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September 2012



FEATURE INTERVIEWS:

(Counterclockwise from top right)

Stephen Martino
Maryland Lottery

Walter Bugno
Spielo International

Dianne Thompson
Camelot Group

Bishop Woosley
Arkansas Scholarship Lottery

Brian George
Supreme Ventures Lotteries

Jenny Canfield
Minnesota State Lottery

Philippe Vlaemminck
Altius

Jim Kennedy
Scientific Games Corporation

Marc Frederix
Belgium National Lottery



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

Thank you!

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Features

Feature Interviews and Editorials

- 6 Paul Jason:** From the Publisher
- 8 Scenes from Industry Days**
European Lottery Association Conference, Amsterdam
- 12 The Engines of Innovation and Progress for Government Lotteries**
Re-cap of Industry Days and NASPL Professional Development Seminar
- 14 Stephen Martino**
Executive Director, Maryland Lottery
- 18 Marc Frederix**
Director Marketing, Sponsoring & External Communication, Belgium National Lottery
- 22 Bishop Woosley**
Executive Director, Arkansas Scholarship Lottery
- 24 Jim Kennedy**
Chief Marketing Officer, Scientific Games Corp.
- 26 Brian George**
President and Chief Executive Officer; Supreme Ventures Lotteries, Jamaica
- 30 Dianne Thompson**
Group Chief Executive, Camelot Group, Operator of the UK National Lottery
- 34 Walter Bugno**
President & Chief Executive Officer, Spielo International
- 36 Philippe Vlaemminck**
Partner, Altius; Legal advocate for the European Lotteries
- 38 Jenny Canfield**
Director for Operations, Minnesota State Lottery
- 42 Technology is a Game Changer**
Peter Economides, Brand Strategist
- 44 INTRALOT 20 Years Growing Together**
The evolution and growth of the Gaming Industry
- 46 The consumer-driven migration to i-Lottery**
Pall Palsson, Mobile Product Manager, Betware
- 48 Jumbo Interactive: Interactive gaming poised for growth in the Americas**
John Wilde, Director Business Development, Jumbo Interactive
- 66 The Door is Now Open for Multistate Interactive Lottery Games**
Mark Hichar, Partner with Hinckley, Allen and Snyder, LLP and is the Chair of its Gaming Law Practice Group

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From the Publisher

By Paul Jason, Publisher, Public Gaming International Magazine

As far as I know, Lottery margins are higher than any business model in the world. With margins around 30%, the ROI on re-investment in the business is anywhere between very high to totally off-the-charts. Based on that, I submit that nothing could be more misguided than the focus on controlling costs. We literally need to figure out how to spend more money.

Normal businesses, the kind that exist everywhere except lottery, are typically happy to end the year with a net profit of 6%. So it is only natural for them to control costs based on the maxim that a 'dollar saved falls straight to the bottom line'. But for lotteries, a dollar saved is close to \$3 lost to our beneficiaries! As a percentage of revenues, the cost structure of lotteries is so small to the point of being a drag on the entire business. It is time to alter the resource-management focus from controlling costs over to figuring out how to re-invest in the business. We should literally look for ways to increase costs, be it in advertising & promotion, merchandising, sales and retailer training, POS materials, or any of the other activities that contribute to an increase in sales. I'll even go a step further and opine that the seemingly reasonable notion that cost-control is still a perfectly legitimate business objective is misguided because it creates a conservative bias that impedes re-investment in the business. Obviously, the re-investment process should be held accountable to high standards of productivity and ROI. But the

focus of our legislators should be to hold lottery operators accountable for growing the business with prudent but visionary re-investment. As it is, too often they focus on saving nickels on the cost side of the income statement and losing dollars on the net revenue side. It's almost as if they value the ability to quantify the factors of production more than they value actual performance; and value the ability to predict results more than they value the actual results themselves.

I should emphasize that those are my thoughts and should not be attributed to my interviewees. The interviews in this issue are just what caused me to think about the incredible opportunity that faces government lotteries today and yet the precarious position we find ourselves in spite of those opportunities. I would submit that government lotteries represent an astonishing untapped value. And it will be exploited by our adversaries if not by us. We need to somehow overcome the ambivalence that governments seem to feel towards their own lotteries and catalyze them to unlock this untapped potential. It is becoming evident, thankfully, that important shapers of public policy understand that and are acting upon it. More and more governments are recognizing the incredible power they have to regulate, and tax, the gambling industry for both the economic benefit of the public and the protection of the consumer.

This industry is unlike any other in two vital respects. First, it generates outsized profits that should be channeled back to benefit the public. Taxing it at 7% like they do in Nevada, 8% in New Jersey,

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"One reason why my lottery sales have grown is because I treat my customers like they are special. But just as important is the fact that GTECH, working with the lottery, treats me like I'm important too; they are always there for me. When I let Denise in GTECH product marketing know my scanner wasn't working well, right away



or less than 2% like they do in Gibraltar and Malta, is a shameful waste and disregard of the need to solve the budget deficits that hurt society, and usually the less privileged sectors of society that can least afford it. Second, gambling does have the potential for social costs. I am a huge believer that market-driven capitalism has proven to be the engine of prosperity for the modern world. However, at the heart of that engine is the profit-motive, the drive to increase shareholder value, and that is not the best construct within which to balance the twin-goals of increasing revenues and minimizing social costs. Much better is the government-gaming model that has un-conflicted commitment to implementation of sound public policy as determined by government legislators. And updating that approach as needed to keep it consistent with the interests of society as decided by the government whose job it is to protect these interests. Just one example of how the government model serves the interests of the public is New York, which, with far lower gambling turnover and far fewer casinos, turns over to the state more than *twice the combined revenues* of Nevada and New Jersey! Another example is the Illinois-Northstar Private Manager Agreement or the Camelot U.K. and Tatts Australia long-term license model, especially promising models that integrate the ingenuity and financial resources of private industry with the public service guidance provided by government policy-makers. Of course, governments are perfectly able to empower their own lottery operator with the mandate to re-invest in the business and build it with the same kind of ambitious entrepreneurial energy that private operators apply to the business. The talent and the will to achieve is there already. The obstacle to leveraging it is a public policy agenda lacking in vision and clarity of purpose. As jurisdictions all around the world assess the pros and cons of different regulatory and taxation models, hopefully they will pay close attention to the mountain of evidence

that supports the government-gaming model, and the importance of unlocking the untapped value of their own government lottery.

Many of you are picking up this issue at the World Lottery Summit in Montreal. Our industry associations produce an entire portfolio of services and educational conferences to help lotteries truly optimize performance and revenues for good causes. I attended two of their educational events (Industry Days in Amsterdam and Professional Development Seminar in Orlando) and encourage everyone to avail themselves of these invaluable resources provided by WLA, NASPL, APLA, and Cibela.

Thank you to all of our editorial contributors and interviewees! Your willingness to share your insights and experience helps all of us to understand this industry and hopefully apply that to improving the performance of our businesses. It is such a privilege to have gotten to know you and I look forward to seeing you all in Montreal.

Lottery Expo will be held at the Trump Miami Beach Resort Hotel from October 22 to 25. This will be a three-day event. The first day (23rd) will focus on North America. The last day (25th) will focus on Latin America, Caribbean, Mexico. And the middle day (24th) will be a combination of the two. We are very pleased and honored to welcome a strong contingent of Latin American lottery executives to Lottery Expo. The theme of Lottery Expo is inspired by a quote from Abraham Lincoln: "The best way to predict the future is to create it". All around the world, Team Lottery is taking the initiative to create its own future. More than ever, lottery leaders are having the vision to embrace the benefits of progressive innovation and collaboration; and the guts to implement the vision even though the reward for accomplishing stretch goals may be small and the consequences for miss-steps large. As the interviews in this issue attest, the change-agenda so necessary for progress can be adjusted along the way, but progress and innovation marches on. ♦

a technician installed a new one. They always make me aware of new technology, and ask for my opinion on how their ideas will work with customers. That kind of hands-on support from GTECH has helped me grow my lottery sales and keep my customers happy."

Karan Pathania, Convenience Plus, Rhode Island Lottery Retailer

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THE ENGINES OF INNOVATION AND PROGRESS FOR GOVERNMENT LOTTERIES

More than ever, our industry associations continue to raise the bar. The leadership is not only visionary, it is acting with a vigorous sense of purpose and power of conviction that commands respect and support from all of us within the industry, and also from our stakeholders and political constituents as well.

Most of us attend the annual industry conferences produced by our associations. The value in them is so compelling that they aren't to be missed by anyone in the lottery industry. However, our associations provide so much more value than those annual events. Visit their websites (links shown below) to see the wide variety of products and services that they provide to their members. It is astonishing, and probably not known by everyone, all that our industry associations do to help lotteries understand this industry and convert that to improved results for lottery beneficiaries.

The theme of Industry Days (held in Amsterdam in May) was *Towards an Entertaining and Sustainable Future*. The keynote speaker set the stage with an over-view on how *Technology and Consumer Trends Shape the Future of Games*. The conference speakers and panelists continued to focus on that same topic but also addressed the "elephant in the room" topic of "How can Team Lottery evolve with those trends and be the operator of choice for the modern consumer?" The panel discussion with our three big captains of industry on the commercial side of the business (Constantinos Antonopoulos, Jaymin Patel, and Lorne Weil, and moderated by Torbjorn Almlid) really tackled it head-on with straight talk about what lottery and their commercial partners need to do to keep up with those trends and stay ahead of the competition. Operating as a business that in fact does have competition is the first step towards optimizing performance. Freeing up our commercial partners to apply all their resources and capabilities to increase sales is another. The presentations from conference sponsors GTECH, INTRALOT, and Scientific Games meshed perfectly with the focus of lottery operators who emphasized the need to accelerate the implementation of additional channels of distribution, the need to leverage digital media into a comprehensive Customer Relationship Management (CRM) connection with the consumer, and the challenge of execution in a world where the resources, tools, and know-how are more robust than ever. There was much talk about the need to break free of the dichotomy that pits convenience, accessibility, and ease of purchase against entertainment experiences. The consumer is looking for products with all those attributes and then some.

Another theme is the globalization of the industry and the impact that this will have on the monopoly business model of lottery. As Bernadette Lobjois, Secretary General of the EL Association, says "Let's maintain our solidarity in support of our common interests, which unite the great family of Lotteries." Friedrich Stickler, President of the EL Association and Deputy Director of the Austrian Lotteries, has been a tireless and fearless

...continued on page 49

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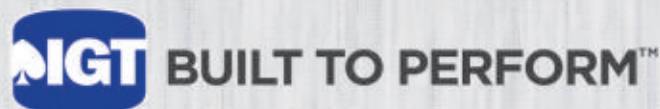


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Stephen Martino

Director, Maryland Lottery



PGRI Introduction: The Maryland Lottery has one of the most diversified product portfolios in the United States including both national jackpot games, two robust monitor games, in-state draw games, two twice-daily numbers games, instant tickets, and now casinos. The decisions about new games and channels need to be vetted for their ability to complement the existing games and contribute to overall performance. And yet, they are still challenged by the goal of increasing the appeal of lottery to the population of young adults.

The opening of three casinos has been the big story in Maryland for the past couple years. Regulating the casino operations always will be a top priority. But, with the development phase nearing completion, Director Martino turns his sights on Internet lottery sales, attracting new consumer groups to lottery, professionalizing the merchandising at retail, and optimizing the performance of the entire portfolio of products.

Paul Jason, Public Gaming: *Congratulations for a great year.*

Stephen Martino: We are pleased with our performance highlighted by our fifteenth consecutive year of sales growth with an \$80.5 million, or 4.7%, increase this past fiscal year. Powerball increased by 48%, or \$25.2 million. Mega was also up 7% or \$7 million. However, it should be pointed out that we were on track for a record year even before the Mega Millions jackpot in March.

That is an amazing increase in Powerball. The change to \$2 price-point worked well for you.

S. Martino: Yes, it did. We are a legacy Mega Millions state, but I was supportive of the change to the \$2 price point, and it ended up performing as we hoped that it would. I can't claim, however, to have projected a nearly 50% increase. I think the change in ticket price enabled us to differentiate Powerball clearly from the \$1 Mega Millions ticket and that the impact of that product differentiation may have been even more profound for us as a Mega Millions state. Our players tend to default to play Mega Millions. But I think that is slowly changing. It is certainly our hope that Powerball will sustain longer

jackpot runs at higher levels and allow us time to market it when it is more than \$100 million. It is at \$158 million today, for example. So we increase our advertising, television and radio, and electronic billboards to promote the game. Our advertising is budget dependent, but we start to ramp up when the jackpot gets to \$100 million and are all-in when it gets to \$150 million.

Are you supportive of the concept of a national premium game? More specifically, do you think lottery directors should work hard to overcome differences and try to create a third national multistate game?

S. Martino: Yes to both. I am supportive and do feel that we should power through whatever challenges exist to give strong consideration to a third national game. Though I am not on it now, I served on the premium game committee for awhile. It is a big leap from agreeing conceptually on the game and then working through all the details to make it happen. Even conceptually, we need to think carefully about what kind of game it should be and how we should position it along side of the other two games. The third game should be substantively different from the other two. All the lotteries have a portfolio of products and to add another national game to the menu

will take some thought. In Maryland, we are doing new things on the instant product side and also launching a new draw game with a jackpot component later this year. A new national game does need to fit into our agenda for new product launches, and I suspect other lotteries have the same concern. But I am interested to see what is developed. We're discussing ways in which it can integrate a social media element and become a platform to attract younger players. Of course, it's not just about young adults. There is a growing demographic group that would like us to enhance the entertainment value of lottery games, perhaps with social gaming or extended-play features. So the answer is that yes, we are very supportive of innovation and progress in the multi-state game space.

It sounds like you have set an ambitious agenda for yourselves to come up with something quite new and different for the next national game.

S. Martino: I don't think any of us is interested in talking about another jackpot game. We need to do something fresh and different.

Maryland is fortunate to be a diversified lottery. The combination of all of our jackpot games - Powerball, Mega Millions, and Megaplier, Power Play, and two instant jack-

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pot games, Multi Match and Bonus Match 5 – add up to just over 10% of our total sales. We get no more than 30% of our sales from any one category. So we're 30% from Pick 3 and Pick 4, our numbers game. We're 30% from our monitor games, and we have two thriving monitor games in Keno and Race-trax, which is a horse racing style game. And we get 30% from instant tickets. So managing this diversified portfolio for optimal performance is the critical requirement for us. Any new game concept not only needs to have high potential for success on its own, but it needs to complement the performance of all our other games. We give a lot of attention to keeping a balanced portfolio with the games all working in concert.

We research extensively the demographic segment that any new game is going to attract. A game that would have the potential to appeal to young adults or the social networking crowd is more likely to be considered. We're only getting about 50% playership from eligible Marylanders, those 18 and older. We believe that is extremely low, especially for a mature Northeast lottery. And about 2/3 of all of our players are 45 and older. So if we're going to continue to increase sales and grow revenue for the state we need to have much greater market penetration in the young adult demographic.

At 9% of sales, you have a relatively small portion of revenue coming from the two national games now.

S. Martino: We are pleased with our diversified portfolio. It makes us less vulnerable to lingering low jackpots and less dependent on any one game to outperform to make our numbers. We have an extremely successful Keno and monitor game operation. We've got strong numbers play. Our instant product category as a percentage of overall sales is low. But our instant space probably just represents an opportunity for revenue gains without cannibalizing other products.

You've got room to grow instant, but you don't feel pressure to jack up the prize-payouts to make it happen. Does product diversification help to keep the margins higher?

S. Martino: It does. The increases we have been getting in instant tend to be in the higher price-point tickets that have lower margins. So sales go up but revenues don't go up the same percentage. In the end, I would say that our diversified portfolio affords us the flexibility to be choosy about where we allocate our resources. We don't

sweat the jackpot numbers, and we aren't forced to increase prize-payouts and hope big sales increases offset the lower margins. But we're simply not dependent on any one category or product to carry the load.

You've been so good at public relations. Don't you think that somebody like NASPL or MUSL or some consortium between MUSL and Mega Million could employ a public relations person that would have more of a push approach to getting national media, to give more attention to lottery on a regular basis so that it's not treated as something that isn't talked about until the jackpot exceeds \$100 million?

S. Martino: It's not something I've given a lot of thought to, but it is probably something that bears further discussion. I think that the media gets jackpot fatigue just like players do. And for the same reasons that it's hard to get players interested in jackpots lower than \$100 million, it's hard to get the general media to give attention to it too. I worry that the long-term effect of the \$656 million jackpot is that the minimum threshold of attention by players and the media may have been raised to something much higher.

I understand the logic of the consumer mentality. But I would still like to think there may be something we could do to change that. I mean, after a Super Bowl Sunday or the London Olympics, does everyone say, gosh, that was so fabulous that I won't be interested again until there is something equally exciting so there's no reason for us to ever watch an athletic competition again till next Olympics, or we don't need to watch football again until till next February for the Super Bowl. And for sure we can skip the whole baseball season till October!

S. Martino: Your point is well taken. I know the MUSL public relations committee is involved and working on figuring out how to increase national PR. And the NASPL communications workgroups are great vehicles that get people to address these issues. Like most lotteries, our own resources are focused on our state-specific goals. It likely would need to be some kind of third party firm or PR specialist managed by a MUSL or NASPL.

Are there things that you're thinking about doing that are focusing on that objective of increasing player-ship in the young adult demographic?

S. Martino: One will be to launch an Internet lottery sales platform. Making the

products available through the desktop and also through mobile smart-phones is a vital step toward reaching the young adult consumer. And we are confident that it will have a positive impact on our traditional retailers. We have 4,200 retailers to serve a population of 5.8 million. Most consumers have easy access to these stores, but half are not buying. There are a variety of reasons for that. But making the products available on the Internet would make it more convenient and accessible for the consumer who is already conditioned to buying products on the Internet instead of stores. One of the problems may be that people are intimidated by our games or do not know how to play them. The Internet could be a means to engage those people and make it easier for them to try new games.

We're moving forward in the development phase, having internal meetings and meetings with third parties to understand the options, the costs and the different approaches. We do not expect it to have a significant impact on sales or revenues any time soon, but we are moving forward. The governor booked \$2.2 million in revenue, which means around \$6.6 million in sales, for the fiscal year ending in June 2013. So it will happen and hopefully sooner rather than later because it will take time to ramp up even to that modest revenue objective. We expect to launch in 2013.

The Internet can be a tool to support lottery objectives that are not easily translated into measurable sales results.

S. Martino: It is a tremendous tool for increasing consumer awareness, enhancing their perception of lottery, educating them on how to play the games, and communicating jackpot levels. For instance, we've got an initiative this summer to increase the number of "likes" on our Facebook page. We're at more than 30,000 now. We've got 2,500 people who follow us on Twitter. We've got 20,000 mobile numbers that we text the winning numbers to. We've got an e-mail list of more than 75,000 from people who sign up for second-chance prizes through our website. So we're already doing these things. These are interesting initiatives that increase awareness and that should contribute to sales. On the other hand, we do need to recognize that sales in fiscal 2012 were \$1.8 billion, and the projection for Internet sales in the current fiscal year is \$6.6 million. As a percentage of sales, it is microscopic. The point isn't that the Internet is not a key component to reaching the next generation of consumers just that

...continued on page 52

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De-Constructing and Re-Building the Lottery Model

By Marc Frederix
Director Marketing,
Sponsoring & External
Communication,
Belgium National Lottery

For decades now lotteries worldwide have been organized following the same business model:

- Sell the dream, the hope for big money, through a large land-based distribution network
- Sell instant or draw games with a weekly, bi-weekly, or daily draw
- Distribute roughly 50% to 60% of the turnover to the players and roughly 25% to 30% percent to good causes
- Operate with extreme cost-efficiency, with marketing and distribution costs of 2% to 3% and overall operation costs between 6% and 8%

Thanks to monopolistic jurisdictional protection, this business model proofed solid for years, creating easy revenue for governments and good causes, and creating small and big millionaires amongst the players, week after week.

This classic lottery model has come into the mature stage of its life-cycle, addressing it's classical, jackpot-driven product offering through a classic distribution network. Even lotteries performing very well through digital distribution (like Scandinavian lotteries) still get a minimum of 70% of their turnover from their brick and mortar distribution network. Lottery continues to appeal to the same consumer group, the baby boomers of the 50+ age groups, attracting players with classical advertising and selling the hope and dream to become a millionaire. We are lucky that people are living longer and stay active at this age! But how much longer will this business model be viable? Take a look at a yearly survey of the Belgian lottery measuring the consumer spend in paid gaming (lotteries, betting and casinos, both on and off line, pub-based bingo's, other paid games like lunaparks, TV games etc.) and defining market share using the formula penetration x frequency (yearly), an x spending (per game played). The National Lottery still shows a leadership position in 2011, with a 67% market share. But this market share dropped from 80% in just five years. A closer analysis of the age group breakdown shows a more dire situation: 82 % market share is in the 55+ target group and only 50% is in the under 35 year old group. And I would bet that these figures are similar amongst lotteries worldwide.

But, some might ask, aren't we all reacting to this decline in attractiveness, trying to capture the attention and interest of the younger target groups by using the internet and other digital distribution channels? Let's take a closer look at another survey analysing the players needs and motivations on the websites of lotteries compared with websites of competitive gaming operators. The evidence suggests these new media like the internet and mobile are not drawing in the new consumer groups as intended. Lotteries attract through their digital gaming systems mainly the "escape" and "innocent habit" players (73%), which is the same target group as in the traditional retail distribution network. Conversely, our competitors attract mainly the "fun/kick" player and "smart" player (77%).

We need to analyze the meaning of this. We recognize that the traditional distribution channels are under pressure, but we also know that brick and mortar will absolutely stay relevant. The way out of this land-based versus digital channel conundrum is to recognize that Digital is not only an alternative distribution channel, it is a completely different interactive and social experience an that connectivity with our consumers is key. This is as true for lotteries as it is for all big brands and fmcg (packaged goods) companies. But the attributes that appeal to new consumers are different the attributes that appeal to existing players. We need a new 'game plan' to become relevant for these new consumers, the so-called Millenials. And the re-refresh that we do to appeal to them will also keep us relevant for the socially-connected Baby-boomers who are the foundation for lotteries today's income.

