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I N T E R N A T I O N A L

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November/December 2015

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Jay Gendron, IGT



Kevin Mullally, Gaming Laboratories International (GLI)



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OF FAME—CLASS OF 2015:

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- Dr. Ioannis Katakis
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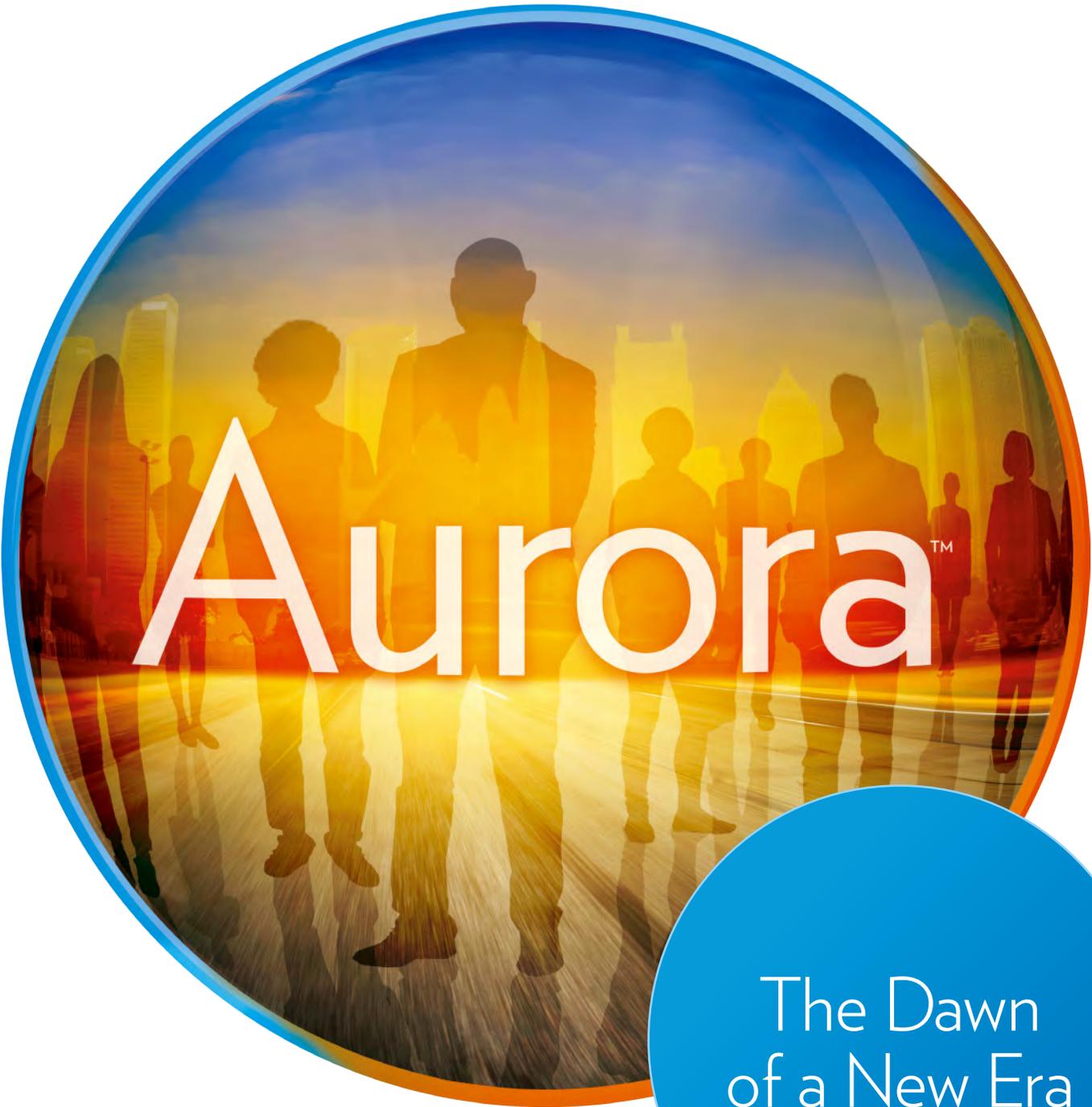
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Jim O'Brien, Strategic Marketing Vice-President, Scientific Games Corporation

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PGRI 2016 SMART-Tech Conference

WHEN: April 5, 6, and 7, 2016

WHERE: Park Lane Hotel, Central Park South, New York City

(See page 59 for details)



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From the Publisher

By Paul Jason, Publisher
Public Gaming International Magazine

Major consolidation on the supply-side of the industry began a couple years ago. The fruits of that integration are now in full evidence at the most recent industry trade shows like NASPL, G2E, and PGRI Lottery Expo. Team Lottery and its commercial partners are grabbing the front-runner position in a games-of-chance market-place that is rich with potential. Trying to connect the dots between the big-picture industry issues and the paradigm shift that consolidation of commercial suppliers ushers in prompted a few related questions and observations ...

What exactly is the difference between “multi-channel” and “omni-channel?” Is it just that “multi” means more than one, and “omni” means everywhere, so that “omni” is just bigger than “multi?” The general biz’ literature doesn’t think so. It’s talking about how the omni-channel model redirects our focus from the supply-side of this equation to the user side of the equation; from how the products are being distributed to how, where, and by whom they are being consumed. It’s about linking concrete and measurable user-behavior/game-playing activity to the underlying motivational drivers. As the central hub, proprietor, and concert-master of its customer data, the government-lottery operator should and will remain in control. But the role of the commercial partners in supporting that process of data-integration and curating will be critical as well. Now that the focus is on the real source of that data, the consumer, the challenge is to unify all sources of data-capture, and to aggregate and synthesize that data into the integrated mosaic that becomes a reflection of how and why people behave like they do. And to convert that into value for lottery players. Integration and consolidation on the commercial supply-side of the business should contribute to accomplishing that goal.

Similarly, the media-front is also undergoing massive shift. Government-lottery may not even aspire to the one-to-one end-game that links Big-Data to the individual user account and the proverbial “market of one.” But we need to be aware that is where the world is headed. The modern consumer expects commercial and brand relationships to be personalized to her tastes. There’s lots of emotionally-charged discourse about the issue of personal privacy. In the end, though, the consumer will gravitate towards value, efficiency, convenience, personalization of messaging, customization of product, and the “I get what I want when I want it” mentality. This is a revolution in marketing. As an industry, we will forge our own ways to bond with our customers. But somehow we need to adapt to the shift towards a focus on the underlying consumer-experience of the brand, apply

new models to segment play-styles and motivations, and acquire a deeper understanding of the countless attributes that surround the experience of actually playing the game. In their articles in this issue, **Jennifer Welshons** and **Ulli Applebaum** speak to these complexities much more eloquently than I do!

Government-lottery may never be involved in skill-games, Fantasy-Sports games, or any number of the new game styles that will be entering the market in the coming months and years. But we all should be keenly aware of the way that consumer play-styles are evolving, because the lottery-player is also a consumer and she does not exist in a vacuum. And further to that, **Kevin Mullally** provides perspective on the challenge that regulators face in keeping up with changing technologies and game-styles.

It’s my hope and expectation that industry consolidation will equip us with a more comprehensive and robust set of tools with which to take full advantage of the incredible potential of a consumer market-place that has always loved lottery games! **Jay Gendron** drills down on the issue of how the market-place is changing, opportunities for delivering more value to consumers and retailers alike, and clarifies the IGT vision for its government-lottery customers.

Congratulations to the newest members of the Lottery Industry Hall of Fame. The biographies of **Jay Gendron**, **Ioannis Katakis**, **Stavros Michael**, **Jim O’Brien**, **Douglas Pollard**, **Thierry Pujol**, **Tom Shaheen**, **Philippe Vlaemminck**, can be found on page 48. The ceremony to induct the North American members was held at the NASPL Conference in Dallas Oct 15. There are fabulous photos of the ceremony on page 56. And there are over a hundred photos from the NASPL Dallas event. There are lots of fabulous events in Europe that everyone attends, one of which will be the venue for the ceremony inducting the Global members of the Lottery Industry Hall of Fame.

John Musgrave has been the Director of the West Virginia Lottery for 19 years. During that time, John’s calm and decisive leadership has been a beacon for the entire U.S. industry. John retired in October and we will miss him! Come to Smart-Tech NYC to wish John and Becky Musgrave well in retirement.

PGRI Smart-Tech will be held at the Park Lane Hotel on Central Park South in New York: April 5, 6, and 7. It is always a fabulous event and we hope you can join us. Visit www.PublicGaming.org for conference information and updates, links for registration and hotel room reservations, etc. ■



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INNOVA CEO, Richard M. Weil.





Jay GENDRON

Senior Vice President
North America Lottery, IGT

On Building Sustainable Growth for Government-Lottery

PGRI Introduction: It has been just eight months since GTECH and IGT completed their merger. You wouldn't know it, though, by the new products on display at the Company's NASPL and G2E exhibit booths. It would appear that IGT is way past the integration stage and moving quickly forward with new products and innovation. My discussion with Jay Gendron bears this out, as the focus is now on harnessing IGT resources to enable its customers to take full advantage of a future rich with opportunity. And to make that happen now.

Jay Gendron is a lottery industry veteran whose mission is to redefine the industry standards for customer service. Evidence of Jay's success can be seen in his recent election into the Lottery Industry Hall of Fame. Over the past 20 years, Jay has served in a wide variety of leadership roles across all different disciplines within GTECH and now IGT. Our discussion traverses the wide array of opportunities and challenges facing the lottery industry today.

Paul Jason, PGRI: *You have worked for a number of world-class business executives and are now yourself a senior executive at IGT. What do you think is the most pronounced character trait of successful leaders?*

Jay Gendron: I believe the most important character trait is integrity. In business, that translates into being straightforward and consistent; being willing to fight for the right thing even when it may not be advantageous; and sticking with that position notwithstanding pressure to bend. It's about calling your customer right away if there is bad news or an an-

swer that you know they do not want to hear; and about always accepting responsibility. It is critical to communicate candidly with our customers.

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Is there a tradeoff between the goals of delivering value to the customer and value to your corporate shareholders, the economics of cost to you versus value to the customer?

J. Gendron: I am responsible for optimizing customer satisfaction and managing the P&L for IGT North America lottery customers. The primary method in which IGT can generate a profit for its shareholders is to ensure that our customers are successful and gener-

Continued on page 19

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Kevin MULLALLY

General Counsel and Director of Government Affairs
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ON SKILL-BASED GAMES

Nevada recently legalized the concept of skill-based wagering games. It is expected that this new wagering game-style will be quite popular and spread to other jurisdictions. Now begins the process of building the regulatory structures to ensure the security and integrity of the skill-based games that operators will want to bring to the market.

