

LOTTERY INDUSTRY HALL OF FAME



REBECCA HARGROVE
Tennessee Education Lottery

GOVERNMENT LOTTERIES RAISE THE BAR:

The Entrepreneurial,
Market-Disrupting Culture
that is Reshaping the Industry

FEATURE INTERVIEWS



JUHA KOPONEN
Veikkaus Oy



ROBERT CHVÁTAL
Sazka



EVGENIY VLASENKO
MSL Ukraine



JEAN M. JØRGENSEN
GARY GRIEF



DAVID LOEB
TAN SOO NAN



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Major Peter
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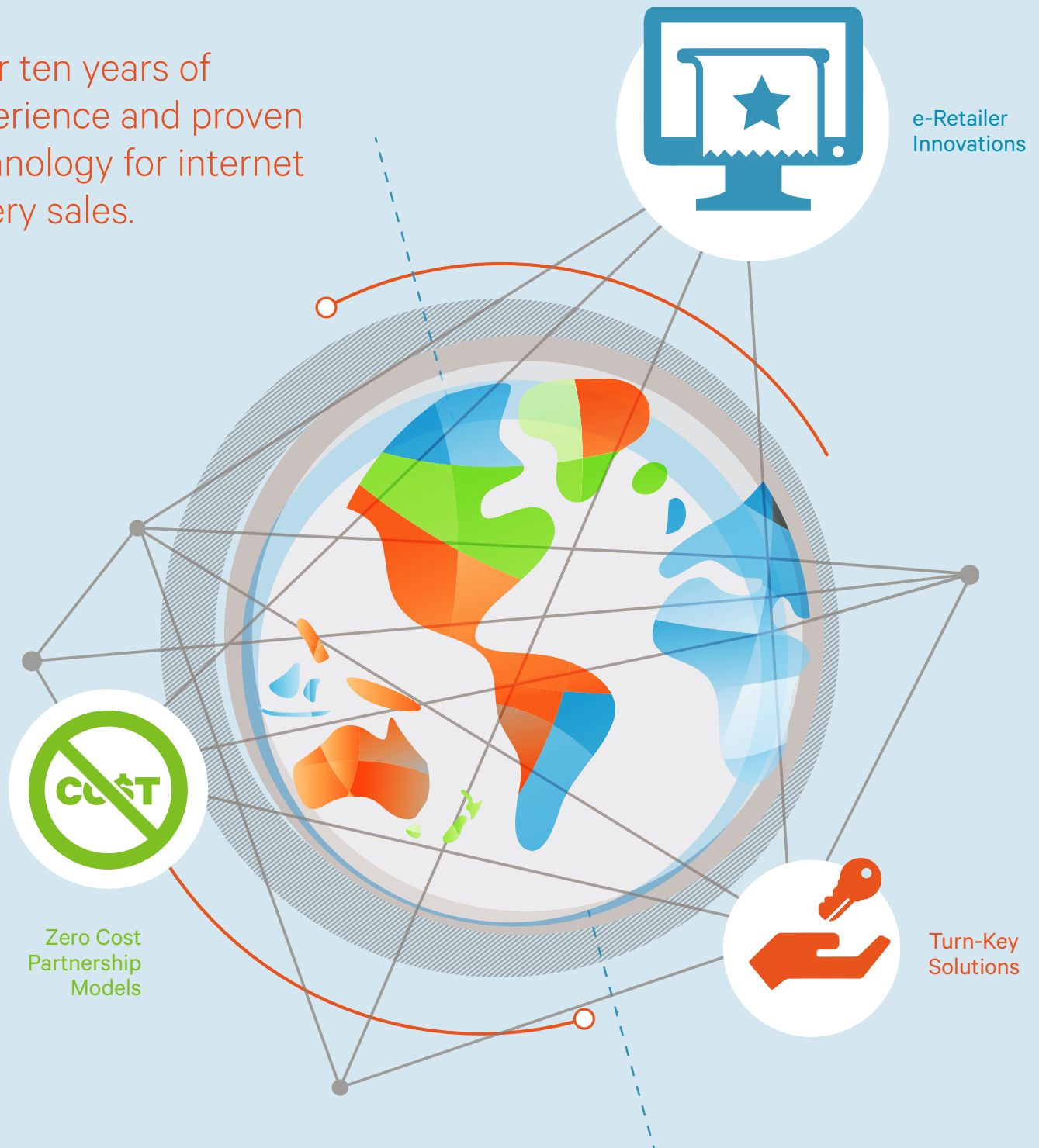
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From the Publisher

By Paul Jason, Publisher
Public Gaming International Magazine

Government Lotteries Raise the Bar; The entrepreneurial, market-disrupting culture that is reshaping the Industry

Check out the interviews and articles in this issue. They are testament to the significant shift of Lottery as government agency to Lottery as the market-driven innovator which is disrupting the games-of-chance industry.

The notion that “If it ain’t broke, don’t fix it” sounds so sensible. Unfortunately, if we wait till it breaks, it’s almost certainly too late. The ‘disrupters’ of the world will have secured a head-start that is not likely to be overcome. Thankfully, the community of government-lottery operators is not waiting till it breaks to fix it. They are taking the lead, setting the pace, reshaping the games-of-chance world in the image that serves the interests of society and Good Causes. They are fast becoming the disrupters who change the way business operates and value is delivered to the consumer.

“Disruption” is kind of an odd word, perhaps because it sounds like destruction. Or maybe because it seems like the opposite of orderly and predictable. The fount of wisdom, Wikipedia, suggests a different application of this concept as it applies to business. “Disruption is understood in the context of radical change due to the introduction of a new idea driving a different way of doing things.”

Government-gaming operators have never aspired to be “radical”. But in spite of their image as risk-averse and conservative, it is government-gaming operators who are driving change that will have the effect of disrupting the games-of-chance industry. It is government-gaming operators, not casino or commercial i-gaming operators, which are migrating people away from unhealthy gambling play-styles that incur high social costs over to recreational gaming that is both fun and healthy. It may be a case of wishful thinking, but I would submit that government-gaming operators are in a most enviable position to reshape this industry into an image that is most consistent with the best interests of society and the consumer alike; and that this is the sustainable business model that truly maximizes the long-term value of a customer.

The mandate to perform at the highest standards of integrity, security, and corporate social responsibility has always been applied to government-gaming operators much more than to other gaming sectors. Insofar as others in the broader gaming and gambling industry are not required to comply with those high standards, government-lotteries are at a competitive disadvantage. In moments of weakness, some of us have even lamented this inequity! But insofar as those standards start to get applied equally to those other sectors, Lottery’s superiority in those areas will be turned to competitive advantage.

That is especially true if the competencies of government-gaming operators become valued not just by their political constituents, but also by the market-place. I would submit that the requirement to create a value proposition that appeals to consumers without enticing them to over-spend is turning out to be the better business model. The whole notion of that is not consistent with the

basic tenets of free-market capitalism. The drive to maximize sales produces better economies of production and distribution which reduces costs and subsequently reduces pricing to the consumer. Lower prices stimulate increase in demand, increasing consumption, further driving sales, and furthering the positive feedback cycle that rewards successful businesses. Advocates for government-gaming have long maintained that while that is good for other consumer products, it is not the appropriate model to apply to gambling because it incurs social costs that are not in the best interests of society. The casino industry’s focus on maximizing profits which depend on turning engaged players into “whales” who play a lot is the expedient path to maximizing short-term profits. Likewise the commercial i-gaming operators’ focus on maximizing gross gaming revenue (GGR) by extending promotions that entice the online gambler to play more. But if one thinks more about the life-time value of a customer, Lottery is in the sweet-spot for the future of this industry. Expanding the customer base and getting more people to spend small amounts of money is fundamental to government Lottery’s business model. Creating the innovative games, brand, promotional strategies, and consumer connection that supports that model is what separates Lottery from the other sectors in the industry.

But wait, there’s more ... The Lottery model is also “defensible” in that it is extremely difficult for others to replicate the core assets (retail network, broad customer base, brand equity) and competencies (games that generate revenue while minimizing social costs, performance to higher standards of security, integrity, RG, CSR, etc.) that inhabit the Lottery business model. And while it may not be impossible for other sectors to raise their ‘game’, they will never acquire the performance standards of Lottery because they are lacking the most mission-critical asset that is at the heart of the Lottery business model – an internal business culture that genuinely values the welfare of society and a brand image that reflects that culture.

The question now is simply, how can we capitalize on our strengths, for the benefit of all government-gaming stakeholders? Does the role of industry “disrupter” suit us? I would submit that it fits like a glove, that we owe it to society, to the players, and to our stakeholders to embrace the role of disrupter. Our products, our service, our methods of promoting the business comport with the interests of society and the financial interests of Good Causes. The disruption we can cause to business models that are not so aligned, which are not directly connected to the service to society, will raise the standard of performance in the entire industry. Let’s embrace this role, the mantle of industry disrupter, with the competitive vigor that all successful market-driven businesses apply.

See you at the World Lottery Summit (WLS) in Rome (Nov. 2 to 5). And please mark your calendars for March 30, 31, and April 1 for Smart-Tech 2015 conference in New York City. ■

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The 2014 Lottery Industry Hall of Fame Inductees

The Lottery Industry Hall of Fame was founded in 2005 as a means of honoring those who have done so much to make this industry the great success that it is today. The recipients this year are certainly a credit to that ideal. **Gary Grief, Jean Jorgensen, David Loeb,** and **Tan Soo Nan** were elected for this recognition by the by the current members of the Lottery Industry Hall of Fame. PGRI, the members of the Hall of Fame, and all our friends and colleagues in the industry extend our heart-felt congratulations and thanks to the recipients of the 2014 Lottery Industry Hall of Fame for their service and leadership to the worthy mission of Government-Lotteries.

The Lottery Industry Hall of Fame Induction ceremonies were held at NASPL Atlantic City on September 30 and at the World Lottery Summit in Rome on November 4.

www.LotteryIndustryHallofFame.com



Jean Jørgensen

Executive Director of The World Lottery Association

Jean Jørgensen is Executive Director of The World Lottery Association, an organization that counts 151 national lotteries from more than 80 countries and 60+ suppliers of lottery services. He has served in this position since January 2009. The Executive Director reports to the Executive Committee which is made up of 13 individuals from different countries and represents five continents. The WLA provides services to the lottery industry which include convention organization for 1,000+ delegates; seminars; a highly respected industry magazine and a website, and standard certification on lottery security and responsible gaming.

Having established a sound financial position for the World Lottery Association, Jean's focus has been on developing good relations with the regional associations, offering joint services to avoid duplications and competition. Some of the new unique services that have been introduced include the quarterly WLA sales index, the Scholarship program; a RG program for associate members and strategy discussion papers about online gaming; social gaming and sports betting integrity issues.

In June 2005, Jean established himself as an independent adviser and EU-lobbyist in Brussels, Belgium, to follow and report on European gaming politics to Nordic lotteries. Lottery trade associations such as the EL (European Lotteries) and the WLA frequently relied on Jean as a seminar moderator and he worked for the Danish Government on its revision of the gambling legislation. Jean represented the six lotteries of the Viking Lotto group in the "EuroJackpot" project group together with German and Italian representatives. "EuroJackpot" was launched in March 23, 2012, and is still running.

Prior to this, Jean served for 14 years in various capacities at Dansk Tipstjeneste (now Danske Spil), up to and including the position of chief executive officer. Jean's career at Danske Spil began in 1991 as Assistant to the CEO, in charge of international relations and project leader of the first pan-jurisdictional Lotto project—Viking Lotto—among independent countries with their own languages and currencies. In 1997, Jean was promoted to Vice President at Dansk Tipstjeneste

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ANNOUNCING THE 2014 RECIPIENT OF THE Major Peter J. O'Connell Lottery Industry Lifetime Achievement Award

Presented in a special ceremony at PGRI
Lottery Expo Miami in Sept, 2014



J. Bret Toyne

As Deputy Executive Director and Chief Financial Officer for the Multi-State Lottery Association (MUSL),

Bret Toyne is actively involved in the diverse phases of the Multi-State Lottery Association's (MUSL) operation. Bret oversees many of the daily operating functions that have allowed MUSL to grow from six original members with annual multi-state sales of approximately \$80 million to current membership of 37 jurisdictions with annual multi-state sales exceeding \$6 billion. He manages the Association's budget and is responsible for all fiscal operations (moving money between all U.S. lotteries, reporting of sales and winners, and the building of fixed and lifetime annuities), investments and portfolio administration. The Association also looks to Bret for statistical analysis, projections and game modeling. He takes the lead on many MUSL projects and acts as the key backup on other projects as the small association works to facilitate the operation of seven multi-state games; with two more games in the works.

Bret is directly responsible for developing the process that allows multi-state games with set prize levels to operate with a clearly defined prize payout percentage. He works behind the scenes to establish and maintain the financial systems that ensure clarity and integrity while also designing modifications to games that improve player acceptance and sustained interest in games.

Bret has been with the Multi-State Lottery Association since January 1988. He is a Certified Public Accountant and is a member of the Iowa Society of Certified Public Accountants. ■

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The 2014 Lottery Industry Hall of Fame Inductees



David Loeb

President of the
Western Canada
Lottery Corporation
(WCLC)

David Loeb is a veteran of the lottery industry, with over 30 years of service with Western Canada Lottery Corporation (WCLC). David is a CPA, having worked with Coopers & Lybrand (now Pricewaterhouse Coopers) prior to joining WCLC. He started in 1983 as Manager, Special Projects, and progressed through a number of positions prior to occupying the office of President since March, 1994.

David is recognized as an important member of Canada's lottery industry, and in turn, the global lottery community. As President of WCLC, he has multi-jurisdictional experience in both regional and national spheres. He oversees the operation of WCLC—a complex lottery organization that covers six jurisdictions: the provinces of Alberta, Saskatchewan, and Manitoba, as well as the Yukon, Northwest Territories and Nunavut who participate as Associate Members.

He is known for his commitment to protecting lottery players, and was instrumental in developing WCLC's industry leading policies that strengthen consumer protection against retailer fraud.

David has also played an active role in Canada's industry-leading multi-jurisdictional success, both in lotto and instant games, through the Interprovincial Lottery Corporation (ILC). ILC is responsible for Canada's national games, and David is a member of ILC's Executive Committee, having served as President several times.

An active member of the wider lottery industry, David was the NASPL representative of the WLA Executive from 2001–2006, before being reappointed to that Committee in January, 2012. He is currently the Chair of the WLA Audit Committee. ■



Gary Grief

Executive Director,
Texas Lottery
Commission

Gary Grief was appointed Executive Director of the Texas Lottery Commission in March 2010. As Executive Director, Gary oversees an enterprise that generated over \$4.4 billion in annual sales, and has contributed more than \$1 billion annually to the State of Texas every year since 2004.

Gary has been an integral part of the success of the Texas Lottery Commission since its inception. Appointed in 1991 by the Texas Comptroller of Public Accounts to the original eight-member Lottery Task Force assigned to research and launch the Texas Lottery, Gary went on to assume the role of Statewide Manager of Claim Centers, overseeing 24 field offices throughout Texas. In 1997, he was promoted to Director of Lottery Operations, a position in which he received the 2002 "Powers Award" for Performance Excellence in Lottery Operations by the North American Association of State and Provincial Lotteries (NASPL).

Also in 2002, Gary was appointed by the Commission to serve the first of what would eventually be three separate terms as Acting Executive Director. When not serving as Acting Executive Director, Gary served as Deputy Executive Director until his official appointment as Executive Director in 2010.

Gary has contributed to the progress of multi-state lottery initiatives as well. In 2008, Gary actively participated in discussions between the Multi-State Lottery Association (MUSL) and the Mega Millions group to reach an agreement on cross-selling both Powerball and Mega Millions. These talks came to fruition in January of 2010 when the majority of U.S. lottery jurisdictions began selling both products, leading to increased revenue generated nationwide.

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Tan Soo Nan

Chief Executive Officer
of Singapore Pools
(Private) Limited

Mr Tan Soo Nan has been Chief Executive Officer of Singapore Pools (Private) Limited since 2002. Under his leadership, Singapore Pools transformed into a high-performance organisation built on an enviable foundation of integrity and responsible gaming. He and his outstanding organisation exemplify the principle that most lottery organisations around the world are founded on—that is, to be an important source of funding for good causes, operating in a socially responsible manner.

Mr Tan is highly-respected as an individual and in the industry for the active and leading role he plays in the global lottery community. He has been a member of the Executive Committee of the Asia Pacific Lottery Association (APLA) since 2002, became Vice Chairman in 2008 and has been presiding as its Chairman since 2012. Mr Tan joined the World Lottery Association (WLA) Executive Committee in 2012.

Mr Tan led the Singapore Pools team in hosting the 2006 WLA Convention and Trade Show. It became one of the most successful in WLA's history, attended by 1000 delegates from 73 nations. He also contributed significantly to the organisation of APLA's regional seminars and conferences since 2008. He took on crucial roles such as program development, speaker sourcing and the securing of host organisations. His initiatives such as Emerging Lotteries Scheme and Volunteers' Recognition Scheme have been adopted by APLA.

Mr Tan also steered Singapore Pools to achieve global standards. In 2012, it achieved Level 4 of the WLA Responsible Gaming Framework. In 2014 Singapore Pools obtained the WLA Security Control

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Rebecca Hargrove

Chief Executive Officer, Tennessee
Lottery Corporation

Senior Vice President, World Lottery
Association (WLA)

Co-Chair of the Monopoly Millionaires' Club
Lottery Game

PGRI Introduction: *Monopoly Millionaires' Club launches October 19, five days from the time this is being written, but before this is published and so before you are reading it. We will be joining a host of U.S. lottery directors and executive staff at Times Square in New York for the grand "Top Hats Will Be Flying" launch event, and look forward to reporting on that. One notable aspect of this discussion with Rebecca Hargrove is that it will not include the benefit of 20/20 hindsight—So the next report will focus on how to fully capitalize on the momentum created by this amazing project!*

Rebecca Hargrove is a Lottery legend. She began her career as lottery director in Illinois. She then launched the Florida Lottery in 1988, moved to Georgia to start that lottery in 1993, then on to Tennessee in 2003 to start its lottery, where she still serves as President and CEO. Ms. Hargrove was a key player in both Powerball and Mega Millions. So, it's hard not to respect her view and share her enthusiasm about Monopoly Millionaires' Club. The excitement surrounding this new game launch is infectious, and for good reason. Monopoly Millionaires' Club is by far the biggest game launch in the history of U.S. Lotteries.



Paul Jason, PGRI: *Monopoly Millionaires' Club integrates some wonderful "gamifying" elements into the player experience. What would you say is the "killer app" that makes this whole project so special?*

Rebecca Hargrove: An emphasis on the player experience is certainly part of it—Monopoly Millionaires' Club has a larger variety of gaming elements that engage the players and appeal to new groups who are looking for something fresh and different. But what truly makes MMC spe-

cial is the TV Game Show and the national platform that goes along with it. The TV Game Show is the cornerstone to a grand vision for a truly national game. The Game Show is one element, albeit the most important element, of a national program that includes an integrated marketing, promotional, advertising, and brand messaging agenda. It includes internet-based initiatives to engage the consumer as well. This multi-media promotional strategy provides the consumer with fresh, innovative, and compelling ways to engage in a national lottery game.

Another important element to the overall Monopoly Millionaires' Club project is the consistency of brand marks, promotional iconography, and brand messaging in general. A big obstacle to getting accepted by large national retailers has always been the lack of national brand consistency. These

retailers do everything on a big scale and they need their suppliers to operate that way too. Promotional programs and branding that vary state-by-state create complications for them that they'd prefer to avoid. What we've done with Monopoly Millionaires' Club is to deliver the kind of national brand messaging and marketing consistency that makes it much easier for national retailers to do business with Lotteries.

The TV Game Show along with the creative use of Monopoly iconography in the promotion of the Monopoly Millionaires' Club should make an impression unlike anything we have ever seen in the lottery world.

R. Hargrove: I do think that Monopoly Millionaires' Club will eventually acquire a level of brand awareness that is more expansive and multi-dimensional than anything we have ever done; and that this will confer



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attractive value to the whole category of Lottery products. For example, we have always tried to integrate into our brand messaging the role of the Lottery in funding Good Causes. With the launch of Monopoly Millionaires' Club, we'll have a multi-level national platform with a compelling TV Game Show to help communicate the way in which Lotteries benefit society through the funding of myriad Good Causes. During the program itself, there will be messages for national branding of the multitude of good causes supported by different U.S. Lotteries—education, senior citizens, health and public welfare, environmental protection, state recreational parks, public works and economic development, state employee pension funds, culture and art, and the general fund in some states—to the tune of more than \$20 billion in net funding a year nationally. And this branding effort will be both targeted and national in scope. The broadcasts in each state will include messages about the Good Causes supported by that state's own Lottery, as well as a Good Causes messaging segment that speaks to the national audience.

It's our hope that Monopoly Millionaires' Club will become a platform that helps us speak to a national audience in ways that have never been possible before, or at least in ways that have never been done before. Brand messaging on this national stage could reshape the perception of the Lottery industry in ways that could not be accomplished on a local or state level. National brand consciousness, the kind enjoyed by mega-brands like Coca Cola and Microsoft whose brand success transcends the sum of their parts, is something that Lotteries have never effectively acquired because communicating our brand messaging has always been confined to our local markets. There is a whole host of emotional connotations

that are embodied within a brand and inhabit the consumers' perception of that brand. Just as Coca Cola is about more than just a fizzy soft-drink and Microsoft is about more than just computer software, our Lotteries are about so much more than the possibility of just winning some money. They are about more than the chance to "change your life" and the lives of those around you. Great stuff, sure, but there's much more to who and what we are. For one thing, our brand should always convey our core mission: namely, our dedication to and success in raising funds for the Good Causes supported by Lotteries. Maybe it's also about the shared experience of playing a game that millions of others all around the country are also playing. The "community-creating" aspects of lottery, so to speak. This kind of brand messaging, though, is hard to fashion and convey on a purely local level. It's the national TV Game Show that will drive the creation of a positive mega-brand that resonates on an emotional level. It's the national platform that will provide us with a rich canvass to create brand messaging that will, we hope, reshape consumers' hearts and minds when it comes to the Lottery. If we're successful with our mega-brand we can break through to become an entertainment and recreational activity that causes people to say "Yes, the Lottery is for people like me." Right now we don't really know what all will be possible. We do know, however, that Monopoly Millionaires' Club provides a new kind of platform that opens us up to new possibilities, new pathways to shape the perception of what the Lottery can represent to the consumer.

What are some of the broader trends and consumer behavior and game playing styles that are being addressed by Monopoly Millionaires' Club?

R. Hargrove: We've all encountered this many times, the age-old question that is asked by everyone: Why should one player win \$100 million instead of awarding \$1 million to a hundred different players. Well,

for the first time, Monopoly Millionaires' Club does just that. The top prize is capped at \$25 million and each rollover thereafter funds the creation of additional \$1 million prizes instead of increasing the size of the jackpot. We also are very excited about the potential for the TV Game Show to engage a national audience in a way that we've never done before. And no drawing-style game has ever provided the level of entertainment value that Monopoly Millionaires' Club will provide. The increasing popularity of Instant Tickets can partly be attributed to the added element of fun and brand license. We hope that Monopoly Millionaires' Club replicates some of that entertainment value. There have been innovations like this in some locally based drawing games, but nothing like the scale and scope we'll see with Monopoly Millionaires' Club.

Is there a concern that Monopoly Millionaires' Club is too complicated?

R. Hargrove: The work that has gone into the development and launch of Monopoly Millionaires' Club is considerably more than what has gone into any other game that has ever been produced in the U.S. The logistics and the multiple moving parts certainly created a formidable project management challenge - one might even say "complicated." But no, the game itself is not especially complicated for the player. There is nothing about this game that the player has not already experienced with other traditional lottery games. First, there is the number selected for the top prize. Simple. Just like Powerball, Mega Millions, or any other drawing-style game. In addition to that number for the top prize draw, the player is given another number for the million dollar prizes. Lastly, the player can enter the number into the drawing for the "second chance" prize, which is the chance to participate in the TV Game Show. That process, too, works just like what the players have been doing for years with the Instant games. Those are the three basic elements to the game. Easy and

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Juha Koponen

Chief Executive Officer, Veikkaus Oy, Finland

PGRI Introduction: *The consumer market-place has exploded with an increasing variety of consumer media channels, online distributional channels, and devices and user-interfaces to connect with both. More and better options for the consumer is a good thing. Increased complexity, however, can interfere with the goal of operating efficiency, delivering the best consumer experience, and delivering value to stakeholders. Recognizing this challenge, Veikkaus is taking action to preserve a customer-friendly focus amidst an increasingly complex consumer marketing environment.*

Veikkaus was the first lottery to sell tickets online, starting back in 1996. Veikkaus is now widely recognized as the most progressive and innovative lottery in the world. So it was not surprising to learn that spring of 2014 was another period of transformation. Prior to 2014, Veikkaus had several area-specific strategies in place: its business strategy, operating environment strategy, internationalisation strategy, service strategy, and personnel strategy. Under the leadership of Mr. Koponen, Veikkaus has merged these area-specific strategies into one corporate-level strategy. The goal is a customer-facing organization, an integrated system that channels operational focus towards maximizing value to the consumer, and to the stakeholders of Veikkaus which includes the entire populace of Finland.

Mr. Koponen was appointed to lead Veikkaus in 2012. We visited at Industry Days conference (Lisbon in June) to discuss its strategies to stay ahead of consumer trends and continue to deliver a modern player experience to the modern consumer.



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Paul Jason, PGRI: *Managing Complexity is a big theme in the current business journals. The Veikkaus gaming portfolio stretches across great many categories including sports-betting, your internet-based revenues now exceed a third of total revenues, the rate of new game launches has never been higher, and you are innovating at land-based retail as well as your online business. How does your re-organization enable Veikkaus to manage the increased rate of innovation along with the increased complexity of the business?*

Juha Koponen: Simplicity and clarity should always prevail over complexity. We have not labeled our change process as “managing complexity,” or even as a corporate “re-organization.” Instead, we are focusing on very specific end-results and creating a fully integrated and co-operative approach towards managing

73%

OF FUEL CUSTOMERS
NEVER SET FOOT INSIDE
THE STORE



Not A Problem
Bring the lottery to them

the business. We have developed and launched a record number of new games, updated whole new sets of business processes and retailer support systems, developed innovative player-engagement initiatives for our internet businesses—all over the past twelve months. At least as important as the number and scope of these changes, though, is the manner in which the overriding corporate objectives and the spirit of teamwork are integrated into every step of the process.

As a large corporate enterprise, individuals each have their own areas of specialization. But as a corporate mission, Veikkaus shall balance Responsible Gaming with stable support to Good Causes. This is the mission of Veikkaus set by its stakeholders. All Veikkaus team members have taken the time to learn about, understand, and embrace the value of the corporate commitments. For example, the sales and marketing departments are as committed to CSR and RG as the CSR and RG teams are committed to achieving our financial performance objectives. The commercial objective of increasing revenues, the commitment to invest in the growth of our retailer network, the commitment to continue to develop our online programs to engage and excite our players, the commitment to Corporate Social Responsibility and Responsible Gaming, the commitment to develop environmentally sensitive business processes, the commitment to the dedicated Veikkaus team of employees - all these need to be integrated such that everyone understands and embraces the importance of these and all of our corporate commitments.

But how are they integrated, specifically? Well-intentioned Mission statements are often-times announced without a concrete action plan to ensure they are understood and effectively implemented. How do you turn this vision into a reality?

J. Koponen: Instead of bringing the

different functional areas together to coordinate their agendas at the end of a process, we work more cooperatively throughout our business processes. Whether that initiative is about a new game, a new sales promotion, new Players Club initiatives, new ways to help our retailers—anything and everything is executed with input from different functional areas of the business. No dramatic changes have been made to the organizational structure. The operation of a large enterprise requires high levels of expertise that is organized into separate business groups by functional disciplines, i.e. Sales, Marketing, Production, Finance, Legal, CRS/RG, Communications, etc. As far as I can tell, that continues to be an effective organizational model, and that's why most businesses are organized with some form of that basic model. For that matter, all businesses must enable some degree of input and interaction between and among the functional areas to ensure that the mission-critical objectives are being met. A new game must, at some point, be submitted to Legal and CSR and RG to ensure its compliance with their standards and requirements. That would seem to be true for all lottery organizations. What we are doing that is different, though, is to recast the entire process so that cooperation between functional areas is systemic, an integrated part of the ongoing process from beginning to end.

Is it too early to assess the material impact of this approach?

J. Koponen: It has been an exciting year for Veikkaus. The outcomes in terms of measurable data from this latest strategy will only become visible with time. However, the 2014 results in terms of new games and initiatives, the changes in progress, the rate of innovation in business processes at every level, the development of programs that benefit our retailers and our players, are

at a peak. And we can clearly see the results in terms of the quality of work that results from a more integrated development process.

We measure results according to a number of different metrics. Sales is just one metric and, frankly, not always the most important one, but our sales will show accelerated growth this year. More important, though, is to meet and exceed the expectations of our stakeholders to produce a healthy, sustainable games-of-chance industry. These are societal goals to manage the business for the benefit of players and non-players alike, to exceed the highest standards for Corporate Social Responsibility and Responsible Gaming and environmental consciousness, and to generate stable funding to support sports, culture, science, and youth work, i.e. Good Causes for the entire citizenry of Finland.

Veikkaus has done such a great job over the last two decades. It has always been at the forefront of technological advances, new game models, and pioneering new concepts for how to best serve its players and society. How apt it is that you are the ones to raise the bar on yourselves, being the ones to pioneer the newest strategies in management and business process engineering.

