

FEATURE INTERVIEWS



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GTECH



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January/February 2015

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From the Publisher

By Paul Jason, Publisher
Public Gaming International Magazine

EVOLUTIONARY CHANGE OR REVOLUTIONARY CHANGE?

It's been fifteen years since the publication of *Crossing the Chasm* by Geoffrey Moore. As a study of the process of how new technologies and innovations migrate from the "early-adopter" stage to mass-market acceptance, the principles of Moore's models still apply. One of Moore's concepts is that new technology is never adopted by the market-place as quickly as its champions expect. But the long-term impact is often much greater than anyone could have predicted. Banking ATM's, small business computing, and the internet are some recent examples for how that syndrome plays out. The term "tipping point" was coined by Malcolm Gladwell, not Moore, but that is the point at which the slow rate of adoption flips from being evolutionary to being revolutionary. It's like a light goes off in everyone's head at once when they realize they simply must have a windows-based laptop, or that hey, this streaming video and downloadable content is way better than schlepping around with CD's and DVD's. And that's when the technologies and business models that were thought to have at least a few years left in their product life-cycle (Wang and Digital Equipment Corp./DEC computer manufacturers; Blockbuster and Tower Records content providers) were suddenly out of business. But how "sudden" was it really? On hindsight, everyone scratches their heads wondering how Compaq Computer could have been so stupid as to pay \$9.6 billion for a company (DEC) whose products were obsolete. Or why Blockbuster couldn't see that video streaming would render their business model equally obsolete. What were they thinking? Possibly the same thing we are thinking when we take solace in the notion that people have been buying the same lottery games for decades and that while changes may be coming, the changes will be evolutionary and not revolutionary. The transition from evolutionary to revolutionary is not announced with an all-points bulletin to alert us that the tipping point is upon us. We do know it when we see it. But as Marshall McLuhan observed, we're "driving into the future using only our rear-view mirrors." By the time we see it, it's already passed us by.

So, is the U.S. i-gambling market in the early-adopter stage or nearing the tipping point? Market acceptance has to date lagged far behind expectations but, as Moore explained, that is typical and is itself to be expected. The Eilers Research Report on i-gambling provides some clues as to why the first forays into i-gambling in the U.S. have fallen so far short of projections. And Eilers frankly does not give us much hope that things will turn around

in the short-term. I would submit, though, that does not mean that the market-place is not undergoing revolutionary change. It just means that the successful game content, strategies, and business models for the online world have not been fully realized yet. We know we have been in the evolutionary stage for many years now. The tipping point is surely near, and we just need to press on to find the right recipes for success. The roadmap may not be crystal clear. But it probably involves some extremely creative thinking to integrate the success strategies and game content of entertainment-only games into the world of money-games.

Likewise for the draw-games category. I can't think of anything more important to our industry than shaping a successful and enduring future for the draw-game category. **Susan Golightly** begins the quest by asking "Is Jackpot Fatigue the Real problem."

And we do have the fabulous success story of Georgia's iLottery initiatives. The story is brought to you in detail by GTECH and **Team Georgia Lottery** on page 37. The road to success in online games may not be smooth or risk-free, but imagination and execution are leading the way. Bridging the gap between non-money entertainment games, social games, and wagering games is part of the answer. **Matteo Monteverdi** fleshes out the big-picture of how trends in online consumer behavior and play styles are merging with new gaming options to open up new markets and opportunities for government-gaming operators.

Steve Saferin explains how the supply-side of the business is powering up to meet the needs of the modern player who is migrating among different game categories and across different channels of distribution and media. **Terry Rich** sets a course for NASPL to serve its members in a most interesting year, **Tom Jurkovich** describes the application of retailer promotional strategies like "Black Friday" to Lottery, and **Gordon Medenica** introduces an entirely new operational paradigm for the marketing and advertising of Lottery. That is a multi-billion dollar industry that is just screaming out to be rationalized.

Torbjørn Almlid describes the Norsk Tipping launch of an entire suite of online games. **Lennart Käll** and **Chip Polston** both talk about how responsible gaming and player registration work together to build a profitable, sustainable business. **Piet Van Baeveghem** discusses the disruptive impacts that Politics has on this industry while **Philippe Vlaemminck** explains the disruptive impact that an off-the-grid currency like Bitcoin can have on the wagering games industry.

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NORSK TIPPING

Torbjørn ALMLID

Chief Executive Officer, Norsk Tipping
Norway

PGRI Introduction: *Meeting with industry leaders like Mr. Almlid is one of the main reasons for attending the big industry events. The World Lottery Summit in Rome in November was one such event. The European Lottery Association hosts a bi-annual event as well, called the EL Congress, to be held in Oslo on June 8–11, 2015. Visit www.el2015.org for complete info. The co-host is Norwegian lottery and gaming operator Norsk Tipping. The conference theme “Touch Tomorrow” captures the forward momentum of European lotteries, and government-gaming operators all across the world.*

Europe is the most mature gaming market in the world. The regulatory issues, competitive market conditions, and consumer trends evolve more rapidly in Europe gaming environment than in the rest of the world. To my mind, that means that the rest of us have a lot to gain by understanding how European markets are working because it is only a matter of time before other parts of the world face many of these same issues.

The “Touch Tomorrow” theme also reflects the action-oriented leadership of Norsk Tipping, which offers the complete range of gaming products, including all traditional lottery games and sports-betting, as well as electronic gaming machines and online casino gaming and i-lottery. And distributes the products through a advanced multi-channel model. A unique feature of the Norsk Tipping model is that all players must register to play any games or buy any products. Registration is even required for buying the products in land-based retail stores. Registration has been required since 2009. A dedication to Responsible Gaming was and continues to be the primary driver for regulatory policy in Norway. 100% registration, though, has become a powerful competitive advantage in a gaming market-place that is changing so rapidly.

Paul Jason, PGRI: *What does “Touch Tomorrow” mean to you?*

Torbjørn Almlid: “Touch Tomorrow” refers to the future of our industry being driven by technological progress, consumer-based innovation, and integrating our businesses into the socially connected world of the consumer. It refers to the fact that the future has arrived. It is no longer about positioning for “success in the future.” Our day is here, now. It is about succeeding today, tomorrow, next month, and next year. Having the right technologies in place, scaling up as needed, with every-

thing strategically focused on delivering maximum value and a fabulous playing experience to the modern consumer, is imperative for success today. Taking action today is what “Touch Tomorrow” means to me.

Most government gaming operators have monopolies in at least some of their product categories. As the only authorized operator of games-of-chance in Norway, Norsk Tipping has a monopoly in all categories. Yet you think of it as a competitive market-place.

T. Almlid: Oh, yes, absolutely. Norwegians are bombarded with advertis-

ing from unlicensed operators from all over Europe. Of course, we hope that the methods of enforcement, and the political will to enforce the laws, will protect us. But the reality is that we need to compete with a superior value proposition because illegal operators will never go away entirely. The modern consumer is much more willing to try new gaming experiences. Social casino and non-money games, and “freemium” games which do charge for value-added services and features, are becoming very popular. We need to pay more attention to customer retention than ever. Even the consumer who migrates from one Norsk Tipping



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game to another Norsk Tipping game is someone whose attention can be diverted by other offers. So we need to not only look at the top-line sales, we need to pay special attention to player patterns and participation levels.

The focus on the EL Congress "Touch Tomorrow" will help us all to understand how to succeed in a business climate that is shaped by constant disruption. Government lotteries have the support of the people and their political constituents. We just need to harness our resources to deliver superior value to the consumer. That means change and innovation because the consumer market is constantly changing.

NorskTipping sure is taking that mandate to heart. What is it like to launch an entire suite of new online Interactive games in such a compressed time-frame, over the past nine months?

T. Almlid: It is going well in that we are exceeding expectations. But online games have a short life-span. So the need to refresh and continually launch new and exciting games is imperative and will always be a challenge. We have been innovating in every game category over the past four years, not just online. In spite of that, we have seen a slight decrease in number of customers. Sales continue to increase, but player-ship is flat. That concerns us, and so we are working to add more value and appeal to the games. We're doing that through what we call customer-driven innovation.

Customer-driven innovation: Are lottery operators keeping up with the marketplace? What can be done to accelerate the rate of innovation to be the leader in the games-of-chance industry?

T. Almlid: Norway has a population of just 5 million people. The revenues generated in a market this size are not big enough to support the kind of customer-driven innovation that is need-

ed, especially as regards to keeping up with the most advanced technologies. We need more support from our commercial partners. And we need to create alliances or partnerships with others to share the cost of innovation. That's why we are exploring possibilities for working with other government-gaming operators who have a similar need. We are all in a similar business. The technological needs are quite similar wherever you go. There is also some commonality to the game content such that some synergies could probably be found in the product development space.

We need to ask ourselves, as an industry, are we really going about the business of developing the technologies, game content, and other business functions, in the most efficient way possible? I don't think we are. I think there is tremendous duplication of effort. We are all investing our limited resources in creating the same innovations and solving the same problems. Instead of doing that, we could work together and deploy our resources in a more strategic fashion and accomplish much more. Commercial companies could reduce costs, at least some of which could be passed on to their customers, and increase speed-to-market by collaborating with each other. Lotteries could do the same by sharing the costs and workload to create the technological solutions, and to some extent even game content, that applies to all of our businesses.

Don't we all tend to focus on our differences instead of our commonalities? Different market conditions, different regulatory frameworks, different gaming cultures, etc.?

T. Almlid: Of course we do. And to be sure, there are differences. And each lottery needs to be crystal clear in defining those areas where they need to exercise firm and direct control. For instance, at Norsk Tipping we would never want to lose our direct connection to the con-

sumer, so that connection will never be mediated even if it were shown that cost-savings or more value could be added by outsourcing functions that would come between us and the consumer. Advertising and promotion, CRM, brand management, sales to our retail partners, are a few of the mission-critical areas that we choose to retain direct control over. For Norsk Tipping, these are functions that fall into the customer-driven innovation bucket that remains the sole responsibility of the lottery.

The provision of the technologies that enable the business to operate, though, is already outsourced by lotteries everywhere. The technologies that drive these functions constitute the main cost centers for lottery operations. The state-of-the-art technologies change rapidly and the cost for a smaller lottery like Norsk Tipping becomes very burdensome. IT is also mission-critical, but there is no reason why we as an industry could not collaborate more to bring down the costs, accelerate the adoption of the most advanced technologies, and increase speed-to-market ... all at the same time! The Information Technologies that drive this industry are not so different from operator to operator, regardless of the country or market or language or even the size of the lottery.

Game content development is a gray area because there are differences in gaming cultures, pop cultures in general, language, etc. But even so, there are still big overlaps that could yield efficiencies in product development too. Lotteries would all need to retain control over what is actually offered in their own market, but that does not need to prevent us from collaborating on game and product development.

To my mind, the obstacle relates to our internal business cultures. We are all so used to working independently from one another that it does not feel right

... Continued on page 63

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Lennart KÄLL

Chief Executive Officer, Svenska Spel
Sweden

PGRI Introduction: *Commercial i-gaming operators say they want to comply with laws and regulations, but their actions speak louder than words. In jurisdictions where they do get licensed to operate, they complain about having to pay taxes. In jurisdictions where they don't get licensed, they operate anyway in violation of the law. To further exacerbate this problem, the welfare of society depends upon the exercise of prudence and restraint on the part of the operators and marketers of games-of-chance. For instance, how likely is it that a commercial i-gaming operator would take the steps that Svenska Spel has taken to ensure a consumer experience that is healthy, sustainable, and consistent with a public policy that values sustainability over profits? To wit: Svenska Spel recently implemented a mandatory registration to play all of its games, discontinued the offers of bonuses and free bets to attract new players, launched PlayScan to monitor player behavior and counsel responsible play, and funded a university professorship to conduct research into the causes and effects of problem gambling.*

These are the measures deemed necessary to ensure the games-of-chance industry develops in ways that are consistent with the long-term interests of the Swedish people. Operating profit has declined. Chief Executive Officer Lennart Käll explains: "The decrease is according to plan. In recent years, we have seen the Swedish gambling market evolve in the wrong direction. Therefore, we show the way to a healthier gaming market through the introduction of several gaming actions, including compulsory registration. It's a position that comes before short-term profit motives."

Paul Jason, PGRI: *In what sense has the Swedish gambling market gone in the "wrong direction?"*

Lennart Käll: There are a number of factors that we look at. From a societal standpoint, since our mandate is based on a collective political will to restrict negative social and economic consequences of excessive gambling, enhance consumer protection, focus on social responsibility, etc., surely it must be dissatisfying that unregulated operators continue to increase their market share with excessive marketing of online casinos, poker and live betting (commonly perceived as products with an increased risk of developing gambling problems) without any restrictions, no safeguarding from the Gambling Au-

thority and without any risk of sanctions.

The overall tendency is that fewer and fewer individuals chose to gamble at all, whereas the remaining customers seem to spend more and more money. A very small percentage of the gambling population accounts for a substantial part of the total market spend. In their longitudinal gambling study, The Public Health Agency have found that the proportion of problem gamblers in the population remains unchanged at around 2 percent (from 1997/1998 to 2008/2009). However, there have been a number of changes between different population groups. For example, problem gambling has almost doubled among men aged 18–24 (heavily targeted in advertising) and has increased

among women aged 45–64. However, since 2008/2009 we have seen the emergence of a rapidly growing online casino market and, according to support groups as well as the National helpline, this particular gambling form does account for an increasing number of gamblers seeking help.

Another cause for concern is the ever-increasing advertising spend. Back in 2012, operators spent more money on gambling advertising in Sweden than in Finland, Denmark and Norway combined. Unregulated operators spent just over SEK 1 billion on advertising (gross) in 2012. The projected spend for unregulated operators this year is well over SEK 2 billion ... Unregulated operators make up for roughly 70 percent of the total market spend so far

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this year. The concern is that this high level of advertising is attracting more players to the unregulated i-gaming websites.

How will compulsory registration lead to a healthier gaming market?

L. Käll: I have a lot of respect and humility for what we are trying to achieve. I wish I had substantiated research in gambling addiction and preventive measures to fall back on, but unfortunately there is not a lot of undisputed findings in this field, in Sweden or internationally. To some degree, we are experimenting. But we base our approach on some assumptions—pre-commitment, informed choice, involving the customer in the decision-making, expressed consent for proactive measures and direct marketing etc. The aim for this strengthened responsible gaming approach is to prevent “healthy” customers and at-risk gamblers from developing problems. Gambling addicts are not our focus but they do need stronger support from society in terms of accessible and professional care and rehabilitation. Our objective is to transform compulsory registration, with its possibilities of information, tools, self-exclusion, etcetera, to something natural, a safety net in the background that doesn’t take anything away from the experience. After all, the competition is still about excitement, joy and entertainment. It is a stiff competition and of course, we will still have to act commercially.

With this said, we will evaluate compulsory registration next year. This has been the plan all along and we are open to making necessary adjustments.

A concern that some would have in regards to compulsory registration is that it might drive even more consumers over to unauthorized, unregulated, and untaxed illegal operators. Too, any thoughts on what can be done to enforce laws that prohibit the operation of illegal i-gambling websites?

L. Käll: I can understand that some customers find compulsory registration a

bit invasive and that it compromises personal integrity. On the other hand, it is already compulsory if you gamble with an online operator today. But I think more businesses with land-based operations will follow. This is not just a matter of countering addiction—the industry is facing other challenges such as match-fixing and money-laundering. I noticed the Danish Government stated a couple of months ago that they are considering compulsory registration as part of countering match-fixing. And in Great Britain, the Government has told the industry that it seeks to introduce measures (possibly next year) on Fixed-Odds Betting Machines. Punters will be monitored in some way—potentially through a registration system.

Today, the online market share for websites without license in Sweden is estimated at roughly 50%. It is slowly increasing but it’s too early to say if this is the result of compulsory registration or due to the fact that the online casino market has been growing steadily over the past few years (we do not have a permit for online casino). At least a portion of that growth can be attributed to the intensity of their advertising focus on Swedish consumers. We can also see that some of our VLT customers are leaving for online/mobile slots/casino, but this would have been the case regardless of the compulsory registration.

Compulsory registration would seem to be the first step, and necessary step, to create the truly interactive relationship that is the basis for long-term, sustainable growth. Is that the way you look at it, and could you elaborate on your long-term vision for sustainable and healthy growth of Svenska Spel?

L. Käll: It is not a secret that compulsory registration is feeding into our CRM-system. And I think it’s quite telling that so many people immediately see a short-term business opportunity. But we have invested a lot of credibility in launching compulsory registration as a responsibility measure and I think it would be devas-

tating to our brand and reputation if we started to increasingly use CRM (Customer Relationship Management) to push sales. And frankly, that has never been the intention either. In general, as part of our mandate, marketing must not be used in order to increase the total gaming market or to raise revenue for the state.

My long-term vision is to realize Svenska Spel’s key principle of “responsibility before profit.” It’s easy to say, but how do you live it? How do you run a business based on this principle? And how do you convert “responsibility” to practical key performance indicators that will generate energy and direction within the organization and the co-workers? And how does an enterprise hold itself accountable to societal objectives that do not always have concrete performance metrics? We have started this journey, in many ways an internal cultural journey, but we need to push further.

As I have said, it is not a contest between responsibility and striving to offer the best gambling experience. The way I see it, responsibility and experience are intertwined. It’s rather how you find the perfect balance and stay there.

The gambling industry is still met with suspicion, even aversion. It’s a commercially very viable industry. A lot of operators are based off-shore, paying little or no tax. Advertising is everywhere. The social and economic consequences of excessive gambling are evident. At the same time, consumers are expecting more and more from corporations and businesses in terms of social responsibility and sustainability.

I think it would be possible to position Svenska Spel as a sustainable gambling company that doesn’t strive to maximize profit but rather to minimize “unhealthy” revenues and help customers to remain sustainable. With a strong brand, popular products and a strong partnership with Swedish sports, I’m convinced we can secure our position in the market and grow from there. As they say, doing good is good for business. ■

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Piet VAN BAEVEGHEM

Domain Manager Legal & Regulatory Affairs
National Lottery of Belgium

PGRI Introduction: *The government of Belgium has petitioned the European Court of Justice (ECJ) to vacate a “Recommendation” issued by the European Commission. This is very big news for two reasons. One, the Recommendation in question is an attempt by the EC to “harmonize” the standards for i-gaming operators to operate across all EU member-states. This has profound implications for the i-gaming market-place and for member-states’ regulatory model. The other interesting aspect to this request to vacate is that it calls into question the scope of authority that is granted to the EC. It asks the Court to clarify the limitations of the authority of the EC over against the rights of the EU member-states. The outcome of this legal/political debate will shape the future of the gambling and lottery industries in Europe. More specifically, it will determine whether the European market-place will be required to liberalize, open up to multiple operators and free-market cross-border competition. That will result in a race to maximize prize-payouts augmented with intensive advertising and promotion to entice more people to gamble, and for current players to gamble more.*

Our hope is that the EU countries be allowed to continue with the model of strict control over regulatory and taxation frameworks that limit the expansion of gambling and protect the lower prize-payout model of government lotteries. The very existence of the monopoly lottery model hangs in the balance.

Prior to joining the Belgium National Lottery in 2010, Piet Van Baeveghem was advisor to the Minister of Justice and the Belgian Prime Minister between 1999 and 2004, deputy director of the Minister of Economy between 2004 and 2007, and secretary general of the Belgian federation for credit institutions from 2007 to 2010. As director of the legal department, Mr. Baeveghem is responsible for regulatory affairs and quite immersed in the interesting politics of the ever-changing regulatory landscape in the European gaming industry.

Paul Jason, PGRI: *Let’s first have you describe the institutional make-up of the European Union. How does it work, from a governance point of view?*

Piet Van Baeveghem: There are basically four important institutions inside the European Union (EU). There is the European Union Commission, which functions primarily as the administrator of the Union. The European Parliament is the democratically elected body that has legislative authority over ongoing issues of governance. Then there is the Council of Ministers which represents the specific interests of the twenty-seven different mem-

ber states. A new concern or initiative relating to the actions and directives of the European Union initially is addressed at the EU Commission level. Issues that assume a level of importance beyond that of administrative matters are then debated inside the Council of Ministers and the European Parliament. The role of the Council and the Parliament is to ensure that democratic reasoning, authority, and control are applied to decisions that affect all the member-states of the EU. The European Union Commission, however, does have the power to make recommendations. The EU Commission does not need the

blessing of the Council and/or the Parliament to make a recommendation.

The problem with the recommendation relating to i-gaming is that it reads like a directive and requires compliance on the part of the member-states. A recommendation can be issued by the EU Commission without the input or consultation of the member states or the Parliament. The content and wording of this recommendation, however, make it clear that this is more of a directive than a recommendation. That is the cause of major concern, and the basis for the litigation of the Belgian government. It has now become necessary to clarify the

scope of the EU Commission power, and the authority of its recommendation. We do not necessarily even disagree with the content of the recommendation. We do firmly disagree with the presumption that the EU Commission has the authority to turn its recommendations into directives. And even though we may not disagree with the content of this recommendation, it is necessary to establish the limits of the EU Commission authority in this case if we hope to have recourse when there is a recommendation that we do not agree with. Allowing this to pass uncontested would set a precedent that would severely impair our ability to contest future EU Commission recommendations.

What is it about this recommendation that makes it function more like a directive?

P. Van Baeveghem: The contents of the recommendation is so detailed and explicit in its expectations of the member-states that it does not operate like a recommendation. A recommendation is about principles. The

operative principle in this recommendation is to protect the consumer and control criminality in the world-of-i-gaming. That's fine, of course. The EU Commission can make suggestions about the initiatives that could be taken to support a general principle like protecting the consumer. But this recommendation goes far beyond that. It states, for example, that if a company is offering online gaming, then its name, place of registration, and e-mail address should be on the web site. It's not that we disagree with this particular requirement. But this recommendation does not constitute a comprehensive regulatory framework that would come close to actually accomplishing the result of protecting the consumer and controlling criminality. The EU Commission could not attempt anything on that scale because that would clearly exceed its scope and need to be referred to the Council of Ministers and the Parliament.

But there is a method to the madness. The Commission is limiting the scope of

its recommendation for the very purpose of keeping it below the threshold that must be referred to the legislative bodies of the Council of Ministers and the Parliament. The problem for member-states and their lotteries is that, even though the scope of the recommendation is limited, if this EC "recommendation" becomes accepted by the member-states and the EU Court of Justice, it has the perverse effect of providing a minimum standard to which i-gaming operators will be held. It creates the appearance of a "harmonized" regulatory framework that the ECJ will enforce. This harmonized framework, though, will allow i-gaming operators much more freedom than do the laws currently existing in each of the member-states. Insofar as this set of recommendations becomes the set of rules enforced by the ECJ, member-states could then be prohibited from enforcing rules and standards that are not explicitly endorsed by the EC recommendation.



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This is a matter of governance with broader implications than i-gaming. But let's focus on the specific implications for the authority of the member-states to regulate and tax i-gaming.