Paul Jason, PGRI: *Skill-based games would seem to represent a whole new layer of regulatory complexity. What are some of the issues as relates to ensuring the security and integrity of skill-based games?*

Kevin Mullally: At this point, GLI is playing a supportive role with regulators, helping them to sort through a lot of the issues with regard to the blending of two styles of gaming. We have a lot of experience in dealing with both. On one hand, we have random games like slots and Lottery. We have a deep understanding of all the regulatory issues relating to this game style. On the other hand, we have this new game style, and we are

now working with regulators to refine the methods for ensuring the integrity of skill-games. The operators also need to have a precise understanding of the odds and strategies to predict prize-payout return percentages. Most often, skill-games include an element of chance as well. So we are blending those two concepts. As you point out, skill games are being developed that will include game styles, game logic and components that nobody has seen before. We will need to develop technical standards and methodologies to test and vet the security of these new game styles. We are analyzing prototypes now to acquire the technical understanding that will enable us to then create a risk control model for the new game styles. This will be an ongoing iterative process. We provide information and advice to regulators based on our technical expertise and research, and they will make the policy decisions.

The potential for cheating in skill-based games would seem to be greater than in random-based games of pure chance. How do you apply technical solutions to problems arising from human behavior that does not fit into the kind of algorithmic

modeling that work so well for random games of chance?

K. Mullally: GLI is actively working with regulators to assist them as they develop the regulatory framework for these games. There are some preliminary versions of the regulations that allow for the establishment of an expected return based on optimal play that is based on a scientific and mathematical analysis of the device and the game. If there is a variance above a certain percentage or other kind of departure from the predicted range of outcomes, the operator is alerted and enabled to then either conduct an investigation or even shut down the game while they try to determine the cause of the unexpected behavior. It is important to provide transparency to the range of expected outcomes based on a mathematical model of the game design. That range is the baseline. With that knowledge he play can be monitored and deviation can be identified. The, regulators and operators are equipped with the information they need to assess different option and decide what to do about it.

The methods of assuring the integrity of the games has always needed to adapt

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to changing conditions and risk profiles. This will be particularly important in the early stages of developing regulations for skill-based games. The people who attempt to cheat or otherwise take advantage of the system are constantly finding new ways to accomplish their objective. So we need to be constantly finding new ways to prevent them from accomplishing their objective.

What kinds of issues are regulators having to think about as regards to skill-based games?

K. Mullally: There will need to be risk-control systems to protect from cheating and to ensure player fairness. We need safeguards for players and operators alike, to ensure that the players are complying with the rules and that the game-play cannot be manipulated to give players an advantage, either against the House or against each other. For example, joysticks are precisely calibrated to function in a certain way. If the calibration for the joy-stick gets out of adjustment even by small amounts, that could lead to an unfair advantage or disadvantage for the player. There will need to be more robust controls to ensure that joysticks are calibrated properly. The technical solutions for operating a joy-stick that exist for recreational skill-games may be adequate for non-money-wagering applications, but wagering games will require a far more sophisticated level of protection.

What are some skill-based design concepts that may challenge the ability of regulators to safeguard against cheating?

K. Mullally: GLI steadfastly avoids advising on game design. However, I have observed that one of the challenges for the industry will be developing an optimum blend of skill and chance—something that gives the average player a reasonable expectation of some type of a

return. How does that objective get reconciled with the fact that players will all have varying degrees of skill?

Poker, for instance, represents a good balance between skill and chance. An average player has a chance to beat an above average player if the cards fall their way. The element of chance is an equalizer. The highly-skilled poker player also has the ability to apply their skills such that they acquire an advantage and will likely beat an average player over time. In Las Vegas poker rooms, or online poker rooms, players may try to avoid joining a game of professional poker players. But in regards to poker, there does not need to be regulatory controls applied because the element of chance mitigates the degree to which skill determines the outcome. New skill-based games that are designed with that kind of skill/chance balance may not need any more regulatory controls than poker. But there will be new skill-based games that won't have that equilibrium of skill mitigated by chance and will require additional regulatory layers to ensure that players do not have an unfair advantage or manipulate the outcomes of multi-player games. Of course, giving the players a fair chance to win is a market-driven necessity since the consumer do not want to play games that are perceived as unfair. Skill-based games will need to have the tools to create a fair opportunity in order to build a following with the broader market of recreational gamers. Players trust games like Lottery and slots because they understand there are controls giving everyone an equal chance to win the random-based games.

Golf has a handicap system that theoretically levels the playing field enabling players of varying skill levels to compete directly with each other. Tennis has a tiered system that theoretically puts people of similar skill

levels together in the same field to compete with each other. But some people “sandbag,” deliberately playing worse when the stakes are small so that they will perform better against their handicap or the field when the stakes are big. It seems to me that the challenge of preventing that kind of manipulation will be problematic, won't it?

K. Mullally: Yes, of course. That is just another area where regulators will need to work through issues and create some reasonable system of controls. The process of developing these regulations to provide consistency and safeguards protecting the consumer will be a learning experience for everyone. It will be iterative and evolve and span across multiple jurisdictions. The appropriate levels of risk control will be a matter of some debate, but regulators will likely begin with higher levels of control to minimize the potential for faults or vulnerabilities in the early stages of this process. Hopefully, the process will be collaborative in an effort to reach some level of standardization in risk control measures. If the regulatory effort is too diverse, it increases the likelihood that some markets will fail to develop in this area.

And combining social-gaming with skill and wagering could make things even more complicated. Like, turning the old Zynga-style games into money games would seem to open up a whole new can of worms.

K. Mullally: You mentioned handicapping. I think there will be lots of different ways to deal with these issues. For instance, players could create their own pools, choosing their own group of players, be it friends or people of similar skill levels. Especially when the stakes are higher, players may want to know they can trust the other players. With some games, the play-style may be more focused on the social aspect, playing with people you know and are part of your social net-

work. Other players will want to play in the larger universe of players because the liquidity will be higher, making the prize pools bigger. Many of these issues just need to be ironed out in the market-place.

Can we expect that the ingenuity of operators and game designers will come up with lots of wild ideas that we aren't even thinking about right now?

K. Mullally: They already are. In fact, one of the most critical aspects of this whole picture is to be able to implement whatever risk-control structures that the regulators develop within a commercially reasonable timeframe. Commercial viability depends on getting to market quickly, so GLI's mission is to eliminate bottlenecks when it comes to risk-control structures and approval processes. GLI has geared up to make sure we have the band-

width to move new products through the pipeline quickly. The process will be thorough, accurate and effective, but speed and efficiency are also priorities.

That's should be a most interesting challenge. We can't predict the future, but we can expect that it is at least possible that growth in new game categories like skill-based could be explosive.

K. Mullally: GLI's role is two-fold. One, we apply our technical expertise to arm regulators with all the information they need to make policy decisions. Then, once those policy decisions are made, GLI provides a very efficient process for the manufacturers to be able to demonstrate compliance.

And yes, the evidence suggests that skill-based games will be very popular. We can see the popularity of skill-based

games in the non-monitized world or the semi-monitized world. We can expect that skill-based games that add a wagering component will also be popular. GLI's clients are actively working to understand the risk-control requirements and how to implement them.

ON FANTASY SPORTS

Fantasy Sports has exploded into a multi-billion dollar industry. Many of the big corporate interests that are involved in pro-sports are invested in this new industry (Time Warner/CNN in FanDuel, Disney/ESPN in DraftKings. Fantasy Sports has). Investors and official sponsors include major sports groups like the MLB, NFL, and

Continued on page 36



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LANCE HENIK



SIMON JAWORSKI

Daily Fantasy Sports Spend Impacting Lottery, Casino Play

Daily Fantasy Sports (DFS) could be slowly undermining the lottery and casino industries. A new poll released by Leger, The Research Intelligence Group, shows that a majority of online Daily Fantasy Sports (DFS) players are spending money on the activity by trading off their spend on lottery and casino games. Among the 15% of U.S. adults who claim to have played DFS this season, more than three out of five (61% of DFS players) agree that their Fantasy Football spend this season has lowered their spend on Lottery games such as Powerball, Mega Millions, Scratch or Instant Games, or other Lottery draw games.

As part of the core base of lottery players, 84% of DFS players mentioned playing a lottery game in the past month—more than twice the level cited by American adults overall (41%). With a majority of these Daily Fantasy Sports players claiming to be spending less on lottery games in general, could further increases in their DFS spend lead to an increased impact on their lottery outlay?

“Specific to state lotteries, this is an external factor contributing to a perfect storm,” said Lance Henik, Senior Account Manager at Leger. “First, consider the reduction in blockbuster jackpots from Powerball or Mega Millions that may have impacted cross-play for other games in many state lotteries, especially among the casual player base. Next, consider the preference among younger players for online gaming, especially for those platforms where players can put their skin in the game, is being met with the DFS option. Finally, with many state lotteries exercising extreme caution in implementing online platforms for their own games, playing catch up in this quickly evolving market further exacerbates the threat that DFS presents in stemming the growth of state lottery sales.”

FanDuel players claim an average spend of \$37 each time they play, narrowly behind the

\$39 per-play recounted by those who use DraftKings exclusively. Players who play on both FanDuel and DraftKings report a significantly higher spend across both sites.

The Leger research also shows a majority of DFS players, 56%, agree that their Fantasy Football spend this season has lowered their spend on casino gambling. This may explain the motivation behind the state of Nevada having ruled last week that participation in DFS falls into the state’s definition of gambling, joining Arizona, Iowa, Louisiana, Montana and Washington as states that prohibit this activity. Currently, DFS has been classified as a game of skill and therefore is not considered gambling under the 2006 Unlawful Internet Gambling Enforcement Act (UIGEA), but if a growing number of lawmakers get their way, this may change in the near future.

Daily Fantasy Sports participants are entrenched players: More than four out of five (82%) DFS players play on FanDuel at least once a week.

“It appears Daily Fantasy Sports is serving up a double economic whammy for state government’s right now,” believes Simon Jaworski, Sr. VP at Leger, and one of the world’s leading experts on lottery and gaming. “These fantasy behemoths are not currently filling the local coffers with tax, due to their private ownership, which when coupled with potentially lower tax revenue from the DFS player’s reduced lottery and casino spending, it is certainly a situation worth monitoring.”