Lotteries need to do much more in-depth analysis on the new consumers' needs and motivations, why they play our games an buy our products, why they choose our brands, and what their emotions are in relation to gaming and in relation to winning? Even if marketed with today's technology, why should



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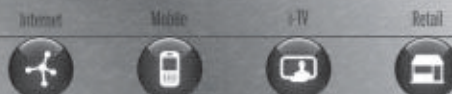
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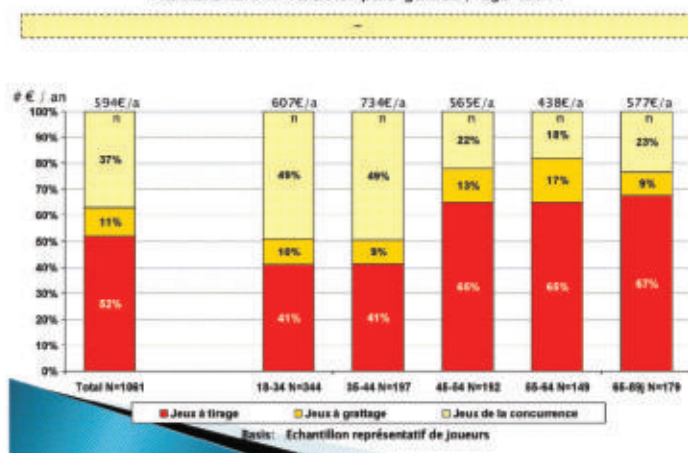
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Market Share – Paid Games Belgium

Market share in value of paid games / age 2011



we think that yesterday's products will attract and seduce tomorrow's players? How long can we sell old wine in new bottles? How sustainable is our model if our dream is not their dream?

We need to re-build our current lottery model to fit for tomorrow's consumers. Product, distribution, marketing, communication, the dream we sell to our players and the core value proposition we stand for as an industry must remain attractive and relevant for both existing and new players. That's the challenge. Being relevant in the shopping/buying experience, in the playing experience, and in the winning experience, means that we will have to connect with our potential players in an interactive way, with relevant content, telling stories that are in line with their dreams, emotions and aspirations.

Future trends can guide us to find out what works and how to appeal to the aspirational impulse of tomorrow's players. Our research shows that there are nine important consumer trends.

EXPERIENCE: People are seeking intense and unique experiences that create life-style momentum

PLANNED SPONTANEITY: Sounds like an oxymoron, but people want to plan the unexpected in order to escape from daily routine

TEMPORARY CHOICES: What people like and choose to do changes from day to day, making consumer profiling less predictable and reliable than ever

CLOSE CONNECTION: People are seeking warm feelings of togetherness and shared experiences, of doing simple activities together, off line and on line

BEING YOUR BEST SELF: A by-product of this sharing generation is the desire to be transparent, to show your good side and your bad side and create consistency between our real self and our "best" self

BACK TO THE PAST: The design, quality, and functionality of products of the past are re-used in a smart and creative way for today's needs

GREEN AS A FEEL-GOOD: Support green without giving up comfort and budget. Green must have a solid added-value in peoples' lives

ON LINE = OFF LINE: There are no barriers between on-line and off-line experiences, just a need for "downtime" in chosen moments of non-connectivity

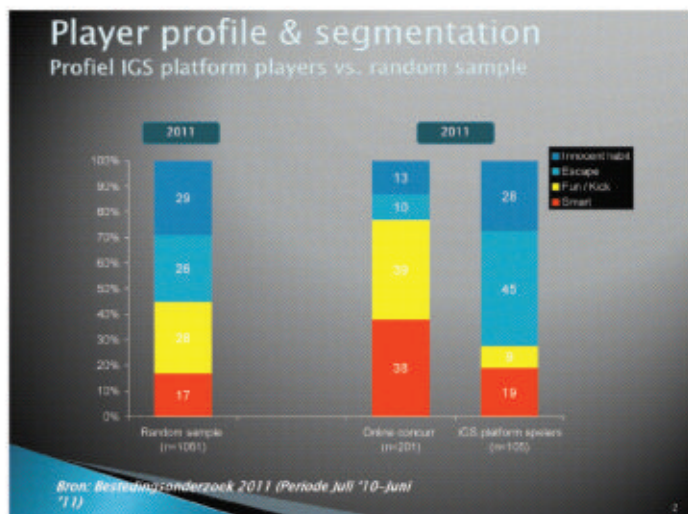
A LITTLE BIT OF HAPPINESS: Life is too complex and too serious. Everyone needs a little bit for her/himself now and then, less over-exposure and more small moments of real enjoyment and pleasure.

Out of these nine trends, "A little bit of Happiness" and "Close connection" have the most potential to be aspirational to attract lottery players.

To be relevant to the new players, lotteries must understand millennials, how they act and react, and that mobile connectivity plays a crucial role in their lives. Lotteries will have to enable interactive participation, empowerment, and engagement from their players, and do all this in a dynamic environment where emergence of new ideas and consumer preferences is the constant. The mass-broadcast model contrasts sharply with the individualized, un-mass, granular model, with engagement in multiple layers of experience in a dynamic situation that demands new programming, content, and experience strategies. The challenge with this is that the current business model is based on a revenue stream that is driven by the mass-markets. That critical mass of players must be maintained whilst developing the new one-on-one mode of connecting with the millennial.

Millennials are "digital and mobile", but what does this mean? Professor Alexander Manu, a respected speaker at WLA congresses and senior partner at Innospa international, points us in the right direction. Today's marketers and sales people must understand that digital is not simply another distribution channel. Mediums are not channels. Mediums are modes of individual action that end up modifying existing media. And today's mobile media are anywhere, anytime, and are connecting with a constant audience. A lottery with a mobile portal is in the media business. Selling existing products through mobile as if it is just an alternative distribution channel does not produce the kind of experience that new players are looking for. Mobile devices are transforming our relationships with people, with events, with places, with products, vendors and games. In a digital and mobile world, everyone is empowered to produce and share entertainment and experiences. A lottery with a mobile portal will have to act, interact, and programme as a medium, and this will be the only way to get and stay connected with tomorrow's consumers. Tomorrow's lotteries will have to understand who its real competi-

...continued on page 53



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Bishop Woosley

Executive Director, Arkansas Scholarship Lottery



PGRI Introduction: The Arkansas Lottery was an early and progressive adopter of Players' Clubs and Loyalty Programs. Since I see these as being key to turning the anonymous relationship that the land-based consumer has with lottery into the interactive relationship that enables a fully integrated Customer Relationship Management (CRM) approach to increasing sales, I asked Director Woosley to share their experience and his views about where we go from here with social media and CRM.

Another query I had focused on the product mix. The Instants category comprises over 80% of AR Lottery sales, testament to the effectiveness of their CRM approach in that space (and, to be sure, other things like product development, creative promotions, and distributional effectiveness). Next up: building the draw games category with a new in-state game and hopeful expectations for a new "premium national" game.

Paul Jason, Public Gaming: *The Arkansas Scholarship Lottery has a fabulous website. How have your initiatives in social media (Facebook and Twitter) evolved and how have they contributed to sales (directly or indirectly by enhancing consumer engagement etc.)?*

Bishop Woosley: Our social media sites are still in their infancy. We just launched Facebook and Twitter pages five months ago, and we're planning to start Foursquare soon. We're using social media as a vehicle to grow brand awareness and see it as an opportunity to have direct engagement with our players, to gain feedback about games and programs, and to answer questions. We have metric indicators – number followers, level of fan interaction and amount of traffic to the ASL website – that can show us how well we are doing, but what's not so obvious is how it directly affects our bottom line. We haven't run a campaign exclusively on our social media sites that we can directly attribute a sales increase to. We're seeing steady growth in our fan base, but we're working on developing promotional campaigns and implementing Facebook sponsor ads to help us grow even faster. We're still learning, but what we do know is that

social media requires us to communicate a little differently than we are used to, using more of a human touch, and that we have to embrace feedback and be responsive.

You were a pioneer in second-chance draws and aggressively promoting players' club and player registration. How have those evolved over the past year and what is the next step for integrating the internet into the promotion of the traditional lottery products and engaging the consumer in general?

B. Woosley: Properties Plus Program plays a key role in that. Part of it has become the centerpiece in the Arkansas Lottery's Player Loyalty Program:

- **Play it Again™ (PIA)** – PIA™ is a second chance drawing to win the top prize on an instant game. Players can enter their non-winning instant tickets into the Players Club and they will get an entry into the Play it Again™ drawing. This allows the Lottery to sell, for a limited time, games that no longer have a top prize remaining. We typically send out an end of game announcement shortly after the last top prize has been sold for a game.
- **Points for Prizes™ (PFP)** – All non-

winning instant tickets and all terminal-generated tickets can be entered in The Club to earn points that can be redeemed for fabulous merchandise or drawings. Our online store offers camo hats to flat screens in exchange for points – delivered free to your home. Points drawings offer a chance to win larger prizes such as trips, vehicle, or merchandise. Our PFP™ program welcomed Draw Tickets this January. Every month we offer a point multiplier between 2x and 10x for our game of the month. Special Second Chance Promotions – In addition to getting an entry into PIA™ and earning PFP™, certain licensed instant games also get an entry into a special second chance promotional drawing to win experiential prizes such as a trip or vehicle, or a package of licensed merchandise.

- Licensed instant games the Lottery has used to offer a second chance draw promotion were:

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...continued on page 56



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Jim Kennedy

Chief Marketing Officer
Scientific Games Corporation



PGRI Introduction: The shift is happening slowly but surely. And it's seismic. The shapers of public policy are recognizing the power of their own government lotteries to generate funds to support the public interest, whether it is to fund the rebuilding of infrastructure and public works as in Illinois, to support scholarships for public education, or any one of the other good causes supported by lottery. Government lawmakers are more willing than ever to explore new ways to capitalize on the ability of lotteries to play an important role in the financial welfare of the people. This shift in political attitude towards lottery opens up the opportunity for lottery to step on the gas and really show what it can do. It's already happening – just look at the sales increases over the past year.

As governments explore different management structure options like the Northstar Lottery Group's Private Management Agreement (PMA) in Illinois, they are also re-assessing the mandate that is given their own government-regulated lottery operation and asking the logical question: What if we allowed our own lottery to operate with the kind of entrepreneurial license that we would give to a PMA? I asked Jim Kennedy what lotteries might do if they had more flexibility to operate like a commercial firm. Of course, Kennedy is the CMO at Scientific Games, so the ideas just kept on coming.

Paul Jason, Public Gaming: *Outside of a start-up, the turnaround of instants in Illinois by the Northstar Lottery Group is probably among the best ever, isn't it? And it's an interesting example of how the application of best practices can produce remarkable results.*

Jim Kennedy: Exactly. The instants business in Illinois grew 27% or \$345 million in one year. This was the highest growth rate of instants in the U.S. other than California, which raised their prize payout. Illinois didn't launch a new price point; they didn't change their prize payouts. What they did was put a package together with an experienced team of lottery professionals to build a consistent product portfolio, manage the overall portfolio instead of individual products and aggressively execute with a well-conceived business plan. This included consistent game launches, strong core games and base games, extensions of games that the consumer was already fa-

miliar with, integrated advertising and promotions, controlled communications with retailers and the media, and a host of action items that were all part of a detailed and integrated business plan.

But we didn't just discover the secrets to success last year and just happen to have them ready to implement for the Illinois Lottery. Much of what we did with instants in Illinois has been understood by our company for years. And even now, much of what was done with Northstar could be applied to other markets and yet in many places it isn't. Everything we did was based on the leadership of an experienced team of professionals from the Lottery, Scientific Games, GTECH and Northstar. But you don't have to have a PMA to do these things. We are ready and able to implement these best practices for all of our customers all across the world. A PMA might require a leap of faith for the operator because it involves change and doing things differ-

...continued on page 62

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One of our purposes is to bring people together and PGRI receptions are a great place to start – So there will also be Receptions following the Tuesday and Wednesday conference days. Conference program with speakers will be posted as it becomes available. We promise to deliver a uniquely rewarding conference experience. Registration is free for all Lottery personnel. So please join us and your colleagues from all around the world for this special event.

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Brian George

President and Chief Executive Officer
Supreme Ventures Lotteries, Jamaica

PGRI Introduction: Supreme Ventures Lotteries (SVL) is a diversified operator of gaming, gambling, sports-betting, and lottery products in Jamaica. Licensed by the Jamaican government and owned by private shareholders, SVL has built a wide portfolio of gaming products and technologically progressive distribution infrastructure. What makes the SVL model and approach to the business so interesting and informative is the flexibility it has to adapt to consumer preferences and to the competitive landscape. SVL has both more freedom to expand into new games and categories, but also the challenge to deliver the kind of results that cause potential competitors and the Jamaican government to rely on SVL to continue to be the gaming operator of choice for the Jamaican consumer.

Paul Jason, Public Gaming: *What games are offered by SVL (Supreme Ventures Lotteries)?*

Brian George: Our license on lottery games is exclusive. Our licenses on sports-betting and slots is not exclusive. We offer the entire portfolio of gaming, gambling, and lottery products. The only part of the gaming business we do not do is horse racing.

While we are the dominant player in all gaming categories, our place in the market has to be earned. In lottery games we have an exclusive license, but that could change if we did not meet and exceed consumer expectations. In all other sectors of the gaming industry, we are not the only operator and so compete in the market-place, endeavoring to deliver the



games and value that will most appeal to the consumer.

Since you offer the entire range of gaming products, you might have some insight into the degree to which the consumer migrates from one category to another. Is there much cross-over, or do you find that lottery players stick with lottery and do not do sports-betting or go to casinos? Specifically, are you able to cross promote, pitching lottery to casino patrons and vice-versa?

B. George: Cross-promoting is difficult for a few reasons. First, the traditional lottery player would be the 35 to 65 year old demographic, and probably slightly skewed towards women. The sports-betting demographic tends to be younger and skewed male. So there is not much overlap between the consumer profile of the sports-betting player and the lottery payer. The older horse-betting crowd, the one game category that SVL is not involved in, might have an overlap with lottery, but the new style of sports-betting consumer does not so much.

There will be an increase in cross-over, though. The interesting thing is that the consumer migration from one game category to another will not be driven by either changes in consumer tastes or by cross-promotions initiated by the gaming operators. That's not to say that consumer tastes won't be changing or that gaming operators won't be cross-promoting. It's just that the real impetus that drives these changes is technology which increases access to a larger variety of games to new consumer groups. For instance, up until recently, electronic gaming machines delivered a certain type of gaming experience that did not include playing the lottery. The casino player was not clamoring to buy lottery tickets. Nor was the lottery operator targeting the casino gambler in cross-promotions. However, the simple act of making lottery products available for purchase on electronic machines gives those products exposure to an entirely new consumer group. That phenomenon will be even more evident as applications for mobile gaming are imple-

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mented. More consumers will have access through more channels of distribution and media and that will make it so easy for the consumer to try new games. Increasing consumer access to the products is the single most predictable way of increasing sales. The integration of technological platforms makes it easy to deliver a wider variety of game content to each medium – be it an electronic game machine, a mobile device, your home computer, a sports-betting terminal, or the terminals in retail stores. All these media used to deliver one type of game. Now the operator can make all manner of games available through all the different devices and consumer touch-points. The consumer will be presented with many more options than ever before and that is what will lead to more consumer migration between different game categories.

Why will casino operators want to make lottery products available on their EGM's?

B. George: Because it is incremental sales. You are right to think the casino operator would not want to do that if they thought that whatever the consumer purchased in the way of lottery products would have been spent on the slot machines anyway. Of course, that is not what happens. Give the consumer options and the gross volume is likely to increase. This is basic consumer marketing 101. Technology is enabling operators to turn every PUI (player-user-interface) into a vehicle to make available the entire portfolio of games. This benefits the content providers by giving the widest exposure to their games. It benefits the distributors by enabling them to sell more products and deliver better value to their customers. And it benefits the consumer by giving them more options and making it easy to exercise their freedom to choose. In the end, the consumer will gravitate to the distributors who make it easy and convenient for them to have access to the biggest variety of great game content, whether it's slot games, sports-betting, i-poker, or lottery. That is why all, or at least most, game content will be distributed over all the different channels of distribution. And that, more than operator cross-sell promotions or consumer demand, is what will lead to players trying new games.

Is there data or statistics that tell us how quickly the consumer will adopt mobile gaming?

B. George: There are about 2.7 million people in Jamaica. And there are about 3 million active cellular accounts. Even though the number of accounts actually exceeds the number of people, there are still many people who

do not have cell phones because lots of people have two accounts. Even so, cell phone technology clearly has a very, very high penetration rate in Jamaica. Currently, Blackberrys have the dominant market share. But providing the consumer with appealing new options like Android and the Apple iPhone is driving even more ubiquitous adoption of smart-phone technology. The obstacle to mobile gaming is not the cost of the technology or the consumer use of smart-phones. The biggest constraint to mobile gaming are the regulations that apply to the lottery industry, and the gaming industry in general. Technology and the consumer are moving much faster than are the legal and regulatory frameworks that govern this industry. That's true everywhere, whether it is in Jamaica, or North America, Europe, Asia ... everywhere. But the laws will evolve and so the migration to mobile gaming is inevitable. It's only a question of time.

The consumer does not go to a travel agent anymore to buy airline tickets. Likewise, the consumer won't accept the single option of buying their lottery products from a terminal in a retail store. They will be buying them online, via their smart-phone or home computer.

The lottery operator does want to make their products more accessible to the consumer, over the channels that the consumer wants to buy them. On the other hand, lottery operators need to be careful about how they go about this since they do not want laws to be changed that would impinge on their control of the market, right?

B. George: That is very true. But again, the geo-location technology has been operational for years, and is proven to be reliable and effective. But it is true that lottery operators need to be vigilant to make sure that laws do not change in ways that allow others to enter the market. As we see in Europe especially, a straightforward technological solution can become politicized and complicated with different interest groups lobbying for laws that would change the basic regulatory structure that protects the market for lottery operators. Obviously, lotteries do not want that to happen. On the face of it, though, what lotteries have done with multi-jurisdictional games like Powerball, Mega Millions, Euromillions, Eurojackpot, and Super Lotto in our region, is far more complicated than a geographically restricted offering of mobile games. Lottery operators have proven to be very adept at working together to drive progress, and integrate technological innovation, without altering the basic structure of a protected marketplace. It's just that the regula-

tory laws need to catch up to technological progress. The process of doing that does not need to turn into an issue of public policy, but unfortunately it often times does.

The business of lotteries generating funds for public-service causes should be protected. But insofar as technology is enabling multiple games to be distributed through multiple channels, do lotteries need to be explore the potential to enter into new gaming markets that are open to multiple operators? SVL has an exclusive license to operate lottery, but a non-exclusive license to operate other games like electronic games and sports-betting. But isn't your ability to deliver more value to your lottery customer enhanced by offering this larger portfolio of gaming content, and isn't your ability to protect your lottery market enhanced by being more of a full-service provider?

B. George: I think so. The Nintendo generation is maturing into a gaming market that enjoys new play styles like multi-player, social and skill-based formats. As these consumers become adults and the option of playing games of chance becomes available to them, they will not suddenly stop enjoying multi-player games and switch over to traditional lottery games. The consumer will want games of chance that resemble the games they enjoy. This demand will be met by somebody. The traditional suppliers of social games like Facebook and Zynga will meet that demand with games that add the chance to win real money or prizes with their social multi-player portfolio of games. Lotteries need to do the same thing from the other side – integrate social and multi-player attributes into at least a portion of their portfolio of lottery games.

The technology, consumer demand, and even the game content is already there to integrate games-of-chance with multi-player formats. The only bottleneck to merging the two is regulatory and legal restrictions that apply to all games-of-chance. This is good for lotteries since it creates a formidable barrier for the non-money game content providers and distributors to overcome. There are also constraints to the kinds of games that lotteries can offer and that is a barrier to entry. But from a regulatory perspective, it is much easier for lotteries to move into the social gaming space than it is for social gaming operators to move into the games-of-chance space. On the other hand, it will take years for lotteries to acquire the knowledge, business skill sets, and content to be competitive in the multi-

...continued on page 58

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MARK SIX

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.



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Dianne Thompson

Group Chief Executive Camelot Group
Operator of the UK National Lottery

PGRI Introduction: What a special time to be talking with Dianne Thompson. It is July 30 and the Olympic Games have just begun. And the sun is shining in London!

British Olympic Association Chairman Colin Moynihan explains "What you can say about the funding that John Major and the lottery has delivered is that it has provided a platform for athletes with outstanding talent to deliver personal bests. It has enabled athletes to be surrounded by quality coaching and all the support staff that are necessary to assist that athlete and in some sports the technology, to go through." The UK National Lottery has been linked to the Olympics financially (by contributing over £2 billion to the Olympic & Paralympic Games), culturally (by way of the groundbreaking advertising campaign "National Lottery – Life Changing"), and with the players (by creating 100 UK millionaires, on the night of the opening ceremony of the London 2012 Olympics). The UK National Lottery's support for London 2012 serves to reinforce the special place it has in the hearts and minds of the public.

Consolidating this positive public image has been integral to the long-term brand management strategy that contributes so much to the success of the UK National Lottery. Camelot Group, operator of the UK National Lottery, is also among the most progressive at building the multi-channel approach that represents the future of lottery distribution. One key to increasing land-based retail sales? Sell through multiple channels! The path to success is not always intuitive. Fortunately, there are more and more success stories like this that form the basis for a solid portfolio of Best Practices for everyone to learn from.

