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Featuring Eight Articles Based on Smart-Tech
Presentations and Panel Discussions

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PGR Institute is much more than a news aggregater. 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.

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From the Publisher

By Paul Jason, Publisher, Public Gaming International Magazine

Included in this issue are eight features based on presentations and panel discussions from Smart-Tech 2013 (held in New York City in April). The next issue of this magazine will include at least eight more.

As you will see, Smart-Tech presenters stretch to address the most pressing issues in a direct, outspoken manner. Since this magazine will receive wide exposure at the EL Congress in Tel Aviv (a bi-annual event, held this year June 6 to 8), the focus is on government-gaming as a global industry with many issues that are universal in nature. It's often noted that "all politics are local" and that markets and business models vary from one state to another and from one country and region to another. Of course they do vary. Much more interesting and important, though, is how much Lotteries have in common all around the world. That was my request to our Smart-Tech speakers and panelists: Let's talk about our commonalities, our shared interests, our shared values. Further, let's talk about how we can work together to advance the interests of government-sponsored gaming throughout the world.

Directors of lotteries around the world are tasked with optimizing the business as it exists within their own jurisdiction. I would submit that is best accomplished by examining the manner in which issues that we face within our own jurisdiction-specific businesses are manifesting themselves all around the world, and endeavor to understand how others have dealt with these issues. While I have talked about the aspect in which the European markets are more mature than others, the flow of forward-thinking concepts works both ways. For instance, I have had many requests for the transcript and PP's of the presentation by the Texas Lottery on **"Outsourcing of Lottery Sales Force"**. And those requests are coming from Latin America and Europe. U.S. lottery directors and their political stakeholders are on the cutting edge of exploring how innovations in "owner-management" models can improve the financial performance of the Lottery. An important part of this picture is to banish the term "privatization". That is a misguided way to frame the issue and does not lead to productive insight on how to optimize performance of the Lottery asset. Instead, we are assessing the results of the wide variety of approaches towards "outsourcing" and "multi-sourcing" of operational functions.

The thing is, in order to effectively integrate content, technological solutions, and innovation from multiple sources, we need to forge a more cooperative approach between and among multiple vendors and the Lottery operator. The "Designing Contracts that Align the Objectives and Action-Plans" panel addressed the challenge of creating a foundation that encourages the kind mutually-supportive and collaborative relationships that are so key to producing the best results. As this session reveals, it's not easy to do. But it's necessary and there are ways to do it. For one thing, it requires a commitment from all parties based on the confidence that everyone benefits from taking the long-term view on how to help Lotteries grow and prosper. That, and good contracts!

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While the presentations of Jean-Luc Moner-Banet, Friedrich Stickler, and Philippe Vlaemminck have their own individual focus, they all circle around the concept of **Shared Values**. Mr. Moner-Banet recasts the concept and role of the Internet. While it is certainly an effective channel for distribution of lottery products, he opens our minds to a more expansive view towards how the medium can redefine our entire relationship to the consumer. Mr. Stickler's is not a sanguine message. He shines a bright light on the perilous stage in which the global industry of government-gaming finds itself right now. The service that Lottery performs for society is incalculable (and far beyond the billions of dollars/euro/etc. that it contributes to the good causes that serve the public). Yet shapers of public policy are being challenged to up-end the model that enables that service to continue. Lotteries need to unite to defend the interests of their stakeholders. And Mr. Vlaemminck jumps right into the deep water with a vision for why Shared Values should be embraced by the global community of Lotteries, and how that could form the basis for capturing the trust and appreciation of the most important stakeholders we need to pay attention to: the consumer (and the shapers of public policy who represent the interests of the consumer).

Another example of shared values and common interests: the vital role that land-based retail plays for Lotteries everywhere. Regulatory constraints have impeded the evolution of the multi-channel approach in the U.S., so their appreciation for the importance of land-based retail is based on the fact that's where all their sales come from. How interesting, though, that GTECH's **International Lottery Retail Workshop** (held in Warsaw) illuminates just how critical retail is to the global community of Lotteries. Thankfully, our colleagues at GTECH have agreed to share the insights gleaned from this workshop. The operative question that was posed: "How do we further assimilate our lottery product into the complex world of chain retailers and convince them that it's good for their business?" And once again, I promise that you will find that the answers apply to Lotteries everywhere, all around the world.

Thank you to all of our editorial contributors whose articles enlighten different aspects of these same issues: **Warwick Bartlett** on the need for Lottery to capitalize on their strengths (which are formidable); **Dr. Daniel Diermeier** on how crisis management is really a day-to-day operational activity, **Jerry Bowskill** on the importance of smoothing a path for integration of content from third-party suppliers, **Victor Duarte** on the need for open-systems and inter-operability to enable integration of game content and also new technology-driven solutions, **Kristian Nylén** on the need for business models and regulatory structures that recognize the globalization of sports betting, **Yariv Sarig** on migrating lottery-based games to Facebook, **Margaret DeFrancisco** on bridging the gap between the Internet and land-based retail, and **Pall Palsson** on fresh approaches for Lotteries to implement i-gaming. Your willingness to share your insights and experience helps all of us to understand this industry and hopefully apply that understanding to improving the performance of our businesses.

Mark your calendars to attend PGRI's next conference: **Lottery Expo** in **Miami** on **November 4 to 7**. For conference updates, please follow our news website, www.PublicGaming.com, and our conference website, www.PubicGaming.org. Thank you for your support. I welcome your feedback, comments, or criticisms. Please feel free to e-mail me at pjason@publicgaming.com. ◆

The Final Countdown

Friedrich Stickler, Managing Director, Austrian Lotteries
President, European Lotteries Association

Referring to the conflict between state lotteries and private operators as "The Final Countdown" – does that seem a little dramatic? My thesis today is that it is not strong enough, that what we're experiencing now in Europe will have a profound impact on the sustainability of the government-gaming model. And that the fundamental issues are universal and will be experienced to varying degrees by lotteries all around the world, and definitely including the U.S. In Europe, we in fact are embroiled in the last stages, the Final Countdown, to decide whether the gaming industry will be managed for the protection of the consumer and economic service to society, or be opened up to be managed as any other consumer product with low taxes and multiple operators competing for the business. But this is not just about Europe. As Jean-Luc Moner-Banet, Rebecca Hargrove, Philippe Vlaemminck, and others explained, these principles are in fact Universal.

As Paul Jason just talked about, the European gaming and lottery industries are in a more mature stage of market development. The challenges and conflicts over how to regulate and tax the Internet gaming industry that has embroiled Europe for the past decade are now beginning to reveal themselves in the U.S. and throughout the world. The public policy issues are actually quite straightforward. Who has ju-

risdictional authority to determine how the gambling industry should be regulated and taxed? Should it be the European Union in Europe; or the U.S. federal government in the U.S.? Or should it be the EU member states and the individual states in the U.S.? Where does the gambling take place, at the point of "consumption" where the player is playing, or in the jurisdiction where the operator is located? That will have decisive relevance for everyone everywhere, and especially as it applies to Tribal gaming in the U.S. And, how should the i-gaming industry be regulated and taxed? Should it be regulated and taxed for the protection of the consumer and for the economic benefit of society? Or should it be turned over to the free-market capitalism sector, with low taxes, less regulation, and multiple operators competing for the business – and functioning for the benefit of private commercial interests? This is what we have been struggling with in Europe for fifteen years. And now these are the issues that are confronting lotteries in the U.S. The future of the government-gaming model, one that values most the protection of the consumer and channeling funds back to the service of society, is in jeopardy. These issues are being debated in the political arena right now. That is why it is imperative that we all understand what is at stake and do whatever we can to defend the interests of our stakeholders and the government-gaming model. It is in fact a question of survival.

First, let's look at how the market has evolved and where that leaves us right now. The public policy issue is whether to continue to support the classic lottery model or move to a multiple-license commercial operator model. A vital part of this picture is the war against illegal operators. Governments must clarify the importance of enforcing the laws against

the illegal operators. Otherwise it is just a matter of time before the illegals control the markets and the government is left with no options other than to license and tax them. That would be devastating for everyone, especially the lottery model that depends on high margins and high standards of integrity and consumer protection. (See PGRItalks.com for the data-points on these topics). All i-gaming operators generate a portion of their income legally, and a portion of their income illegally. The portion of legal income and compliance with the laws is higher for some of those commercial i-gaming operators than others. Lottery is the only operator which operates legally 100% of the time.

The most important part of this picture is that illegal operators must be stopped, and that all operators be required to comply with the law 100% of the time. The shapers of public policy must become clear on the importance of this and endorse an aggressive approach towards enforcement of the laws that prevent illegal operators. Without this, it is only a matter of time before a very predictable cycle over-takes us. Without enforcement action, more and more of the market will be taken over by the illegal operators. The reason for that is simple. They operate without the biggest cost-center that applies to all legally licensed operators: taxes, or the funds that lotteries turn over to worthy causes. They base their operation in a jurisdiction that charges 1% tax or even less, applies much lower standards of security and RG, and so are able to offer a 95% payout percentage and still make a very handsome profit. The technology is quite capable of enforcing regulatory laws and preventing these illegal operations. It just requires the political will to make it happen.

One major point of contention between

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government-lottery operators and commercial operators is over the issue of consumer protection. We have always contended that the standards of consumer protection for government-lotteries are higher than those for commercial operators. Commercial operators insist that there is no difference, that they do just as good a job as government-lotteries at protecting the consumer. I'm sure that U.S. commercial operators will lay claim to being just as good as lotteries at consumer protection, security, and integrity. Lacking real data hindered our ability to influence public policy. So the European Lotteries Association conducted tests and surveys to find out for sure and to have the concrete data to substantiate our claims. We wanted to determine whether the commercial operators verify the age and identity of the i-gaming players. The results are in and reveal that a proper identity check is not done by even half of these commercial operators. Age verification is not done by about 40% of these operators. Our research confirms what we already knew to be the case. Protection of the consumer requires an approach to business that is simply not part of the way commercial enterprises think. It's not enough to comply with the letter of the law. The operator needs to truly embrace the spirit of the law for any measure of responsible gaming and consumer protection to be effective. For one thing, governments do not have the resources to constantly monitor the actions of gaming operators. For another, without a genuine commitment to the spirit of the need to protect the consumer, there are countless loopholes that undermine whatever mechanisms are put in place to create the appearance of consumer protection. For instance, a basic feature for any effective Responsible Gaming (RG) system is to enable the players to set limits for themselves. Too, operators of i-gaming should have some limits that apply to everyone. But when there are multiple operators, each operator has an obligation to ensure that the player is not getting around these limits by opening accounts with more than one operator, and in effect exceeding the limits by playing on multiple accounts. This is one of many reasons why it is imperative that proper identification be performed, which most commercial operators do not do. But then, there needs to be a system for ensuring that players do not open multiple accounts. Again, that is the kind of thing that can be done technologi-

cally, but there has to be a genuine commitment to wanting to do it. Commercial operators may be willing to comply with the law (when they are forced to). But it is just not part of the commercial profit-driven culture to proactively assume costs that will have the result of reducing revenues and profits. Hopefully, they would do it when required by law. But it is just not realistic to think that they will go out of their way to spend money on RG measures that reduce their profits. Lastly, and this will astonish you, most operators have no limits to how much a player can wager and lose. 67% of the commercial operators are accepting bets that exceed one million Euros! Not only does this contradict any claim to a culture of Responsible Gaming or protection of the consumer, it creates a wide-open vehicle for money-laundering by organized crime. These are the facts. The challenge is to ensure that shapers of public policy are aware of these data and realize the significance of it.

It should not be so difficult to communicate these ideas to our political constituents. But it is. One example. A member of the European Parliament, who is now writing a report on online gambling, argues that more restrictions will just cause more operators to go underground in order to avoid the restrictions. And that the best way to fight against illegal operators is in the competitive market-place – by providing a competitive option for the consumer. The problem with that, of course, is that the end result of this line of reasoning is that all gaming operators, including Lottery, will be forced by the market-place to offer a 95%+ payout percentage. Which means that the Lottery model, which depends on a higher margin to go to worthy causes, is unable to offer a 95% payout percentage, which therefore means that they will not be able to offer an option that would appeal to the consumers or be at all competitive in this kind of an open market-place.

Now, some of you may be thinking that this does not apply to you because you have a monopoly in the traditional games and these illegals cannot sell lottery products. You might think that the illegals have a small percentage of the market now, that UIGEA and the indictments against Pokerstars and Full-Tilt have effectively minimized the illegal activity, and that these are gaming categories that you are not presently operating in anyway. Of course, there is truth in that and that makes it ap-

pear that the dangers are not imminent. The thing is, the need for action to prevent the inevitable is imminent and urgent. Did you all see the presentation by James Maida (founder and CEO of Gaming Laboratories, GLI)? He explains just how and why the community of commercial operators are right now evolving everything in ways that will completely up-end the entire industry of recreational gaming and wagering. And that will include government-lotteries. The fact is that the creative and entrepreneurial minds of the commercial community are being empowered by new technology to deliver the most incredible variety of game content ever seen or imagined. And to the point: these technologies and the new kinds of content will obsolete the regulations that we depend upon to protect our business models. For example, How exactly do you define "gambling," or "lottery," or "skill game?" What about "wager," or "consideration?" What if there are ways to deliver value to the consumer that do not involve payment in currency? How will social money-games reshape the entire industry? The answers to these questions will, unfortunately, be forthcoming sooner than anyone is prepared for them. And if we wait for the outcomes to become embedded in the firmament of the market-place, it will be too late to do anything about it.

That is why the first line of defense is to establish that this industry must operate according to the rules of law. That means educating our political constituents, the media, the general public on the importance of enforcing the laws that prohibit illegal Internet gaming. Without an abiding commitment to the mission of enforcing the law, the next step won't matter. The next step is to protect the lottery model that ensures high margins and the requisite funding for the benefit of society. We need to do what we can to ensure that the shapers of public policy understand that billions of dollars/euros are at stake. Without proper consideration for how the laws must evolve to protect the lottery model that is based on high margins, the events of the coming years will constitute the biggest transfer of wealth from the public interests over to private interests that the world has ever known. I know it sounds over-dramatic, but it is unfortunately true. The very survival of your lottery model is vulnerable and is being threatened.

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E-CRM Customer Relationship Management in the Digital World

Jean-Luc Moner-Banet
Managing Director of Loterie Romande, Switzerland
President of the World Lottery Association (WLA)

Smart-Tech Presentation, New York City, April 2013 …

The below is an edited version. Visit www.PGRItalks.com to view the Power-points and complete video-recorded presentation which includes much more detail and supportive data.

First, I want to thank Paul and PGRI for supporting and promoting the World Lottery Association like they do. We appreciate the opportunity to work with PGRI to facilitate international communication between lottery operators. Communication between lotteries is so vital. Lottery operators share many of the same goals, business models, vendor relationships, and strategies for improving business performance. We also share many of the same challenges. And the beauty of our industry is that we are all operating in different environments. This combination – lotteries pursuing similar objectives within differing circumstances and not competing with each other – creates fertile opportunity to learn from one another. Helping lotteries to accomplish more by working together is what the WLA is all about. If you are not already a member of the WLA, I would encourage you to consider joining the membership of 143 lotteries from all around the world. We are all dedicated to the same goals of increasing funding for Good Causes and protecting the consumer.

As you can see, this industry is changing in very big ways. It is more important than ever that we harness all of our resources and work together to defend the government-gaming model and the interests of our stakeholders. The issues that we face as an industry are becoming more and more global. Paul and I have often discussed how events are now unfolding in the U.S. that, in many respects, mirror the way that the European industry has already evolved. European lottery operators have been dealing with so many of the questions that U.S. lotteries are just now confronting. For instance, how important is it to fight for the right to make lottery products available over the Internet? How do we persuade our political constituents that lottery should be sold over the Internet? How do we minimize channel conflict and enlist the support of our retailers for multi-channel distribution? What are my precise objectives for creating an Internet connection with the consumer? In fact, when Paul told me that I should be challenging and provocative, I replied that's not necessary because the issues themselves are of such immediate and pressing concern to everyone.

There are three themes that I would like to present today. My first thesis is that the Internet is not just a channel for selling more products. As a hub for interpersonal interaction, media communications, and business and commerce, the Internet has become integral to every aspect of our lives. Literally nothing happens without being broadcast over the Internet. If Lottery wants to be a part of the lives of consumers, we need to be a part of this digital universe where the consumer lives and breathes. Second, the record shows conclusively that adding the Internet to the mix of distribution channels does not cannibalize land-based retails sales. The Internet actually augments

THE WORLD LOTTERY ASSOCIATION (WLA)

The World Lottery Association was formed in August 1999 by combining AILE, the International Association of State Lotteries, and Intertoto, the International Association of Toto and Lotto Organizations. It has grown into a global professional association of 143 state lottery and gaming organizations from more than 80 countries on 6 continents, with member revenues in excess of $200 billion. All members adhere to the strictest standards of social responsibility, responsible gaming, security and risk management, and contribute the majority of net revenues to good causes. One aspect of the WLA vision that will be increasingly important is to support and respect the duly authorized legal systems which determine where, and in what form, gaming products can be provided to the citizens of a particular geographical or national territory. The commitment of the WLA members' to the highest standards of corporate responsibility is reflected in the WLA Responsible Gaming Principles and Framework, and the Security Control Standards, both of which have certification processes that serve to elevate the effectiveness of its members. The WLA is committed to sharing knowledge and experience amongst its members, and holds many educational seminars all around the world to promote knowledge, understanding, and Best Practices in the government-gaming business.

The WLA very much appreciates your support and active participation.