However, major TV networks should also take note, as time is becoming a bigger issue with daily fantasy play. Leger’s research shows more than half of DFS players agree (either completely or somewhat) that the time they spend keeping up on Fantasy Football, including watching Fantasy Football television shows and NFL games, is getting in the way of their ability to watch their favorite shows. ■

Read more on Daily Fantasy Sports on page 18.

For more information on this exciting and topical Gaming research, please contact:

Lance Henik, Sr. Account Manager, Leger: 215-643-8744 or lhenik@leger360.com

Simon Jaworski, Sr. Vice President, Leger: 215-643-8753 or sjaworski@leger360.com

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Daily Fantasy Sports Remain Popular Despite Scandal, Government Inquiries

Methodology for analyses and data for Leger article on pages 16 & 18:

The survey was conducted online with 1,004 respondents, 18 years of age or older, among the U.S. population from October 15th through October 20th, 2015, and was balanced/weighted to statistically represent the country by age, gender, ethnicity, and region.

Based on this sample size, the results carry a margin of error of approximately $\pm 3.1\%$ at the 95% confidence level.

Barring any additional fallout from the scandals around Daily Fantasy Sports (DFS) that emerged earlier this month, the proportion of U.S. adults who play on sites such as FanDuel.com and DraftKings.com during the NFL 2015-16 season could soon rival those who play in traditional Fantasy Football leagues. In a new poll released by Leger, The Research Intelligence Group, 15% of U.S. Adults claim to have played on DFS sites such as DraftKings or FanDuel this season, narrowly behind the 17% who report playing in a regular, traditional Fantasy Football (FF) league (such as those played on NFL.com, Yahoo, ESPN.com, etc.) this season.

“The onslaught of advertising by both FanDuel and DraftKings seems to be paying off in both DFS brand awareness as well as participation,” said Lance Henik, Senior Account Manager at Leger. “Moreover, the results of our latest poll show that room for growth in DFS participation continues to exist, despite the controversy around the ‘Coke and Pepsi’ of the DFS Industry reaching new heights this October.”

According to the 2006 Unlawful Internet Gambling Enforcement Act (UIGEA), a law that was designed to prevent gambling over the Internet, DFS was clarified to be a game of skill and therefore is not considered gambling. Despite this, the Leger October 2015 poll shows more than one in four (28%) adults overall consider DFS play at sites such as DraftKings or FanDuel, as gambling. The perception of Daily Fantasy Sports as gambling increases dramatically among DFS players, as more than four in five (85%) who play DFS overall consider their participation as gambling.

Perhaps more surprising is the fact that a significantly higher proportion of adults overall (39%) consider ‘regular’ Fantasy Sports (such as Fantasy Football, Fantasy Baseball, etc.) as gambling when compared to the daily version. “The general knowledge and experience, direct or otherwise, around the ‘traditional’ Fantasy Football league casts a wider net than DFS,” said Henik. “While players of Fantasy Football and/or DFS consider either activity as gambling; there are also more conversations witnessed among colleagues, friends, family, etc., around Fantasy Football leagues than DFS, the latter of which tends to be an individual activity.”

Public perception around DFS seems to be impacted by the employee betting scandal uncovered this month that prompted investigations from the New York Attorney General and the FBI. Overall, 40% of US adults do not think employees of companies that run daily or weekly

fantasy sports websites such as FanDuel or DraftKings should be allowed to play daily/weekly fantasy games, with another quarter (24%) unsure.

This is in direct contrast with the perception of DFS among its players. According to the Leger October 2015 poll, nearly three-quarters (73%) DFS players think employees of these companies should be allowed to play daily/weekly fantasy games. Furthermore, nearly half (45%) think employees should be allowed to play regardless of whether they are employed by the same site (28% think they should be allowed to play, but at a different site). “By and large, DFS players are seemingly unmoved by this scandal,” said Henik. “Despite reports of fewer DFS entry fees over the past few weeks, the impact on play is nowhere near the extent experienced by the online poker sites a few years ago, at least in the short term.”

Further illustrating the strength of DFS play in spite of the scandal this month is the room for growth that still exists for new DFS players this season. According to Leger, 9% of current non-players claim they are either “extremely likely,” or “very likely” to play on a DFS site such as FanDuel or DraftKings this season, with 4% stating ‘extremely likely.’ If this increase in player penetration happens, DFS play could well surpass conventional FF league play by the end of the NFL season.

However, the barriers to DFS entry are starting to form. The state of Nevada ruled last week that participation in DFS falls into the state’s definition of gambling, joining Arizona, Iowa, Louisiana, Montana and Washington as states that prohibit this activity. Around the same time, the NCAA notified executives from DraftKings and FanDuel it has banned advertising from the two sites during NCAA championship events, citing its long-standing advertising policy against sports wagering entities.

Regardless, play of both regular fantasy football and DFS is at 28% for both forms among younger Millennials (18–29 year olds). However, a gap exists between the older Millennial/younger Generation X group, those between 30–39 years age, who played DFS (26%) and playing FF (30%).

Finally, Leger’s research also shows that potential players aged 30–39 are more than four times as likely as their younger peers to cite a strong likelihood (top box % intent) to play DFS this season. With this in mind, where pundits may have believed the younger Millennials represent any growth in DFS play for the rest of the NFL season, it may just be that the growth could come from their slightly older counterparts. ■

ate a return on investment (ROI). There is no tradeoff because the two go hand-in-hand—a happy customer is good for business. In my experience customers are willing to pay a reasonable premium for quality products and exceptional service. Recognizing this additional investment will bear dividends in many areas of their enterprise. That's why IGT never compromises on product quality and service. With respect to the cost-value equation, IGT's interests remain completely aligned with those of our lottery customers.

How has the merger made legacy GTECH better? How has it improved performance with the result of producing better results for your Lottery operator customers?

J. Gendron: Everybody at IGT is excited about the merging of the two market leaders because we see the benefits that accrue

to our customers. I'm sure there was some angst during the period of transition following legacy GTECH's announcement of its merger with IGT. It is natural for people, both within IGT and among our customers, to be concerned about how the merger would affect them. Now that the strengths and synergies of the merger have become so evident to everyone, we are all embracing the new operating structure. The focus on delivering value and superior service to the customer has never been higher.

The logic of the merger is pretty simple. Over the past number of years, the distinctions between lottery and other gaming categories have blurred. Treating them separately no longer serves the best interests of our customers operating in the different gaming categories. Our lottery customers are already benefiting by the integration

of game content and development, brand licensing and technological assets, and strategic marketing capabilities that have come over from legacy IGT. The structure of the new Company is now designed to combine the resources, technologies, and skill sets with the broadest global base of market and game development intelligence. These capabilities are all being applied to position our lottery customers for long-term success.

The marketplace is changing. It is our job to ensure that our government-gaming customers grow. Harnessing all the capabilities of IGT—central system technologies, innovative game content, social gaming expertise, global consumer and retailer insights, as well as the broad range of assets migrating from iGaming, mobile,

Continued on page 28

The art of sports betting

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Experience, pedigree and technical know how – creating a tier one sportsbook is an art form.

FANTASY SPORTS AND DAILY FANTASY SPORTS

PGRI Introduction: There has been so much written about Fantasy Sports (FS) and Daily Fantasy Sports (DFS) over the past few months, so many new issues unfolding every week. Many of them raise concerns about how FS and DFS fit into the overall environment of recreational gaming. Clearly, there are issues that need to be addressed. To my mind, that should be expected. We should expect that completely new forms of betting that have grown so quickly may have some fault lines that need to be addressed. I would respectfully submit, though, that does not mean that FS and DFS should be banned or prohibited. It just means that the shapers of public policy and leaders in the gaming industry should understand those fault lines. That is the first step, and a necessary step, towards the process of creating solutions that ensure that new betting games uphold standards that protect the consumer and otherwise comply with the highest standards of integrity. It is not our intention to pass a negative judgment on FS and DFS. In fact, as a general rule, PGRI's position is that it is almost always better to regulate (and channel economic benefit back to good causes) betting games and games-of-chance than it is to prohibit them.

CURRENT REGULATORY STATUS OF FANTASY SPORTS AND DAILY FANTASY SPORTS IN THE U.S.

Fantasy Sports has exploded onto the scene so quickly that most jurisdictions have not had time to consider the implications and how, or whether, to regulate it. The fact that it is not classified as "gambling" by the U.S. federal government means only that is not illegal from the federal government point of view. It does not mean that states can't or should not classify, regulate, and tax Fantasy Sports (FS) and/or Daily Fantasy Sports (DFS) as gambling. It just means that it remains legal until and unless a state acts to regulate it, or prohibit it for that matter. Conversely, insofar as the federal government chooses to classify a game as "gambling," that means that it is illegal until and unless a state acts to regulate it. Either way, the authority to classify a game like FS or DFS as gambling and regulate it accordingly lies within the jurisdictional authority of the states. Even as this is being written, many states are actively investigating the issue to decide how or whether to regulate FS and DFS.

States that have already determined that FS and DFS are to be classified as gambling (and therefore illegal until and unless the state installs licensing procedures and regulatory actions) include:

Arizona, Iowa, Louisiana, Montana, Nevada, New York, Washington

However, with each passing week, more states are taking action to classify FS and DFS as "gambling" and regulate (or prohibit) it as such.

The DraftKings website states "We are a U.S.-based skill games company and all of our contests are operated 100 percent legally under United States and Canadian law." On November 9, DraftKings and FanDuel each

filed suit to prevent the New York Attorney General Eric Schneiderman from executing the ban of DFS in New York. Further, they are petitioning the NY State Supreme Court to allow the operation of DFS to continue while the issue is being litigated.

There is certainly some dispute as to whether the UIGEA does in fact render DFS and FS legal under federal law. "It is sheer chutzpah for a fantasy sports company to cite the law as a legal basis for existing," said former Rep. Jim Leach, R-Iowa. "Quite precisely, UIGEA does not exempt fantasy sports companies from any other obligation to any other law." For example, he said fantasy sports businesses must comply with a 1992 law that bans gambling on "one or more competitive games in which amateur or professional athletes participate, or are intended to participate, or on one or more performances of such athletes in such games." FanDuel and DraftKings argue they're exempt from such gambling legislation because DFS is a skill game not subject to chance.