Paul Jason, Public Gaming: *Camelot seems to have won the hearts and minds of the general public, your political constituents, and the general media. It wasn't always that way, was it?*

Dianne Thompson: No. You'll recall that back in the late nineties there was lots of negative publicity surrounding the National Lottery. Our first order of action was to work hard to change our image. Perhaps it worked out for the best since the maintenance of a comprehensive communications program started out as a top priority by necessity, and remains that way today because it continues to support our corporate mission. Now, surveys indicate that the National Lottery is up there with the British Army in terms of being a trusted institution in the UK. But that's the end result of a really concentrated team effort. And it doesn't happen overnight or by accident. We continue to work very hard to build good relationships with the media and with the Government. That doesn't mean we get positive comments and press coverage all the time. But at least everyone understands who we are, what we do, and that we are crystal clear on our mission to serve the public interest. And that's because we work hard to integrate that fundamental message into all of our marketing and PR communications.

Congratulations for raising £750 million (U.S. \$1.17 billion) for the Olympics!

D. Thompson: Although we raised £750 million through specially-designated games where people play and know that the money is going to London 2012, the lottery actually raised £2.2 billion (that's U.S. \$3.43 billion!) that went directly to support the Olympic and Paralympic Games. It's the first time ever in the history of the Games that significant funds were raised by a lottery to support them.

London and other cities actually bid for the right to host the Olympic Games. I would think there must have been a discussion in which you were asked what the lottery could do in the way of financial support. Was there a commitment to raise that amount of money,

and did that actually influence the bid that the UK was able to put forth?

D. Thompson: There was indeed. Tony Blair and the Department of Culture Media and Sport asked how much we thought we could raise. And yes, our commitment to raise £750 million was a material consideration and gave them the confidence to put in the winning bid. The public was made aware of what The UK National Lottery does to support good causes, the media gave us excellent coverage for our efforts, and important people like former Prime Minister Sir John Major publicly voiced their appreciation for what the Lottery does to raise money for the Games. And often, comments like those from John Major are followed with further remarks that recognize the valuable role that lotteries perform in a broader context, praising the concept of lottery itself. So The National Lottery has enjoyed the benefit of great publicity and recognition for its role in raising funds for the Games. And of course, we do what we can to capitalize on the momentum of positive press like this.

There is such a focus on mega-jackpots as being the driver of sales. If the basic promise of lottery is the possibility to "change your life," then I would think that changing lots of

lives with smaller prizes should command as much media attention as changing one life with a giant jackpot. That's why I am especially impressed by your promotion for the Olympics of creating 100 millionaires.

D. Thompson: We have literally just had the best week ever, with sales of over £200 million in one week. There were many factors that contributed to that, but our 100 UK millionaires promotion was one of the big reasons for this success. On the night of the opening ceremony of the Olympics we created 100 UK millionaires. On that Friday, we had a record sales day.

That is phenomenal. It seems like a takeaway from this is that everyone rallies around someone willing to commit themselves to a stretch goal.

D. Thompson: It is hard to imagine without being here, Paul. It was announced in July 2005 that London had won the bid to host the 2012 Olympic and Paralympic games. The very next day after the announcement, we had a terrible tragedy, the 7/7 London bombings in which many people died. Quite understandably, the entire mood of the country shifted from the excitement of the Olympics

to the sadness of the tragedy. There was even concern that in these difficult times maybe we should not be engaging in the celebration of Olympic sports competition. That is why it is such an incredible feeling to see the spirit of the country now, and we would like to think the whole world, lifted by the experience of the 2012 Olympics.

Yes, people do rally to support the efforts of those who are working hard to make the world a better place. But our commitment to raise £750 million was an informed business decision to embrace a stretch goal. We knew that we would need to get everyone on board, and that the synergy of support from our political constituents and then the media and then the general public would enable us to make it. And from a business point of view, we also knew that the process of reaching out to get that support would yield great publicity for The National Lottery, reinforce the positive image of the Lottery, and further integrate the Lottery into the fabric of popular culture. But for all that this country and the world have gone through, I wish that everyone could get the sensation of what it is like to be here in London right now. Of course, it helps that the sun is shining which

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isn't always the case in London!

Does being a commercial company give you more flexibility to apply a more entrepreneurial risk assessment model, one that weighs the pros and cons and is able to take a calculated risk to embrace a stretch goal, even when based on incomplete information?

D. Thompson: Yes it does. Firstly, along with corporate social responsibility, innovative thinking is at the heart of everything we do. For example, at the end of the term of our second licence, in January 2009, 60% of our sales in that year came from new initiatives, such as EuroMillions, and other channels that we did not even have at the beginning of the licence term just seven years prior. You look at the successful businesses in the commercial world, and they are all reinventing themselves on a continual basis. Creating new products, opening new lines of communication with the consumer, building new channels of distribution to make the products more accessible, etc. We don't see ourselves as administrators of a lottery organization. We're a sales and marketing company underpinned by technology that just happens to be selling and marketing lottery products. And that brings a whole different mindset to it, Paul. Our reward in terms of profit is quite small, just half a percent of sales. Lottery operators are in just as strong a position to take calculated risks as are the commercial companies, like Apple and Virgin and countless others which do so to great effect. In fact, we owe it to our stakeholders to go for stretch goals just like any well-run sales and marketing company should do. Of course we need to hold ourselves to ever higher standards of corporate social responsibility. And we must comply with a stricter regime of government oversight. But really, all companies are going to be required in time to meet these same standards. So I just think we have the jump on them by learning how to achieve ambitious business goals within a framework that includes these other public policy considerations.

I would add that the serious innovator also employs serious risk mitigation tools. There's no pride in the willingness to take risks. We work very hard to always minimize the risks associated with ambitious business objectives. We may get things wrong sometimes, but we learn from that, we re-assess and revise the business plan, and always move forward. And there's always a contingency plan – Plan B!

The "National Lottery – Life Changing"

ad' campaign is a great example of how you combine a variety of different objectives into your market messaging so that you really optimize your ad' spend. In this one, for instance, I can identify at least three powerful messages. First, as publicity for the good things that the UK National Lottery does for society. Second, as the player-centric message of how exciting it would be to be a winner. Third, reinforcing for the consumer that playing the lottery is a wonderfully philanthropic activity that supports athletics and other Good Causes. And as a bonus, all your campaigns seem to garner general press that further promotes the lottery and its products. The end result is that players play, the general public likes and respects what you do, and I would think this recommends you to your political constituencies whose opinions can be so influential.

D. Thompson: We all know that people play to win – they don't play to give money to good causes or charity. But there's no doubt that the knowledge that the profits go to a good cause does have a positive effect on the public's view of the lottery, and subsequently the players' desire to play. Look at the lotteries in the U.S. that are closely associated with one good cause. They incorporate that cause into their brand and all their messaging. Georgia and Tennessee are two top performers and everyone knows that their lottery supports education. In Pennsylvania, it's a senior citizen program. Their good cause is a very powerful part of their messaging. I think it's slightly more difficult for us because we have 13 individual distributing bodies at the moment who are in turn giving money out to a whole variety of worthy projects: sports, charity, art, heritage, lots of different causes that would have a very hard time getting funding elsewhere. And so we don't have one message. In fact, that's why it was particularly valuable for us to launch the 'National Lottery – Life Changing campaign' and be involved in the Olympics because it is so newsworthy and high profile. I do think lottery's role as a public service is a very important message. It's one of the many things that makes lottery different from gambling organizations.

You can think of the communications agenda as being split between the strategic goal of building the overall brand and the life changing potential that lottery represents, and the tactical matter of appealing to the players with an emphasis on 100 millionaires and big jackpots and the information advertising about what's going on and what games are out there and where the money goes.

You have been very successful at developing the multi-channel approach that utilizes the internet and mobile as a sales channel. Sales have been growing the fastest in the internet channel, but they continue to grow in your land-based retail channel as well. How do you, or did you, defuse the anxiety that retailers have that they might lose sales to the internet?

D. Thompson: We engaged our retailer partners from the very beginning. We have something called the retailer forum that enables us to share our upcoming plans with our retailers and get their input into them. The forum is held three or four times a year. We showed them how land-based retail and interactive channels like internet and mobile actually complement and reinforce one another. Sales aren't switched from one channel to another. It just does not happen that way. Last year we had a record year, with over £6.5 billion in sales and everything was up, including our retailer business. We worked very hard with our retailers to make sure their offering is executed as well as it could be in the store. I think one really interesting fact is that the player who plays in both the retail and in the interactive space, spends more money per week than the player who only buys in retail or only buys in interactive. Those multi-channel players are actually more valuable to the retailer than the players who only buy at retail. It's also possible that our retailers became more engaged in our products because they knew the consumer now had alternative ways to buy. The retailers raised their game, paid more attention to the Lottery, improved their POSs, and made sure that they offered the consumer more choices. Of course, that's a good thing for everyone – the consumer benefits as does the operator and the retailer.

What were some of the specific things you did to help your retailers succeed in the multi-channel environment?

D. Thompson: It was frankly part of our third licence commitment to install new terminals, new dispensers, digital media screens, new training, etc. All the stores got a major refresh and upgraded POSs at the time that corresponded to the launch of our interactive channels. That was with the original 27,500 stores. Now we're up to 30,000 stores. Culturally, the UK is not a nation of sellers, we're a nation of servers. Napoleon called us a nation of shopkeepers. So we have invested a lot of resources in training our retailers how to sell,

...continued on page 54



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Walter Bugno

President & Chief Executive Officer
SPIELO International



Paul Jason, Public Gaming: *ATRONIC and SPIELO have integrated to become SPIELO International, and now GTECH G2 is under the SPIELO International umbrella. To what extent does this serve an internal management structure objective (perhaps because they want a great executive to lead all three); or is it serving a strategic purpose to bring these different game categories together?*

Walter Bugno: It's not about me or about internal management structures at all. It's all about serving the customer. The first step in this process was to unite the SPIELO and ATRONIC brands. The purchase of ATRONIC was completed in 2008. At the time, ATRONIC was perceived as a supplier to commercial gaming markets and SPIELO the supplier to the government gaming operators. The acquisition made sense because it enabled us to leverage the strengths of each to create a superior product. Operationally, there were many logistical synergies that derived from integrating ATRONIC with SPIELO. Merging the functional business divisions of manufacturing, sales, marketing, administration, etc., created significant cost savings that were re-routed to market research and customer support. In the end, it's about allocating resources to deliver maximum value to the customer, and that is what all our efforts are geared towards.

We kept both brands, ATRONIC and SPIELO, for a while because they each had value in their respective market segments. But then we immediately set about the business of integrating the technological and product development assets so that all the customers, both the commercial casino operator and the government-gaming operator, would enjoy the benefit of the very best we had to offer. Once that was completed, there were no longer any material distinctions between the two brands with regards to technology and product development. Coincident with that, the markets are evolving such that the distinction between commercial casino gaming and

electronic games for government-sponsored gaming are less relevant than they may have been at one time. In many ways, the markets are much more varied than they used to be, so to think of it as separated into just the two markets no longer served a purpose, or helped us to serve our customers. The markets are more varied from a brand management point of view, but the requirements of the different gaming sectors were converging, especially in the sense that the commercial sector wanted the increased functionality that comes from a server-based platform. The higher standards that government applied to reporting and auditing are being required by everyone now, and the technologies behind this kind of server-based system now are being used to support increasingly sophisticated Customer Relationship Management and marketing programs. For one thing, more and more governments are expanding into the casino sector themselves, as well as the distributed venue model for electronic games. It made sense to make SPIELO's advanced central monitoring and player account management systems available to all our customers everywhere.

Is SPIELO International able to assimilate and move into the commercial casino gambling space that was previously owned by ATRONIC?

W. Bugno: We've already done that in a big way. Our growth in Europe last year, in a tough economic environment, was 35%. This year we're growing at an even faster rate. In South America, we doubled our business last year. This year we're not quite doubling again, but very close. Our North American presence in the casino sector is growing and we've entered aggressively into what we call the recurring revenue business in the casino sector. Recurring revenue refers to gaming machines, systems or content placed in market for compensation over time. We retain ownership and receive a fixed fee or a percentage based on performance of the machines or game content. In this model, opera-

PGRI Introduction: The gambling industry has come around to being fully player-centric and market-driven. Gaming operators all around the world are looking to their commercial partners to enable them to deliver the gaming experience that will delight the next generation of consumers. The challenges are many, but the industry is rich with potential to innovate, add value, and enhance the player experience. Regulations are evolving more quickly than ever, but technological capabilities continue to increase at an even faster rate in a race to keep up with consumer expectations. SPIELO International has been at the forefront of all of these trends. Their server-based platform is an industry leader and positions them to meet the needs for a wider variety of operators than ever. Their focus on the player, and developing the game content that consumers want to play, is winning new contracts and driving double-digit growth in all sectors. Next up: integrating internet and electronic gaming technological platforms to deliver the ultimate in a multi-channel gaming experience. The consumer is ready for it, and now the industry is ready to deliver it.

tors appreciate not having to outlay a lot of capital upfront while reaping the benefits of the product's or game's performance.

So we are starting to see the fruits of our focus on developing great content, because that's what drives the business. It is all about giving the players the games they want to play.

There is a convergence of product between the two sectors as well. About 78% of our product is common to both the casino gaming market and the VLT market. A lot of the games that we developed either for the casino sector or for the VLT sector can now be ported across each sector with some minor changes. Play styles and motivations are converging. All of this has led us to change our focus from traditional distinctions between casino and VLTs, with a greater emphasis on building an intimate understanding of what players want, and delivering content and products based on that.

Why put G2, the internet gaming division, under the SPIELO International umbrella?

W. Bugno: The decision to bring GTECH G2 into the SPIELO International division was driven by how we interpret the oppor-

tunities and the needs in the marketplace, and how we think we can leverage some of the great assets that we have across our three different business units to better serve our customer. Keep in mind that ours is a B2B business. Our customer is the operator, not the consumer. Our ability to serve the operator is greatly enhanced by being able to integrate electronic games and internet gaming. And the need to do that is being driven by the consumer.

The consumer is now interacting with gaming operators on many different levels, in many different venues and media. Operators need to be where the consumer is, and so are moving into all varieties of venues and media. Operators depend on their commercial partners to support their efforts to deliver value to the consumer, and that means having their games available wherever the players want to play. That includes the internet, casinos, and distributed gaming venues. That's why integrating our GTECH G2 internet gaming assets with the electronic gaming assets of SPIELO International is the logical way to support our customers' needs.

We are finding that it is not just about efficiency and cost savings that yield more

funds for market research, customer support, and product development. It is also about integrating the products and services together to deliver a better player experience. As we channeled more investment into market research to better understand the players, we began to discover more and more ways to innovate with our products and improve the player experience. That resulted in more funding for R & D so that we could build the next generation products and keep our customers ahead of the curve.

You're winning new contracts every month, so the strategy appears to be working.

W. Bugno: Absolutely. Combining GTECH G2 interactive with the land-based electronic games business is yielding tremendous synergies for our customers and resulting in quite interesting improvements to the consumer experience and the ability of the operator to turn an anonymous segment of electronic games players into a loyal and connected customer base. We are finding that this convergence of channels is yielding huge benefits to both consumer and operator. The consumer wants access to the

...continued on page 60

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PGRI Introduction: The advent of internet gaming introduced a whole new magnitude of regulatory issues. After almost twenty years, the lotteries and member states of the European Union are beginning to see the light at the end of the tunnel. The EU Commissioner for Internal Markets, Michel Barnier, recognized the need to update and rationalize the requirements placed on EU member states to comply with European law. The European Parliament has stated clearly its position that matters of regulation and taxation should be determined at the member state level as opposed to the EU level. The EU Commission and the Courts have come around to recognize that member states' rights to self-determination can co-exist with EU principles and are acting to clarify the rules accordingly. Now comes the Next Big Thing that will require a new layer of regulatory action: Social Gaming. It will not be long before games of wagering and chance that are applied to social games will become available to the public. The need to effectively regulate and tax this new gaming category will be both problematic and imperative. Philippe Vlaemminck has been at the center of all of these issues for twenty years. With a perspective informed by representing the Government of Belgium in most of the cases decided at the European Court of Justice in Luxembourg, as well as several individual Lottery operators in the EU and the European Lottery Association in the EU regulatory debate, Philippe has always worked hard to engage all of us, all the stakeholders of government gaming, in the effort to defend the regulatory model that supports the cause of government lotteries. Talking with Philippe at the "Industry Days" conference in Amsterdam about the ways in which regulatory frameworks will evolve to address the new category of social gaming turned into this interview that clarifies the foundational principles of EU laws.

Paul Jason, Public Gaming: *We know that EU member states have the right to control gambling for the purpose of protecting the consumer, preserving "Public Order." But as a legal matter, is the EU Commission still conflicted over the issue of whether a member state has the right to control gambling and lottery for the explicit purpose of channelling economic benefits to good causes that benefit the public.*

Philippe Vlaemminck: The precise application of the law can come down to the specific wording that is used. That is especially true as it relates to the issues of gambling regulation in Europe. The whole concept of the European Union is to support a free market system that ensures cross-border trade, open competition, and freedom of establishment. It was in 1992 that the European Court first addressed the question: to what extent should lotteries be allowed to be operated in an environment that restricts free trade and commerce? The Court decided that it is alright to use a government lottery for the purpose of preventing private profit from gambling. The government is allowed to have the monopoly

model for its own lottery and channel the profits back to government and good causes for the purpose of preventing excessive gambling and illegality in the market-place. That rationale is not inconsistent with EU laws that require free and open competition in the market-place because, in effect, the public policy objective is not to produce a profit or serve an economic interest group, but to prevent criminal enterprises from profiting in an underground market. If, however, the sole and actual purpose of preventing multiple operators from competing with the government lottery is only to enable the government to maximize the profits to good causes, that is not legal under EU rules. The European Court of Justice decided that using the lottery for the sole purpose to maximize economic benefits to good causes is inconsistent with EU laws that require all member states to allow free and open competition. That is why, from a legal point of view, the non-economic value of lottery prevails, like its role of preventing illegal operators from profiting from lotteries, or like protecting the consumer and preserving Public Order. In our European



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legal terminology, it is illegal for lotteries to focus on the objective of maximizing economic value to good causes. However, if in the course of producing non-economic value like preserving Public Order and preventing illegal profiteering in the market-place, an ancillary result is that funds are produced that end up going to good causes, then that is not illegal. Equally it is acceptable to decide that no private profit can be made from gambling. These legal distinctions may seem semantical, but they are quite material to the whole issue of regulation and taxation in the European lottery and gambling markets.

Advocates for the license and regulate model contend that commercial companies are just as capable as government operators at implementing whatever standards of responsible gaming are required, and for complying with any and all other standards of performance for that matter.

P. Vlaemminck: The thing is, those standards of performance need to be quantifiable, and indices of performance measur-

...continued on page 50



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U.S. Internet Initiative in Action

BY JENNY CANFIELD, DIRECTOR OF OPERATIONS
MINNESOTA STATE LOTTERY



The lottery industry is fortunate to have such strong networking and informational venues to exchange upcoming initiatives and strategies. Together we learn more about the possibilities and potentials as we plan for the future.

This is especially important during a period when state governments and beneficiaries need more funding. Lottery operators are in the position to help with that objective and we are pleased to do everything we can to exceed expectations. We strive to always be improving the value of our products, to make our products available wherever our consumers might be, and to integrate new technologies and business tools to increase sales and funding for our beneficiaries. The Internet is the most transformational technology of the last twenty years. It's a communications medium and an e-commerce channel which this multi-billion dollar industry simply can't afford to ignore. Having an internet presence that is informative, engaging, entertaining, and fun is an important venue to connect with our players and to further grow sales. It is already being used as an extension to the traditional Lottery sales for lotteries all around the world as well. Let's learn from their experience.



WHY IS THE INTERNET SO IMPORTANT?

We know why we need to have an internet presence because we have been provided with countless statistics and confronted with abundant evidence of its success in other industries as well as in the lottery industry. Simply put: It's where our players are. It gives us a venue for a new distribution channel, new products (i.e. games), and the means to further engage with our players. It is not, nor should be, viewed as a replacement to traditional brick and mortar retailers. In the numerous markets where i-lottery has been implemented for many years (like Canada, Europe, and Australia), the Internet has pulled in completely new consumer groups and additional sales. And the sales in these established i-lottery markets are incremental. Land-based sales are not cannibalized. Creating the additional consumer connection actually helps retail sales. This is not theory. This is demonstrable fact, as evidenced by the increases in land-based sales in those markets mentioned above where i-lottery has been conducted for years. The reason for this is that the Internet is not just a distribution channel. It is a communications medium that forms the foundation for an entirely new level of Customer Relationship Management (CRM) which is so vital to the operator-consumer connection. And it is this connection to the next generation of consumers that is the future of this industry for everyone including, or perhaps even especially, our valued land-based retailers.

THE EVOLUTION OF INTERNET PRESENCE

Lotteries all have an internet presence already

- All Lotteries have an official Lottery website use for information purposes
- Over 30 Lotteries have Loyalty/Player club to further engage with their players and utilize player clubs as a promotional tool to grow sales

Social Media Statistics

- Over half the adult internet population is between 18 and 44 years old
- Social networking use among internet users over the age of 50 has nearly doubled
- Facebook
 - Over 800 million users
 - 53% of active users play games online
 - 56 million users play daily
 - 290 million users play monthly
- US consumers play internet/online games more often than any other type of video games



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U.S. Internet Initiative in Action

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- 2nd chance drawings
- Interactive Games used as a promotion for strictly entertainment purposes
- Over 20 Lotteries are utilizing Social Media to further engage with their players

The next evolution for many Lotteries is to utilize the internet to offer products – new games designed for the internet and to make the traditional products available for purchase over the internet. There are a handful of U.S. states that are already selling their lotto products over the internet. Those who have worked through the process, or are expanding on the process, know that it introduces many new variables that we have not dealt with in the traditional sales of traditional products. New strategies are needed to augment these new technologies for the potential to be turned into a reality.

THE PROCESS OF ESTABLISHING INTERNET SALES

Using Resources: The process in establishing sales on the internet in Minnesota was long, challenging, but productive. We tapped into our information resources – connecting with those that have done it before. At that point, even though there were only a few other states that were selling over the internet, their experience did provide valuable insight and some valuable guidance.