P. Van Baeveghem: Presently, there is no harmonization at European level. Each member-state regulates and taxes gambling, lottery, and i-gaming as it sees fit, while staying compliant with the general principles of the EU. Measures that restrict the movement of goods and services must be justified as needed to protect what we call Public Order, that is to protect the consumer and to control criminality. If the Court of Justice had a harmonized regulatory framework that applied to all EU nations, then it would require compliance with that. Since there is no harmonized regulatory framework, the Court gives the individual member-states some latitude to apply rules to protect Public Order, even though those rules may impinge on the free movement of goods and services. The EU Court of Justice has rendered decisions that say, in effect, as long as there is no harmonization, each member state can determine on its own how best to protect its citizens from problem gambling, money laundering, and criminality in general. Otherwise, the member state must respect the fundamental EU principal requiring the free movement of goods and services. That principle is, after all, the basis for the very existence of the European Union.

The problem is that the application of an abbreviated set of rules to all EU member states, which is what the EC recommendation does, will create the appearance of harmonization, and that will create confusion over the rights of member-states to impose further restrictions on the industry of gambling and lottery. Potentially, the EU Court of Justice could interpret this recommendation as being the comprehensive set of rules and that member states are prohibited from imposing requirements that are not specified in the recommendation. The set of incomplete requirements contained in this

EC recommendation will almost certainly make it much more difficult for member-states to enforce monopoly control over lottery and other forms of gaming. Without explicit exclusions that apply to gambling and lottery, the Court will apply the principle of free movement of goods and services to state lotteries and gambling just as it does to all other industries.

It sounds like this is a very clever strategy on the part of commercial i-gaming operators to accede to some restrictions as the means to avoid the higher standards of member state restrictions.

P. Van Baeveghem: Currently, with no harmonization of i-gaming regulations, the Court defers to the member states the right to regulate for the purpose of protecting the consumer and controlling criminality. If there is even a minor level of harmonized rules that protect the consumer and apply to all member states, the member-states will have a hard time defending their right to monopoly status for their lotteries. Regardless of the intent or strategy involved, that will be the result.

What is the agenda of the EU Commission? Are they deliberately working to undermine the authority of the member states?

P. Van Baeveghem: The agenda of the EU Commission would be to get some form of harmonization. They know that anything broader in scope would require the input and consensus of the Council of Ministers and the Parliament. So they deliberately limited the scope to requirements that, on the surface, would appear to be such that everyone could easily agree with, so they do not need to negotiate with the representatives of the member-states in the Council or the Parliament. Regardless of their intent, the implementation of this recommendation cripples the authority of the member-states to regulate gambling and lottery. By providing some small measure of harmonization, the Court can no longer exclude gambling and lottery from the principle of free movement of goods and services.

The outcome being that the markets are liberalized, consumer protection and controls against criminality are reduced, and all this happens under the guise of an EC recommendation that purports to enhance protection of the consumer.

P. Van Baeveghem: In analyzing the detail of the recommendation, we found that the Belgium National Lottery is already compliant with 97% of the new recommendations. We checked with our colleagues in other lotteries in Europe, and every lottery came to the same conclusion. So what is the purpose of a recommendation that is already being done by the member states? So, what is the goal of the EC, why are they doing this recommendation? Their goal is to be able to show the EU Court of Justice, the highest court in the EU that adjudicates issues that affect every single member-state, that there is now harmonization. The Court can now rule against the states' rights to implement additional measures to protect the consumer or minimize criminality, if those measures conflict with the principle of free movement of goods and services. Insofar as there is an instrument for harmonization, the Court could rely on that as the measure of what can and cannot be done by the member states.

The European Commission will make a new report about how the recommendation has been transposed in European member-states. That report will come on or before January 2016. And that in itself will further consolidate the authority of the European Commission because the Commission is also demanding that the member states collect information about the number of problem gamblers and money laundering cases related to gambling. This information will enable the Commission to make another report that is substantiated by facts and data. Unfortunately, it skirts the issue of whether the Commission should be in the position of taking these measures without the input of the Council of Ministers and Parliament.

And a strange twist in this saga is that

Malta will take over the EU presidency in early 2017.

Malta being the headquarters for many of the commercial i-gaming operators which want to avoid the regulations and taxes of the other member states.

P. Van Baeveghem: Yes. Right at the right moment when all of this information is collected and the European Commission has taken the time to elaborate on its recommendations and lay the groundwork for advancing its agenda to create a low-level form of “harmonization,” the one country with the most to gain from its implementation will occupy the office of president of the EU.

Let’s be honest: it is not easy to argue against recommendations that protect the consumer. The reasoning that we have been discussing is somewhat complicated. It is much easier for political leaders to simply accept the notion that protection of the consumer is a good thing so let’s go ahead and accept the recommendation. That is why it

is so vital that the issue is properly framed. The issue is not about the specific points of the recommendation, which are about consumer protection. The issue is whether the EU Commission has the authority to impose its recommendation as a mandatory requirement; and to do that without the input or consultation of the Council of Ministers or the European Parliament.

But why is the EU Commission so determined and tenacious about this issue? Why don’t they just respect the will of the Parliament of member-states which has voted unanimously (except for Malta and Gibraltar) that regulation and taxation of gambling and lottery is a matter of subsidiarity—that it should be decided at the member state level and not at the EU Commission level? Why can’t the EU commission just accept that? Their insistence that the EU intervene into these issues just creates a confusing mess. And the alternative, conferring to the member-states authority over all matters of regulation and taxation of gambling and

lottery, is such a clean do-able solution.

P. Van Baeveghem: The principle of free movements of goods and services is in their DNA. The EU Commission sees it as their primary mission to push for the imposition of this principle across all economic sectors, and they can’t understand that there are compelling reasons why gambling and lottery should be excepted from that rule.

The member states that comprise the EU have clearly and emphatically expressed their will that gambling and lottery should be a matter of subsidiarity. Why won’t the Commission respect the will of its own member states? Shouldn’t the principal of democratic power and the rights of the member states over-ride that of free trade and commerce? Isn’t this a case of ideological conviction violating all common-sense and respect for what is best for the member-states which are, after all, the whole reason for the existence of the EU? It’s almost as if the member-states exist to

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Terry RICH

President and Chief Executive Officer,
Iowa Lottery

President, North America Association
of State and Provincial Lotteries (NASPL)

Paul Jason, PGRI: *What are the top priorities for your mission as NASPL president?*

Terry Rich: This will be an interesting year. There is so much going on, with many challenging issues that face our lotteries. Our top priority is to maintain forward momentum with the initiatives and the progress that has been made over the past number of years. We want to stay clear on our mission to deliver value to all NASPL members. To me, that means getting back to the basics of doing what we do best. The fundamental mission of NASPL includes education and leadership training, gathering and organizing industry data and statistics, and working on legislative initiatives. We're going to really focus on those areas that David Gale and the NASPL staff have done so well.

It's wonderful and interesting the way that NASPL is clarifying different objectives for each of its conference events. The Professional Development Seminar, for instance, has developed a unique character, with a deep drill-down on all the different functional areas.

T. Rich: The Professional Development Seminar in July has turned into one

of the many highlights of NASPL's educational programs. We see a lot of smiles from all the participants! The feedback we get and the research we do indicates that this is one of the most well-received and valuable conferences that NASPL organizes. It includes tracks for marketing, IT, legal, security, public relations, warehouse, crisis management, and current industry topics. And it enables professionals from all over the country to come together, meet and network with their counterparts, and talk through critical issues of the day. This is a format that is different from the big fall conference and trade show, and serves a purpose that is attracting more participants every year.

NASPL will continue to add to and improve upon its services. A few years ago, NASPL decided that it was the top priority to strengthen our fiscal position so that we could weather unanticipated events that could impair the revenues of our big annual fall event. Thanks to the efforts of the NASPL presidents over the past few years, that has largely been accomplished. David Gale and his team run a tight ship, prudently shepherding our resources to deliver maximum value

to the membership while controlling costs and managing risk. Now, NASPL has some wiggle room to look at new initiatives and focus on emerging trends and ideas that will shape our future. Educating the leaders and future leaders of this industry is so vital to our future. NASPL recognizes that and has done an excellent job of developing future-oriented educational programs.

Over the past few years, NASPL has been outspoken in its advocacy for states' rights to regulate all gambling and lottery, including all internet gaming. Will NASPL continue to be active in legislative issues?

T. Rich: NASPL has proven through the years to be respectful of the opinions and position of each and every one of its members. The organization needs to continue to confirm that it has the full support of all of its members before taking any kind of official position on a political or regulatory issue. But when the issue is so critical to the future of our industry, and there is consensus among NASPL members, then NASPL can and will speak out in defense of its members' interests. It will also be the case that some

lottery directors may join together and formulate a letter, a position statement, or other action plans that are not necessarily representative of the entire NASPL organization or all of its members.

Lottery directors are tasked with managing the lottery, and that includes formulating public policy. The fact is that regulatory and taxation policy have dramatic impacts on lotteries, their beneficiaries, and all stakeholders. To allow misinformation to influence public policy would be a failure to properly manage and protect the interests of the lottery. As lottery directors, we owe it to our beneficiaries and our constituents to do everything we can to make sure that they are fully informed about the issues. We owe it to all of our stakeholders, for instance, to make sure that shapers of public policy understand the implications of a federal take-over of i-gaming regulation.

NASPL and MUSL are two organizations that each perform a vital service to the industry. How would you delineate the different roles that each should perform?

T. Rich: NASPL and MUSL are both non-profit associations that were formed to facilitate action that is better accomplished as a group rather than individually. MUSL develops and administrates revenue-generating games that are operated on a multi-state basis. MUSL has acquired many capabilities over the years that it has turned into services for its members, like conducting draws for in-state games as well as the multi-state games, providing counsel on matters relating to security and developing RFPs, conducting research, and many other services.

NASPL has a different focus and different set of core competencies. Its mission is to produce educational programs, industry

conferences and s, trade shows, gather and organize industry data, and provide services to its members that are difficult for members to provide for themselves individually.

The NASPL Matrix and National Resource Index (NRI) is an especially impressive accomplishment.

Together these form the most comprehensive database of information that our industry has ever seen. Presently, it is freely available to everyone. That may change. Other associations that invested to build a resource like this do charge for it. And the fees collected for access to these resources, along with the income generated from the industry trade show, could be used to reduce or even eliminate membership dues. There are no specific plans for that to happen, but these are some of the ideas under consideration. Frankly, there is no pressing need to change our fiscal policies and systems. I think everyone agrees that NASPL is working fine right now. But one reason it works so well now is that David Gale has, over the past years, looked for ways to strengthen the fiscal soundness of the organization and will continue to do so in the future. We want to do whatever we can to ensure that future generations of NASPL members enjoy the same solid foundation that NASPL's current membership has.

Your leadership style has always been to be inclusive, reaching out to everyone, engaging everyone in the process of making this be the best industry possible.

T. Rich: I do want to ensure that every person in the organization knows they have a voice, that their input truly matters and impacts the way we operate. We want folks to speak up, contribute, and influence the direction this association takes. NASPL belongs to its members and its

strength will always be driven by an engaged and active membership. The same holds true for the leadership of NASPL. We want to engage all the directors in the process of leading this association.

Lottery directors and their suppliers will have some challenging issues to deal with in the coming months.

T. Rich: To be sure, 2015 will be an interesting year. My goal is for us to work together to address the issues, with consideration for everyone's concerns, and with respect for the fact that even though our interests may vary, we will all be better off if we work together. We do share some common goals that are vital to each and every one of us. We are all in the business to maximize funds for good causes by operating games of chance in a socially responsible manner. We all want to build business models based on strategies that support sustainable growth and responsible play. We all want to evolve our games so that they continue to appeal to the modern consumer. Let's focus on our common goals and appreciate that these will best be accomplished by working together.

The issues relating to Monopoly Millionaires' Club are being handled in a professional way. Maintaining a consistent and thoughtful message, speaking with one voice, would seem to be an important goal.

T. Rich: It can be difficult to have consistent messaging if our lotteries do not agree on the course to be taken. But you are correct. It is our goal to provide all lottery stakeholders, including the media, players, and the general public, with well-reasoned and consistent messaging. NASPL has always been a rock-solid backbone to the lottery industry, and that's proven to be a big asset during turbulent times. ■



GTECH

Matteo MONTEVERDI

GTECH Senior Vice President iGaming
& Senior Vice President Americas Interactive

PGRI Introduction: *Convergence and integration—two catch-words that are defining the future of the games-of-chance industry. Markets are converging as players migrate across multiple gaming categories. Channels of distribution are converging as the smartphone comes to inhabit every aspect of our lives. And GTECH has assembled a comprehensive portfolio of games and technologies to make those games available to the consumer. Key to success of lottery operators will be integrating the games, the multi-channel IT platforms that deliver the games, and the brand and CRM strategies that form the foundation for a dynamic long-term relationship with the consumer. It is an exciting world filled with opportunity for the progressive operator to establish itself as the gaming destination of choice for the consumer!*

Lottomatica, GTECH's lottery operator in Italy, was co-host of the incredible World Lottery Summit in Rome. Lottery operators and their commercial partners from all around the world convened to chart a course for the industry. This is an exciting time of change and opportunity for the industry, and for GTECH's customers. Matteo Monteverdi shares a vision for how government-gaming operators can integrate the online and off-line worlds to build a relationship with the modern players, maximize the lifetime value of the customer, and carve out a meaningful place in the lifestyle of the modern consumer.

Paul Jason, PGRI: *Everyone understands the power of mobile and the Internet as channels for distribution. But how might mobile, and the Internet in general, be used as a medium of communication and the foundation for an interactive relationship—completely apart from the transaction-enabled aspect of it?*

Matteo Monteverdi: Every consumer-products company should have a clearly articulated Internet strategy, defining how to use the medium to communicate and interact with its customers. The traditional marketing funnel was built on specific steps designed to produce a sale, a transaction in which the consumer makes a purchasing decision. The purchase itself was the conclusion of the process. That paradigm is changing.

The smartphone and the Internet have become more than simply tools to accomplish specific tasks or fulfill concrete needs. Today, people are constantly connected in a way that transcends that purpose-built objective. As consumers we rely on Internet-enabled devices to connect us to one another, to information resources, to the services that inform our actions and buying decisions, to the merchants we do business with, and to the entertainment that amuses us during down-time. Our connection to the entire world around us transpires over the smartphone. What was once a device to facilitate the execution of specific tasks has become the prism through which we see and interact with our external environment, in effect mediating the entire relationship we have with the world around us.

The power of the Internet allows us to reshape our connection to the consumer. For lottery operators, that means creating a “circular interaction” with the players. Every single consumer touch-point of contact needs to be synchronized with an overarching strategy that positions the brand and messaging to fit into the lifestyle of the modern consumer. Once we get our minds around this new reality, the Internet changes everything about our relationship with the consumer. It becomes the virtual world that we all inhabit right alongside our friends. In order to achieve circular interaction with its players, Lottery needs to inhabit this world with them, just as its players inhabit this world with their friends.

With this new construct in mind, the Internet becomes the shared space where

“messaging” evolves into an interactive relationship. As communication becomes customized to the individual player, that interaction evolves into a dynamic relationship based on trust, shared experience, and even friendship. This is the future that we will all inhabit, coming together in a virtual world that mediates our relationships, our decisions, our activities, our entire lives.

How do we apply existing marketing resources and skill-sets to make this transition from messaging and brand management to Internet-based relationship-building?

M. Monteverdi: It’s not a great leap. It certainly continues to involve messaging and brand management. And it does involve commitment. Resources should shift from above-the-line mass marketing media to the development of Internet-based initiatives. When you build your marketing mix, media plan, marketing programs and campaigns, the Internet should become a major piece in the overall equation. That is not happening today. Businesses—not just lottery, but many businesses—still tend to think of the Internet as just a medium for communication and transactions and fail to appreciate the transformative impact it is having on the whole lifestyle of the modern consumer.

The percentage of marketing resources allocated to interactive is typically a small fraction of that going toward above-the-line mass media communication. That is in spite of the fact that interactive communication strategies and initiatives produce a higher return on investment.

How do we even measure the ROI of the broad-based Internet strategy when success often results in sales at retail?

M. Monteverdi: There are ways to measure the ROI of interactive strategies, and the tools for doing so are constantly improving. More to the point, though, the tools used to measure the impact of interactive are more precise than those used for mass media advertising. Modern consumers want to affiliate with their merchants and be engaged in ways that transcend the

fulfillment of the need or desire to buy something. Interactive provides a platform that enables not just the measurement of impact, but the two-way dialogue that informs an ongoing refinement of the relationship to get more and more in-tune with the player. The interaction is dynamic and ongoing, focused on building the relationship more than creating the sale. The thing to appreciate, though, is that the interactive relationship will result in more sales, and a more sustainable and loyal customer base, than does the kind of messaging that just pitches the product.

What about Point-of-Sale materials and displays? Is that considered “above-the-line?”

M. Monteverdi: It’s all about interaction. Point-of-Sale communicates relevant information, and I am not suggesting that it does not impact consumer behavior. It does. But it does not always engage the consumer in the ways the consumer wants to be engaged. You enter a store and you leave without the opportunity to have a personalized and interactive playing experience. When the transaction is completed, the relationship is over. It’s like buying a commoditized consumer product. Conversely, interactive channels allow lotteries to keep the encounter alive, to learn about the preferences and behavior of their customers, and to integrate that understanding into the product development, marketing, and customer-care process. Furthermore, an interactive strategy that provides a complete view of and creates a dynamic relationship with your customers should bolster sales at retail. Lotteries need cross-fertilization of both channels to be ready for the future.

Lotteries are doing a fantastic job in communicating the product and brand strategy. Point-of-Sale and mass-media communications will continue to be a necessary and impactful part of the marketing mix. We just need to think of the Internet as a platform upon which we build the kind of relationship with the consumer that will be the backbone of the long-term sustainable business model.

It goes back to your earlier comment about creating that circular interaction with the consumer.

M. Monteverdi: Exactly. Traditional strategic thinking views the retailer as a channel partner working on behalf of operators to sell products. It is only natural to transplant this conceptual framework over to the Internet, and to think of the Internet as just another, separate channel for distribution. That leads us to replicate the methods that have worked in the off-line world into the online world. However, in order to optimize the ability of the Internet to truly transform the relationship that lottery has with the consumer, we need to think about all the ways that lottery fits into the Internet, not about how the Internet fits into the marketing mix of lottery. We need to envision business models that involve a concerted strategy to build consistency of brand and messaging and interactive protocols across all channels and consumer touch-points. Instead of utilizing the Internet as an extension of the retail sales channel, it needs to be integrated into the fabric of a dynamic and engaged relationship with the consumer.

We also tend to focus on size of market. And the size of the Internet market is still quite small relative to the land-based retail market.

M. Monteverdi: The overall interactive wagering market is approximately €25 billion a year. Only 10% of that is coming from the lottery business; 45% comes from licensed and regulated gaming markets, and 45% transpires in the unlicensed and illegal unregulated markets. That means that €11.25 billion is being wagered with operators that are not subject to the regulatory requirements that protect players and promote a responsible gaming approach. This represents a tremendous opportunity for lottery, one that can be realized by capturing the transformative potential of the interactive relationship.

While the global market for land-based traditional lottery market is significantly larger—it now measures more than €235 billion—the interactive space is growing

much faster. More importantly, though, the interactive channel is the medium to build a relationship with the consumer that results in sales at land-based stores as well as online.

That is the case in Finland, the market with the highest level of Internet gaming. 40% of their players are registered online. But 33% of those registered players have never even bought online. They have that online relationship with Veikkaus, but they buy the product at land-based retail stores.

M. Monteverdi: The evidence clearly shows that these registered players are more loyal to lottery as a gaming category and play at a higher volume than players who are not registered. And the players who buy on multiple channels—that is, both land-based retail and online—are the most loyal customers.

The Internet effectively blows up the mass market into smaller and smaller segments.

M. Monteverdi: Yes. The products, the company, the value proposition, and the communications can all be customized and directed to appeal to the individual, or at least to tightly drawn consumer profiles. For example, the traditional core player may not want to engage in group play or social gaming. And at this point, the larger revenue streams will continue to come from the traditional core players. But even the traditional players use the Internet and will likely value some services that the Internet can provide; simple things like a mobile app that emails or texts the winning numbers have the potential to appeal to everyone including core players. Establishing that simple online connection to the core player provides the platform that can be extended to other value-added services, such as new games, educational forums explaining how new games are played, geo-location-based draw games, or special promotional offers. Core players may eventually even check into the chat room and become a part of the social networks that are revolutionizing the way that brands inhabit the mind-share of the

consumer population.

The future resides with the Digital Native, who is seeking new and different playing experiences. These emerging markets represent a huge opportunity for lottery to bring in new consumer groups and drive incremental sales. Connecting with the next generation of players involves much more than the value-added services that appeal to the core players. We need to reimagine the way that traditional games are played. For instance, the Internet enables a wide variety of ways that purchasing tickets can become a group activity, and that's just the tip of the iceberg. We need to reinterpret the games for the socially networked world of the Digital Native. Even within the fundamental limitations of lottery game mechanics, the canvas is rich with potential to reshape itself for the Internet.

Isn't the Digital Native who has been raised on non-money games used to a play experience that is more entertaining and delivers instant feedback?

M. Monteverdi: There is some truth to that, but I think that notion is limiting and misleading. The enhanced play experience of online games is not limited to entertainment and instant feedback, at least not in the form that games conventionally provide. We need to apply a much more expansive view toward understanding the multitude of play styles and how changing life styles are revealing themselves in changing play styles. Internet-based social networking, for instance, is one of the most profound phenomena of the current era. Becoming a part of the socially networked universe of the modern consumer should be a priority.

There are many ways that increased entertainment value, longer-play games, and instant feedback can be incorporated into traditional lottery games to make them more appealing to the Internet gamer. For example, eInstants are an ideal game format for the Internet, because they do deliver entertainment value and instant gratification. Electronic scratch cards rep-

resent an excellent opportunity to reinterpret traditional games for the Internet. The recasting with interactive twists of games created for the land-based market has been done to great effect in Italy and many other markets. Lottery can leverage the incredible power of its brand to connect with the online consumer, but we need to provide a product that delivers a play experience that is different from the one in the retail store.

As a wider variety of games becomes available, and as consumers have such fast and easy access to this increasing variety of games, won't that cause players to try out new and different categories, to migrate from one game category to another in ways that they might not have done even five years ago?

M. Monteverdi: Absolutely. Players are already migrating among categories, and that will be even more the case for the next generation of players. Game attributes that appeal to consumers in electronic games will influence lottery game design, and vice versa. That is why it is so important to facilitate a cross-pollination of game development—and to have an online relationship with the consumer. The interactive platform captures invaluable data that is transforming the whole business of market analyses, game design, and promotional strategy. Instead of surveys and focus groups, every keystroke made while online is a window into actual player behavior, providing real-time, real-world, comprehensive data. This data will be invaluable to guide operators in their efforts to implement the responsible gaming strategies that are so key to building a sustainable business. Ultimately, online crowd-sourcing will enable players to design games and promotions themselves. This not only will be a reliable guidepost for operators, it will also reinforce player engagement, engendering more loyalty along with a more rewarding player experience.

If the percentage of the online gaming market increases, doesn't this pose a formi-

dable threat to lottery operators? Will lottery be able to compete in this space?

M. Monteverdi: Not only can lottery compete, it can win. Lottery operators have far more consumer awareness and trust than any other type of gaming operator. Lottery tends to underestimate the power of its brand. This is a tremendous asset. Put that brand next to unknown online operators, and who will the consumer want to deposit funds with?

The other asset that differentiates lottery is its network of land-based retailers. That is an overwhelming reach of consumer touch-points that could never be replicated by its competitors.

Integrating the online and off-line worlds would seem to be a complicated task!