Regardless of the intention or wording of the UIGEA and the federal classification of DFS and FS, U.S. states still can take action and exercise their responsibility to regulate games like i-poker, FS, DFS, and other online games as they see fit. States can choose to classify DFS as gambling even if the federal government chooses not to. The reason why RAWA (Restoration of the Wire Act) and its Trojan Horse cousin Online Gambling Moratorium must be defeated is that it would completely reverse this model that gives states the authority to decide what is best for its citizens when it comes to the regulation and taxation of games-of-chance. RAWA effectively takes away the rights of states to regulate gambling.

IS FANTASY SPORTS AND DAILY FANTASY SPORTS GAMBLING A "GAME OF SKILL," OR BOTH?

There is no universally accepted textbook clarification about how to classify games-of-chance that involve both skill and chance. The commonly accepted definition of gambling (Chance + Consideration + Prize) does not specify how much chance is required to constitute gambling. Poker, for instance, involves both skill and chance. The Federal Eastern District Court of NY ruled in 2012 that since poker involves skill, it is not to be classified as "gambling." That ruling was then overturned by the Second Circuit Court. The thing is, even the original ruling by the Eastern District Court that said that operation of poker does not violate the UIGEA does not preclude the state from exercising its right to classify poker as gambling and to regulate it as such. It is presently up to the states to take action to classify a game, like poker or FS or DFS, as gambling and how to regulate it.

It is inarguable that DFS and FS include an element of chance. For that reason, many regulators and industry leaders are positing that DFS and FS should be classified as gambling. "You put up something of value, like cash, to win something of value, cash," said Joe Asher, CEO of sports book operator William Hill U.S.

"It's the classic definition of gambling." MGM Resorts International Chairman Jim Murren said sports officials are "absolutely, utterly wrong" when they argue that DFS in particular is not gambling. And the seven states that are exercising dominion over the regulation of DFS and FS are classifying them as gambling.

DOES DAILY FANTASY SPORTS BETTING POSE LESS OF A THREAT THAN SPORTS BETTING IN TERMS OF INTEGRITY AND PROBLEM GAMBLING?

The prevailing notion is that since DFS is based on the stats of individual performance and not the outcome of the game, it therefore poses less threat to corruption and manipulation of the betting results. Seth Palansky, Caesars Interactive Entertainment Vice President of Corporate Communications, contends that DFS pose an even more dangerous for the integrity of professional sporting contests than traditional sports betting. His reasoning is that DFS games rely on individual player stats rather than the outcomes of entire games, there may be more scenarios in which players could be convinced to alter their performance. Theoretically, athletes could manipulate the DFS outcome by deliberately fumbling or dropping a pass or missing a tackle or a block. They could even do that in a cir-



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cumstance that would not change the outcome of the game. As a side-bar, Palansky does not contend that sports associations shouldn't support the legalization and regulation of DFS and FS. He just thinks they should not equivocate by claiming that DFS is not gambling. Instead, they should get in front of the issue, acknowledge the fault lines, and take action to ensure the integrity of sports. "The NFL has smart people," he wrote. "The NFL can lead here. Put your smart people on it, figure out partnerships that give you access to the data and make it a win-win. Waiting is just going to increase the chances of something unintended happening." Taking no action on the basis that DFS is not gambling is delusional and increases the likelihood that the integrity of the games may be compromised.

IS THE RECREATIONAL ONLINE SPORTS-BETTOR AT A DISADVANTAGE?

If skill is involved in sports betting or Daily Fantasy Sports, wouldn't that put the less skilled player at a disadvantage over the skilled player? Now, take that a step further. What if sophisticated data-crunching, computer-generated algorithmic modeling were applied to the economic activity of sports-betting? Professionally managed funds are now being created that invite us to think of sports-betting as an investment. One website explains "Bettor Investments, LLC uses mathematical probability calculations and statistical analysis to determine on a daily basis which bets are profitable. Over time, we will show conservative growth, profit and stability for our investors. The state of Nevada has now legalized sports betting "pools" which are similar to investment clubs or mutual fund groups. I welcome you to connect with us to reconsider your view of traditional sports betting and embrace the opportunities of sports investing."

One indication that the answer to that question is "YES": In the big picture, artificial intelligence has been disrupting one industry after another. But since we are talking about betting, sports betting in particular, exhibit A might be the success of Microsoft's AI engine, Bing Predicts, at predicting outcomes. It has correctly predicted the outcomes of all 15 games in the 2014 Brazil World Cup knockout round and almost all the results of the 2015 Academy Awards, including the winners of best picture, best director, best actor, and best actress. It recently beat the Las Vegas odds-makers in predicting winners for week one of the NFL season. If Microsoft's AI is already that good at predicting outcomes, how might a well-funded investment consortium fine-tune even more sophisticated algorithmic models to apply to the economic activity of sports-betting? And where does that leave the casual recreational gambler?

We are talking about Big-Data—very big data and very sophisticated tools to glean the relevant information from Big

Data. The basic principle driving the success of Microsoft AI is based on the "wisdom of the crowd." In regards to predicting NFL winners, for instance, not only does the AI algorithm take into account such diverse variables as a team's previous margins of victory, player statistics (rushing yards and passing yards, etc.), stadium surfaces, weather conditions, and so on, the secret sauce that seems to give it an edge over the other experts is the ability to quantify aggregate sentiments and biases mined on internet social networks. By tapping into social media and digesting the opinions of millions of Twitter and Facebook users, the AI can pick up intangibles that defy even the most hardcore of human statisticians. For instance, the model might detect a rumor among Twitter users that the Patriots starting quarterback just had a fight with his wife in the wee hours before Sunday's game and hence is less likely to be at the top of his form. While such rumors may prove to be unfounded, they have a semblance of truth enough of the time that they give the model a statistical advantage. And even if there is no truth, AI algorithmic models can infer and measure the impact of untrue rumors on the betting bias of the crowd. Specifically, these "wisdom of the crowd" analyses are estimated to increase the accuracy of their predictions by 5%. Not much of an edge, but that's more than enough to enable an well-conceived investment strategy to garner huge profits.

The implications of this are profound, not just for sports-betting, but for a wide variety of industries which depend on an even playing field as regards to the prediction of future outcomes. As the understanding of AI increases, and the ways that it can be applied to predict the future build out, the disruptive impact will likely increase as well. It's hard to imagine that the pace and magnitude of disruptive change could increase over what we've been experiencing for the last ten years. Will the world (or the economic sector of gambling) become dominated by capital-intensive enterprises focused on developing the best AI prediction models? I guess we will just have to wait for the wisdom of the crowd to weigh in on that question.

Is Fantasy Sports a rigged a rigged game? A FanDuel employee recently won \$350,000, leading some to conclude that players were victimized by insider trading. FanDuel has since banned its employees from playing. But how will that prevent insiders from directing the bets of friends who are not employees? FanDuel contends that the betting was conducted with publicly available information. Questions remain about exactly how the FanDuel employee's betting yielded such a big payoff. And whether the methods can be repeated.

Two weeks after the insider betting scandal, DraftKings and FanDuel saw a record 7.52 million entries into their NFL tourna-

ments and \$45.6 million in entry fees.

The limited research on the issue indicates that skill, or an edge of some kind, is important to winning. Analyses of the Fantasy Sport business by publications like Bloomberg magazine have shown the odds of recreational players actually winning are very small. Professionals have already developed personalized algorithms to put together winning lineups. These Fantasy “sharks” can quickly identify athletes the public is likely to pick, and know the upside odds for less-favored players. In the first half of the 2015 Major League Baseball season, 91% of Daily Fantasy Sports player profits were won by just 1.3% of players, Sports Business Journal reported. In the cease-and-desist order to FanDuel and DraftKings, New York attorney general Eric Schneiderman, stated that DFS is a “multibillion-dollar scheme intended to evade the law and fleece sports fans across the country.”

THE BUSINESS OF FANTASY SPORTS

Based on investors’ most recent funding terms, DraftKings and FanDuel are each worth over \$1 billion. DraftKings was TV’s single biggest advertiser the opening week of the NFL season. And, according to Bloomberg News, the DraftKings and FanDuel fantasy sites generated \$60 million in entry fees for the NFL’s Week 1, twice the amount of money Las Vegas sports books handled.

FanDuel has a marketing deal with the National Basketball Association and, separately, multiyear partnerships with 13 NBA teams. DraftKings has deals with the National Hockey League and Major League Baseball. The National Football League does not have an agreement with the fantasy sports websites. However, five teams have marketing deals with DraftKings and 16 teams have similar arrangements with FanDuel. The Patriots’ Tom Brady and Rob Gronkowski each has a sponsorship deal with a fantasy sports site. Cowboys owner Jerry Jones and the Kraft Group have stakes in DraftKings.

The Chicago-based Fantasy Sports Trade Association says 56.8 million people from the United States and Canada participate in leagues, spending an average of \$257 a year on daily fantasy sports and \$162 a year on traditional season-long Fantasy Sports contests. Total FS and DFS wagers in the U.S. and Canada are estimated to end up being around \$27 billion in 2015.

According to recent estimates by Eilers Research gaming analyst Adam Krejci, DraftKings alone has spent an estimated \$224 million in marketing this year, while FanDuel spent \$97 million (prior to Oct. 31). That translates to respective customer acquisition costs of \$190 per user for DraftKings and \$110 for FanDuel. DFS entry fees are expected to reach \$3.7 billion in 2015. ■

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The (N)EVER Changing Conversation

"If early results are any indication, 1984 will be remembered as a year in which a new market - a young adult market - started playing the state lotteries."

The Lottery Journal, Volume 1 Number 1, 1984



Jennifer Welshons –
Vice President,
Lottery Insights for
Scientific Games



The day that Bill Behm, a Scientific Games founder and active consultant, walked into my office and handed me the inaugural issue of *The Lottery Journal*, I had two thoughts. One – I was flattered Bill was bestowing a piece of his nostalgic paraphernalia upon me. Two – that 29 years later we were all still having the same conversations about lottery players.

How do we develop games that attract new players? How do we offer products for Millennials (or Gen Xers, as we called the younger generation back in 1984)? How do we stay relevant for generations to come? These are headlines that circulate endlessly throughout industry discussions, events, articles and strategy sessions.

If this conversation continues, in 2020 we will substitute Gen Z (the current name for the cohort following Millennial), and we could be sitting in the same place... or worse. We've found successful global companies have learned that generational-based product development and marketing is limiting and typically results in designs for everyone and no one at the same time. Success more often comes from products that are developed based on consumers' motivations and needs, regardless of the intended user's age.