J. Koponen: We are blessed with a supportive constituency of stakeholders and an internal business culture that embraces change and innovation. But that does not mitigate the challenges we face, the same challenges faced by government-lotteries everywhere. We just think that rebuilding from within, reinventing the way we approach the business of delivering peak performance to our stakeholders and value to the players, is vital to the goal of delivering on our commitments. That's why we are focusing on internal process, creating a holistic, unified, collaborative approach to execution that drives the activities of every individual and every step we take along the way.

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It is a cultural change. Traditionally, the mind-set and whole approach to business is based on one's training and own personal objectives. Sales people focus on sales. CSR and RG people focus on protecting the consumer and on broader societal issues. Ditto for Legal, for distribution, game development, operations, etc. So first, we need to adjust the objectives so that everyone embraces also the broader, big-picture objective of reinventing Veikkaus on a daily basis to be the enterprise that is loved and respected by the entire populace of Finland. It is a process, the job of making it happen never ends, and we need a foundational system that supports the relentless focus on collaboration and unified action. We all bring our particular skill-sets and competencies to bear, but we all are spiritually linked to the singular mission of creating a great company. And intrinsic to the organizational structure is the process that integrates every functional area of the business from inception through development, implementation, and assessment of the outcomes. It is a cultural change for people to integrate the world-views of others that don't come naturally to them. But I can also tell you that they love it. People want to be a part of something bigger than themselves. They want to feel connected to the big-picture.

Breaking down corporate silos can be easier said than done. I know that my first impulse would be to make sure I don't reveal my whole sales agenda for people in finance, legal, and RG to shoot me down!

J. Koponen: Yes! First and foremost is to build the foundation of trust and inter-dependence. Again, I can tell you that people actually want to let go of their defensiveness. They prefer to work in an environment of mutual inter-dependence and trust. It's true that we need to nurture a sense of security and confidence that each person benefits indi-

vidually by embracing the transparency of the team approach. Life and relationships require that. And being an effective team member requires it. The Veikkaus team understands it and is excited to be a part of the over-arching strategic planning process. They are frankly happy to be a part of the process of breaking down the silos and building up the teams. They are excited on a personal level, and they see how much better the results are by working as a unified team.

Veikkaus was the first government lottery in the world to sell lottery products online. You have continued to develop your online business over the last eighteen years to the point where a third of Veikkaus' revenue comes from online customers. How did you, and how do you on an ongoing basis, enlist the support of your land-based retailers for your online strategies?

J. Koponen: We invest in their success. It is a very explicit part of our long-term strategy to develop all our channels of distribution. Two-thirds of our revenue comes from our land-based retailers. That makes them our most important channel partners. We make sure they know we are committed to their success.

For example, we are digitizing the land-based points of sale. The digital screens we install aren't just digital signs that display jackpot amounts. They are digital media channels that deliver whatever content we choose to focus on. This incredible communications network and media channel is used for our own brand messaging narratives, but it's also used for all kinds of content delivery. It attracts attention and engages the consumers in ways that benefit not just the lottery but also the retailer. By increasing the amount of time the consumer is in the store, it helps to increase sales of other products in addition to lottery.

Another example—we are investing in the technology that enable in-lane sales so when you are checking out to pay for

your produce and other products at your supermarket, you can easily pick up a lottery ticket at the same time. Easy for the consumer, easy for the store. Our retail partners see that we are innovating and investing in their success. They appreciate that and are dedicated to promoting lottery products. And digital media is ecological because it reduces the amount of printed material that we send to the shops. Digital screens do not eliminate other forms of POS and merchandising, but they do reduce the staff time needed to maintain and manage POS merchandising display.

You have added some 200 stores over the last twelve months, an increase of 7%. Have retail sales been increasing?

J. Koponen: Sales are flat at land-based retail and we do not realistically expect that to change. The growth will happen online. Not by our choice—it is just a reality. It is the choice of the consumer. Obviously, it's not just lottery products that consumers are buying online. Our retailers understand this and are working with us to evolve the service they provide to the consumer and adapt to these changes. Our retailers and we are very pleased with the stability of the land-based sales. They still comprise two-thirds of the sales and retailers know we are committed to their long-term success.

I would respectfully point out that the retailers who work cooperatively with us can still achieve growth. They not only sell more lottery products, they are more successful in all product categories. Retailers who face the realities and respond by delivering better service, modernizing the consumer in-store experience, and innovating in whatever ways they can, are adapting, succeeding, and growing their retail business. They are doing very well indeed and are well positioned also for long-term growth. Retailers who do not evolve their model and adapt with

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The most important ones include mobile phone recharging, selling tickets for sports, entertainment, and other events, and brokering payments for goods and services. In its most significant launch of non-lottery products ever, Sazka Mobile was introduced in February of this year and leaped to the number four position in a field of over fifty cell-phone service providers in the Czech Republic. Sazka distributes its products mainly through a network of over 6,900 sales outlets located throughout the Czech Republic.

Mr. Chvátal has led the charge since 2013. We visited at Industry Days (Lisbon in June) to discuss the amazing transformation of Sazka into the leadership role it was born to have.

Robert Chvátal

Chief Executive Officer,
Sazka, the Lottery of the Czech Republic

PGRI Introduction: *Sazka was founded in 1956, and for decades its brand was synonymous with lottery. In 2010, Sazka was the most valuable brand in the Czech Republic, with 95% share of the markets that it operated in. It then encountered various problems that created a fiscal crisis that led to temporary insolvency in 2011. Sazka was then purchased by the KKCG investment Group.*

The subsequent years were challenging, but Sazka successfully moved through its stabilization phase, reaffirming its long tradition of excellence, and now has re-emerged as a formidable and highly respected operator. It continues to vigorously develop and consolidate its dominant position in the Czech lottery market. Today, it holds a 97% share of the lottery products market.

The Sazka brand is once again among the most famous Czech consumer brands. "The new visual identity of Sazka is not just a "new coat" but it is a commitment of all those working for Sazka that an entertaining, innovative and reliable company will develop trendily and successfully under the new brand," says Robert Chvátal, CEO and member of the Board of Sazka. Under the current owner, the KKCG investment group, Sazka enters into a new stage of its development. It will continue to offer a broad portfolio of lottery and non-lottery products and will continue to modernize and adapt its activities to trends of the 21st century.

Sazka's main portfolio of products includes instant tickets, draw games, sports betting, and fast turnover games. Non-lottery products are the second pillar of the company's business.

Paul Jason, PGRI: *The Sazka story of the past few years is unique indeed! We all read about the events in 2010 and 2011. But I don't know if we are all clear on how it has unfolded since then.*

Robert Chvátal: *Sazka was mismanaged during the years of 2008 to 2011, which caused a decline in the perception of the Sazka brand. Sazka never stopped operating, though. Even during this tumultuous period, Sazka honored all its obligations to the players to reward prize monies, and fulfilled its other financial obligations as well.*

What was the cause of the problems in 2011?

R. Chvátal: *Mismanagement in a variety of ways. The main financial problem was that management ventured out of its core business of lottery and built a huge multi-purpose arena in Prague. The arena is beautiful, but way beyond the scope of what Sazka was financially capable of doing. Sazka was then purchased by the*

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investment group of KKCG. Since then, Sazka has been restructured, refocused back on the core business. The guidance and support from our new owners led to a well-conceived plan to rebuild the brand and its business. That plan included an ambitious strategy to extend the brand into business categories that are synergistic, mutually supportive and reinforcing to the core business of lottery. We are now into the second year of implementing the plan. Sazka Arena was sold. We managed to stabilize the company so that sales in 2012 rebounded to its previous level. Sales then increased by 20% in 2013.

Congratulations! It certainly appears that you are on the right track. I would think that changing and reinvigorating the internal corporate culture of Sazka must have been a massive undertaking.

R. Chvátal: It was. Previously, the corporate structure and culture was rigidly hierarchical and rather imperialistic. Thankfully, the people of Sazka are a talented group who readily embraced the opportunity to restore Sazka to its previous high standing as a world-class operator. I can tell you it is a blessing to work with such a dedicated and forward-looking team. The challenges, as you might imagine, were formidable. But the brand was intact, the people of the Czech Republic gave us the opportunity to prove what we could do, and Team Sazka delivered in amazing fashion. Our owners, KKCG, worked with us on developing the over-arching strategies, but then gave us free reign to execute and deliver on our commitments. The abilities and potential of Sazka employees was unleashed, the big hearts of the Czech people accepted us with open arms, and now we are set on a course to fulfill an ambitious mission to be an integral part of the lives and lifestyles of the people of this great country.

You were the CEO of T-Mobile in Czechoslovakia and Austria prior to your appointment to be CEO of Sazka.

R. Chvátal: And we did bring into Sazka talent from outside the lottery industry to assist us on our new course. But there is an abiding appreciation and respect for the industry-specific knowledge, experience, and dedication of the Sazka team which has been working in the lottery industry for many years. It is that Sazka employee brain-trust that informed our ambitious plans with a strategy that integrates forward-looking vision with the heart and soul of the lottery industry. The current Sazka is a synergistic blend of new blood and lottery veterans.

Using the lottery terminals to sell ancillary services, like cellular phone time and paying utilities bills, has always been a part of the Sazka business model.

R. Chvátal: True. It just needed guidance and focus to integrate the different product and service categories into action-plans that support a clear vision. For instance, our efforts to extend the brand of Sazka into areas other than just lottery is motivated not just by the desire to add additional revenue sources. It is more about increasing the number and variety of consumer touch-points to maximize exposure and rejuvenate the brand. It is a brand-positioning strategy. We want to demonstrate that the brand of Sazka is not only building onto its traditional past but is ready to embrace a future that is diversified and includes a direct connection with the lifestyles of the modern consumer. For instance, we envision a convergence of gaming and Mobile telecommunications. So we see Sazka's service in the Mobile space as naturally synergistic with its traditional business of lottery gaming. Mobile Sazka positions us to develop a brand-messaging strategy that focuses on both Mobile and gaming.

Providing Mobile services also connects you to the customer data that can help develop the interactive component to the gaming business.

R. Chvátal: Exactly. The revenue gener-

ating aspect of topping off cellular time is the least important of three objectives. First is to rejuvenate the Sazka brand by creating a diversified set of consumer touch-points. The consumer will come to know us through a variety of services and solutions that we provide. This brand extension reinforces consumer awareness for all our products, including or perhaps especially our portfolio of lottery products. Second, the Mobile services involve sharing of information that becomes the customer database and digital connection that will be so vital to consumer marketing in the future. The additional revenue stream is only the third benefit to diversifying our services.

So Sazka Mobile, your cellular service, is creating the platform for further interaction, a communication platform or medium for you to promote lottery products and build the interactive relationship that is so key to the future.

R. Chvátal: And provide us with a platform for promoting Responsible Gaming and build a sound basis for long-term growth.

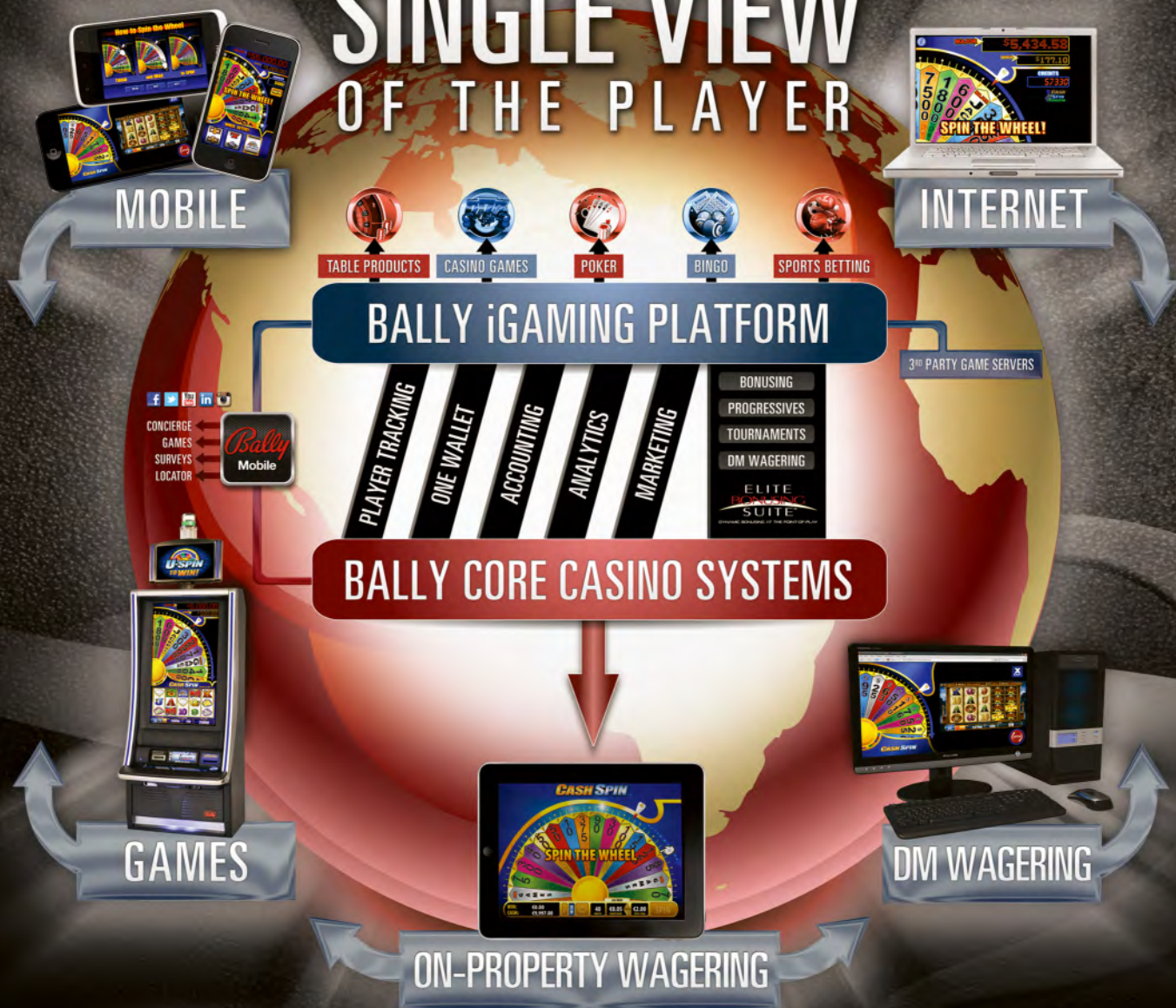
I think the success of Sazka Mobile is one of the important proofs of Sazka's revival. For the vast majority of its history, Sazka has been one of the most well-known and respected brands in the Czech Republic. Now that legacy has been restored. Sazka is once again respected for its integrity and reliability, even to the point where we are able to launch a big project into the highly competitive category of cell phone service. The capture of significant market share in such a short period of time is testament to the enduring strength of the Sazka brand.

We recognized that extending the brand would be key to revitalizing consumer confidence and awareness of the brand. Sazka was already known not just for its lottery business but also for having one of the largest retail networks in the country. So we leveraged the retail network and terminal network to provide ancillary services like topping off your GSM prepaid card

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Evgeniy Vlasenko

Chief Executive Officer, MSL LLC, Ukraine
Member of the Board of MSL LLC

PGRI Introduction: *Located in Eastern Europe, it borders Russia to the east and northeast, Belarus to the northwest, Poland, Slovakia and Hungary to the west, Romania and Moldova to the southwest, and the Black Sea to the south. The Ukraine is the largest country in Europe by land mass, and has a population of 45 million. Ukraine is an economically prosperous country, traditionally being the world's fourth or fifth largest grain exporter and also having a well-developed manufacturing sector, particularly in aerospace and industrial equipment. And the literacy rate in Ukraine is the highest of all the former states of the Soviet Union.*

There are currently four groups licensed to operate lotteries in the country. The largest of these is the MSL LLC Lottery. The other three licenses are Ukrainian National Lottery (UNL), CJSC Patriot, and OJSC State Savings Bank of Ukraine. UNL and Patriot are active operators while the Bank does not produce any of its own lottery while its branches sell tickets of the other three operators. Evgeniy Vlasenko was appointed to lead MSL in the beginning of 2011. Meeting with Mr. Vlasenko at Industry Days Conference in Lisbon in June, I asked him about the regulatory framework, gaming culture and consumer trend-lines, and competitive environment in the Ukraine. Of course, the military conflict and political strife causes severe hardship for the Ukrainian people, and creates unique challenges for the business serving the consumer.



Paul Jason, PGRI: *What does "MSL" stand for?*

Evgeniy Vlasenko: The company was originally called Molod Sportloto. "Molod" refers to youth and Sportloto just refers to the state-owned lotto. It was launched in the middle 1970s to raise funds for the Moscow Olympic Games. Its original mission was to raise funds for the development of sports in the Soviet Union. Of course, that mission changed when the states became independent in 1991. But by that time, the abbreviation MSL had become our brand so we retained it even though the original meaning of Molod Sportloto no longer applies.

What is the history of MSL and the lottery industry in Ukraine since 1991?

E. Vlasenko: After the Ukraine gained independence in 1991, there was a period of time when government regulatory structures

were not fully intact. There were no regulations and private operators were free to start lotteries, sell tickets and take in money, then close without paying out prizes. Public trust in lotteries was destroyed. In the year 2000, a regulatory system was implemented. Even so, and even though MSL always operated with integrity, the entire industry was tainted and it was very difficult for MSL to reestablish public trust and confidence. But we succeeded, step by step, in re-establishing consumer confidence that our operations are totally transparent and prize monies are paid out promptly and we always operate with integrity. The business of lottery relies not just on the confidence of the consumer. Your retail and advertising partners also need to be confident that the time and resources allocated to lottery will generate a positive ROI for them, and that the lottery operator will be a good business partner in every way.

What is the regulatory model in Ukraine?

E. Vlasenko: In the Ukraine, there is no monopoly in Lottery. The minister of finances issues licenses to operate. There are four licensed lotteries in the Ukraine and no new ones have been issued since 2012. Currently, activities of the lottery operators are directed by the Law on Lotteries which was first adopted in Ukraine in fall 2012. Gambling in the form of casinos and slot machines is forbidden since 2009, but the regulations need to be enforced.

What lottery games are offered in Ukraine?

E. Vlasenko: The Ukrainian lottery market is comparatively small. During the period of the EuroMaidan revolution (concurring with the Russian annex of Crimea and war in Eastern Ukraine since the beginning of this year), there was 50% devaluation of the Ukrainian currency

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We know that lottery customers are playing in a multi-channel world. That's why all of our content works on desktop, mobile and tablet. We understand that the gaming market is evolving at a fast pace. That's why we continue to innovate on new channels, with new mechanics and new ways to play. But most of all, we believe that our experience can be the difference between you doing OK or doing great.

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(UAH) against the USD and euro. So if we convert total 2013 sales into USD as per the current exchange rate, the sales results become automatically much lower than in the time it was reported in Jan 14. Before the political and military turbulence, the market was growing considerably. MSL sales were increasing at an annual rate of 50-80% between 2010 and 2013.

The lottery business has declined amidst this turmoil, down by 14% with the loss of the territories which are currently under no central Ukrainian jurisdiction.

Still, just 18% of the adult population plays lotteries. So the potential for sales increases is significant when there is peace instead of war so that we can build proactive growth plans. Instead, now we experience decline. Among classic lotteries (without sports betting), bingo ranks first at 30% of revenues, scratch cards second at 24% and growing fast, and Lotto third at 6%. Sports-betting and toto is 40% and is the fastest growing category.

Total turnover in 2013 was over 2.5 billion UAH (approx. \$150 million euro today but twice that before the devaluation of the past year). The operators are required by law to pay out at least 50% any games. The current licensing requirement is for the lottery operators to pay 18% of revenues to the state. These funds pay for the development of sports, culture, and health care of children.

What percentage of your sales happen at land-based retail stores, Internet, or other channels of distribution?

E. Vlasenko: 97% of MSL's sales are at land-based stores. Internet is a small portion of the sales, but we are developing the online business together with Neo Games. A peculiarity of MSL is that it is successor of the Soviet state lotteries which traditionally worked via their own chain of POS. And so now, over 80% of total sales of MSL are generated from its own specialized stores. So MSL has been very tied to and committed to its own network of retail stores. We will continue to be committed

to the land-based retail channel, but our new strategy is to build a strong network of land-based agents and stores which is the model that works so well for the developed markets in Western Europe, U.S., Canada, Australia, and elsewhere.

We are now recruiting outlets like general stores, private entrepreneurs, corner stores, press and tobacco shops and such to increase coverage and educate them about the lotteries. Without proper training and all round education this segment will not sustain. In this respect experience of our colleagues from European Union makes represents a value for us. We train our partners-retailers on how to run the business. We continue to assist in merchandising to make sure the POS materials are properly maintained and updated to maximize sales of lottery products. But most important is that we train them how to talk to the players and treat them professionally. Our field sales managers visit the stores on a weekly basis to assist in all aspects of merchandising lottery products and assist in other aspects.

This sounds like a massive transformation of the whole distributional system.

E. Vlasenko: You need to recognize that prior to 1991, there was no private ownership of retail stores. They were all owned by the state. There was no commercial distribution industry. The kind of retailing infrastructure that you take for granted, one that is an efficient mix of large department stores, small retailers, and specialty retailers did not exist. So it had to be created. At the time, in the 1990s, I worked for the Mars Corporation. Pet food initially was available only in a limited number of specialized stores and retailers did not want to put it to the shelves next to food or other items. Now you will not find a solid supermarket or grocery without pet items. In fact, specialized pet stores well survived. And consumption increased. That is what we are doing with the lottery retail model right now. We have just 18% of the adults playing lottery, and specialized lottery

shops that dictate rules and volumes in the lottery industry of Ukraine.

Transitioning from a state-owned economy to a capitalist system is a big transition. You might imagine that it is just a matter of installing modern business practices and models. But the cultural adaptation as well as economic and logistical transformation is not so easily accomplished. Of course, we are over twenty years into the process. The cultural transformation has largely been accomplished and so now it is largely a matter of executing on fundamental business plans to develop a network of dynamic entrepreneurs to operate the stores.

There is huge potential for MLS to increase player-ship just by making the product more accessible to the consumer. Building the retail network is the primary way to make that happen. We have only 18% of the population in the Ukraine who plays the lottery at least once a year. That compares to 70% in the UK. We are confident that player-ship will increase with an increase in the number of retail stores and the effectiveness of owner-managers at selling and merchandising the products. Our business model is entirely based on making the product more accessible, provide more Ukrainians with the opportunity to have fun playing the lottery, bring more people into the game so that the games are a fun and healthy form of recreation with nobody playing more than they can afford. Just expanding distribution, making the product more available, is the key to connecting with that 82% of the population that does not play the lottery.

Some products carry higher margins than others. Do you allocate budgets for promotion based on the profitability of the product category?

E. Vlasenko: There are different ways to measure profitability. Sports-betting, for instance, has a much lower margin than the draw games. But the GGR and especially turnover is much higher in sports-betting than it is for lottery products. And sports-betting costs more to operate. Higher rents for stores, higher payroll for staff to run the

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stores, higher costs for municipal services, etc.

Our business objective is simply to offer all the products and games that the consumer wants to buy. We want the consumer to know about the products, know how and where to play the different games, and maximize consumer access to the games.

It is hard to compete with online sports-betting operators since they don't pay taxes.

E. Vlasenko: Of course. Our share of the sports-betting market is low, but we want to provide our customers with the option to play at a legally authorized and trusted store. 40% of our total revenue is from sports-betting, and only 2% of that revenue is online. The rest is all at land-based stores.

Illegal online gambling is vast. There are more than 270 sites accessible to the Ukrainian customers. They are not properly regulated or taxed. First, the government needs to understand and specify the regulatory and taxation framework. Then they need to prepare, adopt and issue rules and conditions for licenses.

MSL has a corporate philosophy of supporting Good Causes and that translates into a strategic philosophy of being first and foremost a lottery company. Government gaming operators have an entirely different reason for being than do the bookies which operate sports-betting or other games illegally online. As we learn from presentations at the EL Conferences, even in jurisdictions where these bookies do acquire a license to operate legally, online sports-betting operators typically pay a tax rate that is much lower than the percentage that government operators turn over to their government and to Good Causes. We do want to provide our customers with the complete portfolio of gaming options. But we need to be realistic about our ability to compete for market share. Our mission is about providing a service to the consumer, a safe and secure environment to play the games, and to generate funds for Good Causes and to the shareholders.

Internet sales is a small portion of your revenue. Less than 4%. Do you think that will be growing in the future?

E. Vlasenko: Yes. Adoption of smartphones is skyrocketing, and that will drive commercial activity onto the internet. Facebook is not as popular here yet, but social networking is becoming a bigger part of our lives in the Ukraine, and as more and more people are engaged in social networking, that will drive the increase in social gaming. It will be most interesting to see how these new media and distribution channels will evolve over the next two years.

Our website is www.msl.ua. As a first step, our commercial partner NeoGames is implementing an online Instants program. We realize that it is important to engage the consumer online. The multi-channel approach is a cornerstone to the long-term success of any lottery operator. The consumer connection to social networks is fast becoming the primary source for information in general. These social networks function as the key medium for communication, and they are also a powerful engine for disseminating information. As a business, we need to be a part of that, and that means making our products available online.

We started in Internet with traditional lottery products. The sports-betting space is far too competitive for us to compete in that category online. Although, since 2013 our brand Sportliga is available on line as well. But for us, we find that the consumer likes buying lottery products at retail stores because they trust retail stores to pay out the prizes. By providing good service, retailers establish a trust relationship with the consumer. The consumer sometimes knows the retailers personally. Even if they do not have a personal relationship with the retailer, knowing that there is a physical place and an actual person for them to talk with engenders trust and confidence. The consumer also trusts the brand which is represented at the POS's and signage at stores, so that also reinforces confidence in the integrity of our retailers. Especially as applies to sports-betting, the consumer is less

likely to trust the online operator.

Ukraine recently signed an association agreement with the European Union. This makes it possible for us to join Euromillions or EuroJackpot in the future. We know these games are very successful in Western Europe and are confident they will do just as well in Ukraine.

How has the political situation and unrest impacted your operations?

E. Vlasenko: We stopped operations in Crimea once it was annexed by Russia. And Eastern Ukraine is a war zone. It is impossible to operate a consumer business under the artillery shells in Donetsk and Luhansk and the other cities in the Donbass region of Eastern Ukraine. Losses are big. Many places in the military zone are without electricity, people do not get salaries and pensions, so they do not have the time or the money to play the lottery. These are unfortunate times. But Ukrainians are peaceful by nature. There has been peace and stability over the past 23 years since independence from the USSR. If the war is not forced upon us by outside interference, I believe it will stop soon and Ukrainians will go back to their natural activities: grain production, composing songs and, I believe, playing lotteries too. The people just want to return to normal life but that is just not the situation in Eastern Ukraine. And unfortunately, a resolution does not appear to be imminent.

The nature of business requires us to plan ahead in spite of a lack of certainty about the future. I can't imagine what that must be like under conditions so uncertain as those in the Ukraine.

E. Vlasenko: In years past, maybe fifteen or twenty years ago we would all operate with five and ten year business plans, right? More recently, technological, cultural, and lifestyle changes have shortened the realistic timelines for business plans down to eighteen months or two years. In the conditions that exist here in the Ukraine, we do not know what will happen tomorrow. That requires a whole dif-

ferent style of management. You have much less control. You need to depend on others to use their judgment and make the right decisions in situations that require immediate action. Security of the people and physical premises and deliverance of products and services is a major challenge. We still have offices in combat zones, and even where there is not heavy military activity, there is still unrest. Our job now includes taking many telephone calls to counsel our staff on how to deal with threats to their personal safety. Sometimes we need to help them figure out whether it is safer to try to leave the office to go home or to remain in the office and hide behind tables

and hope that the fighting ends soon so you can quickly run to your vehicles to get away. As important as our corporate mission is to grow the lottery, the issues caused by these conditions take priority! There is much less time to focus on normal business operations. And it's not as if any of us are trained to deal with these kinds of situations. So we all figure it out as we go, and do the best we can.

But in western Ukraine, life is normal and safe and stable for the conduct of commercial activity and operating the lottery?

E. Vlasenko: Yes. Ukraine is in a very unusual situation. People from all different nationalities, religions, and cultural back-

grounds have been living peacefully here for so many years. Nobody thought about the different backgrounds, we all just lived as equals, as friends and countrymen. Now we just want this military turmoil to stop so we can return to normal life. This is very hard for all the people of Ukraine. People are dying and others are losing their jobs and their life savings. And that also makes it very hard for businesses to survive. And when businesses suffer, so do the government services because of the decline in tax receipts. War is a vicious cycle that hurts everyone.

We do join you in prayer, Mr Vlasenko, and hope for the best! ■

The 2014 Lottery Industry Hall of Fame Inductees (continued)

Jean Jørgensen

Continued from page 10

A/S in charge of customers and CEO of two subsidiaries dealing with horse racing and slot machines.

At the beginning of 2005, Danske Spil and its two subsidiaries had 260 employees and sales of DKK 9,7 billion (€ 1.3 bn). Sales grew more than DKK 2.2 bn (€ 297 million) or more than 25% during Jean's two years (2003-2004) as acting CEO. Social responsibility initiatives introducing gaming and age limits were defined and introduced as part of the daily operations.

Jean served as Junior Professional Officer for the Fund Raiser at the United Nations High Commissioner for Refugees at its headquarters in Geneva, Switzerland; he also worked at the Danish Ministry of Education at the department for statistical and economic analysis. Jean holds a master's degree in economics and an Executive-MBA. He is married to journalist Gitte Sehested-Grove with whom he has two daughters. ■

Gary Grief

Continued from page 12

From September 2010 to August 2012, Gary served as the Lead Director for Mega Millions, a role in which he led industry discussions with MUSL regarding a potential price increase for Powerball. An agreement was reached in 2011 and the Powerball price point was changed to \$2 in January 2012. Since that time, record jackpots, sales and revenue for Powerball have been recorded by almost all lottery jurisdictions in North America. In June 2012, Gary worked closely with the Mega Millions Consortium and GTECH to develop and push for change to the Mega Millions game, culminating with a significant modification to the game in October 2013, a change that once again led to increased sales and revenue.