Please visit our website www.world-lotteries.org. And check for updates on the next World Lottery Summit, to be held in the Eternal City of Rome in November of 2014. ◆

A colorful variety of games

the consumer connection that ultimately drives more store traffic and benefits the retailers. And third, the main benefit of the Internet is as a Customer Relationship Management tool. It is the dynamic online relationship that creates an engaged consumer whose retail purchases actually increase even as they go online to interact with the Lottery. The "multi-channel" player becomes a more active, and valuable, customer.

I would frame my theses around the fundamental concept of evolution. As we all know, change and evolution are happening exponentially. The technological and sociological changes that happened over the course of the nineteenth and twentieth centuries are probably greater than the previous two millennia. The changes over the last fifteen years are probably greater than all those of the twentieth century. Just look at the way your work-station has changed. We are no longer tied to a land-line telephone and desk-top computer. Our work-station travels with us wherever we go in the form of our Smart-Phone and note-book computer. Think of the impact this has on everything we do. Ideas are shared instantly. For young people, the story of their lives unfolds on a minute-by-minute basis on Facebook and Twitter. Photos are e-mailed and posted to Facebook in real-time. This is much more than a revolution in communications and media. It is a revolution in the way we live our lives. Instead of gathering to spend a boring evening watching slides of our friends' vacation, our stories are being shared online and in real-time. As consumers, we are becoming expert at quickly identifying that which interests us and deleting that which doesn't. Those of us with teenage children can see the dramatic impact this has on everything they think and do. This interconnectivity effectively projects every aspect of their lives out into the world via Facebook. There is unobstructed access, total transparency. They live it, all their friends live it, and they expect their commercial relationships to abide by the same cultural norms of open-ness and easy 24/7 access.

Look at the evolution in the way information and media is stored and disseminated. Printed newspapers are struggling because the Internet is a more efficient tool for accessing the news we need. It is so easy to quickly identify the relevant news. Access is free and readily available wherever we are and whenever we want it. And the music industry: CD's replaced the vinyl records just 25 years ago and now CD's are obsolete. It's hard to say how the business model for distribution of music will evolve. And the way we take notes electronically instead of on paper enables us to cut and paste and save and recast those notes for all different uses. Instead of hours spent organizing scrapbooks of memories, photos are now saved on our smart-phones and catalogued for future reference. And instead of carrying bulky books on the airplane, most of us read our i-Pad or Kindle. Though some of us still enjoy reading hard-copy books at home! The tools that make all this happen are all controlled by us. And so now we don't have to wait for others to deliver the news, develop the photos, go to a bookstore, or send communiques.

These changes are being enabled by technology, but they are being driven by the consumer. It's not the consumer's job to worry about the business model of the newspaper or music industries. In fact, it's the job of the commercial enterprise to figure out how to keep up with consumers and evolve its approach to meet those needs. Which brings us to the Gaming Industry.

In the commercial world, gaming has evolved from the big gaming arcades to the sophisticated games being played on the iPhones. And computer non-money games (which are actually very profit-

able for the operators) now have absolutely astounding graphics and engaging story-lines. And that's all happened over the last ten years. How much has the Lottery industry changed in the last ten years? In fact, how much have we changed in the last thirty years? The appearance and functionality of the terminals has hardly changed at all. We sold Instant scratchers back then in much the same way that we do now. Point of sale now includes electronic signage, but otherwise not much has changed.

It has been pointed out that i-lottery sales remain a relatively small percentage of total sales, even for those lotteries which started to sell over the Internet some years ago. There are two things about this picture. First, 15% annual growth from a small base does not amount to much. But for Loterie Romande and others like us, that base has now grown to 8% and more. Now when we grow at 15%, the growth becomes meaningful and the Internet will be contributing more and more of the funding to our government. The more interesting dynamic, though, is the behavior of the consumers who play on both channels, land-based retail and Internet. The Camelot Group in the UK has done some in-depth research and analyses and determined that consumers who play solely at land-based retail spend $5 GBP pounds per week, those who play solely on the Internet spend 10 GBP per week, and those who play at both retail and on the Internet spend almost 12 GBP per week. The consumer who plays on the Internet spends twice as much as the retail consumer. Perhaps the demographic profile is different, maybe younger and higher income which would be good? And, most significantly, the multi-channel player is more engaged than the player who plays only at retail or the player who plays only online. This is so important, not just because we want to increase sales and funding for Good Causes. It is important because it puts Lottery on the right track of evolving with and connecting to the consumer, of getting into the digital lifestyle world where the consumer lives and breathes, of repositioning lottery so that we become an example for how a consumer-focused company can change and adapt with the market-place. Unfortunately, changing course for government-lotteries is like changing the direction of a 150,000-ton freight ship. It does not happen over-night, but the necessity and urgency of adding the Internet is clear and demands our immediate attention and action.

Commerce is no longer about just advertising and distribution and convincing consumers to buy our products. It's about building relationships. And that is what e-CRM is all about. Customer-Relationship Management (CRM) involves creating a dynamic interaction between enterprise and consumer. Without this dialogue, you do not really have an engaged customer, you just have an anonymous consumer who may or may not buy your product. E-CRM is just the application of the Internet to facilitating the flow of information that is at the heart of CRM. This is where the transformative power of the Internet really lies. It ultimately does translate into more sales and funding for Good Causes. But it's important that we not limit ourselves to thinking of it as a marketing tool. Instead, we need to think of it in a much more expansive way, as a process of relating directly to our customer, of getting to know them and enabling them to get to know us. The Internet can be used to create a whole new platform for interacting directly with the consumer. The concrete applications of e-CRM are abundant, and are a far more effective way to connect to the consumer than tra-

OUTSOURCING OF LOTTERY SALES FORCE:
OPPORTUNITIES AND CHALLENGES – TEXAS LOTTERY CASE STUDY

MODERATOR:

Gary Grief, Executive Director of the Texas Lottery

PANELISTS:

Michael Anger, Texas Lottery Operations Director

Joe Lapinski, GTECH Texas Account Development Manager

Tom Stanek, GTECH Texas Director of Sales and Marketing

Robert Tirloni, Texas Lottery Products Manager

Smart-Tech Panel Discussion, New York City, April 2013 …
The below is an edited version. Visit www.PGRItalks.com to view the Power-points and complete video-recorded presentation which includes much more detail and supportive data.

It all begins and ends with clear *communication*, before and during the procurement process, in the contractual agreement process with commercial partner(s), and in the daily interaction with vendor partners, at all levels of both organizations.

Alignment – Goals must be clearly aligned between Lottery and Vendor Partner. Contract terms, incentives, and organizational structures must all be geared towards supporting that alignment

Collaboration – The purpose is to work together to glean the best ideas and ensure that the skill sets of both organizations are being used to their greatest potential

Flexibility – Recognizing that not all situations can be covered by a contract, Lottery and Vendor Partner must both be flexible and willing to do what is best for the Lottery, whether it's required by the contract or not

Execution – Results depend on seamless Alignment, effective Collaboration, and Flexibility. The final step is to execute the plan, review the plan, and adjust the plan when necessary, all in the interest of maximizing revenue and optimizing outcomes for the benefit of your state and stakeholders

INTRODUCTION BY GARY GRIEF: In a panel discussion at PGRI's last conference in Miami, Paul Jason asked me to clarify the difference between "Private Manager Agreement" (PMA) and the "Texas model." Both involve outsourcing major portions of business operations to a commercial company. That led to much

further discussion and the conclusion that it will take more than one session to fully explore the topic of outsourcing, business operating models, and owner-management structures.

It was about six years ago that the term "privatization" was first applied to lottery. States were exploring new ways to generate funds to offset budget deficits and also looking for ways to enhance the performance of their state-owned lottery. The idea was that if you could privatize a toll-way, you could privatize a lottery. Not surprisingly, there are a number of obstacles that derailed this concept of "selling" the state lottery. Then in 2010, the state of Illinois implemented the first "Private Management Agreement" in which most of the lottery operations were outsourced to a "Private Manager" (Northstar Lottery Group, a partnership of GTECH and Scientific Games). Jodie Winnett was the superintendent of the Illinois Lottery who spearheaded the transition of the Lottery to Private Management. I was just reviewing an interview with Jodie in PGRI magazine from 2010. She emphasizes that nothing was being "sold." She describes the process of hiring a manager to operate the lottery as being simply a form of outsourcing, perhaps more comprehensive than others had done, but a form of outsourcing nonetheless.

The fact is that all lotteries enlist the services of commercial firms to assist in the operations of the lottery. In that sense, all lotteries have always "outsourced" at least some business functions. Some states choose to retain control of more business and operational functions than others. Texas outsources more than most. And Illinois and Indiana outsource more than Texas does. But the difference between lotteries as regards to outsourcing is one of degree, not kind. State legislators, not the Private Manager, will always be the ones who stipulate what games can be offered. And regardless of how much of the operations are outsourced, I would think that states would always retain some strategic oversight and be involved in matters relating to security and integrity. Lotteries are not sold, at least not in the U.S. The issue is whether outsourcing will produce better results. And if so, how does one assess which functions should be outsourced? And how does one go about the process of outsourcing for maximum effectiveness and benefit to the state?

There are a myriad of factors that go into the decision of what business functions to outsource. Jurisdictions, public policy objectives, market-places, existing management infrastructure … these all vary from state to state. So there will never be one "best" model that applies to all circumstances. I hope, though, that it might be useful to all of us to become more informed about the pros and cons of different approaches. The Texas model is just one approach. Paul asked me to begin the process of analyzing this broad topic by explaining the Texas model, how it works and why we chose to go this route. I asked our team leaders to assist me in this.

My goal today will be to paint a clear picture of how the Texas Lottery effectively outsources the lottery sales force while maintaining appropriate control and oversight. Our collaboration with a commercial partner has yielded record breaking sales for the last several years in Texas, occurring in the midst of a very challenging gaming environment in our state.

With me today from the Texas Lottery are Michael Anger, Lottery Operations Director and Robert Tirloni, Products and Drawings Manager. Michael has been with the Texas Lottery for 18 years, Robert 16 years, and they both play critical roles in the

success of the Texas Lottery, and in the oversight of our Sales and Marketing efforts.

I invited two managers from GTECH Texas to join this panel. Joe Lapinski, Account Development Manager, is my counterpart at GTECH in Texas. Tom Stanek, GTECH Sr. Director of Sales and Marketing, manages the sales force in Texas. Just like Michael and Robert, Joe and Tom are colleagues of mine and critically important members of our Texas Lottery team. Although they are GTECH employees, they work under our direction and have a keen understanding of the need for our goals to be aligned.
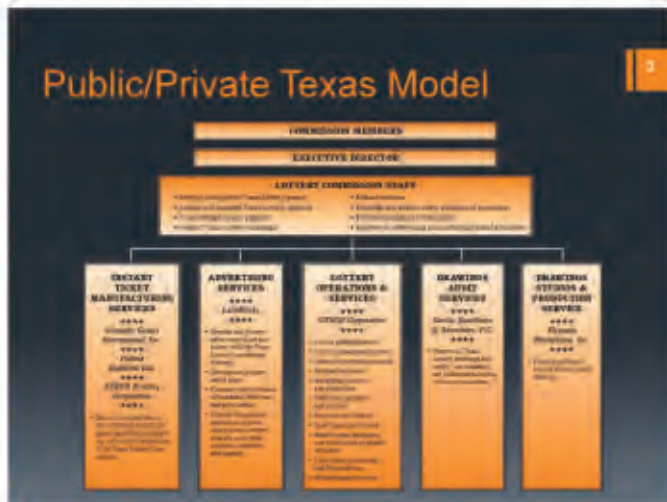
G. Grief: Let's start with Michael. Why did the Texas Lottery choose to outsource sales in the first place?

MICHAEL ANGER: Our challenge was that we were severely limited in the number of full time employees that were allocated. In fact, the staffing limitation made it next to impossible to launch and operate a lottery in the traditional manner, with sales and most other functions being executed by staff employed by the state lottery. When the Lottery was launched in 1992, the start-up task force contracted with a company called the Lottery Support Group, headed by John Pittman, to assist Texas in launching its lottery. It was John's brainchild to overcome the staffing obstacle by taking traditional lottery industry outsourcing a big step further than had ever been done before. The team embarked on an analysis of all aspects of the lottery's operations and identified several critical functional areas of day-to-day operations that could be outsourced beyond the traditional operating models at the time.

These included several that were ultimately incorporated under our Lottery Operations and Services Contract. Some examples include:

- Retail Ticket Ordering and Hotline Support
- Warehousing and Distribution
- Sales Force Services (including fleet management and support)
- This chart depicts the details of how we have structured our organization which involves significant outsourcing while maintaining what we believe are critical in-house functions for the lottery to perform directly
- Functions were separated into two categories: Functions identified as the core regulatory and public service business functions best performed by a public entity (i.e. the Lottery). And

functions identified as those that could be effectively managed through an outsourced private vendor partner

G. Grief: Robert, can you tell us more about how you integrate an outsourced sales force into your overall sales and marketing plans?

ROBERT TIRLONI: I think illustration of how we have organized our internal marketing teams at the Texas Lottery might be helpful. Texas does not have a Marketing Division per se. In 2004, we re-organized and moved our critical business operating units, including the teams that direct our marketing, advertising and sales efforts, over to the Lottery Operations Division. So, Lottery Operations houses all those units that operate the agency's main lines of business while the other divisions in the agency are support divisions for Business Operations. That includes purchasing and contracts, facilities, research, the controller's office, etc.

Product development, marketing strategy development, product promotion including design of player and retailer contests, retailer development and outreach, retailer incentive program management … these are all housed in the Lottery Operations department.

The team that oversees and manages all of the advertising services for the agency (including the development of advertising concepts, media planning, media buying and overseeing and managing all promotional events) is housed in our Advertising, Promotions and Validations Dept.
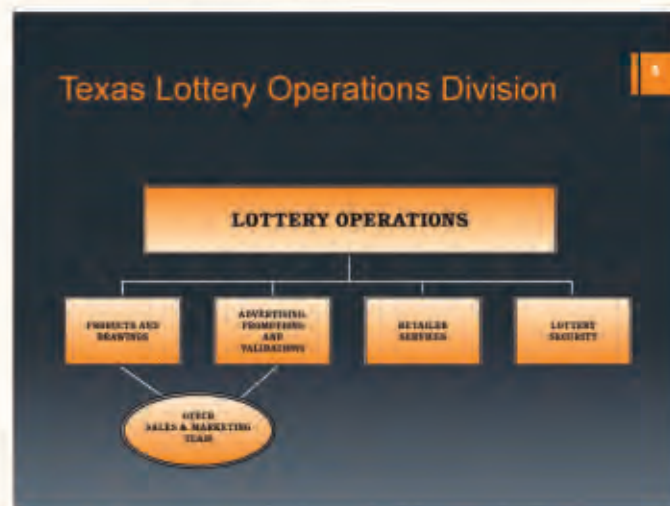
The question is essentially how do we integrate and create alignment between the GTECH sales and marketing management team and the Texas Lottery Operations department. GTECH is at the table with us as new products are planned and developed, we work together on deciding the products that have the greatest potential for sales and revenue growth, we work together on product support and incentive plans, on how all these plans get seamlessly executed by the sales teams, and finally on how it all comes to life at retail. A few key words to sum up: planning, collaboration, alignment and constant communication.

G. Grief: In the beginning, wasn't the idea of outsourcing sales a foreign concept?

MICHAEL ANGER: Yes! At least back in 1992, and among U.S. lotteries. The Sales Force is one of the crucial components

TURNOVER
UP 275%

PAF's turnover is up 275% after
Sportsbook re-launch

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of the success or failure of any lottery. The Texas Lottery was the first in the U.S. to use this approach and it was not without risk. As was explained, we were constrained to operate within a cost structure that required creative thinking and major outsourcing. The thing is, though, we turned that constraint into an advantage. We thought long and hard about how this could be turned to our advantage, and embraced the strengths that an outsourced sales model could bring to our operations and chose to look at this as an opportunity to achieve better performance and results.

We identified two key areas where a private vendor would bring advantages to the table. First, they would have more flexibility to incentivize sales performance. Second, they would have more flexibility to manage sales force staff schedules, geographical resource reallocation, and other day-to-day staffing management issues. The traditional government pay and operating structure does not afford the same level of flexibility.

JOE LAPINSKI: As an outsourced sales organization, it is imperative that even though we are employed by GTECH, we are also the face of the Texas Lottery to the retailers and consumers of Texas. Every sales representative throughout Texas understands that with each and every retail visit they must act not only within the prescribed policies of the Lottery, but in the best interest of the Texas Lottery's brand and reputation. To accomplish this, it is critical that we align ourselves with the Lottery's objectives and required service levels. It is vital that these objectives be clearly defined and the critical importance of them be effectively communicated throughout the sales organization.

As illustrated in the graphic, GTECH's responsibilities encompass a wide range of activities that have significant impact on the communication and service provided to retailers in Texas. Along with the commonly outsourced functions such as call center and field technician services, we are also responsible for sales visits, corporate account relationships and services, merchandising, retailer training, and promotional event execution. These functions support a market place that is continually evolving and becoming more competitive. As a private entity, we can offer the Lottery solutions that would otherwise not be possible. GTECH Texas and the Texas Lottery work together to periodically redefine sales incentives, modify organizational structures and roles, redeploy capital, etc. The thing is, GTECH is able to execute in ways that

would be very difficult within the construct of a public entity like a state lottery. Sales incentives and sales rep contests that are standard operating procedure in virtually all sales-driven organizations do not readily fit into state government employment and compensation structures. That is one big advantage to outsourcing sales force management.