Strategic Planning: Planning what you want to offer players now while also clarifying the longer term goals and objectives is important. Just as with other Lottery products and business initiatives, you need to develop a strategy and specific actions plans. Actually, i-lottery is more complicated than other strategies as consideration must be given not only to the products but also the technology and a new realm of security considerations. And as with anything new, there are political and public relations considerations that must be anticipated and proactively planned for when launching or adding new services.

Integration – New Service and New System: When Minnesota launched subscription services selling Lotto products, we integrated SGI/MDI's subscription package to GTECH's host system. This required a great deal of planning and work to integrate both systems and ensure that it be done with accountability, efficiency and security. Fortunately, both SGI and GTECH were committed to working through this process together with the Minnesota Lottery and did so successfully.

It's also important to develop a system and process that has the ability to expand as we want to offer more products. The buzz-word for that is "future-proofing."

Internal Resources: Minnesota did not add additional staffing when launching subscription services. That is why it was imperative that we automated as much as possible. We also relied on expertise and support from our commercial partners.

Federal, State and MUSL Compliance: There are special compliance consideration when selling over the internet. Much time and effort was invested to ensure that we were in compliance.

- Age verification is critical – the process must be seamless to players and fully assure that players are 18 years of age or older.
- Geolocation capability is built into the system ensuring players are within the state at the time the purchase is made. While not legally necessarily, we felt it was important at launch to ensure that players have a Minnesota address. We also required self-verification that they have a bank account within Minnesota.

Responsible Gaming was an area that Minnesota put much time and consideration into before and during the implementation. Maximum spending limits were built into the system. Players are allowed to establish spending limits within system thresholds. There is a 'cooling off' period when changes are made. In addition, self-exclusion options are available for players.

E-wallet capability allows convenience to players purchasing over the internet. Players can make ACH payments through a financial processor. They may also use wallet funds (winnings placed in a virtual wallet) for new transactions. By statute, Minnesota does not allow credit card purchases so that was not an option. At the time, debit card transaction fees were higher which would have greatly impacted the return on investment. Recently, debit fees have been reduced, making it a more viable option on future enhancements.

Reporting and reconciliation is vital in ensuring that wagers and winnings are properly accounted for and that all security requirements are established.

WHAT'S NEXT FOR MINNESOTA?

Minnesota continues to expand on the convenience and offerings to our players using the internet. We are working on several enhancements in addition to positioning ourselves for growth opportunities when asked, approved, and feel it's the appropriate timing. Among the enhancements:

- Site refresh so that it has more of an e-commerce site flow where players can fill their virtual cart before having to log-in
- Gift giving capabilities within the site
- Promotional elements that can be used for second chance drawings and also to drive players to retail establishments
- Payment enhancements to include debit card purchases and other funding methods as it becomes cost effective and adding the capability of pre-funding player's wallets
- Real-time purchases

...continued on page 47

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technology is a game changer

Peter Economides
Brand Strategist

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I don't know anyone who would not want to win the lottery. But I don't know many who play the lottery. Wait. Let me rephrase that. I don't know many who speak about playing the lottery. Sorry but that is the truth. Winning is aspirational. Playing is not.

Now that's a problem. Because there's a lot of new competition for the lottery. And that competition lives online. Which is where most future lottery players spend an increasing amount of time. Not only on computers, but now on mobile devices too.

Your biggest competitor is tomorrow.
Is your lottery ready to face tomorrow?
Is your lottery future-proof?

Kodak. Remember?

Photography did not exist without the iconic Kodak logo. Kodachrome, Ektachrome, Plus-X, Tri-X. Thanks for the (fading) memories. Digital imaging killed Kodak. And smart-phones may put an end to digital cameras. Did you know that your iPhone 4S has an 8-megapixel camera? That's more than most happy snappers would have dreamt of owning just a few short years ago. Do you really need that new Sony or Panasonic digital camera? Probably not. It may not be as good as the camera that comes with your iPhone.

Technology changes consumer lives.

Changing consumer lives kill brands
and businesses that don't adapt.

Darwin. You've heard it all before.



"The railroads did not stop growing because the need for passenger and freight transportation declined. That grew. The railroads are in trouble today not because that need was filled by others (cars, trucks, airplanes, and even telephones) but because it was not filled by the railroads themselves. They let others take customers away from them because they assumed themselves to be in the railroad business rather than in the transportation business. The reason they defined their industry incorrectly was that they were railroad oriented instead of transportation oriented; they were product oriented instead of customer oriented."

Theodore Levitt in the Harvard Business Review, 1960. Probably the most influential treatise on marketing. Ever. Yet great brands continue to die. Entire industries continue to disappear because they fail to keep up with consumer needs as they evolve through technology.

I was born into a world without television. The "plywood box," which Darryl Zanuck, head of 20th Century Fox famously predicted, in 1946, would not last more than six months, came to South Africa in the late sixties. I cut my teeth as an advertising professional on television. Now I am grappling with social media.

Facebook. Close to a billion subscribers. One billion people (consumers all) who visit and post to their walls and the walls of friends with regularity. Not to consume content. But to par-

ticipate in a massive global community. People hang out on Facebook. And if Facebook was a country, it would be the third largest on earth. Behind China and India, but larger than the USA and Brazil and Russia and Japan and Germany and France. Combined. Facebook has more users than the entire internet in 2004. And if you think Facebook is a fad, think again. It's the tip of the iceberg. The entire internet is going social. With networking sites such as Twitter, Foursquare, Pinterest, LinkedIn, Instagram and more. Much much more.

If you don't have a Facebook account, then get one. Marketing in 2012 without social media is like marketing in the seventies without TV. Would you, could you, work in marketing without watching TV?

This social media thing. It's a misnomer. The phrase lulls marketers into the complacent position of treating this phenomenon as another medium, an alternative, perhaps, or a supplement to their promotional and brand building efforts on television and in newspapers and on billboards.

Think again. It's not about media. In fact, I personally doubt the efficacy of social media as a medium in the sense that television is a medium. It's about more than that. About a whole lot more than that.

Social media has caused a fundamental shift in the way that consumers think, feel and behave. And this consumer can make you or break you. Ask Gaddafi. Ask Mubarak.

Like, comment, share.

Everything has changed.

And nothing has changed.

It's just like the coffee shop.

A place where people interact.

Like, comment and share.

But this coffee shop is on steroids.

And some of the time they are discussing you. Your brand. Liking, commenting and sharing. And this affects what they think of you and your brand. In a way that is far more powerful than advertising. Because word of mouth has always been our strongest currency. And now this, too, is on steroids.

If you're not scared then you are not paying attention.

Because just when you think you are dealing with it, getting on top of it, along comes the mobile internet. Thanks to the smart-phone and the tablet computer. Instant connectivity. On

the move. Instant liking, commenting and sharing. Instant decision making. Instant purchase.

Welcome to the conversation economy.

Welcome back to the future.

Business needs to change. It's a question of survival.

Ask the record companies.

The digitization of music in the eighties, with the move from the vinyl LP to the Compact Disc, opened the way for a distribution system which the record companies had not foreseen. The internet. Rather than adapt their business model, they hired an army of lawyers to fight the web. Behind their backs, Apple established the world's largest record store. iTunes. A store which completely bypasses the costly physical manufacturing and distribution systems of the past. Today musicians upload music and consumers download it. Period. How much longer can the record companies survive?

The internet is already populated with thousands of digital gaming platforms. Platforms which meet the needs of gamers without any resort to the physical systems still used by the lotteries. Online forex trading. Online casinos. Online poker. And, most significantly, the so called MMOG's (Massive Multiplayer Online Games) and MMORPG's (Massive Multiplayer Online Roleplaying Games). There is much to learn from these platforms. Lesson one – they have a huge following amongst the 18-25 year old demographic. These kids are unlikely to revert to a simple numbers game called the lottery. No matter how big the ultimate prize.

On these platforms – win or lose – the game is aspirational.

Kids love playing.

Marketing Myopia revisited.

"The lotteries did not stop growing because the need for gaming declined. That grew. The lotteries are in trouble today not because that need was filled by others (online trading, online poker, MMOG's and MMORPG's) but because it was not filled by the lotteries themselves. They let others take customers away from them because they assumed themselves to be in the lottery business rather than in the gaming business. The reason they defined their industry incorrectly was that they were lottery oriented instead of gaming oriented; they were product oriented instead of customer oriented."

Forget it Mr. Levitt.

We have learned our lessons.

Peter Economides is a global strategic brand and communications consultant based in Athens Greece, but working worldwide for clients such as Beko, Coca-Cola, Heineken and the International Olympic Committee. Peter is a former Executive Vice President and Worldwide Director of Client Services at global advertising agency, McCann-Erickson and former Head of Global Clients at TBWA Worldwide, both in New York. At McCann-Erickson he headed up the \$1.8 Billion Coca-Cola advertising account. At TBWA he was part of the team behind the Think Different campaign which re-launched Apple in 1997. Peter is a native South African who has lived in Hong Kong, Greece, Mexico and New York.

INTRALOT – 20 YEARS



GROWING TOGETHER

The lottery industry has undergone fundamental changes during the past two decades and INTRALOT is proud to be a vital part of the process that shaped the new landscape of the sector.

It was in 1992 that a young and promising European company started its long journey. The ride was not an easy one, and it was the solid vision of its founders and the strong passion of its hard working executives that led to its success. Now, twenty years after its establishment, INTRALOT has managed to become one of the major players in the gaming sector, with presence on all five continents, and a name that is synonymous to technological evolution, excellence and sophistication.

The company's initial vision was to become a regional player, with the goal to become one of the leading companies of the gaming sector globally. Although that vision seemed distant in the beginning, it soon became reality thanks to the company's philosophy that entails a clear strategy, commitment to its goals, focus on the clients' needs, and a lot of hard work. The company's expansion started with its neighboring regions, identifying all new opportunities, with an early success in the Balkans and Eastern Europe. Then, INTRALOT penetrated the Latin America marketplace after seven years of hard work and determination. The next jump was to the US, considered the mother-land of gaming and a large, developed, and technologically advanced market. INTRALOT analyzed the US business context and identified its advantages and soon it won its first contract, much faster than anticipated. Central and Western Europe followed and the next step was the Asia – Pacific region, a very challenging area.

Innovation, the major driving force

One of the major driving forces behind INTRALOT's position in the global gaming sector is its constant focus on innovation. Innovation is in the company's DNA, since INTRALOT has invested right from the beginning in Research & Development, in order to provide to its customers the products and integrated services that would meet even the most demanding needs. INTRALOT is at the forefront of the trend towards widespread adoption of the most forward-looking innovation to enhance the consumer experience at retail. That is where the sales are being made, that is where consumer buying behavior can be influenced, and that is where INTRALOT excels at delivering the innovation that captures the attention and interest of the consumer.

Lottery evolves from a government bureaucracy to a market-driven business

During this period the gaming sector has started to take decisive steps towards the modernization of its operations and started to transform from a government bureaucracy to a truly market-driven business. INTRALOT's focus on results and constant improvement, not only of its pioneering technology, but also of its services, soon yielded impressive results for its customers. This is a never-ending process that continues to occupy the minds of the people involved in the lottery business who are continuously seeking to maximize the value for the benefit of their business, their customers, their beneficiaries, and their players.

Regulatory changes

Apart from the technological developments, the lottery industry experienced a paradigm-shift undergoing serious regulatory changes during the past decade. Market Liberalization, Privatizations and Management Outsourcing, Legalization, Online Gaming, and Social Gaming are currently on the agenda of the Governments and the Lottery Organizations worldwide and INTRALOT is always ready to support their endeavours with its sophisticated technology, operational expertise and know-how, as well as its revolutionary thinking.

Moreover, increased regulatory requirements such as the need to comply with security and integrity processes and to employ effective anti-money-laundering procedures have changed the lotteries needs. The provision of secure and fair lottery games to citizens is a matter of social responsibility and is of utmost importance to INTRALOT. Player trust is a key success factor that is directly related to Game integrity, Player asset protection, and Player privacy. Leveraging its advanced know-how in the development of cutting-edge products and capitalizing on its signifi-

cant experience in gaming operations management, INTRALOT offers to its customers fully integrated customized solutions that are highly efficient and absolutely secure.

Competitive Advantage

Since its inception, the company's goal was to become the most reliable and technologically advanced company in the sector. During its course, customer satisfaction remained at the core of INTRALOT's strategy and its flexibility and adaptability in meeting its customers' needs has led the company to the top. Currently, INTRALOT is a global leader and has the core capabilities, the infrastructure and the experience to deliver business-critical technology solutions. What makes INTRALOT's business offering unique is that INTRALOT is both a partner of licensed gaming operators and a licensed gaming operator in its own right, managing its own operations in several countries around the world. INTRALOT thus combines the experience of a successful operator with expertise in the latest technological developments in the lottery sector. Being a successful operator itself, INTRALOT has successfully developed all kinds of distribution channels and continues to do so, adjusting to the needs of younger demographics, so as to provide players with easy access to its gaming offerings.

From Retail Gaming to a Unified Gaming Experience

INTRALOT is the first company in the sector to truly understand the need to combine the traditional with the new channels and create a unified experience for the players. The company is the leading partner for those organizations that want to compete in a regulated competitive environment, offering a Universal Gaming Experience to their players. Its customers take advantage of the most robust, efficient, and versatile Unified Gaming Platform in the industry, which seamlessly combines the Retail, Mobile and Home Users, connects innovative Gaming Verticals, and offers unparalleled business support to the organization for optimal customer experience. This Multi-channel approach delivers access to the products whenever and wherever the consumer demands it, opens a network of communications media to bond with the consumer.

As an international trend-setter, INTRALOT has managed to create a new global business landscape and has grown together with its customers, shaping an exemplary and technologically-advanced sector. Looking to the years ahead, INTRALOT is ready to seize new opportunities and maintain its leading role in an industry that is rapidly changing and moving towards a fascinating era that is rich with challenges and opportunities.

The 20 years were only the beginning; the best are yet to come. ♦



Pall Palsson

Mobile Product
Manager, Betware

Betware

Paul Jason, Public Gaming: *Betware has extensive market experience in internet gaming, and especially in enabling lottery operators to sell their games online. The primary consumer connection for lottery has always been through land-based retailers. Don't we need to do a better job at integrating these two channels? And how is the internet channel being integrated into the land-based channel?*

Pall Palsson: Integration is absolutely key. Betware has 16 years of experience taking gaming operators online, and we are finding that there is a growing need for a more holistic approach to accomplish the kind of integration you are referring to.

One key to that is to think of the internet as more than just a channel for distributing products. It is also a medium for communication. And it is in that capacity that the internet is itself the vehicle that will tie all the channels of distribution together. The holistic approach really has two meanings. First, from an operations point of view, we need to build technological platforms that facilitate integration between channels and media. Second, from a consumer-facing point of view, we need to create a coherent user interface, one that enables the consumer interaction with lottery to be easy and transportable from one channel to another. We need to create a holistic consumer experience in which the players interact with the games and brands seamlessly across different channels.

Lottery tickets used to be sold exclusively through the retail channel (convenience stores, gas stations, grocery stores etc.) but many jurisdictions are now allowing operators to sell lotto through multiple channels including traditional desktop Internet, tablets and mobile phones. These new channels bring new opportunities to the table. And it's not just about the lottery operator's website. Media will merge with transaction-processing to create entirely new channels and categories of POS's. Like television sets. Even household appliances like refrigerators are being built to deliver the ubiquitous Facebook connection. All varieties of consumer electronics and appliances are potential POS's for lottery.

Many lottery operators are concerned that adding new sales channels may cannibalize existing ones, and that they would only end up migrating the revenue stream from one channel to another. Not to mention the ever difficult relationship with the retailers.

P. Palsson: Exactly. A good place to start is to ask the question directly: Why exactly should the operator add new sales channels? The answer is simply to increase convenience and access for the player, and that this increased consumer access does absolutely increase sales. The record is clear on that in all the markets where the i-lottery channel has been implemented. The record also shows that i-distribution of lottery products actually complements and augments the retail channel. Based on our experience land-based sales increase right along with i-lottery sales. Not at the same rate of course, because the existing revenue base is so big at retail. Betware's research shows that a lottery can achieve well in excess of 20% of its sales through the Internet channel alone without any evident cannibalization of its retail sales. And the internet is only one additional channel. We are now seeing a big increase in the sale of lottery games through the mobile channel with the main-stream adoption of smart-phones. And the smart-phone penetration continues to increase. As for the re-

lationship with the retailer, it's important to work with the retail network to educate them on the need for multiple channels. As game categories converge in the marketplace, retailers need lottery to maintain its strong consumer connection and that means leveraging multiple channels of distribution and media. There are tremendous opportunities for retailers in multi-channel environments as well, but that topic is rather expansive and probably needs its own article!

Increasing consumer access to the product clearly results in a net increase in sales. But still, how do you add distribution channels without cannibalization?

P. Palsson: There are two primary factors that make that possible: different channels appeal to different demographics and different channels appeal to players at different times during their day. As successful as it is, the retail channel has always represented a narrow sales opportunity. Peoples' habits have changed. They are always on the go and their time is more precious than ever – they shop online (even for groceries) or pay for gas at the pump without even entering the station. And they want services to “follow” them, always being close at hand. The same goes for gaming in general. Players want to buy at their own convenience, whenever and wherever they want.

A lottery that offers games for sale through an Internet channel in addition to retail stores can reach anyone who works at an Internet connected workplace for 8+ hours each day and everyone who has an Internet connection at home whenever they are at home. If that lottery also offers a mobile phone solution they can reach players at any time and anywhere. That is why the multi-channel approach increases overall sales with little channel conflict. The player can make a decision to buy a lottery ticket and act on that decision within minutes (or seconds on a smart-phone) at any time through the day, enabling lottery to truly maximize its marketing efforts and revenue by leveraging multiple sales channels.

Thinking of the internet as a medium in addition to a channel helps to understand why it needs to be leveraged as the anytime anywhere consumer connection. We are all so used to indulging our impulses and impatient with anything that dares to interfere with that impulse!

P. Palsson: Exactly – no missed sales opportunities because of lack of consumer access. We all know that playing a lottery is an emotional thing – often a spur of the moment decision triggered by an advertisement (TV, radio etc) which gets the player dreaming about winning (and spending!) the grand prize. So, it follows that if a ticket purchase is not a calculated investment but rather a decision of the heart regardless of the odds, it is imperative for the lottery to allow the player to “buy into” this dream within seconds of the ‘I need to get a ticket!’ moment occurring. Lotteries do exist to support good causes but the way they do that is to fulfill the business mission of selling the dream. ♦

Pall Palsson has been involved with various IT and game development projects working as a Product Manager and Senior Producer in the UK, USA, Canada and Iceland. He joined Betware in 2010 and leverages his experience to create and oversee the execution of Betware's Mobile and Lottery strategy. Pall holds a degree in Game Design & Development.

“We all know that playing a lottery is an emotional thing – often a spur of the moment decision triggered by an advertisement (TV, radio etc) which gets the player dreaming about winning (and spending!) the grand prize. So, it follows that if a ticket purchase is not a calculated investment but rather a decision of the heart regardless of the odds, it is imperative for the lottery to allow the player to “buy into” this dream within seconds of the ‘I need to get a ticket!’ moment occurring.”

U.S. Internet Initiative in Action

... CONTINUED

- Virtual Scratch games
- Full mobile capability
- Other gaming options being explored and considered

Continuous planning on both the Lottery and vendor side is essential for establishing and growing an internet presence. Developing the systems and strategies that will accommodate a diverse internet-driven customer base minimizes channel conflict and optimizes its long-term success.

This business will continue to be driven by traditional products distributed through traditional retail channels. That will not change

for the foreseeable future. The primary focus remains on Scratch and Lotto strategies and continues to keep traditional retailers a priority. Building strategies to grow their sales through strong product offerings, promotional elements, more distribution options such as vending, ATM, pay at the pump sales, and much more are essential. It's just that we need to multi-task and build for the future with new strategies to connect with the next generation of players

Our industry is in an incredibly exciting and critical period of expansion. So let's use all our resources to explore all the possibilities and to build that bridge to the future. Best of luck to those looking at moving to the next level! ♦



JUMBO LOTTERIES

THE RIGHT COMBINATION

Interactive Gaming Poised for Significant Growth in the Americas

John Wilde
Director Business Development
Jumbo Interactive



Since 1984, Jumbo has operated lotteries in another large southern hemisphere lottery market – Australia and the South Pacific. Beginning with a traditional lottery terminal system throughout 7 countries in the South Pacific, Jumbo leapt into Internet-based lottery sales in 2000 in Australia and since then has amassed plenty of experience with Internet lotteries.

Not all countries have adequate communication infrastructure to support high-bandwidth lottery terminal systems, so a practical approach must be taken to operate a system in these conditions. Fiji, for example, struggles to provide reliable ADSL connections resulting in retailers being forced to use low bandwidth dialup technology and store-and-forward software to ensure reliable lottery ticket

sales. Widespread flooding in Fiji earlier this year highlights the challenges that a lottery system must be able to withstand.

The trend towards Internet lottery sales is also helping to spread a lottery through less developed areas. The internet itself is a robust network that was designed in the 1960's to withstand even a nuclear blast and as such is ideal for developing countries. In fact many countries are jumping straight into modern 3G networks and avoiding the costs of earlier technologies. This creates an ideal situation for a lottery to adopt internet lottery sales to boost growth.

In Europe, the UK National Lottery now offers a full complement of 40 lottery games for sale through their website, the Canadian's have embraced the technology, in Australia lotto sales are available online through Oz Lotteries, and in the US the Illinois Lottery now offers sales of their Lotto products through the Internet.

2010 statistics establish Internet use in Central America at 27% of the population, and for South America 37%. While these statistics do not approach the penetration numbers other areas enjoy, the penetration of mobile phone use in both regions for adults aged 18 and older approaches 100%. Even though Smart phone penetration still hovers in the 15-17% rate, 80% of the non Smart phone users have mobile access to the Internet and use it regularly often to purchase products. Like Europe over 80% of mobile users prefer top up cards over annual contracts. When lotteries are reaching out for new customers the younger demographic is critical. Mobile technology helps you get in their field of vision but you need to engage them and keep them interested. Jumbo Interactive is launching a suite of interactive games and tools to bring the traditional draw game to life. Never again will the player just be presented with a grid of numbers, Jumbo's technology will send them on a quest and on the way they'll find random numbers that will hopefully make up a lucky ticket.