Gary recently completed his term as President of North American Association of State and Provincial Lotteries (NASPL), and continues to serve as the NASPL Accounting Subcommittee Chairman. As a result of Gary's long and distinguished career in the lottery industry, Gary was recognized in 2012 with the PGRI Major Peter J. O'Connell Lottery Industry Lifetime Achievement Award. ■

Tan Soo Nan

Continued from page 12

Standard Certification.

Being a champion for innovation, Mr Tan spearheaded the launch of phone betting service that comes with direct credit/debit links with major banks. This creative use of technology earned Singapore Pools the "ZDNet Asia Smart 50 Award."

Mr Tan holds firm beliefs in social responsibility. In his words: "The community must see us not just as a lottery organization or gaming company. Our staff must come to work for a higher purpose. I would like the community to appreciate that many of the people who work in Singapore Pools do care for the well-being of the community." This led to the initiation of i-SHINE in 2003, a staff community programme where Singapore Pools volunteers actively reach out to the less fortunate in society. Mr Tan walks the talk with his personal involvement in helping numerous good causes through his wide government and business network. Under Singapore Pool's "With A Heart" series of fundraising events, he had raised millions in donation funds for the welfare of many beneficiaries. ■



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Chuck Strutt

Executive Director,
Multi-State Lottery
Association (MUSL)

Paul Jason, PGRI: *MUSL performs such a wide variety of services for its members. Is there a core competency that is most fundamental to its mission?*

Chuck Strutt: MUSL has three core tasks; finance and accounting, drawings, and system security. MUSL handles the finances and accounting for the multi-state games; moving funds around to manage the payment of prizes and managing prize reserves. Basically, it involves managing the assets and operations of multi-state games. The skillsets acquired from working for the lotteries have subsequently been leveraged to help the MUSL members in related areas, such as RFP's and vendor contracts,

PGRI Introduction: *It was in 1987 that seven U.S. lottery directors decided to form an association with the purpose of creating and operating multi-jurisdictional games. Chuck Strutt was the first employee of MUSL and, 27 years later, continues today as the executive director of MUSL. Tickets for the very first multi-state game in the U.S., Lotto America, went on sale in 1988.*

Lotto America became Powerball in 1992 and Powerball became the most popular lottery game in the U.S, with sales of \$5.766 billion in 2013, growing from sales of \$120 million in its first year of operation. Since it began, MUSL games have brought in sales of over \$57 billion for its member state lotteries.

MUSL is now steeped in the business of implementing the biggest game launch in U.S. history: Monopoly Millionaires' Club which goes on sale on October 19. Chuck Strutt and MUSL are well-known to everyone in the U.S. lottery industry. But, while we all have an idea about what MUSL does, I wanted to get a more precise picture of its core competencies and range of services. The side-bar article to the right explains it in some detail. And following, Chuck Strutt further rounds out the picture of the MUSL mission to serve its members.

where we have to ensure that any government review will find that we act strictly in accordance with state laws and regulations. MUSL records and reports sales and winner information, including the creation of a report generator that allows the lotteries to review sales data in a number of ways for daily sales comparisons, jackpot comparison and per capita comparisons.

Second, MUSL also conducts draws for the games, including hard rubber ball draws, Ping-Pong draws, RNG's and even pachinko draws. Eventually, this led to performing draws in state lottery games. MUSL conducts multiple draws each day, every day of the year; over 4,600 draws per year.

Finally, MUSL develops logical and physical security standards and conducts reviews to help all members feel comfortable that their partners in the games are operating from the same set of standards. That has led us to work with the lotteries to identify common standards and minimum standards for a secure system. These are sometimes referred to as "audits" but, while that is certainly a part of the process,

MUSL's goal is to maintain security and integrity for lottery games. That involves three areas; working to identify existing and developing threats and creating standards to guard against those threats; setting up prize reserves to protect against player perceptions of problems; and, finally, to review sites to make sure that all have the best practices in place.

A fourth task that is becoming more important, and has probably reached the status of a core task, is to evaluate and model game concepts in a way to predict performance. Beside the math, MUSL is in a unique position to compare player purchase experience for a variety of games in a variety of states over a long period of time.

The responsibility to manage the large sums of money involved with Powerball and the other games would seem to be mission critical with a zero tolerance for errors of any kind.

C. Strutt: We do have a unique fiduciary responsibility to keep the funds safe. Included in that is the responsibility to invest that money to generate additional income for the benefit of our member lotteries and the

... Continued on page 38

About The Multi-State Lottery Association (MUSL)

The Multi-State Lottery Association (MUSL) is a non-profit, government-benefit association owned and operated by its 33 member lotteries. Each MUSL member offers one or more of the games administered by MUSL. All profits are retained by the individual lotteries and are used to fund projects approved by the legislature authorizing each lottery.

Formed in 1987, MUSL's first multi-state game was "Lotto*America." The game ran four years, in two versions, before being replaced by "Powerball." On April 22, 1992, the first "Powerball" drawing was held. Since then, "Powerball" has become the number one lottery game in the United States. Prior to January of 2010, U.S. lotteries could sell either Powerball or Mega Millions, but had to choose between the two because they could not sell both games. In 2010, MUSL began to license the sale of Powerball tickets in the twelve Mega Millions states; and the Mega Millions Consortium began to license the sale of Mega Millions in the MUSL states. Powerball and Mega Millions are now both sold in all forty five U.S. lottery jurisdictions, including D.C. and U.S. Virgin Islands.

MUSL coordinates with the consortium of twelve Mega Millions lotteries concerning their participation in Powerball, and with MUSL member lotteries regarding the operation of Mega Millions. In addition to Powerball, MUSL facilitates 2by2, Hot Lotto, Wild Card 2, MegaHits, and All or Nothing. MUSL also offers the new Monopoly Millionaires' Club, set to launch on October 20.

MUSL provides a variety of other services for lotteries, including:

- Game design and development programs: MUSL provides its programs, spreadsheets, and expertise to member lotteries that need assistance or an additional method to calculate or confirm odds, coverage, cumulative coverage, and sample game runs for predicting sales level, average prize amounts, and overall game performance and outcomes.
- Assist members in establishing processes to operate state games at set prize payout levels.
- Management of game finances: this includes the purchase for members, by competitive bid, of securities and insurance annuities required to fund the purchase of member in-state lottery games.
- Internet and Web Site Services: At its actual costs, MUSL provides e-mail addresses, Internet access, website, database and email list hosting, and related support for member lotteries. MUSL provides space on its hosting infrastructure and can provide basic assistance for member lotteries to establish their own website. Sites currently hosted at MUSL are: AR, CT, IA, ID, KS, NC (2), TN (2), VT.
- MUSL updates jackpot information after a drawing for telephone-controlled electronic billboards used by member lotteries and reports information to other non-electronic sign vendors. Currently, approximately 700 signs are updated by MUSL in 29 jurisdictions (AZ, AR, CA, CO, CT, DE, FL, IA, ID, IL, KS, KY, LA, MD, MI,

MO, NC, NH,
NJ, NM, NY,
OH, OK, PA, RI,
SC, TN, VA, and WV).

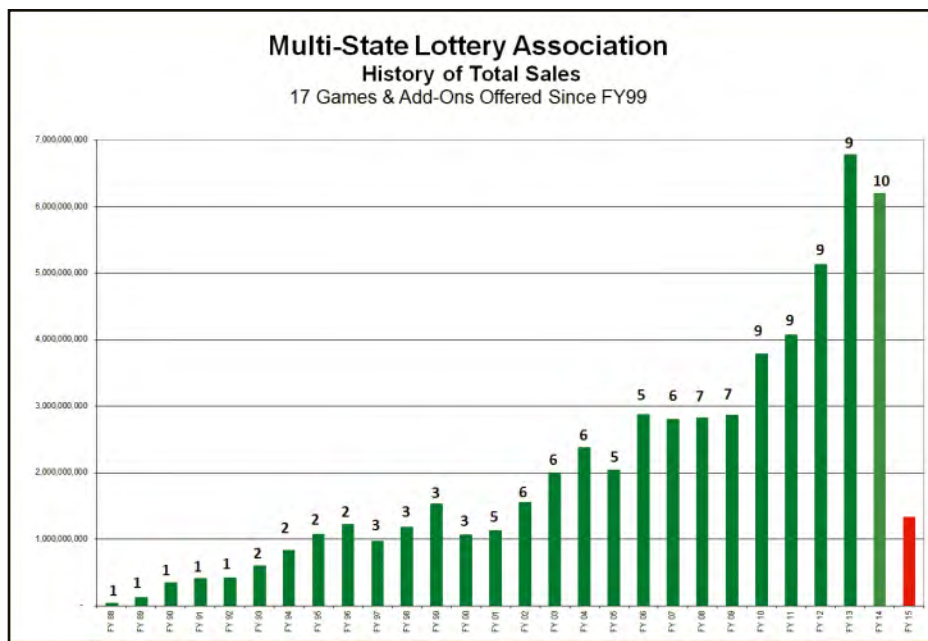


- Security & Computer System Consulting: MUSL provides its members with expertise in the evaluation of computer and physical system security products and processes; MUSL participates in site visits and review of system vendors and in employment interviews for lotteries hiring computer security personnel; and assists in the design and programming of firewalls and routers.
- Player Information: MUSL assists in the preparation of complex individual reports and graphs for lotteries which are provided to players.
- MUSL sends out news items and Grand Prize estimate sheets to any person at the request of a member lottery.
- MUSL provides production, up-linking, and backups of drawings
- MUSL will work with a member lottery to develop a binder of contact information and game design and procedures so that the member's drawings can be conducted in the event of an emergency using either ball machines or an RNG (as agreed upon by the member lottery).
- MUSL develops and builds (at cost) a true-RNG draw machine for use in lottery draws as requested by a member lottery. One or more systems are currently in use in AR, AZ, CO, CT, IA, ID, IN, KS, ME, MT, NE, NH, OK, OR, RI, SD, VT, and WI.
- Web Scan. MUSL will scan, on a regular basis at the direction of the lottery, a lottery's web site to identify vulnerabilities.
- MUSL develops and shares information technology and security standards
- MUSL assists with the coordination of common promotions and advertisements, coordination of public relations, and emergency back-drawing sites for lottery games.

MUSL also hosts the Powerball web site and the websites for more than a dozen U.S. lotteries. The Powerball drawings are held in Florida. MUSL's other draw games are conducted in Iowa. MUSL games operate under the same core game rules in each jurisdiction; however, each lottery is free to vary rules pertaining to such things as purchase age, the claim period, and some validation processes. The Powerball web site averages over 350,000 page-views per day (over 10.5 million monthly). MUSL provides these services to the lotteries at no cost. MUSL earns its income from non-game sources such as earnings on its accounts, bond swaps, and licensing of its trademarks. MUSL also owns the patents and trademarks involved in its operations, holding them for the benefit of its members.

MUSL's director, Chuck Strutt, was the association's first employee in 1987. MUSL headquarters and staff of 12 full-time employees are located in Urbandale, Iowa.

Multi-State Lottery Association
4400 N.W. Urbandale Drive, Urbandale, Iowa 50322
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Good Causes they support. The rules and constraints that govern the way public funds can be invested differ from state to state, and MUSL must comply with the rules of each and every member state lottery. The result is a money management approach that is both conservative and responsible.

So, MUSL earns money outside of game operations?

C. Strutt: Yes. MUSL was designed to be a self-funding operation. That might surprise some of our newest members who are actually cutting a check to MUSL, but most members do not pay for MUSL's core services. Since it began operations, MUSL has earned over \$130 million in non-game revenues—investing the money that passes through our hands even for an instant; licensing IP (intellectual property) to non-lotteries; swapping bonds, and selling web ads—while MUSL expenses have totaled under \$85 million since 1987.

We also spend a lot of time evaluating game proposals submitted to MUSL. And many state lotteries call upon MUSL to assist them in evaluating game proposals applicable to their own in-state businesses. We work closely with the vendors and the professionals in the state lotteries, always seeking to integrate input from a variety

of sources. We are a staff of thirteen. So we rely on our relationships with vendors and lotteries and others to develop the concepts that will help lotteries succeed. This collaborative process inhabits every aspect of our business, from ideation to development and implementation. And then to ongoing feedback so we can evolve our products and services, create new products and services, and to constantly improve and deliver more and better value.

Is there anything that MUSL does that would surprise our readers?

C. Strutt: Most lotteries know that MUSL designs and builds RNG's, that we update electronic signs in the middle of the night around the country, over 700 signs in 30 states; that we host websites for 14 states as well as Powerball.com and MegaMillions.com; and that we build annuities for MUSL and state lottery games, including for-life games. But some might be surprised to know that MUSL facilitates the operation of seven games with a couple of more games coming up soon. Some might be surprised to know that MUSL is involved in the operation of multi-state video lottery games at 14 casinos and racinos in four states or that a multi-state keno game is in the works, or that MUSL hosts an annual non-traditional

lottery conference. But most lotteries are pleased to discover that MUSL can take over their in-state game draws or can provide a back-up draw service in case some emergency—usually weather—prevents them from conducting a draw. In the end, MUSL exists to serve its members in whatever ways our members require and we are always looking for ways to be of service.

What impact might Monopoly Millionaires' Club have on regional multi-state games and local in-state games?

C. Strutt: Everyone will be watching the cannibalization rate. Some frequent lottery players will certainly spread their lottery money around, but the concept is different enough that it should attract new players and encourage more play from fringe players. You are probably right to suggest that it will have less effect on the big jackpot games Powerball and Mega Millions. But, in the end, the attributes of the national games that appeal to a national audience are slightly different from the attributes of the games that appeal to local and regional audiences. Monopoly Millionaires' Club can find its one special appeal with a national television show. A national game cannot capture the local feeling or culture like an in-state and regional game. Local games can tie in with local sports franchises and local pop culture phenomena that are most relevant to the local audience but not so much to markets outside that state or region. Powerball and Mega Millions have become big brands because of their big jackpots. Big jackpots do have a universal appeal which has driven the success of those games. Monopoly Millionaires' Club is different in that it has a variety of play options but even it is based on the singular theme of the Monopoly game and a national television show. The Lottery TV Game Show for Monopoly Millionaires' Club is national, but it will include winners from every participating state with a special show for every market, featuring local players. That is about as far as the concept can go to reach for a regional or local appeal.

And, of course, a lottery can work to add

a local flavor to their national games like Powerball and Mega Millions. Look at the fabulous “California Dreaming” campaign that won most of the Batches awards last year. The Monopoly Millionaires’ Club will try to duplicate the great emotional feeling on a national level with its introductory ad. In fact, one of the benefits of the Monopoly Millionaires’ Club project is to clearly show the value of a cooperative effort. The Powerball group has already agreed to develop funding for national production of advertising and promotion. This gives every lottery the ability to produce high quality campaigns and can free up money and effort for the promotion of purely local games.

So, working cooperatively to promote national games can also benefit regional and local games?

C. Strutt: Yes, but there are other audiences that we need to reach. Local games will always have their own appeal. Big jackpots have universal appeal and we will want to continue to promote that, and to create a

wider variety of “hope and dream—change your life” story narratives. But we can also focus on brand messaging that reaches out to audiences at both the national and local level. We also need to appeal to different consumer groups that are defined not by geography but by other criteria, like play style, lifestyle, technological and social media aptitudes, and so on.

Monopoly Millionaires’ Club is a national game with advertising, promotion, and TV Game Show that appeals to a national audience. Yet it has features that appeal on a local level as well.

C. Strutt: There are lots of winners. Instead of one winner from one state, or a small number of winners from a small number of states, there will be lots of winners distributed throughout the country and residing in all participating states. That alone connects Monopoly Millionaires’ Club to local markets, gives it a local feeling. Then there are three ways to become a millionaire, creating a play experience that is quite dif-

ferent from Powerball and Mega Millions. That connects Monopoly Millionaires’ Club to a broader demographic and play-style profile, bringing in new consumer groups. Going forward, new game designs will need to include even more options to appeal to a wider variety of play styles. In effect, game design needs to become flexible and customizable to differentiate markets by both geography and consumer groups with different play-styles, interests, and lifestyles. For example, instead of the lottery setting eight or nine cash prize levels, you could have literally hundreds of prize levels of cash and merchandise and experiences; whatever the player wants. Combine that with flexibility in any number of other game attributes, and the players are given the tools to design their own unique game.

Theoretically, couldn’t the best of both worlds be combined? Games that are national in scope, that leverage the economies of scale that come from collaboration, combined with the flexibility to customize for local markets.



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Providing the players with multiple options to design their own play experience gets us closer and closer to the market segment of one.

C. Strutt: Marketers sometimes focus on “dominant buying motive.” It certainly is not illogical to try to appeal to what one thinks is the most popular reason for buying a product or behaving in a certain way. We clearly do need to have those basic products in the mix. But today’s reality is that even the smallest markets can be easily reached. The Internet has brought down the barriers that made reaching small segments too expensive. A game like Monopoly Millionaires’ Club takes a step in the right direction. It combines a well-known brand with a broad spectrum of appeal. The U.S. market for lottery products exceeds \$70 billion. That is plenty large enough to support a portfolio of games that include local and regional games, demographic segments, and national games. If a brand is strong enough, we should try to combine local and demographic elements into even a national game, as long as it does not harm the core attraction of the game. Europe has international games that overcome differences in language, currency, regulatory frameworks, even prize payout percentages. We can do that here if the brand is strong enough. I don’t mean to say that every game should try to appeal to a diverse audience. The usual case will be that a game is designed to appeal to a local market or a national market.

It sounds like the distinction between national and regional or local games is false, or at least not useful.

C. Strutt: Powerball (originally Lotto America) and Mega Millions each started out with less than ten states, and they are considered “national” games. Hot Lotto has fifteen states and we think of it as a “regional” game. But Powerball and Mega Millions are now truly national brands. Our current Powerball Group Chair Jeff Anderson (ID) is extremely interested in moving the brand forward. We have always had a vision for the future, but Jeff is formalizing the process and including all directors, which is certainly a good idea. He wants to consider

extending the brand, with a line extension, and well as expanding it. Powerball is a very powerful brand and stands the best chance of extending to a new line and expanding to reach new demographics.

By creating millionaires in every single state that participates, Monopoly Millionaires’ Club provides a local flavor to a “national” game. And as we just discussed, we are exploring ways to integrate components into multi-state games that further enhance that local connection, the appeal to local culture and play-styles and even branding. I agree that national versus local or regional is a false distinction, at least where the brand is strong enough to attract nearly every demographic. Our goal is to have a portfolio of games that appeal to major segments of consumers and to innovatively expand and extend powerful brands that can break through to just about every audience.

As MUSL and its members evolve, we will drill down on the component parts to think about the whole process of building games and strategies that integrate resources, technology, media, etc. in ever more productive ways. Among them will be the ability to pool resources to deliver national impact and build strong brands that can significantly enhance advertising and promotional impact at local levels.

Game design, issuance of RFP’s, building contacts, reviewing games and game proposals, applying predictive models to the business of assessing strengths and weaknesses, are just some of MUSL’s core competencies.

C. Strutt: We do have a growing list of services and we can hope that we are developing expertise in these areas, but MUSL’s top goal is to shepherd projects and ideas through a process that enables the lotteries to make the most informed decisions about how to proceed. We gather the research, run the numbers, organize the data and facts, and try to present it all in a fashion that helps lotteries chart the best course of action.

Yes. But the resources you have, the industry-specific brain-trust and data that have

been accumulated over the last 27 years, would seem to be proprietary in the extreme. I can’t imagine how even the biggest and richest consultancies, like an Accenture or Ernst & Young or KPMG, could deliver anything remotely comparable to the service provided by the MUSL staff of twelve.

C. Strutt: I appreciate the sentiment. I will say that MUSL employees have had a rather unique opportunity. We’ve had the chance to work closely in a trusted member relationship with hundreds of lottery directors and even more staff over the years. In the last several years, we’ve even had extraordinary access to the best and brightest the vendors have to offer. The compliment really belongs to our teachers and the resources they have made available to us.

But seriously, when you talk about deconstructing the component parts of the games and analyzing the vast history of how the games are implemented, and channeling that information into actionable business plans, it would seem to be impossible to replicate the ability of MUSL to do that. How could anyone else possibly harness the resources to deliver the predictive values that inform the process of making decisions and creating the action-plans that amount to multi-million dollar investments?

C. Strutt: We certainly do not presume to be the sole proprietor of industry intelligence! I hope that have reached the level where we can truly contribute to the industry. We have develop close working relationships with key lottery employees and with vendor employees who welcome the chance to test each other’s work and make it better. We welcome input from all sources, inside and outside the industry, and encourage lotteries to do the same. One of the strengths of MUSL—the broader organization—is that we have a measured low of new directors who, for a variety of reasons, have achieved success in their jurisdictions. They bring a fresh view to the industry. If they questions what we believe is set in stone, then if forces us to look anew and re-examine beliefs that can get stale over time. If they bring in something new to consider,

then we all benefit. Strategic planning needs to be informed by the experience of others who may not be long in the lottery business but whose experience may shed light on our industry practices. We need to not only be open to that, we need to apply a creative and open-minded mentality to glean insight from circumstances that are not identical to our own but can inform our thought process nonetheless.

Let's take the business of funding annuities. That would seem to require a high-stakes and complex business process that has qualities unique to lottery.

C. Strutt: What lotteries bring to the creation of annuities is that they cannot fail. They also must sometimes meet strict standards sometimes developed by a legislative panels. Over the years, we have developed the resources to build annuities using bonds permitted by the various jurisdictions or to build for-life prizes using standard actuarial tables and a mixture of insurance company contracts and bonds that are both prudent

and provide reasonable earning. Also, we do this through a bid process and usually within a few days.

MUSL provides the service of building and maintaining internet websites?

C. Strutt: We do. Since it is a significant cost item and not all lotteries participate, the MUSL Board of Director has required that MUSL charge for the service. MUSL's hosting needs are unusual. Unlike a YouTube or Google, we only occasionally need that kind of power. A few times a year, we are hosting as much traffic as these big boys. The lotteries can benefit from our need to build that kind of structure and we pass along the service at cost.

MUSL's Powerball website has an average of over 350,000 page views per day. That's an incredible volume of traffic. But when the jackpots roll up, doesn't it spike with tens of thousands more players checking to see if they won?

C. Strutt: A daily average is almost meaningless. Last month, with no big jack-

pots on the line, our daily average dropped to just under 300,000 per day. But again, our system must be built to handle the big numbers. You are right. When jackpots spike, the number of users trying to hit the site skyrockets; not in the tens of thousands, but in the hundreds of thousands and more. Our biggest draw night saw 1.2 million simultaneous users hitting the site. That means there were 1.2 million person hitting the "enter key" at one time and they were all expecting to see the numbers drawn. On those nights our full IT staff—all four of them—were up late into the night in our "war room" tweaking load balancers and adjusting the site to keep us up. Then it happens all over again the next business day when players get into work and log on to check their numbers.

MUSL's RNG (Random Number Generator) for draw games is a "true" RNG. What does that mean exactly?

C. Strutt: Lotteries typically use Pseudo-RNG's, or PRNG's, to draw numbers. These



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depend, in theory on some predictable act, usually because it involves a human doing something like hitting the “enter key.” A PRNG is actually perfectly acceptable for lottery use. Years ago, we were stunned to hear that lotteries were paying several hundred thousand dollars for RNG’s. We were challenged to do it for less. We decided to design and build a True-RNG, or PRNG for several thousand dollars. There are a number of ways to develop true random numbers. We considered photos of clouds or of a lava lamp for clear days but got a little more serious and decided to use the random decay of radioactive material. The MUSL TRNG’s contain Americium-241 and a Geiger counter. There are about 60 MUSL TRNG’s in use among the lotteries now; each at a cost of less than \$8,000.

In addition to the games operated by MUSL, don't you conduct the drawings for lotteries as a service?

C. Strutt: We do. We began by offering an emergency draw backup service to the lotteries. States are often required to maintain a disaster recovery plan, including a plan for their draws. For no cost, we offer our members the ability to conduct their draws on a moment’s notice. We maintain binders of a lottery’s games and draw procedures and keep them regularly updated. All of that is far more effort than actually conducting emergency draws. Over the years, we’ve probably only conducted a half-dozen emergency draws for lotteries, mostly due to severe weather. Eventually, states found that they could move all of the local game draw to MUSL for less money than hiring staff to do evening and weekend draws. MUSL now handles all states draws for some members.

I'm sure everything possible is done to ensure success of a new game launch. But the reality is that you are always needing to manage for downside risk, aren't you?

C. Strutt: Lotteries live on redundancies. Everyone in this industry hopes for the best and plans for the worst. In a very general sense, it comes down to making sure that

the game is designed to perform and deliver the predicted outcomes. But there are no guaranteed outcomes and we need to manage for that fact. We have to manage for the fact that some games or marketing initiatives are not going to perform as predicted and have a financial structure to cover those instances should they occur. That’s not to say that lotteries don’t take calculated risks. In those cases, our job is to make sure that the lotteries know the possible risks.

I heard someone comment that MUSL's IT and security should be meet the same high standard as those used by financial institutions. But financial institutions get hacked and go down, whereas you have never been hacked or gone down, right?

C. Strutt: We would look at the standards applied to financial institutions as being a big step backward for us! Lottery systems have to be more secure than those of financial institutions. For banks, it is only about some cash held in customer accounts and the banks stand behind those accounts. Theft is acceptable as long as the customer is protected. In the lottery business it is about integrity and the perception of fairness. Simply promising that we would return every buyer’s ticket price is not good enough. Lottery systems have fewer moving parts than financial institutions have, so the requirements placed on our systems are not as complex as those placed on financial institutions. Lottery systems have to guarantee that no compromise will happen, ever.

I would think that MUSL has already faced most problematic industry issues and that information would flow through MUSL such that lottery staff from all around the country could call you for guidance.

C. Strutt: I’m sure that most lottery directors don’t realize how many calls we get from their staff with questions about things that they are encountering for the first time or rarely encounter but that we have already dealt with many times. When we get to meet with new lottery staff, we remind them that we deal with a lot of strange requests for in-

formation and that, if they get one, we probably have already developed a response or collected the information. It works both ways. Lotteries share their issues and MUSL can be a central sources for answers and responses.

The same staff at MUSL has been in place for longer than I can remember.

C. Strutt: It seems like only yesterday. Even now, when I head in to work on Saturdays and Sundays, I’m not alone. There is something about this industry that keeps us going. The staff loves this industry, loves what they do, and the result is long-experienced staff serving the members. One of our toughest jobs is to hire new staff. We need high skill sets but also someone who doesn’t mind working outside of their field when needed. MUSL is too small for any employee to get lost. Those who can’t pull their weight don’t last long and those who do the job right tend to stay.

When cross-sell began in 2010, Powerball was the dominant brand. How has the brand value evolved for Powerball relative to Mega Millions since then?

C. Strutt: We just finished research that include a look at the brands and consumer perceptions of the two brands and comparing the two brands. Mega Millions has improved over the last four years so that it is now comparable to Powerball. We saw some surprising player loyalty for both brands, which still exists today, though it is lessening. As the brands both gain a foothold with players, it become even more important to differentiate the games or we will only compete by jackpot size.

What can be done to fight “jackpot fatigue.”

C. Strutt: What we casually call “jackpot fatigue” is likely a mix of issues that need solutions. In lottery history, the usual solution has been to simply increase the odds to increase the size of the jackpots. We know that we have to do more than that. We can’t simply move to hundreds and thousands of numbers in the drum. For our big brands we

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Ioannis Katakis

Chief Executive Officer, MALTCO Lotteries, Ltd.

PGRI Introduction: *Mr. Katakis was appointed to lead MALTCO upon its establishment, in 2001, as the operator of the National Lottery of Malta. Its history since then is most exciting. Malta is home to a thriving internet-based gambling business. In spite of that, and with a total dedication to its land-based retailers, MALTCO has doubled its revenues over the last ten years. My discussion with Mr Katakis (at Industry Days in Lisbon) reveals a background that shapes his approach to business in a profound way.*

A current focus for large corporate enterprises is the challenge of integrating the different functional areas of the business (Sales, Marketing, Product Development, Operations, Distribution, etc.), breaking down the silos that make it so difficult to achieve a truly customer-facing end result. The corporate model of deploying to toil away in the silos of our separate disciplines, as invented by Alfred Sloan at General Motors more than 75 years ago, lives on. And for good reason. After all, we can't be experts at everything. But somehow, sometime, the deconstructed corporate enterprise needs to come back together to face the customer.

Apply this paradigm to the individual. Trained in the sciences (Ph.D In Biomedical Engineering; Bachelors and Master Degrees in Electronic Engineering), Mr. Katakis followed his academic career with 5 years as a medical scientist. He hired on as a technologist and engineer at INTRALOT (to implement its first online lottery and design and Implement the first Videolottery system). He then moved into operations and business development (responsible for acquiring many of INTRALOT's 'private management' contracts as General Commercial Director in Europe, Asia, Australia, New Zealand and S. Africa) and, since the renewal of the license in 2012, serves as executive CEO of MALTCO Lotteries. Mr. Katakis does not presume to be expert at everything. But he does continue to be involved in every aspect of the business. And he makes a strong case for why that is necessary in order to bridge the gap between technological development and the user experience.

Paul Jason, PGRI: *MALTCO Lotteries must be doing a lot of things right to achieve the highest per cap spend in both traditional Lottery products and in overall products including sports-betting. It is most interesting because that €170 a year per cap' in the traditional lottery games is in a jurisdiction where online gaming is very well established. The prize payout percentage in online gaming is much higher than in traditional lottery.*

Ioannis Katakis: It is all about the relationship we build with our retailers and our players. We do not sell online so we are totally committed to our retailers. Our mission is to reinvent the in-store consumer experience, to turn it into an emporium of entertainment that also sells lottery products.