Another advantage is our ability to quickly respond to changing circumstances. The retail markets we serve are continually evolving and, like all sales organizations, we continually work to identify new opportunities to improve service and/or increase sales. We continuously evaluate the structure and roles of our organization to optimize the balance between meeting service level requirements and increasing sales. When changes to our organization are warranted, we can respond quickly, reallocating resources, including people, vehicles, and facilities when justified.

We approach these changes methodically and deliberately, testing and taking steps to minimize uncertainty and risk. But if the results do not meet expectations, we have the flexibility to adjust our course as needed. A culture of continuous improvement requires that kind of flexibility to change as needed.

G. Grief: Michael, from the Lottery's perspective, what are the most significant challenges with outsourcing the sales force?

MICHAEL ANGER: Maintaining proper alignment. The key from the lottery's perspective is establishing appropriate controls over sales force management to ensure alignment of key business objectives. There are significant differences between a pure, for-profit business and the type of public sector business that we run on behalf of the Texas Lottery Commission and the state of Texas. The lottery must balance the goals of increasing sales and revenue with meeting the needs of the public. Public service needs are not always congruent with a lottery's for-profit partner. For instance, we require that all retailers be visited at least once every two weeks, regardless of sales volume. There are other support and service functions and standards that may be compromised in the interest of cost savings if they were not required. There may be games (e.g. special-cause beneficiary games) that are not as profitable but still need to be offered simply because they are a priority for the government.

The Lottery must be clear in its expectations, and build them into the contractual requirements in order to ensure alignment of the mutual goals of the parties. Too, it is important that the lottery communicate the rationale for the requirements to its vendor partners to help ensure understanding and buy-in. Clearly understood expectations ensure that the parties will not work in conflict with one another.

However, there must also be balance. Contractual controls must not be too restrictive or they unduly restrict the flexibility and innovation that a private-sector partner can bring to the equation of operating the sales force. The ideal contract protects the public's interests while allowing for both the lottery and its vendor partner to be fully aligned and able to innovate and execute in the marketplace.

G. Grief: Tom, as the Senior Director of Sales and Marketing in Texas, can you share your thoughts on this and detail how you used these parameters to build your organization?

TOM STANEK: You have identified one of the trickiest issues for us as a private entity partner to a government lottery. It is, as you point out, Michael, a balancing act. It is the flexibility and focus on innovation, change, and continuous improvement that a private-sector partner hopefully should bring to the lottery operations. But it is vital that we not only fulfill all of our contractual obligations, we must stay aligned with the spirit of all the public policy objectives whether they are enumerated in the contract or not.

From a GTECH sales and marketing perspective, it all starts with alignment and transparency. You referred to the need for the private sector partner to understand the rationale for the requirements and expectations placed on us. The reason we need to understand that is because we look past the obligation and try to exceed your expectations. Our team needs to clearly understand not only the defined service levels but your public sector priorities and concerns. Sometimes the best interests of the lottery are not perfectly aligned with maximizing sales, and we need to understand how and where that may be the case so we can act accordingly and to your expectations.

As you mentioned, Michael, we took the approached that our organization would have characteristics of a hybrid design - integrating best practices from both the public and private sectors. Be nimble enough to react quickly to market needs while dedicating resources to ensure compliance to our contractual obligations. This holds true for our sales representatives, research team, distribution clerks, etc.

In the end, having you allow us to be flexible within clearly defined parameters permits us to be creative and to innovate to optimize results. Combining that with the capital flexibility of a private vendor allows us to continuously be productive in the ever-changing consumer and retailer environment.

G. Grief: The structure of the sales force in Texas has changed over the years. There were some significant modifications when we executed our latest contract in September, 2011. Tell us about how the sales force, the staffing structure, and other functions have changed over time to best meet the needs of the Texas retailer market?

JOE LAPINSKI: Balancing public and private initiatives is always top of mind when designing and evolving our sales and marketing organizations. In the most recent overhaul, we lit both ends of the wick and conceptually designed two distinct organizations. One fulfilled the traditional state and contractual obligations and the other focused solely on revenue generation. We then merged those organizations, eliminated redundancies, took the best of both worlds, and used that as our road map. We redesigned our base sales organization (traditional managers, reps, etc.) converting from 10 districts to 13. We created a new 18 member merchandising and business development team focused exclusively on recruitment and new sales opportunities. And due to the increase in our Texas-based corporate accounts, we revamped our entire Corporate and Chain account team.

As we were designing and altering our field organization, we continuously evaluated the team's support functions which led us to redesign our entire marketing team, adding research analysts, a graphics designer, promotions coordinator and trainer and positions and in the warehouse and distribution teams. Once agreed upon, all of these changes were implemented in less than 6 months.

While changes may look good on paper, the bottom line is that integration of all disciplines and proper communication is and always will be essential for proper execution.

G. Grief: An example of that occurred last year when 7-Eleven purchased over 180 stores from Speedy Stop (a convenience store chain in Texas). Our contacts at 7-Eleven requested that the change of ownerships for all stores occur within one week. We received word of this project on a Wednesday evening and through the dedication of your retail service team and our field-based team working through the weekend we were able to complete all 180 plus change of ownerships by Tuesday of the following week. Our customer was quite impressed.

Robert, how does the Texas Lottery ensure that the challenges in outsourcing a sales force are properly addressed from a contractual standpoint?

ROBERT TIRLONI: The first step is to include your service level expectations in your RFP. Then they will need to be built into the contract in the form of requirements. As was noted, those stipulate the number of retailer visits and specifically what must be accomplished on each visit.

The next step involves compliance. There must be mechanisms to ensure that contract requirements are being met, and that our retailer base is receiving the appropriate level of services so they continue to stay positive about their role as a Texas Lottery licensee. We handle this a few different ways. For instance, the sales rep' must sign-in to the terminal when they are at the retailer location. If the required visits are missed, sanctions are assessed. That's very binary – the rep was either there according to the visitation schedule or they were not there.

But we feel we need to dive deeper and measure the level of service delivered on the retail visit. We utilize the staff in our 16 claim center offices to conduct Retailer Research Surveys. Among other things, these surveys:

- measure retailers' overall satisfaction with the support services and functions provided by the Texas Lottery and GTECH;
- collect observational data on the working condition and placement of lottery equipment, including ticket dispenser inventory, price-point configuration, empty bins and display of

GTECH Texas Organization

marketing pieces; and,

- determine whether play-stations and consumer alert decals match Texas Lottery-established specifications.
- elicit open-ended feedback as to the level of service the sales staff is providing to the retail base.

Lastly, I have two staff members in my department that have a dedicated retailer focus. The Retailer Outreach Specialist spends most of his time on the road visiting retailers to obtain feedback regarding opportunities to enhance retailer support, improve service, and further develop retailer relationships. Sales Force service issues are communicated to GTECH for documented resolution. Among other things, the Retailer Development Coordinator conducts small group retailer meetings around the state. These meetings are used to communicate information and get retailer feedback about any sales force issues.

So there are many requirements detailed in the contract that GTECH must meet, and we have a variety of reporting and compliance tools to measure performance. These tools are augmented, though, by an over-arching commitment by everyone to deliver the highest level of service and ensure our retailers are receiving all they need to maximize sales.

G. Grief: Tom, tell us about how you ensure superior performance in operating the Sales Force under the Texas Model?

TOM STANEK: Retail Execution for us is not just about sales.

As Joe mentioned earlier, our initial understanding must be how to properly represent the Texas Lottery brand to consumers, retailers, and the general public. That all stems from one major initiative: customer service. Even though we call our organization a "sales" force, we feel that the best way to create sales is to deliver service and support to our retailers. Servicing our retailers from change of ownerships, to assisting in application renewals, to supporting accounting needs, or assisting with grand openings, all lead to building strong relationships which we can leverage to promote lottery sales. We survey 1,000 retailers every quarter to measure their level of satisfaction. The service and support that our sales and marketing organization provide to retailers consistently has over a 95% good to excellent rating. These ratings would not be as high if we were not properly aligned and executing at an elevated level while continuously being flexible in our service parameters. This survey also offers the Lottery a vehicle to measure our performance.

G. Grief: Any examples of things that GTECH as a private-sector company is able to do that we, as the Texas Lottery, may have been constrained from doing?

TOM STANEK: We have the flexibility to apply special project-focused incentives for the sales people to work hard to accomplish a particular objective. Frankly, that can often spell the difference between success and failure. For instance, as a part of our new con-

PGRI Introduction: Effective execution depends on seamless integration of operational teams from Lottery Operator and its commercial partners – creating a unified team pursuing a singular mission. That can be challenging even when there are only two parties involved. This challenge is complicated when innovative solutions come from third-party vendors. What are some of the obstacles to forging that hand-in-glove teamwork between commercial partners and the lottery operator; and how can those obstacles be overcome? What can be done to lower the barriers of entry for third party vendors whose products and services would, given the opportunity, contribute to the success of Lottery? How can contracts be constructed to smooth a path to integrate innovation from these new entrants into the lottery business? And how can contracts be designed that support a true partnership, alignment of objectives, and drive peak performance of all commercial partners?

DESIGNING CONTRACTS THAT ALIGN THE OBJECTIVES AND ACTION-PLANS OF THE LOTTERY OPERATOR AND ITS COMMERCIAL PARTNERS

MODERATOR:

Gardner Gurney, Acting Director, Division of the Lottery, New York State Gaming Commission

PANELISTS:

Jeff Anderson, Executive Director of the Idaho Lottery

Sean Athey, Vice President, System Sales. Scientific Games

Jenny Canfield, Director of Operations for the Minnesota Lottery

Doug Pollard, Co-Chief Executive Officer of Pollard Banknote

Gardner Gurney: *Collaboration happens on all levels. It begins within our own lottery organizations. And it includes working together on the multi-jurisdictional level. Today our panel will address the process of building productive bridges and relationships between lottery operator and its commercial partners. And about creating an effective foundation for collaboration during the RFP and RFQ process.*

What are some of the obstacles to creating a seamless alignment of interests and objectives between the lottery operator and the commercial partner, and how do we overcome those?

Jeff Anderson: I think that you need to have trust and you need to work hard to build that kind of relationship. It is helpful to have people experienced and knowledgeable about lotteries, how they operate, and what are the concerns that drive their businesses and their decisions. For instance, Jenny Canfield's presentation talked about the process of integrating a third-party vendor, Linq3, into

their system. I would have to think that it was helpful to have someone with the in-depth lottery experience of Tom Shaheen working on behalf of the vendor. The concerns of the operator are different from the vendor and it's vital that the people charged with making a complex collaboration work understand where each other is coming from. For instance, issues relating to security and integrity are mission-critical and literally priceless to our brand. The vendor needs to understand that these concerns are really not subject to conventional cost-benefit analyses. There is zero tolerance for risk as relates to those issues and whatever costs must be borne to eliminate that risk simply have to be incurred. Of course, a deep understanding about how systems and IT and operations work can inform the process of finding the most cost-effective way to eliminate risk. Lottery directors are certainly not against finding solutions that are cost-effective as long as they do in fact meet the required standard.

In Idaho, we have what we call Team Lottery that includes not just our associates who work within the lottery, but also our vendors. And when we do our strategic planning, for example, Team Lottery includes our vendors as well as our internal staff. At the Lottery, we know we depend on our commercial partners to execute their part of the business plan. We need everyone who is engaged in the process of producing results to participate in the planning as well. And that certainly includes our vendors. As regards to contracts, each state has different requirements and so it's hard to come up with a standard template. For our part, we focus mainly on ensuring that all parties to a contract simply do what they say they are going to do.

Doug Pollard: I think that trust is the biggest factor. One of the questions that you posed to us related to the notion of "seamless integration." There is much that can be done at the contract level to create alignment. But when you talk about seamless integration of

lottery operator and commercial partners, I would submit that a contract can't anticipate every circumstance, and a contract can't create a good partnership. Seamless integration can be only created by building a relationship based on trust, understanding of each other's goals, and constant and open communication. You can't escape the fact that vendors and lottery operators have different stakeholders and so have different core missions. What we all can do, though, is recognize that the goals of both vendor and lottery will be best accomplished by building a relationship based on trust and working together to that end. Detailed and explicit contracts are certainly a very good thing, but they do not replace the need for lottery and vendor to work hard to develop a relationship based on understanding and communication. We need to both seek that win-win and work together to achieve it.

As regards to innovation and fresh ideas, having a healthy and broad base of suppliers working hard to compete for and earn your business and create a happy customer is the best way to drive innovation.

Sean Athey: I agree with Doug. Trust is key to an effective collaboration and good relationship. We find that lotteries differ greatly in their approach to the business and those differences are not always addressed in a contract. There can be underlying political or regulatory considerations that are difficult to spell out explicitly in a contract and yet can be crucial to a Lottery's ability to operate with the support of its stakeholders and constituents. Some lotteries push us to innovate. Others are more conservative and not so anxious to depart from the tried and true ways of doing things. We need to be sensitive to this nuance even though it may not be enumerated in the contract. We need to earn the trust of the lottery by demonstrating that we appreciate all of their concerns, whether they are explicit in the contract or not.

However, I do think that more attention could be given to the RFP process. The industry is changing such that templates that may have worked three years ago are really not adequate for today's environment. It takes time and resources to build new approaches to the RFP process. But it would be worth the investment to improve the RFP process. Thinking of the RFP as strictly a procurement process is itself very limiting. The RFP process is actually the perfect opportunity to think deeply about your business plan, what you want to accomplish and how you want to accomplish it. Ideally, the vendors could even be integrated into the process. Lotteries could tell the vendors what they would like to accomplish. Define some of the constraints, and invite the vendors to offer up some ideas. Vendors, all of us, have lots of ideas that might stimulate the business, and those ideas could possibly be integrated right into the RFP process. We work with lotteries that have done it this way and it has worked well. They did not necessarily embrace all of our ideas. But they did consider our input, they raised their expectations, and integrated some of the ideas into their RFP.

Jenny Canfield: I completely agree with you that the RFP process used by lotteries is not working well and that we need to improve it. Creating an open architecture that facilitates integration of new solutions, new products, new content, new technologies, and comes from a variety of different vendor sources is critical. We do not know what the world will be like in five years. We do not know how technology will change, what new products and technologies will be available, or what the markets will be demanding five years from now. We don't even know what two years will look like. So we

need to be strategic in terms of how we construct those contracts. Obviously, we all need to comply with the requirements of our state and procurement officers. But we need to evolve the process in order to reduce the cost and complication of adding new suppliers and otherwise innovating the business.

Gardner Gurney: *We are working on those same issues in New York, Jenny. It's challenging because the cost to vendors is brought down by amortizing out the cost of their investment over a longer period of time. That reduces their costs and so reduces their price to the Lottery. Of course, w doe want a process that secures the lowest cost to the Lottery. But we also want the end result to be flexible to accommodate new products and technologies. There is no easy solution. One of the things that we did do on the Instant game printing contract is to insert a provision that enables the primary vendor to make a percentage off of our net profit. That encourages the vendor to focus on sales minus prizes. I think all lotteries are focusing more and more on net profit as opposed to top-line sales. So our bonus structure includes provisions for rewarding net profit as well as incentivizing top-line sales generation. Vendors tend to think of this as a sales-driven business because our margins are so high. But along the lines of what Jeff was saying a few minutes ago, lottery directors must think about a much wider variety of concerns than just increasing sales. Managing costs and maximizing net income are considerations that do not just boil down to the simple maxim of increasing sales. And in spite of the fact that lottery margins are big, rigorous management of costs will always be a big part of the state procurement process.*

We are exploring ways to build into the contracts the incentive to invest in R & D. We definitely want to incentivize innovation and the investment that it takes to innovate. We are open to vendor ideas on how that can be accomplished. And every lottery should already be stipulating that the existing vendors, especially the central systems vendor, must cooperate with other vendors who will need to integrate their products and/or technologies into the system.

Our systems and this business are becoming more and more complex. At the same time, the market-place is changing more rapidly which means we have to accelerate the rate of innovation. With the pace of change and innovation growing so fast, and progressive ideas and new technologies coming from a wider variety of sources and new vendors – how can the vendor help the lottery operator overcome obstacles to integrating new solutions and products from third-party suppliers?

Doug Pollard: I do not know that there is one simple answer, but we need to find ways to open the systems up to make it easier to integrate innovation from new vendors. Part of the answer is for everyone to have a real commitment to win-win. The Lottery, the central systems supplier, and the third-party vendor can work together to deliver maximum value to the business. It can and should be a win-win-win approach to overcoming obstacles and creating solutions that will help the Lottery grow and prosper.

Sean Athey: Look at what was accomplished in Minnesota. Jenny explained how the Lottery and the vendors worked together, overcame numerous obstacles, and accomplished a great deal in

SCIENTIFIC GAMES PARTNERS WITH IWG AND NEKTAN IN THIRD-PARTY iLOTTERY GAME DEVELOPMENT

SCIENTIFIC GAMES CORPORATION RECENTLY ANNOUNCED THAT THE COMPANY HAS SECURED THE EXCLUSIVE RIGHTS IN SELECT JURISDICTIONS TO OFFER ILOTTERY CONTENT AND SERVICES FROM THIRD-PARTY GAME DEVELOPMENT PARTNERS INSTANT WIN GAMING LTD (IWG) AND NEKTAN LTD THROUGH THE SCIPLAY™ TECHNOLOGY PLATFORM.

Dr. Jerry Bowskill
Chief Software Architect, Scientific Games

The technology platform includes Sciplay. Studio, a suite of integration services that allows lotteries to securely deploy third-party internet-based games. Sciplay.Studio features game integration tools, including a game development kit with standards that ensure the secure and consistent integration of all games across the technology platform.