These numbers suggest that Internet gaming, with a strong mobile component, presents a real sales opportunity for lotteries in both Central and South America. The continuing shift in consumer purchasing habits and the rapid explosion of technology suggests that lotteries will need to move in this direction over the next several years to protect and grow their current market share.

Key to this approach is that the Internet and mobile programs must be designed to supplement, not replace, current retail operations. The program should be designed to protect their current retail operations and consumer base, while reaching out to the new generation consumer who prefers the shopping convenience that the Internet offers.

For the past 10 years Jumbo Interactive has successfully supported the continual operation of Internet and Mobile sales programs in Australia. In addition to our technical expertise and experience, we have developed extensive marketing programs to assist lotteries to rapidly reach their market and grow sales. From a technical standpoint we have successfully integrated our systems to work seamlessly with various back office systems, including GTECH's, and from an operations standpoint we have developed programs to integrate Internet sales into your existing sales program, without detriment to your current retailer network. Jumbo Interactive is a publicly listed company in Australia with a very strong balance sheet to support our clients' needs. ♦

The Engines of Innovation and Progress for Government Lotteries ...continued from page 12

advocate for working together to accomplish goals that we could never accomplish on our own. Isn't it interesting that our adversaries in the remote gambling sector all compete head-to-head with each other; and yet they manage to overcome their differences and work together to press their political agenda. Lotteries do not compete with each other, their business models are actually quite similar all across the world, and they all share the mission to serve the interests of good causes. And yet, the political influence that lotteries wield would be tremendously magnified if we could work together to assert our common agenda in the political and regulatory arenas.

And Thanks to Ray Bates for officiating Industry Days. There is no one better to keep things interesting. He manages to challenge the speakers and panelists to really stretch to deliver fresh and new and provocative, and do it without being contentious (well not usually too contentious anyway).

The theme that coursed through both Industry Days and NASPL's Professional Development Seminar is a new definition of "emerging markets". It's not about the "younger demographic". It's about "consumer trend-lines" that include **all** consumers. **All consumers** are on the internet and their smart-phones, all consumers are on Facebook, all consumers expect the increased accessibility that multiple channels of distribution provide. The "early adopters" that have traditionally driven the "emerging markets" have morphed into a mass market driven by widespread consumer adoption of forward-looking technology and modern lifestyles.

But much better than a review from me is to simply go to the EL website and read the detailed review of Industry days in the European Lotteries digital magazine at https://www.european-lotteries.org/data/info_2783/News_39_ENG.pdf. Too, check out the photos on the preceding pages from Industry days. This issue includes two articles taken directly from Industry Days. Marc Frederix (pg. 18) and Peter Economides (pg. 42) graciously turned their fabulous presentations into articles for us.

And check out the fantastic article in NASPL Insights that describes the issues addressed at the Professional Development Seminar held in July in Orlando. Best to go to their website, www.NASPL.org, and just click on the current issue.

Hope you are loving Montreal and WLS as I am! ♦

Visit the websites of the World Lottery Association and the four regional associations.

www.world-lotteries.org

www.NASPL.org

www.european-lotteries.org

www.asiapacific-lotteries.com

www.cibela.com

able. The public policy mission of channeling economic activity away from criminal enterprises and towards regulated and taxed enterprises requires an approach to business that does not readily lend itself to easily measurable objectives. Let's say the goal is to allow the promotion of games for the purpose of getting existing players who are playing on illegal websites to play on the legal and government-authorized websites. How do you draw the line between that and promotions that have the affect of over-stimulating the market, enticing consumers to play more in a fashion that is not consistent with the intended public policy? Either way, the operator is promoting the appeal of the games and making their products available to the consumer. If the fundamental purpose of a corporate enterprise is to increase sales, profits, and shareholder value, then the ability to find the nuanced distinction between those two different advertising agendas is difficult and requires a permanent search for a dynamic equilibrium between a controlled expansion and the need to aim at a genuine diminution of gambling opportunities as the European Court says. It may also be difficult for a government operator, but at least the mission and purpose of the organization is not conflicted. It can focus clearly on a mission that focuses on qualitative and non-economic value that is harder to measure, like genuine responsible gaming and corporate social responsibility values, just as much as it focuses on easily measured indices of performance that tend to be economic, like sales and profits.

The point is not that commercial enterprises should not be licensed to operate wagering games. The point is that the EU is based on the principle that if the sole and actual purpose of the enterprise is to maximize economic value, then the concerned government is not allowed to erect obstacles to protect the interests of any single enterprise, even if it is a lottery that is producing funds that benefit the public. As a matter of legality, lotteries need to serve purposes other than that to justify their monopoly model. And we need to demonstrate exactly how and why those other purposes, like protecting the consumer and combating illegal operators, are better served by the monopoly model than by a free-market driven model. We need to show how and why the goal of generating those non-economic values in the lottery industry is best served by application of the traditional monopoly construct. The alterna-

tive of licensing multiple operators would be a mission conflicted over the need to serve shareholders and the need to accomplish public policy objectives that are in fact at odds with the objective of maximizing profits for shareholders.

As a general rule, a pure market-driven approach has effectively united the goals of increasing shareholder value with the goals of improving quality and service that benefits consumers. This coalescence of interests creates the never-ending cycle that reduces prices, increases consumption, and by most measures, increases wealth and standards of living. That's good for almost all categories of goods and services. It's not, as the European Court's Advocate General said already in 1992, the right model, though, for gambling and lottery.

The position of the EL Association and ourselves is that regulatory decisions should all be made at the Member States (or sub-regional) level whenever possible, and especially as they relate to the protection of Public Order.

What is the current status of the efforts of Michel Barnier and the EU Commission for Internal Markets to rationalize the regulatory framework in Europe? Will they allow the member state to control the regulation and taxation of gaming and gambling?

P. Vlaemminck: In the most recent speech which he delivered to the European Parliament on the 27th of June, Michel Barnier said that the action plan of the European Commission in relation to online gambling will focus on a number of issues as consumer protection, protection of minors and vulnerable persons, the fight against crime and money laundering, law enforcement and cooperation as the protection of the integrity of sport. Finally, Commissioner Barnier insisted upon the need for the Member States to develop a consistent policy. Various points mentioned are already adequately approached by the EU Member States and do actually, in my personal opinion, not require further intervention of the EU. The Member States need to keep the essential competence. The EU does only need to help where the Member States can not properly resolve the problems by themselves.

Consistency is indeed one of the key elements in Barnier's approach. It is permissible to allocate profits to good causes, as long as you actually do that in the context of try-

ing not to maximize gambling activities, nor to (over)stimulate demand and consumption. Mr. Barnier indicated that the EU should be involved in establishing standards that pertain to consumer and player protection, responsible gaming and protecting against addiction, prevention of minors from playing, and serving other goals that minimize social costs and maximize consumer protection. I do personally think that we need to be very careful with this. The focus of the EU should be not over-controlling the taxation and regulatory model that the individual member state wants to apply.

Second, he wants to give special attention to the issue of fraud and money-laundering. He astutely recognizes that there are some matters that are in fact better addressed in an international framework and is leaning towards focusing on those matters and allowing the member states the latitude to deal with matters that do not require an international approach. Fraud and money-laundering, for instance, cannot be attacked on a national basis. They require an international cooperation. If criminality is abided in even one member state, it is very difficult for the others to prevent it from insinuating itself into their jurisdictions as well. These are some of the global issues that Mr. Barnier thinks should be the object of attention for the EU Commission for Internal Markets. We need to have an international agreement that will enable the enforcement of laws against criminality of any kind.

As regards to the regulation and taxation policies of the individual member states, he will require consistency. Laws within a member state must be consistently applied to all economic interests. Good Causes cannot be favored over other economic interests, and more dangerous forms of gambling (like slot machines) cannot be regulated in a less restrictive manner than less dangerous games (like lotteries). But unlike his predecessor, Mr. Barnier recognizes that consumer protection and preventing illegality are important and legitimate public policy objectives, and that the lottery model has served that purpose, and as long as governments stay very clear on the need to stay consistent with all EU laws, member states will be able to control their own regulatory and taxation frameworks. In September we are expecting to see more on this when the so-called action plan will be published.

It sounds like Mr Barnier has a thought-

ful and enlightened view. The importance of his role and influence cannot be overstated, so we are fortunate that the future of gaming regulation in the EU appears to be in good hands.

P. Vlaemminck: Correct. He is a much more realistic politician than his predecessor, distinguishing the matters that are best decided at the EU level from those that can and should be controlled at the member state level. It appears that he appreciates the clear political statements made by both the Council of Ministers in December 2010 and the European Parliament including on the specific role of Lotteries for society that as long as government lotteries have as their primary mission the fulfillment of non-economic objectives, they will be allowed to work within the monopoly model and the funds generated can be channeled to good causes. But of course, he is dealing with a broad spectrum of issues and not just that alone.

What exactly do you mean by "consistency"?

P. Vlaemminck: If the goal is to protect the consumer and prevent illegality, then over-promoting the games for the purpose of increasing revenues would be inconsistent with that goal and therefore illegal. The same applies to regulating various games in different manners whereby more dangerous games would be more easily available and less regulated than the least dangerous games. But for us, there is more. There is the Lottery model of operating games in a consumer friendly manner towards a large group of players, avoiding excessive gambling, but responding to the modern needs of society, combating illegal gambling and serving society, that we defend as the most consistent model. The best way to defend consumers is to defend public order and enhance law enforcement.

The French model, the concept of "controlled expansion" would seem to be precisely geared towards that goal.

P. Vlaemminck: Yes. As a market matures, consumer tastes evolve and new games become popular. As a matter of public policy, then, the government may decide that the underground activity is reaching a level where it is preferable to regulate it properly. The expansion of government into new games and channels is driven not by a desire to increase funds for good cause, but by a desire to protect the consumer and prevent criminal enterprises from profiting. Of course, the addition

of new games and channels of distribution needs to be advertised to make their availability even known to the consumer. And all of that is legal according to EU laws. It's just that if the level of aggressiveness to expand appears to be more for the purpose of stimulating demand and increasing revenues than for the purpose of protecting the consumer and fighting illegal operators, then that is inconsistent and not compliant with EU laws.

I think we can all get the meaning and intention of the idea. But won't everyone have a different notion as to how to apply it? Is the EU Commission going to be in the business of analyzing television advertising to see if it is too "aggressive"?

P. Vlaemminck: Fortunately, in general it is not that hard to draw the line and identify advertising that is too aggressive. But to your point, there will certainly be opportunities for rational, reasonable people to work out mutually agreeable resolutions.

How will these concepts apply to social gaming?

P. Vlaemminck: That will be an increasingly important question. Notice that Zynga states on its website that their players give \$10 million a year to good causes. Now, \$10 million when you have 250 million players is really nothing, and is especially nothing compared to what lottery does. But it is interesting because it indicates that these commercial operators realize that they need to have a public service orientation, or at least appear to have one.

Social games will pose some perplexing public policy issues. On the one hand, they seem to be non-threatening now; partly because they are free, but also because they seem to be more about entertainment than wagering. But think about it. Social games can be extremely engaging, holding the attention of players for long periods of time. I recently saw an advertisement saying, "We created the most addictive game in the world." That was in the context of a free non-wagering social game so the fact of being "addictive" does not have the negative connotation it does in the gambling world. But what happens when the layer of wagering is added to social gaming? I'm sure they will drop the reference to being the most addictive game in the world! But how much more difficult will it be for the operator to refrain from making games that are incredibly ap-

pealing, to the point of being addictive? In fact, think about it even within the context of controlled expansion. When wagering is applied to social gaming, shouldn't we expect the consumer to gravitate towards the most fun and exciting, even "addictive" games? This could pose some real challenges. That is why it is so important to have some of these basic principles in place now. They won't necessarily cover all the contingencies, but at least we will be in a position to work through it in real-time and not have the market run away from us and gain too much momentum before the regulations catch up. If Zynga-type social games were to be integrated into an online casino format, the potential for increased problem gambling could be very high.

Regulatory frameworks have always lagged behind technology and consumer trends. And it creates a huge breeding ground for illegal operators to get established before the governments have time to catch up. Won't this be even more of a problem when it comes to social gaming?

P. Vlaemminck: That is all well-understood in Europe even now. It doesn't mean the problems will all be solved, but at least the people in the position to shape public policy understand the importance of having a regulatory policy and means of enforcement that address the needs of the industry. The fact that internet gaming must be regulated is an accepted fact in Europe. So we will now include social gaming as the newest wrinkle that needs to be addressed. I worry that the U.S. is not responding to the need to evolve regulatory frameworks to be relevant to the actual state of the industry. Jurisdictions that do not have a framework for regulating and taxing the i-gaming industry will be ill-equipped to deal with the addition of the next layer of internet gaming, which is social. The complexity of it will be significantly greater, as will the potential for problem gaming and fraud.

To what extent will the adoption of social games follow the path that internet gaming has taken?

P. Vlaemminck: There are many similarities between what is happening now and what happened ten years ago in the internet gambling community – except that the companies involved now are well-funded and very sophisticated corporate enterprises like Facebook and Google on the distribution

...continued on page 53

brick-and-mortar retailers will continue to drive our revenues for the foreseeable future.

Maryland's implementation of casino gambling is gaining momentum and capturing at least some of the revenues of casino players that were going to neighboring states to gamble. How did it affect lottery sales?

S. Martino: Given that we have increased traditional lottery sales every year since the casinos opened, there has been no discernible impact. We sell lottery products in the casinos and use the forum in a minimal way to cross promote lottery to casino customers. We have ITVMs and Keno in the casinos. I had doubted that lottery sales would be significantly impacted by the casinos opening. Maryland residents had been going out of state to gamble for some time. They were exporting their dollars to Delaware, Pennsylvania and West Virginia. To the extent that there was any cannibalization of lottery sales and revenue, it likely happened years ago when the out-of-state casinos opened. Maryland casinos have been effective at redirecting the gaming dollar back into the state. Economists call this import substitution where the gambling money that residents were spending out of state is brought back into their home state. This is, obviously, a positive event because we want this state to benefit from them paying a voluntary tax. Specifically in Maryland, the state's share of casino tax revenues goes to support K-12 public education.

Our third casino, Maryland Live, opened in June. With 4,750 slot machines, it is going to be one of the largest casinos in the United States. With a facility like this, we hope to pull in some revenues from neighboring states just like they have been getting some revenues from Maryland residents.

How have monitor games come to be so important for your lottery? And am I wrong in thinking that they could be a key to increasing player-ship especially with the 45 and younger crowd?

S. Martino: I can't claim to have a full understanding of why monitor games are so successful in Maryland. I think that when Keno was launched, the lottery was aggressive about finding retailers to offer it. At the time, monitor games also posed some of the same controversy that i-lottery poses today for retailers. They are popular because they do facilitate a social gaming atmosphere, but the facility needs to have space for the

games to be played. Retailers that did not have the space were concerned that they would lose business to the bars, restaurants and taverns that did have the space to accommodate the game.

Monitor games became part of the entertainment culture in the state. It is interesting to observe the ways in which some locales really gravitate towards monitor games. The Eastern Shore of Maryland is extremely strong in monitor games. No one can say exactly why that is other than that it seems to have taken hold as an enjoyable way for people to get together and socialize. The success of Keno prompted the launch of a second monitor game concept with a horse racing theme called Racetrax. This, too, was implemented before I arrived. Racetrax totaled \$134.3 million in revenue last year, more than Powerball. Monitor sales increased by over 5% in fiscal 2012. Our sales staff has focused on increasing the installations of both monitor games in convenience stores and restaurants that only had one of the games. Now, many retailers have two monitors up, one that has Keno and another that has Racetrax.

A larger variety of games are being made available through an increasing variety of channels. Casinos, lottery, retail stores, Internet, mobile, etc. Won't this increased accessibility lead to the consumer trying different gaming options? Won't the lottery player who never once considered going to Las Vegas or Atlantic City be likely to visit Maryland Live if she lives just down the street from the casino? Won't the casino player be responsive to the appeal of the hope and dream if she is short on time and money this weekend?

S. Martino: The nature of casino gambling is different than playing the lottery. Lottery is a small wager against very long odds to win an extremely large prize. The Mega Millions jackpot of this past spring highlighted that point as clearly as any recent example. Compare that to the blackjack tables in a casino where the table minimums are often \$10 a hand and the play is rapid-fire. The buyer motivations and the play styles of these two activities do not overlap significantly. That doesn't mean that people can't enjoy doing both. They do. Our lottery sales at casinos are strong, but no one is going to the casino primarily to buy a lottery ticket. Most people are predisposed to one play style or the other but also enjoy a variety of activities, and I think that applies to gaming, too.

The tax rate that is charged to casino operators is 67%. That is higher than almost anywhere. Does that make it harder to deliver a good value proposition to the consumer and attract players?

S. Martino: The tax rate coupled with the downturn in the economy certainly created some challenges in the development of casinos in Maryland. But it's being done in a high quality manner. The Maryland Live casino is first class. They offer a good experience. Maryland casinos are or will be located in lucrative metropolitan markets and should be successful.

What do you see as the most important consumer trend lines in lottery and/or in gaming generally? And what do you see as the most important issues facing the Maryland Lottery?

S. Martino: The most important consumer trend-line facing the Maryland Lottery is this: We need to increase the appeal of lottery to the younger and socially networked adult population. In fact, we are starting with the more modest objective of just increasing awareness among this vital demographic group. We want to heighten their awareness of the lottery, what the lottery does to support good causes throughout the state, and change their perception to think of lottery as a game they would want to tell their friends about and as a compelling form of entertainment for their discretionary dollars.

Like many others, the Maryland Lottery has been focused on best practices and applying them to our own operations. We are now trying to bring it to bear for our retail partners, helping them to improve their lottery-selling efforts for their own benefit as well as the benefit of the lottery and the state. A specific initiative to accomplish that is the SalesMaker program that we're doing in coordination with Scientific Games. This is a program to first educate retailers on the impact that effective merchandising has on consumer awareness and sales. Second, we apply the merchandising principles to lottery, doing a makeover that demonstrates how the games can be displayed to create sales.

And lastly, we had an agency reorganization to better align the operating units. This reorganization gives all of us a much clearer sense of direction, purpose and a focus on producing the results that the state expects of us. ♦

side and Zynga, Electronic Arts, and an explosion of other software companies on the game content side. Listen to what they are saying. First, Facebook et. al. are saying that they are global companies and therefore it is not practical to expect them to comply with the rules of individual countries. It is frightening because Facebook, with over a billion subscribers now, is bigger than the combined populations of United States, Canada, and all of Western Europe. Next, as a matter of legal strategy and political posturing, they will

defend the rights of the consumer to decide for themselves how they want to spend their money and their time. And of course they are staunch defenders of free speech, so regulations will be represented as censorship. It is not too soon to get out in front on these issues and do what we can to inform the shapers of public policy of the need to address the need for regulation of social gaming.

Stanleybet is an operator that does not want to comply with the rules in Italy. Or

pay taxes. Same thing with Bwin which is refusing to comply with Belgian laws and regulatory policies. I don't understand how that works. I mean, how can these operators state outright that they have no intention of complying with the law and refuse to pay taxes?

P. Vlaeminck: The situations of Bwin and Stanleybet are not completely the same. Bwin is the driving force of the European

...continued on page 55

De-Constructing and Re-Building the Lottery Model ...continued from page 20

tors are. These competitors include not only the established gaming and gambling companies of this world, but new media approaches to engaging the consumer in gaming experiences.

Are we, as operators of lottery, up to the challenge of competing in this new media-driven environment? Legacy creates inertia, change requires momentum, and the two are rarely compatible. Government owned monopolistic companies often show a lack of agility and fear in-depth innovation. How can lotteries combine their obsession for quality assurance and 100% control and predictability with experimental innovation and continuous change? Lotteries will have to unlearn many of their legacy precepts of what is meant by value, gaming definitions, players, their monopoly, gaming interfaces and distribution. What has to be learned is the contemporary meaning for our players of pleasure, convenience, location, social media, social purpose, engagement, participation, accountability and reputation. We need more insights and precise understanding into why the consumer plays games. We know that gaming is a value-positive experience with the presence of hope. Games are a form of media themselves, and we must make sure that our product offerings are aligned to leverage the role of media in the games we offer and to appeal to the consumer motivations for social interaction, sharing, and communicating. We need to think of the gaming experience in the most expansive way, in the context of our lives which consist of intellectual, physical, spiritual, social, emotional, and occupational experience. We must enliven the lottery experience with something much more than the outcome of random numbers.

To be relevant for tomorrow's consumers, lotteries must understand players' emotional needs and motivations and offer a value proposition in line with these. It could be about location-based gaming and marketing – about networked connectivity and interactivity with real time communities. The gaming challenge and experience will operate at different and ever-changing levels. To go for engagement and participation of the millennials, lotteries will have to share their concerns and dreams. Social challenge and experience is key in this. The millennials do affiliate with and relate to "good causes," but they want to choose themselves to whom the funding is going. Joint social gaming is another opportunity for lottery innovation. But it's not enough to offer games that facilitate social interaction. Lotteries need to find ways to become holistic parts of the community. And lastly, lotteries and

their political constituents need to appreciate that the political nation-state is not as relevant as their social community which is bound not by political boundaries but by culture and life-style. The social affiliations of the current consumer are global and local at the same time, with little regard for jurisdictional and provincial perspectives.

Will lotteries and their partners/suppliers be able to develop the new Farmville, Angry Birds or Pinterest? To maintain a sustainable lottery model, we will have to invent and shape our own future, or others will shape it for us as we fade away. We will have to redesign and enhance our value proposition with fresh content, information and insights; and similarly transform the role of media in our delivery systems. Our ability to expand the value proposition through new layers of engagement, redefine the value we deliver to our core players and the next generation of consumers, tomorrow's players, depends on it. Lottery needs to de-construct our model and operations right down to the DNA level, and rebuild it in a process guided by these principles and consumer trend-lines.