We developed and installed the first online system in Malta in 2004. That set us on a course to redefine our relationship to our retailers. They embraced our ideas and grew the off-line based lottery business consisting of two lotto games and instant tickets with revenue of €42 million in 2004 to an advanced terminal-based lottery business operating ten games and generating €85 million in 2013. The games cover all the types: Lotto, KENO, BINGO, Instant, Paper Lottery, including Sports and Horse Betting.

Your share of the sports-betting market is between 10% and 15%, but it still adds up to €17 million a year which is a very high per cap' spend. How do you compete with the operators who offer a higher prize-payout percentage?

I. Katakis: First, we convinced the local agents to stay open until midnight. Some of them stay open until the last game finishes,

MALTCO LOTTERIES, LTD.—BY THE NUMBERS

See the interview with Ioannis Katakis, CEO of MALTCO Lotteries, for insight into how MALTCO Lotteries came to have the highest per capita spend on traditional lottery products (€170) AND the highest per capita spend overall including sports-betting (€210)!

THE GAMES

- Two type of weekly lotto games
- KENO every five minutes
- Two types of BINGO games: one daily and one every 15 minutes
- Scratch tickets
- A weekly paper Lottery called Grand Lottery
- UBET sports : Fix odds betting covering about 1000 events weekly
- UBET Horse Races Pari-mutual: Races from Sweden (ATG), England and Ireland (GBI) and S. Africa and Asia (Phumelela)

MALTCO Lotteries broadcasts across eleven TV channels. The INTRALOT Horizon system is used to deliver those channels to more than 230 dedicated shops, by means of advanced data broadcasting methods. Each shop is connected to the company via an 8 Mbit line. The information being broadcasted by

HORIZON includes:

- Live draws of KENO (5minutes) and Bingo (15 minutes)
- Results, statistics and historical information about all the games including Jackpots and winning amounts immediately delivered after the draw to all the shops simultaneously
- Programs, Live odds, results and statistics with the relative information about UBET sports betting

Additionally, INTRALOT HORIZON is used for transmitting over the same 8 Mbit line, three TV channels dedicated to live broadcasting of the Horse Races, thus players can bet on the races as they watch them in real time, live, from:

GBI : England & Ireland; ATG: Sweden; Phumelela: S. Africa and Asia

REVENUES BY GAME CATEGORY

- Lottery Games: €55 million
- Fast Games: €12 million
- Scratch Tickets: €1,5 million
- UBET Betting : €17 million
- Total : €85.5 million

AVERAGE PRIZE-PAYOUTS

- Lottery Games: 50% to 55%
- Sports-betting: 75%

- Horse-racing: 80%.

The Lottery tax in Malta varies from 5% to 20% on the gross revenue depending on the game. Overall, MALTCO contributes to the Government approximately €18 million a year, which adds up to 21% of total revenue. That amount includes the annual portion of the initial license fee that MALTCO paid to the Government for the grant of the 10 year license. The current license began in 2012 and expires in 2022. In addition to those net funds paid to the Government, the company contributes €50,000 annually to the Responsible Gaming Foundation and approximately €400,000 which is the average annual amount of the unclaimed prizes which is also turned over to the Government's Good Causes fund. The population of Malta is 400,000. Also MALTCO supports local athletic events. During the last ten years MALTCO, sponsors the Maltese Football Cup, named UBET Trophy where prize money are given to all the participating teams and the amount given to each team is related on the final ranking of the team in the competition. In addition money was given to the top five athletes of Malta as an award for their achievement.

which is sometimes even later than midnight. This is very important since players have the option of live-betting during the half-time. We discovered during the last World Cup that since there were three Football matches during the day, the players want to receive their winnings immediately at the conclusion of each match. On the internet, the players do not receive their winnings immediately. So although there is a disadvan-

tage on the odds, players prefer to play with us because they get their money immediately in cash after the game and then can bet on the next one. And they can stay and play until the last match is over. So in one day they can bet the money three separate times without having to wait to get more money out of their pockets for the next bet.

Too, Horse-Race betting, and Sports-betting in general, has been established as a very

social activity in Malta. Players enjoy being in the company of other players in the shops. It creates a very festive atmosphere. They have fun, talk about lots of different things in a social environment, review our betting program (printed twice weekly and distributed to all Agents), exchange ideas with each other about the games and the players and who's going to win and the spreads and so on. And

... Continued on page 67

PGRI Introduction: *It was last November, 2013, that NOVOMATIC acquired Betware, forming Novomatic Lottery Solutions. Bringing together industry-leading expertise in the online gaming space and the gaming equipment and operator space creates a formidable commercial partner to government-lottery operators. Novomatic Lottery Solutions will provide innovation and state of the art technology allowing lotteries to offer a seamless gaming experience to the players, 24/7 via a complete spectrum of sales channels (including retail, mobile, Internet or VLT's). The access to the state of the art technology and innovative R&D allows the designing solutions which might be able to change the way we think about traditional lottery sales channels such as retail.*

Thomas Graf, CTO of NOVOMATIC, said, "Our acquisition of Betware has been a logical step to further enhancing our competency in electronic and video lottery technologies. Betware's open platform architecture is second to none, providing tailor-made solutions to any small or large scale lottery operation. With our combined resources, know-how and industry expertise, we will be able to offer any lottery operator a 360-degree solution for all distribution channels including online, mobile and land-based, which will be a clear advantage in an increasingly competitive operating environment."

I visited with Frank Cecchini, a fifteen-year lottery industry veteran, at NASPL in Atlantic City to drill down on the strategic plans for Novomatic Lottery Solutions. More importantly, we get an inside view of its vision for the industry. "We are first and foremost technologists. Our vision may appear to be radical, but it's really not. It's really quite simple, albeit highly disruptive to the status quo. We are dedicated to deploying technological solutions to help our lottery operator clients succeed because we believe that the current technological infrastructure makes no sense. There is so much more that can be accomplished and Novomatic Lottery Solutions is excited to be a part of the process of making it happen."



Frank Cecchini

Chief Commercial
Officer, Novomatic
Lottery Solutions

Paul Jason, PGRI: *Betware is now a part of Novomatic Lottery Solutions.*

Frank Cecchini: Betware and NOVOMATIC are both strong brand marks. But we

needed to clarify a singular brand identity for the customer and chose Novomatic Lottery Solutions. Of course, all the assets, skill-sets, IT, IP, and industry expertise of Betware are now a part of Novomatic Lottery Solutions.

The combination of Betware and NOVOMATIC could result in quite disruptive technology and business processes being introduced into the government-gaming industry. Are we due for a disruption?

F. Cecchini: Government-gaming is a \$180 billion global industry. And the margins are quite high, so the amount of net funds turned over to government and Good Causes is huge, well over \$35 billion in what the commercial industry would call "profit." However, the sales, and net funding, can and should be much higher.

Think about the incredible business model that is government-gaming and lottery. You have by far the largest base of customers in the broader games-of-chance industry. More people buy lottery products than go to casinos or play money games online. The innovation that is driving progress and meeting the needs of the consumer, though, is happening in the other

sectors, mostly online. The industry sectors that evolve to meet the needs of consumers, and their channel partners, are the ones who will succeed in a future that will be determined by the consumer.

Government-lottery is based on an amazing business model. The product itself has a life-cycle that goes on and on. In spite of mixed opinions on the subject of land-based retail, it is clear that this channel of distribution will endure and even grow. The level of growth will not be as high as the online sector, but that's because the base-line is already so extraordinarily dominant. Of course online will grow faster, but that's mostly because its growth will be measured and based upon a much smaller starting point or base-line. Retail is not only here to stay, retailers who innovate the in-store shopping experience by applying digital technology to augment the traditional business model, will thrive. The consumer is connected 24/7. Retail needs to inhabit that world by bringing the internet connection right into the store. Screens to deliver messaging and content and access to shopping resources, scanners to read the QR codes from the smart-phones,

transaction-processing technology that enables paperless and digitally executed transactions as well as traditional commercial methods, perhaps using digital technology to create a more entertaining and even recreational shopping experience. The point is that retail is ripe for disruption, rich with potential to transform itself to be the hub of social and commercial interaction of the future. It is exciting to imagine all that can be done to position retail as the most forward-looking venue for commerce, the leader when it comes to business process and technological innovation.

The important thing to recognize is that the internet is a medium for communication as well as a channel for distribution. Its value to society is as much based on that as it is on enabling digital transactions. Communication is not just about sending and receiving e-mails, or broadcasting commercials on a screen. It's about anything that involves content. That could include educating the consumer on how to play a game. It could be about delivering entertainment designed to engage the consumer and keep them browsing in the store for a longer period of time. Of course, the business objective is to generate sales, to drive transactions that result in income. But we need to be open-minded and creative about the ways to make that happen. I would submit that includes using technology to enhance the consumer shopping experience at retail. And that effective application of the omni-channel approach is key to the success of each one of the channels of distribution, especially retail. Creating that dynamic, interactive online relationship with the consumer is, perhaps paradoxically, key to the success of the retail sector.

So, even in a transaction-enabled online gaming world, Retail will grow right alongside of the growth of the online sector.

F. Cecchini: Absolutely. The record already shows that. Look at the UK, Finland, Sweden, Austria, Australia, Denmark, Canada, and the numerous other

markets which have a growing online sector. For one thing, growth in the online is not nearly as rapid as some were projecting. For another thing, retail does need to innovate and modernize itself to take full advantage of the omni-channel model that will sooner than later take over the world. It is so clearly inevitable for all markets, including the U.S., that the consumer will adopt the omni-channel model. And it is the consumer who makes these decisions, not government regulators. And the consumer is deciding that she wants to be connected 24/7, and she wants the merchants with whom she does business to support and enable her lifestyle choices.

But is it happening? Is Retail evolving to meet the needs of the modern consumer?

F. Cecchini: Necessity is the mother of invention. It won't happen without the vision and the drive to evolve with the consumer. It is beginning to happen, and as the roadmap of success is revealed and the evidence mounts to prove the effectiveness of how the multi-channel model can be integrated at retail, the willingness of everyone to pursue the pathways to success will increase. It is a fact that not all retail is thriving. Retailers everywhere are struggling to generate store traffic and maintain sales. But not all retailers. The progressive markets where the omni-channel model is being applied have industry-leading retailers who are embracing the mandate to evolve with the consumer; they are applying progressive approaches to modernize the consumer shopping experience and integrate the digital world into their in-store environment. Our mission, the mission of Novomatic Lottery Solutions, is to facilitate the application of these success strategies throughout the world.

Our goal is to help government lotteries to thrive in a world that is rapidly changing. That means smoothing the path for all the channel partners to succeed at selling lottery products. Retail is not only the dominant channel for all lotteries every-



NOVOMATIC

LOTTERY SOLUTIONS

where, including those where the multi-channel model is well-established, it is also the most powerful competitive advantage that government lottery operators have over competitors who are only investing in the online gaming world. Government lotteries are in the enviable position of having a competitive advantage that, for all practical purposes, could never be replicated by anyone. It is that network of retailers that separates government operators from all other games-of-chance operators.

Let's drill down. What exactly is retail doing to modernize?

F. Cecchini: Let's relate it directly to the business of selling lottery products. Retailers have terminals dedicated to do nothing but execute lottery transactions. What other product requires a dedicated terminal to process transactions? The dedicated lottery terminal is completely unnecessary and obsolete. Retailers are migrating to transaction-enabling devices that function more like a computer and don't cost any more than a lottery terminal. Retailers are installing IT centers that are no bigger than a desk top computer but deliver a huge level of functionality. All varieties of transactions can be processed. Cash and credit cards will continue to be used. But the future currency will be digital, housed within your smart-phone and delivered via QR codes and scanners. Lottery tickets can be purchased that way, winning numbers e-mailed or texted to the player, and winnings transferred via bank transfers. The idea of a cash register being separate from the credit card processing device being separate from the lottery terminal is totally archaic. And

retailers know it. The need for more high-value real estate on the counter tops is not archaic. The competition for that space is more intense than ever.

Consolidating the hardware required to process transactions is a simple matter. The technology is there, the consumer is ready and anxious for it, the retailers are ready to allocate profit-generating counter-top space to other uses, the retailer is ready to digitize the in-store shopping experience that is also driven by this singular IT hub that is no bigger than a desk-top computer, and the successful retailers are already moving in this direction. Lottery could be the leader in this trend and become a most valued partner to retailers for helping them modernize.

Streamlining the whole transaction processing in ways that bring the digital world into the store also confers cost savings and simplified operations when it comes to communications infrastructure. Nobody has to bring a dedicated line into the store for the lottery terminal. The retailer and lottery operator no longer need to worry about an interruption in service caused by the dedicated communication line. The cost of computing, transaction processing, information processing of all kinds has plummeted over the past twenty years. But we need to be willing to “think different,” to reimagine the ways in which business process can be reconfigured to deliver a better result at a lower cost. Lottery has not really done that.

I would think that the expertise of Novomatic Lottery Solutions would be in the online and electronic games space. That would include IT platforms, game content, communications, etc. I don't know if I would have included Retail Modernization in that list.

F. Cecchini: NOVOMATIC's mission is to help lotteries become the leader in the omni-channel consumer environment. That certainly includes all the things you mention. But that also means being a leader in retail modernization because retail will be the key component to effecting the transition to the omni-channel model. The online

world is ready and waiting. And Novomatic Lottery Solutions has all the resources, IP, games, and platforms that are necessary to connect the lottery operator to the consumer. What we need to do is close the four-way inter-connected loop, bringing together the lottery operator, the consumer, the online channels, and the retail network.

The experience of NOVOMATIC in the casino world would seem to be particularly applicable to the development of the modern retail environment. I am thinking about your expertise in Customer Relationship Management (CRM) as it has been so effectively applied by you in the casino world.

F. Cecchini: CRM transformed the casino industry. When the economy went south in 2008, casinos were hit especially hard. CRM basically saved the industry. It turned a massive base of consumers into a connected, engaged, loyal customer base. Prior to 2008, the casino patron was essentially anonymous to the casino operators. Fortunately, Loyalty Programs and Players Clubs had already been developed, but they were not put into over-drive until casinos needed to put extra effort into customer acquisition and retention. Effective and aggressive application of CRM, Loyalty Programs, and Players Clubs turned that anonymous relationship into a dynamic, interactive relationship that kept the customers coming back. It also gave casinos the insight into customer preferences so they could migrate their products and services to meet the needs of the modern casino patron.

Doesn't this sound familiar? This is exactly what lottery operators and their retailers need to do. And just like casinos back in 2008, it's not as if this requires some kind of transformational change. Lotteries already have Loyalty Programs and Players Clubs. Retailers are already moving, albeit slowly, to modernize the consumer shopping experience by integrating online-enabling technologies into their stores. It's just a matter of recognizing the power of

these trends and putting pedal to the metal, stepping on the gas with confidence that investing in CRM will produce the highest ROI the industry has ever seen.

Lottery operators are of necessity conservative. Any kind of investing of government funds, like that required for new initiatives like CRM, is subject to a different risk-assessment model than the commercial world is subject to.

F. Cecchini: I would submit that the multi-channel model is not a technological or marketing or distributional trend. It is a consumer trend. So the issue is not whether or not government operators invest in advancing the multi-channel model. It's about who they want to partner with to effect these changes, who they want to rely on to help them implement the multi-channel approach towards winning support from their retailers and customers alike. After all, it is the consumer who is driving these changes, and failing to evolve in order to meet the needs of the consumer is not really an option.

And Novomatic Lottery Solutions is positioned to future-proof their investment in technology and business process to evolve with the consumer and their retail partners.

F. Cecchini: NOVOMATIC is a global force in the games-of-chance industry. We provide end-to-end solutions for lottery operators; from terminal applications, communication infrastructure, central system, back office applications, and internet platforms engineered specifically for lotteries. It is the complete package of solutions. NOVOMATIC's broad spectrum of capabilities and experience in the gaming world has perfect synergies for the lottery world. In the end, lottery is competing with the commercial operators for the internet gaming customer. NOVOMATIC is aligning its resources and capabilities to help government-gaming operators compete for the internet gaming customer.

NOVOMATIC and Betware are both expert at all things internet-related. We

build internet gaming platforms with expertise in acquiring players, retaining players, marketing, e-Marketing, and innovative game development for the internet. Betware of course is a leader and innovator in the i-gaming platform and lottery content space. Combining the resources, breadth, and depth of NOVOMATIC with Betware results in the most comprehensive solution-provider in the industry.

Is there a convergence in the market-place between lottery players, casino patrons, and i-gaming players? Is the consumer crossing over and migrating between game categories?

F. Cecchini: I think that lottery is still very different from the other gaming categories. Lottery is perceived by most people, players and non-players alike, as something different from gambling. Lottery is a game-of-chance, which does make it “gambling,” but it is perceived as being benign, safe. It’s a twice a week draw. It’s not exactly repetitive. People aren’t going to sit in front of the TV waiting for the next lottery draw to happen to see if they won. Nobody is likely to lose their life-savings playing the lottery. Gambling, on the other hand, is faster, provides instant feedback, and has a potential to become too appealing for problem gamblers.

There is a pressing need to enhance the entertainment value of traditional lottery games, to “gamify” them. And that can be done in ways that preserve its basic attribute of being benign and not a risk for problem gamblers. In fact, the gaming concepts that would add to the entertainment elements of lottery would tend to focus on social and longer-play game-styles that make it even more benign, more entertainment-focused and less about wagering money in the hopes of winning a jackpot.

How about migration between channels, i.e. retail and internet?

F. Cecchini: The consumer, all consumers, will migrate between channels of distribution just like they migrate between media channels. Nobody depends just on

their newspaper anymore. We are connected to multiple online sources, cable news channels, news and twitter feeds to our smart-phones, etc.

It was a few years ago that some people were predicting that retail is declining and will lose all relevance; that every retailer will go the way of Blockbuster and Borders Bookstores. And lottery players would buy their lottery tickets via smartphone. Of course, nothing could be further from the truth. Retail is very much alive. And in fact, lotteries which have made their products available online have not seen the online sector grow as much as predicted. I predict that ten years from now, retail will continue to be the channel for 75% of lottery revenues.

But there are three caveats to this prediction. First, retail will look a whole lot different than it does today. Second, the reason retail will succeed is because of its integration of digital technology and the online experience right into the land-based store. And third, lottery operators need to acquire the expertise both within their organization and in the form of commercial partners to make this adaptation and grow with their customer and the market-place.

Lottery sales have maintained during the last few years, despite the challenging economic climate. But isn't there general agreement that the product is maturing, that there is a need to rejuvenate the product for the next generation of consumer?

F. Cecchini: As we discussed, Lottery needs to modernize its approach to CRM. That alone will rejuvenate the players’ relationship to the lottery operator and make the entire activity of playing the lottery more fun and engaging. CRM connects the players not just to the lottery, but to other players as well. It’s really about using the connection with the player to help them connect. And that connection can be to social media that enhances the whole paying experience by making it a shared experience.

Lottery does need to refresh its games.

The fundamental attributes of lottery games are somewhat immutable. But there are lots of ways to add gamifying elements to the traditional lottery games. And it’s not just the younger generation who is attracted to a more stimulating gaming experience. Look around you when you are on an airplane to see how consumers of our generation play games on their smartphones. The desire for new and fresh forms of entertainment cuts across all age groups. Novomatic Lottery Solutions is developing game content that appeals to all age groups.

Circling back to the notion of processing transactions without a dedicated terminal. That is a rather radical concept.

F. Cecchini: NOVOMATIC and Betware combined to create Novomatic Lottery Solutions. We are first and foremost technologists. Our vision may appear to be radical, but it’s really not. It’s really quite simple and do-able, albeit highly disruptive to the status quo. We are dedicated to deploying technological solutions to help our lottery operator clients succeed. The current technological infrastructure makes no sense. It could and should, and we propose that it will, be replaced by a system of software-driven server-based technology that delivers massively more computational power to the retail store at a fraction of the current costs. What that means is not just more efficient transaction processing that enables the scanning of QR codes and new forms of digital currency. It empowers a whole new concept for how the in-store shopping environment can be augmented with the rich media found online. It unlocks the ability of rich media to replace cardboard signage and other archaic POS formats. It enables the free flow of content to change by the second, delivering entertainment to the consumer, and advertising for the merchants. There is so much more that can be accomplished and Novomatic Lottery Solutions is excited to be a part of the process of making it happen. ■

CARMANAH JACKPOT SIGNS PROVEN TO INCREASE RETAIL SALES

By Maxwell Goldstein, Vice President Sales, Carmanah Signs

Carmanah Jackpot Signs drive sales by raising jackpot awareness and attracting both new and lapsed players. They have a proven track record of increasing revenue for online draw games and also incremental sales lift for instant tickets and ancillary products. The signs are secure, reliable and accurate, and can be updated via the lottery terminal or by cellular network.

The *first lottery* completed a study of 20 retailers with signs versus 20 retailers without signs during a 12 week period. The results, shown in Table 1, were a **6.6% increase** in Lotto (“Online”) Games sales and a 1.7% increase in Instant Ticket sales versus the control group. The same lottery continued to track the data for a 23 week period, and added a second control group.

Table 1: Carmanah Jackpot Sign Sales Data & Analysis (\$thousands)

Retailers with Signage (20 Stores)	9/7/10 - 11/30/10	1/5/11 - 3/30/11	+/- from base period	Increase over Control Group
Total Instant	\$923	\$1,147	24.3%	1.7%
Total Online	\$551	\$678	23.0%	6.6%
Control Group (20 Stores)				
Total Instant	\$850	\$1,042	22.6%	
Total Online	\$432	\$502	16.4%	

Three major lotteries have each performed their own comparative statistical studies of retailers with Carmanah jackpot signs in the window versus control groups with matched trade-style retailers without jackpot signs.

As shown in Table 2, the results were a **9.6% increase** in Lotto (“Online”) Games sales and a 6.0% increase in Instant Ticket sales versus the first control group, and a **4.8% increase** in Lotto (“Online”) Games sales and a 7.3% increase in Instant Ticket sales versus the second control group.

Table 2: Carmanah Jackpot Sign Sales Data & Analysis (\$thousands)

Retailers with Signage (20 Stores)	6/9/10 - 11/17/10	12/10/10 - 5/21/11	+/- from base period	Increase over Control Group 1	Increase over Control Group 2
Total Instant	\$1,715	\$2,170	26.5%	6.0%	7.3%
Total Online	\$1,003	\$1,326	32.2%	9.6%	4.8%
Control Group 1 (20 Stores)					
Total Instant	\$1,569	\$1,890	20.5%		
Total Online	\$779	\$955	22.6%		
Control Group 2 (20 Stores)					
Total Instant	\$1,634	\$1,947	19.2%		
Total Online	\$1,079	\$1,374	27.4%		

The *second lottery* completed their own 32 store statistical comparison as part of a four month pilot project. The results of this pilot were similar to the first lottery's study: a **7% overall sales increase** over the control stores in the same areas, and resulted in a 15% sales uplift when the jackpots were high.

Retailer and player feedback from the three studies suggests the jackpot signs drive sales in multiple ways including; additional foot traffic, helping core players stay informed of jackpots, and bringing in new or lapsed lottery customers.



The *third lottery* completed two comparative trials, using 43 signs that were evaluated at various trade styles over a six month period. The trials were completed in two different years, yet yielded the same results, which were an **overall average sales lift of 4.8%** versus the control group.

The increased lottery profits generated from the 4.8 to 9.6% sales increases mean that, for all three of these lotteries, the payback period for the sign purchase is short, measured in months. There are few retail optimization initiatives that provide this exceptional level of ROI.

Anecdotal evidence from the studies also suggest the jackpot signs have a trickle-down effect, not only increasing sales of other lottery products, but also of non-lottery product sales, such as drinks and food. Results like these can improve the relationship between the lottery and the retailer.

The Carmanah wirelessly-updated Jackpot Sign is an investment that brings a sales increase and improved retailer relations, with a quick payback - true retail sales optimization.



Global Solutions, *Custom Crafted*

LOTTERY + SPIELO + INTERACTIVE + BETTING

All Together



BIG DATA MEANS BIG OPPORTUNITIES FOR RETAIL GROWTH



Comprehensive, augmented analysis – the type provided by all major Consumer Product Goods (CPG) brands – leads to winning business strategies, resulting in improved operational efficiencies, risk reduction, identification of new opportunities, and increased sales and revenue.

Big Data is critical to running your business today. Every lottery has mass quantities of data, but the majority of the industry has not progressed beyond localized figures; we don't evaluate performance across the country like top retailers and CPG brands do. Without a complete data set and the right tools for analysis, growing a lottery's business can be hit or miss.

BIG DATA IN THE MARKETPLACE

In the five or so years since Big Data has come about, the relationship between retailers and suppliers has changed drastically. According to Kantar Retail, the world's leading shopper and retailer consulting business, today's retailers are looking for suppliers to come to the table with ideas grounded in shopper insights, including innovations customized to meet the unique needs of that retailer's shoppers and actionable execution plans. They also seek an improved visibility into category sales and sales trends at a

national level. Hershey, Coke, and Frito Lay – indeed, all major CPG brands – approach their business that way. This type of analytic capability is an established retail industry norm.

"The ability to analyze vast amounts of data instantly is a key weapon in helping CPG companies win the battle for retail shelf space and ultimately customer sales."

– Forbes

These companies are winning with Big Data NOW. To remain relevant, the U.S. lottery industry needs to catch up. Real-time, comprehensive analysis of the lottery landscape is not only expected by lottery category managers, it is essential in order to provide them with the insights necessary to compete

The Parthenon Group, a third party engaged by GTECH to assist in scoping U.S. retail growth opportunities, has estimated approximately \$300 million in incremental weekly retail sales can be achieved within the next 18 months by properly utilizing Big Data, just as the other major CPG brands do. GTECH has the ability to help you unlock this untapped revenue.

\$300+
MILLION
PER WEEK

against competitive CPG categories. Meeting the needs of existing and prospective lottery retail chains requires an understanding of chain performance and revenue opportunities not only at the individual state level, but also at the retailer's district (often crossing state lines), regional, and national level. And most importantly, it requires a strategic tool that can blend data from multiple sources, to broaden your data view and allow for richer insights.

TRANSFORM DATA INTO KNOWLEDGE & KNOWLEDGE INTO SALES

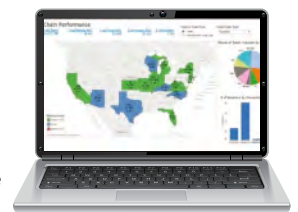
GTECH has invested heavily in building a dynamic business analytics platform that will transform the lottery industry, empowering all lotteries to identify new opportunities for retail expansion and optimization quickly and easily. Using best practices of Big Data management and analytics, GTECH's Retail Market Insights platform (patent pending) allows you to provide your customers with data-driven opportunities for growth like other major CPG companies do, by giving both rep and retailer a concrete foundation for strategic product placement and other mutually beneficial decisions that grow sales.

For the first time, lotteries and lottery retail chains will be able to compare lottery sales performance across

jurisdictions, to see, for example, how games and retail locations are indexing nationally and whether a particular chain is underperforming in your state. And once you have a better sense of what to expect from chain store performance, you can better manage your independent accounts as well.

GTECH's Retail Market Insights application enables you to:

- › AGGREGATE data to compare sales by channel or retailer across the country. Combining retail sales data from lotteries across the country into one central repository will finally enable the industry to compare sales across Big Box retailers and other national chains, and to compare sales by retailer segment, providing insights that are either impossible or time-consuming to achieve today.



- › AUGMENT your sales data with key third-party information and statistics. Enriching retailer sales data by store name, trade style, and chain with information like demographics; retail trends; trade segment foot traffic, store characteristics (overall store



USING BIG DATA:



Target: \$23 billion in growth, driven in part by promotions distributed to specific customer segments



Kraft Lunchables:
Tripled sales in one year



Kroger: \$10 billion in new revenue from personalized coupons

This project is really one of the best ways to combat slacking sales and improve lotteries' performance for good causes. (It) will assist lotteries to expand the player base and help lotteries become more of a piece of the fabric of life in our respective states.

- Gardner Gurney, Acting Director, New York Lottery

Having reporting that shows us what's going on in the whole business, state by state, will help us identify where we need to focus our attention.

- Mark Hagen, Lottery Category Manager, 7-Eleven

Being able to go to one system to get all the answers will be a huge time-saver for us

- Rob Wesley, Sales Director, Virginia Lottery

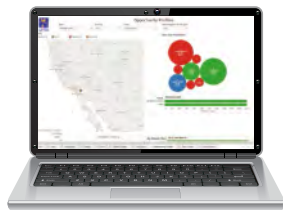
I'm extremely excited about the possibility of having data available from retailers across the country. That's where we may be able to recognize some real increases in sales.

- Gary Grief, Executive Director, Texas Lottery

INDUSTRY BUZZ

sales, number of checkout lanes, number of employees, square footage, etc.); and population density (urban, non-urban, and rural) will give lotteries a clearer picture and more in-depth analysis.

- › Identify opportunities with ACTIONABLE INSIGHTS. This analytical application, geared to the specific needs of lotteries, will enable lottery executives to generate retail queries in real time, allowing for real-time trends analysis and on-the-fly response to customer requests, as well as faster, smarter, more confident, and more efficient decision-making to drive growth.



In short, GTECH's Retail Market Insights application lets you approach retailers with the same level of openness, category insights, and collaborative planning as other major CPG companies offer.

The aggregated, integrated data will give you unprecedented visibility and insights into your business, allowing you to quickly and easily develop and execute actionable plans for same store sales growth and retailer network expansion. For instance, you can:

- › Compare the sales of a single store, a chain, or other configurable group in your jurisdiction to others in the same chain or group by state, zip code, trade style, and more, and to average chain/group sales in other jurisdictions.
- › Profile opportunities for retailer expansion by trade

style, foot traffic, overall store sales, and more.