"Scientific Games has created a catalog of exciting interactive games with numerous play styles, themes and game genres, and now Sciplay.Studio opens the door to even more game innovation from high quality third-party game developers such as IWG and NEKTAN," said Jerry Bowskill, Chief Software Architect for Scientific Games. "Sciplay.Studio enables us to work with our partners to support their innovations and it enables our lottery customers to offer fresh, new, out-of-the-box content to their players that meets all of the standards of integrity and security that they require. Our customers can create high quality game portfolios with innovative content to help grow playership."

With more than 10 years of experience developing iLottery games, IWG is one of the leading providers of internet and instant games to lotteries worldwide. As a major game provider for the U.K. National Lottery, IWG has supplied over 150 games to that Lottery and is currently involved in supplying interactive instant win games to lotteries in Europe, with a strong focus on mobile content.

NEKTAN provides unique, new touch games for lotteries with content and tools that can bridge the gap between social, internet and mobile gaming. With a platform that can offer games across a wide range of devices including computers, tablets, mobiles, betting terminals and interactive TV, NEKTAN is focused on localized game content that resonates with jurisdiction-specific themes, including images of cities, landmarks and more.

The Sciplay platform enables third-party game integration with partners such as IWG and NEKTAN by allowing Scientific Games to generate the game mechanics within Sciplay.Studio, publish an API for the game developer and conduct a formal mathematical simulation to verify the Return to Player game mechanics.

Sciplay.Studio tools support quality game development in both Flash and HTML5, the emerging standard for games that can be displayed on a wide range of tablet and mobile devices. While in production, the game is maintained as an integral part of Sciplay. Studio's support responsibilities for quality and security. Approved games are configured on the Sciplay platform, tested, modified as necessary and released to the production environment as scheduled by the lottery. Sciplay.

These eInstant games were developed by IWG, a Sciplay.Studio partner.

NOTE: These images are concept art.

UNIVERSAL PRINCIPLES FOR LOTTERIES

By Philippe Vlaemminck and Beata Guzik
www.Altius.com

The below is an edited version. Visit www.PGRItalks.com to view the Power-points and complete video-recorded presentation which includes much more detail and supportive data.

In December 2010, the Council of Ministers of the European Union, composed of Ministers of the 27 Member States of the European Union, unanimously adopted a number of political conclusions to be taken into consideration for developing further legislative actions in relation to online gambling in Europe.

Among those conclusions are important statements regarding the specific role of State Lotteries.

THE SUSTAINABLE CONTRIBUTION OF LOTTERY AND RELATED SERVICES TO SOCIETY

13. RECALLS that all EU Member States have different types of state lotteries or lotteries licensed by the competent state authorities, providing lottery services. (…)

15. RECOGNIZES that contributions, in particular from state lotteries or lotteries licensed by the competent state authorities play an important role for society, via for example the funding of good causes, directly or indirectly where applicable.

16. AGREES that this specific role should be recognized in discussions at the European level.

The problems and issues we are facing are common to lotteries all around the world. Problems sometimes originate in Europe, sometimes in United States, but everywhere there are discussions regarding the use of the Internet (and tomorrow's issue of social gambling), that actually all need to be addressed properly. Lawmakers and shapers of public policy are starting to look into manipulation of sport events, the very intense globalization of cybercrime, money laundering risks, and the need to find proper international solutions for these problems through the OECD/FATF guidelines, and universal CSR questions.

Issues large and small abound. For instance, Lotteries around the globe were recently obliged to initiate (through the WLA and EL associations) ICC arbitration regarding the new Generic Top-Level Domain Name ("gTLD") for the extension LOTTO. An Irish private company obtained the rights on the extension LOTTO and can now give licenses to everyone, even illegal operators, to use such domain extension and create confusion all over the world. Logically, both lottery associations (WLA and EL) are fighting against it.

It is thus clear that Lotteries around the world need to become more proactive and work together to defend themselves against these common threats. Take the example of Corporate Social Responsibility (CSR). What we've seen in Europe is that every operator in the gambling industry is going to great lengths to promote their deep commitment to Corporate Social Responsibility. The remote gambling operators have their pan-European level "CEN" standards which they hope demonstrate their commitment to responsible gaming. The reality is very different. The reality is that the community of remote i-gambling operators has diminished the fundamental CSR principles. They pay lip-service to CSR and RG for public relations purposes but do little to help society or protect the consumer. Whereas lotteries' genuine commitment to CSR and RG have resulted in the highest standards of integrity, and an approach to the business that is consistent with the inter-

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ests of society and sustainability, today we see that the word CSR has been banalized by the remote gambling industry. We need to embrace the challenge to consolidate the leadership role of Lotteries in CSR. Better would be to even redefine the meaning of CSR to reflect the difference between what Lotteries do and what the remote i-gaming operators do. Lotteries need to move beyond traditional CSR and put their high values even more at the center of their brand and core values.

Lotteries all around the world actually share the same goals and values. Our political constituents and the public we all serve would benefit by understanding the importance of these shared values. That is why Lotteries would benefit from the establishment of a set Universal Standards that redefine what it means for a business to be committed to creating societal benefit. A set of Universal Standards based on a redefined mission including CSR could be integrated into a global brand of Lottery, powerfully augmenting the market-specific brand that each individual Lottery maintains for itself.

Over a number of years, The European Lotteries developed a number of these principles. Between 2009 and 2011, various resolutions were adopted and further detailed at general assemblies in Istanbul, Barcelona and Helsinki. Despite the differences, Lotteries share the same fundamental values. The EL Association has endeavored to identify, articulate, and reinforce those values. The EL is now working hard to communicate this commitment to all Lottery stakeholders. Central to those values is that Lotteries place social and public order over purely economic interest. Consumer protection, law enforcement, and the fight against fraud and crime are at the center of the Lottery's mission. All over the world, Lotteries play a key role for society by distributing their profits largely to good causes and thereby supporting the non-economic values of today's society. It is these values which separate Lotteries from commercial gambling operators. Even those operators which comply with the rule of law do not have the genuine commitment that Lotteries have to serving and protecting the interests of society. We need to promote that fact!

What Lotteries have been doing at the European level with

The Lottery Partnership Pact :
is there space for a universal
approach?

those resolutions could serve as the basis for developing a framework of Universal Principles that can be used in all jurisdictions all around the world to represent to politicians that how Lotteries operate, their commitment to CSR and RG and serving society in a sustainable way, is actually no different in Europe than in the U.S. or Canada or South America or Asia. Lotteries stand for something completely different than commercial gambling operators, and this difference can be represented in and expressed by a set of Universal Principles. Is there an opportunity for a universal approach? Can we come together in a Lottery Partnership that includes Lottery vendors as well as Lottery operators, and can we promote on a world scale this sustainable partnership with society? Perhaps these three components could serve as an initial basis for such a partnership?

Starting with the partnership with society: We can base it upon the principles that the European Lotteries developed over the years. In Europe we have a name for the concept that all business of lotteries is "embedded in the state." It is an important legal term which we call "subsidiarity." It means that public policy as regards to gaming, gambling, and lottery is driven by the interest of the state and is within the state competence. We are not driven by the interest of a global community, or by some macro-economic ideal of free-market capitalism. The interests of the citizens of the state should be represented at the state jurisdictional level and supra-state entities like the European Union and the U.S. federal government should respect the rights of the state to determine public, regulatory, and taxation policies as regards to this sector.

The second principle that comes from The European Lotteries resolutions is solidarity. Namely, whatever we do, we do it in order to create benefit to society. The creation of a better society is central to our corporate mission and integrated into the fabric of our businesses. And we do it in a way whereby there is no potential compromise on our principles.

The third principle, Integrity, is of the utmost importance. Integrity is what makes a Lottery so different from the private operators who really are more concerned about enriching their shareholders than about their public stakeholders and the community. Lottery must not only comply with the highest standards, Lottery must be the ones to continually raise the bar and set those standards. That will not be hard to do since that is what Lotteries have always done.

The last element is Precaution. We need to take care that everything we do always reflects the highest standards, the Universal Principles that we have established for ourselves. That is our brand and is our most valuable asset and we must take every precaution to protect the societal values and commitments. The Universal Principles include our commitment to protect people against the risks of excessive gambling by offering them attractive but low risk games which are a good alternative for other more aggressive games. We need to study and prevent addiction. We always need to remain ahead of problems and make sure we do not create harm to society. Otherwise we undermine our solidarity principle. So we monitor development. We educate people. All of

that is part of our partnership with society. And we need to have a proactive approach towards making all this happen.

There is also a partnership between the lotteries. Lotteries are promoting a cooperative model, while the private sector is promoting a competitive model. Lotteries are not pursuing a market model driven by competition which results in constantly increasing the prize-payout percentage in order to increase demand. The purely economic cycle of improving the value proposition in order to increase consumption may work well for commodities that do not have social costs. But it is a destructive model to impose on the gambling and lottery industries because it creates problem gambling and addiction.

Lotteries are actually working together but with respect for each other. These cooperative models have proven to be very efficient and very effective, it provides also equal opportunities and solidarity. We see it in coordinated games as EuroMillions, Euro Jackpot and Powerball and MegaMillions. We see that lotteries cooperate, exchange information, and they can do that freely because Lotteries are not competing against each other. This also creates the foundation for sharing values in a big-picture way. It goes back to the basic principle that Lotteries are embedded in their own society, they pursue other than purely economic objectives, and their genuine commitment to CSR is a shared value that takes on a global significance.

Finally Lotteries must develop a partnership with their commercial suppliers because they need to be able to respond to changes in society as well as the market-place. Today's young adults meet on Facebook or other SNS. These Social Networks are much more than a marketing medium. It is where society meets now, it's where they communicate, engage and share and bond with each other. It's where parties are organized, opinions expressed, recommendations proffered, questions and requests for advice are made, and where even games are played. This is the natural environment that has become a part of all social interaction and communication. And that's where we see now also social gambling emerging, which is most likely going to be a far more problematic issue for regulators than the "classic" internet gambling. Lotteries need their suppliers to think and work together with the lotteries on innovative solutions to be able to continue to pursue the model that serves their beneficiaries. Their business strategies need to evolve to stay also relevant in this new world of Social Networking. The challenges are many. For one thing, there are pressing technical challenges. For example, in Europe there is a new legislation coming up on money laundering that will require lotteries to establish customer identification tools. When a player puts a stake over 2000 Euro and/or a suspicious bet, the player will need to be identified, just as winners above 2000 Euro need to be identified. It means Lotteries need to think about new tools, how they will be able to sell lottery products as they remain responsible for their various points of sales. And therefore they need to work together with their suppliers and with their colleagues on solutions. This is the cooperative model that will enable Lotteries to maintain their leadership role in society and in the market-place.

Building such a partnership can only strengthen the position of Lotteries in their respective jurisdictions. We see the debate on liberalization of internet gambling and we need to be able to respond to that. Consider the trans-Atlantic negotiations between the USA and the EU on a Free Trade Area Agreement. According to the British Prime Minister, no single service sector should be excluded up-front. Lotteries are such a service sector and Lotteries need to take action to ensure that these negotiations do not put their model at risk. The previous WTO case initiated by Antigua & Barbuda did put the US market at severe risk and these current negotiations will be much more impactful and binding than any earlier ones. The specific role of Lotteries and their substantial contribution to society can be undermined if Lotteries do not join forces around the world to tell their governments that the principles they stand for are common to all Lotteries, and thus they are Universal Principles, and they are worth defending for the long-term benefit of society.

It is important that our political leaders around the world, whether it's the US Senate or the European Parliament, understand the lottery model and recognize its role and its value to society. They need to understand the universality of the lottery model and the common strength and benefit of lotteries around the world. Lotteries have not been as effective as they need to be to prevent the destruction of the government-gaming model. The EL, NASPL, and the WLA do attempt to inform our political leaders in Brussels and Washington, and did act to defend the Lottery model against the Remote Gambling Association in the EU Trade Barriers case. By promoting the idea of Universal Principles, Lotteries can have an important impact on the political dialogue and can actually affect the outcome of these trans-national problems. These Principles could be the basis for a real partnership that would be effective at defending the goals of lotteries and promoting the value sharing of lotteries around the world. Lotteries create value for society and are therefore today an example of the "Shared Value" approach promoted by Harvard Business professor and WLA keynote speaker Michael Porter (Porter, M.E., Kramer, M., Creating Shared Values, Harvard Business Review, 01-02/2011, p.4) . ●

"Companies must take the lead in bringing business and society back together"

"The solution lies in the principle of shared values, which involves creating economic value in a way that it also creates value for society by addressing its needs and challenges"

"Shared value is not social responsibility, (...) but a new way to achieve economic success. It is not in the margin of what companies do but at the center."

SHARED VALUES beyond CSR

Sports Betting is Global …
The Fight Against Match-Fixing Must also be Global

By Kristian Nylén
Chief Executive Officer,
Kambi Sports Solutions

KAMBI SPORTS SOLUTIONS

Any attempt to combat match fixing must be made with the understanding that this is a global problem. An event taking place in one country will have bets placed on it throughout the world, not just locally. As we have seen time and time again, national boundaries and geographical distances are no defense against determined fixers. Even if the relevant authorities were able to prevent any betting within their jurisdiction this would do nothing to prevent match fixing – bets would be placed outside their jurisdiction where the authorities would have no ability to control or monitor the activity. As we will discuss below, this would only make match fixing easier to carry out, and so more common and damaging.

In situations where betting is outlawed or too heavily restricted there are countless examples that show that "prohibition" just results in an illegal and/or un-regulated and untaxed sports-betting market. Betting is not stopped, it simply moves to a black market. Here the organizations taking bets have no concern for the integrity of sports.

With a large flourishing regulated market the need for underground operators diminishes. We can already see in Europe that the countries who have adopted a regulated system, that allows operators to compete on the same level as their unregulated competitors, have a very high proportion of the gaming activity staying within the regulated system.

Experience in Europe shows that professional and regulated online operators very seldom take large hits as they understand how to assess risks and how to manage their customers. It is very important for the operators to have strong risk management, robust customer management tools, and competent traders. An experienced trader can detect suspicious stakes and betting patterns and by watching the game live these traders can easily spot when players are not playing to the best of their ability. It's important to note here that operators who rely solely on feeds and automated solutions are more exposed to fraud and are likely to see more instances of large bets being accepted on matches that are subject to investigation. The most important asset of any sports betting operator is its integrity and reputation for effective control over the betting process. The operator depends on the com.

Match-fixers are discouraged by Sports Federations which take greater responsibility and dare to make tough decisions

Sports Federations are dedicated to promoting the image and public confidence in the positive role that sports plays in society. So regulated bookmakers, sports federations, and agents of law enforcement must work together to prevent illegality of any kind. Betting operators can and should play a vital role in the process of detecting attempts to manipulate the outcomes of sports contests. They are the ones who are in the best position to observe play in real-time, identify aberrations, and alert the sports federations. Very often betting operators are actively providing the relevant sports federations with information about suspicious matches before, during, or immediately after events.

Many federations receive this information and act on it accordingly. The ICC (the International Cricket Council) took a very strong approach to the Pakistani spot-fixing scandal. The players were warned beforehand not to carry out the fix, and then prosecuted afterwards when the warnings were not headed. Several players were banned from sports for terms of 5 to 10 years with some serving time in jail.

The bookmaker's role here is vital but limited. All they can do is report suspicions about criminal activity. Bookmakers can provide information, but are not authorized to do more than that in the way of follow-up investigation or prosecution of criminals. Bookmakers report their suspicions to the relevant federation, which then must carry out the investigation, determine the actions, and then set the actions into motion. Once fixes are identified, players must be banned from sports, and prosecuted by agents of law enforcement and the legal system.

Responsible betting operators are already taking steps to minimise the potential for match fixing

A serious and professional bookmaker tailors the limit of the stakes to the profile of the event. This process includes factoring in consideration for the potential for match-fixing. For example, team sports are more difficult to fix than individual sports so they will typically have higher limits to the stakes. The profile of the event is also relevant, as it reflects the incomes of the players involved, which affects the potential for abuse. A Premiership game is almost impossible to fix as the players are so well paid. Players are less well-paid in semi-professional or amateur sports, so that creates a more fertile ground for match-fixing. Professional bookmakers differentiate the limits depending on the profile of the event.

Similarly, matches that are of no consequence for one or both teams should be traded carefully, as should bets on events that do not necessarily determine the outcome of matches, such as a player to be booked or who will have the first throw-in. As we have seen in point-shaving scandals, teams can be corrupted even while winning matches - so vigilance is always needed. There is no need to forbid betting opportunities of this nature, there is just a need to handle them more carefully.

The best defence against match-fixing is the ability to connect all bets to the specific individuals placing the bets. Regulated online operators must have rigorous control of the identity of their players due to anti-money laundering laws. Ideally, all bets placed in a retail environment would

less than a year. It's a great example of what can happen when everyone works together.

Jenny Canfield: It was the longest year of my life!

Sean Athey: Yes, but it was a very fast turnaround compared to the pace that lotteries are accustomed to. To some extent, innovating will always be a challenge because procurement of revenue-generating systems that Lottery buys will never ever be as simple as buying asphalt. State procurement is not exactly set up to support a market-driven business with complex IT and operations, and so they do their best within the rules and structures that they abide by. The interesting intersection right now is with privatization, or Private Management Agreement (PMA), and the traditional standard RFP that lotteries and state procurement have operated with for decades. The standard RFP includes a lot of fees and dates and people standing there with stopwatches to ensure deadlines and launch dates are met. The terminals now process a transaction faster than any clerk can enter it. So why not transfer the focus on specifications like transaction processing speed to more relevant differentiators, like the ability to generate revenue?