With the global convergence of lottery, gaming, retail, mobile and many other aspects of daily life, a consumer's world is almost seamlessly integrated. It's no surprise then that our industry is mirroring life and blending knowledge, products and assets. But the *act* of merging alone will not make a difference to our customers' bottom lines. It's the *action* we take that will deliver results. Because of this, Scientific Games invested in a solid innovation foundation for one consumer across one wallet.



ONE CONSUMER | ONE WALLET | ENDLESS OPPORTUNITIES

At Scientific Games, we know that our mandate is to deliver bottom line profits to our customers through innovation and partnership. We know that this mission means we must be leaders in changing the conversation. We also know that change will happen as we approach the market as groups of consumers, who desire different experiences from the products we develop. So where do we start?

FULL MARKET SEGMENTATION

Research methodologies are a *means* to an end, not the end itself; for Scientific Games, that end is commercial insight, which can only be reached by using a technique that is tried and true, valid and reliable, and then applying the results in novel ways. To meet this goal, we engaged in a full-market segmentation study. Segmentation research is not new or revolutionary, nor is it one methodology or approach. The term covers a broad range of tools for defining meaningful customer

differences that affect how they buy, what they buy, how much they spend, and what they purchase. At its heart, segmentation is about identifying groups of people who respond differently to products and marketing so efforts can be focused on your most profitable prospects.

The concept of segmenting markets erupted in the 1970s as a response to mass brands giving way to 'niche' markets and brand extensions. The question became, "Why treat everyone the same?" It wasn't long before everyone was doing 'segmentation research'. The key difference between segmenting by motivation versus other criteria such as demographics is that motivations are not likely to dramatically change. In fact, this type of segmentation work only needs refreshing every five to seven years to accommodate any major shifts in the market.

After vetting several globally renowned research firms for our segmentation project, we enthusiastically selected Boston-based CMB, a top 50 market research and consulting firm. CMB's prior experience in gaming helped us decide on the appropriate design for our needs (Max-Diff) and enabled them to quickly understand our criteria for project success:

- 1. Simple** – The entire approach and findings needed to be easy to explain.
- 2. Actionable** – When the final results were in, and we were working with the data, it had to be delivered in a manner that was actionable for our customers.
- 3. Differentiator** – As mentioned earlier, our goal is commercial insight across Scientific Games' customer portfolio. We wanted to ensure we established an instrument that could deliver.

We also incorporated a number of strategic goals pertaining to scope and usability. We required a global roadmap to support our customers worldwide, so we started with the U.S. and Europe and will add more to our research over time. We included all aspects of a consumer's wallet – general entertainment, gaming and lottery – so that the findings could be applied to our product development efforts across our lottery, gaming and interactive business. And we needed our study sample to be representative of the entire market population. We often see "player" segmentation that is acceptable when trying to assess a core market (i.e. active players). But if a

goal is to understand the potential of new players, then including only existing players defeats the purpose.

After weeks of design across business groups, weeks of interviewing and days pouring over models, we finally reached our goals for the study. We now have deeper clarity into motivation-based segments and massive data to use across the Scientific Games organization.

U.S. & EUROPEAN GAMING SEGMENTS



Because of the many nuances in player preferences with instant games and our market position with these products, we drilled down beyond total gaming to the instant player level to best serve our game development.

U.S. INSTANT SEGMENTS



EUROPEAN INSTANT SEGMENTS



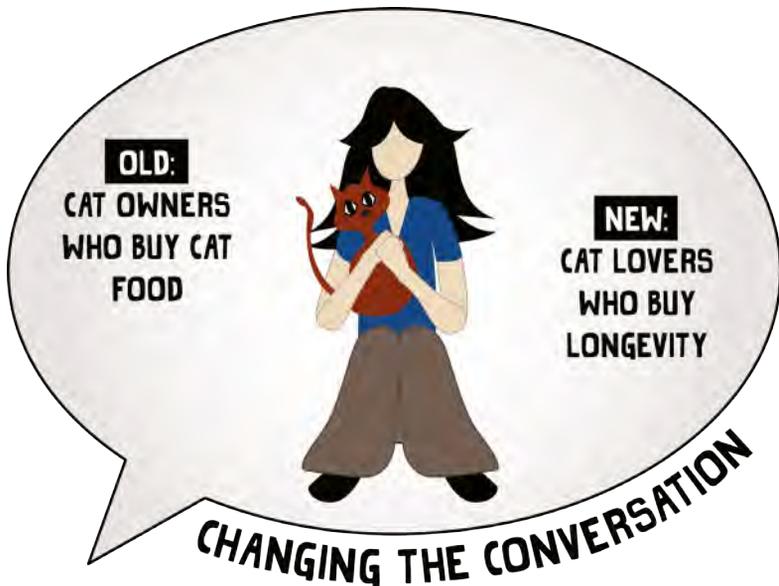
With our framework in place, the real work begins. Applying the findings to create tangible solutions for our customers is where we begin to discover commercial insights.

PRODUCT DEVELOPMENT

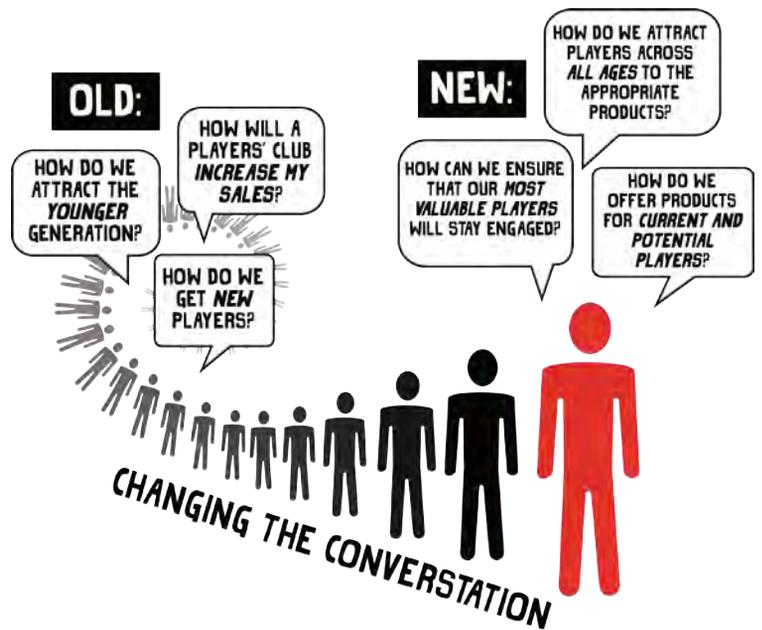
When you think about the core product we deliver, it's not surprising that the desired experiences span all ages. There is a player segment that wants to win lots of money; a segment more interested in winning a little money; a segment more interested in having some fun... the list goes on.

Maturity on the product life cycle curve helps us determine growth steps for our lottery customers. When you have clients who are performing at some of the highest per capita and per retailer sales in the world, you have to be prepared for the next phase of growth. Getting to that next phase requires much more analysis and insight. Hence, the segmentation work we've done is playing a critical role in our near-term product development. Like many large consumer product companies, we are actively integrating it across all areas of our business to fuel innovation. By way of example, HJ Heinz revolutionized the pet industry by doing the same¹.

In the early days of segmentation research, HJ Heinz commissioned a study to understand cat food buyers. At the time, cat owners had only two choices – 'wet' (canned) cat food or 'dry' cat food. The study revealed that the buyers of these two products were very different, especially in how they related to their cats! There was a segment of wet food users that were so passionate about their cats; they literally threw half of every can away because it wasn't 'fresh' enough to provide a second meal for their beloved kitty. The result? The introduction of three-ounce cans of wet cat food and the birth of an entirely new higher price per unit product. The Cat Lover segment was willing to spend pennies more to ensure their cat had only fresh meals. It was a win for both the company and the buyer segment.



Much like HJ Heinz used segmentation to change the cat food business, Scientific Games has been changing the lottery world. And we will continue to do so with refreshed vigor. One example of this has been our new *Pop n' Pak*—an instant product that tested highly with the Fan and Friend segments, which make up 88 percent of total instant game spending. *Pop n' Pak* also tested well as a gift product that any segment might purchase. Because of these results, we are confident that we have launched a new product into the market that appeals to segments more inclined to come into the category occasionally, while also not alienating those who are committed to the category. Our hope is to abandon the old questions about new players and Millennials and change the conversation to reflect more actionable approaches:



MARKETING

We would be remiss if we did not make a distinction between product development and marketing as it pertains to generations. When you start developing products aimed at particular demographic segments, you are much more likely to miss the mark than if you develop with motivations and needs in mind. Take, for example, the recent mishap experienced by Whole Foods, an American supermarket chain specializing in organic food². The company received backlash after an announcement that they would develop streamlined, tech-savvy stores with organized and reduced organic selections at lower prices, specifically for Millennial shoppers. This implied that Gen X and Baby Boomers

were fine with older, more cluttered Whole Foods stores offering a confusing array of products at higher prices. Relying too heavily on demographics to define a consumer base is fundamentally flawed.

The same is true within lottery and gaming. There are segments of people that span demographics (age, ethnicity, income, etc.) yet want the same product experience. However once a product is developed, communicating it to those interested may require customized marketing messages and communications channels. To better illustrate, let's go back to our example of Pop n' Pak and consider that the product developed meets the experience criteria desired by the Friend segment and the criteria for gift giving occasions among less engaged segments, such as Acquaintances. With the product solidly developed on consumer motivations, how do we let these types of people know it is available in the market? This is where demographics may play a part. When we consider some dominant characteristics of these segments and we acknowledge that there are in fact generational skews with media consumption, we can explore a number of ways to market the product. One example is the following:

CONCLUSION

There will always be those who doubt the motivational segmentation approach—people who are not sold on the idea that a 24-year-old Millennial could be seeking the same product experience as a 42-year-old mother of three. But circular conversations are no place to live and so as a growth organization, Scientific Games uses consumer motivations as our foundation. There will always be randomness in the population. We would rather accept what we can control and focus on moving the movable and doing the doable as a one-stop-shop for one consumer and his/her one wallet.

My hope is that in 2020, a quote in a *PGR* article will read, "2020 is the year that the industry optimized play across [insert segment name here] and thus returned billions more to good causes." That is when we will know the conversation has changed.

“2020 is the year that the industry optimized play across [insert segment name here] and thus returned billions more to good causes.”