- › See which types of traditional and non-traditional retail trade styles perform best across the country and in nearby states or states with similar demographics. All trade styles are normalized across jurisdictions for ease of comparison.
- › View store, chain, trade style, or geographic area sales by draw game or instant ticket price point.
- › Effectively target promotions to specific trade styles, chains, and/or geographic segments where they will have the greatest impact.
- › Provide the same level of openness, visibility, shared information, and collaborative strategic planning that the major CPG brands do to increase market share.

BIG POWER IN BIG NUMBERS

Meeting the needs of today's existing and prospective lottery retail chains can certainly be achieved if we come together as an industry to leverage the value of our \$75 billion business (North America). We are off to a great start. As of this writing (October 2014), 24 lotteries, representing more than 70% of the U.S. national retail base, have either signed on or committed in principle to participate, with interest from more lotteries every day. GTECH welcomes all lotteries into the Retail Market Insights fold, including those with which the Company does not have a current business relationship. Only then can we provide key retail accounts with the lottery retail market insights that will enable actionable, tangible, tactical execution plans to drive lottery retail growth.



WELCOME TO MONOPOLY MILLIONAIRES' CLUB!

The **Monopoly Millionaires' Club** (MMC) is the destination reached in 2014 by a long road of development that began in 2009. In the final months of implementation, more than one person has asked, "Is this game too complicated?" Surely it is a complex game from the point of view of those who must build it and administer it. But does that mean that it is complicated for players?

For a players, enjoying a lottery game is probably more about seeing something to like about the game, and less about understanding how the game is built. After all, how many players of Powerball or Mega Millions understand precisely how the game works? MMC has a lot of features that are distinctive, any one of which may be enough to make it the preferred choice of some segment of players. There is no need for a player to value each and every part of it. Rather than being "everything for someone," MMC appears to have "something for everyone."

What is there to like about this game? Features that distinguish it from any other US lottery draw game include:

- Rolling the NUMBER of million-dollar prizes, rather than the VALUE of a single prize
- Providing for the player the ability to use Web or mobile applications to participate in the game
- Making a nationally televised game show part of the play experience
- Using well-established iconography to represent the "brand"
- Charging the premium price of \$5 per play

Each of these features has an interesting story behind it, and in some way represents the highest development of a concept in our current lottery world. This article summarizes some of the thinking that has led to where the game now stands. This summary draws on discussions that took place at PGRI Lottery Expo meeting in Miami, Florida in September 2014.

ROLLING THE NUMBER OF MILLION-DOLLAR PRIZES

The Interprovincial Lottery Corporation (ILC) pioneered this idea with their "Lotto Max" game, launched successfully in September 2009. "Lotto Max" offered a gaming proposition corresponding to the sentiment often expressed (by the players who did not win the jackpot!): "Why should one person win all that money? Can't we have a game where more people win big prizes?" Lotto Max combines a traditional "rolling jackpot" idea based on the no-

tion that "\$50 million is enough for one winner." Once the value of the rolling prize pool grows past what is needed to pay the \$50 million top prize, additional prizes of \$1 million are funded. These are called "Maxmillions" prizes.

If Maxmillions prizes are funded for a particular Lotto Max draw, the ILC draws an additional set of seven winning numbers for each funded Maxmillions prize. As with the top prize, any Maxmillions prize may or may not be won. Any value not won is carried over to the next drawing.

In this way, the number of potential Maxmillions winners has twice reached a high of 50. The number of Maxmillions prizes actually awarded is smaller, since a player's ticket must match all seven of the numbers in one of the Maxmillions sets in order to win the prize.

In contrast to Lotto Max, Monopoly Millionaires' Club provides for building up a larger number of \$1 million prizes by guaranteeing that they will all be awarded, but only when the top prize is also won. In any draw, at least 10 \$1 million prizes will be awarded if the top prize is won. The potential number of \$1 million prizes could grow into the hundreds. This fulfills, in a most emphatic way, the demand for "a game where lots of people win big prizes." It also provides an incentive for consistent play, since a "shower of millionaires" can happen any time.

PROVIDING FOR THE PLAYER TO USE WEB OR MOBILE APPLICATIONS TO PARTICIPATE IN THE GAME

Second-chance drawings have long been used to add interest to lottery games, particularly instant games. Originally, players physically mailed their non-winning tickets to a central location as proof of participation. As the Web became the preferred means for information transfer, lotteries switched to allowing players to enter identifying information from their tickets using a keyboard.

In second-chance drawings, all qualifying entries become members of a pool, and a random process is used to select individual entries to receive prizes. Some states use this process to award prizes that have gone unclaimed in other games. In other cases, special prizes are created that can only be won through a second-chance drawing.

The prize that can be won through MMC's second-chance drawing is certainly unique, as discussed below. However the process for winning that prize may be at least as important as the prize itself.

In MMC, a player qualifies for the prize not merely by proving purchase of a ticket, but by building up a qualifying assembly of tickets over multiple draws. This corresponds to the play action of developing a “Monopoly” in the classic board game, and the Web/mobile apps for the game will take full advantage of that tie-in. The players’ experience will be much more like playing Monopoly than like entering a typical second-chance drawing.

The mobile phone has become indispensable for a great many people, and if a transaction is not mobile-enabled, it is less likely to happen. Across the country, lottery sales transactions are very rarely mobile-enabled. By integrating Mobile-enabling features into MMC, the player is engaged in the mobile mode by providing play-value in addition to convenience. This is a forward-looking feature whose time has come!

MAKING A NATIONALLY TELEVISED GAME SHOW PART OF THE PLAY EXPERIENCE

Television in the twenty-first century offers programming that is increasingly diverse and segmented. People now find channels that carry a great volume of material in a specific range of interest. Game shows continue to be broadly popular. In TV game shows, viewers see “people like me” being the center of attention and winning exciting prizes. This is not unlike what must happen when someone wins a lottery prize, but whoever sees that happening?

MMC will put the “lottery” imprint on the televised experience of “people like me winning exciting prizes.” It will use the well-understood Monopoly play style, in a highly-produced weekly feature on the Game Show Network, to put actual lottery players on national TV. As Steve Saferin, (President Properties Group & Chief Creative Officer, Scientific Games Corp.) said in a recent PGRI panel, “Starting the weekend of February 7th and 8th, we’re going to have the best winner awareness campaign possible ... every lottery is going to have a winner and everybody that’s watching from that state will see somebody from their lottery on that game show. And I think it’s going to turn out to be a really powerful winner awareness part of this entire program.”

This show will also provide an unprecedented opportunity for lotteries to showcase the public good that they do. One minute of each week will be devoted to telling the story of the good that is done with lottery revenues. As Connie Laverty O’Conner (Senior Vice President & Chief Customer Officer, GTECH Corp.) emphasized this aspect of the impact of MMC, “It’s about the fact that this industry will have a national face. Think about all the brands that have a poster child, brand imaging that connects emotionally with the consumer on a national level. Brand Lottery needs to capture and communicate the powerful connection between players and the Good Causes that Lottery supports. And it needs to be done on the national stage, connecting with the national consumer consciousness. And that’s what Monopoly Millionaires’ Club and its TV Game Show does.”

NATIONAL BRANDING AS KEY TO SUCCESS

National brands need a nation-wide branding and messaging strategy. They need consistency in brand logos and images, and product positioning that harmonizes across borders, across the entire country. Powerball and Mega Millions are lacking that nation-wide branding strategy. Monopoly Millionaires’ Club and its TV Game Show make great strides towards overcoming the obstacles to forging a national brand strategy.

U.S. States all have different advertising budgets and advertising guidelines and mandates. This has been a crippling impediment to the creation of national branding and messaging so key to the success of these national products. The solution could be a very simple matter of building the cost for advertising and promoting the product and brand right into the prize/cost structure of the game itself. For instance, state lotteries that want to participate in the game agree that some fraction of 1% of revenues be allocated to an advertising/promotional budget. Though, very few things in this business end up being a “simple” matter!

Terry Rich has been a champion for more consistency in the way the national brands are promoted. “Building the funding mechanism directly into the game could be the best solution. We need well-conceived strategies for building these multi-state products into truly powerful national brands. We need to fund more robust nation-wide campaigns, and we need to work together to create consistency in the brand markings and messaging.”

USING WELL-ESTABLISHED ICONOGRAPHY TO REPRESENT THE “BRAND”

Monopoly, originally and still a social board game, has established a “look and feel” that remains consistent even after being used by the McDonald’s chain in promotions for years. McDonald’s investment has probably helped to broaden the recognition and relevance of the Monopoly icons, particularly for younger players.

Hasbro, the owners of the Monopoly brand, have long been aware of the potential to use the property in a game show. As Steve Saferin said, “It turns out that they had in their portfolio some very, very clever ideas for a game show based on Monopoly iconography.”

Consequently, it did not take long for the Monopoly theme and the television game show concept to become closely intertwined. And the familiarity of the Monopoly concept should help also with staged media events, like the grand opening in New York’s Times Square Plaza (Oct. 20), where an oversized Monopoly board will be featured.

... Continued on page 79



Creating the Brand Messaging, Marketing Strategies to Support the

FORGING CONSENSUS among 45 lotteries requires compromise, and the conviction that the goals are worth the effort. What is the purpose, what are the benefits to developing the multi-jurisdictional approach to marketing and brand-messaging? This article draws on a panel discussion at the September 2014 PGRI Lottery Expo meeting, held in Miami, Florida.

At the outset, it is easy to recognize that subjecting the strategic planning process to the consensus-building required for a truly multi-jurisdictional approach is a departure from how state lotteries have always operated. Lotteries are state owned and managed enterprises that have as their focus the interests of stakeholders who all reside within the boundaries of their state. Having a state-specific approach to messaging, promotion and advertising has always worked quite well - providing creative opportunities in localized markets across the country. Rather than having a national approach to promotion, branding, and distribution, lotteries have enjoyed working independently within their own in their own markets. The leaders of state lotteries have been aware of one another's efforts, have recognized the best among them by giving awards in annual friendly advertising competitions, and also by applying a "best practices" methodology towards replicating the success strategies of their colleagues around the country.

However, in the case of multi-jurisdictional games, the diversity of strategies and action-plans is not necessarily a strength. As Terry Rich (Chief Executive Officer, Iowa Lottery, and President of NASPL) stated in his opening remarks to the panel, "When Powerball was launched across the United States, each state chose its own logo or brand mark. The wide variety of brand marks impairs our ability to create a national brand image and with that, the ability to formulate national brand-messaging strategies. So, the player who crossed the border from one state to another saw advertising and POS materials that said 'Powerball', but the look and feel was completely different. The consumers really didn't know whether they were buying the same product when they traveled to a different state. "

All the panelists identified numerous benefits that could be gained by a more unified, multi-state approach. The most significant benefits were of two main types: advantages due to consistency and continuity, and advantages due to economies of scale.

ADVANTAGES OF CONSISTENCY AND CONTINUITY

FOR PLAYERS, providing consistency across jurisdictions is simply a matter of meeting their expectations. "Big" brands are expected to represent consistent value, no matter where they are encountered by the consumer. The multi-state lottery games are the "biggest" brands in this

business, and their sales exceed those of many of the most well-known brands in the world. The lack of consistency in branding and messaging is impinging on the ability of consumers to affiliate with the brand, and for the big-box retailers to mount effective multi-state promotional campaigns. In so doing, the lack of consistency across borders almost certainly has a negative impact on sales.

Promotions, almost by definition, temporarily change the value proposition of a game. "Being able to do promotions nationally is both a challenge and an opportunity", according to Leslie Badger (Vice President, Systems Marketing, Scientific Games). "Ideally, no matter where you travel and where you play, whether it's Powerball, Mega Millions, or Monopoly Millionaires' Club, there's a national feel and we are able to leverage that clear brand identity into promotional value across the country."

Michelle Carney (Vice President of Strategic Customer Initiatives for GTECH) agreed. "The most successful and fast-moving consumer product companies - companies like Pepsi, Coke, Frito-Lay - all have beautiful in-store displays. They spend millions of dollars to get people to believe in their brand and what that brand stands for. This helps retailers and clerks understand their products, and communicate the benefits to the consumer. That only happens with consistent messaging across borders." Retailers, perhaps even more than players, welcome consistency. The lack of consistency across lottery jurisdictions is often cited as a major problem for retail chains.

"All of us have retailers who cross borders", said Alice Garland (Executive Director, North Carolina Education Lottery). "Many of our chains are in multiple states, and a consistent message is much easier for them. For instance, many of our big chains want to promote our products. But they need to schedule messaging on a monthly basis, and require advance notice to plan effectively. Without that advance planning, their willingness and ability to promote our products is impaired".

"From the corporate accounts point of view, national brands are strong brands, the kind of brands that retailers want to invest in promoting" according to Connie Bloss (Vice President for Marketing, Pennsylvania Lottery).

The benefit of a nationally consistent presentation is preferred by all retailers, not just the big chains. "Let's not forget the smaller independents", said Terry Rich. "In the state of Iowa we have three to one 'mom and pops' versus corporate accounts. And I think by having a consistent national brand, it elevates the smaller retailers to feel like they are on a level playing field with their competitors".

ECONOMIES OF SCALE

The economies of being able to put together one licensing agree-

Promotional Campaigns, and Multi-Jurisdictional Games in the U.S.

ment, produce one marketing campaign, and perhaps leverage scale in buying media time advantageously, provoked much discussion. There was general agreement that more energetic marketing was needed. Michelle Carney was applauded when she said, “No game sells itself when it sits inside a terminal. I think Lottery has one of the hardest jobs of any consumer product company because it is selling a product that’s basically invisible to consumers. We don’t have beautiful packaging for draw games. The “hope and dream” is not a tangible product that can be put on display.”

TRADE-OFFS

While the discussion around consistency tended to identify only benefits, the discussion of economies of scale identified some conflicts, trade-offs, and compromises, as well as some unexpected benefits.

The main source of conflicts is in the need for each lottery jurisdiction to adhere to the particular policies set out for it by its state government. In some states, these policies are much more restrictive than in others.

Alice Garland: “North Carolina is probably one of the most restrictive in the country. For instance, we cannot actually say in an advertisement, ‘Please buy a ticket’. You will never see us use the word ‘dream’, and we can’t talk about what you could do if you won the jackpot. That’s a real challenge. Others are allowed to advertise and promote the products in ways that we are not. So everyone engaged in the process of coordinating national campaigns must be mindful of the differences among the states”.

These restrictions have led to some creative thinking. Michelle Carney: “Restrictions have forced us to think about the meaning and value of the product in fresh ways. We must think imaginatively about the attributes of the game and how to make them relevant to the players. “More and more millionaires”, for instance, became a tag-line for Monopoly Millionaires’ Club originally because it is an attribute of the game and not about the anticipation of winning. That complies with the restrictions of most state lotteries. And now we are quite excited about the appeal that it has for the consumer.” Terry Presta (Executive Director, Kansas Lottery) seconded, “I would argue for a game awareness emphasis, because if you concentrated just on the logo, the tagline and then the main concept, that would probably pass muster in almost any state”.

In addition to differing restrictions on the content of messaging, the methods of accounting for advertising expenditures differ from state to state. Apart from state-imposed restrictions, lotteries must also wrestle with the problem of how to fund a joint advertising ef-

fort in ways that all agree are fair to each individual lottery. State lotteries vary by population, per cap’ spend, total sales, etc.; and so will have different ideas about how to equitable split the costs.

One way to ensure a properly funded national advertising and promotional budget is to build the cost directly into the cost and prize structure of the game. The terms and conditions for joining a game could specify that the budget for advertising the game comes directly out of proceeds from the sales revenues of the game. That way, the be that the state agrees to accept the multi-state group’s marketing efforts and even to fund those efforts with a set percentage of its sales.

ECONOMIES OF SCALE IN ADVERTISING PRODUCTION

Working within its restrictions, North Carolina was able to offer a great example of the advantages of working cooperatively with other jurisdictions. “A number of lotteries recently participated in a Football Hall of Fame promotion,” Alice Garland said. “The commercials were fabulous. The consumers don’t think about how the commercials are funded. They just know they were fabulous commercials with high-profile celebrities promoting our products. But our political stakeholders do think about how lottery funds are invested. They should think about it because it is their job to be good stewards of government funds. They quite logically asked how we could afford to pay for such renowned celebrities. I was able to explain that since the total cost was shared among the participating states, the cost to each state was manageable, quite in line with other campaigns that we run on an in-state basis. So there’s a real benefit in the economies of scale and being able to share that cost”.

The panelists did not see the move toward a unified production effort as necessarily threatening to their working relationships with marketing partners within their states. The general feeling was that there was plenty of work to do, and that time and resources that were freed up by “outsourcing” an effort for a multi-state game could be productively used for some other part of the portfolio or for state-specific brand development activities.

An exception to the general enthusiasm for shared production was in winner awareness advertising, which was felt to have intensely local in focus.

Economies of scale in buying media?

In contrast to their enthusiasm for pooling resources for production, panelists were generally skeptical of both the practicality and the potential benefits of a multi-state media buy. Inability to

... Continued on page 79

Hitting the Jackpot

Retailers who feel lucky with lottery can get past long lines, skimpy commissions

By Kelly Kurt



Convenience store operators aren't likely to complain about a product that draws droves of people to their stores, with one exception: lottery. It invokes visions of store-clogging lines, packed parking lots and nickel-on-the-dollar commissions, among other things.

In a June forum sponsored by Scientific Games, in which CSP was the sole media invited, managers of lottery sales for several major U.S. c-store chains acknowledged their pains and shared a Rodney Dangerfield-style lament about the category getting no respect.

And they shared something else: the belief that the lottery holds untapped potential to bolster the bottom line.

"You may say it's just a nickel (commission)," said Steven Desautels, category manager for El Dorado, Ark.-based Murphy USA, which operates more than 1,200 locations. "But lottery customers never buy just a single \$1 lottery ticket and leave. They buy \$5 to \$10 worth of lottery tickets, plus many other of our c-store items."

With U.S. lottery sales totaling nearly \$64 billion last year and more than 60% of those sales taking place at c-stores, retailers are exploring ways to better

leverage the lottery.

More than 90% of retailers surveyed this year by consulting firm Impact 21 Group said they see growth potential for lottery in their stores. And why not? Four out of five reported a jump in total store sales when jackpots are high.

"This is when you can start shaking off that Rodney Dangerfield," said Casey McKenzie, senior principal consultant for Lexington, Ky.-based Impact 21, at the forum. "And you can say, 'My category can help your cigarette sales or your tobacco sales or beer category.'"

Profit Over Pain

Scientific Games, a global provider of products, technology and services to lotteries worldwide, designs and produces more than 46 billion lottery tickets a year from five highly secure lottery manufacturing and technology facilities around the world. The largest facility is located in the Atlanta suburb of Alpharetta, where each month approximately 165 tractor-trailer loads of instant game tickets roll out to U.S. lottery retailers, testifying to the fact that when Americans get the gaming itch, they still like to scratch. Lottery sales at c-stores rank second only to cigarette sales, according to the firm.

Seeking to learn about retailers' pains and help identify greater profit potential, Scientific Games brought together managers from six c-store chains representing more than 10,000 locations. Their concerns echoed those of retailers surveyed by Impact 21. The biggest complaint? Jackpot-generated traffic jams at the checkout counter. Multistate retailers also face the complexity of managing games and rules that vary from state to state.

Many retailers, however, don't seem to know exactly how much profit they get for their pains. C-stores earn an average 6% commission on lottery sales. But gauging the collateral gains from lottery-generated foot traffic can be difficult because ticket purchases are often separate cash transactions.

Earlier this year, Impact 21 surveyed 15 c-store retailers representing about 3,900 outlets, and only one reported measuring the total business impact of lottery players, McKenzie said. "Most retailers say, 'I can't tell you the true value of my lottery customer, but I'd like to find out.'"

The NPD Group's monthly Convenience Store Monitor, which tracks roughly 50,000 c-store shoppers, has found that lottery ticket buyers do aver-

age higher overall rings at c-stores.

In 2013, people buying lottery tickets at c-stores had an average ring of \$12.76, not including fuel, compared with \$9.37 for c-store customers overall, said April Moffa, convenience store channel industry analyst for Port Washington, N.Y.-based NPD. Lottery ticket buyers purchase about five items on average, with three to four of those items being lottery tickets.

Lottery buyers also lead c-store shoppers overall on impulse purchases, most often making unplanned purchases of cigarettes or CSDs, according to NPD data.

“Those impulse opportunities are important to understand for creating promotional opportunities or bundling,” Moffa said. “You’re getting them into the store. You know they’re buying soda. Why not direct them to the chips? Do some type of bundling promotion to get them to buy something else in the store.”

While pending jackpots can cause big lines, retailers surveyed by Impact 21 Group reported a jump in total sales of 1% to 10% during the frenzy of a big-money drawing, McKenzie said. The biggest increases came in purchases of cigarettes, other tobacco products and beer.

Jeff Sinacori, Scientific Games’ vice president of retail development, said that as a former c-store owner in New York, his focus on lottery paid off storewide. He increased his store’s lottery sales from \$500,000 annually to more than \$5 million.

“I realized lottery was a free product. I didn’t have to make it. I didn’t have to refrigerate it. I didn’t have to ship it. I didn’t have to design it,” Sinacori said. “I did nothing but sell it, so that 6% (commission) was really valuable to me. Once I started focusing on that product, every other category increased tremendously.”

He suggests retailers boost lottery sales by posting winners to promote

stores as “lucky,” listing big and small lottery winners on c-store websites and displaying games on menu boards near the registers, among other ideas.

“If people are walking in your store

and not passing the lottery,” he said, “you are leaving money on the table.”

Pump and Play

Murphy USA is putting the lottery where



Chain Reaction: Jeff Sinacori, Scientific Games’ vice president of retail development and a former retailer, explained how working to boost lottery sales in his store led to impressive growth in every other category.



Another Chance: Amy Hill, Scientific Games’ senior vice president for interactive, said digital games can enhance lottery sales by providing c-store customers the chance to enter second-chance drawings or collect points for use in online rewards.

it can't be missed: right at the pump.

With Play at the Pump, fuel customers can buy Quick Pick Powerball and Mega Millions tickets with their debit cards while they're filling up. The lottery numbers print on the receipt or can be sent by text to their cellphone.

Murphy USA wanted to reach fuel customers who had children in their cars or were unlikely to come into the stores for other reasons, Desautels said.

"We service approximately 1.5 million customers a day. Two-thirds of those customers never come inside the store," he said. "The only way you can sell Powerball and Mega Millions draw tickets today is inside the store. We all know when the jackpots get high, they cause long lines. Why not take care of the 1 million potential Powerball & Mega Million customers while they're out there at the pumps?"

The company plans to roll out the Play at the Pump option in Minnesota, Missouri and North Carolina this year, he said.

Not that the game has hurt inside sales. Just the opposite, in fact: The prompt at the pump, says Minnesota Lottery executive director Ed Van Petten, seemed to remind customers to purchase tickets ahead of drawings for big jackpots. In the first six months, nine Play at the Pump pilot locations showed a 4% increase in lottery sales compared with surrounding stores. A year later the increase was about 3%, he said.

"We don't look at this as a great sales generator as much as brand awareness," Van Petten said. "We don't want to do anything that hurts our retail partners. We want to make people aware of our products."

New York-based Linq3 developed the Play at the Pump technology, which integrates fully with Gilbarco dispens-

ers operating with Passport v10 systems. Because Murphy had different dispensers across its retail network, however, it worked with Linq3 to create a unique platform that services all of its locations.

"That gives us the ability to turn every one of our pumps on or off by store, by division, by state," Desautels said. "When another state joins the Play at the Pump program, we just flip the switch at the office to add the option to those stores as well."

A prompt on the dispenser screen asks if customers want to purchase fuel and lottery tickets or fuel only. Lottery ticket buyers have to show age verification either

by scanning driver's licenses with magnetic strips or answering security questions that are quickly verified via a third party, said Daniel Cage, Linq3's CEO.

Murphy is offering \$1 or \$2 tickets in increments of five or 10 for Mega Millions and three or five for Powerball. Each transaction carries a \$1 surcharge. Winners of less than \$600 can opt to have the payout deposited directly onto the debit card they used in the transaction.

The purchase takes less than 30 seconds, Cage said: "We never forget that the core use for the pump is fuel, not lottery."

The retailer receives a 3% commis-

New Game in Town

Scientific Games already offers lottery games for the smartphone set. Some games give players bonus entries into sweepstakes drawings when they use a smartphone to check in at a retail location. Others include QR codes that players can scan for second-chance drawings. Retailers also can link lottery customers to online rewards stores that allow them to collect points for entering lottery game tickets on the Internet and redeem those points for prizes, said Amy Hill, Scientific Games' senior vice president for interactive.

"In fact, the majority of our Internet programs start with the purchase of a game at retail," she said. "The goal is to use digital solutions to support the sale of lottery games at brick-and-mortar locations."

The company also has developed a new national lottery game that is expected to launch in a number of states in October, with a marketing reach that will link retail, the Internet and TV. The Monopoly Millionaires' Club game is expected to build excitement akin to that of Powerball and Mega Millions, Hill said. It will be \$5-per-play draw game that features an initial \$15 million jackpot, as well as a pot of \$1 million in prizes that has the potential to make millionaires out of hundreds of people.

Players can also enter their tickets through game websites in an attempt to collect Monopoly properties, just like they would by playing the iconic Hasbro board game. A "monopoly" earns them the chance to appear on a planned national TV game show, with the chance to earn more money.

However, Scientific Games' Jennifer Welshons, vice president of lottery insights, made it clear that the company has no plans to abandon lottery's mainstay of instant games. She points to new instant games that also are designed to reach and engage a changing consumer demographic. Millennials, women and young Hispanics all offer possibilities for retailers to expand lottery play. "There's still significant opportunity," she said, "because there are over 20 million people who have stopped 10-plus times at a convenience store in the past month and not purchased a lottery ticket."

sion for sales through Play at the Pump. The \$1 fee goes to Linq3, which pays for the debit transaction. There's no cost for the system, except for any POS updates needed for compatibility, Cage said.

Because many players provide their cellphone numbers during the purchase, retailers working with Linq3 have the ability to offer mobile promotions or ties to rewards programs to entice players at the pump to come inside their stores.

"We wanted to create a tool that retailers could use to drive more revenue," Cage said. "We created this platform to engage the casual lottery player."

Lottery Online

Industrywide, retailers are worried about states' efforts to appeal to more tech-savvy players through Internet sales of

lottery tickets. In 2012, Illinois became the first state to offer online lottery sales after a reinterpretation of federal law by the U.S. Department of Justice cleared the way for states to pursue Internet gaming.

NACS is pushing for a ban on online lottery sales and Internet gambling, warning that it could prove devastating to retailers.

Van Petten says Internet lottery sales in Minnesota, such as Play at the Pump, have been less about driving sales and more about reaching people who don't participate in the traditional lottery.

"By making instant products available on the Internet, it gives today's society the ability to see it and see how it works. They feel more comfortable purchasing it inside (after trying it on the Internet)," he said. "I don't see it as a competing factor at all, but

I do understand the fear it will be."

Some retailers are creating their own online play opportunities for lottery customers. Hess Express, for example, offers customers with non-winning tickets the opportunity to win getaways through a second chance Web-based lottery rewards program.

Internet lottery sales in Minnesota, North Carolina and Illinois have represented no more than 1% of total sales, Sinacori said. He, too, believes the Internet-based games draw a fresh set of players that could ultimately benefit c-stores.

"The lottery website is the state's most visited website," he said. "Do state lotteries have the potential to drive people back to your stores when they go online? Absolutely. Is it a good player? Absolutely." ■

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The Three C's of Success!

By Casey McKenzie

Senior Principal Consultant with Impact 21 Group



When I spoke at the 2014 PGRI Lottery Expo last month, I identified three areas in which action is required to enhance the performance of lottery within the c-store channel. I called them the Three Cs of “Success;” category management, collaborative effort and consistent reporting. In this article I will provide a summary of what lottery jurisdictions can do to support retailers in these areas.

By way of background, my consultancy—Impact 21—has conducted three biennial lottery retailer surveys in the convenience channel of trade on behalf of Scientific Games with the latest concluded this summer. In addition, I facilitated a retailer roundtable forum of top c-store chains

hosted by SG earlier this year. So what I share with you is truly the “voice of the retailer.”

Category Management

Lotteries start with a solid foundation of optimism for the category and favorable impression from their customers—the retailer. However, as with all categories and undoubtedly all retail, our respondents report that some stores in their chains outperform others.

The top two reasons given are demographics/location and in-store execution. These are basic principles to be addressed by a category management approach and an opportunity for lotteries to support retailers not only to improve their lottery performance but to arm the category managers/marketers in large chains with the data and information they need to build compelling business cases for lottery to get its fair share of marketing, merchandising, promotions, and signage. I challenge you to ask yourself if you are doing all you can to support your key retailers in these areas.

Collaborative Effort

A golden opportunity for collaboration exists to leverage internet and mobile strategies. While internet sales of lottery tickets has not exploded in the U.S. the concern by retailers is still prevalent with almost half saying they Strongly Agree they are concerned.

From my perspective I believe much of their concerns can be alleviated with the facts and the facts that I’ve seen support the notion that most of those sales would be incremental and not cannibalize brick and mortar sales.

However I also believe the industry and within that I include trade organizations and lottery jurisdictions have done quite a poor job in getting the facts out and including retailers in the conversation.