M. Monteverdi: It is largely a matter of clarifying who you are—how you want your brand to be represented—and making sure that everything you do is consistent with that image and the brand strategy. Every single consumer touch-point should reinforce that image. For instance, as soon as you call Walt Disney Corp., you are drawn right into the Disney experience. Their brand and image cut across everything they do, ranging from theme parks to movies, to clothes and consumer products, to licensed properties and franchises, to countless other product categories that are a part of the Disney empire.

For lottery, a true game-changer is implementing simple mobile apps that announce jackpot sizes and winning numbers and promote new games, even though the consumer purchases may still happen at retail. The mobile app changes the entire relationship, from anonymous and disconnected to connected and engaged. Digital coupons, virtual currency, and in-store Wi-Fi have already brought the smartphone into the stores. Retailers are positioning themselves for an off-line world that is fully integrated with the online world.

And in spite of the fact that many lotteries have not focused on developing the inter-

active online relationship, traffic to lottery Websites is huge.

M. Monteverdi: Think about what online casino operators in Europe spend to acquire these sites: more than €300 per player! Online operators make that investment because the lifetime value of the online player is so high. It would cost lottery operators much less to convert their online traffic of anonymous surfers into registered players. Lottery is positioned perfectly to turn its massive consumer connection into engaged and loyal customers.

Then customer retention becomes the key to maximizing that lifetime value of the player.

M. Monteverdi: Yes. And that requires a clearly defined interactive and customer relationship management strategy. CRM should begin right now, regardless of whether there is online wagering or not. As you just pointed out, the online connection is a catalyst for off-line sales as well as for forming the basis of an ongoing relationship with the players.

One obstacle is that funds are limited. It must be a tough decision to shift funds away from the media strategies that everyone is familiar and comfortable with, especially in years when it is challenging to hit the short-term revenue goals.

M. Monteverdi: This brings us back to the issue of reshaping lottery for the Internet, and not seeing the Internet as just another channel in the marketing mix. Duplicating a robust IT infrastructure on a jurisdiction-by-jurisdiction basis would be very costly. Fortunately, that is not necessary. Cloud technology, Software as a Service [SaaS], enables the sharing of state-of-the-art interactive technology, dramatically reducing the cost while optimizing the functionality and performance of the interactive strategy. There are huge savings to be gained by technologies that support the Internet and CRM initiatives of multiple operators.

As with any new technology, and especially in the government gaming industry, security and integrity are mission-critical.

Cloud-based service is now used for even the most sophisticated and sensitive applications. The FBI, the U.S. Department of Defense, and financial institutions are all in the cloud. Cloud-based applications has been proven to meet the highest standards of security and integrity.

Yesterday we visited your retailers in Rome. At more than €400 per year, Italy has one of the highest per capita spends on lottery gaming in the world. How does GTECH's role as operator inform and enhance its ability as commercial supplier to lotteries around the world?

M. Monteverdi: As the largest B2B lottery vendor in the world, GTECH has a unique position in the market. We have products in every single regulated gaming category and in approximately 100 countries all around the world. This global footprint supports the scale, the breadth of operating experience, and the depth of research and internal resources needed to help our customers succeed in a rapidly changing gaming environment. Serving our government gaming customers is our core business. Our experience as a B2C operator yields insight into consumer behavior, how the business works, and the real issues facing lottery operators. We also have an entire division devoted to converting the data derived from all of our operations into actionable best practices that help us to optimally serve our lottery operator clients.

The key to the future of this industry is integrating online and off-line worlds to provide a holistic, user friendly player experience. That is the reason for GTECH's acquisition of the most diverse portfolio of products and services in this industry. IGT will augment our capabilities in ways that are beneficial to our customers. DoubleDown Interactive (a subsidiary of IGT), for instance, is a market leader in free-play games, which will be crucial to evolving lottery to become the gaming destination of choice for the modern consumer. The future, after all, will be all about creating the game content that appeals to the modern consumer and integrating platforms to make that content readily available. ■



The Next Stage of Lottery Industry Marketing and Advertising

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One of the great strengths of the lottery industry is its vendor community. The industry giants that dominate this business—GTECH, Scientific Games, Intralot and Pollard—bring a national and international perspective to the work they do for individual lotteries. They provide the institutional memory, the history and the expertise gained over decades of work around the world to bring us best practices, sophisticated technology and the infrastructure that underlies everything we do. Lottery directors come and go, and few have prior lottery industry experience, and so it falls to the vendor community (and long-time lottery staff) to keep lotteries operating smoothly and efficiently. In fact, much of the debate about “privatization” of lotteries misses the fact that most lottery work is, and always has been, outsourced to private vendors.

For example, we almost take for granted that lotteries operate with an incredible level of security, integrity and accountability. But when the modern lottery business began in the 1960’s, many lottery directors came from a background in law enforcement because of a serious concern about the potential for abuse or compromise of security. Today, the modern vendor community provides incredibly robust and ironclad security systems, as you would expect of very professional large international companies.

These companies also provide lotteries with a remarkable level of efficiency, with many lotteries operating their entire administrative and operating apparatus with a total cost (as a percentage of sales) in the low single digits. No other business, even in the private sector, operates with such a tiny cost base. In fact, I have often argued that lotteries have no leverage on the cost side and therefore all gains must come from the revenue side. Many state officials don’t seem to understand this dynamic and insist on lotteries “cutting costs” to increase profits. It simply doesn’t work that way. The amount of cost savings could never be more than a fraction of the profits generated by even a modest increase in sales.

Within this cost base, there are roughly four buckets

of expense—the lottery’s own staff, the central system vendor, the instant ticket printers and the advertising agency/marketing expense. Lottery staff tends to be a very small expense (I used to joke that the entire payroll of the New York Lottery was paid for with less than one day’s sales. The vendor community, with its competitive industry dynamic, also runs very lean. That leaves the last bucket, with advertising agencies and marketing, as an interesting candidate for some efficiency-improving measures. Perhaps more importantly, changes in the way that advertising and marketing is managed represents a significant revenue opportunity. Let’s explore this opportunity.

First, a side note about advertising effectiveness, since lottery directors are constantly fighting for more advertising and marketing dollars. In New York, we used a rule of thumb of 1 to 5 for the ratio of ad spend to incremental profit (not sales). In other words, a dollar of ad spend produced \$5 of incremental profit. This rule of thumb was actually confirmed by a rigorous econometric study done by brand researchers for the New York Lottery. But, it also made sense intuitively given the very low level of ad spending, both in New York and nationally, at barely above 1% of sales. By comparison, total industry advertising nationally represents about 2% of GNP. Some segments, for example casinos and pharmaceuticals, spend over 20%. For lotteries, the challenge is to get the most out of the limited advertising funds we have.

This raises the question of why the advertising industry has not tried to replicate the success of other lottery vendors, to dominate this industry category with a few large, experienced firms that produce lottery advertising for multiple jurisdictions. Why haven’t two or three large agencies emerged with a corporate strategy to concentrate on the lottery industry? I have had this conversation with agency executives and the answer has several components.

One critical factor is the structure of the ad agency business itself. Interestingly, there are roughly only four very large ad agency holding companies that dominate

the industry worldwide; companies that themselves are less well known than the agency brands within their portfolios. These companies include Omnicom (with agency sub-brands such as DDB, BBDO, TBWA and many others, as well as media buying firms, PR firms, crisis management firms and more), Publicis (with Leo Burnett, Saatchi, Fallon, BBH and other communications firms), WPP (with Grey, JWT, Ogilvy, Young & Rubicam, et al) and Interpublic (with McCann, Lowe, FCB, IPG, Campbell Mithum, Deutsch, Hill Holliday, etc.). Interestingly, these large holding companies do little to encourage cooperation among their portfolio companies; instead, they actively support their firms competing directly against one another. Recently, the New York ad contract was out for bid, and two of the final three companies were both IPG firms, FCB and McCann, along with incumbent Omnicom's DDB.

Independent ad agencies still play an important role in the advertising universe, and it is perhaps here that we may see the beginning of a lottery-centric ad agency business. California's David & Goliath, an independent firm that swept the industry's Batchy advertising awards a year ago, has recently been contracted to produce national advertising for the Monopoly Millionaires Club game. Perhaps David & Goliath, or firms like them, will pursue a more aggressive strategy to become the leading lottery advertising firm.

However, there is an even more daunting roadblock to such a development and it lies within lotteries themselves. Many lotteries, when issuing RFPs for their advertising services, require firms to be local, to be based within their jurisdictions. Such requirements often are simply a political reality and difficult to overcome. And since lotteries themselves need constant interaction with agency personnel, a physical presence in the state has clear day-to-day advantages. Many lottery marketing managers also feel that their markets are so unique that local knowledge is critical to effective creative development. But for all of us who have looked at lottery advertising from across the country, or around the world, it is obvious that many good ads could be used in a variety of different locales. The commonalities of markets and player behavior far exceed the differences. Indeed, some of the demographic differences within our states (especially the larger ones) are as wide as the differences between states themselves. Good lottery advertising can be effective over a much larger audience base than it is today. The benefits in terms of cost-savings, and enhanced production values, make it worthwhile to explore ways to overcome the obstacles to a multi-market, collaborative approach towards advertising and marketing.

Another complication to this potential scenario is that several lotteries are beginning to separate their creative and media-buying contracts, since the work is actually quite distinctly different. The creative side is subjective, high-concept, high-value-added and high margin; the media buying side is objective, quantifiable, fiercely competitive, low-margin and more local-knowledge-specific. The separation of the two sides (I.e. creative and media-buying) means that it is entirely possible for a lottery-centric ad agency to scale-up and develop creative that would work on a multi-market/multi-state basis. The media-buying side of the business could continue to be served by local agencies. Creative, though, could migrate towards those advertising agencies which

invest in lottery, develop better creative, and provide it at a lower cost.

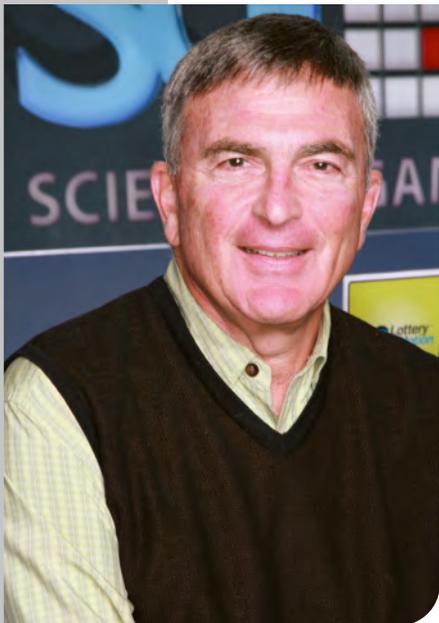
Insofar as superior advertising could be produced at a lower cost to individual lotteries, lotteries can and should make the argument for quality and efficiency over localism. The need for the state to optimize its advertising and marketing communications should trump the desire of local ad agencies to keep the creative in-state. Quality would come from using national ad production capabilities (which are too expensive for most lotteries to underwrite). Efficiency would come from spreading these production costs over multiple clients, as well as from national advertising spot buying (primarily for national games). And to the extent that the instant ticket vendor community can encourage their clients to coordinate instant ticket launches, national advertising could also be used to promote certain instant tickets, especially licensed games. Localism would continue to be served by local media buying and, importantly, local promotion activity.

So how will lotteries benefit from such a revamped, and concentrated, ad agency national strategy? First, the quality of advertising will drive revenue growth. As new game developments and launches become a larger component of portfolio expansion, the role of advertising to inform and educate our customers will become even more important. Customers are used to seeing national-level quality in almost all advertising and product categories. Most products sold in our retail stores have national quality advertising support (beverages, snacks, gasoline, etc.) while purely local spots can appear amateurish and can occasionally generate skepticism (car dealers?).

A national ad agency could create several spots for the same game, to be used by different jurisdictions as they see fit for their particular local demographics. Larger states even might experiment with different spots for different markets within their states, based on similar considerations of local demographics. In creating multiple spots for the same game, agencies would benefit by being able to assess the effectiveness of different spots. Much like the instant ticket vendor community provides "index" performance measures for various games, agencies would have data to support the use of different spots (e.g., "This spot indexed at 170 in these three states, but this spot did 220 in this other state."). The entry of Big data into the realm of advertising effectiveness evaluation would have a profound impact on the tools we use to analyze and improve upon the entire scope of lottery advertising.

It's true that changing the business dynamic of lottery advertising involves a lot of separate moving parts. And this being the lottery industry, nothing moves quickly. The first step is for lotteries to begin to remove any localism requirements from future ad agency RFPs. This will open the door for existing agencies, whether holding-company-owned or independent, to build their competencies, invest in the lottery sector, and pursue multiple contracts in multiple states. Parallel with such a change, lotteries should begin to give weight in their RFPs to firms that have current and prior industry experience. Demanding that a firm know our business and have had relevant experience will go a long way to creating larger lottery agencies. (We would never entertain a central system contract bid from anyone but

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Steve SAFERIN

President, Properties and Chief Creative Officer,
Scientific Games

PGRI Introduction: *As all the various gaming categories become available and accessible to everyone, the consumer is driving change on the supply side of the industry. As founder of MDI Entertainment, which became a fully owned subsidiary of Scientific Games in 2003, Steve Saferin has been the creative impetus behind many innovations in the lottery industry. He shares his vision for how and why convergence will be the catalyst for ongoing Lottery innovation, growth and prosperity.*

Paul Jason, PGRI: *Twenty years ago, or even three years ago, it was commonly thought among lottery professionals that playing the lottery is different from “gambling.” Lottery players do not go to casinos and vice-versa. Is that changing?*

Steve Saferin: Of course that is changing, and it has big implications for the entire games of chance industry, including Lottery. Twenty years ago, the only casinos were located in Nevada and New Jersey and on a number of Native American reservations. So the U.S. consumer had to incur the time and cost of getting on a plane to go to a casino. In a jurisdiction that had a lottery, tickets were ubiquitous. Lottery was sold, and is still sold, in retail stores everywhere—many of the very stores where the consumer is already shopping. The change over the past 20 years is based not so much on shifting consumer preferences, rather on the shifting marketplace and the availability of casino gaming to nearly all Americans. I would suggest that although people wanted to migrate across game categories, they did not be-

cause it was simply inconvenient for them to do so. All forms of gaming and gambling are now readily available and accessible to consumers no matter where they live. Well over half of the U.S. population resides within a half-hour drive from a casino. And the internet has spawned the creation of whole new categories of gaming, from entertainment games like Angry Birds™ or Candy Crush, to social casinos, fantasy sports and, in the U.S., the very beginnings of online real money gaming.

I’m not sure how useful it is to ponder the definition of gambling and whether playing the lottery is gambling. I have little doubt that casino and online gaming is more dynamic than lottery play. There are sound and motion and special effects. By the same token, no form of gaming provides the same opportunity to secure a life-changing prize than the lottery. I have no doubt that there are hardcore gamblers—a small percentage with gambling problems and the majority without—and that there are some games that appeal to this segment of the player base more than others. How-

ever, the broader marketplace enjoys games of chance as a perfectly healthy entertainment activity that happens to include the possibility of winning something. This broad segment of recreational players does not get on a plane to travel long distances and stay in hotels for the purpose of gambling. Players of lottery games fall into this gamer category. These same players may enjoy other games of chance to be played either at casinos or online. The point being, with the convergence of gaming the vast majority of recreational players are happy to find their gaming opportunities at lottery retailers, online or at brick-and-mortar casinos. This presents an opportunity for us to provide them with a uniform and consistent experience across all types of gaming.

Lottery has always thought of itself as a monopoly or just competing for the “entertainment dollar.” Insofar as consumers are migrating across multiple game categories, doesn’t that change this picture in an important way? What implications do these trends have for Lottery?

S. Saferin: The widespread availability of options that exists today is continuing to evolve in ways that represent both an opportunity and a competitive challenge for Lottery and for all operators of games of chance. On the one hand, lotteries are now in a competitive environment. They are not just competing for the gaming dollar, rather for a broader “entertainment dollar.” The recreational gamer is migrating across categories, and so Lottery is competing not only with operators that offer games of chance but also with other forms of entertainment. And the variety and quality of options in the games of chance industry are increasing. So the challenge to attract and hold the attention of the customer is increasing. Customer acquisition and retention will be the biggest challenges for lotteries in the future just as they will be for all gaming operators. It’s clear that the way to prosper in this type of an environment is to make all of the experiences as robust and integrated as possible. Lottery must look at the broader spectrum of gaming to discern what appeals to the consumer and try to integrate fresh and exciting new game attributes into their game designs and concepts. Although Lottery games may not be as dynamic as slot machines, we can still look at trends in player behavior that are being revealed in these other sectors and see things that we can do to enhance the lottery playing experience. If we want to attract casino players, we should look at what appeals to casino players and, within the limitations of lottery game mechanics, try to integrate some of the game attributes that are popular in casinos. Or we can make lottery play complementary to casino play—or both.

Another source of ideas—mobile and internet games that are strictly for entertainment are incredibly popular. For example, playership in social casinos is increasing at a huge rate. It seems clear that this growth stems from the entertainment value of social casinos. And these players might be potential consumers of lottery or other gaming opportunities that offered a

chance to win something. If we want to attract consumers who love the experience of non-money games, let’s analyze those games, get creative and think of ways that we can loop some of the attributes of those non-money games into the lottery playing experiences because they have such incredible consumer appeal.

I would think that the consumer will be attracted to a one-stop-shop gaming destination. Look at the success of Walmart and supermarkets over retail stores that specialize in a limited selection. Look at the success of Amazon, which now sells everything under the sun. Won't the consumer be attracted to the operator which makes it super easy to access the whole variety of games, whether that is online or in a retail store?

S. Saferin: In the long run, operators of games of chance that offer the largest variety of playing experiences will likely have an advantage over those that stick with a limited portfolio of games. It’s the game content, the quality and appeal of the games themselves that will attract the consumer to play. And it is taking that same content and offering it to players in a variety of different formats and environments. That is what convergence is all about.

And good game content may well be the catalyst that causes players to migrate from one category to another. More to the point, it would be a mistake for lottery operators to think that good game content being offered online or at a casino would not cause lottery players to channel their spend over to the hottest new game in town. As the variety and excitement of games increase, Lottery really has to up its own game to keep its appeal, even with the proverbial “core” lottery players.

S. Saferin: I think so. I don’t think there is a bright line that separates a gambler from a non-gambler. There’s more of a continuum with people having varying degrees of willingness to risk a little bit of money for some entertainment and chance of reward. Look at the popularity of so-

cial casinos, where people spend money with no chance of winning anything. How much different is that from people putting quarters in a pinball machine just for the fun of it with no hope of winning a monetary reward other than a free game? There is a huge consumer group that places a high value on the entertainment experience. So would this group be averse to winning a reward for good performance in the games they enjoy playing? Conversely, there is a huge consumer group that plays in casinos and plays as much for the fun of playing than for the objective of winning money. They sit down at a slot machine with a set amount of money expecting a lengthy entertainment experience but not really with the expectation of walking away with a profit. These players are, of course, much different than the hardcore gambler who really cares little about the entertainment experience of the game and who only plays for the chance to win. For the most part, hardcore gamblers are not the target of lotteries, although there are hardcore lottery players who are more interested in winning than the experience.

Lottery can do a lot to expand its reach by creating more entertaining games that will appeal to non-money gamers and casual casino gamers. The more entertaining player experience may also appeal to the core players and go a long way toward retaining the traditional lottery players. And if we do not enhance and vary the entertainment value of the games, I would be concerned that lottery playership could diminish. We do not need to target the hardcore gamblers. We do need to expand our view of Lottery to include those consumers in the broad midsection of the continuum that value both entertainment and the chance to win a reward or money.

How can the entertainment attributes of social casinos and other new forms of entertainment gaming be applied to Lottery? Are there fundamental limitations to our ability to jazz up the lottery games, to apply new

game concepts to lottery, given some of the immutable attributes and limitations of lottery gaming?

S. Saferin: That's the question. We are certainly working hard on developing fresh, new and exciting game content for lottery players. As you point out, there are limitations to what can be done with the lottery products. Innovation is happening, and it needs to happen. The payout percentage in casino games is so much higher than it is in Lottery. That does not mean that Lottery can't compete with casino gaming. There are lots of reasons to play a game. We just need to think more expansively about the value proposition. We won't ever be able to compete on prize payout percentage, so how can we compete? We are working on ways to integrate social gaming into Lottery. The challenge with that is that the "freemium" model is what the consumer has come to expect: free play to attract players and then charges for premium content. Lotteries are presently not quite geared for that kind of revenue stream. In fact, this is an example of what Lottery needs to be more receptive to doing. Without a non-gaming revenue stream, it is not clear what the path to social gaming for lotteries could be. Casino operators are moving aggressively in that direction because it is a good business on its own and because it generates players for their more traditional business. So it is a good time for Lottery to imagine new approaches and try to think differently.

It does not cost much to give away free online product. So what would be the obstacle? Is there regulatory or perhaps underlying political resistance?

S. Saferin: Lotteries already give away free product on occasion. They do have couponing for free games or BOGOs (buy one, get one free). However, it's much more limited than the freemium model practiced by the big online operators today.

It is a mistake to think that it does not cost much to give away free mobile and

internet product and game content. The purpose of giving away free product is to acquire new customers who are then more likely to pay for premium product. So you're basically talking about the cost of player acquisition, which can be high when you consider the advertising required to gain awareness for your online offer. It is the highest line item cost for social casinos, fantasy and other forms of non-gambling internet and mobile gaming. If the cost of player acquisition is amortized over the entire player base, then it might not seem too high. When amortized over the pool of players who actually migrate to the pay-to-play options, it is much higher. The solution for lotteries is likely to be something different than the freemium model. While lotteries may never function like a social casino, they should try to think bigger and more openly about how to take full advantage of the assets they do have and try to be flexible to explore options and models that have never before been considered.

From a public policy point of view, why couldn't Lottery be the one to operate social casinos?

S. Saferin: That's entirely possible. I think that the next great frontier in lottery offerings may be sports betting. The new commissioner of the National Basketball Association (NBA) has said several times that he sees nothing wrong with sports betting, and in fact he thinks proper regulation of sports betting is inevitable. He believes that the leagues can profit from sports betting in a variety of different ways, including higher television ratings. Think about what that could mean to Lottery. The first public policy question would be: Who is going to operate and sell sports betting in the US? And what is a more trusted and secure sales environment than Lottery? This is a template that already exists in many jurisdictions around the world. Governments elsewhere have entrusted their lotteries with the business

of offering sports betting for good reason, and hopefully they will apply this model in the U.S.

Bringing together the IP, research and development, and underlying brain-trusts of Scientific Games, WMS and Bally would seem to deliver great synergies that will result in fantastic game content.

S. Saferin: Exactly. Our CEO, Gavin Isaacs, points out that it's all about game content. Content is what attracts the consumer. Content is what retains the player. And content is what we all need to focus on. Cross-pollination of creative is already yielding dividends, and that will only increase over time. The lowest-hanging fruit is to take what has been successful house brands in slot machine gaming and license those brands for lottery instant games. It is an easy fit that has already been done for years. Even before our acquisition of WMS, MDI had a licensing deal with IGT for many of their house brands. MDI licenses many of the same third-party pop culture brands for instant games that are used in slot machines. Sharing brand licenses is one of the main synergies between Scientific Games, WMS and Bally. Applying the licenses to new game styles like social gaming is another form of content cross-pollination.