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Sources:
¹<http://brandamplitude.com/segmentation-made-simple>
²Bolton, Robyn. "Whole Foods' Misguided Play for Millennials." *Harvard Business Review*. May 14, 2015
 SG proprietary ONE Segmentation Study, 2015

PRODUCT DEVELOPED ON MOTIVATIONS

Key Characteristics to Consider for Marketing



FRIEND

- 21% Decides game purchase prior to entering store
- 59% Female
- 50% 50-69 Years Old
- 96% Active on Facebook
- 43% Engage with YouTube
- 8% Use Twitter



ACQUAINTANCE

- 16% Decides game purchase prior to entering store
- 13% Hispanic
- 15% 18-29 Years Old
- 96% Active on Facebook
- 83% Engage with YouTube
- 44% Use Twitter

Marketing Considerations:
 Traditional media and Facebook campaign, placement skewed female, call to action to head to store with purchase in mind.

Marketing Considerations:
 YouTube commercial(s) using humor in English and Spanish, Game alter Tweet through proximity marketing upon entering store, point-of-sale in English and Spanish to disrupt shopping and convert to purchase.

and electronic games, will help drive the success of lottery into a future rich with opportunity. The merger of GTECH and IGT ensures that we have the depth and scale of capabilities to help lotteries to take full advantage of growth and work collaboratively with them to shape the optimum business model evolving with the changing marketplace.

IGT has increased its investment in lottery-specific research & development (R&D) by over 50%. Additionally, traditional lottery receives indirect R&D benefits from other verticals, like iLottery, iGaming, social gaming, and electronic games. The real-world consumer market, after all, is not segmented into silos that exist independently from one another. Our new operating structure facilitates the cross-pollination of R&D and marketing intelligence so that our lottery perspective is now informed by a comprehensive understanding of the whole games-of-chance industry and marketplace.

Legacy IGT investments in R&D and the technologies of mobile, social gaming, player user-interfaces, and consumer behavior as it relates to the broader field of game-play, all far exceeded what legacy GTECH had at its disposal. The fruit of these investments is now being leveraged across the entire base of IGT customers. The legacy GTECH and IGT cultures were always focused on innovation and customer satisfaction. Combined, we are engrained with a passion for innovation and offer unparalleled breadth and depth of experienced global resources, across all disciplines to support the ongoing success of our customers.

You have experience in all the different disciplines of business operations within IGT. That career path is typically applied to those who are being groomed for a senior management position. How have these different perspec-

tives informed or shaped your management style? Too, from an enterprise-management point of view, how are the different world views and perspectives of different corporate divisions integrated into a single harmonious corporate mission?

J. Gendron: I've been fortunate to work in many different areas of the company and to work for some truly great leaders. I've learned an incredible amount from my superiors through the years. Lottery is a complex and nuanced industry that intersects government and gaming. A broad and diverse perspective is necessary in order to lead us forward, and effectively respond to business issues within the appropriate context.

It is a challenge to integrate the different perspectives of the leaders in finance, manufacturing, product development, marketing, distribution, government relations, communications, sales, etc. The different disciplines bring differing priorities to the execution of the overall corporate mission. That is as it should be. However, creating alignment between these perspectives is often challenging. That's why diversity of senior leadership experience is so necessary. Each of us has passion for one of the areas and our business approach reflects that. Experience across multiple disciplines enables us to appreciate the priorities of our colleagues and be better equipped to find the mutually agreeable solutions that result in optimizing value for the customer. This is why IGT has prioritized diverse business training opportunities to round out our senior leadership.

That's evidenced by what appears to be quite an explosion of innovation from IGT. The trade-show exhibits at G2E and NASPL revealed an incredible variety of new technology and products. It seems like the integration with IGT is all coming together and now you are launching the fruits of that process.

J. Gendron: It is an ongoing process. It certainly did not happen overnight, or without tremendous effort, focus, and energy. Our most senior leadership, the architects of the merger, always had a clear vision for how this would unfold. Notwithstanding this, it has taken the entire organization to pull together to execute on that vision to get us to this point. And, of course, we've only just begun. This is an exciting time of tremendous transition for the entire industry. The opportunities are incredible, but the way forward will have challenges. IGT is set on an accelerated track to deliver on this potential—to enable our customers to take full advantage of the opportunities, and to future-proof against the inevitable challenges within the industry.

The opposition of NACS to meeting the needs of its own customers is frustrating for many of us. What can we do to enlist the support of NACS for online iLottery sales?

J. Gendron: NACS leadership continues to lobby against Internet sales, and unfortunately promote the false notion that online sales will hurt the sales of its members' bricks and mortar locations. To convince NACS that online sales will raise the watermark across all distribution channels, U.S. lotteries need to continue to develop programs that will prove what the international lotteries have seen over the last two decades. In both Georgia and Michigan, for example, the lotteries developed a retail component to their online sales program which proved vital to build retail cooperation and trust. This proved to be very successful. The sales of traditional lottery sold in retail stores have grown right alongside Internet sales channel. We look forward to similar results with the Kentucky Lottery when it begins online sales shortly.

As an industry, our collective messaging needs to be that the land-based retailer is

Continued on page 40

Embracing the Essence of Lottery: Inspired by the True Story about the Birth of “Baby Carrots”

By Ulli Applebaum,
First-The-Trousers-Then-The Shoes
Brand Consultancy



Ever see a product and wonder how the product development sessions unfolded? Like, back in the 80’s, when the creatives were sitting around a conference table trying to figure out what to do about the declining sales of carrots. Someone might have said something like “I know, let’s cut them up into little bite-size pieces and put them into plastic bags and sell ‘em in gas stations.” And her colleague responded “that’s the stupidest idea I ever heard. We’ve done countless focus groups and nobody ever complained about the length or size of the carrot. I mean, what’s so hard about holding the carrot and just eating it down? Not only that, the earned media of Bugs Bunny’s endorsement would go down the drain. And who wants to buy carrots when they’re pumping gas? Besides, how much would it cost to do all this? Next you’ll say we’re supposed to wash the carrots ahead of time. This could get ridiculous.”

Thankfully, this little drama does have a happy ending. “Baby Carrots” were born, were a big hit, and reignited growth in the stagnating carrot category. Thank you, Baby Carrots. For reminding us that inspiration to innovate can come from the strangest places.

Why “baby carrots?”

Baby carrots changed the way people think about carrots and expanded the reach of the category to new consumer segments and usage occasions. This one innovation helped double the per capita consumption of carrots in the US in 15 years from 6 pounds per person per year in 1986 to 11 pounds per person per year by 2002. That’s an increase of over 180%. In the process, baby carrots completely upended the existing market dynamics, now representing 80% of all carrots consumed in the US.

The entire modern consumer economy is facing a challenge to extend the life-cycle of mature product categories. It’s true for Lottery just as it is true for most everyone in the consumer products industry, and in the random-number-generated games-of-chance category too (i.e. slots as well as Lottery). The good news is that true innovation has nothing to do with inventing the Next Big Thing, or becoming something we’re not. It’s about re-imagining who we are and what we can do with the assets we have. Baby carrots transformed the entire category with what, in hindsight, is a relatively minor change to an existing product. It’s true that the one change to the product reshaped the way the product was perceived by the consumer, and how it could be promoted and



distributed. That's the brilliance of it—one minor change opened the door to reinventing the entire category. It changed carrots from being a vegetable to being a healthy alternative to snack food like candy. You can't transform carrots any more than you can transform the fundamental game logic of random-number generation. We can, though, embrace who we are, appreciate the beauty of our products in fresh new ways, reinforce the connection that Lottery has with its huge customer base, and inspire in our customers the love they've always had for Lottery.

Lesson Number One: A new product experience can drive category growth

In 1986, the average consumption of carrots per person in the US was 6 pounds. Carrots were mainly distributed through grocery stores. The stores would require them to have a certain size and look, which led to farmers facing tremendous waste, and having carrots they couldn't sell. And even once your carrots made it to the store, convincing people to eat them was another matter entirely—they had to be washed, peeled, and then cut or grated.

Because of these restrictions, some farmers, like Mike Yorusek from Bakersfield California, had to discard up to 400 tons of carrots every year. Not surprisingly, Mike wasn't happy. Legend has it that he was feeding so many of the rejected carrots to his pigs that his bacon turned orange. So, he decided to do something about it. He started experimenting.

He didn't get it right the first time, though. His first attempt, which he called "bunny balls," didn't lead to the hoped-for success. His second attempt, though? That second attempt led to the "baby carrots" we now all know and love. The local grocery stores which Mike used to test his ideas went crazy over this new way to sell carrots.

So what happened? Why did this "simple" change in shape and form lead to this radical category growth? We believe there are several reasons that explain this success.

Convenience as a benefit: Obviously, baby carrots provide a clear convenience benefit over regular carrots. There is no need to wash, peel and cut the carrots any longer. They can be consumed as is without any extra effort. But convenience alone can't explain the whole story.

From vegetable to snack: Instead, we believe that the real power of baby carrots was in their ability to re-frame the whole category in consumers' minds. All of the sudden, baby carrots weren't seen as a vegetable primarily served as a side dish. It wasn't

just "produce." Instead, they were being perceived as a healthy and convenient snack!

New usage occasions: Re-positioning baby carrots as a snack opened up completely new usage and consumption occasions and market opportunities and invited a whole new range of consumers into the category, something the lottery is trying to do as well. Moms could put them in their kids' lunch boxes, they could be served as party snack (I suspect they also contributed to the growth of ranch dressing consumption), they could be kept in a handbag and eaten on the go (or at work) as a fun snacking alternative. Suddenly, people had many more reasons to buy- and they took advantage of these increased opportunities!

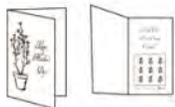
New distribution opportunities: This new product format also led to new distribution opportunities—suddenly, convenience stores and gas stations were interested—places that never had a "produce" section, and still don't! This simple product change increased the reach and buying touch-points of the whole category. And the lottery category knows all too well that an increase in distribution will impact sales.

Would that work in the lottery industry?

Right around now, you might hear yourself saying "this is entertaining and interesting Ulli, but how do these learnings apply to the lottery industry? How do we change the product/player experience of the lottery products to drive renewed consumer interest and create new growth opportunities?" We at First-The-Trousers asked ourselves the same questions. So, we decided to test this hypothesis in the scratch-off segment. We had a designer mock up 5 different product ideas (all containing a scratch-off element) and tested them quantitatively.

Previous research had shown us that consumers play the various lottery products for a variety of reasons as they try to satisfy a variety of need states. We had also hypothesized that because of their mechanisms of play and appearance consumers tended to lump all the existing scratch-off games into the same "mental bucket." And, our prior research showed that the current products were only good at satisfying and delivering against half the relevant players needs in the category. In other words, the current products offered in the category did not manage to deliver against many of the relevant reasons people played the lottery. Suddenly, when you realize that only 50% of player need-states are being met, 180% growth doesn't seem that unrealistic. The learnings we found held true for scratch-off games and draw games and across jurisdictions.