All but one retailer answered “Yes” and when asked to explain the differences the most often cited reasons were

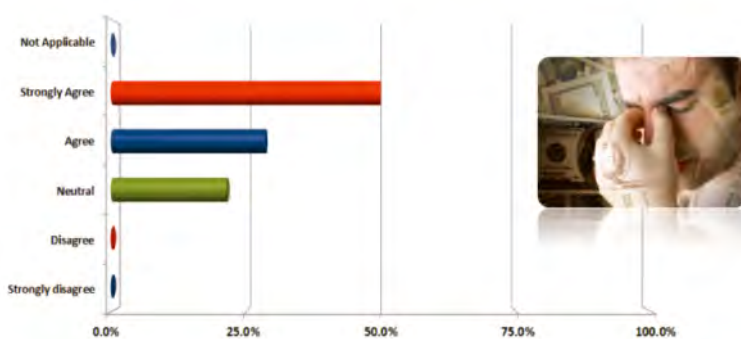
- ☐ Demographics/Location – 62%
- ☐ In-store execution – 31%
- ☐ Other – 7%



Source: Scientific Games C-store Lottery Retailer Survey 2014

impact21
GROUP

Three fourths of respondents are concerned about internet sales of lottery games



Source: Scientific Games C-store Lottery Retailer Survey 2014

impact21

Ads and product rewards are the two most popular service ideas

Response	Percentage
Place ads for my store on the lottery's loyalty club web pages	61.5%
Put in-store coupons into a state's lottery loyalty program	38.5%

If the lotteries do not provide the facts then others will fill that void with perspective and bias that may not be in the best interest of the lotteries or the retailers.

When asked how their lotteries could best support the re-

tailer's internet and/or mobile initiatives, two areas garnered a majority of the responses as shown in the table. Based on these responses, I would submit to you that the internet can be positioned as an advantage rather than a threat if you're willing to embrace what the retailers are asking for.

Allowing retailers to leverage the internet to drive consumers to their stores will reduce the anxiety about ticket sales on the web and provide savvy retailers with what they will consider a competitive advantage opportunity.

In addition, from the roundtable forum of retailers operating several thousand locations across dozens of states come these requests for collaboration:

Consistent Reporting

The last, but not least, of the "Cs" is both a unilateral and cross-jurisdictional issue. Based on my experience, I do believe improvements in accounting and reporting procedures can be implemented within most, if not all, lotteries if they will approach their business from a "best in class" vendor partner mindset.

But for the larger, multi-state retailers, a collaborative effort not only between lottery and retailer but between jurisdictions is required. I am encouraged by the efforts currently underway in this area but more can and needs to be done.

Let me close by saying I recognize the differences in the way lotteries are authorized, organized and governed versus CPG companies but don't let that become an excuse not to even try to address legitimate concerns. Focus on the "can" and not the "can't" and I'm sure you'll see more "SUCCESS!" in your business relationships with retailers. ■

Knowledge	What's going on in the market? If we know we might be willing to invest our own money How does a lottery shopper make decisions? Explore opportunities of shopper data tree
Education	Helpful to know ahead of time what innovations lotteries have at their disposal Best practices—what works best
Displays	Smaller displays and/or different POP options more in line with retailer strategy Retailers are willing to invest in equipment that matched their store design
Technology	Loyalty, web, second chance drawings that are connected to their websites and retailer objectives Give customers a coupon redeemable in store when they visit lottery websites Knowledge

Casey McKenzie, Senior Principal Consultant with Impact 21, with over 20 years' experience working at a leading c-store chain and another sixteen spent in consulting, has experienced almost all facets of the c-store channel of trade, including finance, operations, category management, re-engineering and strategic planning.

Impact 21 Group is a leading global consulting company in the petroleum/convenience, retail and refining industries. With over 200 years of combined retail and refining experience, our experienced team of consultants brings aggressive real world leadership to business and technology initiatives.

familiar to the core players who are accustomed to all three game plays.

One of the more exciting and interesting aspects to Monopoly Millionaires' Club is that it introduces new elements to the overall gaming experience that will appeal to players in search of more variety, and to younger adults in general. The younger players will be drawn to and engaged by the web components, the internet and Mobile apps, as well as the TV Game Show. The player does not need to participate in these other optional plays. Players still have two other avenues in which to win a million dollars or more whether they engage in the web-based components or not.

In the early stages of the game, the weeks following the launch on October 19, isn't it likely that there will be a learning curve for the consumer?

R. Hargrove: That's possible, of course. Even after 25 years, some people still say that Powerball is complicated and they can't figure out how to play. But there are tens of millions of others who were inspired to learn how to play because they wanted a shot at winning the jackpot. And anyone who has ever played the Lottery will quickly and easily recognize how to play Monopoly Millionaires' Club. If you don't know how to play Powerball, then that might be the better game to start with. But the fundamental play-style of Monopoly Millionaires' Club is no different than popular lottery games already in existence. U.S. consumers buy over \$60 billion of the existing games a year, so there are lots of people who will know how to play Monopoly Millionaires' Club right from the start.

We have made an intensive effort to educate the retailers on how the game is played and how to sell it. The promotional impression made with the launch will be bigger than anything we have done before. So it is our

hope that all the efforts behind the launch will provide a sturdy foundation upon which the game will grow over time. Moreover, we think that once people see the TV Game Show and read about the many million dollar winners—it could be upwards of seventy or even a hundred or more depending on when the top prize hits - they will be inspired to learn how to play the game if they didn't know how to do so already.

To your point, though, it's true that drawing-based games tend to start out slowly and pick up momentum with time. That's different from most Instant tickets which tend to launch with a bang and then decline over time. I would expect the trajectory of Monopoly Millionaires' Club to follow the path of all other drawing-style games and gain interest and increase sales traction over time.

Maybe Monopoly Millionaires' Club will also be a catalyst to attract people to Lottery who may choose to start out with Powerball before graduating to Monopoly Millionaires' Club.

R. Hargrove: We can hope so. I do think that this entire process of collaboration has revealed opportunities to apply some of these ideas to the other national games. The level of collaboration among state lotteries that has been required to implement Monopoly Millionaires' Club is unprecedented and should open doors to new and better ways to promote and manage our other national games. Monopoly Millionaires' Club will influence consumer perception of the entire product category of Lottery. I agree with you that the impact it will have on the Lottery, and the sale of the other Lottery products, will be positive. The collaborative effort to develop and launch Monopoly Millionaire' Club is already having a positive impact on the ability of 45 lottery directors to work together on the numerous other projects we always have in the pipeline. That alone is quite a feat!

As senior vice-president of the WLA (World Lottery Association), you meet with and talk with industry leaders from all around the world. What have you learned about the process of collaboration and working through the differences between Lottery jurisdictions?

R. Hargrove: We have been trying to put together a "World Game" for many years. The obstacles are formidable—different languages, different currencies, different regulatory statutes, different gaming cultures, etc. We still don't have that elusive World Game yet. But the process of working together to overcome those obstacles has definitely informed our ability to cut through the many differences among U.S. lotteries and collaborate on Monopoly Millionaires' Club. MUSL has also been involved in the World Game project and that experience has given us insight into the operational challenges and solutions.

U.S. lottery directors all deserve so much credit for pulling together to make Monopoly Millionaires' Club happen. There are countless details that can interfere with the ability to collaborate on a project of this magnitude. It is an amazing testament to the fortitude and vision of U.S. lottery directors that they persevered to see this through to its culmination on October 19.

Though there are many obvious differences among jurisdictions, lotteries all around the world also face challenges quite similar to our own. We all operate a market-driven business within a highly political structure. We are all trying to evolve with a rapidly changing consumer market. We are all trying to appeal to new consumer groups and especially to connect with the young adult players. And the pathways to success are not always readily apparent. There is no obvious silver bullet. The confluence of creativity and vision is driving innovation and adaptation, but the secret to success all around

the world remains the same: hard work, learning from each other and intelligent application of the success strategies of our peers in other lotteries. And increasingly it's about effective collaboration. The development and launch of Monopoly Millionaires' Club is an achievement that will benefit each and every lottery in ways that could not be done individually. In fact, my friend and colleague Chuck Strutt and I learned many lessons during this process that we will bring to the the World Game discussions in an effort to move that ef-

fort along a path similar to what the U.S. lottery directors have accomplished with Monopoly Millionaires' Club.

Before we finish, I would really like to recognize and salute the chairs of the different committees that shepherded this project through to its launch. Scott Bowen (Commissioner, Michigan Lottery), Arch Gleason (CEO, Kentucky Lottery), Carole Hedinger (Executive Director, New Jersey Lottery), Paula Otto (Executive Director, Virginia Lottery), Cindy O'Connell (Secretary, Florida Lottery),

Buddy Roogow (Executive Director, D.C. Lottery), Gardner Gurney (Acting Director, Division of the Lottery at New York State Gaming Executive Director), and Terry Rich (CEO, Iowa Lottery) led the way. Scientific Games and GTECH collaborated on the marketing and the training and countless details of implementation. The joint efforts of everyone, of all the lottery directors and vendors, has been essential to the remarkable development, implementation and launch of Monopoly Millionaires' Club. ■

Ioannis Katakis Interview ... continued from page 45

our INTRALOT Horizon system simultaneously broadcasts the betting information, how the odds are changing in real time, betting tips, and how to play instructions directly into the stores. The main Football and all the horse racing (from Sweden, UK, Ireland, S. Africa and Asia) events are broadcast on TV monitors so the players can watch the event live while they are tracking the progress of the bets and the odds on the Horizon system TV screens. It is the whole in-shop playing experience that is the biggest asset enabling us to compete against online gaming.

I realize that playing the lottery is completely different from sports-betting. But still, couldn't the same strategy of creating a fun and social in-store environment enhance the playing experience for lottery players?

I. Katakis: That is our number one priority: first, to further improve the service level in our shops since they are dedicated to us. Our service and the agents' dedication to us are already excellent. But we want to always improve. Second, our strategy is to make our shops places of entertainment, fun and social interaction. Responsible Gaming is also a top priority, and that goal is served by creating an environment that is as much about fun and social as it is about betting. MALTCO in 2014 was awarded the Responsible Gaming Certificates from both EL and WLA, confirming our com-

mitment to playing responsibly.

The concepts of fun and social interaction do apply to Lottery play just as they do to Sports-betting. Our shops are set up to promote that same kind of social environment for the Lottery players. They offer coffee and tea for free, and they have vending machines for sandwiches. So people can come to our shops and play the lottery and enjoy all the amenities that they get in a coffee shop or a bar. They can sit down, meet their friends, talk about whatever they care about.

Our shops are much different than what you might see in some other countries where the dedicated shops are for specific type of betting and for more serious gamblers. The punters in the UK for instance come in to bet and then they leave. Our shops promote a social atmosphere. The players in our shops can select from a wide range of games, from Lotto and Instant tickets, to KENO and Sports Betting. Playing the Lottery, and even Sports-betting, is not about maximizing turnover and GGR, but about promoting a healthy form of recreational gaming. The shops are fun for the patrons for lots of different reasons. Mostly it's to socialize and then they do play our games to just have fun. And you will find our shops to be much more accommodating to women than the typical betting shops around the world. People who are more interested in the social aspects

than serious betting enjoy our shops. The end result is a much more sustainable business model because people are not betting more than they should. So it is better from a Corporate Social Responsibility and Responsible Gaming point of view. I think it is also a better business model for the long-term. We may not be maximizing the short-term GGR with our players. But I believe we are actually maximizing the long-term value of the customer. Better for the player and better for us from a business point of view too.

I should point out that I consider MALTCO as a boutique style Lottery and the Points of Sale as "our shops" because I consider our Agents as our partners. These are actually all independent agents who sell MALTCO products. MALTCO does not have any equity ownership of the shops. There's a procedure in how we select the location and give the approval to a new shop-owner to sell MALTCO products. And we provide ongoing training. The shops are required to invest in TVs and meet our standards relating to layout and design of the stores.

It would seem to me that this is a vision that benefits the retailers, provides them a business model that not only vends lottery products, but provides a retailing model that drives store traffic and positions the retailer to sell other products as well.

... Continued on page 85

SUGGESTED ORDERING IN TODAY'S RETAIL ENVIRONMENT

The demands of retailers today mean that a lottery must go the extra mile to make sure the right games, in the right quantities, are delivered to the right store. A suggestive ordering system with real-time information and pinpoint accuracy will help your lottery achieve that goal.

GROW SALES, IMPROVE CUSTOMER SERVICE, AND MAKE PRODUCTS MORE ATTRACTIVE TO RETAILERS

Inventory and order management of instant tickets are often perceived as burdens by retailers, which makes retail network expansion and increasing instant game same store sales a challenge. Today, retailers, especially chain retailers, are looking to lotteries to simplify their instant ticket business, much in the way that other Fast Moving Consumer Goods (FMCG) companies have simplified the process for products such as Coke and Pepsi, bread, and milk. Retailers rely on these firms to make sure the right products, in the right quantities, are delivered at the right

Send retailers the exact games that appeal to their specific customer base.

time. For example, retailers do not tell their PepsiCo drivers what to deliver. The drivers themselves make sure that each retail location receives the brands and flavors their company wants in the marketplace.

An accurate, automated suggested order process that simplifies the ticket ordering process is vital to retail expansion. It not only brings the ordering of instant tickets in line with other FMCG products, it offers distinct advantages. Because a state-of-the-art suggested ordering tool considers so many unique variables, the methodology used to calculate orders is virtually limitless. Plus, where PepsiCo counts on its route driver to physically count stock to decide what to put on the shelves, your telemarketing team can have real-time inventory information and suggested orders at the click of the mouse.

↓15%

Lost Sales per Empty Bin
per Texas Lottery Study

Not having the right games available for sale means loss of revenue for a lottery. The key to successful supply chain management is

to have a suggested order process so precise that it eases retailer apprehension, by not only making sure that retailers

do not have overstocks or understocks, but making sure they have the exact games that appeal to their specific customer base.

That's why GTECH has invested considerably in making the suggested order so accurate. NextGen ProCall, just released in October, is the latest generation of the proven ES ProCall software, which supports more than 75% of the instant ticket sales for lotteries, including the top-selling lotteries, in the U.S. A fully customizable sales tool, it drives real sales growth by recommending an instant ticket order for each retailer that will ensure that the lottery's newest, best-selling, and/or other games of the lottery's choice are replenished in quantities sufficient to avoid stock outs before the next scheduled order date. It works in concert with the recently enhanced GTECH Business Intelligence (BI) package, which enables lotteries to measure the order effectiveness and take action when necessary.

TAKE THE GUESSWORK OUT OF INSTANT TICKET ORDERS

NextGen ProCall has many features, such as real-time inventory and sales information and improved usability, that will allow lotteries to better support their retailers than has ever been possible before. The advanced software, configurable by each lottery, can ensure that top selling games are faced at every retailer.

Minimize the chance that your retailers will ever run out of inventory without overloading them.

Because it measures sales using actual validations, as opposed to previous methods that were limited to tracking only packs activated or settled by the retailer, the NextGen ProCall application takes the guesswork out of instant ticket ordering. Tracking activity of tickets cashed at retail enables it to accurately estimate the number of tickets sold to the consumer on a day-by-day basis. The pinpoint accuracy of the real-time information supplied to your telemarketing team will not only result in bins filled with the right product, but also help you avoid wasting resources



by saving your inside salesperson's time, avoiding human errors in calculations, and reducing or eliminating the need for manual workarounds and negotiating replenishment orders with retailers.

NextGen ProCall has considered all types of marketplace anomalies and built them into the algorithms. The application addresses each retailer's unique situation, whether it's differing rate of sales, ability (or refusal) to handle certain price points, or whether they are selling from a self-service machine or on-counter dispensers.

Besides tracking all basic inventory functions such as pack movement, sales history, security monitoring, and out-of-stock conditions, NextGen ProCall uses sophisticated data tracking and analytic techniques to:

- › Anticipate the end of the game life cycle; as specific game sales slow down in the marketplace, the system makes sure not to clog inventory dispensers with these stale games.
- › Take into account your lottery's key or core games and their importance to the order mix.
- › Anticipate upcoming initial distributions and the effect they have on games already in the field.
- › Proactively alert your inside sales team when retailers face shortages of best-selling games due to unanticipated spikes in sales.
- › Ensure the right game mix is out there by tweaking games and/or price point mix store by store, by different geographic areas and/or trade style segment, or by whatever group your lottery configures, all based on sales potential.
- › Meet the needs of each individual chain, by matching orders to a chain's specific business rules.
- › Exactly match lottery-defined planograms and deliver the right inventory mix to fit the needs of lottery

marketing departments and their goals for the instant ticket program.

The result is a suggested order tailored to each of your retailer's specific needs, based not only upon her or his sales, but also on the retailer's and your lottery's market requirements.

With such accuracy built into the algorithm, lotteries may choose to use the automatic ordering capability without human intervention to place orders. Automatic ordering can preclude lost sales when unforeseen events, such as ice storms, disrupt your supply chain. When (in February 2014)

"We literally use almost every possible feature that NextGen ProCall provides here in Georgia."

– Erica Owens, Retailer Sales Manager, Georgia Lottery

severe weather prevented many Georgia Lottery staff from reaching headquarters, the Lottery, using the computer logic of NextGen ProCall, simply turned on Auto-Order to automatically generate orders, which the warehouse was able to fill. The Lottery shipped \$54 million in orders that week, which generated \$57 million in sales, as compared to a similar situation in 2011 when they lost more than \$15 million in sales for the week.

NextGen ProCall is just one of the many solutions that GTECH offers to identify sales and profitability opportunities and drive growth for its lottery partners.



California Lottery Principles to Content Marketing

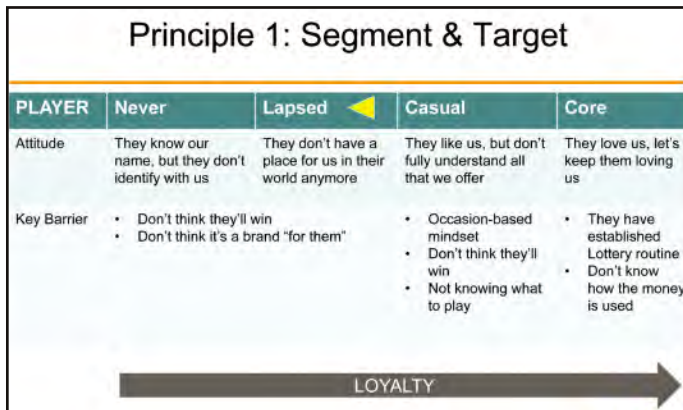
Ryann E. Petit-Frere, Manager of Digital Media Strategy, California Lottery



The conversation on content marketing relates to all U.S. lotteries. In the national discourse about iGaming, social gaming and partnerships with other gambling interests, all in this dream federal and state regulatory environment, content marketing is the one online activity all lotteries can improve upon to better engage the tech-savvy consumer. It's an area of business that can benefit each jurisdiction's ability to reach a very valuable audience: not millennials, "digital adopters."

What's a "digital adopter"? Some are native to digital, having grown up with the internet their whole lives. Others haven't, but have embraced technology and an enhancement to their lives. It's important to be clear about the distinction between digital adopters and millennials. As our industry continues to suffer from an aging player base, we need to realize those who have adopted technology and the internet (aka digital) are the game changers not an age demographic. Otherwise said, the changing audience of the Lottery is not about a generation, it's about a paradigm in which millennials fall. For the U.S. lottery industry's success, if we can capture those who speak the "language of digital," we capture the future.

As we aim to evolve into an entertainment brand that effectively engages digital adopters or online consumers, these are the California Lottery's key principles driving the success of our approach to content development. The simple yet powerful philosophies we apply when creating content for the digital space.



Principle #1—Targeting & Segmentation

With so many entertainment options today, the competition for consumer attention is more fierce now than ever. Between online publications, video, games, email, social media, blogs, streaming content, the catch-all of apps and everything outside of the web, how do we cut through the endless amount of noise and get the attention of the distracted consumer?

A valuable lesson I've learned from a stint in sales is, "every prospect wants your product." Those who say otherwise are just naive to its benefits. And, it's our job as savvy salespeople to understand the consumer and teach the consumer why they care to purchase. It's the simple approach of "understanding and teaching" that brings us to our first principle "segmentation and targeting."

Like many lotteries, we sought to understand our 18+ audience and conducted a segmentation study that identified the attitudes and barriers to play for six audience profiles that fit in four segments of playership.

Sparing you the exact details of the science behind it all, we've combined information related to attitudes, behaviors, and media channels to develop and distribute strategic messages to each segment, while providing ample opportunity for each to convert to a segment of deeper loyalty.

Our goal, is to as best possible, reach each segment. The hard part is, player acquisition is expensive. But, we attempt to do so within our means by exploiting the low-cost, high-impact resources of digital marketing, such as social media, display, email, mobile, in-house video and in-house graphic design. "Low-cost, high-impact" is a VERY important consideration as we attempt to reach digital adopters: They are online! Where the cost for digital impressions is less expensive than traditional and can often deliver better returns.

In fact, we've reduced traditional outdoor advertising and have shifted funds to digital as the ROI has proven to be greater. And, for the many lotteries with limited resources, you can still be effective at driving organic reach with in-house resources, a smart approach to content curation and an enabled creative staff.

Segmentation as a framework forces us to thoroughly understand our audience, information enables us to teach to their unique barriers and build a pipeline for conversion and retention.

Principle #2—Broad Reliability to Feel & Do

Findings from advertising experts conclude when comparing the profitability of ads that rely primarily on emotional appeal versus those which use rational information, ad campaigns with purely emotional content performed about twice as well as those with only rational content. - Pringle and Field, Brand Immortality—Pringle and Field. (2009) “Brand Immortality: How Brands Can Live Long and Prosper”

Many of the barriers to play our research has uncovered relate to “people like me” and “no one wins.” Sound familiar? We’ve learned we need to help consumers identify with the product. We need to connect it to key pieces of who they are to make it personal with how they feel and what they do.

We own the narrative, “The lottery is a chance to win.” This narrative has engaged some (over \$5 billion worth of engagement for

the California Lottery last fiscal year.) But for some segments it falls flat. So, we’ve attempted to bring relatability to life with product-brand narratives that evoke emotion.

For example, the narrative behind California Lottery’s 2014 California Black Exclusive Scratchers campaign was, “These Scratchers are cool.” And, the narrative of the 2013 Holiday Scratchers campaign was, “The Lottery is a chance to feel good about giving.” A campaign so successful that it will be repeated this season, given 73% of those surveyed about the last year’s commercial felt this ad “stood out from lottery and other advertising.” Cool, altruism and others—All broad emotions even players outside our core can connect to. (Much credit is due to the exceptional work of David & Goliath, the ad agency for the California Lottery and Monopoly Millionaires Club general campaign.)

Sometimes it takes a little help to get consumers to think outside the box. Lottery not for people like you? Think again. Lottery is for seasonal-gifters, road-tripping-travelers, party-throwers, just-cause-surprisers and the like. Hopping on smaller seasonal holidays and activities that are top-of-mind for consumers and using social to drive reach and minimize costs, we have launched a series of in-house “lifestyle marketing” campaigns. These small campaigns help consumers reimagine uses of our product in their real life experiences.



For example, as Valentines Day was top-of-mind for most consumers in January 2014, the California Lottery went to market with the “Everyone Deserves Chocolate” campaign supporting the \$2 Chocolate Scratchers ticket and used a social media extension to drive organic reach outside of our core players. Aside from, the ticket’s stellar sales, not necessarily attributable to this campaign, user generated content demonstrated success in consumer adoption of the lifestyle concept. As for delivering on “low-cost, high-impact,” our first campaign cost staff resources and \$300 to execute. Additionally, in subsequent similar campaigns, we’ve found that up to

... Continued on page 87



KAMBI SPORTS SOLUTIONS

Kamil Gajewski, Head of Kambi Sport Solution's Business Development and Intelligence Departments

www.kambi.com



User-centric product development. Human-centered design. Design thinking. These are all claims many companies in our industry are ready to make and boast about. At Kambi, understanding our players, empathizing with their needs and exceeding their expectations is what's been driving us since our inception. In this article we want to show why this approach matters, how it drives the complexity of the sportsbook and what implications it has for a procurer.

When browsing through the marketing material of B2B sportsbook suppliers, one has been met by the same marketing messages for the last couple of years. The main product USPs seem to be: the number of sports, the number of live events, the number of bet offers. Together with the costs, this is what operators look at to assess suppliers. Today, there are several suppliers that offer sports, live events and bet offers in vast numbers, as this is what operators have believed to be the aspect with most impact on the success of their sportsbook vertical. As many people in the gaming industry now believe that we are reaching a level where every incremental enhancement to these numbers has increasingly smaller value, suppliers are starting to compete on price, which is a natural part of the commoditization process.

However, if we look closer at the sportsbooks, there are substantial differences to be noticed. These differences are not obvious, and it takes knowledge and insight to discover and understand them. The first thing we need to do is to look at it from the players' perspective, and ask ourselves the question—what constitutes a great sportsbook?

Relevance, Availability & Playability

When analyzing the quality of a sportsbook offering, i.e. all the leagues, events, and bet offers, the focus should be not only on quantity of bets, but also on relevance, avail-

ability and playability - key factors in creating a great user experience. Here is what we mean by this:

Relevance—the sportsbook offering should contain betting opportunities that are exciting and fun. The player should feel that the bet is tied to his opinion about the game, and feel enticed to place a bet. The In-Play bets on the next corner in football and the game winner in tennis are great examples of bets which are highly relevant as they offer players the opportunity to act on hunches and are also quick when it comes to payout of winnings. Offering players a fun and casual betting experience, it is not surprising that these bets are constantly growing in popularity.

Availability—having great bet offers means nothing unless you are able to place bets on them. At any given time there should be a wide selection of betting opportunities available for the players. This means that as an operator, you should maximize the time bet offers are open for bet placement. Bet offers should be published and priced well ahead of events, and during the events they should be open as much as possible. The players are not forgiving of technical or operational difficulties that hinders them from placing the bets they want.

Playability—as with video games, the player has expectations about the actual gameplay. In the sportsbook context this translates to a great client, quick bet placement with a short live countdown, quick and accurate settlements and fast payouts of winnings.

It is only when a sportsbook is strong on these three factors that a great user experience can be offered, which is a massive revenue driver. Professional gamblers, arbitrage hunters, and other loss-making player segments are however constantly trying to find ways to make money at the operators' expense, and finding the right trade-off between a

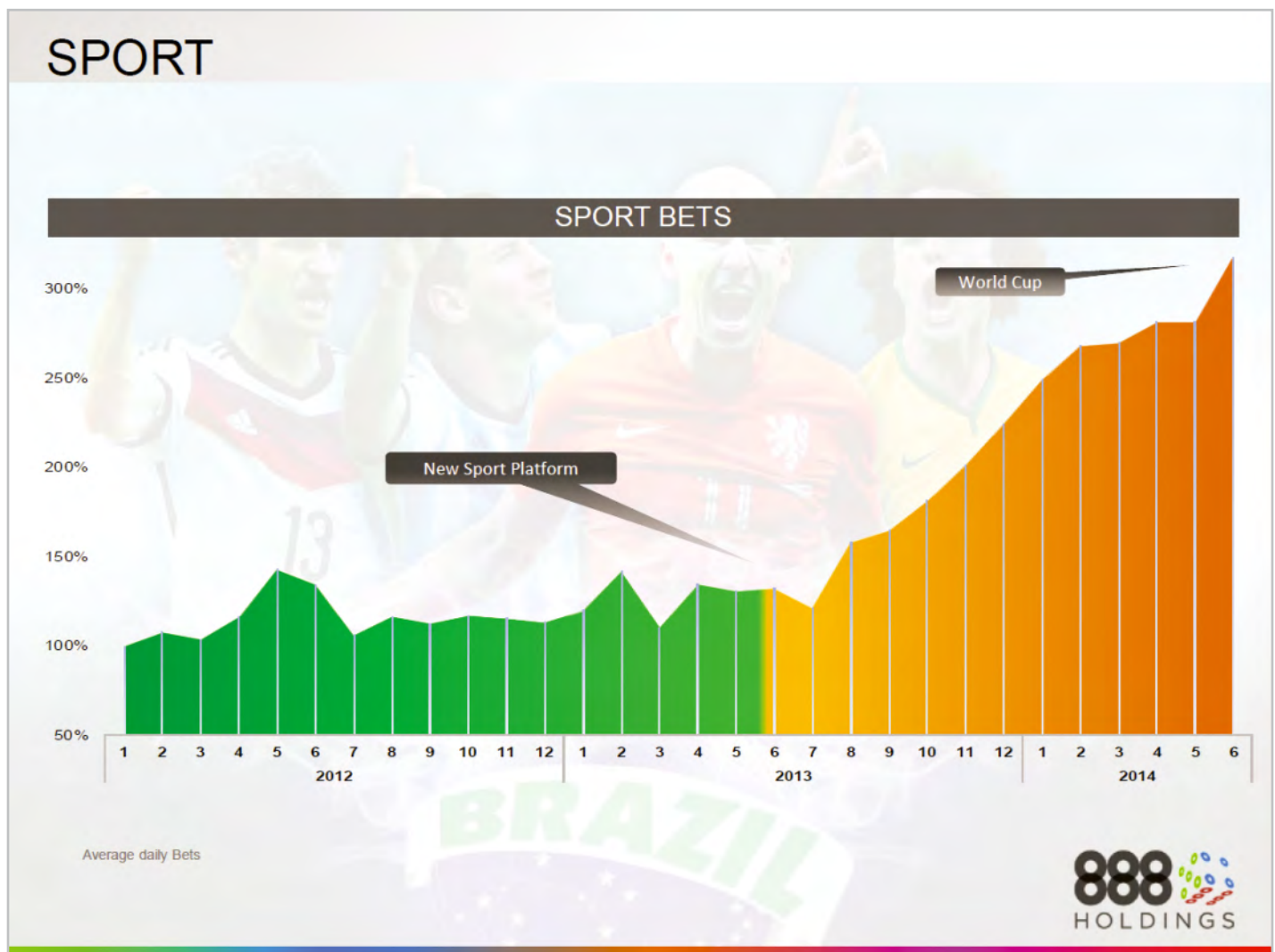
product that safeguards a healthy margin for the operator and offers a great user experience for the casual players is a challenge, as these two forces are often pulling in opposite directions. Overcoming them comes at the cost of high complexity and the requirement for a tight integration of betting clients, operational staff, and back end technology. From our research we know that very few sportsbooks can reach a high score on relevance, availability and playability, as orchestrating the different components to interact well together, while at the same time safeguarding margin, is a cost that only the largest operators can motivate.