The primary issue being addressed by a PMA is … how much net income are you going to generate? The technology is a vital component to any action plan, but it is the means to the end of producing results. The focus of the PMA is on driving net revenue. The focus of standard RFP's has tended to be acquiring as much technology as I can stuff in a bag. That appears to be changing for the better. There is no reason the standard RFP could not be improved to include some of the strategic focus of the PMA. That may be a more efficient process than trying to implement a PMA because of all the political and logistical obstacles burdening the whole PMA process.

Jeff Anderson: Those of us on the state side of the business do need to open our minds up to new ways of thinking about the business and how to incentivize and drive performance. We want the newest technology, we want our commercial partners to invest in innovation that will help our businesses, but we'd like them to do it for free. And that's not realistic. Perhaps it's time we explore the methods of building incentives into the contracts such that the vendor can see the ROI for investments made in R & D and innovation that will improve results for the Lottery. As Gardner pointed out, the goal of the Lottery is net revenue, not gross sales. Bonusing or some other form of pegging compensation to increases in net revenue would be a good way to improve the alignment factor between Lottery and vendor. The margins are there to pay for the kind of innovation that is needed to move the industry forward. But from the state's point of view, we need to see a direct connection between whatever is paid to the vendor and the results in the form of investment in R & D and the results in terms of innovation and ultimately increased sales and net revenues.

Jenny Canfield: There will be a cost for innovation. But we need to at least have all the vendors and Lottery working together to do things in the most efficient, cost-effective ways. And for that to happen, it would be important to find ways to open the central systems up so that third-party solutions can be integrated more quickly, easily, and less expensively. A genuine spirit of collaboration has

got to be there. And it's a responsibility of everyone in the room to pull together and do their part to help the Lottery bring in innovative solutions and optimize performance.

The pace of change in this industry is only going to get faster. We need to have the ability to evolve our businesses and meet the demands of this dynamic market-place.

Sean Athey: Perhaps we will see change as a result of states and their political leaders recognizing this fact and being more supportive of lotteries. Look at what happened in Pennsylvania. The Governor said that the Lottery needed to increase revenue. The Lottery was able to seek innovation from their partner and sales started to climb right away and continue to climb. To some extent, it all starts with a decision on what to focus on.

Doug Pollard: I would respectfully submit that the driver of innovation is competition. Vendors want your business. Creating a context in which they must work hard to earn your business is what will drive innovation. A proven context for that is competition. Multiple vendors working hard to earn your business will harness their resources and creative focus to produce the best products and innovative solutions. That's what capitalism is all about and why it is such an effective system for driving progress and innovation.

A problem is that it is easier for state purchasing to bundle multiple products and services together. The PMA is the ultimate example of bundling. While it may be administratively expedient, bundling multiple products and services together inhibits innovation for the simple reason that it reduces competition. Preferable is to un-bundle, to bid products and services separately. That's what will drive the competitive impulse to produce better products and more innovation. In the quest to earn your business, competing vendors will innovate and constantly improve the quality and value of their products and services. The lack of competition produces the opposite: inertia, status quo, and lack of innovation.

The PMA is said to engage the private sector. But it goes about that in the wrong way by mitigating the most fundamental dynamic that lies at the heart of the capitalist system, and that is competition. Bundling all of your contracts into one big RFP restricts competition. When you restrict competition, you limit innovation. It's true that one of the keys to driving innovation is to engage the private sector more, but the reason for that is that the private sector thrives on competition. Remove that element and you undermine the main strength of the private sector, and reduce the flow of innovation.

Jenny Canfield: Part of the answer is that the primary vendor, the systems supplier, needs to facilitate the integration of third-party solutions. They need to do more to help the Lottery bring in innovation from third-party vendors.

Paul Jason: But to Doug's point, does bundling restrict competition and are there ways to build into the prime vendor contract the requirement to facilitate integration of new solutions and products provided by third-party vendors?

Gardner Gurney: *There are ways to evolve our contracts to provide that kind of flexibility, but it's not easy. For starters, lotter-*

Scratch-Mart:
taking lotteries to the next level on **Facebook**

NeoGames®
bringing back the fun!

By Yariv Sarig
Director of Sales, NeoGames Networks
www.NeoGames.com

Being an industry pioneer and a company specializing in the development of interactive scratch cards, lottery games, and instant win games, we at NeoGames constantly invest in research and development. We focus on trying to identify new playing trends and playing habits as well as new channels used by players to play their favorite games. Once identified, we spend time investigating the various possible solutions, their probability and ROI. Then and only then do we dive in and start developing what we believe is the preferred solution by players. Utilizing this strategy ensures our ability to keep on being at the fore-front of our industry and to introduce innovative games and solutions for our customers and players.

With 1.1 billion active users, out of which 751 million are mobile users, Facebook is by far the #1 social network service out there today. Facebook, which started as a simple tool for students to stay in touch with each other, has since progressed to the point where it now hosts more than 15 million business pages, with 8 million that are active monthly. Furthermore, about one in five Facebook users—some 250 million people—play games on the social network. That data is impressive—and certainly not lost on the eyes of those in the gaming industry.

Facebook has become a powerful tool for business. It enables them to enhance their brand awareness. It is a place for them to engage in a direct conversation with their customers; learn about them and what they think about their business, products and services; what they would like to have and what they dislike. It is a place for businesses to engage with new audiences and create new customers and players.

With ~159 million users, the United States has by far the highest number of active users on Facebook. But other countries like Brazil (72 million), UK (31 Million), Germany (25 million), and Canada (18 million), are also home for some very active users. The age distribution of these users, no matter which country they come from, is very similar. About 24% are between the ages of 25 – 34 and almost 40% are between the ages of 35 – 60. The Female \ Male ratio across the different countries is 55% Female and 45% Men.

For those in the lottery industry these numbers (age distribution & Female\Men ratio) sound very familiar as they resemble our own industry statistics. As such, one would expect that lotteries would be the first to take advantage of Facebook as being the new home for gamers and adopt this platform for their needs. But that wasn't the case.

In early 2011, casino games represented a small portion of the games available on Facebook. Since then, more and more social casino games have been introduced, making it the fastest growing game category on Facebook. Independent game developers along with big casino industry names like Caesars Entertainment Casino Group, Caesars International Entertainment, IGT and Aristocrat have launched and continue to launch new casino style games (in particular, slots and table games) every day as they are hoping that this is where they will find their next generation of players. "At some point, part of that audience is going to say, I want to play for real. They may say, I've won all these virtual prizes, how about some cash?" (Andy Choy, President and chief

executive of the Riviera, 22 June 2012).

By late 2011, at NeoGames we saw what was happening with Facebook and asked ourselves how we can bring to this platform the type of games that our customers and players like to play. How do we take scratch cards, instant win games and lottery

Monthly Uniques

ies can't just push the easy-button and bundle everything. The only final comment I'll have is to revert back to Doug's point that contracts will never guarantee a good partnership. As an industry, we depend upon a collaborative approach towards solving problems and driving progress. We all want to create a future that is productive and prosperous for lotteries and their beneficiaries and so we all need to work together to accomplish that.

Question from Don Feeney, Minnesota Lottery: The conventional view of the "good government model" stipulates that government agency maintain an arm's length relationship with the vendors. It does seem to derive from the traditional function of buying commodities, like asphalt as Sean pointed out, instead of the more complex systems required to run a lottery. Procurement, I would think, would actually discourage the Lottery from engaging in a collaborative approach to building an RFP, wouldn't it? Are you inviting unwanted press scrutiny and perhaps legislative questions by pursuing a more cooperative relationship between Lottery and vendor?

Jeff Anderson: I think it comes down to the mindset of how we approach our business. We do operate within this government box, one in which compliance with rules and laws is required and not negotiable, and some things we may feel are counter-productive are in fact immutable just because it is the way the system works, and monitoring performance and every detail of the conduct of business is our way of life. A key to ensuring that we never encounter problems with the press and our legislatures and governor is to always act with complete open-ness and transparency. Communicate in the most forthright way so that we are never accused of deviating from

what we say we are going to do. If we operate in that fashion, I do believe that we can make an effective case for the fact that operating a gaming business is not the same thing as buying a box of pencils.

Gardner Gurney: *That is so right, so critical. Our RFP's go out to as many vendors as possible, and they also go to whomever in state government may need them, like the Office of the State Controller.*

Sean Athey: I had one customer indicate that they were criticized by the purchasing department for working too closely with us. That is so unfortunate because we are your revenue-producing arm. It is important that we be integrated into your business to be effective and to translate your will into action and results. Purchasing did come around to appreciating the way this business operates once they were integrated into the decision making and execution process.

I'm wondering if perhaps we can't push back a little against those who do not understand the way this business works. After all, the lottery industry has a 70% approval rating in the United States. Who else can make that claim? And lottery generates billions for Good Causes. And operates to the highest standards of security and integrity. It's amazing that anyone has cause to criticize.

Jenny Canfield: I don't disagree with your sentiment, Sean. I just wish everyone else felt the same way! I think the problem is exactly what Jeff described as a mindset that is based on operating in ways that work well for most other sectors of state government and so are applied to lottery as well. The pattern is changing, though. It will take time and patience, but state legislators are very smart, they do have the interests of their own constituents at heart, they are recognizing the value of their state lottery, and exploring ways to increase that value. So we are on the right track! ◦

Scratch-Mart ...continued from page 33

games and make them social. How do we make them sexy enough for players to want to play them without the chance of winning any real money?

At this point we decided to invest in this opportunity to bring something fresh and new to the lottery world. Like any other product / solution developed by NeoGames, we went through the process described at the beginning of this article. We studied the market, studied the games and the playing habits of the players, and analyzed the potential for our customers and what would be a suitable solution for them and their potential players. We did all of this so that the end result would be something our lottery customers will be happy to use for their own business and that the players will be happy to come play with.

And so, after almost a year of research and development we launched scratch mart, https://apps.facebook.com/scratchmart/ the first Social scratch card & instant win games application on Facebook.

NeoGames designed the application in a way that enables us to tailor-fit and customize it to suit the look and feel of any lottery. We can apply the lottery's marketing strategies and business requirements as

well as provide similar interactive and social versions of games that are already sold by the lottery through their retail network and other channels to enhance the lottery brand and create synergy between the different sales channels used by the lottery.

Although the application is free-play and players move up (and open new games) by gaining points, we have developed the application in a way that enables us to switch it from free play to money play once such a method is permitted by Facebook and by the lotteries (and their governing gaming bodies).

The solution offers a Built-in Social Networks Integration so that it can work on various social networks and not just on Facebook. It includes a Game Mechanics Control (GMC) that controls the payouts, bets, bonus games for when money play will be allowed. Specialized Social CRM applications including bonuses, promotions, deposit offerings, and notifications are offered as well as other features, along with an extensive capability for reporting and monitoring built-in tools.

The application supports various sharing mechanics such as the ability to exchange gifts among your friends, play weekly

Betware

2013: THE YEAR FOR LOTTERIES TO GO ONLINE

By Pall Palsson
Executive Product Manager, Betware

What are the benefits of going online and what is needed?

It seems that not a week passes without an American state lottery issuing an RFP to start offering its games online. While the American lotteries are late to the party, due to issues involving the legality of having online gaming operation, it is still a very exciting time for the lottery industry and there are undoubtedly tremendous opportunities for growth in the mature e-commerce market that America enjoys. In Europe, lotteries have been offering their products online at least since 1996 when Betware brought its first lottery client, the Icelandic National Lottery, online. In the hope that it may be of use to lotteries that are about to go online, this article covers some of the things we've learnt through the 17 years we have supplied online gaming solutions to lotteries, including the British Columbia Lottery Corporation, the Spanish National Lottery, and the Danish National Lottery.

The why

First let's look at the "why". Why should lotteries go online? Simply put, lotteries that have taken the leap of faith and started online operations enjoy increased overall sales and revenues. There are a few lotteries in Europe that enjoy strong retail sales and come from a background of offering products exclusively through retail that now have over 30% of their revenues coming from the Internet channel. That kind of success doesn't happen overnight but we suspect, given the maturity of the American e-commerce market, that sales growth through the Internet channel will climb much faster in America than it did in Europe. That maturity is a double edged sword as customer expectation for the quality of the products that are being offered will also be higher. Offering a complete solution for smartphones, tablets and desktop computers will be a must from day one in the American market while over in Europe lotteries have had the luxury of working up to it as many of them were online before the word "smartphone" (then "Smart Phone") was coined by Ericson in 1997 to describe it's GS 88 "Penelope" concept. Back in those days "tablets" were also generally made of solid stone.

In addition to an increase in sales and revenues there are other benefits to going online which include selling products directly to customers. This direct sale approach moves the business closer to customers, provides an excellent opportunity to really get to know the player, and at the same time it puts more pressure on the lottery to evolve along with consumer trends. This is important as Europe has shown us that lotteries eventually find themselves in direct, or indirect, competition with other gaming vendors (legal or illegal). Some would say that American lotteries today are already in direct competition with "pay to play" casino and slots games that are widely available and quite popular in the smartphone and tablet app stores today. Lotteries that go online can, through analytics, learn a great deal about their players. These data will yield new information about the customer that will allow lotteries to tailor their solutions to what players want and how players use the lotteries' products. Just make sure you own the data being collected.

The what

When it comes to games, our experience shows that lotteries should leverage the brands they are known for. This means bringing the lotteries' most popular draw-based and instant games online. While Internet scratcher tickets can deliver more interactivity than printed tickets can, there is a considerable market for "vanilla" electronic versions of instant scratcher tickets. The familiarity of gameplay and brand puts players at ease and lowers the barrier for players to try Internet gaming. Casino, Poker, Slots and Bingo games look very impressive and are a great addition to any lottery's online offering, if legislation allows, but the lotteries established game types and brands are proven to work very well online in other mature markets. Draw-based, multi-state lottery games which routinely feature large jackpots are proven player acquisition drivers. Any game that helps a lottery acquire players is worth its proverbial weight in gold. It's easy to get lost in the excitement of adding totally new gaming content but your traditional games will, if done right, be big sellers online. Lottery subscriptions can be particularly valuable. Signing players up for subscriptions online is easy with the right system and subscription players will on average buy a ticket automatically every week for years. Internet players won't have to pre-pay for multiple draws anymore and can instead pay for the draw every week or every month. This lowers the barrier for entering a subscription substantially.

Keno, Lotto, Raffle and instant tickets are pretty standard game types for a lottery and they all work well online too. But,

"EDUCATION IS THE PREMISE OF PROGRESS." BY KOFI ANNAN

Creating Forums for Education and Progress

How many of us can say that we have direct experience in managing a chain retail store? As much as our lottery products depend on retail outlets as our predominant point of sale, to retail owners and operators, lottery is only one of many considerations. In fact, a chain retailer's top priority list is more likely to include concerns relating to cost reduction, theft, shrinking market share, credit card operating rules, labor laws, state and federal food service and tobacco regulations, etc…

"In terms of producing results, the retail industry is unquestionably one of the most difficult on the planet in which to achieve consistent success. 2013 promises to be no easier, with a large number of challenges facing retailers of all sizes." — Posterita, Retail Solution Company
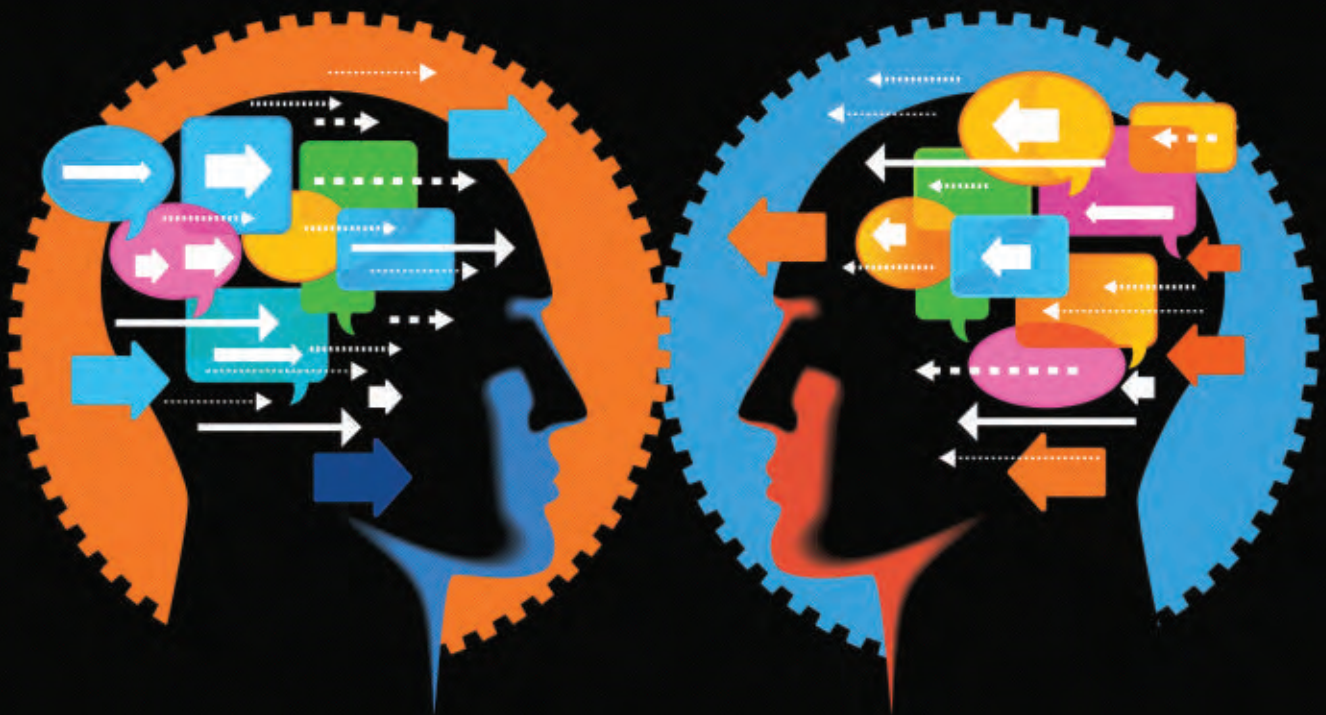
How do we further assimilate our lottery product into the complex world of chain retailers and convince them that it's good for their business?

