimum standards. In the week of 24 October there will be the plenary vote for the adoption of the Report.

In the framework of the work of the Study Group on Online Gambling, the European Economic and Social Committee did organize for the 6th of September, a hearing on "On-line gambling - After the Green Paper, which way forward", and published a working document of the section for the Single Market, Production and Consumption on the Green Paper (Mallia Report) to discuss upon the key issues on online gambling: general objectives of the Green paper consultation, public interest objectives, establishment and licensing, sports and enforcement.

All these initiatives fall under the consultation initiated by the Commission. These initiatives all aim to gain more understanding about the shape of a sector which is in constant growth but which remains difficult to assess from an economic, social and legal perspective.

Legal certainty remains one of the main goals for the EU Institutions and for Member States. For a long time, the European legal framework on online gambling has been developed by the case law of the Court and by the EU secondary legislation. Today, the ball is in the hands of the Member States. The success of the Green Paper consultation and the way forward for a sustainable political solution will only arrive if the Member States will effectively contribute to the initiatives of the European Institutions, by giving comprehensive answers, and in this way preparing for further policy initiatives at the EU level. These will not automatically lead to a legislative proposal by the Commission and will not necessarily lead to any harmonization in the field of games of chance, but they will certainly contribute to achieving a higher level of awareness and legal certainty among operators and governments.

As the most important expert in EU law and gambling and due to his involvement in all cases at the Court of Justice of the EU on gambling (1994

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A globe is depicted, composed of a grid of various images related to gaming and lotteries. The images include people playing games, lottery tickets, slot machines, and game boards. The globe is set against a dark, curved background.

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