It is no coincidence that the operators with outstanding sportsbooks are the ones that are gaining most market share, even in mature markets. They are offering a more entertaining product than their competitors, by either investing heavily in their own proprietary technology and trading floor, or sourcing a product that not only scores high on the quantitative aspects of the offering, but also scores high on relevance, availability and playability. The graph below (which can be found in 888's half year presentation for 2014) is an example of this, illustrating the development of

888's sportsbook performance after it switched to a fully managed turnkey sportsbook, provided by Kambi, which enables 888 to offer a world class user experience to its player base.

We at Kambi advocate that operators evaluating sportsbook suppliers start focusing more on player-centric aspects of the product, factors that are important to the player satisfaction with the product, such as availability of markets, suspension frequency, and relevance of available bet offers. The operators that start seeking those elements will discover that the B2B sportsbook market is far from commoditized and realize that choosing the right sportsbook will have a massive impact on the performance of their sportsbook vertical, and operators with a sportsbook that can offer what is important to the players—relevance, availability and playability of a wide selection of betting opportunities - will be able to compete not only with brand and price, but also with their product.

Elevating the player-centric evaluation criteria beyond a comparison of number of sports, live events and bet offers, takes time and effort, but if you put yourself in your players' position, which product would you prefer to use? ■



The demand for digital lottery is here.

Lotteries should be cashing in!

LOTTOVATE



ZURIÑE SÁEZ DE VITERI

The U.S. lottery industry could be missing out on up to \$17.5 billion dollars a year. It's a huge amount of money, and it all comes down to one thing that's currently missing in the existing lottery offerings of many states: interactivity through digital platforms.

These are the conclusions of recent research, commissioned by Lottovate and independently verified by YouGov, which canvassed the American population on their views of lotteries and their current and potential playing habits.

An untapped potential.

The findings suggest that an untapped market of 62.7 million people would play the lottery online if it became available to them, with 19.2 million of these being brand new players who haven't played the lottery in its traditional forms in over a year.

These 19.2 million players represent a \$5.8 billion potential that

is not currently being served and this statistic alone should serve as a wakeup call to an industry that's yet to embrace digital lottery on a significant scale. In fact, attracting these players to an interactive lottery offering provides an opportunity to convert them over time into multi-channel players, reaping even greater rewards.

For states concerned about attracting new players, making interactive games accessible to customers via the internet or their cell phones is simply the most logical strategy.

But it's not just new players that can be enticed to a lottery by the prospect of playing digitally: of the respondents who said they would play lottery online, 41% were already playing in its traditional forms. The best lottery players are most attracted to the idea of playing digitally, and will even play more given the chance to do so at their own convenience, in their own homes and as it suits their lifestyles. So instead of putting off existing retail consumers, interactive lotteries provide more and better opportunities for these consumers to use a lottery's product more frequently.

Why do consumers want to play digitally?

Simply put: convenience is key. The possibilities for consumers to play on their own devices is a huge draw for digital lotteries, with interest in play via cell phone and tablet standing at 37% and 21% respectively. Consumers also appreciate the benefits that playing a digital lottery would bring, from saving tickets so they cannot be lost (47%) to storing favourite numbers (44%) and buying subscriptions (38%)—the latter of these offering a great opportunity for increasing player retention.

These players are not necessarily the digital natives that we might assume. They have a slightly older profile than current players interested in using interactive lotteries and are more likely to fall into the 35-44 age group. Digital lotteries are not a fad being driven by youth, then—they appeal to an older demographic for whom interactive lotteries are a better lifestyle fit. That is not to say that this group is failing in technological know-how. 86% of these older players use the internet each day, and an enormous 96% have purchased goods or services online. Furthermore, 60% have a smartphone and 38% own a tablet, so from a digital lottery's perspective, the market is already prepared for a digital product.

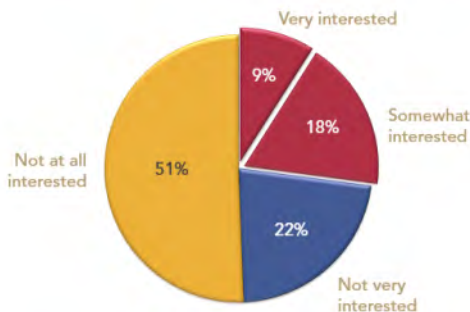
What types of interactive games will attract these new players to a digital lottery?

As it turns out, interest levels are high in a range of different game types, but multistate draws are the greatest attraction with 81% of digitally-inclined respondents either somewhat or very interested.

As has been seen in Europe with EuroMillions, the bigger jackpots these types of draws offer lure many consumers and this strategy could be replicated to do the same for digital players too. Instant win games are also popular with these consumers, with 23% stating that they are very interested in playing these online.

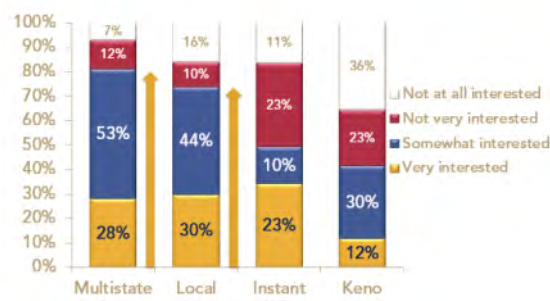
There is huge potential to cash in on a variety of game types, with most of those canvassed saying that they would play multiple types of interactive lottery games. Just 7% would only play one of the

Consumer interest in playing lottery through digital channels



The 17.5 bn Dollar Opportunity – US Digital Lottery Potential – Lottovate Study 2014

Types of games new players are interested in



The \$17.5 bn Dollar Opportunity – US Digital Lottery Potential – Lottovate Study 2014

game types offered, while 71% would play three or more.

What these statistics show is that the current portfolio offered as a traditional form of lottery has already built a strong reputation amongst consumers and would still be attractive to them if available digitally.

For U.S. lotteries that implement a digital offering, there is enormous potential to go from no revenue in this channel to an engaged, retained, multi-channel player base in a very short space of time indeed, without the need to invent a completely new game portfolio.

How would introducing interactive lotteries affect the loyal retail consumers who already play weekly?

Of all respondents who expressed interest in digital lotteries, the weekly players showed the most interest in new forms of play, with the younger members in this category most attracted to new forms of digital lottery.

63% of weekly retail players would play four different types of game too, with a further 20% anticipating playing three, highlighting the potential to encourage these already-engaged lottery consumers into becoming even better lottery players.

This demonstrates a great opportunity to increase the loyalty of these regular customers, particularly younger ones, to a lottery brand, engaging a key player group across multiple channels for long term revenues. Most importantly, providing more opportunities to play will likely encourage the best players to play interactive games on top of their normal, 'traditional' ticket purchases – lotteries in countries all over Europe have seen the positive effect of creating digital channels on top of their traditional format and the consumer demand highlighted in our research shows that there's no reason this can't be replicated in the U.S.

Looking to eCommerce for inspiration.

As well as looking at current and potential lottery playing behaviour, our survey is unique in questioning U.S. consumers exclusively about their digital habits too.

It shows that the U.S. is already a digital society, and there are no practical barriers to launching digital lotteries in the U.S. market.

87% of Americans have internet access, 56% own a smartphone and 52% own a tablet (adoption figures that outstrip most leading European countries) and eCommerce stands at 6.4% of all retail sales—a figure which is only growing.

As the eCommerce market expands and the number of Americans purchasing goods and services online and via mobile devices continues to grow, it appears the lottery world hasn't typically responded to this demand. In a highly connected, multi-channel world, where we're so used to buying on demand and on the move, it seems difficult to understand why they cannot purchase a lottery ticket the same way.

Embracing digital requires experience and expertise.

We at Lottovate understand that the world of lotteries can be a complicated one. Lotteries have a greater responsibility and duty of care to uphold than other, more commercial, businesses, which means that a move into digital will come with challenges and potential obstacles other companies may not have.

Lottovate can help because we understand player behaviour. Whether you're simply evaluating the potential of digital or developing a full digital strategy, our 'Digital Insight' will prove invaluable in making this a smooth and ultimately successful process.

As a digital retail provider, Lottovate can become a lottery's sales partner for interactive channels. For lotteries looking to launch an interactive service or replace an existing platform, Lottovate can make it a seamless transition with end-to-end channel management.

Our full-service proposition covers everything from lottery game content and host platform integration to player account management and customer service. It also includes responsible gaming, content management, customer lifecycle management and CRM.

Lotteries that already have an interactive channel can also optimise performance with Lottovate's marketing services expertise in player acquisition, conversion, retention and CRM. By analysing site performance, key performance indicators and player data it can create and execute detailed interactive marketing plans for enhanced results. We work in true partnership with lotteries to build a successful digital channel together on a shared basis, with Lottovate able to not only supply the multi-channel experience, but also manage the day-to-day operations of attracting and retaining players.

Finally, in its role as a multi-channel consultant, Lottovate can apply its unique insight developed during 15 years in digital lottery to help partners develop market projections, multi-channel strategies and business cases for online channels and products.

With such huge untapped potential in the U.S. market for player acquisition and revenue, introducing digital lotteries is the only logical move!

To find out more about Lottovate's findings, download the white paper 'The \$17.5 Billion Opportunity: U.S. Digital Lottery Potential.'

Zuriñe Sáez de Viteri is managing director of Lottovate, a global digital lottery supplier which enables lotteries around the world to design, implement, market and capitalise on the revenue potential of digital lottery games. Visit us at www.lottovate.com. ■

UNLOCKING THE POTENTIAL OF LOTTERIES ONLINE

As 2014 comes to an end Instant Win Gaming will remember it as a year of significant milestones for online lotteries. Instant Win gaming (IWG) have been involved in two major online launches this year in Europe and North America and have been key to the development and launch of instant win games on mobile in the UK, Norway and soon in the USA and Canada. Not that the pace of innovation is anything new to a company whose principals have been working in digital



for over 15 years, and as lotteries continue to move their products and communications online, the experience of IWG will be crucial to their customers. "It has been a really exciting year for the industry, there's absolutely no doubt about that, but our job is to make sure that we know what will be happening for the next two to three years and the only way we can do that is to really learn from our past experiences" said Rhydian Fisher, C.E.O of Instant Win Gaming.

Experience with online lotteries is something that IWG can offer in abundance having been heavily involved in the online launch of the UK National Lottery back in 2003 and since then having been a supplier to Camelot that has seen them design, build and deliver in excess of 150 online instants. Most recently

IWG have delivered their content to Norsk Tipping via their partnership with GTECH and also the Minnesota Lottery with Scientific Games for the online launches of both lotteries.

"Obviously a significant part of what we do is create content for our partners and customers, but that's just one of the pillars of the business" said Fisher. "Our offering to lotteries is much broader than simply being a provider of content. We have developed a large portfolio of Flash and HTML5 games for mobile and tablet that allows us to provide an entire launch solution for a lottery customer but there

performed in the commercial environment. Their belief is that there is always an opportunity to learn and improve, and this includes understanding the wider experience of their players. This, in turn, has helped drive innovation on the content side but also provide some very valuable lessons on how to continually improve the experience of the player and therefore help drive engagement.

Simon Bucknall, C.O.O commented "We've witnessed the online offering of lotteries develop at an incredibly rapid rate since we first became involved with lotteries, especially, most recently, on

"Our job is to make sure that we know what will be happening for the next two to three years"

are other services that we provide beyond that to help understand, retain and grow an audience".

IWG have spent years fine-tuning their offering based on feedback and research on how their games have

mobile. When we first started looking at how lotteries could and should exist on mobile it involved sending the player text alerts with the weekly winning numbers. Now mobile is fast becoming the primary method of engagement for





players of draw and instant games, especially with that elusive and highly desirable younger audience. Consumers adapt to new technology very quickly and therefore lotteries have to work hard to keep the pace, which at times can be challenging”.

Challenging it may be, but taking their products online offers lotteries numerous opportunities to develop a much closer and therefore more rewarding relationship with their players. Players are no longer anonymous. You know who they are, how old they are, how much they play, what they play and when. Key to developing a successful strategy is analyzing all of the above and finding out what a players key motivations are.

“Our focus over the last 18 months has been on how can we make the most of the tools that online has to offer to improve the content and the player experience. That means responding to player behavior based on sales and analytics and optimizing the offering accordingly”, said Fisher. “When we speak to a lottery about online we make it clear that whether you are launching an entire portfolio or refreshing what you’ve already got you need to look at the blend and the balance of content to reach the widest group of players possible. You need to look at how your are delivering your content in terms of the user

experience on your website, whether it be on mobile or desktop. How are you promoting your games and how often are you refreshing and updating your content? All of these elements can have a very significant impact on sales so it pays to get that right.”

As well as ensuring content is delivered in the appropriate way IWG also have a very strong understanding of the

“We make the most of the tools that online has to offer to improve the content and the player experience”

importance of prize structures, price points, RTP and jackpots. As part of their consultancy offering IWG are advising their customers on developing the optimum prize structure for their games, which is very important to get right the more games you add.

Jonathan Drysdale is Game Development Manager at IWG and has worked extensively on defining the right approach to developing a successful blend of Prize Structures. “The prize structure, hit rate, RTP and the distribution of value throughout the prize tiers has a huge effect on the players’ experience and subsequent

success of a game. It’s important to ensure all these elements are finely tuned to fit with a game. A certain combination of these elements that works well on one game won’t necessarily work well on a different game – a whimsical, involving game for example will likely need a very different solution compared to a functional click and reveal game. Ultimately you can have an amazing looking game, but without a carefully planned prize structure attached to it, the game won’t achieve its potential”

Delivering the range and frequency of content that IWG do has to be supported by a rigorous approach to testing, which is now a significant responsibility given the constant developments in the mobile world. Notoriously fickle and ever changing, the lack of stability in mobile is one of the reasons that the industry has taken a cautious approach to launching. The path to confidently launching on mobile and tablet for IWG has been long but their commitment to making their portfolio work across desktop and mobile in HTML5 is being

rewarded as the data from customers is showing that the players are ready.

The instant success of mobile comes as no surprise to Fisher; “The data we have seen from the launches this year that have included mobile show that not only are the players ready to access content on mobile and tablet, but there are also a considerable amount of new players who are playing, so desktop play is not being cannibalized. Lotteries have seen a significant uplift in sales following the launch of mobile games. To have that kind of knowledge and to be able to react to it in terms of the content you offer is exactly

focusing on the online offering is of such huge importance to lotteries. The ability to be able to analyze the data and adapt your offering to deliver what your players are showing you they want is incredibly exciting”.

IWG can now offer the kind of scale that lotteries need to adapt to their customers needs. With a portfolio of just under 100 games available to customers, around 70% of which are available in HTML5, the aim is to offer a solution that allows a lottery to launch on multiple channels and then quickly grow that player base. “We have worked with numerous gaming platforms over the years and as a result of these partnerships we have developed a proprietary framework that allows us to

mechanics is a very vital part of what they do IWG have evolved their offering

side will ultimately benefit the player and the lottery alike because we will

“Our past experience has shown us that the next phase of development for lotteries is about genuinely adding value to the player experience”

to work at a much more engaging level. Their games now include features and mechanics that offer far greater rewards to players, either through additional features or simply by rewarding loyalty to a particular game or platform. Again, there are learning’s from the wider commercial sector both online and offline that are informing the development of lotteries online.

be able to offer player data and the kind of insights on their behavior that really has not been offered before.”

So, no let up in 2015 by the sounds of it, but if Lotteries are going to keep up with the demands that consumers place upon them then there won’t be any quiet years for the foreseeable future. The key to making it work will be drawing on the extensive knowledge and experience that already exists within the industry and to make sure the experimentation and innovation is tested and proven before hitting the market.

“It’s really rewarding and exciting to have seen online reach maturity in the industry but there’s so much more that we can do to benefit players. We’ve really enjoyed working closely with lotteries to help make this happen and we are extremely aware of the importance of not taking chances with the loyalty of the players and the lottery brands. Forging open



Fisher went on to say: “Our past experience has shown us that the next phase of development for lotteries is about genuinely adding value to the player experience

integrate large amounts of games in the quickest possible time. If a client comes to us and says they want 20 games in flash then we are able to deliver them in a matter of weeks. The same is now true of mobile. We’ve invested a huge amount of time refining the mobile offering across multiple devices because there is a huge demand for proven mobile content” said Bucknall.

so that they can help drive growth by rewarding, inspiring and connecting players in a meaningful way. We really want to give players a reason to come back and engage with lotteries

“What we are driving towards beyond the content side will ultimately benefit the player and the lottery alike”

With all of the boxes ticked in terms of the right games, the right presentation & promotion and a considered approach to prize structures, IWG are now looking towards innovation, and this is taking them beyond the parameters of game development. Although continuing to deliver games across channels and the ability to innovate with themes and

beyond just using up some of the remaining funds in their wallet after buying a ticket for the main draw. We have the games that can offer this, games that take the best elements of social and casual gaming. What we are driving towards beyond the content

and lasting partnerships with our customers is going to be absolutely vital in continuing the kind of growth and innovation we have seen this year. It’s exhilarating to be part of it.”

MMC emphasizes the “top hat” icon to distinguish the lottery application of Monopoly from others’ use of Monopoly iconography. Key to the branding strategy of MMC is the fact of creating a truly national brand.

CHARGING THE PREMIUM PRICE OF \$5 PER PLAY

What is there to like about a lottery draw game ticket that costs more?

Lotteries have long offered instant games at different price points, to satisfy the consumer expectation that “you get what you pay for.” Charging a premium price tends to validate the idea that this draw game really does provide distinctive value. It gives consumers a bigger range of choices in the draw portfolio. And as always, adding a new “high end” redefines the “middle.”

Having a \$5 price point for a national premium draw game was an idea that surfaced at least as early as 2009. However, it took some time to develop game value propositions that were distinctive enough to let draw games priced at \$1, \$2, and even \$5 co-exist and truly broaden the portfolio, rather than simply cannibalizing one another.

HOW ALL THIS HAPPENED

In October 2014, tickets for the lottery game MMC will go on sale in at least 23 lottery jurisdictions. The game that is being offered resulted from a Request for Proposals that was issued by the

Multi-State Lottery Association (MUSL) in August of 2013, with responses required by October 22 of that year.

Going from concept to product in 12 months tested and taxed the agility of all the participants: the lotteries and their vendors. Yet the issue of the Request for Proposals was, in a way, just the start of the final sprint in an endurance race that started years earlier. As Rebecca Hargrove (Chief Executive Officer, Tennessee Education Lottery Corporation, Senior Vice President World Lottery Association) remarked in the PGRI panel, “This is about a five year process. This started in 2009 with the vote to cross-sell Powerball and Mega Millions. That decision to cross-sell was made with the expectation that we would proceed to differentiate the products, which was done a couple years later by increasing the price of Powerball to \$2, and then to expand the portfolio of national premium games, which is being done now with Monopoly Millionaires’ Club. There was a team put together to develop the next new style lottery product ...”

So many lottery directors and industry executives have made valuable contributions to this effort over the years that it is hazardous to name any, for fear of neglecting some. This in itself is a sign of progress and maturation in the industry: the effort was collaborative, both among lotteries and across vendors, in an unprecedented way. This speaks very well both for our progress in those years and for our ability to meet future challenges. ■

Creating the Brand Messaging ... continued from page 59

arrange an equitable and accountable way of coordinating a multi-state purchase under current rules was a practical barrier. Most jurisdictions were also confident that their knowledge of the local media markets, and the special arrangements that many have with their local media affiliates, was sufficient to outweigh any pricing advantage that a consortium might be able to get.

Opportunity for new partners

Terry Rich posed a philosophical question, “Does a national initiative with an ambitious schedule help or hurt new companies coming into our business?”

The panelists generally felt that a national initiative represented a big opportunity for companies that might bring experience to complement the competencies already at work in the industry.

“Sometimes the challenge for a smaller company is the cost of production and then the cost to sell to multiple lotteries,” Michelle Carney offered. “It may help to be able to focus on one sell that stretches across multiple jurisdictions.” And, of course, a rising tide raises all boats, or as Terry Presta put it, “I think you have to look at the whole industry and its culture of innovation. If innovation drives industry growth, then that creates a positive feedback cycle that in turn frees

resources and focus to drive more innovation.”

Economies of scale in dealing with intellectual property (licensing)

A surprise benefit of the process of negotiating a nationwide license to use the Monopoly properties (owned by Hasbro) has been “enforced unity.” As Michelle Carney put it, “It’s been challenging to work with a licensed property because you have to go through many layers of approvals. But the process of working within that system has forced us to develop more consistency in our messaging. We have deadlines to meet and are forced to work together, to come to agreement, and make decisions. That has caused us to streamline the messaging and that may not be a bad thing.”

IN SUMMARY, the panel saw many advantages to forging a higher level of consistency and continuity that a nationally coordinated effort produces. They identified state-by-state diversity of policy around both creating and paying for advertising as an obstacle to accomplishing that coordinated strategic approach to national branding and messaging. The outlook is optimistic, though, that the benefits to collaboration on national marketing will make it all worthwhile to work through and overcome whatever obstacles exist. ■

new technology to change the retail consumer shopping experience are not doing as well.

We do appreciate, though, that retailing is a challenged sector and we genuinely want to help the sector adapt and succeed. Smaller kiosk-style retailers are not doing as well in any category. Unmanned pumps that result in diminished store traffic is also a problem. The best we can do is work together to maintain stability in the land-based sector. And I think we are succeeding at that goal.

You have an incredibly high rate of registered players. 54%. What are the benefits to the players that cause them to register in such high numbers?

J. Koponen: It is clear that the large share of registered gaming is supported by our success in the online channel. Keep in mind that our online programs have always required registration, starting in 1997. Today, seventeen years later, the online space is an integral part of the Finnish lifestyle and lottery players think of it as just another access point and media channel that connects them to all things including Lottery.

But the Veikkaus registered gaming really has two major components in it. One is the online sales and our customers who we serve in the online channel. The other part is the loyalty card holders who are still playing offline and register themselves fully voluntarily. These players receive a number of benefits by having and playing with a loyalty card. The players who are registered for the purpose of receiving loyalty benefits but still buy off-line at the land-based stores comprise a third of all our registered gaming. Approximately 2/3 of the registered gaming is online and 1/3 of it is offline gaming with the loyalty card. We now have over 1.6 million registered customers which is well over 30% of all adults in the country.

How do you incentivize the off-line player to register?

J. Koponen: The benefits to registration include having the winnings deposited directly into your account. The player is advised that he or she won and the funds are automatically transferred to his or her account. The player does not need to worry about losing the winning ticket, or forgetting to check the numbers. People figure that this service does not cost anything and so why wouldn't I want to make sure that the millions that I dream of winning end up in my bank account. We also give our registered customers free access to our own TV channel with sports events that cannot be viewed anywhere else. Furthermore, the registered players are given first access to various ticket sales and special promotions. Lots of draws are held where prizes, like tickets to concerts and other events, are given away to registered players. Every week we have a customer draw among the registered players. Just the fact of being registered makes you eligible for all these extra benefits and drawings. And some of the draws are for bigger prizes, like winning a trip for two to the Olympic Games. The only thing you need to do is register for a loyalty card so that you can participate in this draw.

We provide lots of other fun tools for the player to enjoy. For instance, the player may have a lucky number that they like to play. They enter their lucky numbers into their loyalty card account. When they go to their supermarket, they hand the shop assistant their card and instruct him to play the lottery with their lucky numbers.

One thing we do not offer is a bonus for playing more. Loyalty programs in other consumer products sectors are most often designed to directly drive more sales. We first and foremost drive traffic to our online channels and offer

good service. Of course, there are also Responsible Gaming tools that function as a simple record to let you know how much you play and other aspects of your playing behavior. All these tools are made available to the registered players, although we do not impose them on the players. They are free to use them or not as they choose. The wonderful thing is, when you give people the freedom to choose, they tend to behave more responsibly. And forcing them, for instance, to use RG tools, does not work well in the long term. Education and communication and making the tools as appealing as possible is the only way to engage the consumer so they choose to use them. It's about winning their hearts and minds with good service, appealing products, and respect for their intelligence and ability to behave in a mature, sensible way.

I would think the loyalty program is a good channel to implement new things, launch new products and promotions?

J. Koponen: Yes, the cutting edge is personalizing the offers. If the player tends to buy the promotions to see a movie instead of the promos to go to sports events, a professional operator shall send promos for movies and not sports. And vice-versa. If the card-holder is more into sports, we shall send content that interests them—inside information about what's going on with the teams and the players and such. With our TV Channel and other media connections, we have access to large volumes of content that enables us to become a relevant source of information to augment the product or promotions communicated. Now we are continuously improving that service by customizing the content delivery so it aligns with the specific interests of the player.

You are using the whole loyalty card concept to transform your relationship to the consumer from an anonymous one where they just buy the product at a store into a truly interactive relationship with a constant stream of dialogue between you and the consumer. The fact that 1/3 of the revenues tied to the loyalty card occur at land-based retail stores is evidence for how the consumer values this two-way connected relationship.

J. Koponen: And it really is driven by our desire to understand the consumer. We make it easy for them to tell us exactly how they want the interactive relationship to be. Some consumers choose not to receive promotions or other communiques. That's fine. The end result is that the consumer is engaged with us on their terms and that is the way it must be to develop a mutually rewarding and sustainable relationship.

It occurs to me that you have changed the whole nature of your business from one in which you sell "the hope and dream" of winning a jackpot over to a multi-dimensional relationship that engages the consumer on many different levels. This is good from an RG point of view, putting the focus on a variety of interests as opposed to the singular goal of winning money. But it's also good for you from a commercial point of view. Just as land-based stores are trying to keep the customer in the store a longer time, the consumer who is engaged with Veikkaus on many different points of interest is more likely to end up buying more lottery products.

J. Koponen: That's true. That may be a result, but that is not our sole objective. Our objective is sustainability – to develop a relationship with the consumer that is based on a healthy attitude towards recreational gaming and that includes engaging them in a wide variety of interests and rewarding value propositions. I do think the result is more sales of lottery products which benefit society and the Good Causes that Veikkaus

supports. But the source of those sales increases is higher rates of participation from more and more people playing a moderate amount. We really do not push the registered players to play excessively. It's about engagement and fun and promoting a healthy play-style.

Veikkaus relies on advanced data-analytics to help channel communications that guide the player to manage their play responsibly. How does that work?

J. Koponen: We customize our marketing communication based on the customer intelligence that we collect. If we notice that someone plays excessively, we stop all customer promotions to that player. The data-analytics is applied for the purpose of helping the players play responsibly, and customizing the communication content to their individual interests. It is used to enhance the overall experience the consumer has with Veikkaus, and that means to always have a responsible approach to playing games-of-chance. Key to our business model is to engage a larger customer base to play moderate, low risk gaming.

You upgraded your Mobile technology platforms?

J. Koponen: We have upgraded our mobile platform so that it now supports all types of devices. The gaming apps can be uploaded to all the major platforms like Android, Windows phone, and IOS. The apps make it easy to store your information and access your loyalty account.

Mobile is growing fast and is now approaching 10% of our sales. Investing in the technology to keep up with the market-place, with consumer needs and expectations, is a key component to our overall mission and strategy. Mobile is already the central device for personal communications. It is rapidly becoming the key device for much of internet-based activities and transactions. Lottery needs to be where the consumer is and so

that is where much of our focus is now.

Isn't it interesting, though, that fully 1/3 of your registered players only buy at land-based retail. That would seem to reflect an abiding impulse for people to buy at retail.

J. Koponen: We shall serve our customers where they are. It is not about online or off-line. It's about the customer. It's about multiple channels for distribution and communication only because that is what the customer wants. Included in those channels are much more than our loyalty programs and land-based stores, and social media and all the other mediated ways to interact and access information. The most important channel of communication is simply people talking to each other! And we are working with both the online as well as our land-based retail partners to position themselves as the venue that facilitates that most valuable channel of people just interacting and talking with each other. Active presence in the social media is one key area for our future success.

It's like designers need to make sure that they don't get so caught up in the design process that they forget that form must follow function. Likewise, we must never forget that channel and media strategy must follow the will of the customer. As we evolve the multi-channel model, we must constantly revert back to the driver of all that we do which is the customer.

How do you succeed at commanding such huge market share over against the illegal online operators?

J. Koponen: Finland has very strict laws to regulate all forms of money gaming. Promoting foreign gaming and gambling supply to Finnish consumers is illegal. Veikkaus itself exists only to serve Finnish society. However, it is not a crime for Finnish citizens to play on foreign websites. So our strategy to succeed is to make our products so appealing to the consum-

er, make our company so respectable to society, make our operations so efficient, that people choose to play at Veikkaus.

In Finland, we have a legal monopoly over gaming. But we look at that as a privilege to be earned. Monopolies are not the primary market model, and many people have serious doubts and suspicions about them, right? Capitalism normally thrives on free-market competition. So if gaming is to be granted a monopoly, we have a very special mission to perform to a standard that nobody else performs at. There are very sound reasons why a highly regulated monopoly system should be applied to the money-games industry. But that doesn't mean that we should not appreciate the unique position that puts us in and the obligation to deliver the highest quality service and performance in every single aspect of the business. We challenge ourselves at every turn to not just meet the highest standards, but to continually raise the bar and set new standards as we are able. In this interview, we haven't talked much about operational efficiency, but managing our resources, minimizing slack and waste, is also key to the commitment we have to serve society. When it comes to fighting illegal gaming, it is not the role of Veikkaus to make the laws or to enforce the laws. Our job is be the best operator so that the players choose to play with us instead of the illegal operators.