That was one of many questions discussed at GTECH's second annual International Lottery Retail Workshop held in Warsaw in April. This year, 17 lottery delegates shared insights, experiences, and learning's from various lottery retail development initiatives conducted or planned across international jurisdictions.

During the two day workshop, each lottery presented a retail situation analysis, case study, development initiative, or challenge for input and discussions. GTECH presented on three themes during the workshop: Retail Perceptions, Prepare for the Future, and Partnership & Practice.

RETAIL PERCEPTIONS

At present, lottery stands outside of the Fast Moving Consumer Goods (FMCG)/ Stock Keeping Unity (SKU) system – the very system that is the lifeline of chain store profitability. To manage upwards of 35,000 products per store, every item sold in a chain store has a SKU that has an associated profitability. Because lottery is outside of this system, it is not seen as having an associated profit, but rather it is considered a cost that, at best, in some cases, can simply offset another cost. For example, it may offset the cost associated with a staffed kiosk.

To bridge the gap in perceived value between lottery stakeholders and chain retail management, lottery operators have to understand the complexities and challenges of the chain retail world to a far greater level of detail than previously thought. We all see the world through the lenses of the glasses we wear. To create growth opportunities for lottery in the chain store, we must see the challenges they face and ask ourselves questions like:

Q: What is the retailer's perception of the lottery?

A: SKU vs. just a cost

Q: How are lottery promotions tied into the retailer's activity calendar, which already includes non-lottery value promotions, calendar promotions, and corporate events?

A: Lottery has to be processed and promoted as a FMCG product to fit in and perhaps lead promotional event calendar.

Q: How can lottery better engage with chain retail management in a multi-level/multi-department way?

A: It is important to build relationships at all levels right across the business to ensure you understand the challenges, priorities and perceptions of the lottery fully. Availability and presentation of all lottery data has to match that of all other chain product inventory.

Q: How can we tailor our product to each store format to ensure that lottery matches the shopper's journey and adds value, not complexity, for the retailer?

A: Even within the same chain, store format dictates content. Other product categories tailor their products by retail format – pack sizes, display solutions and promotions will be designed to suit the retailers processes and more important the customer need/mission – no point in stocking a 15kg bag of dog food in a store where the customer base is commuters struggling home with their shopping on the train or bus. Acceptance by chain retailers requires assimilation of product to store type. Can we create new products that are better paired with the type and purpose of the shopping experience?

"Chain retail outlets are gaining market share because they operate an incredibly effective, well-oiled machines all designed to service their customers' every need in the most efficient way" explained GTECH's Joe Ward, Director of International Marketing. "Any change to their extremely lean process adds complexity and cost and will not be viewed positively."

"The Retail Perceptions presentation on improving lottery's standing with key accounts was especially insightful and timely for Veikkaus. We see the base of private retail shop ownership eroding everyday. Finding ways to expand our presence with chain retailers is a top priority. In fact, the Key Account Managers of the Nordic Lotteries — Finland, Sweden, Norway and Denmark held a three day meeting just three weeks after the GTECH Workshop and we also discussed In-Lane and Lottery Inside technology."
— Sami Kauhanen, Partner Manager, Veikkaus Lottery

Retail Networks Are Changing
UK INDEPENDENT GROCERY/CONVENIENCE RETAILERS

20,143	19,237
2011	2012

STORE NUMBERS FELL BY 900. A LOSS OF 4.5% SINCE THE PREVIOUS YEAR.

Over the last five years there has been a 22% drop in independent grocery/convenience retailers in the UK and a 43% drop since 2002. Source: The Grocery Retail Structure 2012, UK

PREPARE FOR THE FUTURE

Having acknowledged that traditional lottery outlets are undergoing a transformation, the second segment of the workshop focused on the technology solutions and innovations that GTECH can offer to integrate into the new age of retail. With recent demographic data in hand from the 2012 World Player Survey, it is clear that lottery must engage the technology-enabled consumer as well as the technology of chain retailers.

Our retail focus must acknowledge:

• The Lottery footprint is eroding

• Our product must follow the shopper

• Our solutions must be flexible to attain and retain key accounts

• Brick & mortar sales must be complemented with an Omni-channel strategy (a seamless approach to the consumer experience through all available shopping channels) in cooperation with key accounts

• Solutions must have extended reach and accessibility to compete with FMCGs

Our Player Focus must deliver:

• Increased Connectivity, increased mobility

• Social Media

• Ubiquity of Mobile Devices

  - Enabled technology player has a way to connect with the brand before and after they shop

  - Engaging the enabled technology player is different compared to the 'traditionalist' gamer

TODAY'S RETAIL: Operating multi-format, multi-channel stores gives retailers the chance to tailor staff needs to shopping patterns. At smaller locations, staffing structures have been adjusted by eliminating check out clerks and doubling the number of stock clerks. Why? Because consumer data showed that shoppers in this store format are buying only certain items and only a few at a time but very frequently. Because the shopping is rather light but regular, the priority for the consumer is not assistance at check out but rather assurance the product is on the shelf. Thus the retailers' decision to change the staffing structure to fit the trade style, satisfies the shopper and protects the sales base.

The question for lottery is — if there is no one at the check out, and speed is a priority to the shopper so lining up a second time in a separate service line is not likely — where does lottery meet the consumer in this type of trade style? Will the shopper stop at a separate self-service machine or must chain self-service check outs include lottery?

PARTNERSHIP & PRACTICE

On day two of the workshop, GTECH spoke to a recent example of customer collaboration.

In 2012, GTECH's International Marketing Team worked in partnership with the retail development team at Veikkaus to undertake an analysis of the lottery retail network in greater Helsinki, and to look for retail optimization and sales development opportunities. The team at Veikkaus embraced the project as part of their efforts to optimize retail sales performance. The retail development project focused on three key areas:

1. Identification of potential new lottery retail locations.

2. Measuring the impact of sales performance in relation to the quality of lottery retail execution.

3. Building predictive sales models based on utilizing socio-economic geo-demographic data.

The Veikkaus sales team audited approximately 50% of the retail network in the greater Helsinki area. GTECH analysts and marketing professionals analyzed sales by product and trade styles and cross referenced this analysis with socio-economic, geo-demographic data, which allowed predictive sales models to be built. The project was initiated in the summer of 2012 and results and recommendations were reviewed with Veikkaus management approximately six months later. The Veikkaus' sales team is currently in the process of executing against many of the findings and recommendations resulting from the joint Retail Optimization project.

Also on day two of the workshop, Totalizator Sportowy hosted a number of retail visits for all delegates to see examples of various lottery retail trade styles and lottery retail channels currently active in Poland. As part of the retail visits, delegates got an opportunity to see the new Gemini Ultra selling both instant and draw based games. Visitors got to play games in-lane through Lottery Inside at the REAL hypermarket and witness various types of retail execution and branding models, including ESMM driven Keno draw shows.

> The true value of the workshop was perhaps best summarized by Viekkaus attendee Sami Kauhanen:
>
> "Even though every gaming market in every country is different - it is very helpful to get new best practices that can be applied to your market and your retail network. GTECH's seminars and workshops have helped me to build a network of professional resources and a personal base of knowledge. I am better able to evaluate solutions that I know have been applied in other jurisdictions to address the constantly changing business opportunities that arise for Veikaus."
>
> Sami Kauhanen,
> Partner Manager, Veikkaus Lottery

POLLARD banknote limited

By Margaret DeFrancisco,
Senior Vice President, Corporate
Development, Pollard Banknote

Retail and internet are two different pieces of the future lottery sales puzzle. Both will be important and essential contributors to a lottery's ongoing revenue growth. While state and provincial policy makers are determining when or if a lottery will be offering games online, there is still plenty to do at the retail level to prepare consumers and retailers for the next chapter in lottery games.

A huge opportunity exists between these puzzle pieces of internet wagering and retail – and it lies in the space that bridges conventional bricks and mortar sales and i-gaming. The space between internet wagering and retail rests on three critical pillars, and uses internet/social media to accomplish the following:

1. EDUCATE & EXPAND the customer base

2. ENHANCE lottery products

3. DRIVE PLAYERS back to RETAIL: tactics such as geo-location and near-field communication can help create the impulse to purchase by tying the product back to retail

Lotteries want to reach consumers where they are – both in the physical sense with bricks and mortar retailers, and in the interactive space. And consumer product companies face the same daily challenge of wanting and needing to reach consumers where they are and where they shop.

These retail companies are all working, as lotteries are, to meet the business challenges of raising awareness, remaining relevant and top of mind, of engaging consumers in existing and new ways and ultimately – selling more product.

Successful retailers understand the importance of using multiple channels to create the most impactful marketing campaigns – that is, using traditional media, the internet, physical stores, social media and digital mobile – designing each so they reinforce each other and strengthen communication with consumers.

As an industry, layering in digital is also critical in order to expose and educate our players to this potential new medium. Gen X and Gen Y, and even the youngest children have grown up with technology and assume its use in their daily lives.

A successful marketing campaign translates into: greater brand awareness, increased sales, increased customer acquisition and loyalty, stimulates word of mouth and social media engagements and last, but not least, drives consumers to retail! A review of non-lottery and lottery campaigns and products shows that by emphasizing one or more of the three pillars – educate, enhance, drive to retail – a lottery can successfully bridge ONLINE with RETAIL.

While great examples abound, there are three top companies that have successfully used digital strategies to strengthen their communication with their customers and ultimately drive them to their bricks and mortar outlets. IKEA offered consumers opportunities to engage with the IKEA brand, and used advocates of the brand to expose others to the brand through a campaign called BYOF – Bring Your Own Friend. Here's how it worked – IKEA told its more than 430,000 Facebook fans to invite buddies to enjoy a full day of free in-store meals, massages, gift card giveaways, discounts and other perks for one blowout shopping day in mid-January. After "liking" the page on Facebook, fans could RSVP at the nearest IKEA location, download coupons and start inviting friends to the event. For every friend invited, IKEA promised to donate $1 to Save the Children up to $50,000, a goal IKEA and its customers reached.

On the surface it appears basic: IKEA targeting its own large audience of Facebook fans. But there's a

THE SPACE BETWEEN

second level: once the IKEA fans signed up, they were enticed to invite their own friends, thus exponentially enlarging the scope of the campaign. IKEA views this campaign as hugely successful – over 50,000 people showed up across 38 stores in the US. That traffic helped drive an eight percent increase in sales. They ran this program last year and, because of its success, repeated this year on March 9. The Bring Your Own Friends campaign gave back to its customers while at the same time raising money for charity. Who can beat that?! Plus, IKEA cleverly enlisted its own Facebook fan base to do some of the heavy lifting by marketing to their friends.

While IKEA educated and expanded its customer base, Walgreen's aim is to enhance its product and service offering – pillar number two. This is a great example of a retailer that is providing their customer with an enhanced experience via geo-location. While still in its pilot stage, Walgreens is using a slick app from Aisle411 (aisle411.com) which can geo-fence and send alerts to customers as they peruse the aisles or even help fulfill their shopping list by mapping the exact aisles where a product is located.

A promotion from Target is illustrative of the third pillar – driving traffic from online back to retail. Target offered a mobile game app, Snack Bowl, to tie in with the Super Bowl. The virtual game invited players to toss branded snacks towards Super Bowl party guests as they moved around the living room. Participants could compete to enter the game's Hall of Fame and see their worldwide ranking online and were encouraged to share their scores and ranking on Facebook. Snack Bowl appeared on Target's mobile site home page until February 9th. The game was also featured on target's iPhone and Android apps over a three week span. From a marketing perspective, the game reminded consumers that they could purchase Super Bowl goodies appearing in the mobile game at their local Target – Coke Zero, Ritz crackers, Stride gum, m&ms, DiGiorno pizza – thus driving consumers back to retail. (www.olson.com/project/target-snack-bowl-game)

All roads lead to retail. Each of the above examples had not only an integrated marketing approach, but also were using new ways to educate, expand, enhance and engage their consumers and drive them back to retail.

What are the lessons learned from the marketing successes of Target, IKEA and Walgreens? To focus on customer satisfaction and retention; to expand the current focus to attract and appeal to a variety of consumers while still being true to the core and true to where the money comes from – RETAIL. And to recognize future opportunities by continuously thinking about ways to expand, improve and lay the groundwork for the future. And lastly, we need agility and flexibility in order to continue to compete and grow.

The lottery industry can successfully translate and adapt the IKEA, Walgreens and Target experiences through integrated marketing campaigns that not only use traditional media but also include interactive games and apps, and social media. These campaigns will engage and educate consumers, can encourage community play (with savvy consumers establishing teams and pools), viral communication, the sharing of winning experiences, offer second chance promotions, and ultimately, drive consumers to our bricks and mortar retailers to buy our products.

Here are three brief examples – one already executed in the lottery industry and two in the works as this is being written.

The NASPL/WLA Award for Instant Game of the Year 2012 belongs to the Michigan Lottery's $100,000 Cashword instant game. This game provides players with additional play value in the form of an interactive Cashword game – an app that's easy to load on a smartphone. A consumer can play for fun or prizes or the bragging rights of a leaderboard. It drives players back to retail for purchase and prize redemption, has engaged new players and has had terrific results for the lottery. Average total weekly Cashword sales increased by 52% and after 12 weeks, Cashword stabilized at a total increase of 38%. Michigan achieved this result with a very minimal promotional budget and a very minimal prize budget for the online game. Among those who played for fun first, roughly 75% of players ages 18 to 25 and 65+ reported that the play for fun game influenced them to purchase instant tickets.

The soon-to-be launched Raise the Stakes instant game offered by the Michigan Lottery will target all three pillars – educate, enhance and drive retail in a new innovative way. Players can enter winning and non-winning tickets into a series of second chance progressive style cash drawings from their iPhone, Android or desktop. The functionality will allow players to create and join teams for entries to be pooled with other players to better their odds. And, players can invite additional team members and share their winning experiences using social media. And it all begins at retail with the purchase of a ticket.

For a new twist on holiday games and holiday giving, here is a scenario: A consumer purchases a ticket at retail, plays the game, scans the code on the ticket and sends an e-greeting and interactive game to a friend. The friend receives the e-greeting card and plays the interactive game for chances to win. This web play game adds a social element to instant ticket play, promotes gifting of lottery products in a new way AND introduces new players to the lottery and encourages them to try their luck again by offering coupons as prizes through the interactive game.

With some ingenuity and innovation, it is possible to fill the space between retail and i-gaming with fun, engaging entertainment that will keep our present players and retailers excited about our products, and attract new players in the process by offering marketing campaigns that contain the integration of the traditional elements with digital/online elements and social media. ◆

:: gbgc

global betting & gaming consultants

LOTTERIES HAVE
NOTHING TO FEAR

By Warwick Bartlett
Chief Executive Officer, Global Betting
and Gaming Consultancy (GBGC)

The United States on a state by state basis is beginning to embrace egaming. First New Jersey, Nevada then Illinois and possibly at some point California. Other states will probably watch and see but not for long.

At first blush these appear to be challenging times for lotteries but it is my opinion based on the experience of the UK that lotteries have nothing to fear.

Of the G20 countries the UK is the most competitive gambling market. Let's take a snap shot look

U.K. Gambling Market

Segment	Outlets	GGY £M
Betting Shops	9,049	2,841
AGC's	1,820	275
Casino's	146	868
Slots	35,852 (number of machines)	1,447
Bingo	697	404
UK Internet		2,784 (GBGC estimate)

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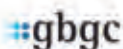
Then there is the National Lottery managed by Camelot producing yearly revenue of US$10 billion from 30,000 retail outlets..

That is not all. If you wish to raise money in the UK for charity you can set up a Society Lottery of which we have 476 all doing good work for cancer research, saving children in Africa and so on. One hundred and forty nine of those lotteries are on the Internet.

Looking now at the bookmakers there are four major chains. William Hill, Ladbrokes, Betfred and Coral.

All realise that to run a successful betting shop chain you need the support of well run Internet sites with mobile APPS because your shop is not always convenient to the customer's day to day movements.

Both are supported by loyalty programmes with Ladbrokes you have an account card that accrues points when you bet. When you reach a prize point you get a free $8 bet.

The Internet for William Hill in particular has been an amazing success. They have developed one of the best sports betting websites in the world. However 70% of William Hill's profits still come from the betting shops 30% from Internet.

What's more all of those companies are expanding their betting shop estates and Camelot is expanding its retail outlets from 30,000 to 37,000 at a time when their website is hitting record numbers. They are doing US$ 1.5 billion a year from 9 million online players.

How can this be? Well the UK gambler has been weaned on value. He has become one of the most astute gamblers in the world. I have seen over the last ten years foreign companies come to the UK to supposedly set the world on fire. They have lasted two years! However those that come to target their domestic market in Europe have been more successful.

Odds Comparison Sites

This chart says it all. It is an odds comparison site similar to something like Priceline where they find the best available flights at the lowest price.

Here you see 24 bookmakers posting odds on a soccer match with three potential outcomes home win, away win and draw. Each bookmaker offers the odds they are prepared to take and margins are tight. If you have accounts with all these bookmakers you can on occasions bet all three outcomes and make a profit. What we call a sure bet.