The good news is that the brand value and mass-appeal that lottery has accrued is the envy of the entire industry. We just need to update it for the benefit of the modern consumer. ♦

'A little bit of happiness' en 'Close connection' have most potential amongst players



how to up-sell on lottery. We train them on how to ask the simple questions like "have you got a EuroMillions ticket yet" and "you know, the Lottery is going to create 100 millionaires tomorrow and the tickets are only £2?" Just like all lottery operators, Camelot does not have a lot of money to spend on sales promotions. So really optimizing the opportunity at the point of sale is essential.

Are your retailers given any kind of commission for sales transacted between the Lottery and the consumer over the internet?

D. Thompson: No. I do not think we ever considered doing that and would not consider it now. For one thing, don't underestimate the cost of selling over the internet. It does cost money to run an effective i-lottery operation. In fact, it costs more than people think until they actually do it. Lotteries really do not have the margin to afford to be paying retailers for sales they did not make. Also, if you pay land-based retailers for sales that go through other channels, you are actually undermining the retailers' resolve to do everything they can to make the sales themselves. Retailers need to stay very clear on the fact that the way for them to make more money is to sell more products, and we will help them do that. In fact, I will go on record as strongly advising against going down the slippery slope of paying retailers for online sales.

It is the draw games that have been your most successful internet product.

D. Thompson: Absolutely. The key driver of the internet channel is actually the draw-based games, not interactive scratch-cards. People might play other games at our online website. But they don't go online to play those games. They go online to play the draw-based games.

I should point out that our traditional product mix skews heavily towards draw-based games. We have about 70% of the adult population playing the draw-based games and less than 30% playing the scratch-cards. I would say that is a good thing for two reasons. First, draw based games generate higher margins for the benefit of good causes. I believe you would find that to be true just about everywhere. Instant games have higher prize-payouts and so generate smaller margins. So the operator would prefer for the product mix to favor the higher margin products. There's another important reason to focus on draw games. Instant appeal to players who care

more about prize-payout percentage than winning a jackpot that changes their life. That is not the sweet-spot for lottery. In the UK, there are numerous options for the gambler who is focused on prize-payout percentages. That's not our market. We feel that it is absolutely critical to keep our draw based games healthy and growing.

And your repeat activity or retention rate once the consumer has registered to play online?

D. Thompson: That's another benefit of the draw-based games. Not only has it attracted some new consumer groups who like to buy online, our retention rate is over 80%. That is very high and it's because our players come on the site to play Lotto or EuroMillions or Thunderball, one of the draw-based games, and they play those on a regular basis. It's not an impulse purchase like Instant tend to be.

Once the player registers, then you have the ability to communicate with them on a regular basis?

D. Thompson: We do contact them upon registration. But the player does have the option to opt out of future communication. But still, it is turning the anonymous retail consumer base into an interactive customer base, and sets the stage for developing a social media and networking agenda. We've got over a quarter of a million fans on Facebook, and over 60,000 fans on Twitter. An example of the influence of social media is the highly emotive "National Lottery – Life Changing" TV ads we did that featured the moving stories of Jack Jennings (The moving TV ad, 'Heroes Return,' hits TV screens on Sunday 4 March 2012 and has been inspired by the wartime experience of Private Jack Jennings. Thanks to money raised by National Lottery players, Jack has been able to return to Burma, where he saw active service during World War 2) and Jenny Meadows (The emotive TV ad, was inspired by the stories of real-life 800m runner, Jenny Meadows, and her mother, Barbara Meadows. Barbara had aspirations of being a runner, but was never able to realise her dream due to lack of funding). They got tremendous attention and people were coming to the site to just view the ads. We expect this kind of social media activity to play a very big role for The National Lottery in the years to come.

The UK market-place in gaming and gambling is the most competitive in the

world. Yet you continue to grow and prosper.

D. Thompson: First we do not think of ourselves as being in competition with gambling operators. We focus on serving the lottery customer who has a different set of buying motives than the gambler. Second, we embrace the process of continual improvement and innovation based on a Best Practices methodology, learning from others and learning from our mistakes. And third, let's not forget that we are in the business of luck! By that I mean that if we work really, really hard, then hopefully the sun will shine on us. On Friday, the EuroMillions jackpot got to £105 million. And then it rolled. Now that is lucky. But as the great golfer Gary Player said "the more I practice, the luckier I get." The key is to do 100 things 1% better rather than trying to do one thing 100% better.

I am looking forward to the World Lottery Summit in Montreal. You are moderating the panel on Corporate Social Responsibility (CSR) on Monday afternoon, September 10. It is interesting that you chair the Responsible Gaming committees for both the World Lottery Association (WLA) and the European Lottery Association (EL).

D. Thompson: You can see where my passion is! I think that the role of our industry associations is to promote Best Practices throughout the community of lottery operators. Security and Responsible Gaming are two areas where the associations have developed truly world-class programs and tracks for accreditation. I would encourage lotteries to use the resources of your industry associations to help you become the very best in our industry. That is the purpose of the WLA and the regional associations. Lots of lottery operators all around the world have become the pre-eminent gaming operator in their market, setting a standard for integrity and performance that will hopefully be expected from all gaming operators. But operational integrity is not just a state of mind. It is the application of management systems that ensure that the organization performs to the highest standards, and builds a sustainable business. The WLA and the EL and all the Regional associations welcome their members to participate in these programs and I guarantee they will contribute to the success of any lottery operator. See you in Montreal! ♦

Gambling and Betting Association, and is advocating for a kind of free European market, a pan-European regulatory structure that allows them to operate everywhere. Actually, they want the same thing for the entire world: a licensing model which is the best for commercial operators which means lowest taxation and less regulation. Belgium is of course a small country, but has a very consistent and well-reasoned regulatory structure that is compliant with EU rules and principles. Bwin complies with the rules of France, Italy, and Spain. In Spain, they even pay back taxes for revenues accrued before they were legal and taxed. Bwin is doing all that because Spain is a very big market and there is no alternative if they want to be legally licensed in Spain now. At the same time, Bwin uses Belgium as a country to challenge because it's not their biggest market, and they feel that a win against Belgium will set a favorable precedent that can be applied in other jurisdictions. Belgium is also the country in the lead in all cases at the European Court of Justice. That is why Bwin refuses to comply with Belgian laws. The Belgium Gaming Commission is enforcing its policy of black listing whereby the ISPs (internet service providers) are blocking illegal operators like Bwin. The Bwin lawsuit against Belgium is important because it will further clarify what is permissible under EU rules.

Is it effective?

P. Vlaeminck: It works quite well. Residents of Belgium can't access Bwin's websites. When you try to connect to the Bwin site, a page with a big "Stop" on it appears and the viewer is invited to click on a link that goes to the Belgium Gaming Commission where there is information about why the website is being blocked.

And Stanleybet?

P. Vlaeminck: Stanleybet is officially a UK company that was bought by Italians and so is now owned by Italians. Stanleybet's approach is to contend that the Italian legislation does not comply with EU laws. They have been very clever in the way they've done it in order not to be obliged to comply with the Italian legislation. They are attempting to create the impression that they are victims of discrimination. The reality is that Stanleybet operated initially without respecting the licensing rules. But they succeeded at hiding their illegal activities

and just claimed that they are being unfairly excluded from the market. Creating confusion over the facts is a typical strategy used by remote operators which do not want to comply with the laws and pay taxes. I think we can expect much of the same from the operators of social games.

So, Stanleybet is playing a game in which they don't really even want to address long term issues, they just want the legal system to drag out so that they can lengthen their short-term operating profits - and in the process maybe find loopholes that will enable them to be licensed in Italy?

P. Vlaeminck: Basically, yes. And Bwin is the opposite. They are a dominant operator in Europe and they don't really care about their short-term profits in Belgium because they aren't making any here. They're using the case in Belgium to try to establish a principle that can be applied to the markets where they do make money.

I read that Spain and Italy might forge a cooperative relationship on i-poker and maybe i-gaming. Is it realistic to hope that countries like Spain, Italy, France, Belgium, and others could come together and require that a condition of being licensed in one individual country is that you not be in violation of laws in any of the other countries that are a part of this kind of mutual agreement?

P. Vlaeminck: That is a principle that we and the EL Association are advocating for. The logic is that you cannot be a criminal and a good citizen at the same time. And each individual country should respect the rights of its neighbors by refusing safe harbour to criminals. I think it is already a reality to a certain extent. For example, the Belgium blacklist identifies companies like Bwin which are trying to enter the Belgium market in an illegal manner. The gaming boards of other jurisdictions are taking this fact into consideration. So these remote operators do need to consider the collateral damage of acting illegally anywhere. We are definitely pushing for that principle to become widely adopted. It's a simple concept. The operator must maintain legal status everywhere if they are to be sanctioned anywhere.

Is it likely that important jurisdictions like Spain, Italy, the U.K., and France can agree on a sweeping agreement like that?

P. Vlaeminck: Cooperation between

member states on gambling is only just starting to happen. It will take some time before you can actually define and agree to the exact terms of that cooperation. There are costs to it and many legal matters of international legislation that make it complicated. But the need for it is apparent, there is no reason it can't be done, and that's why I strongly believe that it will happen.

Is there a threshold beyond which the value proposition of the legal operator becomes so inferior to the illegals that the consumer is driven to accept the higher risk of playing on illegal sites? This is the argument of licensed operators in France and other markets to lobby for lower taxes.

P. Vlaeminck: Taxation is just one element of a regulatory framework and should not be viewed in isolation. You need to look at every aspect the industry and the marketplace. The kinds of games, the existing underground market, the enforcement mechanisms all interact with the public policy considerations about the kind of gambling market is best for a specific jurisdiction. Some states have a very high level of corporate taxation. Taxation and all other regulatory requirements are technologically enforceable. In Spain, operators actually were compelled to pay back taxes in order to receive a license. That is indicative of the enforceability of tax and regulatory laws and the fact that these operators would not have been able to do as well operating illegally. These operators do not like to pay taxes, so if they could have made more money operating underground, that's what they would have done. The level of taxation is a matter that is determined by each jurisdiction and should be considered in conjunction with a comprehensive regulatory framework.

But isn't the Denmark model based on the assumption that taxes must be low in order to attract the consumer away from the illegal operators?

P. Vlaeminck: I should acknowledge that I am on record as being in disagreement with the Danish model. It is an example of not looking carefully at the whole picture to come up with a comprehensive plan that addresses all gaming categories and channels in a logical way. Their system is out of balance because they have high taxes on land-based gambling and low taxes on internet gambling.

...continued on page 61

The Price is Right®
(Play with Todd Newton in Las Vegas)

The Wheel of Fortune®
(Hollywood with Pat and Vanna)

Run for the Roses®
(Kentucky Derby trip)

- Second chance promotions coming this fiscal year include:

Family Feud®
(Kiss the Host in Las Vegas)

Mardi Gras™
(Mardi Gras VIP Trip)

American Muscle™
(Build your own Muscle Car)

- In addition to using licensed property instant games, we took four lucky players on a shopping cart dash at the Points for Prizes warehouse in Chicago.

We are one of four states offering Decades of Dollars draw tickets. To Decades players, we offered a special second chance draw promotion featuring \$20,000 worth of Bass Pro Shops® gift cards and an outdoor adventure trip to Big Cedar Lodge® in Branson.

• Player's Club Statistics as of 7/2/2012:

- Players registered – 256,826
- # of tickets entered into club – 77,591,440
(27.3% of eligible tickets)
- Points booked – 1,303,094,264
- # of items redeemed – 108,541
- Value of items – \$12,978,209
- Points for Drawings- 20 draws and counting, with 4,684,338 entries for 62,886,450 points and total prizes given away were valued at \$229,044

Where do you go from here with Loyalty programs?

B. Woosley: The Arkansas Player's Club membership continues to grow, and we continually see untapped potential around every corner. The Arkansas Lottery Commission is excited about building on existing programs for increasing player satisfaction, maintaining and expanding our player base, and increasing sales. While continuing existing player opportunities, we'll next move

outside the box with promotions for terminal-generated games. We'll target not only products, but also their purchase price to qualify for second chance drawings. We are also focusing on Arkansas-produced merchandise (like Aloha pontoon boats, made in North Little Rock), trips within Arkansas (can we partner with Arkansas Parks?) and Arkansas events as experiential prizes.

We also consider our social media efforts (Facebook, Twitter, emails to Club members, Smart Phone apps), to be a strong part of the success of this program.

How do you measure success?

B. Woosley: The Arkansas Scholarship Lottery is growing. Our player base, our sales, and our scholarships are growing every year. The direct cause-and-effect relationship between our marketing efforts and the end results cannot be precisely measured. We do have statistical analyses in place that continue to convince us our Players' Club, Loyalty Program, and social media initiatives are contributing to our success and have a positive ROI.

The Arkansas Lottery has a mobile application. How does that work and how does it contribute to your objectives?

B. Woosley: We launched our first mobile application two years ago because we knew it would be a great marketing tool for our online games and realized that there was significant growth in the number of smart phone users in Arkansas. Since 80% of the users logging onto our website from a mobile device are doing so through an iPhone, we developed an application for that device first. Below are the main features of the iPhone application:

- 1 Display of online game winning numbers and jackpots.
- 2 Display of the closest lottery retail locations based on current geographic location.
- 3 Access to The Club/Points for Prizes websites.
- 4 Online game push notifications which allow users to create customized alerts of winning number results (received like a text message) each time a drawing occurs.

Through the application, we have im-

proved winning number communication of our online games and provided added value to our players through features like the retailer locator. To date, we've had over 17,000 downloads of our iPhone application and we see that number growing daily. We plan to continuously enhance the application; right now we're in the process of adding customizable jackpot notifications and are looking at integrating scanning technology so that players can enter tickets into our loyalty program more easily. We're also expanding our mobile footprint – we've recently added an Android application and are working on the development of our mobile website. Throughout the next fiscal year, mobile marketing will continue to be an essential part of our marketing strategy.

What is the future of the internet channel for the distribution of lottery products in the Arkansas Lottery specifically?

B. Woosley: The sale of lottery tickets over the internet is currently illegal in Arkansas. Whether that will ever change remains to be seen. As a staff, we are approaching this issue in two ways. First, we are monitoring what other states are doing with internet sales and making note of the successes and failures along the way. We want to be as informed and prepared as possible in the event that our law ever changes. Secondly, we are making every effort to place ourselves in a position where we can compete with bordering states that may implement internet ticket sales. We will use our social media websites and our players club website to introduce our players to interactive games for fun. We will also continue to evaluate our current catalog of instant and draw games to ensure that our players remain interested and satisfied with what we have to offer in Arkansas.

U.S. lotteries have made tremendous progress over the last two years. Two of the most important initiatives have involved the multi-jurisdictional jackpot games. First, cross-sell and then "more, bigger, better" Powerball. The results appear to indicate that the changes to the multi-jurisdictional jackpot games have been very successful. Could you assess the results of cross-sell and \$2 Powerball for the Arkansas Lottery?

B. Woosley: We introduced Mega Mil-

lions several months after Powerball in Arkansas. I believe that Mega Millions was still a relatively unknown game in Arkansas until the huge jackpot in March of this year. Before that, our Mega Millions sales lagged behind Powerball sales, even when the Mega jackpot was higher. Since that time, our Mega Millions sales have seen a steady increase. I think that increase is proof of the impact that a huge jackpot can have on a game. That jackpot made our players take notice and compelled people who had never purchased a lottery ticket in their life to walk up to a retail counter and ask for a Mega Millions ticket. I think the jury is still out on the Powerball price change. Our sales have increased, but our PowerPlay percentage has dropped and we have yet to see the jackpots grow to the projected amounts.

The future: What more can be done, either by your individual lottery, or by MUSL or the Mega group, to improve the performance of the two big games (PB and Mega)?

B. Woosley: The two big games are driven primarily by large jackpots. Obviously, we have no control over that. In light of the decrease in our PowerPlay percentage, I would like to see an add-on feature to Powerball and/or Mega Millions which would encourage the players to select the PowerPlay or Megaplier by giving the player a second-chance play or internet play opportunity. I think something along these lines is being considered by the groups.

In Arkansas, the players have shown an overwhelming preference for the instant games. Our sales for instant tickets in Arkansas are over 80%. Part of that is strictly based on the fact that our players prefer the instant gratification of knowing immediately if they won a prize. I believe the other part may be based on an intimidation factor where our players may not know how to play some of our draw games or know what to ask for at the retail counter. We have launched an initiative to educate our players on what draw games we offer, where to find a playslip, how to fill it out and how to play the games in general. We are introducing "how to" videos on our website and through our social media sites to educate our players about our draw games, including Mega Millions and Powerball. We have

also shifted some of the focus of our advertising from instants to draw games in hopes of raising awareness of the current jackpots and the types of draw games we offer. In mid December, we will be rolling out a new advertising display in 600 of our retail locations that will contain lottery controlled content such as our monthly instant game launches, jackpot alerts, winner awareness and any promotions that we may be running that month. We are hopeful that we will see a sales lift in those locations.

What do you envision as the next frontier for multi-jurisdictional collaboration?

B. Woosley: The National premium game obviously has been the focus of the group for some time now. The challenge has been to create a concept that everyone can agree on, which is not an easy task. Being new, I have not been privy to all of the development and discussion regarding this game. I am hopeful from what I have seen lately that the game will launch in the spring of 2013 and will be successful. Beyond that, I think the greatest challenge that we will face from a multi-jurisdictional standpoint is how to plan and create national-style games in the wake of the DOJ opinion. We now have a situation where states that have very few restrictions as to what games they can play or where they can play are collaborating with states that have a litany of restrictions as to what games they can participate in and how or where they can sell those games. The future success of the multi-state collaborations will depend on the member jurisdictions being able to find some common ground that allows all member lotteries to participate in the games.

What product, promotional, or distributional innovations do you expect to have the most impact over the next 18 months?

B. Woosley: Nationally, I am hopeful that the national premium game will be successful. In Arkansas, we will be launching the Natural State Jackpot in late August of this year. Since inception our players have been asking for a draw game in Arkansas similar to the Mega Millions and Powerball games. The Natural State Jackpot will be a 5 digit Lotto style game with 6 draws a week with an average jackpot of over \$150,000. We are hopeful our players will be drawn to this game based on their increased odds

of winning a large jackpot and the fact that the prize winners, more often than not, will be from Arkansas. And, as always, we will continue to pursue retailers from the Mom and Pop operations to the larger chains and big box stores. Increasing and maintaining our retailer base is the most sure-fire recipe for increasing sales.

The future: What do you see as the most important player/consumer trend-lines in lottery and gaming in general? What is the Arkansas Lottery doing to turn those consumer trend-lines into increased lottery sales?

B. Woosley: For Arkansas, our focus is on building a loyal base of repeat players. Our Player's Club has a tremendous impact on building player loyalty. We recently added draw tickets to our player's club and we hope that addition will drive our draw ticket sales in the same way it has impacted our instant ticket sales. In addition to traditional retail locations, in the future we need to find new ways to market and sell our lottery products to the generation of players in their 20s and 30s. The traditional lottery games of chance do not translate well to this generation. Our challenge will be finding ways to reach and captivate this generation with our products.

Which products or categories have the most positive trend-lines? Any surprisingly successful advertising or promotional campaigns to report? How will the results of 2011/2012 inform or guide your strategies over the coming year?

B. Woosley: The past 12 months have been a tumultuous time for the Arkansas lottery. In the course of two months in the fall of 2011, we lost our Director, both Vice Presidents and our CFO. Our record breaking scholarship proceeds and sales numbers are a testament to the quality of our staff. We are up across the board on both our instant and draw tickets. The biggest take I have from this past year is that our focus on educating our players about our draw games is working, that our instant ticket program is healthy and that our Player's club is having the desired effect of encouraging loyalty among our players. We will continue along that path and work to fine tune and tweak both our instant and draw ticket programs. ♦

player game space. If regulations were to evolve to allow the commercial operators in the non-money game space to add a wagering component to the games, they would have an incredible portfolio of games launched and available for public consumption in months. They already have them available and are applying for licenses in the UK, and probably elsewhere too. And they may find creative ways to accomplish their goals of combining social with games-of-chance. Lotteries need to do the same thing – find creative ways to meet the demand for multi-player games that include a wagering component that is compliant with regulatory constraints and public policy agendas. The window of opportunity could close at any time, and it is frankly hard to imagine that lotteries could catch up once Facebook, Caesars Entertainment, Betfair, Zynga, and the like get their foot in the door.

Isn't there the opportunity for emerging economies and markets to leapfrog a generation of technology and in fact be the early adopters of mobile and internet-based gaming?

B. George: Absolutely. Jamaica is a good example of exactly that. Cell phone technology became affordable for most everyone about ten years ago. There were approximately 150,000 active users in 2001. By 2008, that number had grown 2 million. So the fact is that the emerging markets actually are better poised because they typically don't have legacy infrastructure that provides some measure of service and that they have to protect. The impetus to leverage the technology platforms and infrastructure that already exists in mature economies can be the ball and chain that impedes progress and the adoption of new technology. It is, paradoxically, the very lack of legacy systems that frees emerging markets to evolve more quickly with the adoption of new technology and the new markets that they create, like mobile gaming.

In the past, developed countries sold their old technology to lesser developed countries. So the lesser developed countries were always one or two generations behind in technology. Now, instead of building or upgrading an expensive land-based wired communications system, emerging economies can move right into the wireless world. Emerging markets could become the early adopters of new technology. The implications of this are very interesting. Insofar as there are fewer market-based obstacles to adoption of new technologies, the

consumer markets are more flexible to evolve with the technology. This could enable the lottery and gaming markets leapfrog the mature markets. So I think that internet-based gaming could take hold faster in emerging markets than in mature markets. Apple Computer is an example of that. They were so far behind the market and their competitors in the late nineties that they had no choice but to invent the next generation of consumer electronics and user-interface.