The main idea is that more resources can go toward game development because the potential payoff is much higher. Scientific Games is now involved in all game categories, which means that any successful concept can potentially now be quickly applied across the entire universe of gaming. A successful concept will have a higher ROI if it can be leveraged across multiple game categories. Higher ROI will drive the development of more and better game content, which will drive sales. This will in turn free up even more resources for R&D, which will further the positive feedback cycle.

Scientific Games is also in a better position to understand player behavior as it

manifests in all game categories. The consumer experience is about much more than buying a lottery game. Having a looking glass into all forms of consumer behavior as it relates to gaming and gambling in all its forms will enhance our understanding of the lottery player. What attracts players' attention to the game in the first place? How do they feel after they buy a lottery game? How can we dig deep to understand their entire range of thoughts, feelings and motivations to increase the appeal of the entire consumer experience? Working closely with our colleagues across the combined company has opened our eyes to many insights that will inform our creative production for our lottery customers.

Insofar as the markets are converging, doesn't that mean that Lottery is competing with the casino sector? As a supplier to both sectors now, does Lottery need to be concerned that your best ideas and product and service may migrate to the highest bidder?

S. Saferin: No. It's about applying the best ideas and products in the way that will work best in the consumer marketplace. It is the consumer who is driving convergence, not Scientific Games, not casino operators and not Lottery. The convergence of the supply side and operator side

of the business is simply to align with consumer demand. This alignment will create a much more rational and efficient allocation of resources to develop the brightest ideas and best products and bring them to the marketplace in the ways that best serve the consumer. I will point this out: Lottery has instant access to what is by far the most massive consumer marketplace of any gaming category. Lottery's network of retailers and advertising and promotional infrastructure is far more powerful than online gaming and land-based casino operators. Products that can work at this very large scale will be launched with Lottery. On the other hand, casinos and online operators are a more efficient channel to test and develop really innovative game concepts. Exhibit A might be social casinos. As the supply side of the business fine tunes its understanding of how to optimize the performance of an innovative new game concept, the concept can then be overlaid onto the Lottery model. Lottery does not want to be the proving ground where higher risk, lower predictability, and ongoing test and revision of the concept are the norms. Ideas can be tested on a small scale, assessing the reaction of varying psychographic profiles and demographics, and

then scaled larger amidst continued testing and analyzing until we fully understand how to make sure it will work on the grand scale that is Lottery. Our lottery customers will absolutely benefit by our ability to integrate idea and product testing and development under all varieties of gaming marketplaces and conditions.

Lottery's brand image and network of retailers really can't be replicated.

S. Saferin: Casinos and online gaming will never have the quality and quantity of Lottery's consumer connection. It's not just about the number of consumer touch points, although this is a mission-critical differentiator. It also involves the quality of the brand image and the scope of Lottery's reach across all consumer groups. There is a platform there that positions Lottery to be the singularly most powerful operator of very-large-scale gaming products. And what is so different about Lottery is that there is often only one lottery per jurisdiction, with the exception of some international jurisdictions where there may actually be a few lotteries. We are able to take proven content and customize it for each lottery customer rather than launch games into a crowded, competitive field. ■

Piet Van Baeveghem Interview ... continued from page 21

serve the EU Commission and not vice-versa.

P. Van Baeveghem: It is true that the Commission believes strongly in the principle of free movement of services and that they see it as their mission to overcome any and all obstacles that get in the way of its implementation. Of course, the principle is the basis for a dynamic capitalist system that promotes innovation, economic efficiency and progress, lower prices to the consumer, and ultimately more wealth for society. The principle of free movement of goods and services is upheld by everyone who believes in the efficacy of the European Union. The implementation of this

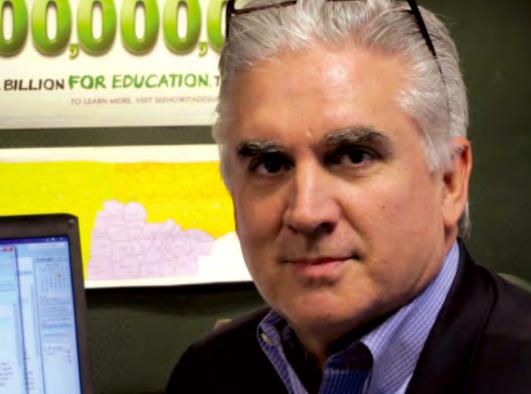
principle across all of Europe really is the reason why the Union was created. Gambling and lottery however have the potential for higher social costs and criminality, and that is why member state governments should be allowed to enforce their own regulatory frameworks. It is for the preservation of what we call Public Order.

Member-states vary widely with regard to the degree that the gambling and lottery industries are liberalized, opened up to free-market competition. There is not a one-size-fits-all solution when it comes to the preservation of Public Order. Isn't that why it is so terribly

misguided to attempt to impose harmonization onto the gambling and lottery industries? Isn't that why the regulation and taxation should be left wholly up to the member-states?

P. Van Baeveghem: Exactly. The market in Denmark is far more free and open than the market in Belgium or Germany. It is fine for Denmark to choose that degree of liberalization. It is not fine to insist that all EU member-states be forced to apply that degree of liberalization. Member-states should be allowed to apply higher standards of protection for the consumer if they choose.

... Continued on page 65



TOM JURKOVICH, VICE PRESIDENT,
CORPORATE AFFAIRS, TENNESSEE EDUCATION LOTTERY CORPORATION



Tennessee
Lottery
Joins
Retailers
Across the
Country in
“Black Friday
/Cyber
Monday”
Promotion

LIKE ANY SMART BUSINESS SELLING A CONSUMER PRODUCT, SUCCESSFUL LOTTERIES ARE always exploring responsible ways to attract and retain customers. At the Tennessee Lottery, we invest much time and effort into how we employ the traditional strategies, such as advertising our games in every imaginable format and channel—from outdoor billboards, television, print and radio ads, to the Internet and social media platforms. We design colorful, eye-catching Point-of-Sale pieces in a variety of styles to ensure every customer at any retailer location knows about our products and the entertainment value they offer. We conduct numerous and varied promotions to catch the interest of the playing public. And, perhaps most important, we put enormous emphasis on developing our instant tickets; always pushing to bring a variety of fresh, fun, innovative games to the market, giving the player plenty of choices in themes, price points and play styles.

While many factors contribute to a successful lottery, these particular efforts—game development, marketing and advertising—have been an explicit part of our formula for continued growth. And, thanks to the inspired efforts of many, it’s been working: In Tennessee, we closed out Fiscal Year 2014 with our 10th consecutive year of record-breaking sales.

Still, calling upon the usual array of techniques sometimes can only take an enterprise

CYBER MONDAY DEAL DAY!
Selected items discounted up to **20%** while supplies last!
Shop for sale items throughout the VIP STORE
between 8 AM and 8 PM CT on December 1.

BLACK FRIDAY DEAL!
**VISIT TNVIPSUITE.COM
TAKE 15% OFF YOUR ENTIRE
ORDER FRIDAY ONLY**
PROMO CODE: BLACKFRIDAY14
• After all chosen items are in your cart enter this single use code for 15% off the overall points!
• Code can be used for merchandise or digital downloads but not both.
• Good from 12:00 AM through 11:59 PM CT Nov. 28, 2014.

to a certain point. New ideas are always at a premium in the ongoing effort to appeal to the playing public, particularly in this transitional era in commerce, when brick-and-mortar and online/digital business models both compete and collaborate in the modern marketplace. The lottery industry, with its myriad sources of regulation and oversight, is especially challenged in this environment to operate creatively as a market-driven business. But therein lies the opportunity. This is the fundamental nature of the modern lottery—a business enterprise, albeit one obligated to pursue proceeds in a responsible fashion, that provides a product and competes for consumers' discretionary dollars in the same manner as countless other businesses. That being the case, it can often make sense to adopt practices and strategies common to the more typical commercial world. In other words, since we're not the only industry selling a consumer product, why not study what has worked for others?

Recently, a brainstorming session of our marketing staff at the Tennessee Lottery inspired us to venture down a path familiar to all shoppers. It's a promotional concept that has succeeded in the retail world, so much so that it has become a household term across the country and signifies the official kick-off to the Holiday shopping season: "Black Friday"—known to all as the day after Thanksgiving. And, as online shopping has gained widespread popularity, "Cyber Monday" has joined as a second day for aggressive promotions and major discounts via online channels.

In particular, we were looking at new ways to grow participation and increase activity in our online player affinity, or loyalty, club, known as the "VIP Players' Suite[®]," another concept relatively new to the U.S. lottery industry but common place in the corporate world. At the VIP Players Suite[®], registered players will find the "VIP Store," full of assorted merchandise they can "buy" with VIP Points earned from entering eligible tickets. In this fashion, players are rewarded for purchasing and entering tickets.

Hoping to take advantage of the near-universal public awareness of the Black Friday/Cyber Monday retail phenomenon, we designed a lottery promotion using the same concepts and one-day-only discount strategy. For this first-ever promotion, we offered a 15 percent discount on the entire catalogue of VIP Store items on Black Friday, and jumped it to 20 percent off on select items on Cyber Monday. We communicated the promotion through website banners, social media (Facebook, twitter, Instagram) and a "teaser" email to existing VIP members. Not sure what to expect, we sat back and waited.

The results were highly encouraging. The Black Friday/Cyber Monday promotion at the Tennessee Lottery's VIP Players Suite[®] produced significant increases in every available metric, particularly on Black Friday. In the end, we got what we were looking for: New players, more activity from existing players, more points redeemed and more items sold. Here's a summary of the performance data for those two days:

BLACK FRIDAY:

- 23.4% of the promotion code users were first-time redeemers at the VIP Store
- UNIQUE REDEEMERS: Increased 439% over Black Friday 2013 (and 608% over the average of the four Fridays preceding the promotion)
- ITEM ORDERS: Increased 621% over Black Friday 2013 (and 808% over the average of the four preceding Fridays)
- SITE SESSIONS: Increased 34% over the average of the four previous Fridays
- POINTS REDEEMED: Increased 611% over those redeemed on Black Friday 2013

CYBER MONDAY

- UNIQUE REDEEMERS: Increased 112% over Cyber Monday 2013 (and 284% over the average of the four Mondays preceding the promotion)
- ITEM ORDERS: Increased 177% over Cyber Monday 2013 (and 373% over the average of the four preceding Mondays)
- SITE SESSIONS: Increased 57% over the average of the three Mondays preceding the promotion
- POINTS REDEEMED: Increased 89% over those redeemed on Cyber Monday 2013

We entered into the promotion expecting some measure of success but unsure if it would translate into results this impressive. Tapping into the pre-existing public excitement over Black Friday/Cyber Monday provided a sought-after spark for our VIP site. The outcome validated our instincts and has inspired us to explore other strategies more typical of non-lottery commerce. And that's been the fundamental lesson for us: Be creative, look to successes in the retail world, and don't be afraid to try new approaches. The possibilities are endless. ■

Offer new content. Welcome new players.



Choose an iLottery solution that grows your business and supports your good causes. GTECH™ offers a complete selection of interactive lottery products that are available to play today. With more than **130 options**, simply pick themes, games and supporting features that fit your player needs and get online!

Come and see how GTECH can help you succeed online at ICE 2015 | N3-160.

LOTTERY + SPIELO + **INTERACTIVE** + BETTING

All Together  **GTECH™**

GTECH and the Georgia Lottery's Comprehensive iLottery Game Offering

Following a controlled test period during which interactive games were gradually introduced to the Georgia playing public, the Georgia Lottery recently became the first lottery in the U.S. to offer a full complement of iLottery games. Adults over the age of 18 located within Georgia state lines can now play traditional draw based games, iKeno, and instant games at various price points – the most diverse and comprehensive online content of any U.S. lottery – on the Internet at mygalottery.com.

Fueled by GTECH's full suite of interactive technology, content, and services, the Georgia Lottery's iLottery offering combines enhanced play experiences with online convenience. GTECH's solution for the Georgia Lottery also provides player protection and responsible gaming features, as well as a complete view of the interactive player.



mygalottery.com Home page

Georgia's iLottery launch strategy included a deliberate rollout schedule and the creation of working partnerships with all its stakeholders, including players, the Georgia public, advocacy groups, and the retail community. The Lottery invited customers to play online before the official launch and gathered their feedback, ensuring that the final site and games are not only entertaining but user-focused, user-friendly, and player protective. The soft launch was accomplished with no marketing spend on the part of the Lottery and no pushback from Georgia retailers. Even so, Georgia Lottery's online sales have continually improved with the introduction of each product, and the Lottery is forecasting \$25 million in Internet sales this fiscal year.

According to Debbie Alford, Georgia Lottery Corporation President and CEO, deploying iLottery games was a logical step

for the Lottery. "You have to reinvent the marketplace to grow in this digitally competitive world. We're innovating around the iLottery opportunity." She views the benefits this opportunity will bring to Georgia as threefold: "The convenience and timeliness of the online channel will grow sales and participation with our games through new players who currently are not going into retail outlets; it will integrate and provide a richer experience for our players who move between retail and the Internet; and it gives us the opportunity to have a direct player relationship, allowing us to migrate the anonymous player to known monetized relationships." Players may add funds to their Lottery accounts via their debit cards (Visa, MasterCard, or Discover), ACH bank transfer, and cash deposits at Georgia Lottery retailers through their iHOPEcards.

iKENO

Georgia's iKeno game (supplied by GTECH), introduced in December 2013, is synchronized with and directly mirrors the Lottery's Keno game at retail, with real-time drawings every 3.5 minutes.

The number of possible spots, wager amounts, and advance draw options are identical

to those available at retail. Players can watch the drawing as it happens (or any time after they purchase the ticket on Georgia's KENO! To GO site); as the numbers are drawn, matching numbers on the player's ticket are highlighted. As of August 2014, the offering also includes Bulls-Eye, the new iKeno add-on game where players can win larger prizes by matching one of the 20 winning numbers randomly selected as the Bulls-Eye number at the end of each KENO! drawing. The Georgia Lottery is the only U.S. lottery to offer iKeno, and the results have been very favorable, with online sales now accounting for nearly 8% of all of Georgia's Keno ticket sales.



Georgia's iKeno game offers all the options available at retail.

eINSTANTS

Included in the Georgia iLottery offering is a full line of eInstants provided by GTECH, branded in Georgia as Diggi Games. All are available in both "Buy" and "Try" modes to allow players a no-risk way to sample the game before purchase; surprisingly, 75% to 82% of plays are purchases, not trials. Although Diggi Games represent an entirely new product for a new market (an important distinction for Georgia's retailer association) they feature the same great attributes – engaging game play, fun graphics, attractive payouts (slightly better than at retail), and near-win opportunities – that make Georgia's traditional instant games so popular.

The Lottery is taking a portfolio approach to eInstants, and its Diggi Games include some of the best content from GTECH's 100+ title game market. From an initial offering of 4 games available to 5,000 randomly chosen active players (June 2014), Georgia's Diggi Game collection has grown to include 10–

12 games, at prices ranging from \$.50 to \$3. These include "click and win" games that reflect instant scratch card play styles such as Key Numbers Match and Match 3, revamped with interactive twists; core games such as Crossword and Bingo, enhanced with new and exciting graphics and superior playability; and innovative extended play games that provide the player with a prolonged, immersive experience.

Alford credits the Lottery's commitment to player satisfaction as well as the diverse online content mix enabled by GTECH's large game library for much of Georgia's eInstants success: "In the digital space, we need to keep things fresh, so each visit offers something new. We stay actively engaged with our players and monitor feedback closely. Just a few months in, we are already expanding the game offering, which is a simple process with GTECH as our partner. Their advanced system allows us to select games with themes that fit our players and then quickly configure game payouts and prize amounts."



Exciting graphics and immersive game play, including potentially two bonus rounds, help make the \$1 Diggi Game "Dabloons" a Georgia iLottery player favorite.



To shake up the holiday season, the Georgia Lottery introduced four seasonally themed eInstants into its Diggi Game rotation, including \$.50 "Sugar Cookies" and \$3 "Snow Globe Bonus."

DRAW BASED GAMES

Completing the Georgia Lottery's iLottery offering are the multistate draw based games Powerball and Mega Millions and Georgia's in-state draw game, Fantasy 5, all launched in November 2013 and all available as both single draw and extended play. Like KENO!, Internet wagering on these draw based games mirrors that found in the retail environment.

INTEGRATING INTERNET WITH RETAIL

To support iLottery gaming, the Georgia Lottery and GTECH also introduced the iHOPEcard – the first Lottery-branded debit card linked to a player's eWallet – which extends Georgia's Internet players' Lottery accounts to retail. Winnings of \$5,000 or less are paid directly to the card; players can withdraw the winnings as cash through an ATM or use the card to purchase lottery products at Lottery retailers and non-lottery products

wherever Discover cards are accepted. Lottery purchases are “closed loop,” which means there are no interchange or card processing fees for the retailer (standard fees apply for non-lottery purchases). Players can also use their iHOPEcard to validate winning instant tickets at retail to their Lottery account. In addition, 30% of Internet players venture into retail to top up their iHOPEcards.

The iHOPEcard provides the first opportunity in the U.S. for a lottery to track player behavior and spending within and across multiple channels (retail and Internet). Together with player analytics derived from Internet play, the iHOPEcard helps improve the Lottery’s understanding

of the consumer and the purchasing decision. From that, the Lottery plans to tailor communications based on an understanding of that individual’s play.

RESPONSIBLE GAMING CONTROLS

GTECH worked with the Georgia Lottery to construct an interactive gaming offering that adheres to the highest standards of responsible gaming and player protection. “Georgia’s online gaming site was built to guide players to play responsibly,” said Matteo Monteverdi, GTECH SVP iGaming & SVP Americas Interactive. “It offers multiple controls to keep play levels where the player wants them, and provides visible gaming updates such as session time lengths as well as quick access to call center support.”

Daily, weekly, and monthly wagering limits are preset; the site also allow players to set lower wagering limits and to self-exclude. Full player registrations, with external Know Your Customer confirmation, is required, even to play the “Try” (non-purchase) games.

iGAMING BY DESIGN – A PLAYER-CENTRIC APPROACH

Through a very deliberate rollout schedule, the Lottery solicited feedback from customers invited to play online before the official launch, to make certain that the site is user-friendly and the games offered are fun and engaging.

To help the Georgia Lottery realize its interactive vision, before the iKeno launch, GTECH commissioned YouGov/Definitive Insights to conduct a study to determine receptivity to the idea of online KENO!; understand key features and characteristics that would encourage or inhibit trial; evaluate how the overall online experience compares to known/familiar KENO! game play; ensure the game is easy to understand and play to attract new players; and explore potential site enhancements to increase enthusiasm and keep gamers on the site, playing more draws. This included two 90-minute, focus groups, each with 30 players consisting of a mix of current, light, lapsed, and non-KENO! players. These groups included hands-on game play to enable players to actually experience what the iKeno game could be.

“We believe that the convenience and timeliness of the Internet channel will facilitate incremental growth for the Georgia Lottery and maximize revenues to enhance educational funding.”

Debbie Alford, President and CEO,
Georgia Lottery Corporation

Georgia’s Diggi Game offering was refined over several months during which GTECH and the Lottery engaged Gamers Insights Group to conduct Web research in an effort to better understand Lottery players’ interest in this type of game. Georgia Lottery “Buyers,” “Triers,” and “Non-triers” were surveyed online (either via a pop-up survey invitation after

two-game-buying instances or via an email invitation). They were asked about the potential as well as the strengths and opportunities for improvement of eight different instant games. Across three points in time, of the 225 Buyers responding, on average, 74% “agreed completely” that Georgia Diggi Games “are fun to

play,” 71% that the games “take the right amount of time to play,” and 61% that the games “add excitement to playing Lottery.” A little more than half of Buyers across three waves of the study said that Diggi Games’ entertainment value caused them to play more overall. Feedback from the study also showed that adding games adds purchases – almost one in four Buyers bought all eight games offered at the time – and that progressive jackpot games hold the most potential for future Diggi Game expansion.

To help ensure Georgia’s iLottery success, GTECH has worked closely with the Lottery so that the games offered and the site itself meet player demand and exceed player expectations. In addition to conducting research on the Lottery’s behalf, GTECH provides the Lottery with:

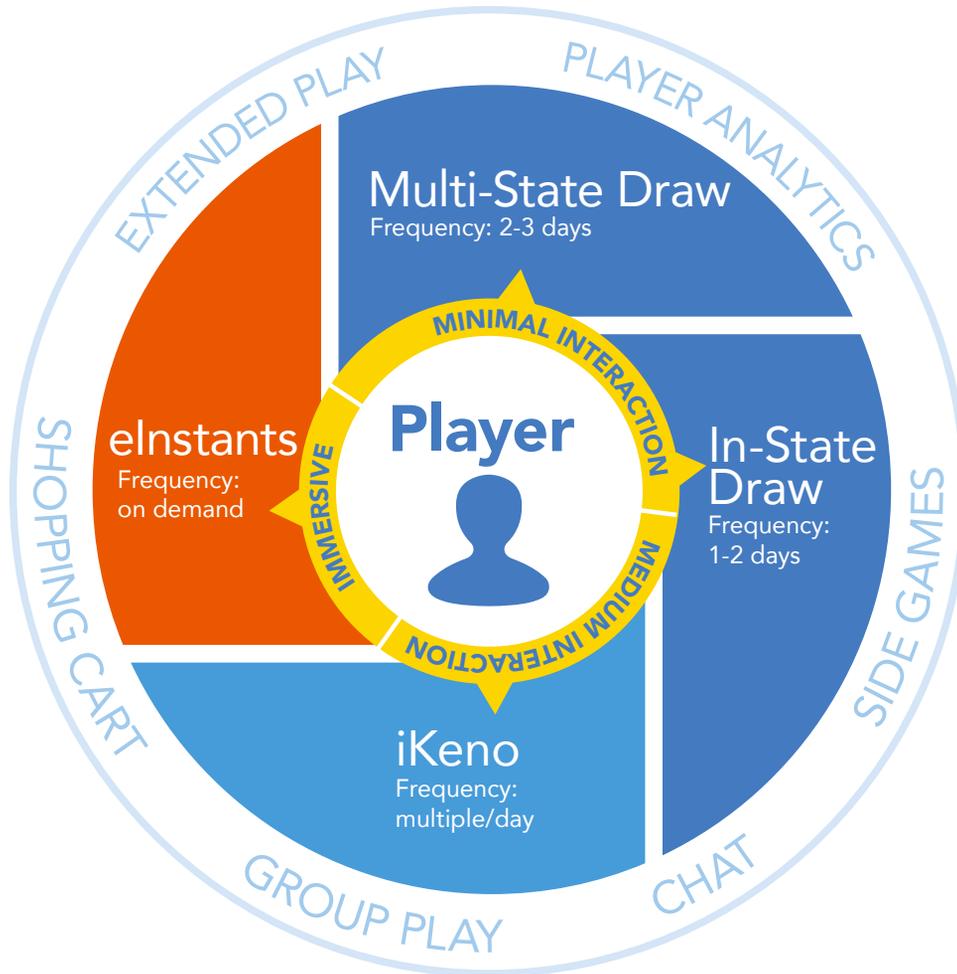
- » Pool management services: No need to pull tickets when top prizes are won.
- » Portfolio marketing services: Managing the existing game portfolio as well as adding new game offerings.
- » Marketing services in the following areas:
 - » Business analytics: Measuring and evaluating business KPIs and making recommendations for areas of improvement.
 - » Customer Relationship Management: Communications and retention strategies and tactics.
 - » Player Experience: Enhancements to the player site experience.