That is not all; above the bookmaker's names is an offer. If you do not have an account sign up and they will give you free bets, Paddy Power £250, Bet 365 £200. Of course conditions apply to

the free bets but nevertheless it is something for nothing.

So the UK gambler hunts for value and the Internet makes life easy for him. Speed of service is essential if a customer is in line in a betting shop and wants to take a price and by the time he gets served and the price has gone in the wrong direction for him you lose your customer. If you have a website that hangs the customer will switch to another, you lose your customer.

All of this has created an environment of falling margins egged on by competition, betting exchanges and bookmakers having to extend their prices during a slow economy.

The payout ratio to the UK customer has never been higher in the history of gambling.

With all of this going on you could be forgiven for believing that the UK has more problem gambling than anywhere on the planet. Wrong. In incidence of addiction is in fact quite low, less than one percent according to the UK's Gambling Commission.

Propensity to gamble

Country	GGY per capita US$	GGY/GDP%
Singapore	984	2.28
Australia	802	1.44
Canada	485	1.05
Japan	414	0.97
Hong Kong	383	1.21
Finland	368	0.83
Italy	345	1.01
New Zealand	312	0.97
UK	306	0.85
USA	298	0.64

=gbgc

This chart re-enforces that view.

The chart shows the GGY per capita spent on gambling in US$ and the GGY as a percentage of GDP. In other words what the gambler spends in proportion to a nation's income.

Of course there are anomalies that need to be explained. Singapore is top because on a relatively small population the country has two mega casinos whose GGY will is approaching the entire GGY of the Las Vegas Strip.

Australia is genuinely high. A rich country whose citizen's love horse racing, slots, sports betting and casinos.

Hong Kong on the other hand is understated. Its citizens are regular visitors to Macau and the local police estimate that illegal gambling could be three times higher than legal gambling.

Then we have the UK where there is virtually no illegal gambling but only eighth on the GGY/GDP list.

The USA is surprisingly bottom of the chart which indicates that gambling has been suppressed for many years. Illegal gambling is also prevalent in some states. This leads me to believe that this market has a long way to go. This is confirmed by the level of activity just taking place north of the border in Canada.

Canada produces GGY/GDP% of 1.05. Sixty four percent higher than the USA. I can see no reason at all why given reasonable taxation and a good licensing regime why the US market should not expand to meet the numbers in Canada.

The US market is therefore set to expand exponentially and lotteries have nothing to fear because they will share in the growth. But to do so they need to adapt and take on board the very latest marketing techniques and the State legislatures need to make sure they have the tools to compete.

So what of the future?

We know that the US is legislating State by State. It is GBGC's view that this will create a mish mash of differing laws and levels of taxation. The separation on the Internet between one state and another is not as easy as one first thought. As James Maida stated in the Smart Tech Conference in New York a citizen in a city in one state can have his Internet service provider's network and thus IP address in another! If that determines where the tax is to be paid then you can see problems arising.

All of this will create opportunity for the President to one day announce a tidy up through Federal law with oversight, to protect the citizen, and such oversight will require funding through taxation. States need to cooperate with each other on taxation and law if they would prefer money to stay in the State.

GBGC believes that the Internet gambling market will default to the model of the financial market where you have three major hubs. New York, London and Tokyo. That does not mean to say that jurisdictions such as Malta, Isle of Man and Alderney will not exist, they will.

However the majority of employees, IT infrastructure will in our view be centred on the east coast of the USA, London and hmm a tricky one. Asia is a long way behind in egaming and countries seem to have difficulty in embracing Internet gambling. Hong Kong would be ideal but you have oversight from China that has designated Macau as a gambling destination. Singapore has all the ingredients for success. We will have to wait and see.

On future lottery products I did enjoy the presentation by ?? from the Michigan State Lottery. They have produced a TV game where players at home and on the show interact and have a lot of fun. Sales are going well and this could be the future.

TV bingo is a product we believe could come into its own due to new technology. The ipad or iphone can be the bingo card and people can play at home and watch the numbers drawn on a game show on TV. The game was first developed in 2000 for the Russian market and in 2001 reached a peak of 7.6 million cards being sold. It was the largest bingo game ever played. The game is currently being played in Croatia to great success.

Conclusion

- The US market is ready to expand, lotteries will share that growth.
- In the most saturated market the UK, Camelot is expanding its outlets from 30,000 to 37,000 and has 9 million registered Internet accounts producing US$1.5m in revenue.
- The lotteries in the US have nothing to fear from the market expanding and have everything to gain but they must embrace change.
- States need to give the lotteries the tools to compete. ◆

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FROM SKEPTIC TO CHAMPION:
SPIELO INTERNATIONAL AND GTECH'S ADOPTION OF OPEN STANDARDS

By Victor Duarte
Senior Vice-President, Gaming and Content, GTECH
www.spielo.com

There is no questioning the value from the operators' perspective of open systems and inter-operability, as it enables maximum flexibility in the design and operation of the gaming site by having the choice to incorporate machines and software from several manufacturers. But when your company is a lottery-focused supplier accustomed to operating in a proprietary environment, open standards can initially appear to be threatening. Why would we want to move toward open standards if they reduce barriers to entry and make it easier for our competitors, while our current technology is already offering our customers the functionality they need?

From Skeptic …

Initially, it took some convincing for us to embrace the principles of open standards. Yet today, SPIELO International is a Platinum Member of the Gaming Standards Association (GSA). We are involved at multiple levels of the association. We're a voting member of the GSA's Board of Directors. We have active technical representation on the G2S, S2S, and Transport technical committees and continue to lead initiatives to further evolve the standards.

There were three key drivers that helped evolve our thinking.

Customer Expectations

While large-scale adoption of networked gaming in the commercial casino industry is still being discussed, the public gaming sector has truly embraced this concept faster and more wholeheartedly than any other, simply because of need. Centralized control is essential for operating efficiency in programs where small retail sites are typically distributed across a large geographic area.

At the end of the day, we attribute our success to effectively listening to our customers and meeting their needs, so we had to consider adopting G2S to support our customers. And while our central system has long been able to communicate with other manufacturers' machines through our and others' proprietary protocols, the extent of that communication was limited … which leads to the next driver.

Technological Evolution

The modern central system is no longer just an accounting back office. Technology has evolved so that today's central system can offer a vast suite of specialized functionalities to enhance the profitability of a gaming program. For example, our system can help drive revenue opportunities by enabling an onscreen player user interface and innovative game play such as progressives, multiplayer event games, and side games; enhance operational performance with advanced business analytics that provide actionable intelligence on key site metrics; optimizing game availability by providing early warning signs before machine failures through the use of predictive diagnostics; increase player communications through responsible gaming and player loyalty and rewards programs; and much more.

In the past, an operator would have to ensure that each machine provider adapted their software to communicate with the central system's proprietary protocol, which interfered with the operators' choices and slowed deployment time. Operators wanted the power and flexibility to choose "Best of Breed" offerings without being hamstrung by proprietary protocols. Today, thanks to the G2S open standard, this interoperability is a fact in multi-supplier environments.

GSA's Operator Advisor Committee

This committee advocated for open standards in a pragmatic and logical way, and it succeeded in convincing us that G2S could be mutually beneficial to our customers and to our business. In the end, we decided to move ahead with G2S because we believe in the power of choice, and because we heard the GSA and our customers loud and clear. Operators can now choose their product and game mix based on what is best for them and their players – and they can make changes to their floor, gather critical performance information, and offer players even more features on the gaming machine, all through the use of a next generation system.

Open the Door to a World of Possibilities

PGRI LOTTERY EXPO 2013 CONFERENCE

NOVEMBER 4-7
TRUMP HOTEL, MIAMI

LOTTERY EXPO: UNLEASHING THE POWER OF BRAND LOTTERY THROUGHOUT THE WESTERN HEMISPHERE

Lottery Expo 2013 will be held at the **Trump Miami Beach Hotel, November 4 to 7**. Tuesday will have a focus on the **North American** lottery industry. Thursday will focus on the **Latin American** lottery industry. And Wednesday will bring us all together for a convention of industry leaders from all across the entire Western Hemisphere, the New World of Lottery. This ambitious agenda begins with a Reception on the evening of Monday November 4, conference sessions will be held all day on Tuesday, Wednesday, and Thursday.

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.

PLEASE GO TO WWW.PUBLICGAMING.ORG FOR MORE DETAILS AND REGISTRATION INFORMATION.

THANK YOU TO OUR PLATINUM SPONSORS

Scenes from Smart-Tech in New York City – April 8 to 10, 2013

NATIONAL LOTTERY GAME SHOW!

(Clockwise from upper left corner – this page only)

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Buddy Roogow

Chuck Strutt

James Maida

Rebecca Hargrove

Adam Perlow

Philippe Vlaemminck

Moti Malul & Brian Roberts

Charlie McIntyre

Scott Bowen

Jenny Canfield & Jeff Anderson

(Clockwise from upper left corner – this page only)

Friedrich Stickler

Yariv Sarig

Lorne Weil & Rebecca Hargrove

Stephen Martino & Jodie Winnett

Buddy & Billie Roogow

Gary Grief & Connie Laverty O'Connor

Jenny Canfield

John Pittman, Buddy Roogow & Gary Grief

Carole Hedinger

Kevin Gass

Kurt Freedlund (center top)

Michael Anger (center bottom)

(Clockwise from upper left corner – this page only)

Rebecca Hargrove

Jim Breslo

Jim Haynes

Tom Stanek

Margaret DeFrancisco

Robert Tirloni

Brian Roberts

Gary Grief

Don Feeney

Warwick Bartlett

Paula Otto & Anne Noble

Gary Grief (center top)

Jeff Anderson & Doug Pollard (center bottom)

(Clockwise from upper left corner – this page only)

Joseph Lapinski
Jim Kennedy
Lorne Weil
Buddy Roogow

Peter Miles
Doug Pollard
Amy Hill
Arch Gleason
John Pittman

May Scheve Reardon
Cynthia O'Connell
Jimmy O'Brien
Connie Laverty O'Connor (center top)
Henry Oakes (center bottom)

tract the Lottery was extremely interested in leveraging our electronic POS solution to provide new advertising avenues to reach consumers. So my team was given the task of convincing retailers to allow us to install electronic POS monitors (or ESMM screens). It was decided that retailers were going to be provided with two monitor options – 19" or 22" wide screens. Or, retailers could choose to not accept monitors. Now, it is important to note that this was the first time such a solution was deployed in Texas, so if we were to be successful at placing the monitors, we would have to gain a substantial amount of new counter space – while not being able to pay for that store real estate. So we needed to convince the retailers to allocate that valuable counter space for free. Since we recognized that this new advertising solution could increase sales, we were able to design and implement an incentive program for our field team that would encourage the sell-in and installation of the 22" monitors. Basically our sales team was given a larger incentive payment for every 22" monitor they sold-in.

Our team was able to sell-in and install monitors to over 98% of the approximately 17,000 Texas Lottery retailers. And the most satisfying feat was – we were able to place the larger 22" wide screen monitors in over 80% of those retailers, a far higher success rate than we had anticipated. That would not have happened without the sales incentive, which could not have been implemented within the typical state lottery compensation structure. All this occurred within a 6 month period, with no additional capital investments made by the Lottery, nor incurring any extra costs for retail counter space.

Another example would be our ability to react quickly to changes in the market-place. Over the past 3 years, the Texas population has grown by over 6% (over 1.5 million residents) which makes it one of the fastest growing states in the country. Our private sales organization has been able to adapt to the coincident market op-

portunity by adding 18 full time employees, including vehicles, incentives, etc. We also added 4 new facilities to support retailer training and supply storage needs. The strong sales increases achieved by the Texas Lottery over the past three years would not likely have happened without that increased investment. And that increased investment would not have happened if the sales force was not outsourced to a private-sector manager. The Texas Lottery has not been able to add one single full time employee in over 5 years. So, having this flexibility within a sales and marketing organization is essential to proper field execution and satisfying the market's needs.

G. Grief: You have explained many things you do to create alignment so that the Texas Lottery and GTECH Texas work together. But what happens when a decision or action is required that was not addressed in the contract? Michael, how do you ensure a collaborative partnership with the Lottery Operator when there is no contractual obligation?

MICHAEL ANGER: First, the contract does provide the foundation to support an effective collaboration. But it would be wrong to think that a good contract guarantees a good partnership. A successful business collaboration depends on a healthy and productive relationship, and that goes beyond the contract. Both parties have to be committed to developing an effective collaborative relationship where the best ideas rise to the top regardless of where they originate from. In Texas, we do this through routine communication and candid and honest feedback. The vendor could simply take the position that they invest heavily in R & D and pull on the resources of a billion dollar corporation and therefore their input should carry more weight. Likewise, the Lottery could take the position that we are the customer and the customer is always right. Fortunately, neither of us thinks that way. In an aligned environment, both parties can challenge the other to identify the

involve player cards or some properly audited membership scheme. In the absence of those protections, operators would do well to accept lower stakes and adopt a safety-first trading strategy for anonymous players just as any serious online operator would accept lower stakes to customers without a history compared to loyal long-term customers.

With live betting it is a fallacy to think that it would be more susceptible to match fixing. It is easier to organize bets to be placed before events because bets can be spread out over a longer time period and across several operators. During events, anything could happen that could potentially affect the fix. The odds could drop on the outcome the fixers are attempting to place stakes on due to events in the match that they have no control over, such as the non-cheating team conceding or having players sent off. If this happens before wagers are placed, then the fixers will not make the expected profits, but will still have to pay the corrupted participants and could actually lose money on the fix. Live events are also much more closely monitored, and any problems are generally detected more quickly, making it harder to get large bets placed.

Ultimately it is important to recognize that sports-betting is a multi-billion dollar/euro industry. The issue isn't whether or not there are attempts to illegally manipulate sports-betting. The issue is how to defend against it. Part of the answer would include recognition of this

reality, and imposition of effective regulations and fraud-prevention actions. That can only be done in an environment in which sports is in fact regulated with the appropriate application of tools to enforce the rules and regulations.

Consumers aren't the only ones victimized by match-fixing. The biggest financial victims are bookmakers – not only do they lose the money to the match-fixers but the reputation of the industry is itself severely damaged. •

About Kambi Sports Solutions
www.kambi.com

Kambi is a B2B supplier of fully managed sports betting services on an in-house developed software platform. Kambi employs approximately 300 staff and has offices in London, Stockholm, Malta and Manila. Kambi's clients include Unibet, Paf, Mediaset Espana, Acrismatic Group, Egasa Group, Suertia, Napoleon Games, Expekt and Interwetten. Kambi's solutions are currently certified in Denmark, Malta, Alderney, Italy and Spain. This means that they are approved and audited by the SPM, LGA, AGCC, AAMS and DGOJ. Kambi utilizes a best of breed security approach, with guiding principles from ISO 27001. Kambi Sports Solutions is an eCOGRA certified supplier.

best possible solutions for obtaining mutual goals. One thing to recognize is that the challenge to create productive lines of communication is not exclusive to an outsourced arrangement. Communication problems exist within the same organization as well, and the methods to overcome them are the same.

A key to an effective collaboration is to regularly re-evaluate and make changes to the communications strategy between the organizations. Several years ago, for instance, we found that we had some instances where the Lottery's marketing and advertising message was supporting certain products and the vendor's sales force incentives were directed at different products. The two organizations were not communicating as effectively as we should and therefore there were gaps in our efforts. We recognized that this was clearly not the optimal strategy, and brought the groups together to create additional communications linkages to bridge these gaps.

ROBERT TIRLONI: In order to make sure the entire sales force is aligned with our initiatives, the last communication tool I want to share with you today is our Sales Execution Guide. I consider this to be one of the most critical communication pieces that are utilized in Texas because it drills down a level deeper from the product plan. This guide shows the sales force what POS pieces should be displayed, the length of time they should be posted, our product focus on our in-store display screens, and our instant and draw game focus. This ensures that the sales team is in direct alignment with the product plan and executing effectively and accurately in the retail environment.

These tools – our regularly scheduled meetings and the development of these plans and the execution guides require a great deal of face-time and communication in order for us to be organized, aligned and in sync' with the same marketing messages appearing across 17,000 retailer locations statewide.

G. Grief: In closing, I hope this session has inspired some ideas. To my mind, the issue is not whether or not to outsource, for the simple reason that outsourcing is already a part of every business model. It's more about how to optimize performance and outcomes. And how that can best be accomplished by enabling everyone to focus on doing what they do best, by leveraging the strengths of organizations as well individuals. Our experience with outsourcing the sales force, with building an effective partnership that allows everyone to focus on their own core competencies, is all about communication and alignment of goals both within the organization and between multiple organizations. Every lottery jurisdiction has a unique set of constraints that it must work within. But every lottery also has the ability to avail itself of a wide variety of approaches and management options. I would submit that we should explore with an open mind the different ways we can evolve our organizational structure to optimize performance and funding to Good Causes. ◆

Key Closing Points

COMMUNICATION

ALIGNMENT · COLLABORATION · FLEXIBILITY · EXECUTION

From Skeptic to Champion

... To Champion

SPIELO International is now the world's largest implementer of the G2S protocol. We worked with the GSA to develop the first manufacturer-submitted G2S extensions developed specifically for the distributed VLT market in June 2009. We are the first supplier to come full-circle with G2S, from protocol development, to real-world implementation, to certification: our INTELLIGEN Central System is the first-ever product to receive G2S certification from the GSA. This certification was provided by GLI's independent testing labs.

What does this certification mean for our customers? It means that when our central system is deployed in their market, interoperability testing between our system and all suppliers' G2S-enabled machines is going to be timely and as smooth as possible. It means that INTELLIGEN has been proven to communicate in a multi-vendor environment using G2S as it was envisioned.