Five New Lottery Product Ideas.



1. A new line of **greeting cards for special occasions** (Mother's Day, Valentine's Day, Father's Day, etc.) that also contain a scratch-off game that enables the receiver of the card to win up to \$50,000.



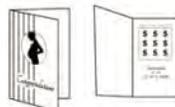
2. A new line of scratch-off games that in addition to giving you a chance to win \$50,000 also contains **little brain-teaser exercises and quizzes to challenge you mentally.**



3. A new line of scratch-off games that can be folded **into origami figures** (flowers, animals, etc.). The opportunity to start you own origami collection or fun little presents you can hand out to friends and family.



4. A scratch-off game that acts as a **coffee cup sleeve.** You can ask for it when you order your coffee at your favorite coffee shop, convenience store or gas station on your way to work in the morning.



5. A line of greeting cards that can be given to **celebrate specific life events** such as a wedding, a baby shower, buying your first house, the first day at work, graduation day, etc., giving the recipient a chance to win \$50,000 to help him or her better manage the next stage in his or her life.



6 (benchmark): Very simply, a line of scratch-off tickets that give you the chance to win \$50,000 like you would find in a gas station or at your convenience store.

Five new product ideas tapping into 5 different relevant consumer need states

The 5 new product ideas we came up with and tested were:

- Special occasions greeting cards containing a scratch-off elements (social sharing need state)
- Every day occasions sentiment cards (need state of making memories)
- Scratch-off tickets that could also act as coffee sleeves (part of players' morning ritualized behaviors)
- Scratch-off tickets that could be folded into an Origami figure after the play
- Scratch-off tickets that included a brain teaser element, satisfying players' needs to get challenged intellectually.

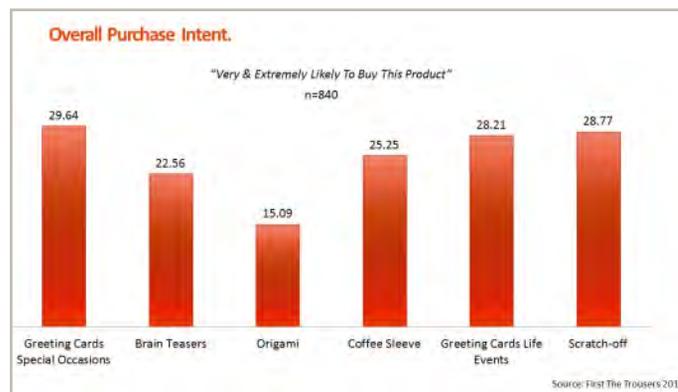
Test results:

We tested these 5 new product ideas for "purchase intent" and for their ability to "satisfy relevant player need states and play-

ing occasions" amongst 840 respondents. We also bench marked those 5 new product ideas against a typical scratch-off game format. Here is the summary of what we learned (feel free to contact me directly if you'd like to see the whole research with all the findings):

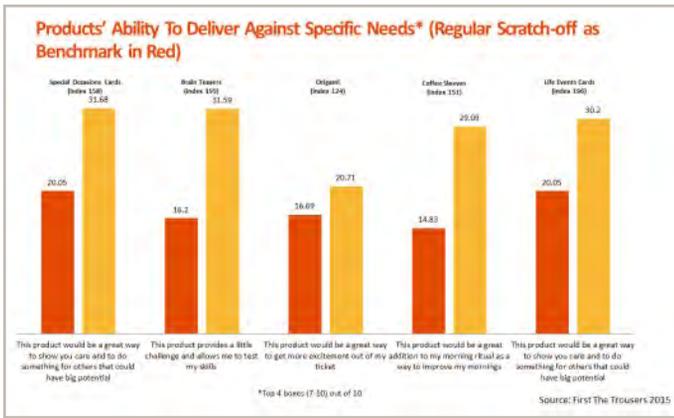
Purchase intent:

- Three out of the five new product ideas tested equally well or higher than regular scratch-off games in terms of purchase interest: "Greeting cards for special occasions," "Greeting cards for life events" and "coffee sleeves." Our respondents found these three product ideas equally or more motivating than regular scratch-off games.
- The overall result (25.2% top two boxes) for the "coffee sleeve" idea is misleading because it includes the responses from people who do not stop on their way to work in the morning for coffee. When focusing only on people who stop for coffee in the morning (47% of total population and 57% of Millennials) the purchase intent for this product increases to around 50% (twice as high as the purchase intent for scratch-off games). In other words, half the people who stop for coffee in the morning would be interested in purchasing a coffee sleeve scratch-off game as part of their morning ritual.



Ability of the product ideas to deliver against category specific relevant need states

We also asked respondents about the product ideas ability to deliver against the category relevant need states. Results show that all the product ideas we tested were perceived as delivering better against a specific and relevant need state than current games. This data also shows us that these new product ideas would be able to satisfy new purchase and playing occasions and thus potentially help expand the market.



So, what does this tell us?

The original question was "could differently "packaged" scratch-off tickets be more appealing, better deliver against category needs, and therefore help expand the category by increasing playing and purchase occasions?" Our quantitative data seems to suggest that the answer is a resounding "yes."

In fact, there's likely the opportunity for significant new lottery revenue by following these guidelines. Experimenting with new products that re-frame the way consumers (both players and non-players) think about the category and better meet their true needs would be the first step. From there, the lottery can open up a variety of new buying occasions and distribution channels.

Lesson Number Two: Product form is one thing, positioning is another

Now, changing the product form is not that simple. It requires experimentation, the allocation of resources, testing and time. And even though it may be essential for the future growth of the category, it is still more of a mid-term solution.

But interestingly, "baby carrots" can also teach the lottery industry another lesson about how to grow its business faster. This lesson is not about product experiences, but about the way the products are positioned and communicated. It's a lesson about brand storytelling.

Let's take another look at the carrot category but fast forward to the year 2010. Baby carrots, as a new product format, had radically changed the way the category is perceived while leading to significant growth and Mike Yorusek became a wealthy man by selling his business to Bolthouse Farms, one of the country's leading carrot producers (Mike passed away in 2005).

But, after ten years of consecutive growth, baby carrots and the category overall started to stagnate. Just like so many other categories, it suffered from the recession. People were buying and

eating less carrots to save money. Jeff Dunn, the CEO of Bolthouse Farms (and an ex Coca-Cola marketer) was not satisfied with this development and wanted to reinvigorate sales. Various consumer research efforts (and talking to more than twenty advertising agencies) finally lead them to a completely fresh way to position its baby carrots: "as junk food" (captured by the line "Eat 'Em Like Junk Food").

Common wisdom would have suggested to highlight the product attributes and benefits of carrots. They're healthy. But everyone knew that already and it did not seem to have helped consumption. Common wisdom might also have suggested to position baby carrots as a healthier option to junk food. But while junk food and vegetables tap into very different consumer need states with very different associations and expectation, this type of comparison would have always made choosing baby carrots look like a compromise. And who wants to compromise, especially when indulging?

The breakthrough came when the team decided to position baby carrots not "against" junk food but "as part of the junk food world" allowing it to tap into the same (indulging) conventions as real junk food. This positioning wasn't taken out of the blue. Rather it was based on a product truth, In fact, baby carrots already possess many of the defining characteristics of our favorite junk foods. They're neon orange, they're crunchy, they're dip-able, they're kind of addictive.



A multichannel advertising campaign around this new positioning led to a lift in sales of over 10% versus the prior year in the markets where it was tested.

Framing, or the context in which you present a product, brand or idea, plays a huge role in psychology and in communication. In fact, First-the-Trousers did an analysis of over 1200 case studies of

The 26 Universal & Consumer Relevant Approaches to Brand Positioning Based On The Analysis of 1200 Case Studies.

Setting The Stage (Frame of reference)	Creating The Story (Product Exploration)	Defining The Type of Connection (Consumer Engagement)
Frame of reference	Origins	Benefit
Gold Standard	Creation Story	Sensory Experiences
Culture	Product workings	Reward
Rituals	Components/Ingredients	Branded Rituals
Usage Context	Defining Attributes	Shared Values
Category Conventions	Weaknesses	Purpose
Category Paradox	Scarcity/Exclusivity	Brand's Archetypes
Usage Barriers	Torture Test	
Perceived Enemy	Experts	
Brand archeology		

Source: First The Trousers 2015

effective marketing and identified 26 universal approaches to tell a brand story (www.positioning-roulette.com).

These 26 universal approaches can be classified into three broad groups. 10 of these 26 approaches (around 40% of them) fall into what we call the “frame of reference” category which highlights the importance of contextualizing your product when positioning and communicating it. The other two areas deal with the product (how to tell the product story) and with the consumers (how and at what level to connect with the consumers).

The lesson to be learned here is about the type of story you tell about your products and how you frame their story to engage consumers.

Our experience shows that the lottery category generally focuses its advertising on communicating the playing mechanism and benefits of its new products. This type of communication then often also includes an emotional benefit, a reward for the player. There is nothing wrong with this type of communication and it often worked. But it also has become expected for the category (just like you'd expect carrots to be advertised around a health benefit). And the core players are used to it. Worse, it doesn't help to draw in light or lapsed players or younger generations of players and it doesn't invite new types of playing occasions.

What the “baby carrot” re-positioning example shows us is that exploring and identifying a fresh context through which to tell your product story can lead to surprising sales growth. And it can be done way faster and more cost efficiently than through a product redesign.

Conclusion

I hope that by now you'll agree with my introductory observation that the lottery industry can learn a lot from baby carrots:

1. In the short term, the whole industry can tell more compelling stories about its products by positioning and communicating them within a context and frame of reference that is relevant to consumers rather than by simply focusing on the game mechanisms.
2. Midterm, there's the opportunity for significant growth by rethinking the product experience and format, creating new buying occasions and conquering new distribution channels. ■

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HOW RESPONSIBLE GAMING ANALYTICS CAN GROW SALES

A key development in the US gaming market is the current roll out of lottery iGaming sites. These new channels present lotteries with both the opportunity of expanding the player base and generating new revenue streams and the challenge of showing commissioners and consumers that direct selling will not put players at risk of irresponsible play. This is of particular importance where lotteries are looking to expand into new interactive game styles that have a high appeal and relevance to younger demographic groups.