Instead of playing catch-up, emerging markets could become the source of true innovation that will surpass that of mature markets that are potentially stuck in the past.

Haiti is a good example of this. Haiti is moving quickly from having a very limited technological infrastructure to being on the most advanced cellular platform. Mature markets continue to have cellular communications networks using older platforms like TDM, TDME, and GSM. The most advanced standard is now GPRS (Global Packet Radio Service, the basis for the "3G" network). The cost of acquiring new technology is coming down such that countries like Haiti can now afford to move straight into GPRS without having to figure out what to do about existing communications platforms. The irony is that Haiti will soon have a more advanced cellular communications network than the more developed countries.

One thing for lottery to worry about is that cell phone companies may apply for license to offer mobile gaming. It may sound unlikely, but the key asset in this market will be the customer connection and relationship. It would be hard for anyone to compete with a cell phone company that leverages its account list to enter the gaming business.

The lottery revenue of SVL increased by an amazing 28.15% in the first quarter of this year over the first quarter of last year. What can you tell us about the lottery business and this amazing growth trend that you've got going?

B. George: There are a few consumer trends that are aligned with our own actions to fuel this growth. The consumer wants more options, more game content. So we are giving the consumer what they want and increasing the rate at which we launch new products. Our cash-cow game, "Cashpot," was launched ten years ago and had two draws a day. That has now gone to four draws every day. We have acquired some of our competitors and added

games such as the Pick-4 and Pick-3 games, and been fairly aggressive in introducing new products. We are simultaneously implementing new games while increasing the draws of the existing games. I can't guarantee that the 28% growth rate is sustainable, but our revenue will continue to grow in double digits and not retreat from this higher benchmark that has been established.

I should also acknowledge that part of the increase is due to the depreciation of the U.S. dollar. When the Jamaican consumer gets more value for their Jamaican currency, they tend to spend more. Too, the prize payout for some of our games has increased. Our average game payout is now at 64-65%. So we have adopted a model that allows for higher prize payouts to drive consumer interest and sales. We believe that a pricing strategy that is flexible to respond to competitive pressure in the consumer marketplace is the best way to increase profitability. The margins diminish a little over time, but we believe that this is inevitable in a dynamic and growing industry, and necessary to retain customer loyalty. The alternative, high margins with declining market share, is not a good long-term strategy even if short-term profitability appears to be stable.

On the other hand, am I wrong in thinking that you don't want margins to erode any faster than is necessary to maintain market share?

B. George: Of course there is a tipping point beyond which you are giving up margin without optimal impact on consumer buying behavior. But we want to grow our market and deliver the best value proposition, always. Having a constantly refreshed portfolio of products along with an increasingly powerful value proposition is our approach to meeting the needs of the consumer as well as our stakeholders.

Well, for instance, it sounds like you just described that your margin this year is somewhere around 35%.

B. George: Gross margin, yes.

Do you project that next year it will be like 34%? Or more like 28%?

It's really more a question of the mix of profits. We don't have a strategy to deliberately shrink margins in order to grow our business. I am just saying that we are not afraid of introducing products that have a higher payout percentage just because they will have the effect of reducing overall gross margin. There

will be new gaming products and concepts that have lower margins and we need to be flexible to pursue that business. A product that has a 25% gross margin, but adds incrementally to the bottom line, is good for the business even though it reduces our overall margin.

Being flexible to allow for changes in margins is more about being flexible to expand into new gaming categories than increasing the traditional lotto revenue. You don't want to allow the margins on your lotto products to erode any faster than absolutely necessary. Even long-term profitability of lotto is best achieved by trying to maintain that higher margin, isn't it?

B. George: Absolutely. We look at things on the increment, each product category as an independent profit center. But we also would want to avoid cannibalization of high margin products by new products that have lower margins. We simply want to manage a portfolio of different products, different game concepts, and different value propositions that appeal to the wide variety of consumer profiles for gaming products. Of course we do not want to introduce products that would cause a migration of revenues from high to low margin business. Maximizing the total profits, and positioning our brands and our company for long-term growth is what we focus on, not margin percentages. Fortunately, I have a boss that has had the patience to allow the business to expand into new products and new portfolio management concepts. Some are more successful than others. We have a combination of government stakeholders and private shareholders, and they are committed to a five year horizon and not swayed by short-term fluctuations.

In spite of being the exclusive provider of lottery products in Jamaica, SVL operates very entrepreneurially.

B. George: SVL is the exclusive operator of lottery games in Jamaica, but our thinking has to be very different from a monopoly. We need to earn the right to be the exclusive operator by delivering value to the consumer, the government, and our stakeholders. The government of Jamaica has the prerogative to appoint other operators if they feel that their interests would be better served by doing that; which means that we need to perform so well that they do not feel a need to do that.

We can't leave gaps of unmet consumer

demand in the market-place. When it comes to gaming, if we are not delivering value to the consumer in any category or game, the government is free to license someone else to operate the games in addition to us. Including lottery. For instance, there might be a new game that cannibalize other higher-margin games such that it may be the right business decision for the monopoly operator to not offer it. But if it is a game the consumer wants and we fail to offer it, then someone else may propose to the government that they be licensed to offer it. In this sense, we need to operate like a hard-driving commercial enterprise, making sure that we meet consumer demand, and recognizing that if we don't meet it, somebody else will.

It would seem that part of your job is to communicate the accomplishments of SVL to the shapers of public policy such that they feel that Supreme Ventures is delivering the overall optimal value for the business.

B. George: Yes. But our main focus is to in fact produce those results so that it is apparent to everyone that SVL is exceeding consumer expectations and that the market does not need another gaming operator. Our goal is to cover the market so well that potential competitors look elsewhere for opportunity. And that has nothing to do with communicating to policymakers, that has to do with pure business.

SVL leverages its retail network to sell non-lottery products, like topping-up cell phone

That is a good example of how technology both enables and obsoletes new business opportunities. Cell phone operators needed a way to avoid the high cost of preprinted cards with 13-16 digit numbers that customers used to add prepaid calling credit (Top Up) to their phones. The cost of printing and distributing these cards, along with issues of managing inventory and pilferage, was burdensome to the cellular companies. We had the retail distribution and the transaction-processing technology to enable them to top-up the consumers' SIM card instead of constantly replenishing with new plastic cards. Eliminates all the costs and burden of distributing millions of plastic cards. Good for the consumer, good for the cell companies, and makes money for SVL shareholders. This was a fantastic idea seven years ago. However, if you fast forward to today and you look forward into the future, several things are happening that obsolete that value added capability. The consumer can

now do phone-to-phone and direct top-ups and so has less of a need to go to a retail outlet to buy a top-up because there are these other potentially more convenient options. Technology gave our retail network a big competitive advantage and now technology is taking away that competitive advantage. By creating more and more options for the consumer to acquire cell phone minutes, technology is eliminating B2B layers in the distribution chain.

Decreasing 'friction' in the distribution process is good for the consumer and the producer of services and content, but creates challenges for the B2B sector.

B. George: Of course. And all that is fine for those of us who see technology as dynamically opening as many doors as it is closing. We think SVL is as good as anyone else at figuring out how to evolve at least as fast as the market, to stay ahead of the curve with new products, new business processes, new ways to add value to our consumer relationship and compete in this dynamic competitive environment. That applies to all aspects of business and products, not just distribution technologies. It certainly applies to lottery products.

Super Lotto is the multi-jurisdictional jackpot game sold simultaneously in the Dominican Republic, Barbados, St. Maarten, Anguilla, Antigua, St. Kitts & Nevis and the US Virgin Islands, as well as Jamaica. What is the future? Why not combine with even more jurisdictions to create bigger games for bigger markets?

B. George: I see Super Lotto as being a stepping stone to a larger, world-wide block of lotteries. There is tremendous opportunity to expand the multi-jurisdictional games. Super Lotto reaches about 13 million people. That is not much more than the state of Illinois. The multi-jurisdictional games enable even the smallest market to be an equal part of an exciting gaming experience. There are obviously many challenges to making that happen. But the benefits to everyone are very compelling. Multi-jurisdictional games will continue to grow. The games themselves will need to evolve to appeal to a more diverse consumer base, and the technologies that make them available to the consumer will also need to evolve. And yes, we see Super Lotto as the means to an end, the harbinger of things that are much bigger. ♦

games through all different media. Meeting that demand is opening up whole new vistas for the operator. Operators are accessing new consumer segments that may have preferred one or the other channel. And the multiple channel approach is creating a more connected base of loyal, repeat customers.

Bringing the different asset groups under the SPIELO International umbrella is about much more than providing the operator with a one-stop turn-key solution. I would think the convergence of channels needs to be integrated, both logistically from the operator side, and also from the player-experience side.

W. Bugno: It is much more cost-effective for the operator to depend on their current commercial partner to provide the technologies and solutions that integrate the various channels operationally. The new frontier for gaming operators is to build platforms that fully integrate i-gaming with electronic games. By designing the user interface and protocols for ease of use and easy migration from one channel to another, it greatly enhances the entire player experience. And it enables us to deliver greater value to the operator, because the content that we develop for one channel can be implemented across all channels. It is all about delivering great games to the consumer and making them as accessible as possible. We are simply pooling our capabilities and resources to create and deliver great content to the player. And yes, the benefits of this are being recognized by the operators in the marketplace all around the world.

The government gaming sector has higher standards of performance than the commercial casino sector. How has SPIELO International's focus on serving the government gaming sector influenced its product development and capabilities?

W. Bugno: I would clarify that statement to say that while the government requires higher standards of reporting and responsible gaming and other aspects of operational control, the industry has very high quality standards across all sectors. The distributed gaming markets are an example of how our experience in government gaming has prepared SPIELO International for the most progressive new installations. The casino industry has been talking for years about server-based gaming, with a central server to support an entire casino floor. We have

a server-based system that supports an entire country: Italy. SPIELO International is the industry leader when it comes to server-based platforms to support a system where a small number of units are installed in a large number of facilities over a big geographical region. And that is because we have been fine-tuning that technology for many years in the course of serving the government gaming markets.

Just as importantly, though, is that our game content and casino products are now also top tier. We have casino installations throughout the U.S. and Canada, such as Nevada, New Jersey, California, Pennsylvania, Maryland, Rhode Island, New York, Delaware, Ontario and Alberta, as well as in all major international casino markets throughout Europe, Latin America and Africa, and we continue to grow.

An example of where the transference of higher standards has flowed in the other direction is Player Loyalty and Rewards programs. The commercial casino sector was, and is, far ahead of the government gaming sector in their approach to Customer Relationship Management (CRM). CRM is now becoming an important theme in the public gaming sector. Responsible gaming and more rigorous reporting and auditing are being adopted in the casinos sector, and a more player-focused approach to building a loyal customer base is being adopted by the government-gaming sector. This transference of themes across the sectors will not result in one big homogenous marketplace, but actually an even wider variety of smaller differentiators that represent the priorities of each jurisdiction and market. Everyone everywhere will have access to the highest quality in all things – product, central server, game content, etc. Now the challenge will be to customize for the individual needs of the public policy, operational, and specific marketing objectives.

Are there some universal player-centric themes that will be a part of all operators strategies?

W. Bugno: We think that enabling multi-channel consumer access will be central to everyone's strategies. That is why our mission is to enable more people to play our games than ever before, anytime, anywhere, and on any device. And when you dissect that mission statement of ours, there are a couple of themes that resonate. The first one

is that we firmly believe that gaming in the future will be a multi-channel experience for most people. We do not believe that consumers will remain fixed on only one channel of distribution. It will be interesting to see how much the player migrates the same gaming experience across multiple channels. There is the online poker player who may be sitting at home, playing on her PC. Her friends come over but she wants to finish her game while she visits with them, so she continues to play by transferring the game over to her iPad. Then they go out for dinner and she continues to play on her iPhone. That's one thing. It will be easy for the online player to transit across from one device to another. The thing to watch, because it will be more challenging, is the land-based casino player who wants to migrate to his home device. He's playing in a casino, and wants to win the progressive jackpot but has to go home. So he goes home and logs into the same game on his PC or iPad or iPhone or Android device. That is not happening at the moment, but will be soon. You can now play the same title on a different device at a different time, but not the same game.

Our goal is to make the experience truly seamless. But again, the driver for this convergence is the consumer who will want to play multiple channels on multiple devices. And operators want to be able to understand what the player is doing, and communicate directly with the player, as the player moves across those devices. The industry buzzword is "single view of the player." This enables operators to manage a relationship with the player that is coordinated across all different media and channels. The CRM programs that deliver rewards and messaging to the players is implemented across all different channels, from the iPhone to the electronic game on the casino floor. The operator wants this single view of the player, but the player also wants a seamless playing experience that makes it super-easy to migrate from one channel to another, giving her access to the same games, as well as access to her personal account that manages the rewards system. And she wants all of this with a player user interface that is user-friendly, and that has a familiar look and feel with its menus and navigational protocols.

Do you see the growth rate continuing at the same double digit + rates?

W. Bugno: Our interactive division,

GTECH G2, is entering a very exciting phase. All around the world, online gaming is growing and changing with new game concepts and new ways to integrate the interactive experience with other channels and media. And when you look at the global market, you recognize that there are still many large markets that have yet to even legalize and regulate online gaming, the United States being the most prominent case in point. And even in the markets where online gaming is more developed, like Western Europe, it is still a relatively small share of the market in terms of revenue, and small in terms of exploiting the full potential, because interactive gaming will evolve over time. Even there, the market is still in its infancy, and yet we can see that interactive gaming will have a dramatic impact on the entire industry. Everyone can see the potential for it to completely change the player experience. And as regulatory frameworks evolve and the player adoption of the new technologies evolves, completely new opportunities for adding value will become apparent. That represents a huge opportunity for us to enhance the player

experience by creating this new world of interactive gaming. Social gaming is huge in the popular non-money game world. It's only a matter of time before casino-style games merge with social gaming, and that will have a huge impact. I would say there is no lack of opportunity for a creative, market-driven company to add value, be a part of these tremendous industry trends, and to grow and expand its own footprint on this exciting industry.

How might social games like Zynga-style games be adapted to casino-style games?

W. Bugno: First, there are numerous regulatory issues to be resolved. But as regards to social gaming, I am not sure that we will see a seamless adoption of Zynga-style games to slot machines. We have games that are social. Bingo is a very social game. Poker would appear to be social because it involves multiple players. But the player experience is pretty much an individual experience in poker. You don't see the chat room lighting up with lots of interaction during a poker game.

However, if we break down social gaming

into its constituent parts, there may be ways to integrate the most interesting aspects of social gaming with casino-style gaming. For instance, there is a new game concept called episodic gaming in which the player progresses through stages, and can interrupt the play and continue the next day. The player logs on, enters a code, and then picks up where the game left off the previous day or week. That replicates the episodic experience that is a part of most social games.

I would submit that we want to be careful about thinking that we need to become something we are not. People love casino-style games and poker and lottery for what they are. Certainly we need to continue to evolve them and keep them fresh and interesting. But we don't need to become the Farmville of slot machine games. We want to watch carefully and analyze consumer trends to see what is popular, and try to understand what makes it popular. But we need to look even more carefully at gaming industry players and make sure that we keep a laser focus on their game styles and preferences, and not assume they all want to play Farmville or Angry Birds. ♦

Philippe Vlaemminck ...continued from page 55

So the system is being challenged in court for discriminating against land-based operators.

It is not for me to say how low or high a tax rate should be. But we should recognize that the tools to prevent the consumer from accessing illegal websites are in place and proven to be effective. Licensed operators who pay taxes are not at a disadvantage over illegal operators who do not pay taxes because the consumer is not able to play on the illegal sites. And the tax structure should be viewed as a part of the big picture. Attempts to use low tax rates to help one interest group can have many undesirable consequences. Treating all categories equally is not just a matter of fairness. It is also a matter of maintaining stability in the market-place and ensuring a long-term sustainable industry. Promoting Internet gambling, which is considered to be a more dangerous form of gambling, by taxing those activities less than land-based gambling seems to me an inconsistent policy.

What are some of the legal issues that European lottery operators will be facing in the

next year?

P. Vlaemminck: Many of the questions that relate to the big issue of member states' rights to regulate the industry have been addressed. There is still need for further clarification, but we are well on the way to getting that. There remain countless detail issues that will always be coming up.

Many of the laws and principles that have been established to apply to internet gaming will be very useful precedent for the regulation of social gaming. But the convergence of channels, media, and games will introduce new issues. The restructuring of management structures such that government operators are now offering commercial services and commercial partners are moving into the operator space as private managers will further complicate the business of regulating and taxing the industry. The most important thing is for all of us who have a stake in the long-term sustainability of this industry push hard for legislation that is logical and serves the interests of the public. ♦

Philippe Vlaemminck is widely regard-

ed 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)

The independent law firm ALTIUS brings together the knowledge and experience of more than 60 lawyers, in practice areas including Corporate, M&A, Banking & Finance, Real Estate & Regulatory, Employment & Pensions, Commercial & Competition, EU Regulatory & Trade, ICT and Intellectual Property to deal in the most efficient way with the business and projects of its Belgian and international clients. ALTIUS not only offers creative tailor-made advice but also handles national and international transactions and high-level litigation. ALTIUS co-operates closely with the tax-law firm Tiberghien. More information is available at www.altius.com.

ently from what has always been done. But PMAs are actually based on a comprehensive application of best practices as they have been applied at the top-performing lotteries around the world and on a thoughtful and prudent decision-making process that is driven by scientific interpretation of the facts. PMAs require recognition that complex problems are best solved by a scientific approach. The tools to do this are available and their effectiveness is proven and demonstrable.

The decision-making process driven by a best practices methodology is not a linear calculus of just applying numbers to get answers. The analysis includes a holistic approach to inferring the meaning of the data and the experience of turning the results into an action plan. It is an integration of information pertaining to the local gaming culture and existing local environment. And it is the leveraging of this data that tells us what works and what doesn't work. This can make the difference between success and failure.

Illinois went from multiple instant game suppliers to just one supplier, Northstar Lottery Group. Is that the best model for driving innovation, change and aggressive execution?

J. Kennedy: Scientific Games' role in Northstar is to produce and distribute 100% of the instant games in Illinois. Most of the highest performing lotteries have a primary instant product relationship with a single supplier providing 80% or more of their portfolio of instant product. There is no evidence to support the idea that lottery needs a variety of partners to create "the next great game" if the suppliers are operating independently from one another. Lottery games must be managed and integrated like any other consumer product category. And when you look at the U.S. lottery industry, you'll find that last year Scientific Games produced more than 75% of the best selling instant games.

That's interesting, because in our last issue, Paul Sternburg, Director of the Massachusetts Lottery, walked us through the process of evolving the design of an instant game for the purpose of increasing sales. It struck me that what he was describing was not so much individual 'games,' but a consumer product managed as a category.

J. Kennedy: That is exactly right. The instant game is a consumer product category and a lottery's portfolio of instant games is best managed as a product category not a

collection of individual games. Historical attempts to segment the marketplace into different demographic profiles and consumer groups, and design and market individual games to appeal to those target markets, has proven to be an ineffective approach to instant product management, but it continues to be practiced when in most cases the lottery manages the entire category of the product not as brand within the category. The purpose of designing the instant game – and developing strategies to advertise, promote and distribute the game – is much better served by managing it as a holistic product category as opposed to a collection of individual games. Said a different way, instant games are an integrated category to be managed and positioned for overall performance, not as single products launched to capture the attention of segmented consumer groups. At Scientific Games, we refer to it as the instant product category, not the instant game category. This sets the stage for integrated development of the elements of the marketing mix and for the execution of an entire program for the instant product category. This helps clarify the unwieldy process of deciding which 50 games to bring to the marketplace over the course of the next 12 months and how to present the category to consumers and retailers.

The Massachusetts Lottery and Paul Sternburg have done a fabulous job doing exactly that. The result is that the lottery with the highest instant games per capita sales in the world, the Massachusetts Lottery, continues to increase its per capita sales. They set the bar higher than anyone and then they pass it. Gratta Vinci, the lottery in Italy, is another top-performer with the highest total sales of instant games in the world. Let's refer back to Scientific Games' best practices principle that there is more commonality to human behavior throughout the world than there are differences. Think about it: Massachusetts and Italy. These are two completely different marketplaces with two completely different gaming cultures, lottery operations and regulatory structures. And yet there are far more similarities between these two top-performers than there are differences. Most lotteries do not have nearly as high marketplace penetration. First, these two lotteries have the fewest number of game launches. Second, they manage the entire category for optimal overall performance. They make sure that products work well together and produce a synergistic result

in the marketplace. They make sure games are on the street long enough for people to understand them. Everything they do is defined by the approach to marketing instants as an integrated consumer product category. Like Coke, or Starbucks or McDonalds. What was the first thing Steve Jobs did when reviewing the product mix of Apple when he came back as CEO back in 1977? He slashed the number of products from something like 15 down to four. Effective benchmarking includes the observation of what works in successful businesses like these. When we can combine the direct evidence of what happens in our own industry – with two of the most successful lottery operations in the world, along with the experience of other top-performing lotteries – we can create quite a wealth of best practices to benchmark against. The principles that apply at the world's best consumer marketing companies like Apple and Coke, and at our best performing lotteries from all around the world, share many common attributes. We know what these principles are and how to implement them; our opportunities for growth lie in their execution.

Increasing the prize payout seems to have worked wonders for the California Lottery.

J. Kennedy: California was the last big state that had severe restrictions on prize payouts. Louisiana and Oklahoma are still restrictive and this definitely impedes growth. California grew \$700 million, or 35%, year-on-year in their instant business. That's huge growth. But this wasn't simply about increasing prize payouts. Having the flexibility to manage prize payouts to differentiate the products, adding value to the higher price point tickets and such, is the key. This flexibility enabled California to design games with other attributes that enhanced the entertainment value by putting more prizes in their games.