We have worked to ensure open standards protocols are enabling Game to System communication right now in Sweden, Canada, and Italy, on tens of thousands of gaming machines – and G2S has played a key role in making that happen. By the end of

2013, we will have deployed our next generation INTELLIGEN central systems in 20 separate installations, connecting more than 80,000 machines. Of those deployments, 76% will use G2S. There is no question that operators want and need this technology.

The major machine suppliers are also onboard. In support of our customers' needs, so far SPIELO International has interfaced our INTELLIGEN system to interoperate with four major gaming manufacturers in addition to our machines. Of course, this is just the beginning. We expect to continue working closely with the GSA to leverage the existing classes and extensions as new functionality is required by players and operators, and as technology evolves, while also developing new classes. For instance, we foresee a day when we'll be able to connect all retail systems together for consolidated reporting and optimization of processes.

In the meantime, we will ensure that together as an industry we are promoting protocols that offer the flexibility and interoperability to make gaming programs entertaining, innovative, and player-focused, no matter whose logo is on that gaming machine. ◆

You may also be thinking that just because that may be the case in Europe does not make it the case in the U.S. Again, we must wake up to the realities of the modern world. There is no stopping the globalism that rules the market-place. There is no more stopping the globalism of consumer-driven changes in the gaming industry than there is stopping the globalism of all other markets, including the market-place of ideas, technology, culture, political movements. Europe is the first line of defense against illegal i-gaming operators and we must work together to preserve the government-lottery model as it operates all around the world. If we fail to stop the illegals in Europe, the entrepreneurial talents and immense capital resources of private operators will combine with amazing new game content that does not fall under the current regulatory classifications. The power of this combination will overwhelm your markets

and ability to regulate and tax them. And when that happens, it is misguided to think that your current customer will stay loyal to an offer that delivers a 75% payout when they have instant and ubiquitous access to exciting games that offer 95% payout. As you know, the U.S. market is by far the biggest and most attractive to operators all around the world. So, they won't stop with just Europe. One of the strategies just now emerging is the one-stop gaming-shop. The incubator for this is Germany, where the lottery revenues have declined about 30% over the past seven years. The problem there is that not enough is being done to prevent the activities of illegals. In the mean-time, the illegals are fine-tuning their business strategies and approaches, they are applying them to other markets, and it is just a matter of time before they will be applied to yours. ◆

ditional off-line methods. For instance, instead of surveying small samples of consumers, the actual activity of all consumers can be captured and measured in real-time. Market testing on an e-CRM platform is less about asking for feedback as just trying different things, measuring the results, isolating the different attributes of a product and promotion that drive those results, adjusting accordingly, and continually fine-tuning the products and approaches to deliver more value to the consumer. It is a dynamic and ongoing process of staying in sync' with the play styles and preferences of the consumer. Of course, e-CRM is also about creating a friction-

free platform for the player to give feedback and for the operator to communicate directly with the player.

Land-based retailers will always be integral to our distribution channel mix. But relating to the consumer directly, with no filter to separate the lottery from its customer, is the key to building a sustainable business, one that is based on a two-way conversation with the customer. That is what e-CRM provides. Instead of creating products that we hope the consumer will buy, we become a partner with the customer in a dynamic process of growing and evolving our products together. ◆

Scientific Games Partners with IWG and Nektan in Third-Party iLottery Game Development ...

Studio's services also include game play analysis for all third-party game content to help lotteries better understand their players and plan new game releases.

Scientific Games will continue to work with select third-party game development partners such as IWG and NEKTAN on exclusive partnership opportunities worldwide to support their innovations. ◆

DR. JERRY BOWSKILL is chief software architect at Scientific Games. With a background in interactive media research and development, his 10 years of internet gaming platform technology experience was gained by launching open content integration solutions for a wide range of operators in highly regulated markets around the world.

Scratch-Mart

tournaments, view leaderboards, and publish game actions and player's social feeds, timeline, and ticker, as well as Facebook notifications.

Open-ness and inter-operability is important for lotteries, that's why like all other solutions developed by NeoGames we developed this solution to enable 3rd party games integrations and Independent In-Game enhancements such as game leaderboards, notifications on high scores, big wins, consecutive wins, and more.

Since January of 2013, when the application was soft-launched we have experienced a tremendous response and satisfaction by players. As of last month we had over 100,000 unique users playing games and sharing their scores and activities using the different sharing mechanics available to them within the application.

NeoGames is in advanced talks with several lotteries on how to take this application and incorporate it into their social marketing activities. For the players of these lotteries, this application is accessible through the lottery fan page or website and will look and feel like any other lottery product. This level of customization is key to the success of this application, just like any other lottery product.

Research, development, innovation, understanding what our customers and their players want and being able to deliver it – this is what makes NeoGames a leader and what enables us to launch once again a winning solution for the lottery market. ◆

A QUANTITATIVE COMPARISON OF A
HOLOGRAPHIC INSTANT GAME VS. ITS CONVENTIONAL COUNTERPART

Incremental Profitability of TN Lottery $5 Holographic Lottery Tickets

Assumptions: 4"x6" Ticket Size, 25% Profitability
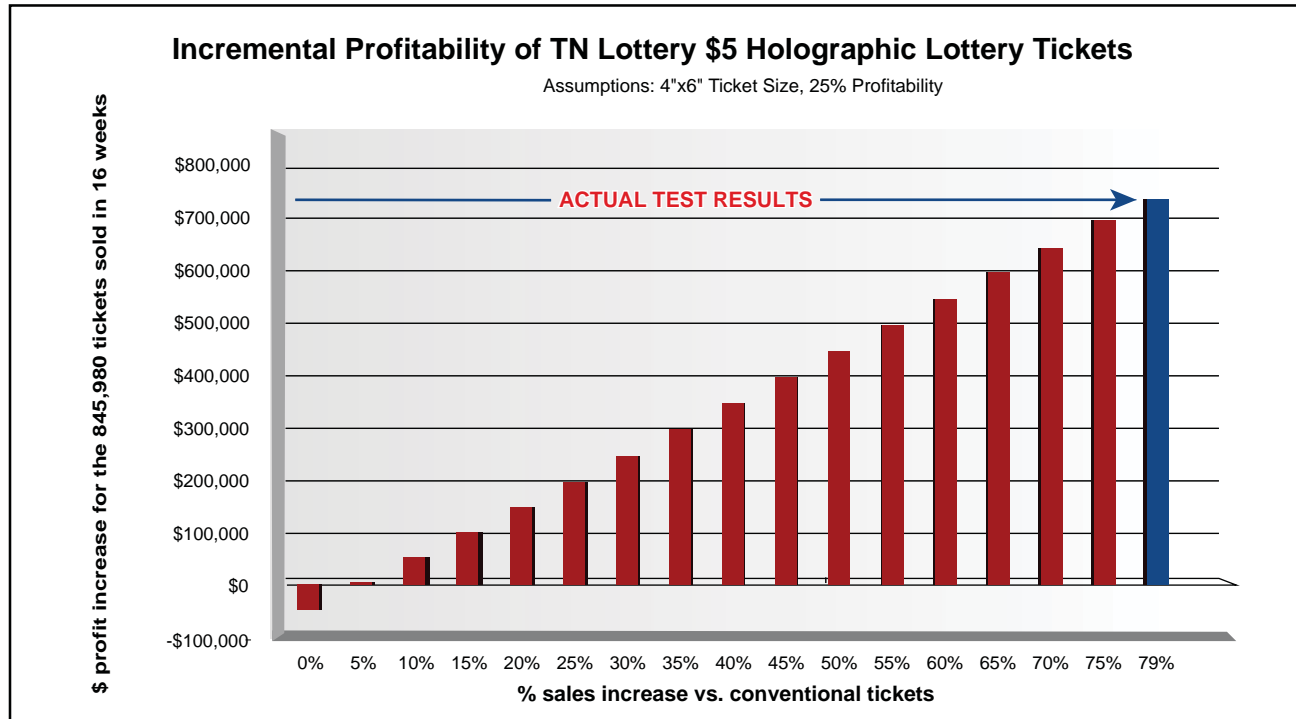
The Tennessee Lottery recently conducted a controlled quantitative test that was run to compare the sales of one of its core $5 games ($100,000 Jackpot) which had been traditionally produced on conventional board stock with a holographic version of the same game that utilized an identical size, ticket value, prize structure and payout percentage. The only key variable in this comparison was the use of holography.

Sales results were compared by contrasting sixteen weeks of the conventional game's sales with sixteen weeks of sales of the holographic version of this game. The holographic version was transitioned into the marketplace immediately following the depletion of the conventional version of this game. The results of this comparative test showed that during its initial 16 weeks of sales, the holographic version of this game achieved an index of 179 when compared to its conventional counterpart.

The incremental cost of the holographic board for the tickets sold during this initial 16 week period was fully absorbed when less than a 6% increase in sales (vs. the conventional game) was attained.

The financial impact of the 79% increase in sales that was observed during this 16 week period for the 845,980 holographic tickets that were sold during this time frame resulted in incremental profitability for the TN lottery of $723,000.

This increase in profitability can be directly equated to the opportunity benefit resulting from the reduced amount of time required to sell through the holographic tickets vs. the increased amount of time that would have been required to sell a comparable quantity of conventional tickets.

No evidence of cannibalism was observed with the other $5 games being sold by the TN Lottery (or for that matter, with any other instant games of any value being sold by the TN lottery) during this 16 week test period.

It should also be noted that upon the depletion of the holographic game tickets (27 weeks), sales of the holographic version of this game exceeded sales of the plain board version for the same time frame by more than $1.4 million.

den) opportunity. Once a company is in the media spotlight it is effectively on stage, and customers, employees, business partners and external stakeholders are paying attention. Once we pay attention, we remember. So, whatever course of action management takes, it will define its reputation for a long time. Effective crisis management can significantly enhance a company's reputation, as in Johnson and Johnson's famous decision to pull Tylenol from retail shelves, or it can damage it as in the case of the Exxon Valdez. These crises happened over decades ago. Yet, they define the companies' perceptions to this day.

Finally, crises provide supreme learning opportunities. But too often early warning signs are ignored or the wrong lessons are learned. After settling with the SEC in the Waste Management accounting fraud case, Arthur Andersen changed its document retention policy. It did not sufficiently investigate its culture, value system, or incentive structure. A company's values are its guide in a crisis. In turn, a crisis is a great opportunity to see whether these values still govern day-to-day decision making.

Many crises originate in routine management decisions. They are often not the direct consequence of external events beyond the control of the company, but a consequence of what the company did or failed to do. Ironically, it is during this pre-crisis state that a company has most control over the situation in the pre-crisis state.

This emphasizes the value of prevention and preparation strategies applied to everyday business practice. The goal of prevention strategies is to eliminate or significantly reduce crisis risks. Adopting such safeguards (and allocating resources to fund them) is the responsibility of managers.

How should companies prepare for crises? Most companies still view stewardship of the company's reputation as a narrow issue best left to the PR department. For the most part, the response is an underfunded initiative greeted by nervous questions from the board. What is needed instead is an enterprise-wide reputation management capability. Building such capabilities is a necessary response to an environment characterized by growing reputational risks. If the growth in risk is not matched by a growth in corresponding capabilities crises will result.

Business leaders and corporate boards are starting to take notice, but are unsure what to do. Most companies still believe that building a strong reputation is easy and only requires common sense; it is merely a natural consequence of doing right by customers, employees and business partners. This approach is flawed. Good business practices are important, even necessary, but they are not sufficient for successful reputation management. A company's reputation needs to be actively managed by the business leaders, led by the CEO as the steward of corporate reputation. While experts such as public relations specialists may play an important role, they should not own the process. The reason is that challenges to a company's reputation typically arise out of a specific business decision, but reputational risk awareness is not part of the decision process.

Successful reputation management is difficult. It requires a high level of strategic sophistication and mental agility that sometimes runs counter to day-to-day business decisions. A company's reputation is shaped not just by its direct business partners, customers, and suppliers, but also by external constituencies. Frequently, constituencies that have lain dormant for many years can suddenly spring into action, particularly in the case of reputational crises. Companies need to have a process to identify such risks.

A company's reputation consists of what others are saying about the company, and not just its business partners and customers. It is essentially public. This necessitates the ability to assume external actors' perspectives and viewpoints, especially when they are critical or even hostile towards the company. A proper response requires a strategic rather than defensive approach by business leaders. Anger or self-pity is not helpful.

A strategic approach requires the emotional fortitude to treat reputational difficulties as understandable — and even predictable — challenges that one should expect in today's business environment. As a result, companies should handle reputational crises like any other major business challenge: based on principled leadership and supported by sophisticated processes and capabilities that are integrated with the company's business strategy and culture.

Daniel Diermeier is IBM Professor of Regulation and Competitive Practice at the Kellogg School of Management at Northwestern University and author of the recent book Reputation Rules: Strategies for Building Your Company's Most Valuable Asset. ●

Lotteries Go Online

once a lottery, and its legislators, are ready to explore new territory, we recommend having a look at online Bingo. Bingo is usually seen as soft gambling which puts it in the same category as other traditional lottery games. Bingo also has the added bonus of being a well-known brand, so the barrier for a new player is also low.

The how

The "how" really needs its own series of articles. So it will only be covered superficially here. Generally a lottery going online for the first time will require a platform (think of it as the foundation for your gaming site), a player account (your player database), an electronic wallet (so players can receive winnings and transfer money in and out) and content (games for the player to play). To confuse things slightly the platform and electronic wallet is often included under the player account umbrella. We are seeing a trend in Europe where lotteries with mature online operations are shifting to what is called a multi-sourcing, or best-of-breed, strategy. This strategy centers around an open platform and player account that will allow the lottery to tie together top tier content from different gaming vendors. ●

BUILDING TRUST DURING TIMES OF CRISIS

By Dr. Daniel Diermeier

IBM Professor of Regulation and Competitive Practice at the Kellogg School of Management at Northwestern University and author of *Reputation Rules: Strategies for Building Your Company's Most Valuable Asset.*

We seem to have entered the age of corporate crises. During the last few years we have seen some of the world's most recognized companies (Toyota, Goldman Sachs, BP, to name just a few), all leaders in their industry, battling reputational crises. J.P. Morgan's recent trading losses, the hacking scandal at News Corp, the bribing allegations at Walmart, or Apples' issues over working conditions at supplier Foxconn's Chinese factories are just the most recent examples. Non-profits face similar changes as the controversy over the Susan G. Komen foundation or the Penn State scandals indicate. These crises are just the tip of the iceberg. The root causes go deeper. Trust in business has been eroding at a steady pace over the last decade and CEOs are now among the least trusted professionals. Four main factors are responsible for the increase in reputational risk.

First, media coverage, whether traditional or social, has dramatically increased globally. This increased scrutiny has made it virtually impossible for companies to hide. Transparency is expected, while companies have less control over their messages; once an issue is on the Web, it will likely stay there forever.

The second factor is an unexpected consequence of globalization. The globalization of activist organizations has matched the global reach of companies. NGOs have increasingly succeeded in forcing private regulation: the "voluntary" adoption of rules and standards that constrain certain forms of company conduct without the involvement of public agents. In many cases, the mechanism driving change is the creation of reputational crises for globally operating companies that, when effective, leave the companies with no choice but to change their business practices.

Third is a shift in expectations about corporate conduct, especially among younger population segments. Evidence for these trends can be found in the explosive growth of areas such as corporate social responsibility, sustainability, and socially responsible investing. Some critics have dismissed these trends as passing fads that lack impact, but reputational crises are increasingly being driven by moral outrage, whether over environmental concerns or executive perks.

The final factor is the rise of business models based on trust. To develop unique customer experiences and solutions, companies need to get closer to customers' unarticulated—perhaps even unconscious—desires and needs. This requires trust. While this shift has undoubtedly created new opportunities for value cre-

ation, even the mere perception of broken trust will lead to a feeling of betrayal, a strong emotion indeed.

Yet, despite these significant changes in the business environment, the nature of corporate crises is frequently misunderstood. Such misconceptions can lead to severe management mistakes in a crisis situation.

First, all too often crisis management is viewed as the sole responsibility of the public relations or the legal department. This approach overlooks the fact that crises need to be viewed as business issues closely connected to a company's identity and position in the market-place. Managing these challenges frequently requires a trade-off between different risks such as legal and reputational risks. By delegating these decisions to any functional unit managers effectively abdicate their responsibility.

Delegation to functional experts also makes it much less likely that crises are prevented before they occur – the most effective form of crisis management. The reason is that once PR specialists or the corporate attorneys become involved the crisis is usually already in full swing – too late for effective crisis management. A much more effective approach is to view the prevention of crises as the responsibility of management.

Second, the crisis is misunderstood. Companies frequently focus on who is at fault (usually somebody else, e.g. a supplier) and who is liable (ideally not the company, of course). While the assessment of potential legal liabilities is an important part of any crisis management strategy, it is only a part. Other important issues that need to be considered are damage to a company's reputation, its supplier relationships, its effect on customer trust, its potential damage on employee morale, and its relationship to regulators, to name just a few. Managers need to balance those effects and integrate them into their strategy choice.

The most important task during a crisis is to reassure all stakeholders. Brands are promises, and these promises needs to be reaffirmed to a crisis. To preserve and rebuild trust companies need to focus on four dimensions: transparency, expertise, commitment, and empathy. Unfortunately, many companies focus on expertise alone, in part because their expertise is their comfort zone, giving them an illusion of control. Leaders need to actively resist this temptation and emphasize all four dimensions.

Third, crises are not only threats. They can also present a (hid-

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