WHAT’S NEXT

Building on the success of GTECH’s mobile offering in Illinois, where more than a third of interactive sales come from the mobile channel, Georgia will be moving to mobile in the second half of 2015. This is an important aspect of any iLottery program, since research shows that 50% of buyers use a smartphone or tablet to make or research purchases.

The Lottery also plans to begin actively marketing its iLottery offering to consumers in 2015, taking advantage of the CRM and player analytics provided by the current program.

GTECH iLottery Player Experience



GTECH's holistic iLottery solution includes a full spectrum of games and play styles to suit every player's desire, mood, and availability at any point in time as well as a wide selection of features designed to enhance player engagement.

While numbers games and additional elements of GTECH's full iKeno solution are not currently included in Georgia's launch plans, GTECH's full iLottery offering includes chat functionality and side games to prolong visits and encourage cross-play.

GTECH'S iLOTTERY GAME SOLUTION

GTECH approaches iGaming from a lottery perspective. GTECH's all-inclusive interactive game solution offers lotteries easy access to innovative and imaginative games, making it a win-win solution for the industry's next generation of iLottery. Its already large eInstant game library will soon be expanded with more, and more diverse, game selections than ever.

GTECH provides safe, secure, and entertaining interactive solutions to lotteries and around the world. In addition to Georgia, GTECH's North American interactive customers include the Illinois Lottery, the British Columbia Lottery Corporation (BCLC), Loto-Québec, and, most recently, the

Ontario Gaming and Lottery Corporation (OLG), which launched its new iGaming site, PlayOLG.ca – driven by GTECH interactive technology, content, and portfolio management and player services – in January 2015. GTECH launched the first and only legal poker network in North America, the Canadian Poker Network, in December 2010 through an agreement with the BCLC and Loto-Québec. In June 2014, GTECH, Loto-Québec, and BCLC launched North America's first government-regulated interactive bingo network, offering GTECH games to adult residents of British Columbia, Manitoba, and Québec. In Europe, GTECH's interactive lottery customers include Veikkaus Oy in Finland, Norsk Tipping in Norway, Austrian Lotteries, and Svenska Spel in Sweden.





BY CHIP POLSTON, VICE
PRESIDENT, COMMUNICATIONS,
GOVERNMENT AND PUBLIC
RELATIONS, KENTUCKY
LOTTERY CORPORATION

As lotteries begin to move toward the Internet for ticket sales, a variety of responsible gambling issues arise. While academically-based research on the topic is somewhat sparse, a combination of research findings and best practices can help lotteries launch a site in as responsible a manner as possible.

One of the more interesting pieces of research examining Internet problem gambling issues was presented in 2009 for the Ontario Problem Gambling Research Centre. Titled “Internet Gambling: Prevalence, Patterns, Problems and Policy Options,” the research was conducted by Dr. Robert Wood and Dr. Robert Williams of the University of Lethbridge in Alberta.

Much as you would expect, Wood and Williams found that the prevalence of problem gambling is three to four times higher in Internet gamblers as compared to non-Internet gamblers. But interestingly, their research appears to counter the contention that the introduction of Internet gambling creates waves of new problem gamblers.

What they found was that the number of gambling formats engaged in is more powerful than any other variable – including the demographic ones—in predicting internet gambling behavior. The key point is this—Internet gamblers have higher rates of gambling involvement in every type of gambling. When looking at the types of gambling formats Internet and Non-Internet gamblers had engaged in within the past year of when the research was conducted, they found:

- 73.4% of Internet gamblers had played a game of skill (such as online poker) versus 16.4% of non-Internet gamblers.
- 44.1% of Internet gamblers had bet on a sporting event versus 7.9% of non-Internet gamblers.
- 15.6% of Internet gamblers had bet on a horse race versus 4.7% of non-Internet gamblers.

Wood and Williams also uncovered insights into other habits of Internet gamblers when the study was conducted in 2008. They

RESPONSIBLE GAMBLING BEST PRACTICES FOR INTERNET SALES

found these prevalence indicators for Canadian Internet gamblers:

- They were predominately male (82.4%).
- The large majority were employed full or part-time, but a minority are retired or are students.
- The most common marital status was single (49.0%).
- Canadian Internet gamblers had a wide range of educational levels, but on average were slightly better educated than most Canadians.
- They had higher household incomes (\$74,600) as well as an average household debt (\$78,056) which is about \$20,000 higher than Non-Internet gamblers.
- Canadian Internet gamblers had relatively high past month rates of substance use, 39% for tobacco and 23.3% for street drugs (versus 28.7 % tobacco and only 6.1% street drug use for non-Internet gamblers).
- They were also regular users of the Internet, they used it more frequently and for more things compared to Non-Internet gamblers.

Based on their work, the researchers concluded the following:

“It would seem that while Internet gambling is an important contributing factor to gambling problems in a portion of problem gamblers, it does not appear to be the main cause of problem gambling for most of them. This is consistent with the notion that Internet gamblers are heavy gamblers to begin with who have simply added Internet gambling to their repertoire.”

So what can a lottery do to mitigate the social costs of problem gambling when looking to enter the online realm? The National Council on Problem Gambling (US) has in place a comprehensive set of standards and best practices for Internet gambling. Many of their recommendations are already in place in the handful of US states which have begun online sales. A brief overview shows some of the recommended best practices:

- **Limit setting:** Players are encouraged to set weekly or monthly deposit, loss or time limits through information provided by the operator online or with a customer service agent. Players have the option of setting daily, weekly or monthly limits on the size of deposits, a system-wide loss or time limit, and the option of setting individual

... Continued on page 64



SUSAN GOLIGHTLY,
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Is “Jackpot Fatigue” the real problem?

When we take pain relief for a reoccurring headache but don't stop to figure out what triggered the headache, we feel better for a short period, but it is likely we'll soon be suffering again. The pain is temporarily suspended, but the underlying problem isn't addressed. We could continue in this cycle for a while, but eventually it is likely the pain relief will lose its effectiveness or stop working all together. That's because the headache isn't the problem. It's a symptom. Whether it's a headache or a business challenge, addressing the problem, and not just the symptom, is necessary for sustained improvement. When solutions only address the symptoms, fixes tend to be short-term. The result is that companies expend resources solving the same problem repeatedly but ultimately realize little forward progress. It's important to understand the total picture, bringing all the relevant points into view and differentiating between the symptoms and the underlying problems.

This is true for Bloc Lotto. Given the relative importance of Bloc Lotto to net income stabil-

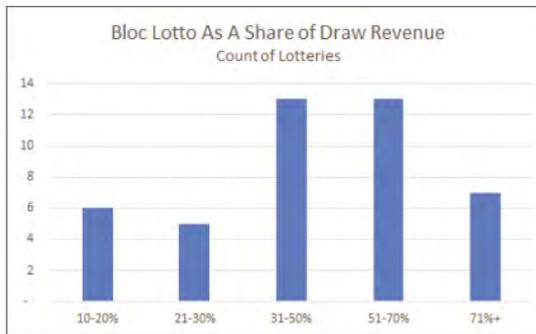


Figure 1.0 Lotteries Dependence on Bloc Lotto
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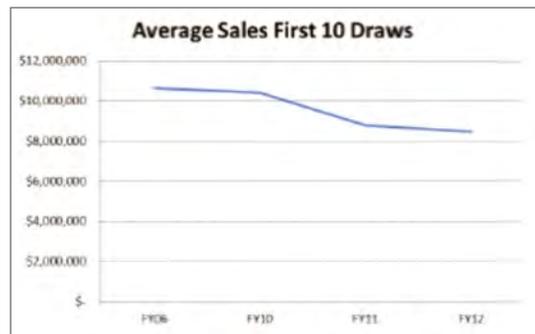


Figure 2.0 Hoosier Lottery's Historic Powerball Trends
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ity for most lotteries, addressing the negative trends is understandably, a priority. For 33 lotteries, Bloc Lotto represents 30% or greater of draw revenue (and a greater percentage of net income). But before devising solutions, it is important to differentiate between symptoms and underlying problems. Because “jackpot fatigue” isn't the problem, efforts built around “fixing” it will likely continue to yield disappointing results. Instead, “jackpot fatigue” is and has been a symptom of a bigger problem.

PRESSURE ON BLOC LOTTO GAMES IS NOT A NEW TREND

For many lotteries, FY14's results were troubling and FY15 current YTD is alarming. But these results do not represent a new trend. When extraordinary events (Like the addition of Florida and California and cross-sell on the positive side, bad winter weather on the negative) are adjusted for, downward trends and signs of instability have been present for some time. For the Hoosier Lottery (where I served as

marketing director for close to 6 years), as is likely for many lotteries across the United States, the negative sales trends started a number of years ago. When we looked at the average revenue for the first ten draws, we saw a relatively consistent downward trend. Events could temporarily disrupt the trend, but it would always return. The trend was as troubling in 2012 as it is now. Although

Bloc Lotto revenue is by its nature unpredictable, we knew the revenue from the first ten draws reflected strength of the game as it was an indicator of playership, frequency and regular engagement.

Over the past few years, initiatives such as \$2.00 Powerball, Cross-sell, new prize structures as well as a few really big news jackpot runs allowed the industry to temporarily suspend the pain. But for those who looked closer at the data, the alarming signals remained present. To varying degrees, just a few weeks in the year (the occurrence of extraordinary jackpot activity) made significant differences in the net income many lotteries were able to achieve. But these extraordinary occurrences couldn't be counted on and replacing this revenue has proven difficult for most. While the cumulative good work of many across the industry yielded some short-term relief, it did not yield sustainable revenue increases. Many (if not most) lotteries soon found themselves back in a precarious revenue position and each time returning to the previous state more abruptly than the time before.

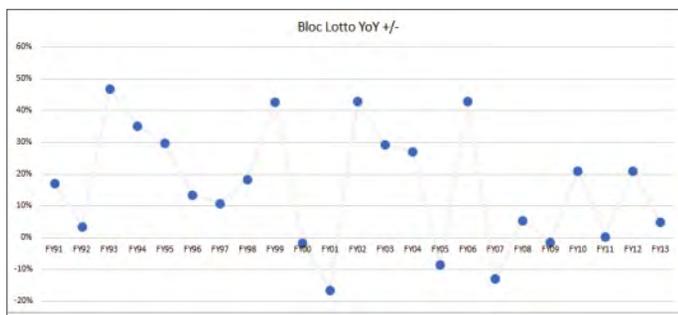


Figure 3.0 Industry Bloc Lotto YoY%
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IF JACKPOT FATIGUE ISN'T THE PROBLEM, WHAT IS?

It isn't unrealized store optimization and it isn't needing new jackpot signs at retail and it isn't too few jackpot alerts on TV, nor is it lack of branding, nor any number of the numerous other tactics many in the industry have deployed. While some of these have proven to drive revenue growth, only a few have proven to do so with a positive ROI. In Indiana we tried most of the traditional tactics that many list when talking about Bloc Lotto best practices. We found digital jackpot signs did deliver double digit net incremental gains. But given the costs of the signs and sign maintenance, those gains could only yield a desired ROI in retailers with a large enough sales base. We also found that with a considered media strategy, jackpot alerts on the radio delivered an ROI, but TV did not (there was a lift, but the lift was never big enough to pay for the buy). There were a number of other efforts including terminal promotions, digital couponing, branding at sponsorship events, and more. As has likely occurred at many lotteries, some of these

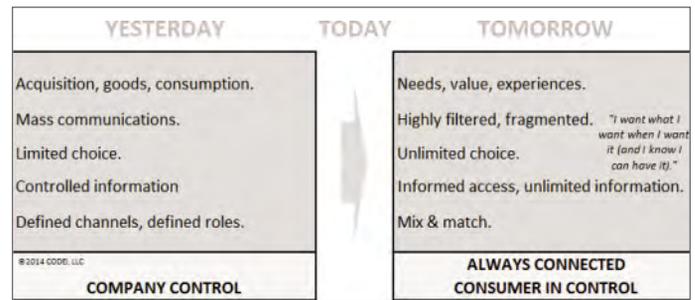


Figure 4.0 The Changing Consumer
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initiatives delivered incremental lifts and ROI and some did not. Ultimately, though, all of these were able to only have iterative vs. transformative impact and could not reverse the downward trends. One of the oldest maxims in marketing remains truer today than ever. No matter how good the rest of the "Ps" are, they ultimately cannot overcome a Product problem. The problem isn't "jackpot fatigue," but it is "product fatigue."

The significant efforts to keep the Bloc Lotto games fresh are to be commended, but at the end of the day, they remain aging brands. They are aging brands in a world that expects fresh, new and different. It is now a world where "gaming" means any number of things. Games are the biggest category in the App store and games on mobile phones are refreshed monthly (if not more). Consumers have an unending amount of ways to spend their discretionary dollars and just about everything they need is simply "one swipe away." It is within this environment that Bloc Lotto, with a play experience that has remained virtually unchanged, is trying to compete. It's more though than simply Bloc Lotto product fatigue.

Lottery is competing in a world where consumer expectations are changing (figure 3) and digital has now surpassed TV for screen time. Many lotteries are seeing negative playership trends across most game categories and age groups as well as apathy regarding lottery in general. It isn't that many (or most) consumers dislike lottery, it's simply that for them, lottery is losing its relevance. And it is within this world that lotteries must gain/regain relevance in new ways, engage players with different types of experiences and bring value to their players and their retailers in fresh new ways. In lottery products, that means content, communications and distribution. Strategies and traditional tactics that delivered growth for Lotteries over the past twenty years can't be counted on to do so for the next twenty years. Many traditional tactics and best practices will continue to be a part of the solution, but new strategies and tactics will be needed to keep lottery as a preferred entertainment choice.

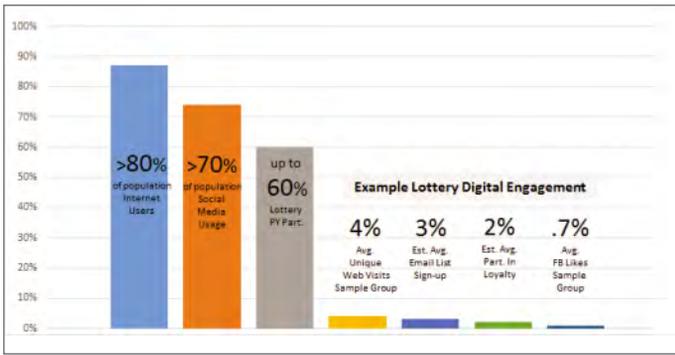


Figure 5.0 Lottery Digital Engagement
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DIGITAL CHANGES EVERYTHING, INCLUDING EXPECTATIONS

Nearly everyone, Millennials, Generation Xers and Boomers, is engaged with digital, yet many lotteries have yet to be able to successfully engage the majority of their player base in the digital space. Even with recent playership declines, the numbers of people who played a lottery game in the past year remains substantial. It varies by jurisdiction, but upwards of 60% of Americans have played lottery in some form in the past year. That is the good news and it is an amazing testament to the enduring appeal of lottery. Unfortunately, only a fraction of those are engaged with lotteries online. It is the digital space that consumers turn to for just about everything including fun, entertainment, games, social connection, communication, solutions, shopping and shopping assists. Well just about everything, except lottery.

When thinking about digital, it is important to recognize that online is not a channel in which communications are to be pushed. Nor is it merely a transaction channel. Online is a new way to engage with the audience and is resetting the experience expectations for all goods and services. Experiences, lottery or otherwise, are now being measured by the leaders in retail, consumer goods, social brands and gaming (mobile, social and otherwise). Perceptions and expectations for “gaming” are changing and lines across all devices and types of games are blurring. Both consumers and retailers expect the companies with whom they do business to leverage data and technology to make everything easier, more relevant, better, and more valuable. Whether played or purchased in-store or online or both, digital is a key part of the search, find, value and experience. Consumers are looking for an omni-channel experience and retailers are looking for help in delivering one. Traditional channels and tactics are not going away tomorrow, but how they fit into the overall mix and how

much they can be counted on to drive revenue growth is changing. In a big way.

FIXING THE PROBLEM STARTS WITH THE CONSUMER

While increased spending, game changes, store optimization initiatives and interesting new communication efforts may help to slow the decline of Bloc Lotto (or any of the existing games), these tactics will not ultimately provide sustainable improvement. Or at least not on their own. To remain among consideration for the hotly contested entertainment and gaming dollars, lottery, like every industry, must adapt to the new needs and expectations. That is, building and delivering a data-driven, customer centric organization with operations, content and value built around the customers and their needs. Also like every industry, this change

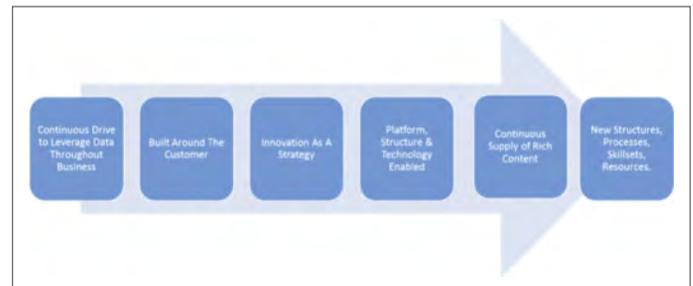


Figure 6.0 Attributes of Success
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isn't simply a few new positions or a few new tactics. The systems, software, infrastructure, processes and approaches that supported lottery growth up until now are not those that will drive sustainable growth into the future. More specifically, the “system” built to support repetition, scale, distribution and stability will need to make way for a “system” designed to support sophistication, integration, agility and specialized solutions for specialized markets. There is much work to do by lotteries, their suppliers, their partners and their retailers to imagine and effect the multi-faceted change that is necessary. This type of change is daunting for any organization or industry, but may be especially so for most lotteries given their tight business models and lean staffing. But it can be done and securing revenue growth into the future demands that it be done. It won't happen overnight and it won't all happen with easy success. But it is doable with the right focus, support and commitment, by all lotteries regardless of their structure and their current set of resources. And maybe then, “jackpot fatigue” will become a thing of the past. ■



Racing for lotteries: an exciting in-store player experience

by **intralot**

Jim, a dedicated horse racing fan from England, now in his early seventies, has recently moved to Malta to enjoy his golden years after retirement. When he decided to settle in the sunny Mediterranean island, he felt he would probably miss his favorite pastime. He was quite surprised as he discovered that he could walk into any lottery shop and watch his favorite races live, as exciting an experience as when he was back home.

Maltco, lottery operator of more than a decade now in Malta, after launching an already large portfolio of games for all tastes, decided to introduce betting on premium international horse racing. After all, betting on horse racing apart from being a game with high payouts, allows also a more-than-welcomed commingling opportunity. The relatively small Maltese population can now join multi-million jackpot-generating pools from major international racetracks.

In its endeavor to launch horse racing betting with the most efficient way possible, Maltco utilized “Racing for Lotteries” an INTRALOT concept, which was developed exactly for this purpose: To offer Lotteries a flexible, customizable, end-to-end turn-key, customizable solution, for a fully featured Racing product.

For Malta, with its British cultural influences, the product customization chosen was Horse Racing among UK and Ireland, Sweden and South Africa.

“Racing for Lotteries” actually offers a variety of options. In other local operations for example, the chosen content were Greyhound races, with a very wide range of fixed-odds betting markets being offered. British Greyhounds are now among the most successful gaming events in Bulgaria, Azerbaijan and contribute valuable revenue to several other territories.

Product delivery incorporates many available solutions for retail or online sales channels and is highly flexible to accommodate any operator’s infrastructure. For example in some cases INTRALOT’s versatile Horizon multimedia signage system was used to implement an in-shop IP Live Racing channel, while in other cases a sat-

ellite TV channel was the chosen solution. In all cases, data content and commentators are localized, making the whole experience feel as familiar and player-friendly as possible.

In other markets, virtual or pre-recorded races (as exciting fast-draw alternatives), were offered as main products on their own TV channel, or as fillers between Live Racing events. The wide content library collection allows choosing among Horses, Greyhounds and Motor Races depending on local preferences.

However, bringing a Racing product into a retail network requires also some additional marketing insight, since the investment should address to a wide clientele of “regular” players and not be limited only to the dedicated fans. After all, racing events are very frequent throughout the day and it does make sense that betting is made easy and fun to play, for as many customers as possible. Horse Racing is a simple game to play and relatively easy to win when you have to choose from 15 horses. Greyhounds have more randomness in their results and are even easier to win with only 6 runners. So what customers rather need is the tools to facilitate their predictions whether they opt for a favorite by following tips or performance history, or going for a “lucky shot” by making their own random selections or by letting the system choose for them, according to their stake. All these tools are indispensable utilities available on retail or online sales channels.

What INTRALOT made possible through the “Racing for Lotteries” concept, is to offer a new and complete gaming variant that brings more revenue opportunities, via an impeccable product delivery and optimized tools based on good marketing practices. Operators are now allowed to diversify their games portfolio with a fresh and exciting Racing offer.

So Jim can keep betting on his favorite races as an experienced player, side by side with the new players who just discovered the exciting world of racing. ■

THE PERSONALIZED MAKING A REAL CONNECTION

“A key to marketing in the digital age is simplifying the customer experience.”

IT IS A MARKETING DREAM THAT UP UNTIL NOW HAD BEEN UNOBTAINABLE FOR MANY LOTTERIES.

Imagine a customer walks into his local convenience store. As he approaches the counter, a display suddenly flashes callouts from his favorite lottery games. When he leaves, and another steps up to the counter, the display changes again, matching the lottery products with the customer.

At one time this may have seemed like an impossible dream. Responding directly to consumer preferences and demands for convenience can be a real challenge in traditional retail. However, that experience is a reality for lotteries with an iLottery strategy.

The retail world is shifting from broadcasting goods and services to a wide audience, to more direct two-way communication based on the consumer's actual behavior. This is a Customer Relationship Strategy (CRS), an online marketing and point-of-sale interface that provides a fully personalized experience for each customer.

Most online retailers have, for some time, been personalizing the shopping experience by retaining information about products viewed in past searches, sending customized messages regarding sales, and recommending products. This is now standard operating procedure for big online retailers such as Amazon, Alibaba and Walmart.

Although limited CRS techniques are being used in bricks-and-mortar retail channel, advanced techniques to connect lottery customers with specific products remain mostly out of reach. But thanks to the move to iLottery, this is becoming a reality.

In the iLottery industry, the CRS concept is called the Player Experience & Lifecycle Management strategy (PELM). When introduced correctly, PELM relieves the fatigue that comes when online customers are bombarded by too many interactive features.

“A key to marketing in the digital age is simplifying the customer experience,” said Doug Pollard, Co-Chief Executive Office, NeoPollard Interactive. “We need to help our customers by giving them a clear path to the things they really want. Most people already have too many choices overall and too many links and buttons to click in their life. With lotteries, we want them to get a direct, personalized experience.”

Traditional product placement and marketing is, and will continue to be, extremely effective for those customers who have a preference for purchasing lottery products from their local retailers.

However, for many digital customers, especially younger demographics, iLottery is a totally personalized, immediate and convenient solution for their lottery needs. From login to logout, iLottery can provide the most relevant content for each player, and allow that content to evolve as the player's preferences change.

Best of all, an iLottery platform allows for the collection and analysis of player data in new and dynamic ways.