The average payout in the United States on instant games is about 67%. Based on research that Scientific Games has conducted in multiple jurisdictions, we think the optimum payout to generate the most net profit to good causes should be somewhere in the neighborhood of 72%. So right now we estimate the entertainment value at most U.S. lotteries to be a good five percentage points below what it should be to optimize net income.

Don't we want to stagger the rate of increase of prize payout, dole them out in ju-

deliciously small increments in order to eke out maximum promotional value for the longest possible time?

J. Kennedy: Like everything, prize payout needs to be managed properly. But it is a mistake to think of it as some kind of slippery slope that leads to margin erosion and eats into net funds for good causes. Problems in profitability usually lie elsewhere. Look at Massachusetts, with the highest U.S. per capita instant sales at \$447. With a 77% prize payout, they have had the highest prize payout percentage in the U.S. for many years. But they also have one of the highest per capita net revenues. Insofar as the measure of performance is funds to good causes, Massachusetts ranks number one in the U.S. for this too.

The view that increasing prize payouts is a slippery slope has actually been around for decades. It dates back to when lotteries were starting up at the rate of two or three a year. There was the burst of enthusiasm with the strong early adoption. And then there was fall-off from the growth curve. We can contrast this era with lotteries that have started up more recently. Arkansas, for instance, is the most recent start-up and the Lottery immediately climbed to one of the highest per capita sales in the country. Scientific Games worked with the Arkansas Lottery to start with the best games, best designs, the best payouts – the best of everything in every way. We launched the Lottery with a loyalty program that allowed players to get value from their non-winning tickets. We've learned over the years that if you give the consumer the best experience, they will continue to support the retailers where they buy their games – and retailers will make the effort to generate more lottery sales so ultimately more dollars will be created for profits and more kids will receive a college education. And so what we see now in Arkansas, unlike what we saw back in the day when sales dropped off, is consistent and steady growth of their product category. The growth rate has settled down a bit, but there was no drop-off from that incredible burst of energy at the launch. The same was true of launches a few years back in Georgia and Tennessee. Hopefully under new leadership in Oklahoma there will no longer be restrictions that prevented the Lottery from launching this way and creating the necessary pull from consumers following their start-up phase.

But how do you retain the attention of the

consumer if you give them all you've got up front? Don't you want to manage the process so that you can create the perception of always giving players something more?

J. Kennedy: First, if you are really giving them the very best all of the time, the consumer knows this, responds to this, and will have a level of loyalty that won't be so fickle and willing to tune out. Apple just focuses on creating great products – they have accrued a loyalty based upon consumer perception that Apple is wholly dedicated to producing great products. A simple philosophy that works. Second, of course we do introduce new products and product innovations all of the time. As much as we focus on creating the very best products right now, we are also just as focused on continual improvement, always creating more exciting products to replace or augment the current exciting products. There is no reason to hold back, or stagger quality ideas in a misguided notion that this is the best way to get maximum value from each of them. Just go for it but keep working to create something even better. We are constantly creating new innovations like interactive 2nd Chance games, our For Life family of games, Micromotion™ printing techniques, electronic instant game bonus extensions and retail promotions. Scientific Games will continue to roll out exciting new product and promotional concepts. That's our job. We set the bar high and we are always working to surpass it. Because you're right, you must continue introducing new and exciting products to capture the imagination of the consumer.

Part of this is to recognize that much of the engineering is integrated into the games, things like the prize structure, patterns and price point mix, and the many elements that go into making a good solid game design. These are all fundamental to the category. But together, the artwork, the execution and the look of each game are a balance of new and familiar. It's a balance between the engineering that goes into the game and the aesthetics of the game. The families of MONOPOLY™, Lifetime and multiplier games are good examples of underlying engineering that is built on deep experience, yet the feel and play of these games is fresh and new.

It has always seemed to me that lotteries could update their risk assessment model. The average net profit for commercial firms is around 6%. For lotteries, it's more like

30%. The upside potential for a good idea is literally five times greater for lotteries than it is for commercial companies. If lotteries can't assume the small downside risk in spite of the huge upside potential, why not outsource the risk to their commercial partner and pay for it with a small percentage in some form of profit-sharing arrangement?

J. Kennedy: Of course, that is the basic principle of the Private Management Agreement (PMA) model. The Illinois-style PMA is currently being considered in states like Pennsylvania, New Jersey, Indiana and several others. But the PMA is one of several ways to accomplish this. There are other ways to increase investment, to reshape the lottery's approach to be more sales focused. Scientific Games has Cooperative Services Programs (CSPs) and Properties Plus® programs that enable a lottery to outsource the risk and up-front investment in return for a share of the profits.

One way or another, we need to unlock the hidden value of lottery. As lottery suppliers, we have the tools to do so much more than the lotteries allow us to do. In Illinois, for instance, instant sales increased by \$345 million in the first year of the PMA. But there was nothing we did that we hadn't previously recommended to Illinois. They were focused more – as most lotteries are – on operations and controlling costs and, as you are pointing out, eliminating risk.

Application of effective consumer product category management and state-of-the-art player loyalty programs are two top-of-mind things that could add transformative value to most lotteries. The point is that state governments need to know that their own lotteries are capable of doing so much more if they receive the proper investments and incentives. Most of the things that a private manager would do can be done right now by the lotteries themselves in partnership with vendor partners. It's simply a matter of shifting the focus to growth.

As much as there is talk about being focused on bottom-line returns for good causes, the reality is that from a business management point of view, this is a top-line sales-driven business. This is why an Apple comparison is useful. Apple's net profit is about 24% and lottery's net profits are higher. When the margins are as high as they are in lottery, and the various costs relatively low with little room to reduce further, the focus should be on maximizing sales. For example, the average lottery makes a dollar of net profit for four dollars in

instant sales. The business plans and vendor contracts of lotteries tend to focus on operating expenses, as though the way to generate more funds is to save money on the operating side of the business. The opposite is true. Lotteries need to invest more money on operations because increased sales are a boon to profits. As a percentage of sales, the operating expenses of lottery are too low. A revenue stream of billions of dollars requires investment. The value of the asset is actually diminished by withholding proper investment.

Lotteries don't necessarily need to have a PMA to invest in the business. But what is needed is to operate like a professional consumer products company, which means investing in the business. Compare the consumer experience of an Apple customer to a lottery customer. Apple invests not just in the products, but in the whole business with total dedication to creating a memorable consumer experience from the store environment, to packaging to the product's user interface. As profitable as Apple is, the return on investment (ROI) for them is actually somewhat lower than the ROI for lottery. The breakeven on any lottery investment in players clubs, creative promotions or any kind of internet-based marketing is four times sales. This is unbelievable leverage.

Solutions are not readily forthcoming even though lottery executives understand all of this. Government just tends to gravitate towards that which is most familiar. Therefore, government procurement procedures focus on purchasing instead of investing in sales or even overall performance. Instead of looking at the operating budget as the engine that drives sales and profits, lotteries tend to view money saved as money that goes directly to the bottom-line.

It seems like policymakers in U.S. state governments are recognizing this and are increasingly exploring the possibility of pursuing PMA and other investment approaches. State governments are recognizing that the way to generate more bottom-line income in this business is to focus on top-line sales, not cutting investments. Combine this trend with the trend towards interactive extensions of the products and the continued growth in all the traditional lottery products and I think this is one of the most exciting times we've seen in the business. It is a time of genuinely transformative and substantive change. When we look back five years from now, we will be amazed

at the way the lottery business has changed.

Our counterparts in the casino gambling sector have been extremely successful at turning an anonymous player base into a loyal base of repeat customers. How amazing would it be if lottery could manage to convert its incredible base of anonymous customers into a loyal customer base of interactive players?

J. Kennedy: I think that is exactly where we are headed. Players clubs and loyalty programs are the key to making it happen. Players register for 2nd Chance games so we are capturing the consumer information needed to manage the customer relationship. We are building a rich data set of consumer metrics. Players are entering about 30% of non-winning instant tickets entered into our Points for Prizes® programs. And that's across hundreds of thousands of players in Arkansas, Tennessee and Iowa. This will form the foundation for a more comprehensive Customer Relationship Management (CRM) approach to the business. And it's this CRM approach that will enable us to build a fully interactive one-to-one relationship with the consumer.

You just returned from China. Sales have been growing at a phenomenal rate since Scientific Games launched the China Sports Lottery four years ago. Is this sustainable?

J. Kennedy: The China Sports Lottery is up 48% year-on-year from growth in sports betting and what they call high frequency games like Keno and video lottery terminal games. On the instant side, I would call it a 'sophomore slump.' It is actually a very typical syndrome. The enthusiasm of the new product launch creates momentum that can last a few years. But at some point, that initial blush wears off and you have to shift into the next phase of marketing, which is to focus on the retailers and make sure that they are adequately supported. The many details of execution become more important — things like merchandising and supply chain management. China is such an enormous marketplace that attention to systemic matters relating to merchandising and distribution are critical to success.

When were instants launched in China?

J. Kennedy: The China Sports Lottery launched their new instants program in 2008 to correspond with the Olympics. We sold our first China Sports Lottery instant game

in March 2008. By the end of August 2008, we were selling China Sports Lottery instant games in 31 Chinese provinces. It was remarkable. And so we went from zero to ¥10 billion (\$1.57 billion U.S.) in 10 months that very first year.

That is remarkable. And the phenomenal growth continued.

J. Kennedy: Absolutely. The China Sports Lottery did nearly ¥20 billion (\$3.1 billion) last year. We started to apply best practices to drive continued improvement. It worked so well at the Sports Lottery that the Welfare Lottery started to mirror us and achieve similarly great success. Since they were following us, the Welfare Lottery remained maybe six to nine months behind in the themes, price points, call-outs, prize structures and distribution—the whole set of best practices. And so it's really gratifying to actually see that even though we're supplying games to the China Sports Lottery, the China Welfare Lottery mirrored what we were doing and validated some of the core values that Scientific Games has held for years. One of those central values is that there is some fundamental commonality that cuts across all cultures. Markets and gaming cultures may differ, but there are more commonalities to human behavior than there are differences.

The high early-stage growth rate from a small baseline can't be maintained forever. So are you saying that as the market penetration reaches a certain level, a certain point of equilibrium, the growth rate will level off a little bit and you must shift to a strategy of service, distribution and maintenance of repeat business, as well as push for growth?

J. Kennedy: Yes, this is our experience in the countless start-ups and re-launches we have implemented around the world. Each start-up has the benefit of the knowledge gained from previous start-ups. The Arkansas start-up in 2009 had the benefit of 30-35 lottery start-ups in the U.S. we had done beforehand. The China Sports Lottery start-up had the benefit of our long history of experience all around the world and the data we have acquired from decades of operation in all varieties of marketplaces. The basic trajectory is similar with all start-ups. It begins with a wide consumer adoption of the games surrounded by lots of media coverage and excitement from the public. Of course, we work to maintain the momentum of that initial high

level of awareness and support. But we know we have to prepare for transition to the next phase, which is where the real work begins: the focus on execution and the countless details that drive the success of the business. This is when we need to apply the methods and the real science of managing a complex consumer product category. It is when the lottery operator and its commercial partner must work together to control the transition into the middle stage of the product life cycle, where properly managed growth will still be strong. If you look at the best performing lotteries across the world, and certainly now in China, every single one of them has come to this point where they have to drill down into the details of execution, engage the retailers and the players, and tie the products, promotions and merchandising together to create a package that makes sense to the consumer.

The importance of effective management processes kicks in after that initial excitement of the launch begins to settle. But we have had decades of experience at doing just that and the strong results of this past year reflect this. In the U.S., for instance, sales in the instant category increased nearly 10%, from \$32 billion to \$35 billion. And there wasn't one new start-up. It was all accomplished with solid execution at established lotteries.

What are some of the basic things that you do in switching to the mode of nurturing an established market?

J. Kennedy: It's really important to benchmark. The gaps and opportunities are revealed when you correlate the various indices of performance and then compare those to other marketplaces. The numbers tell the story. Best practices should not be applied as an academic exercise or a method to point out who is doing a good job. Applied correctly, the benchmarks do two things. First, they provide a tool for assessing performance in all the different areas of the business. Interpreted correctly, they show you precisely what can be done to improve performance and results. There are the big-picture issues like the relationship between payout, price point and sales. We look at the number of games launched and the whole business of managing a portfolio of products for optimal overall results – including same store sales and the methods of the top-performers. We've had discussions about the limitations of the science of data-driven decision making. You are correct in saying that data never gives us the whole picture. Interpretive analyses must convert the data into insights that truly inform the decision-making process. But still, we need to start with the data. And we need to trust the facts

more than our subjective interpretive skills. Because where the science becomes really interesting is when you compare the huge volume of data across many jurisdictions around the world. I become more convinced of that over time. Benchmarking for us at Scientific Games involves over 30,000 instant games and innumerable variables that impinge upon the outcomes. The number of permutations and combinations of the correlative analyses is mind-boggling. We measure performance across all different dimensions and varieties of attributes. Then the analysis of the data informs the whole benchmarking process to tell us how and where there are performance differentials and performance enhancements, and how we can change things to improve results and produce better outcomes.

Instant products are the most intriguing category of games in the sense that the potential for creative to add value is unlimited. This tends to invite people to mix the process of data-driven analysis with their creative impulses. It requires discipline to ensure that decisions are driven by the facts and not by subjective opinions. Scientific Games has an extensive understanding of the science of the instant game category, informed by over \$500 billion in instant game consumer sales. Today, the information needed to make smart decisions is available and we are using it. ♦

The Door is Now Open for Multistate Interactive Lottery Games ...continued from page 67

teries to collaborate on a multistate interactive game would require congressional consent.²⁰ Although the United States Constitution suggests that Congress must approve all agreements between or among states,²¹ the United States Supreme Court has held that congressional consent is required only when an interstate agreement "enhance[s] state power to the detriment of [the power of the federal government]."²² In *U.S. Steel v. Multi-State Tax Commission*, the Supreme Court held that an interstate tax agreement among several states was not the type of interstate agreement that required congressional consent. The agreement was held to not enhance state power to the detriment of federal power, because: (1) it did not authorize participating states to exercise any powers other than those they already had prior to the agreement; (2) state sovereign power was not delegated to the newly-created interstate agency; and (3) each participating state retained its ability to adopt or reject rules and regulations developed by the interstate agency and to withdraw from the agreement at any time. In addition, the United States Court of Appeals for the Third Circuit has held that an agreement between states does not encroach on federal power when the subject of the agreement concerns "areas of jurisdiction historically retained by the states."²³ Gambling, of course, is an activity historically left to the regu-

lation of the states. Accordingly, agreements among states pertaining to interactive gaming could be entered into without congressional consent provided they were consistent with the aforementioned conditions.

In summary, the DoJ's December 23, 2011 opinion has opened the door to the collaboration by state lotteries on multistate interactive lottery games. Provided such games are lawful under the laws of the participating states and do not involve sporting events, the interstate transportation of physical lottery tickets or the interstate mailing of any check, money order or other ticket purchase consideration, the conduct of such games would not violate federal law. Moreover, contrary to claims made by supporters of federal internet gaming legislation, a properly-structured multistate agreement governing the conduct of such multistate interactive lottery games would not require congressional approval or consent. ♦

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THE DOOR IS NOW OPEN FOR MULTISTATE INTERACTIVE LOTTERY GAMES

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As is now well known, in an opinion announced December 23, 2011, the United States Department of Justice ("DoJ") reexamined the Wire Wager Act of 1961¹ and reversed its long-standing position that the Act applies to all types of wagering. The DoJ declared that the Wire Act – which prohibits gaming businesses from using wire communications facilities to transmit wagers and related information across state lines – applies only to wagering involving sporting events.² The DoJ's historic position, coupled with its claim that the Wire Act applies to transmissions between points in the same state when intermediately routed out of the state, had effectively frustrated states and state lotteries that sought to conduct gaming via interactive systems (e.g., the internet and mobile communications systems) in order to increase revenues for good causes and help address state budget deficits.

As a result of the DoJ opinion, the only remaining federal legal restriction on the conduct of interactive gaming by state lotteries is a limited restriction on the transmission of information to be used for the purpose of procuring for a person in one state a ticket of a lottery conducted by another state³ – provided such interactive gaming is lawful in the states in question and does not involve sporting events, the interstate transportation or mailing of physical lottery tickets or the interstate mailing of any check, money order or other ticket purchase consideration (the "Conditions"). As discussed below, however, even the law restricting the transmission of lottery information does not apply if such conduct is permitted under an agreement between the states in question. Accordingly, there is no legal impediment to state lotteries agreeing to conduct one or more multistate interactive lottery games, if such are permitted under applicable state law and are otherwise consistent with the Conditions. Moreover, and contrary to claims made by proponents of federal internet gaming legislation,⁴ such an interstate agreement would not require congressional approval.

Several federal statutes assist states in enforcing their existing restrictions on unlawful gambling, but none would restrict the operation of a multistate interactive lottery game conducted in accordance with the Conditions. The Illegal Gambling Business Act⁵ makes it a federal crime for a business of a certain size to operate a gambling business, but it applies only if the business operates in violation of state or local law. Similarly, the Travel Act⁶ prohibits the use of any "facility" in interstate or foreign commerce to distribute the proceeds of, or to promote, manage or carry on, any business involving gambling, but it applies only if the activity violates applicable state law or a different federal law. Further, while violation of the Interstate Transportation of Wagering Paraphernalia Act⁷ does not require the violation of a state or other federal law, it expressly exempts from its prohibitions "equipment, tickets, or materials used or designed for use within a state in a lottery conducted by that state acting under authority of state law."⁸ Finally, federal laws known as the "anti-lottery laws"⁹ prohibit, among other things, the interstate transportation or mailing of lottery tickets, advertisements and prize lists,¹⁰ and the mailing of lottery information, advertisements and

1) 18 U.S.C. § 1084; 2) Memorandum Opinion for the Assistant Attorney General, Criminal Division, "Whether Proposals by Illinois and New York to Use the Internet and Out-of-State Transaction Processors to Sell Lottery Tickets to In-State Adults Violate the Wire Act," September 20, 2011 (issued December 23, 2011), p. 12.; 3) 18 U.S.C. § 1301; 4) Frank Fahrenkopf, President of the American Gaming Association was recently quoted as saying: "If you have four or five states that join together in an interstate compact perhaps you would have enough liquidity to make [state-regulated internet poker] worthwhile. The difficulty with that is the United States constitution gives the federal government the right to accept or reject interstate compacts," "US Poker: Fact or Fiction," in Inside Poker Business online magazine, May, 2012, at <http://www.insidepokerbusiness.co.uk/poker/insight/1261/us-poker-fact-or-fiction.html> (last accessed August 16, 2012); 5) 18 U.S.C. § 1955; 6) 18 U.S.C. § 1952; 7) 18 U.S.C. § 1953; 8) Id.; 9) 18 U.S.C. §§ 1301-1307. See also the postal law at 39 U.S.C. § 3005; 10) 18 U.S.C. §§ 1301-1302; 11) 18 U.S.C. § 1302; 12) 18 U.S.C. § 1307(a)(1); 13) 31 U.S.C. §§ 5361-5367; 14) http://www.powerball.com/pb_contact.asp (last accessed August 16, 2012); 15) Id.; 16) <http://www.illinoislottery.com/en-us/lottery-faqs.html#playing> (last accessed August 16, 2012); 17) See footnote 14.; 18) 18 U.S.C. §§ 1301-1302; 19) 18 U.S.C. § 1301; 20) See footnote 4.; 21) U.S. Const., Art. I, § 10, CL. 3 provides: "No state shall, without the Consent of Congress, . . . enter into any Agreement or Compact with another state. . . ."; 22) U.S. Steel v. Multi-State Tax Commission, 434 U.S. 452, 460 (1978); 23) McComb v. Wambaugh, 934 F.2d 474, 479 (3rd Cir. 1991).

ticket purchase consideration.¹¹ However, expressly exempt from these prohibitions are the following:

(1) an advertisement, list of prizes, or other information concerning a lottery conducted by a State acting under the authority of State law which is –

(A) contained in a publication published in that State or in a State which conducts such a lottery; or

(B) broadcast by a radio or television station licensed to a location in that State or a State which conducts such a lottery.¹²

Finally, the Unlawful Internet Gambling Enforcement Act of 2006 (the “UIGEA”)¹³ applies only to wagering that is unlawful under any applicable state law or different federal law. Thus, the UIGEA would not apply to interactive wagering conducted by state lotteries under the authority of state law and otherwise in accordance with the Conditions.

At present, the multistate online lottery games Powerball® and Mega Millions® are run by the participating states on separate systems. Each state has its own separate computer system.¹⁴ Winning tickets need to be presented for payment in the same state as that in which they were purchased.¹⁵ Money is transferred among the states in accordance with the agreements among them to accommodate payment of prizes. At the present time, players in Illinois can play Mega Millions via the internet,¹⁶ but players in other Mega Millions states must purchase their tickets at lottery sales terminals in their lottery jurisdictions selling the game. Powerball tickets can only be purchased at lottery terminals in lottery juris-

dictions that participate in Powerball.¹⁷

While physical lottery tickets cannot be transported across state lines, and neither they nor ticket purchase consideration may be mailed across state lines,¹⁸ no such restriction exists with respect to electronic (i.e., intangible) lottery tickets or electronic purchase consideration such as would be involved in the play of a properly-designed multistate interactive lottery game. In addition, although federal law prohibits a business that procures for persons in one state tickets of a lottery conducted by another state from knowingly transmitting in interstate or foreign commerce information to be used for the purpose of procuring such tickets,¹⁹ the law does not apply when such activity is permitted pursuant to an agreement between the states in question. Indeed, this restriction might not apply to begin with to an interactive lottery game conducted by several states collaboratively, because the game could be considered to be “conducted by” each participating state (and thus, arguably, tickets for the game would not be considered tickets of a lottery conducted by another state). Regardless, since the participating states would inevitably enter into an agreement regulating the conduct of the multistate interactive game, even if the game were considered to be “conducted by” a state other than the state in which the ticket was purchased, the agreement among the states could simply make clear that such cross-border sales activity was permitted.

Finally, some have claimed that any agreement among state lot-

...continued on page 65



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