And that is in spite of the fact that the illegals can offer a higher prize payout because they don't pay taxes in Finland. An example of innovation in game design is your recent implementation of a geo-based game called Neighbours (Proxilotto).

J. Koponen: Neighbours is a fascinating new product. We have high expectations and a good start, but we do not have much performance data yet.

It is a unique game, with features that are completely different from anything we have done before. Your home address is used as your entry. Then, concentric circles are drawn around the main winner and the players residing within those circles are also winners—you win by being close to the winning address. The players go online to look at the map that displays the winning geographies and how the prize monies are allocated.

It would seem to me that a concept like Neighbours is part of Veikkaus' long-term strategy to create a variety of playing experiences for the consumer who wants to be exposed to new and different kinds of games.

J. Koponen: Yes, it is definitely our long-term strategy to offer a wide range of different interesting value propositions to our customers. Neighbours is different and we believe that it will appeal to a different group of people. The draw games have appealed to the "hope and dream" of life-changing jackpot win. Neighbours is a draw game that appeals to a completely different set of buyer motives. We expect it to bring in new consumer groups and maybe appeal to the traditional players who might be ready for something different.

When you were assessing the pros and cons to launching a Proxilotto concept, wouldn't somebody have protested that the higher and much more predictable ROI would be in producing more of the games that you know people love and play, instead of trying a whole new game concept?

J. Koponen: We do not neglect our existing products or the play-style of the traditional player. For example, we have renewed this year also our most popular game, the national Lotto. We will always want to meet the needs of the traditional players and expectations for games that are familiar to them. But a truly sustain-

able business plan requires innovation and the investment in new customer acquisition. Expanding the customer base is the right model also from a Responsible Gaming point of view. And it's the right model from a business point of view.

The overriding wish is that Veikkaus preserves the proper balance between the commercial goals of generating funds that help society, and making sure that the activities of Veikkaus remain a healthy, enjoyable, and harmless activity for all of our players. And we need to make sure that all the people of Finland know that our mission is to support Good Causes, such as culture, sports, science, and youth work. Veikkaus belongs to the people and exists to serve the people, all the people, players and non-players alike. For example, over 99% of the funding that the Finnish government gives to sports comes from Veikkaus players. The Finnish Olympic team gets their funding from our games. Practically every swimming pool or track and field place in the country received funding from Veikkaus to be built.

We recently held a competition in which we asked people to name one person in the entire country who has not benefited from Veikkaus. We would visit sports events, we would set up in the market squares, wherever there was a large crowd. People would begin by asking themselves whether they themselves have benefited. Have I benefited? I don't know. How have I benefited? Then we start. Have you ever done any sports? Gone to a swimming pool? Watched or cheered on our Olympic Team? Gone to a museum or Opera? Have you ever watched a Finnish movie - our national film industry basically exists in the current magnitude because of the subsidies from Veikkaus. So it goes on, and on, and on. It was a fun competition, and in the end every Finn has benefited from Veikkaus! ■

or paying your water and electricity bill, or buying a ticket to a sports event or a Lady GaGa concert. Sazka consolidated its brand as a transaction-enabling business. And now we are extending the brand further with Sazka Mobile.

And like the transaction-enabling services, Sazka Mobile is less about new revenue streams as it is about brand extension and broadening your consumer connection.

R. Chvátal: Much more than the transaction-enabling services, Sazka Mobile is directly linked to our broader mission of building a strong consumer connection based on digital media. Sazka Mobile connects us to the consumer in more and more ways that makes the brand more valuable and puts Sazka in the position of vending its other products, like its gaming products.

Diversifying our services also increases the value of Sazka to the retailers. As a commercial partner, our relevance to the retail shoppers and ability to drive store traffic is significantly enhanced by the additional services that we provide to the consumer. This augments the entire perception and impact of the Sazka brand with the consumer. Likewise, it also augments the entire perception and impact that Sazka has on the business of the retailers. These services are powerful drivers of store traffic. The consumer comes into the store for the express purpose of paying their bills, of topping off their cell phone time—just like they come into the store for the express purpose of buying a lottery ticket. Retailers know that our products and services are contributing to the sales of all their other products. As a direct result of our expanded portfolio of services, retailers' commitment of resources to promote Sazka products and services is much greater than it would be if we only sold lottery products.

You refer a number of times to visual identity. Could you clarify exactly what is meant by that?

R. Chvátal: Sazka as a brand was very well known. But there was a lack of clarity as to what that brand should stand for. The visual elements, the logo, and brand messaging were not related to a vision, a clear identity for who we are, for our mission and what we exist to accomplish. One of the first things we did was to sit down with the Sazka team, and the market research company Millward Brown, and put together what we called a "brand ideal." Why exactly does the brand of Sazka exist? We clarified who our customers are, who our partners are, what are the current perceptions of the brand, and what do we want the perceptions to be. We then looked to the future to develop a long-term orientation of the brand. We dug deep into the broad topic of entertainment and circled back around to why people play the lottery. We ultimately defined the essence of the brand with just one sentence: Sazka exists to awaken the dreams among the people. That led to the creation of a new identity wherein everything we do, all consumer-facing imagery and messaging, and even product design, had the clear and unmistakable signature of Sazka. The name "Sazka" became a part of the name of every product and service we offer. The result is an entirely new relationship to the marketplace, one with a visual identity that is instantly recognizable, one that evokes an immediate emotional response.

One that awakens the dreams among the people.

R. Chvátal: Yes! The colors are bright yellow. The materials are modern. The imagery creates a 3D impression instead of 2D. The design appeals to the youthful, tech-savvy sensibility of our customers. The glow and design of everything we do is upbeat, positive, radiating optimism and a sense of purpose for a generation that is reshaping the future to be in their image. That's not just our logo. That is the visual

identity that we want to inhabit everything we do, everything we produce.

So the process of creating the visual identity is really not just a media campaign. It is really a re-design of who you are and what you stand for?

R. Chvátal: Exactly. Design is not just about appearance and marketing. It is also about, even primarily about, the product. When it comes to lottery products, the game itself is just one component. What people are really buying isn't a piece of paper with numbers on it. They are buying the "hope and dream." But, the hope and dream for what? That's what our design is appealing to. Awakening the dreams among the people. We are redesigning the product to be less about the dream to live like a billionaire, with big houses and fancy cars. Our redesign is attempting to tap into the emotions and awaken much more exciting dreams. For instance, the shared experience of being a Czech who enjoys playing the games that millions of others are playing can awaken dreams that are much more uplifting and inspiring than just being able to buy more stuff.

You don't have an exclusive on sports betting. But you do have an exclusive on the draw games, right?

R. Chvátal: No. The regulatory regime in the Czech Republic is very liberal. Free-market competition in every line of business is allowed, including competition in draw-based and Instant games as well as sports betting. We also have competition in transaction-enabling and Mobile telecommunications services. So we have competition in every line of business we are in.

Our market share is the highest, 95%, in the classical draw-based games. We have a leading market share in Instant - 55%. But we don't have a monopoly in anything. For example, our market share in sports betting is less than 4%.

Are all of the operators required to turn over the same percentage of profits? Is it a level playing field competitively in that sense?

R. Chvátal: In the draw-based games, Instant, and sports-betting, all operators are required to pay the same percentage of the lottery tax. All licensed operators for draw-based games, scratch cards, or sports betting have to pay 20% of GGR (Gross Gaming Revenue).

Given that you do not have an exclusive monopoly, to what do you attribute your ability to command 95% market share in the draw-based games?

R. Chvátal: The Czech legislation does not yet allow draw-games to be sold online, on the internet. Our retail network, combined with our integration of other consumer services at the retail stores, combined with the solidity of the Sazka brand, gives us a unique position in the minds of the consumer. But that advantage is tied in with our presence in land-based retail. Conversely, sports-betting is offered on the internet. Since 90% of sports-betting is conducted online, Sazka's strength at retail does not give us a competitive advantage in that space.

That will change, though, in 2016. That is when all games will be allowed to be sold on the internet. At least that is what the regulators have indicated is the current plan.

How are you preparing for that change in regulations?

R. Chvátal: Two things about that. First, we will continue to focus on reinforcing the integrity and excitement of the Sazka brand. We think that our brand equity, our dominant position at retail, and our long history of serving the people in this game category gives us huge momentum as we move into the internet space. Second, the draw-based games depend on big jackpots to drive sales. Sazka has the player-base that provides the liquidity and volume of play that drives those big jackpots. It will take

time for others to build the player base and liquidity necessary to replicate that kind of draw-based games business model. And in the end, I think the customers will prefer to come to Sazka on the internet just as they prefer to come to Sazka at retail.

Too, we just added Eurojackpot to our portfolio of draw games. That is very exciting for us to be a part of this fantastic multi-national game. And it rounds out our portfolio to further consolidate our position as the operator of draw-based games.

Of course, the competition will be much keener in e-casino style games on the internet. We already have an internet platform for sports-betting, and will expand on that to offer the expanded portfolio of games. And Sazka Mobile already gives us that digital connection to the customer base. Leveraging those two assets to integrate new games, like draw-based games, will come naturally to Sazka.

To what extent did your experience at Proctor and Gamble and T-Mobile help you to formulate this strategic approach towards brand extension?

R. Chvátal: The principles we are applying are not revolutionary. The lottery industry is unique in some ways. But it's not unique in most ways. It is a consumer business driven by the same rules of market-economics that apply to other industries. A thoughtful approach towards identifying the success strategies as applied to other industries yields very useful guideposts for what we can do to create success in the lottery industry. We need to be sensitive to the ways in which the government-gaming business is in fact different than other industries. But most of the challenges we face have already been faced by multi-billion dollar enterprises with the sophistication to chart intelligent and effective courses of action. We can learn a lot by looking at the solutions being applied outside our industry instead

of feeling like we need to always be reinventing the wheel.

The future...

R. Chvátal: I think that the online world is key to any long-term success strategy. The competition is just a click away. Anyone who thinks they are protected by regulatory restrictions needs to just look around to see that the world is changing and our world will change soon too. The good news is that lotteries all around the world have a level of brand equity that no other gaming operator comes even remotely close to. We all have a window of time during which we can consolidate our position in the market-place, lock in that brand equity by reinforcing our bond with the consumer and the affiliation they have with our brand.

We also need to excel at new competencies, like business intelligence and data mining and analysis. That means we need to first digitize our relationship with the consumer, create an online interactive relationship, a conduit for two-way communication. As we learn more and more about our customer, the products we design and the dialogue we have will appeal more and more to the specific play and communication styles and preferences of our customers. The impact of digitizing our relationship with the consumer is potentially transformational. Lottery already has the broadest base of consumer awareness and participation. We just need to convert that into a dynamic and interactive relationship that can be reinforced and developed more and more over time.

The proprietary position that lotteries everywhere have held with their network of land-based retailers is awesome and we will always do everything we can to build upon that asset. But we can't depend on that to protect us against a future that includes new channels of distribution, new media, and new business models to attract consumers to the games-of-chance industry. ■

I. Katakis: It's true. When we started in 2004, there was a very aggressive union that wanted to control everything. They did not trust us, and were not confident that our strategies would result in a successful and profitable retail business. It was not easy to enlist their cooperation and get them to sign off on contracts that were different from what they had prior to MALTCO. As soon as it became apparent that the shops made more money than they were making before, we received lots of applications to become MALTCO agents. Now, most of the agents do not rely on the union to discuss business with us. We encourage them to come to talk to us directly or we organize regular meetings so we can exchange ideas face to face. Thus we gained their confidence. They see that we invest in the business to help them be more successful. They see that our business strategies work and make them more profitable. We invest in a set of equipment for each store: Terminals, printers, ticket checkers, TV's, etc. The most active shops have up to three or four sets of such equipment. We also provide support that helps them be better merchants, better retailers. We work with them to upgrade their communications and IT infrastructure. These are things that many of them do not have the know-how to do and so they appreciate our guidance.

Bernadette Lobjois, the secretary general of the European Association, visited some of our shops and was so impressed with our operations that it was agreed to hold a seminar in Malta, in May of 2015, focused on Retailing and a session will be held in our shops. You should come!

You have extensive experience in all different aspects of the business. How does your knowledge in each mutually reinforce the other areas?

I. Katakis: It took us a year to fully implement the Horizon system that delivers real-time data on live sporting events to all of our stores. The process of fine-tuning

the technology involved every aspect of the business. We spent a lot of time in the stores with the customers to learn precisely what information was needed, how the information was processed by the customers, how to improve even the smallest detail to make the transmission and display of the information be as user-friendly as possible. That understanding is then converted into technical specifications, some of which appeared to the technologists to be more do-able than others. It becomes a matter then of revisiting the customer experience, reimagining the ways to produce the desired results, revisiting the technological pathways to meeting the customer needs, and reimagining the technological solutions to producing the desired results. And repeating that process until we get it right. This is exactly the role of INTRALOT, to bridge the gap between technology and user-experience.

That's what you do. You have a Phd in Bio-engineering. You started with INTRALOT in 1998. And you were on the team that developed their first online systems.

I. Katakis: My responsibilities are now in managing operations and developing the business. My time, though, is spent bridging the gap between technology and user-experience. I do not think that sales, marketing, and business development can be effectively done without a deep understanding of technology and operations. It's partly a matter of motivation. Technologists and operations are focused on delivering a technological and operational result. Their training and world-view is not so much on user-experience. The development of new products and services always involves technology and services but in the end it is all customer-facing and so that is the world-view that must drive the process. For instance, the game design of our new draw-based game was based on an existing brand in Malta called Grand Lottery. This brand was referring to a game that was not successful before 2004, but the Government

imposed the obligation on MALTCO as the new license operator to reinstate the brand based on a similar style game. It took a lot of research into all aspects of design and operations to redevelop it so that it would produce a different result. It is a unique game because it combines a few different ways to win. And it is only with a deep understanding of all the factors of production that enabled us to redesign the game so that it appealed to the consumer. I get deeply involved with every aspect of the operation. But most important is to spend time with the customers, visiting the shops to watch and experience the service offered to the players as well as the way the games are played. I visit the shops at least once a week. Sometime I play the games in order to experience the whole cycle of the game and talk to the customers and see for myself how it feels to interact with our products and services.

To what extent did this focus on bridging the gap between technology, operations, and user experience begin back in your post-academic career as a medical scientist?

I. Katakis: That is what shaped my view that there is a disconnect between scientific understanding and its real-world application. I'm an engineer in my profession but then my Ph.D is in Biomedical Engineering because I wanted to apply my professional training to the business of helping people directly; to make that connection where scientific understanding meets practical real world application. The real world includes real people whose wants and needs do not always align with what science and data analyses predict. I wanted to work at the nexus where computing and research and technology deliver material results to real people. I do tend to apply the scientist's methodologies to solving problems, but always with the awareness that human behavior does not always comport with the blueprint derived in the laboratory, or the projections driven by even the most

advanced data-analytics driven modeling. Intellectual rigor and discipline is useful in the process of deconstructing a complex problem, but the reconstruction into practical solutions is a real-world facing process. Or, if you will, a customer-facing process. That has been my focus for the last thirty-five years.

But the last couple decades your time has been on the side of business development and managing operations.

I. Katakis: I don't separate business development, operations and bridging the gap between technology and the user-experience. They are all one and the same. They are all done together, integrated into the same business process.

INTRALOT started as a technology company and now covers the whole spectrum of gaming with vast experience in lottery operational. The products we produce are by materialising our technological expertise based on our operational experience. They have to be. The Horizon is a technologically sophisticated system. But we are also operators. As CEO of the company which operates the lottery in Malta, I am responsible for delivering a product and service that appeals to consumers. So, we are also a customer-facing company.

We need to understand not only what the market wants, but how to fulfill the expectations of all different constituents. The lottery business is a very complicated market. It involves every member and interest group in society. A lottery game is not just a matter of design and mathematics. It's not just a matter of creating something that appeals to the consumer. How the game is sold, how it is advertised and promoted is actually part of the product itself. Then there are the channel partners, our retail shops, and our government constituents. And paramount is our commitment to Responsible Gaming and Corporate Social Responsibility. All these elements must

be considered together. Just like the tasks of business development, operations, and technological development must be integrated with a customer-facing end result.

This is the philosophy we have applied in MALTCO, aiming to ensure that all the procedures, policies and controls being established for servicing the players are according to the highest international standards. The ISO/IEC 27001:2013 Certification awarded to MALTCO in the summer of 2014 by both TUV and WLA, confirmed to the players and the overall society of Malta, that the games and services offered by MALTCO are trusted and of the highest quality.

Your monthly newsletter: What a great concept to keep your constituents fully informed about the activities, the plans, the accomplishments but also the issues, that MALTCO Lotteries is dealing with. The business may be complex, but you do an amazing job of helping everyone understand it.

I. Katakis: MALTCO edits a monthly newsletter. It is not just for the Ministers of Malta who oversee our operations. It is for all of our retail agents and the players as well. And non-players too if they are interested - It's really for everyone. That is the reason it is distributed both in printed and electronic form. We want to keep everyone informed in a way that they are confident in what we do, are confident in the transparency of our operations and our intentions, and can give us feedback as to what they think we should focus on, do more of, do less of, or change in any way. It creates an open door for two-way communication with the broadest possible base of constituents. Our operating principle is to serve the gaming needs of the society responsibly by offering entertainment and excitement to the players.

Does Malta allow i-gaming operators from outside of Malta to operate within Malta?

I. Katakis: There is no mechanism in Malta to stop internet companies based

outside of Malta to offer their services to Maltese citizens. This is because the LGA Government in Malta supports the principle that Gaming is part of the concept of Services and as such any companies based within the European Union should be allowed to offer the services across Europe like any other service, that is, without any restriction. Currently, Malta is the only country in the European Union that still supports this principle. For this reason Malta recently refused to sign the Convention on the Manipulation of Sports Competitions already signed by 15 European States. Malta questions the legality of match fixing convention in the light of free movement of services and asked the Court of Justice (CJEU) for an opinion. The on line companies that operate under a license from Malta pay 0.5% tax on gross revenue (GGR) with an upper cap of €466,000 annually.

How is the product mix evolving – which products are increasing in sales the most and which are not growing so fast?

I. Katakis: Although the two lotto games have been on the market for more than twenty years, they are still popular. We have applied a number of modifications to the games to keep them interesting to the players and assisted by the advanced information environment they continue to grow. The new paper lottery, Grand Lottery, was introduced last year. It is picking up slowly and I believe it will improve significantly in the near future.

However the product that is growing the fastest is betting on sports and horses. That is mainly due to the way these games are offered in the shops. The Horizon system allows the player to live the game, experience it in real-time. Horse racing in particular is very exciting for the players since we are the only lottery offering in its dedicated shops such a wide range of horse racing from so many different countries, and on daily bases all the races are transmitted live to all the shops. ■

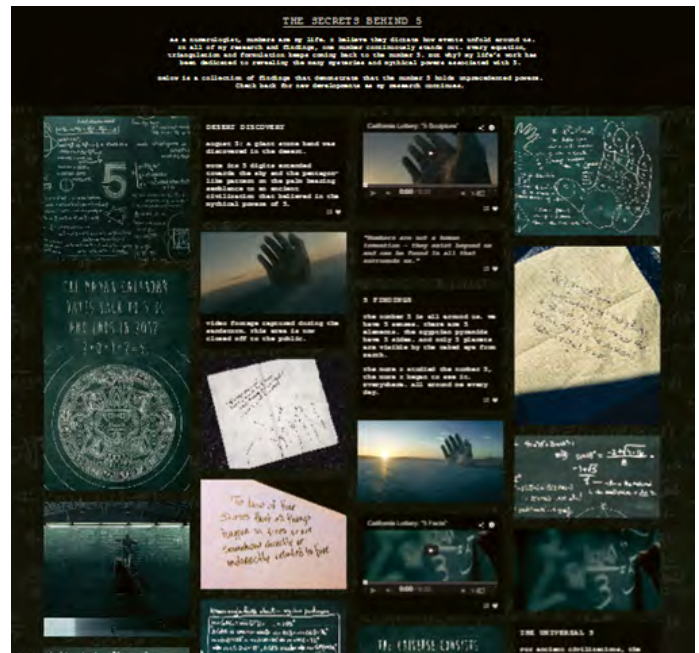
38% of participants are not registered in our 2nd Chance program, which presents an opportunity to convert those engaged on social media to a deeper level of activity in our 2nd Chance program.

Principle #3—Expand Engagement Opportunities

As previously mentioned, player acquisition is expensive. It has a long-term payoff (in a industry measured by annual performance) and is difficult prove it ultimately leads to profit. But for the same logic behind offering entry-level price points in our product mix (low cost to engage, the starting point to move consumers up), the same argument can be made for entry-level engagement opportunities. Especially, if we truly want to identify as an entertainment industry. Don't forget the consumer's time and data are just as precious as yours. Giving them good stuff for free and give them great stuff in exchange for data and purchases builds the loyalty of a quality consumer who is truly vested in the brand. Here's a couple ways we've done it ...

The immersive content-rich microsite for our current campaign the Power of 5 supporting the \$5 Scratchers category, allows consumers to explore and uncover the mystery behind "the power" of 5 building on what's teased in the campaign commercial. Users can go online and uncover a collection of notes, access secret video footage and even take the next step of purchasing a ticket to unlock a bonus jackpot and a chance to win themselves.

(Really, it's impossible to do the visual nature of the online experience



justice with text. I encourage you to visit the Power of 5 experience before November via calottery.com.) In closing, we believe these principles are key for our content strategy to be successful at engaging, not just millennials, but digital adopters. They can be seen in both our paid and in-house efforts. ■

PS: Check out Ms Petit-Frere's presentation on www.PGRItalks.com.

Chuck Strutt Interview ... continued from page 42

need to expand games in ways that attract the attention of players in different ways. A key element is to recognize what the big jackpot games are selling. We are selling dreams. We are selling the ability to share those dreams with other; to talk about dreams. Humans love to talk. The most successful products and services of all time allow humans to talk; radio, TV, mobile phones, the Internet. We talk when we have nothing to say; we talk to ourselves; send messages into outer space. A successful lottery product is one that gives players something to talk about. We need to find ways to give the press and players something to talk about; some dream to share with their friends and family. We have recently begun to focus on changes in jackpot amounts. Guaranteed jackpots in base 10 jumps are boring. We recently adjusted our prize reserve

contribution rate to allow for faster jackpot growth; to get us out of those boring jumps faster. It worked for a while, giving players more to talk about, though the increasing price of bonds soon brought us back.

As consumers, we all divide our time among a growing number of work, family, and play commitments. We all know that we need to bring the games to the consumer. We need to make it easy to play the lottery. Convenience grows ever more important. One of our most important goals today is to find a way to maintain security while making it easier for the consumer to play the lottery anywhere and everywhere.

Jackpot games have an appeal that is more enduring than practically anything in the market-place. Think about it. What other consumer product has grown its sales year

after year with as few fundamental changes as Powerball and Mega Millions have had? Even today, players are not so jaded as we think. In focus groups players consistently are excited about what we consider low jackpots, but no one is talking about them and players don't hear about them. A big driver to Powerball has been the \$1 million prize level; not that Powerball player care about that prize level. They can't even name it in focus groups. But they do report that they hear about Powerball more often and that reminds them to play. I believe that what they are hearing is local, regional, or state press reports about some of the 500 millionaires created by Powerball every year. The press will ignore a national \$200 million jackpot, but they still pick up stories about a million dollar winner in their state. ■

MONOPOLY MILLIONAIRES' CLUB TIMES SQUARE LAUNCH



conomic sector. BEPS and its implementation will raise significant question marks over how the sector should approach the issue. In our view, notably the public—private divide is likely to be of importance: entities under significant state control are unlikely to engage in BEPS in a fashion that brings them into the so-called grey zone (and beyond). State control guarantees that such situation is not going to occur.

However, globalized private entities without far-reaching sovereign control are less constrained to engage in fiscal arbitrage, raising questions for governments on how to deal with the fact that the offer of gambling services in their jurisdictions may generate very little revenue.

In 2013 the OECD adopted its action plan on BEPS consisting of fourteen distinct actions. While all are certainly relevant, we may note in particular the following initiatives that will have an impact for the gambling and lottery sector: action 1—address the tax challenges of the digital economy; action 7—prevent the artificial avoidance of permanent establishment status; and actions 8, 9 and 10—assure that transfer pricing outcomes are in line with value creation.¹

Action 1 is a generalized initiative that focuses on the fact that BEPS and the digital economy raise distinct questions. Notably, the business models are different from traditional goods-based value chains, and there is a different understanding of the generation of value in this sector. As a consequence, the BEPS action plan will, under action one, look among others at the ability of a company to have a significant digital presence in the economy of another country without being liable to taxation due to the lack of nexus under current international tax rules, but also at the attribution of value created from the generation of marketable location-relevant data, and the characterization of income derived from new business models.

Action 7 in the BEPS action plan aims to develop changes to the definition of Permanent Establishment (PE) in order to avoid and prevent the artificial avoidance of PE status in relation to BEPS, including through the use of commissionaire arrangements compared to traditional distribution. The objective of such arrangements is sometimes to shift profits out of the country where the sales take place without a substantive change in the functions in a country.

Actions 8, 9 and 10 in the Action plan relate to transfer pricing, and aim to ensure that its outcomes are in line with value creation. Transfer pricing rules serve to allocate income earned by a multinational enterprise among those countries in which the company

does business. Current transfer pricing rules aim to effectively and efficiently allocate the income of multinationals among taxing jurisdictions. Certain rules, however, are prone to specific application whereby income from economic activities that produce that income, are shifted into low-tax environments. Notably, action 8 will aim to develop rules to prevent BEPS by moving intangibles among group members, which includes ensuring that profits associated with the transfer and use of intangibles are appropriately allocated in accordance with value creation.

At present, one year has passed since the adoption of the OECD BEPS Action Plan. On 26 September 2014, almost 300 senior tax officials from more than 100 countries met during the 19th Annual Global Forum on Tax Treaties to discuss base erosion and profit shifting. At this meeting they examined the 2014 deliverables, namely a first set of tax treaty-related recommendations developed under the OECD/G20 BEPS project.

Notably, on 16 September 2014 the OECD published its report on action 1: BEPS issues in the digital economy and how to address them.² The 202-page report found that while the digital economy does not generate unique BEPS issues, some of its key features do exacerbate the risks. In particular, a number of structures create additional opportunities to reduce and even eliminate tax in jurisdictions along the whole supply chain, including in market and residence countries.³ The report notes that the importance of intangibles in the context of the digital economy, combined with their mobility for tax purposes under existing rules, generates significant opportunities for BEPS in the area of direct taxation. Furthermore, the fact that digital enterprises can centralize infrastructure at a distance from a market jurisdiction, and conduct substantial sales of services from a remote location, combined with the minimal use of physical personnel, allows significant fragmentation in physical operations to avoid taxation.

In this article we have but merely scratched the surface of this highly complex issue. Nevertheless, recent evolutions in the European Union, and to a lesser extent in the USA, illustrate that the online dimension of the gambling & lotteries market continues to grow in importance. Notably the Commission Recommendation on consumer protection in online gambling shows that, in the EU, regulation and possibly even harmonization is around the corner. Properly addressing BEPS in the EU regulatory environment of online gambling could help to tackle cross border gambling services offered illegally from Malta, Gibraltar, Alderney or even Antigua & Barbuda into other jurisdictions. ■

1 The definitions and context in relation to BEPS are taken direction from the action plan itself. It is available at: <http://www.oecd.org/ctp/BEPSActionPlan.pdf>

2 <http://www.oecd-ilibrary.org/docserver/download/2314251e.pdf?expires=1412586133&id=id&accname=guest&checksum=AEB47973329E5808355A696C974B269C>

3 P. 14.



The Digital Agenda, International Taxation and the Challenge of Base Erosion and Profit Shifting (BEPS).

New opportunities to stop
illegal cross border operations?

By Philippe Vlaemminck & Bart Van Vooren — ALTIUS
www.Altius.com

Over the last two decades, globalization has led to a significant integration in national economies, in no small part due to rapid technological evolutions in telecommunications. Indeed, the internet has changed the way most companies do business: their potential customer base has grown from national or regional to spanning a whole continent or even the globe; shifts in back-office operations have taken place as part of cost-arbitrage; marketing and/or offering products and services through social media has grown exponentially, and so on. Together with these developments a host of novel regulatory challenges have arisen for governments and regulators, whereby they must balance public policy objectives with reaping economic benefits from the digital economy.

In this article, we will briefly draw your attention to an important recent development in which many countries and international organisations are seeking to attain that balance. Namely, the financial crisis of 2008 laid bare that as the economy became more globally integrated, so did corporations. While multi-national enterprises represent a large proportion of global GDP, their transnational supply-chains may pose difficulties to 'legally capture' by any one jurisdiction. An area where this poses distinct problems is international taxation. The digital economy and economic integration

has created new and significant opportunities for global enterprises to optimize and thereby possibly minimize their tax obligations. However, as governments have had to pay significant amounts to stem the collapse of the global financial system, reports that global corporations pay extraordinarily low effective tax rates have caused a significant public backlash. As a consequence G20 Finance ministers called on the Organisation for Economic Cooperation and Development (OECD) to take initiatives against what is known as "Base Erosion and Profit Shifting" (BEPS). In short, BEPS consists of sophisticated, global and aggressive corporate tax planning in order to create no or low taxation. In general terms, this is achieved through artificially segregating taxable income from the activities that generate it. In 2013, the OECD adopted its action plan to tackle BEPS, the implementation of which is now ongoing.

The relevance for Gambling and Lotteries is evident: As private and public entities move into the online world, governments will be and are being confronted with the question of financing and taxation. Insofar as revenues contribute directly to good causes, or indirectly through corporate taxation, globalization and digitalization in the gaming sector will have its impact as in any other eco-

... Continued on page 89



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