Lotteries have traditionally relied on broad market surveys and segmentation studies to categorize consumers and sort them into groups based on

DIGITAL EXPERIENCE: WITH THE MODERN CONSUMER

stated behaviors, preferences, and demographic characteristics.

However, as lottery customers in the traditional retail environment do not identify themselves or share personal information when they make a purchase, there are limits to the data that can be collected. Lotteries are, in essence, analyzing the marketplace, rather than the customers themselves.

iLottery collects ACTUAL player data based on several key information domains. These include:

- Demographic and geographic information;
- Game preferences such as draw-based games, instant games, or Keno;
- Preferred channels of play (web-based or mobile);
- Play frequency and timing;
- And spending patterns.

“Some people think that when we say ‘Big Data,’ it’s just a term that has nothing to do with their business,” said Moti Malul, Executive Vice President, Technology, NeoPollard Interactive. “Big Data is the lifeblood of a digital platform. And with iLottery, Big Data is available now to lotteries of all shapes and sizes.”

Malul said this data allows lotteries to better group players into specific segments based a player’s ACTUAL behavior and habits. As well, this data can then be used to customize the individual lottery experience by offering customized products, promotions and other information, Malul added.

In his experience with a European Lottery, Malul explains that it has nearly 100 different player segments. This represents a significant increase compared to the typical five to eight broad segments that traditional segmentation studies define.

Once the data has been captured and analyzed, Malul said iLottery can expand the relationship between customers and a lottery in various ways. These include:

- Game personalization. Once players have logged back into the

iLottery site, they are greeted by a dynamic representation of their favorite or most recently played games. This ensures the players are not distracted or disrupted by a deluge of information or images about games they traditionally do not play.

- **Device of Choice:** The right iLottery platform can easily store information about whether an individual player prefers a desktop or mobile experience to access iLottery offerings. This not only determines the platform, but also the preferred “channel” and informs customer and channel -specific game recommendations and promotions.
- **Personalized Communications:** Rather than relying on traditional mass media advertising, iLottery allows for personalized jackpot and product introduction notifications based on the type of game, size of prizes and theme.
- **Storing Favorite Numbers:** For draw-based games, iLottery allows players to store favorite numbers for future use. This can be a powerful and popular tool for individuals that have a special connection to a group or series of numbers.

iLottery and the data it produces has the ability to broaden player-ship, a key to increasing sales. It also provides a better understanding of game and play preferences. This will allow lotteries to enhance the player experience in a way that can be modified and updated for years to come.

In an age where so many people are turning mobile and online friendly retailers for everything from transportation at your fingertips (Uber), and accommodations (Airbnb), to more traditional goods and services, it is essential that lotteries explore, to the extent they are able, the opportunities available from a digital platform.

The best news of all? All the data that lotteries need to bring their marketing into the digital age is out there, just waiting to be discovered. ■

2014 A PHOTO RETROSPECTIVE





LOTTERY EXPO 2014



2014 LOTTERY INDUSTRY HALL OF FAME INDUCTION CEREMONY





NASPL 2014



i-Gambling falls far short of projections in Nevada, New Jersey and Delaware.

The following is largely based upon a much more detailed Report by Adam Krejciak, Managing Director of Digital & Interactive Gaming at Eilers Research, LLC, titled U.S. iGaming Outlook for 2015 & Beyond. The information is shared with their permission (Thank you, Eilers Research!). Keep in mind, please, that some observations or interpretations may be PGRI's and not Eilers. Further, no information contained in this report shall constitute as a recommendation or solicitation to buy or sell a security.

Eilers Research, LLC is a boutique research firm focused on servicing the gaming equipment, technology, and interactive gaming sectors within the global gaming industry. Its products and services include market research, equity research, and consulting services designed specifically for land based & online casino operators, equipment & technology suppliers, social gaming operators & suppliers, gaming regulators, and investors. www.eilersresearch.com

Two years ago, industry analysts and prognosticators were predicting a transformational impact from the launch of i-gambling in Nevada, Delaware, and New Jersey. The predictions turned out to be wildly optimistic. The Eilers Research Group proffered market-sizing projections that were much more conservative than other analysts. Actual results failed to meet even these conservative estimates.

New Jersey Forecasts for iGaming Projections for Year 1 (in \$millions)	
NJ Government 2014 Budget	\$1,200
Wells Fargo	\$650–\$850
Morgan Stanley	\$541
H2 Gambling Capital	\$410
Econsult	\$266 Gambling Data \$235–\$288
Fitch	\$200–\$300
Eilers Research, LLC	\$170–\$200
Innovation Capital	\$150–\$200
Actual 2014 Results	\$122 (Estimate)

So, actual results in New Jersey came in lower than the lowest, most conservative estimates, and almost 90% below that of the NJ government budget office estimate. The launch of iGaming in Nevada (poker-only) and Delaware has also underwhelmed. The Report envisions limited opportunities for future growth, even projecting CY 2015 revenues to decline year-over-year in both NV and DE.

HOW COULD ACTUAL RESULTS FALL SO FAR SHORT OF PROJECTIONS?

The short answer is that revenue expectations were unrealistic. Additional to that is the expansion of the broader online entertainment and gaming industry, providing an incredible variety of playing experiences. The state-by-state rollout is also limiting the promotional impact of the launch and other customer-acquisition initiatives, and also the ability to build scale for multi-player games. These market-making dynamics are not likely to change. In fact, the competition for the attention of the consumer is likely to intensify further. So it won't get easier for i-gambling operators to gain traction, it will get harder. This is the short answer that over-simplifies the assessment of a complex situation. I-gambling is a tremendous growth industry, just not as tremendous as was hoped. The business models that will prove to be successful are still evolving, and the economics of operator i-gambling services will likely be problematic, at least in the short-term.

The first order of action is to revise revenue projections to reflect the promise of a new industry, but also the realities that it will not support an influx of investment capital and industry capacity that exceeds the ability of the market to absorb. i-Gaming will evolve as a complementary component of the broader Gaming industry and should not be viewed as a way to solve state budget deficits or as a meaningful new growth driver for the commercial companies who provide the technology, websites, and service for the industry.

The Report also injects a caveat that the widespread adoption of online sports betting would likely change the entire picture, perhaps dramatically. The entry of California into the online gambling market would also be a big boost to the industry. There is not enough information, though, to be confident that either of those two events are imminent.

Not only have revenues fallen well below expectations, but profitability remains

an elusive goal for just about every major iGaming operator/technology supplier, and many have now been forced to cut back sales & marketing efforts. Too, the momentum for other states to move forward with i-gaming initiatives may be diminished by the downward adjustment of revenue and profit projections.

Silver linings to this scenario: It appears that there is little cannibalization of land-based casinos (are you listening, Mr Adelson?), and there are no major technical or security glitches or problems with age and location verification.

The Report also indicates that the emergence of new forms of online entertainment will continue to have an impact. Social casino games (i.e. free-to-play poker, bingo, and slots games) as well as Daily Fantasy Sports have proven to be hugely popular. The Daily Fantasy Sports market was essentially formed as result of a legal carve-out in UIGEA of 2006, which classified fantasy sports as a game of skill and not subject to the same regulations as Internet gambling. The Report also observes that neither of these forms of online entertainment even existed in the halcyon days of online gambling pre-UIGEA (between 2003 and 2006). The explosion of recreational gaming options (money and non-money games alike) is impacting the entire gambling industry, including land-based casinos, as the consumer divides her discretionary spend among more and more options. Las Vegas strip casinos, for instance, now generate 65% of their revenue from non-gaming amenities.

Mobile sports wagering, which often goes unnoticed and is not classified as "interactive" revenues by the Nevada Gaming Control Board, is growing. The Report estimates that over 50% of all sports GGR in NV will be generated via a mobile application. Perhaps this is indicative of a broader shift to Mobile applications in other game categories as well? ■

PGRI Introduction: *PGRI commends the tremendous efforts of NCLGS and everyone involved in creating this Framework that empowers state governments to continue to be the entity that determines regulatory and taxation policy as it relates to gambling of all kinds, including i-gambling.*

This NCLGS comprehensive Policy Framework is testament to the fact that there is no reason for the federal government to interfere with the role of state governments when it comes to regulating and taxing i-Gambling. PGRI had the privilege of talking with NCLGS Treasurer and Nevada State Senator Greg Brower to clarify and reinforce the objectives of the Framework.

- *The Framework is a set of guidelines created to help ensure that i-gambling initiatives meet the highest standards of quality, reliability, and security; provide effective responsible gaming tools, and otherwise meet the public policy objectives most consistent with the interest of everyone (general public and players alike).*
- *The Framework is not binding, and will not be submitted as federal legislation. In fact, its purpose is to give states the guidance such that intercession from the federal government in matters of regulation and taxation will not be necessary or even relevant.*
- *It has always been the role of the federal government to assist in the enforcement of laws and regulations in jurisdictions outside of the United States. That applies to all state laws, economic sectors, and judicial matters, not just i-gambling. It also does apply to i-gambling and no additional legislation is needed to engage the federal government in the dispatch of its existing duties. That would include the prosecution of i-gambling operators based outside of the U.S. who violate the laws of states within the U.S.*
- *This Framework neither conflicts with nor relies on the efficacy of the Unlawful Internet Gambling Enforcement Act of 2006 (UIGEA). Insofar as the UIGEA serves a useful purpose in the enforcement of laws that prevent unlawful internet gambling, then it works alongside a policy frameworks that guides effective implementation of lawful internet gambling.*

PGRI Looks forward to working more closely with NCLGS to help inform legislators and all stakeholders in government-gaming about the need for effective guidelines and procedures, and to disseminate information and resources that help the industry to evolve in the ways most beneficial for society.

THE NATIONAL COUNCIL OF LEGISLATORS FROM GAMING STATES (NCLGS) Officially Adopts Groundbreaking Policy Framework for Internet Gambling

On January 10, during a special session that concluded more than a year of expert comment and legislative debate, the National Council of Legislators from Gaming States (NCLGS) adopted a groundbreaking U.S. Policy Framework for the Regulation of Internet Gambling for states that wish to allow i-Gambling within their borders as well as for states that do not. Lawmakers adopted the Framework during the NCLGS Winter Meeting, after reviewing the latest round of proposed amendments.

According to NCLGS President, Rep. Helene Keeley (DE): The Framework is a unique way to address the challenges and opportunities that come with regulating Internet gambling and offers a real-world approach to ensuring that citizens are protected. Thanks to the input of a myriad of interested parties, the Framework is balanced and informed and, I'm proud to say, is a hallmark of NCLGS efforts to date. It's time for states that are inclined to welcome Inter-

net gambling to take an in-depth look at what the Framework has to offer. In general, the Framework lays out standards for states that want iGambling and offers various protections for states that don't, as well as promotes security and uniformity in states that may wish to form multijurisdictional i-Gambling agreements.

The Framework addresses, among other topics, player protections, payment processing, problem gambling, age verification, geo-location, and player identification, taxation, regulatory authority, licensing, multijurisdictional agreements, enforcement, and game choice and legality.

Amendments adopted during the January 10 Executive Committee session, among other things:

- clarify that NCLGS neither supports nor opposes Internet gambling
- identify specific items that legislation to encourage fair play should

address (e.g., technical standards, detection/prevention of cheating and theft, system security, player multi-accounting, retention of all gaming/account/system historical info for ten years)

- enhance disclosures to consumers
- allow neighboring jurisdictions to share technology
- specify additional ways to protect player funds (e.g., trusts or sureties, reimbursement of player funds following cheating/fraud/theft, policies for addressing dormant player accounts, etc.)
- encourage states entering into multi-jurisdictional agreements to consider equivalent standards related to investigations, enforcement of findings, and criminal prosecutions

POLICY FRAMEWORK FOR THE REGULATION OF INTERNET GAMBLING

Adopted by the NCLGS Executive Committee on January 10, 2015.

Recognizing both the threats and opportunities posed by new technologies and Internet gambling, the National Council of Legislators from Gaming States (NCLGS) has compiled suggested policy standards for Internet gambling legislation.

NCLGS believes an effective regulatory and licensing system for states wishing to participate in Internet gambling should increase public trust and confidence in legalized gambling, inhibit wagering by underage or otherwise vulnerable individuals, ensure that any games offered through the Internet are fair and safe, contain enforceable restrictions on unlicensed Internet gambling operators, and create jobs and economic development. Specifically, the policy framework was developed to address the following key legislative priorities:

- foster effective regulation and cooperation among states
- promote strong, stable, and diverse state economies
- protect both states that wish to participate in Internet gambling and those who do not
- facilitate cooperation and information exchange among state policymakers and gambling regulators
- support uniformity in Internet gambling legislation while protecting states' rights to regulate gambling within their respective states
- establish minimum "benchmark" requirements for states that wish to adopt Internet gambling
- support the establishment of strong consumer protection and responsible gambling standards
- research differing proposals and views regarding taxation and revenue sharing for interstate Internet gambling
- explore differing views on appropriate regulatory models and structures for Internet gambling

NCLGS believes that the standards contained in the framework should serve as a guideline, but should also evolve in response to

emerging state needs, trends, and advances in technology—in order to be of the greatest assistance to states. The framework will provide a model for policymakers considering enacting Internet gambling legislation within their respective states, as well as, multi-jurisdictional Internet gambling initiatives.

The following topics are addressed in the Framework:

1. PLAYER PROTECTIONS

1.1 Standards for data protection. Legislation should contain requirements for high standards for data protection, similar to standards followed for Internet banking, in order to minimize the risk of theft of monies or personal information. These standards should include protections of players' personally identifiable information, financial transaction information and Internet account information.

1.2. Fair and appropriate dispute resolution mechanisms. Legislation should require that licensees develop dispute resolution mechanisms that are fair and reasonable for any problems associated with player accounts. Legislation should require regulations to include an appeals process for players with the state regulatory authority where such disputes remain unresolved or if the resolution is not satisfactory to the player.

Legislation should require multi-jurisdictional agreements to afford the regulatory authority the authority to determine and enforce a final appeals process for players of their own jurisdiction.

1.3 Procedures for fair game play. Legislation should contain specific policy objectives to make sure that licensees conduct their games honestly and fairly and player collusion is prevented. Legislation should require regulatory standards to address licensing and certification of Internet gambling software, hardware and network systems for: technical standards for the shuffle and deal of the cards; detection and prevention of cheating, fraud and theft by site personnel, players or third parties; systems cryptography and security; unauthorized use of software aids by players; and player multi-accounting. Legislation should require operators to retain historical records of all gambling, account and systems history for a minimum of ten years to facilitate investigations.

1.4 Notice to players of operator policies. Internet gambling websites should be required to clearly and conspicuously notify players of their policies regarding software aids, dispute resolution, payment processing, gambling promotions, privacy protection, gambling fees, and the odds of winning, where appropriate, such as with state lotteries, and other similar issues relevant to player protection.

1.5 Reasonably tailored advertising restrictions. States may wish to consider, pursuant to the U.S. Constitution, individual state constitutions, and other state and federal laws, reasonably tailored restrictions on advertising in order to curb misleading advertisements and protect consumers.

1.6 Common regulatory, technological, and testing standards.

States may wish to consider sharing common technology for eGambling games to eliminate multiple certification of the same equipment in neighboring jurisdictions with slightly different technical standards.

2. PROBLEM GAMBLING PROTECTIONS

2.1 National Council on Problem Gambling (NCPG) Internet Responsible Gaming Standards. In January 2014 NCLGS passed a resolution supporting the NCPG standards as best practices for responsible Internet gambling. The standards include, among other things, information on staff training, player assistance procedures, self-exclusion policies, advertising and promotion, free play games and site features, research, and dedicated problem gambling funding. Similar standards should be contained in any legislative proposals.

2.2 Pro-active problem gambling measures. States may wish to consider policies that obligate licensees to adopt appropriate pro-active measures to detect potential problem gambling behaviors, including automated systems for behavior analytics.

2.3 Information sharing and self-exclusions lists. Currently, a number of states do not allow information on individuals who have self-excluded to be shared across state lines. Any multi-jurisdictional agreements should consider whether to establish procedures for information sharing, with strong security protections, in order to ensure that problem gamblers are adequately protected.

3. TAXATION

3.1 Taxation rates and federal law. Tax rates should be crafted to ensure they comply with federal laws, such as the Internet Tax Freedom Act.

3.2 Taxation rates and methods. While creating uniformity of policy is an important goal, each state's gambling market, population size, and market demographics are unique and taxation rates and methods should be established based on that. For that reason there is no recommendation on a suggested tax rate or method.

4. LICENSING

4.1 Licensing standards for operators. As relevant for Internet gambling, the character, honesty, criminal history, associations with criminals, financial resources, gambling and business competency of those subject to suitability determinations should be appropriately considered in the licensing process.

4.2 Service provider licensing and general services. General services providers who do not provide services directly related to the operation of gambling or the security of games and gambling platforms should not be required to obtain a service provider license.

5. ENFORCEMENT

5.1 Anti-fraud and anti-money laundering policy. Depending on the state's existing laws, the state legislature may find it in the state's interest to pass additional laws providing new or enhanced tools

for state law enforcement agencies to ensure that fraud and money laundering do not occur in connection with Internet gambling. For example, delineated rule-making authority should include "among other things" within the language.

5.2 Authority for regulators to define cheating. Depending on the state's existing laws, the state legislature may find it in the state's interest to pass additional laws to provide regulators with authority to define cheating in terms of collusion, illegal software, illegal scripts, and other issues. New or enhanced penalties may be required to properly police online cheating.

5.3 Effective detection and blocking of illegal gambling operations. Depending on the state's existing laws, the state legislature may find it in the state's interest to pass additional laws providing methods to detect, block, restrict, or otherwise penalize illegal Internet gambling operators. Multi-jurisdictional agreements should provide for the co-management of enforcement efforts between and among member jurisdictions, while allowing each jurisdiction to retain authority over gamblers within its borders.

6. PAYMENT PROCESSING

6.1 Use of credit, debit or prepaid cards to fund gambling accounts. As a matter of policy, legislation may seek to limit the use of credit cards, or access to credit for Internet wagering. Other forms of electronic payment as far as debit cards and forms of prepaid cards should be determined by the regulator, in order to respond effectively to changes in technology.

6.2 Restrictions on in-person cash deposits. As a matter of policy, legislators may wish to consider prohibiting or mandating that regulators have specific requirements regarding cash transactions, as an anti-money laundering mechanism.

6.3 Methods for withdrawal. As a matter of policy, legislation may direct regulatory bodies on broad standards for payment processing, but the specific methods of funding and removing funds from accounts should be determined by regulations. Overly prescriptive statutes may impede use of the best and most appropriate payment processing technologies.

6.4 Protection of player funds. Legislation should consider how best to protect player funds, such as requiring account segregation, trusts, or sureties; reimbursements of player funds by operators for losses due to cheating, fraud or theft; fair policies for treatment of dormant player accounts; or stipulating that withdrawals can only be made to the same source as the original deposit, while ensuring states' unclaimed property laws are followed.

7. AGE VERIFICATION, GEO-LOCATION, AND PLAYER IDENTIFICATION

7.1 Geo-location standards. Public policy must ensure that play is only accepted from jurisdictions where it is legal and regulated. Robust geo-location methods shall be required in any legislation;

HOW THE OHIO LOTTERY TURNED HOLOGRAPHY INTO SALES

The Ohio lottery launched its first \$30 holographic game using Hazen's 3D Holo-lens® technology.

This custom 40th anniversary pattern featuring the Ohio Lottery Logo was produced with no additional cost vs. stock holographic patterns.

The result was the best selling instant game run by the Ohio lottery in the past eight years!

When compared with plain board games, Hazen's recyclable holographic games will consistently generate higher lottery sales and profits due to their increased visibility and superior performance.



Call for information:
**Bob Hazen at 1-413-538-8204 or
Scott Devens at 1-201-327-4414.**

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HIGHER VALUE AND SPECIAL EVENT GAMES ARE PERFECT FOR HOLOGRAPHY

Using holography with higher value instant games will quickly boost your lottery's profits. That's because the cost of the holography will be fully paid for with less than a 3.4% increase in sales.

Because they are "eye catching", holographic games typically generate 15% to 30% sales increases vs. plain board games and have proven to generate sales increases as high as 79%*. Holographic games are certain to increase your lottery's sales and profitability.

\$10 LOTTERY \$10

\$10 GAME

ASSUMES A 4" X 8" TICKET WITH A HOLOGRAPHIC COST OF 8 CENTS

3.4%
SALES INCREASE
NEEDED TO FULLY PAY
FOR THE COST OF
HOLOGRAPHY

**75%
PAYOUT**

**Your Lottery
Will Win**

Additional profit
per million tickets sold:

\$278,000
With a 15% increase in sales

\$636,000
With a 30% increase in sales

\$20 LOTTERY \$20

\$20 GAME

ASSUMES A 4" X 8" TICKET WITH A HOLOGRAPHIC COST OF 8 CENTS

1.8%
SALES INCREASE
NEEDED TO FULLY PAY
FOR THE COST OF
HOLOGRAPHY

**77%
PAYOUT**

**Your Lottery
Will Win**

Additional profit
per million tickets sold:

\$593,000
With a 15% increase in sales

\$1,266,000
With a 30% increase in sales

\$30 LOTTERY \$30

\$30 GAME

ASSUMES A 4" X 8" TICKET WITH A HOLOGRAPHIC COST OF 8 CENTS

1.4%
SALES INCREASE
NEEDED TO FULLY PAY
FOR THE COST OF
HOLOGRAPHY

**80%
PAYOUT**

**Your Lottery
Will Win**

Additional profit
per million tickets sold:

\$803,000
With a 15% increase in sales

\$1,686,000
With a 30% increase in sales

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* The Tennessee Lottery generated a 79% sales increase in a quantitative test that isolated holography as the only key variable. For details, visit: www.holographyx.com/TN



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however, the exact methodology, specific forms, and types of such controls should be left to the regulator to define, and should not be specified in law.

7.2 Age and identity verification standards. Public policy must ensure that underage players are prevented from wagering and play is only accepted from authorized players. Robust age and identity verification methods shall be required in any legislation, however, the exact methodology, specific forms, and types of such controls should be left to the regulator to define, and should not be specified in law.

7.3 Penalties for unauthorized play. Where necessary depending on current state law, penalties for companies that knowingly or recklessly accept unauthorized play, as well as for players that knowingly and purposefully participate in unauthorized play should be proscribed by the legislation or legislation should authorize regulators to impose such penalties. Sample penalties could include fines, account closure, and confiscation of winnings.

8. REGULATORY AUTHORITY

8.1 Future technological innovations and unforeseen changes. The state body authorized by the state legislature to regulate Internet gambling should be given broad authority, so that it can adapt to technological innovations and other environmental changes while continuing to ensure the strong and sound regulation of Internet gambling. Legislation should provide general policy guidance to the regulator and only provide specific instructions on policy areas of particular importance.

8.2 Legislative review. In order to assist with legislative oversight and ensure that administrative rulemaking produces sound regulation, state lawmakers may wish to include (1) regulatory data gathering and research requirements, and/or (2) a requirement for periodic review of all Internet gambling regulation for compliance with modern technologies and other changes.

9. MULTI-JURISDICTIONAL AGREEMENTS

9.1 Congressional consent. Multi-jurisdictional agreements having certain qualities do not require congressional consent. Such Internet gambling agreements or compact should be carefully crafted as to not require congressional consent.

9.2 Compliance with member jurisdictions' laws. For example, the New Jersey Constitution and gambling laws require that all player wagers must be processed on servers located within Atlantic City. Therefore, absent amendment to the New Jersey Constitution, any multi-jurisdictional agreement involving New Jersey would need to provide that bets from players located in New Jersey be processed only by a server located in Atlantic City. In contrast, Delaware does not require that servers be located in-state. Each state shall determine what business practice is best for that state.

9.3 Tribal government consideration. Any multi-jurisdictional

agreement should allow for participation by tribal governments, in a legally permissible manner.

9.4 Any multi-jurisdictional agreement. States entering into multi-jurisdictional agreements should consider player protections of equivalent standards in all jurisdictions and allow for cross-jurisdictional cooperation in regulatory and law enforcement investigations, enforcement of findings, and criminal prosecutions.

10. GAME CHOICE AND LEGALITY

10.1 Types of Internet gambling permitted. Each state is unique with varying priorities concerning gambling and different sensibilities of its citizenry, as such; each state should be free to decide what, if any, Internet gambling should be allowed within its borders.

10.2 Internet gambling on tribal land. In states that chose to legalize Internet wagering, and which have tribal land within their borders; Indian tribes must themselves be able to determine the legality of Internet gambling within their own jurisdictional borders.

10.3 Internet gambling and federal Indian law. The legalization of Internet gambling by any state, or group of states, shall not violate tribal government rights guaranteed through existing tribal-state compacts and through the Indian Gaming Regulatory Act.

NCLGS is the only non-partisan organization of state lawmakers that meets on a regular basis to discuss issues in regard to gaming. NCLGS does not support or oppose gaming, but supports effective regulation and believes that decisions related to gaming should be made by the citizens of the individual states and their elected officials. More information is available at www.nclgs.org. ■

The following interested parties submitted written comments between December 2013 and January 2015 to assist with the development of the framework: American Gaming Association, State Rep. Paul Clymer, Pennsylvania, The Council on Compulsive Gambling of New Jersey, Delaware Park, Dover Downs, Gaming Laboratories International, GTECH Corporation, Interactive Communications International, Inc. (InComm), International Social Games Association (ISGA), MasterCard Worldwide, National Council on Problem Gambling, National Indian Gaming Association, Netsweeper, Inc., North American Association of State & Provincial Lotteries (NASPL), Optimal Payment Services, Inc., Poker Innovations Ltd., Poker Lovers Union, Brad J. Polizzano, Esq., Larry Runkle, Martin Shapiro, PokerXanadu.com, Marco Valerio, Wali Wruble.

NCLGS would also like to thank the Alderney Gambling Control Commission, the New Jersey Division of Gaming Enforcement, and the University of Nevada Las Vegas-International Gaming Institute, for their general assistance regarding the policy framework.

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Pulse of the Industry



LOTTERY OPERATOR NEWS

OHIO, GEORGIA, MARYLAND, AND MICHIGAN PLAN TO OFFER A MULTI-STATE PROGRESSIVE KENO GAME.

A request for proposals was sought in November for a company to oversee the game and three vendors will give presentations at the end of this month, officials said at a recent meeting. Keno sales in Ohio increased almost 20% (from \$251 million to \$298.1 million) year-over-year from 2013 to 2014.

A request for proposals was sought in November for a company to oversee the game and three vendors will give presentations at the end of this month, officials said at a recent meeting. Keno sales in Ohio increased almost 20% (from \$251 million to \$298.1 million) year-over-year from 2013 to 2014.

LOTTERY SECURITY DIRECTOR FIRED AFTER CHARGES FILED IN HOT LOTTO CASE.

The odds of winning the Hot Lotto jackpot are over 29 million to one, but authorities said, Eddie Tipton, security director for the Multi-State Lottery Association, won in 2010.

FDJ HAD SALES OF €13 BILLION IN 2014, UP 5.2% thanks to the launch of Euro Millions-My Million and outstanding effect of the World Cup. Stéphane Pallez, new President and CEO of FDJ, initiated the preparation of a new strategic plan FDJ 2020: *“The year 2014 brought in games that did not exist 10 years ago, and along with the growth of online sales, testify to the company’s ability to renew its products and services. The year 2015 should be a year of consolidation of sales in an economic environment that remains uncertain. It should also enable us to prepare for the future. I wanted with my teams initiate a new strategic cycle in 2020. It aims to set*

priorities to allow FDJ, with its marketing success and its ability to innovate, to position itself among the growth sectors of the French economy and continue to occupy, in compliance with a practice recreational game, a reference position in the entertainment world. In particular, the modernization of the commercial organization and adaptation of digital services to the expectations of its customers are major challenges and opportunities for the company.”

PREMIER LOTTERIES IRELAND (PLI) HAS OFFICIALLY BECOME THE NEW OPERATOR OF THE NATIONAL LOTTERY IN IRELAND following payment of the final installment of the licence fee and a successful transition process. The company, whose shareholders are Ontario Teachers’ Pension Plan (OTPP), An Post and An Post pension funds, will operate the National Lottery for the next 20 years having won a tender process with a bid of €405m.

CZECH REPUBLIC PLANS TO DOUBLE THE TAXES ON GAMBLING

A 30% tax would, in fact, be applied to lottery games and a 40-percent one (if not higher) to live slots. The law, which is expected to enter into force in 2016, is supposed to open the Czech online gambling market to international operators through the adoption of a system similar to the one that Ireland is planning to launch during the first months of 2015.

VENDOR NEWS

GAMING LABORATORIES INTERNATIONAL (GLI®) DELIVERS WORLD-CLASS CONSULTATIVE SERVICES BEYOND TESTING. GLI® is the world’s leading land-based, iGaming and lottery testing laboratory. GLI’s testing

services, as well as its many world-class services beyond testing, make GLI the go-to laboratory for regulators, operators and suppliers who want to get more than just testing from their lab. GLI is also the world’s leading gaming consultancy, providing auditing services which contain a critical package of services ranging from WLA compliance to IT security. These services help regulators, operators and suppliers to improve governance, risk and compliance processes across the entire operation. GLI’s portfolio of auditing services includes: WLA security controls certification, WLA responsible gaming certification, Enterprise risk management, Field audits, Internal audit, IT processes, Network risk assessment, PCI:DSS compliance, Security audits. In addition to auditing, GLI offers its clients an extensive portfolio of services, including lottery testing, gaming device and systems testing, online gaming systems and security testing, rule writing, consultation and professional services.

GLI’s professional services division has four main areas, each specifically designed to make doing business in the lottery and gaming industries faster and more effective. Those categories are: Project Management; Governance, Risk and Compliance; Technical Services; and GLI University® Training.

STRATACACHE 2014 AN “ANNUS MIRABILIS” OR WONDERFUL YEAR. **CARMANAH SIGNS** is very pleased to announce that STRATACACHE, Carmanah’s parent company and a leading provider of scalable, high-performance digital signage, content distribution and enterprise video acceleration technologies, announced a record year in its history with over \$400 Million in new contracts closed in 2014. This represents a

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400% increase over 2013. *"I am very proud to have led this group of amazing professionals through a year of tremendous growth"* said Chris Riegel, CEO of STRATACACHE. *"Across our key industry sectors, vertical markets and regions of the world, 2014 came together with the critical mass that we all knew was possible."* Serving the Digital Signage, In-Store Interactive, Mobile Digital and Media Activation marketplaces across seven key vertical markets and nine key regions around the globe, STRATACACHE serves mid to large tier customers with world class technology, strategy, media and sales optimization solutions to help customers improve their sales growth, revenue performance and to enhance the quality of their customer experiences. *"As we continue our drive towards \$1 Billion in annual sales, we know that we have a significant journey ahead of us, but our 2014 success clearly demonstrates that the digital signage and digital interactive market opportunities are significant and that STRATACACHE has grown into a market leader in this industry."* said Riegel. *"Our results-oriented business approach has gained the trust of many new Fortune 500 clients as well as continued investment from our existing client base worldwide."*

ARKANSAS SCHOLARSHIP LOTTERY INKS 3-YEAR EXTENSION WITH INTRALOT. The Arkansas Scholarship Lottery inked an agreement Thursday to extend by three years its contract with lottery services provider Intralot Inc., for a projected savings of \$5 million.

NOVOMATIC SUPPLIES LOTTERY SYSTEM TO ISRAEL VALUED AT EUR 23 MILLION

"We are very pleased to have concluded this contract with NOVOMATIC. Their commi-

ment to us as a client is a lesson in excellent service, and their complete solution is a lesson in innovation. We are looking forward to many years of success, which will allow Mifal Hapais to increase the contribution for our good causes," said Eli Dadon, CEO of Mifal Hapais.

The system includes a central system, 150 retailer terminals and 500 of its newest generation video lottery terminals. NOVOMATIC will also provide customized games, together with maintenance and support services for the entire duration of the contract. The contract allows Mifal Hapais the option to renew it for up to an additional thirteen years. NOVOMATIC expects to generate around 23 million Euros of revenue over the initial period. *"This is one of the first steps on our route to success in the WLA lottery market. We intend to take many more,"* said Thomas Graf, CTO of NOVOMATIC AG.

KAMBI SPORT SOLUTIONS JOINS AS MEMBER OF THE WORLD LOTTERY ASSOCIATION (WLA) AND THE EUROPEAN LOTTERY ASSOCIATION (EL)

ONTARIO LOTTERY AND GAMING LAUNCHES PLAYOLG SITE DRIVEN BY GTECH TECHNOLOGY, CONTENT, AND SERVICES. GTECH to provide primary services including casino games, player services, Player Account Management and Responsible Gambling features to Ontario's new regulated Internet site. OLG's Internet gaming site offers interactive casino games including slots and table games such as Blackjack, Baccarat, single-player Poker, and Roulette, as well as the sale of lottery tickets. As OLG's Primary Service Provider for PlayOLG, GTECH is providing its award-winning product portfolio, player services, and its Player Account Management system to OLG via its Gaming Management

System (GMS). GMS provides operators with player protection and responsible gambling features, as well as a complete view of the interactive player.

"GTECH's solution supports OLG's plan to become a more innovative and sustainable organization, while continuing to be a North American leader in Responsible Gambling," said Matteo Monteverdi, GTECH Senior Vice President, North America Interactive and SVP, iGaming. *"With the launch of PlayOLG, OLG joins seven other Canadian provinces in offering provincially regulated, safe Internet gaming,"* said John Wisternoff, Vice President of iGaming at OLG. *"GTECH's solution provides a safe, secure, regulated and entertaining Internet gaming option in Ontario, with profits supporting initiatives like health care and community infrastructure for the benefit of all Ontarians."* GTECH provides interactive solutions to lotteries around the world, such as Veikkaus in Finland, Norsk Tipping in Norway, Austrian Lotteries, Svenska Spel in Sweden, and Lottomatica in Italy. GTECH launched the first and only legal poker network in North America, the Canadian Poker Network (CPN), in December 2010 through an agreement with the British Columbia Lottery Corporation (BCLC) and Loto-Québec.

POKERSTARS SET TO EXPAND INTO SPORTS BETTING IN 2015. PokerStars, the world's largest online poker site, is continuing its expansion into other forms of online gambling as it has been confirmed it will launch an online sports betting platform in 2015. Amaya Chief Executive Officer David Baazov announced their ambitious plans: *"With the continuing trend of online gaming regulation around the world, the company has in front of itself an enormous*

opportunity to leverage its brand recognition and customer loyalty to diversify into other gaming verticals as casino, sports and betting and social gaming,” Baazov said.

LEGAL-POLITICAL-REGULATORY NEWS

NEW JERSEY IS INTRODUCING A NEW CREDIT CARD CODE FOR THE PROCESSING OF ALL ONLINE GAMBLING PAYMENTS MADE IN THE US STATE. The launch comes after the US Office of the Comptroller of the Currency and New Jersey’s Division of Gaming (DGE) and Department of Banking and Insurance identified a concerning rate of failed payments for online gaming services in the state. A number of major credit card companies have also been declining approval for such transactions due to their uncertainty over the online gaming market in the US. A DGE spokesperson said that although “further improvements are expected” in the sector, a period of patience is also required *“as the banking industry becomes more familiar with legalised internet gambling.”*

U.S. TREASURY WARNS CASINOS TO IMPROVE ITS EFFORTS TO PREVENT ILLEGAL SPORTS BETTING. U.S. casinos must take steps to combat illegal sports gambling, the Treasury Department has told an industry group. *“Increases in sports betting conducted on behalf of third parties are facilitating criminal activity and posing a money laundering risk to the U.S. financial system,”* the Treasury said in a letter made public on Friday. The global International Center for Sport Security reported last year that 80% of global sport betting is illegally transacted, and therefore invisible to authorities. It also said \$140 billion is laundered annually through sport betting. The report urged governments to correct what it called a vulnerability of sport betting to organized crime.

UK GAMBLING COMMISSION (THE COMMISSION) WILL BE NAMED AS THE COMPETENT AUTHORITY FOR ALTERNATIVE DISPUTE RESOLUTION ENTITIES

WHO HANDLE DISPUTES RELATING TO GAMBLING. The U.K. government is asserting control over regulatory and taxation as applies to the U.K.—and positioning itself to enforce their policies and laws. The European Union Commission should recognize the rights of its member states to do the same, to exercise complete control over all regulatory and taxation issues that relate to gambling and lottery. Just as in the U.K., disputes should be adjudicated by the member state, not by any supra-national entity like the EU Commission.

WHY ISN’T FANTASY SPORTS REGULATED AS OTHER WAGERING ACTIVITIES?

Gambling is the wagering of money or something of material value on an event with an uncertain outcome with the primary intent of winning additional money and/or material goods. Gambling thus requires three elements be present: consideration, chance and prize. Does the element of skill enter into the legal definition of gambling? This is an important question in determining whether new game formats, like Fantasy Sports, will be regulated and taxed as “gambling” or not. The implications could be huge for everyone in the wagering and games-of-chance industry.

With an estimated 41.5 million players in the United States, fantasy sports are seemingly everywhere. The recent explosion of new variations of the games, however, raises questions for some legal analysts. The 2006 federal Unlawful Internet Gambling Enforcement Act, which effectively shut down the unlawful online poker industry, included exemptions for fantasy sports, essentially leaving the legality of the contests up to each state’s laws.

To comply with the federal UIGEA, a contest cannot be based on the score, point-spread or performance of a real-life team; prizes must be established before the start of the contest; and results are predominantly based on the participants’ skill.

Meeting that criteria means a contest is exempt from the UIGEA, not necessarily that it’s legal. To be legal, it must also comply with all other state and federal laws.

“CRYPTOCURRENCIES” LIKE BITCOIN HAVE NO VALUE OUTSIDE THE VIRTUAL WORLD OF INTERNET-BASED COMMERCE. They do, however, have the potential to create a massive underground gambling economy. Banks, credit card companies, and other financial institutions and payment processing mechanisms which operate “on the grid” of conventional commercial networks are subject to laws that can be used to control, or even prohibit, online gambling. These “Cryptocurrencies” operate off-the-grid with no exposure to the laws that govern financial and commercial networks. This enables online gambling networks to operate freely wherever they wish. That is why the percentage of BitCoin transactions for gambling is sky-rocketing. Of course, by avoiding regulatory oversight, cryptocurrencies also enable the operator and players to avoid paying taxes. The impact on the online gambling world is potentially huge.

NEW YORK STATE RULES THAT BITCOIN IS “INTANGIBLE PROPERTY” AND, AS SUCH, NOT TAXABLE.

BITCOIN ADDED AS CURRENCY OPTION AT WINNING POKER NETWORK

Bitcoin is a virtual currency option that is used in a number of ways online, including online gaming. In the online gambling industry, Bitcoin is a relatively new option and not readily available. The Winning Poker Network has just announced they are now offering Bitcoin as a method for both deposit and withdrawal for online gamers.

CALIFORNIA ATTORNEY GENERAL TAKES ACTION TO PREVENT OPERATION OF ONLINE TRIBAL GAMING CASINO, filing a complaint and Temporary Restraining Order (TRO) against Santa Ysabel’s online bingo site. The DOJ later added a UIGEA violation to the list of charges already rendered by the California AG.

This could be a precedent-setting case addressing question of who has jurisdictional authority over online gambling. Do Tribal nations have the right to export Internet gaming out of their sovereign land and into the homes of residents outside of their sovereign lands? This particular legal dispute in California may prompt the U.S. Dept.

of Justice to clarify the law and ensure that states' rights are not trampled beneath the rubric of Tribal "sovereignty." Amazingly, the Santa Ysabel Tribe unveiled their play-money website, PrivateTable.com and announced a trio of partners that would assist them in the efforts:

- The much maligned Kahnawake Tribe (located in Canada) would house the servers and act as the regulatory body overseeing the tribe's online offerings.
- A newly minted payment processor, FinPay, with a questionable history in the industry, would handle the payment processing end of the operation.
- And Dobrosoft/IG Soft, which currently provides the online poker software to several offshore, unregulated online poker rooms operating illegally in the United States, would provide the poker client.

Another worrisome aspect of this venture is that the decisions and oversight would be handled by a tribe that already bankrupted their land-based casino and owes millions from this failed gambling venture.

This lack of outside oversight from the state was apparent before they ever dealt a hand of poker, with just a cursory look at their chosen partners: FinPay, Dobrosoft, and the Kahnawake Tribe, which has perhaps the most flies.

With the Kahnawake's setting the rules, there would be zero controls concerning the holding of player deposits in segregated accounts, considering they imposed no such restrictions on the other online poker rooms they licensed—Ultimate Bet and Absolute Poker included. PrivateTable.com would be, for all intents and purposes, an unregulated offshore online poker room that happened to be headquartered in the United States—right down to the software they were using.

CHANGES IN REGULATORY STRUCTURE PROMPTS LADBROKES TO PULL OUT OF FINLAND, ROMANIA, RUSSIA AND PORTUGAL. The move has been forced by changes in European and UK online gambling legislation which restricts operators from providing a service to no more than 3% of "grey area markets." "Grey area" is where the operator is not licensed to operate by the host country or country of con-

sumption. The biggest loss in earnings is expected to come from Russia. Russia has sent out strict warnings to operators offering betting or gambling services in Russia and even those advertising to Russian-based players, Finland operates within a monopolistic gambling regime. Romania and Portugal are working towards new online regulatory frame works during 2015. Romania recently increased the annual license fee for online casinos to €100,000. The list of countries that Ladbrokes classes as "grey areas" now totals 68. Ladbrokes issued an emailed statement to its customer base detailing that it would cease operations in the areas, stressing that it would focus its betting services on Europe's regulated online markets. It has already withdrawn from Canada, Hungary, Norway and Switzerland. It is of course not alone in withdrawing from such countries.

Betfair, Unibet and BetClic-Everest have all recently pulled the plug on Russia. PokerStars is monitoring Russia closely having pulled out of 30 "grey" areas last October. With other "grey" countries including China, India, Brazil and Australia, online operators will be hit with a significant downturn in their fortunes.

COMPETITION AND STRATEGY

THE ACTIONS OF BIG-MONEY OPERATORS IN THE WORLD OF PRIVATE EQUITY COULD BE A SIGNPOST FOR WHERE THE INDUSTRY IS HEADED: PRIVATE EQUITY KEEPS BETTING BIG ON ONLINE GAMBLING

CVC Capital Partners purchases a controlling stake in Sky Bet for \$1.25 billion. This is the latest big bet by private equity investors on an online gambling business, part of a wave of deals that is reshaping the online gambling industry. Blackstone Group, the world's biggest private equity firm, backed Amaya's \$4.9 billion purchase of PokerStars, the world's biggest online poker company. Shares of Amaya have soared since the deal was announced earlier this year. Apollo Global Management and TPG, also among the biggest private equity players, have staked a bet on online gambling by investing \$484 million in Caesars Acquisition Co., which houses the online gambling assets of financially struggling Caesars Entertainment. A large European private equity player, Permira, was reported to be considering doing

a deal for 888 Holdings, also a big online gambling operator. One major online gambling firm, Bwin.Party was even recently the subject of an activist hedge fund campaign from SpringOwl Asset Management.

RUSSIA IS JUST THE LATEST TO ASPIRE TO CREATE THE NEXT MACAU. A long-awaited gambling destination resort area designed to tempt wealthy Asian and domestic tourists to come to the far eastern edge of Russia is finally getting off the ground, with \$2.2 billion in total anticipated investment. Fifty kilometers from the regional capital of Vladivostok and just a few hours' flight from Tokyo, Seoul and Beijing, the new gambling zone will strive to attract gamblers from across Asia as well as Russia.

JUNKET OPERATOR LOOKS OUTSIDE OF CHINA TO OTHER REGIONS OF ASIA FOR WEALTHY VIP GAMBLERS TO BRING TO MACAU. David Group, a Macau junket operator that serves higher-spending casino customers, is expanding into other Asian countries as China's anti-corruption campaign deters its own VIPs from visiting the world's largest gambling hub. Macau has tightened rules for the transit visas issued for Chinese visitors entering, closing a prior loophole used by many high-end players to go to the city more often and stay longer than normally allowed. Macau's gambling revenue has declined significantly as a result of fewer wealthy Chinese visitors.

TWO OF THE BIGGEST I-GAMBLING WEBSITES, WSOP.COM AND 888POKER.COM, WILL START SHARING PLAYERS. They are competitors but they are collaborating because Players benefit by increased liquidity and bigger prizes. New player acquisition is key to success, delivering more value in terms of scale and liquidity attracts new players, and the partnership between competitors is expected to end up increasing profitability for both. Internet gambling in New Jersey took in only about a tenth of the \$1 billion supporters had forecast for its first year. The state is looking to increase the size of player pools and jackpots by seeking compacts with other states where Internet gambling is legal.

BETFAIR POKER TERMINATES I-POKER OPERATIONS IN NEW JERSEY

While Betfair's New Jersey online poker room failed to attract players, its online casino is alive and well, filing an October win of \$855,869 and a \$6,677,288 win during the first ten months of 2014.

TRENDS AND IDEAS

AMAZON TO OPEN A PHYSICAL LAND-BASED RETAIL STORE

Amazon is by far the most successful online retailer. Its entry into the land-based retailing sector would seem to be a most telling sign of the enduring relevance of the land-based retailing.

Amazon is going retro. The e-commerce giant that has grown to dominate the online retail market will soon be opening its first brick-and-mortar store in New York City. While the new Amazon store will be in a prime location across from the Empire State Building on 34th Street, the decision to open a physical retail store seems to be a puzzling move for a company that helped popularize online shopping by offering goods at a lower price point than traditional retailers that had to pay for physical store spaces could.

Fun Facts: U.S. retail e-commerce sales for the second quarter of 2014 grew an estimated 15.9% compared to the year ago quarter. BUT, out of an estimated \$1,174.1 billion in U.S. retail sales in the second quarter of 2014, only \$75 billion, or 6.4%, of total retail sales came from e-commerce.

The key to these strategic maneuvers is that Omnichannel commerce is the future of retail. The best approach to retail will be a combination of physical stores with an online presence. *"It's not physical or digital; it's physical with digital,"* wrote A.T. Kearney researchers. *"Having multiple channels is good for business."*

LOYALTY PROGRAMS WILL BE DRIVEN BY DATA. Less than half of consumers feel their loyalty program offers them "good benefits." Businesses often focus too

much on maximising returns and forget about the customer. By now the value of a good loyalty program should be obvious to most observers. From the simple "buy ten coffees, get one free" deal that cafés use to encourage repeat visitors to complex frequent flyer programs offered by virtually all airlines. A recent survey by Directivity and Citrus found that 88% of consumers over the age of 16 belong to at least one loyalty program, but only 11% belong to more than 10. Once you consider the supermarket and airline frequent flyer programs that most people make use of, there is stiff competition for all other businesses to get their program into the consideration set for consumers. There is certainly a strong case for retailers who don't currently offer a loyalty system to develop one soon, but equally, it's critical that it's done right.

Too often, the programs collect large amounts of data without a method to convert that data into information that is useful and drives marketing, strategy, and other business decisions. The goal of any business should be to learn as much about its customers as possible, and then offer them an experience that is tailored to their unique needs. Customers benefit the greatest when the loyalty program uses data collected to improve their experience with a brand in a meaningful way.

NEARLY 50% OF SHOPPERS WHO UTILIZE MOBILE RELY ON THEIR IN-STORE MOBILE EXPERIENCES TO DRIVE PURCHASE DECISIONS. That's why retailers are racing to engage consumers across their existing channels, and striving to integrate their in-store and digital merchandising.

Cross-channel engagement is core to retailers' omnichannel strategies, identifying top priorities include enhancing their e-commerce site (60%), equipping store staff with mobile apps (32%) and improving cross-channel product visibility (30%).

Top investments in omnichannel technologies include customer analytics (60%), Point-of-Sale solutions (58%) and item management (32%). 68% of retailers have or are in the process of onboarding new vendors to deliver a broader product assortment.

NEAR-FIELD COMMUNICATION (NFC) AND "CRYPTO-CURRENCY" TO BRING DIGITAL AND INTERNET INTO THE LAND-BASED RETAIL ENVIRONMENT.

FOCUS OF SOCIAL MEDIA TO BE LESS ON CUSTOMER ACQUISITION AND MORE ON COMMUNITY ENGAGEMENT. We will see a major shift in social media analytics from community growth to community engagement. While community growth was about fan acquisition, community engagement is about conversations. With technology now enabling the consumer profiling and fan-to-customer mapping, conversation is set to go mainstream. Social media listening tools will be deeply integrated with internal CRMs to provide a unified view of transactions, conversations & customer profile, which will further enrich the engagement experience.

THE AUT UNIVERSITY IN NEW ZEALAND INVESTIGATED THE GAMBLING HABITS OF 6251 ADULTS AND FOUND THAT ADDICTIVE GAMBLING IS IN DECLINE.

Fewer people are gambling, but those who do gamble are wagering more. The number of surveyed adults who said they gambled at least once in the last 12 months declined from 90% to 80%. The number of people who gamble at least once week decreased to 22% (down from 40% in 1999). The number of people who go to casinos and racetracks decreased from 18% in 1991 and 10% in 1999 to 6% in 2012.

LOTTERY ADVERTISING IS CHANGING TO APPEAL MORE TO FUN AND RECREATION THAN WINNING THE BIG JACKPOT. Lotteries worldwide are waking up to the wonders of creative advertising. Commercials for the biggest lotteries these days are pretty engaging and entertaining, with a fun quotient right up there with beer ads. There's a distinct shift in theme and underlying message, one that moves away from "change-your-life" to good-natured everyday fun with low risk and high stakes. This is not surprising considering the fact that most lotteries are trying to connect with a younger customer-base that may not be attracted to the traditional pitch of imagining what you would do if you were rich. ■

to collaborate in ways that we have never collaborated before. I am just proposing that we think about the possibilities with an open mind.

Mandatory registration gives you a comprehensive data-base to inform your strategies and initiatives for customer-driven innovation.

T. Almlid: It does. And we rely heavily on that. Unlicensed operators spend big on advertising into our market, and they also have the benefit of the most advanced technologies, and use player-acquisition techniques that we would never use, like aggressive bonusing and free-plays to attract new players, and the same to cause the players to play more and more, perhaps more than is healthy and responsible.

Customer-driven innovation—what does that mean exactly?

T. Almlid: Lottery has traditionally been a mass-market product. It is our opinion that in the future, all products need to appeal to more and more tightly defined sets of customer preferences. We need to isolate the many attributes to the games and clarify how and why these isolated attributes appeal to different players. Same applies to channel mix. How do the various combinations of advertising, promotion, and channel mix appeal to different players? As you can imagine, this can get to be as complex as your resources and data-analysis capabilities afford!

The main idea is that the driver is not an anonymous “market,” but real people. And ultimately, the “customer” is not a demographic group or even a psychographic profile. The customer is the individual player. The Holy Grail of “customer-driven innovation” is to optimize the entire player experience for the unique play-styles and preferences of each

and every player. To your earlier point, 100% registration is what connects us to the consumer and provides the interactive relationship that helps us continually fine-tune the value we bring to the relationship. It is the basis for the whole CRM model that drives our business.

What are some of the customer-driven initiatives you have in the pipeline?

T. Almlid: We have a new geo-location based game called Neighbours. The interesting thing about this game is that in addition to the possibility of winning a big jackpot, the player has the possibility to win smaller jackpots based on their proximity to the location of the player who won the big jackpot. So when you win, your neighbors who played also win. And vice-versa too.

This Neighbors game is an example of what we are working on to inject more entertainment-value into the draw-based games. The draw games are so important to all lotteries because they have such a broad player-base, and they have the highest margins. But it will be hard for the draw-games to hold onto their consumer appeal if we do not add some interactive elements to make them more fun and exciting. The basic game construct of waiting for hours or days to find out if you won is not in step with the current gaming culture of instant feedback. And the fundamental draw-game concept is static, not changing like other games, even instant scratch-offs. So we will need to get creative if we want the draw-game format to continue to appeal to consumers into the future.

In fact, a primary focus for Norsk Tipping in 2015 is to explore lots of new ideas for invigorating the entire draw-based game category. EuruJackpot has not gained much traction in Norway, mostly because we have not had a Norwegian win the jackpot yet. So we need to explore

with an open mind new ways to enhance the draw-games player experience.

Another big initiative to invigorate the whole draw-game category is our new TV Game Show. It will be broadcast in prime-time on Friday evenings. This is the first time we have tried a concept like this and we are very hopeful that it will capture the imagination of the consumer. When you look at the popularity of TV game shows where only a small number of people participate, and the viewer has practically no chance to participate, we are hopeful that the consumer will feel much more engaged and enthusiastic about a lottery TV game show where all you need to do is buy a lottery ticket. That’s all it takes to have a chance to participate in a fun show with the possibility of winning a jackpot.

We also enable our players to allocate a portion of their lottery spend to go to a charity of their choice. This has really brought us together with our players, creating a positive connection to the heart of what lottery is all about—supporting good causes. And hopefully connecting us to the heart of what the consumer cares about. The primary motivation to buy a lottery ticket may be to win a jackpot. But creating a direct affiliation between the consumer and the good causes that lottery supports contributes to the positive feelings they have for Lottery. It gives us a common interest that we can build upon to further the emotional connection with our players. It also gives us insight into what the consumer cares about and that helps us to fine-tune our marketing communications approach with the players.

We are so looking forward to visiting Oslo and the “Touch Tomorrow” program that you have in store for us, Torbjørn! ■

GTECH, Scientific Games or Intralot, would we?) Agencies with no lottery experience need not apply!

Next, lotteries need to continue to expand funds available for advertising and marketing, perhaps by employing new approaches to funding. Some of these techniques have already been used successfully. For example, the Monopoly Millionaires Club had its marketing budget embedded in the game design; if a state wanted to join the game, it was required to accept the game as designed, along with its marketing requirements. MMC, unfortunately, did not succeed, at least not in its initial iteration, but the game design points the way for future funding of national games. Similarly, the marketing of licensed instant games can be funded by the licensor instead of the lottery, avoiding any impact on state restrictions on advertising budget. Examples include various NFL game tickets that were advertised by the teams themselves in cases where the lottery had no budget. And, marketing spending can be required and embedded in other vendor contracts, such as the central system vendors, to provide funds outside of the state budget itself. More spending in itself will provide incentives for agencies to be more aggressive in seeking our business, which is a core purpose of this effort—to attract the human and capital resources to create world-class

advertising at a price that works for even the smallest lotteries.

Finally, is there a risk of “creating a monster?” If advertising is dominated by only a handful of firms, will prices rise and our negotiating clout be reduced? To respond, I would only refer to the existing example of the major lottery-centric firms: does anyone really think that price competition in lottery competitive bidding is weak? GTECH vs. Scientific Games vs. Intralot vs. Pollard answers that question. And keep in mind that lotteries cannot grow profits from the cost side; revenue growth is the only viable driver. Squeezing a tenth of a percentage point out of the cost side is misplaced effort; managers need to spend money to make money, and the ROI on effective advertising in the lottery business is strongly positive.

Hopefully, as lotteries mature and profit growth becomes more and more of a challenge, lottery directors can demand the same efficiencies, best practices, quality and effectiveness from their advertising agency partners as they currently enjoy from their central system and instant ticket providers. At the same time, far-sighted advertising agency executives will need to consider radically different business models to sustain their own growth and profitability. Both trends need to develop simultaneously. ■

Responsible Gambling Best Practices for Internet Sales ... continued from page 41

loss or time limits for each type of game offered by the site.

- **Time Out:** Players have the option of setting time limits (or time-outs). Time-outs are defined as instant stops in play that are at least 1 hour but less than 30 continuous days.
- **Personalized information:** The site provides players information on their play. Players have access to their gambling history including time and money spent, games played, net wins/losses as well as session information. Players have access to their account details including all deposits amounts, withdrawal amounts, movement of funds between products, bonus information, restrictions such as exclusion events and limits.
- **Self-Exclusion:** Self exclusion is a player-initiated restriction on their ability to play on the site.
- **Passage of Time:** There is a clock visible on the site at all times.
- **Display Cash:** Games always display bets, wins, losses and account balances as cash.
- **Game Features:** The site does not allow players to play games automatically using an auto play feature.
- **Free Games:** Free or demonstration games have the same payout percentages and odds as paying games. Free games should not permit play by underage players.
- **Encouragement to Continue:** The site does not induce players to continue gambling when play is in session, when the player attempts

to end a session, or wins or loses a bet. Communications with players do not intentionally encourage players to increase the amount they play with, gamble continuously, re-gamble winnings and chase losses.

- **Underage Gambling:** Sites have an obligation to put in place technical and operational measures to prevent access by those who are underage. The age verification process should be required as a part of registration.

Again, these are just a handful of the best practices recommended by the National Council. The full document listing their Internet responsible gambling standards can be found at ncpgambling.org.

The National Council hopes to soon have in place a tool to help lotteries make sure they're adhering to best practices in their Internet offerings. A certification program set to be launched in 2015 will use third-party assessors to examine an Internet gambling site to see what controls are in place. According to the National Council's Executive Director Keith Whyte, *“Participating sites will have their responsible gaming programs assessed against our Internet Responsible Gambling Standards, and those who are in compliance receive a certificate. This helps regulators, operators, and especially the public recognize sites that meet our standards.”*

While research appears to show Internet gambling doesn't create a new wave of problem gamblers where offered, it does become yet another venue for those who already suffer from the disorder. Having the correct controls in place helps your customers play responsibly, and establishes your lottery as one that is responsible and working to lessen the social impact caused by this new gambling outlet. ■

Belgium, for instance, is still quite conservative, but was pressured into opening up the sports-betting market to online betting in 2011. Advertising and promotion exploded and so now GGR in sports-betting is far higher than it was four years ago. And lottery has been cannibalized as the consumers migrate from lottery over to gambling. This is not necessarily the public policy that our legislators would have chosen if there was not pressure to liberalize the market.

Advocates for liberalization point out that competition between multiple operators promotes innovation and results in a better product and service for the consumer.

P. Van Baeveghem: But what is a better gambling product? Is it games with a higher payout ratio? Games that offer bonuses to sign up and bonuses to play more and more? That is the kind of innovation driven by opening the markets up to competition. And not coincidentally, these innovations are the very things that cause problem gambling.

The whole argument from the advocates for liberalization is based on the premise that what works for other industries should be applied to gambling and lottery. They contend that the basic rules of market-driven capitalism should be applied to gambling. Free-market competition produces the positive feedback cycle of providing a product or service, driving an increase in consumption which results in economies of scale and competition, which in turn drives down the price to the consumer. As prices reduce, consumption increases further and production costs decrease further, and so on. This is a marvelously effective model if the goal is to maximize production and consumption. But is that necessarily the goal when it comes to gambling? Shouldn't member-states at least have the prerogative to choose a regulatory and taxation framework that does not promote the expansion of gambling, that does not entice their citizens to gamble as much as possible?

Advocates for legalizing the illegal markets frame the issue differently. They say it is better to tax and regulate than to drive the business underground; and that the tax and regulate model is better protection for the consumer.

P. Van Baeveghem: We have figures that clearly show an increase in problem gambling since sports-betting was opened up to multiple online operators in Belgium in 2011. It may be the case that the consumer should be given safe and secure gaming options. But nothing promotes addictive gambling more than multiple operators competing for the business. That is what drives payout ratios higher, promotional offers to be more and more enticing, and problem gambling to increase.

To make matters worse, the innovative promotions and higher payouts of the liberalized markets cause consumers to migrate from lottery to the more addictive forms of gambling. This does not protect the consumer. It does drive innovation, enhance the value-proposition to the consumer, and expands the gambling market. But it also promotes problem gambling and channeling economic benefits away from Good Causes over to commercial operators and this is not necessarily a good thing for society.

There will always be illegals operators. Some governments are choosing to legitimize the illegal operators, thinking that it is better to regulate and tax them than to drive the business underground. That can be their choice. But others may choose to fight back and not turn the markets over to these underground operators. They should have the option of choosing that approach rather than being forced to give in to the illegals.

So what is the status right now? What are the likely outcomes of these debates?

P. Van Baeveghem: In 2010, the member-states of the European Union unanimously requested that the European Commission take an initiative to create mechanisms to enforce the laws against il-

legal online gambling. The member-states do not need directives on public policy. The need is for methods to enforce existing laws and policies. The Commission, unfortunately has done exactly the opposite. They have done nothing to create an international framework and system to enforce the laws. And instead insist on directing member-states on public policy.

Now, each member-state will have the opportunity to intervene in the procedure. That will take two years which brings us up to the beginning of 2017, when Malta will take over the presidency. It is during this period that we could try to convince the Court of Justice that the European Commission has trespassed its competencies, exceeded its authority.

But in the meantime, does the Commission recommendation get applied?

P. Van Baeveghem: Yes. The Commission does expect the member-states to comply with and implement the Recommendation. It will be difficult, though, for the European Commission to force the member-states to take specific actions. The final report on the compliance of the member-states with the Recommendation will be made by the European Commission in January of 2017.

How will Malta's assumption to the office of affect the proceeding in 2017?

P. Van Baeveghem: One of the most important powers of the EU president is the authority to define the agenda, to set the agenda. So if Malta decides that they should not consider further initiatives on gambling, they will simply not put it on the agenda. That's the prerogative of the EU president. And EU presidents can also act to slow down or speed up discussions. The president has no constitutional powers to act without the consent of the EU institutions. But the power to set the agenda and control the pace of the proceedings matters greatly when it comes to the practical matter of governing and legislating. ■



Taking into account the constantly evolving growth of online activities, including e-commerce and other types of online transaction, the European Commission has decided to strengthen the competitiveness of the European Union (EU) in the new digital economy. Indeed, the European Commission has acknowledged the importance of internet and other remote communication means as well as their effects on trade, exchanges and information whether at the national or cross-border level.

The digital economy is already well-established in many European countries and even more so in countries such as the USA, Japan and Australia as well as in the eastern European “emerging” countries. However, it appears the EU lags behind in certain areas, either due to outdated regulations or the lack of initiatives covering technological innovations in certain areas. For example, developments in the Biometrics’ sector offering the use of biometric techniques, such as voice recognition, fingerprint recognition or even eye-recognition, are not used as much in Europe as in some other

improve trust in online transactions (by considerably limiting the risks of fraud, identity theft and the money-laundering often linked to digital transactions).

In this context, another major trend is the use of cryptocurrency. Cryptocurrency can be defined as a virtual currency (VC) i.e. a digital representation of value that is neither issued by a central bank or public authority nor necessarily attached to a fiat currency, but is accepted by natural or legal persons as a means of exchange and can be transferred, stored or traded electronically and which are created online using powerful computer hardware, which allows users to “mine” small amounts of the currency by solving deliberately complex algorithms.

Cryptocurrency is a form of digital currency or VC with the differentiating characteristic that it has been created and then put on the market based on people solving complex computing algorithms or mathematical dilemmas with their own computing system. This aspect distinguishes cryptocurrencies from traditional, “fiat” currencies, those issued by central authorities, such as central banks, in which the approximate amount is monitored and regulated by a central institution. A VC can take one of several forms: a “closed” VC can only be used in or in relation to its creator’s scheme (e.g. the currency used in video games such as World of Warcraft Gold); a VC with unidirectional flow can be obtained by exchanging “fiat” currency and cannot be exchanged back to the original VC (such as Facebook’s Credits); or a VC with bidirectional flow can be obtained by exchanging into and exchanging back from the original VC. Yet none of these VC types holds the “crypto” aspect required to qualify as a cryptocurrency.

Today Bitcoin is the VC that most often comes to mind when the word “cryptocurrency” is used. Indeed, Bitcoin is the most well-known cryptocurrency on the market. Nevertheless, since Bitcoin’s launch in 2009, lots of new types of cryptocurrency have emerged. These new currencies are usually named “Alternate Cryptocurrencies” (or “Altcoins”). All Altcoins provide an alternative to Bitcoins and have their own specificities. At the moment the most popular include Litecoin, Goldcoin, Darkcoin. Their use is constantly evolving; people are now able to buy crypto-coins or at least part of them (the value of these currencies fluctuates based on factors such as the number of coins created or “mined” and the scale of their use) as they can now be either purchased online or traded in exchange markets equivalent to the stock market with “fiat” currencies and they can be used as an investment (in anticipation of their value increasing), to buy products online or to participate in various online activities.

The rise of cryptocurrencies and their use in the gambling sector: Is the current EU legal framework suitable for innovation?

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parts of the world, such as Australia and parts of Asia.

The EU takes a cautious approach. For example, following the Biometrics’ sector, it is not yet prepared to overcome the sensitive issues the technological development raises. Yet at the same time it is aware that an adaptation of the current banking, anti-money laundering legislation, data protection, payment and other security regulations could enhance significantly the protection of EU residents and facilitate and

... Continued on page 67

In recent years, those gambling websites accepting crypto-coins have started to flourish. According to the gambling operators in favour of using cryptocurrency in their gambling website operations, this new type of money reduces their costs significantly (as no third-party payment processor intervention is required, nor conversion fee, nor bank intervention), increases transaction speed and enhances security as all transactions are monitored by the VC's 'miners' and protected by fully-secured encryption. Initially this payment medium appears to be better and raises the prospect that in the future VCs will replace "fiat" currencies in the digital world. Yet, of course, VCs do contain their own set of risks, such as value volatility, systems failure, hacking and no institutional controls. While cryptocurrencies' usage may appear to be a prominent future payment method in the online transaction field generally and in online gambling more specifically, the current and prospective EU regulatory framework does not appear to be suitable for such an innovation.

Indeed recently, the EU institutions agreed on the final text of the Fourth Anti-Money Laundering Directive that now subjects all gambling operators to due diligence procedures when their customers perform certain transactions above a certain Euro amount. Due diligence procedures apply to online gambling operators and require, among other things, reporting obligations and fully-fledged identity controls. This Directive is not appropriate for gambling websites that only accept cryptocurrencies. For example, it would be difficult to trace transactions between an online gambling operator and a player holding a cryptocurrency wallet. A traditional bank account permits the confirmation of the identity of either the account's owner or the different received funds. By contrast, a cryptocurrency wallet would be linked to a player's account and so it would not be possible to find out who the effective owner of the account is nor would it be possible to trace any payment to or from this e-wallet, as the setting up of an e-wallet would not require any personal information disclosure, nor would it be controlled or supervised by any authority but by the "miners" themselves. In addition all transactions carried out using cryptocurrencies are usually registered within the cryptocurrencies' respective network (typically some type of devolved registry), they only appear in the form of a computing address without any reference to the personal data of the address's holder. Furthermore, different (start-up) companies active in the field have already launched new mechanisms such as ATMs with possible biometric identification systems; tools to allow payment with cryptocurrencies on land-based gambling machines, etc. In view of the difficulties and inadequacy that the current EU regulatory framework faces in addressing the existing aspects inherent in this sector, it is most likely that even the future regulations currently under discussion



within the EU institutions will be outdated by the time of their first implementation.

Another example of the inadequacy of the current EU legislative framework is EU Directive 2009/110 concerning the take-up, pursuit and prudential supervision of the business of electronic money. Cryptocurrencies do not fall under this Directive's definition of e-money (and so are not subject to its rules), nor do they fall under the EU regulations protecting investors in investment schemes. Moreover, there is significant uncertainty as to how to classify the different actors of a cryptocurrency scheme e.g. "miners" will not be regulated by the future and new EU Payment Service Directive as they do not fall within the definition of payment service providers or payment institutions it sets out. Given the current legislative framework does not allow granting a proper classification to all cryptocurrency scheme participants, how should people exchanging crypto-coins or converting "fiat" currencies to cryptocurrencies be classified? This issue arises mainly due to the fact existing and prospective legislation is based on the old conception of money, involving the presence of central, public institutions that monitor and regulate the currency flow.

In a much wider context, it should be noted that the arena of cryptocurrencies is just one of many challenges the EU institutions currently face in developing appropriate regulations for innovations in the digital economy. Regulatory effort is needed in other areas of innovation. One example is "Big Data," the large, high-velocity amounts of information produced from ever-larger and varied sources that go beyond traditional data collection tools designed to, often manually, handle mainly small-scale, low-variety and static datasets most of the time. The European Commission has stated that datasets are: so large and complex that it becomes difficult to process such "big data" with the current data management tools and methods while at the same time this new trend holds enormous potential in various fields, ranging from health, food, security, climate ... Another example is The "Internet of Things" or "IoT" (referred to as a dynamic global network infrastructure where physical and virtual things of all types communicate and are seamlessly integrated e.g. mobile phones or other devices connected via means such as the internet or Bluetooth). Again the European Commission has expressed the need and its ambition to fund projects to tackle emerging questions of availability, quality and interoperability related to data gathered through smart connected objects and other IoT technology.

In conclusion, the EU needs to anticipate and approve suitable legislation to "catch-up" with innovations to give the EU Digital Internal Market its full efficiency and attractiveness for investment. However, to date, the path to a legal framework inciting innovation remains far away. ■

1 European Banking Authority Opinion on "virtual currency" of 4 July 2014, p. 7 <http://www.eba.europa.eu/documents/10180/657547/EBA-Op-2014-08+Opinion+on+Virtual+Currencies.pdf>

2 European Central Bank "Virtual Currency Schemes" October 2012 <http://www.ecb.europa.eu/pub/pdf/other/virtualcurrencyschemes201210en.pdf>

3 www.altcoins.com.

4 2013/0264 (COD).

5 Communication from the Commission of 2 July 2014 "Towards a thriving data-driven economy" <https://ec.europa.eu/digital-agenda/en/news/communication-data-driven-economy>

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