The easiest way for iGaming Lotteries to implement a Responsible Gaming framework is to apply the play-limits and self-exclusion features that are integral to most iGaming back-office platforms. However, there are new tools available that can provide more intelligent Responsible Gaming options that both protect and optimize revenue potential.

Investing in further data-driven technology may be seen as an unnecessary extra cost but it will provide the US Lottery sector with growth opportunities within an increasingly complex and congested gaming market.

Arbitrary Limits Can Restrict Growth

While prescribed spending limits are an effective means of limiting play, the use of a 'one size fits all' policy does little to help players to proactively manage

and modify their behavior. Player threshold rates vary from one player to another. The mechanisms that limit play to protect players should likewise reflect those differences.

Although spending limits are implemented to protect players who may be at risk, the limits applied are often arbitrary policy decisions that are set by reference to other lottery policies and regulatory negotiation. They are often very conservative because constraining the play-rates of players is the only indicator that they are having

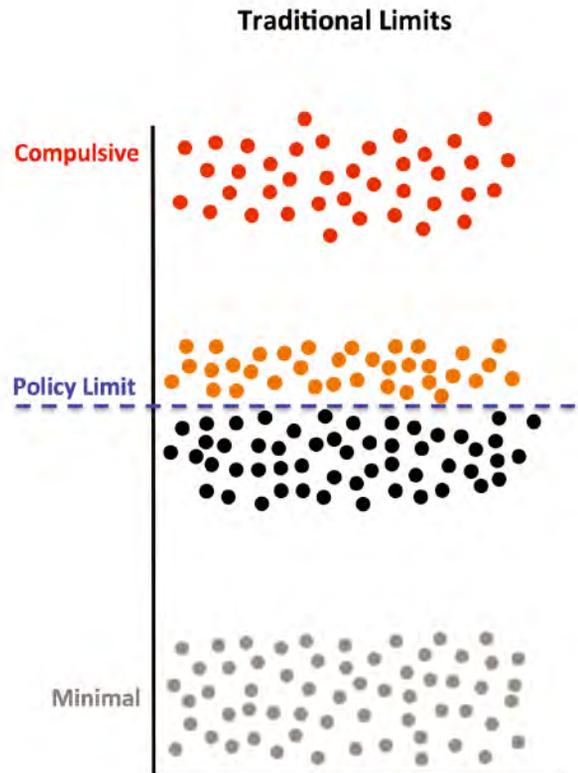


Figure 1: Traditional Limits Can Restrict Growth

an impact. Figure 1 represents a typical scenario:

Each dot represents a player's "desired play level."

While players who show compulsive tendencies (Red) are prevented by the limit from excessive play, many players who wish to spend just slightly higher than the limit (Orange) are prevented from spending amounts that could be quite safe and responsible.

The key issue is that the Lottery does not have any data to support the assertion that these players could be allowed to spend more.

In addition, the lottery could be wasting marketing budget promoting sales to players who are constrained by this limit from making additional purchases.

Personalized Feedback Can Align Responsible Gaming and Sales Growth

iGaming allows for much easier and comprehensive collection of individual player data that can be fed back to players themselves to motivate them to modify their behavior should they exhibit signs of risk.

Responsible Gaming analytic data can be used to evidence "Normal" play levels.

In Figure 2, an Evidenced Limit avoids constraining perfectly responsible players (Orange) who were previously limited by an arbitrary subjective policy.

Providing personalized feedback to players about their gaming activities is a powerful motivator to help them manage and modify their behaviors. And this alone will result in a number of at risk players moderating their desired spending level below the evidenced limits (Green).

However this self-modification of behavior can be further reinforced if the lottery uses this collected player data to "personalize" the game content and optimize the marketing and promotion of games to generate "Normal" play levels.

For players who are identified to be at risk, certain games can be withheld; messaging can focus on responsible gaming data and feedback. For players whose expenditure is minimal (Blue), promotions and cross-sales messages can be provided to stimulate sales—knowing that the RG platform will monitor each individual player's activity to ensure that this marketing effort will be managed to ensure they are not placed at risk.

This data analytics approach aligns responsible gaming and sales growth.

- Objectively sets gaming limits to avoid unnecessarily constraining responsible players who want to enjoy the games that are offered in order to protect players who are at risk.
- Offers consumers a more personalized gaming experience to

Feedback Analytics & Tailored Messaging

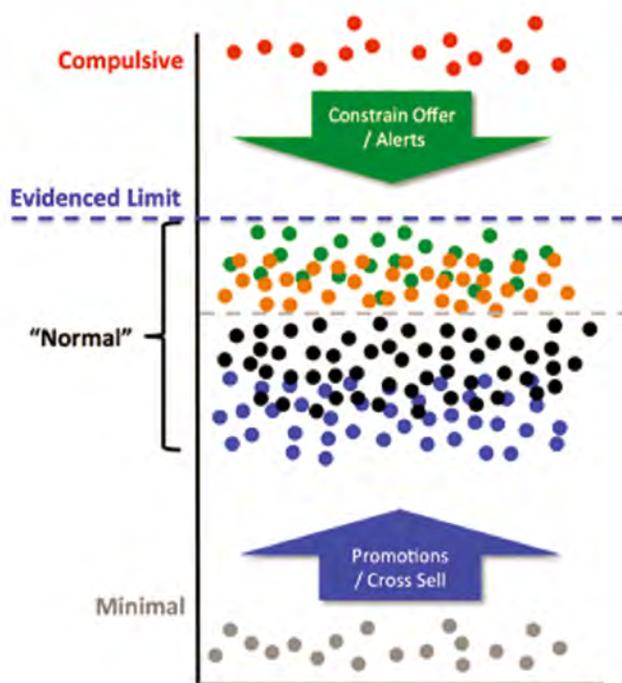


Figure 2: Data Analytics Optimizes And Aligns Sales

optimize lottery marketing budgets to responsibly increase overall sales.

- Provides an evidence-base that lottery marketing and promotion budgets are not causing problem gambling; meets increasing regulatory expectations for proactive player protection and also provides comfort that lotteries can be trusted to responsibly offer an extended portfolio of games.

Evidencing an objective play-rate limit is the quickest win because an analysis of current player data can be carried out off-site, using anonymized data that protects player privacy. ■

Organizations such as OLG, who were recently awarded the best RG program by the WLA, are using BetBuddy's solution to personalize the RG player experience and strengthen their brand value.

— Simo Dragicevic, CEO BetBuddy

NHL, as well as some of the owners of the teams.

Some 56 million people have played Fantasy Sports in North America. According to STATS, Inc., 10 million of those are teenagers. All other forms of gambling are prohibited by U.S. federal law, until and unless the individual state decides to legalize and regulate it. The UIGEA exempted Fantasy Sports from that fundamental policy based on the idea that it is a skill-game. So, unregulated Fantasy Sports is legal until a state government steps in to regulate it or prohibit it, as some states have done. How might this all unfold? What are the regulatory issues going forward?

Paul Jason: *Is there any kind of regulatory oversight being applied to Fantasy sports, anything being done to ensure the integrity of the games?*

K. Mullally: I'm not aware of any legal regulatory structures that exist right now. Some operators are attempting to provide transparency to the levels of skill that are involved in their games. GLI has been involved in analyzing some of those games to provide a mathematical analysis that give the operators, policy-makers, and players information and insight into the underlying dynamics of the Fantasy Sports games. But GLI is not a law firm. We're not a government. So we don't issue legal opinions or rulings. We try to provide the information necessary for regulators to understand the operation of the games, measure the risks, and measure the costs and feasibility of controlling those risks. In the case of Fantasy Sports, there

is no regulator at this point, so we're just responding to requests from some operators trying to provide analyses and give the various parties involved in the discussion some good scientific-based evidence on which to make good decisions.

Are your regulator clients asking you to study Fantasy Sports to determine how or whether to regulate it?

K. Mullally: We've been asked to analyze the mathematical probabilities of the games to discern the difference, if there is a difference, and if there is, how much is the difference between the outcomes of a skilled player versus a random or a less skilled player. GLI's role is limited and focused—it is to provide scientific analysis. There may be a lot of legal and social issues that provide very fruitful ground for debate. But it is actually part of my job to scrutinize every report that GLI puts out to ensure that we stay within our role of providing scientific analysis and not migrating into areas that are the responsibility of others, like regulators and policy-makers. GLI does not opine, for instance, on whether something is legal or not legal.

Does the skilled and knowledgeable Fantasy Sports player perform better than the less skilled player?

K. Mullally: GLI has issued a general white paper on this issue that's available on our website, www.gaminglabs.com, that speaks to this. GLI's mathematical analyses show that a skilled player can do considerably better than a non-skilled player. GLI is in a good position to address questions based on science and evidence, but not how policy-makers and regulators should interpret and apply the information we provide.

One of the challenges of a regulator is that there will always be a tension be-

tween the need for market-driven innovation, the need to protect the player, the need for security and integrity in the games, and the need to serve a variety of policy-making interests. Regulators are constantly trying to seek a balance that meets this diverse set of objectives.

Everyone is asking whether Fantasy Sports should be considered gambling, and to tax and regulate it as gambling.

K. Mullally: I'm not saying that people don't ask us to make that kind of a call, to opine on whether Fantasy Sports fits into the classical definitions of "gambling," or whether it is legal or not. Our answer is always the same. We provide the analyses and testing that we hope will inform the decision-making process. But the classification of Fantasy Sports as gambling or not is not in GLI's purview. That is for regulators and policy-makers.

The very definition of "gambling" (Chance + Consideration/Wager + Prize) is becoming more and more fungible, isn't it?

K. Mullally: For one thing, that definition does not speak precisely to the degrees of chance required to constitute "gambling." And that is just one aspect in the way the definitions will need to be updated. And the definitions will vary from state to state, jurisdiction to jurisdiction.

When you're practicing law, you're always applying facts to law. Facts can definitely change. And bad facts usually result in bad law. GLI's mission is to prevent that from happening by providing some clarity with regard to the facts so that people aren't making assumptions, aren't leaving information out, aren't applying bad facts. We try to assure that the facts are good, that the scientific analyses are based on good facts, and ensure that aspect of policy-making is sound and accurate. ■

Overcoming Challenges: Customization at Retail

When it comes to finding the right retail point-of-sale display, there are very few one-size-fits-all solutions. Finding the one that fits the available space and helps you achieve your lottery sales goals can be difficult. And that's where customization can be the answer.

In late 2014, the Pennsylvania Lottery was working with one of its large grocery chains on ways to increase game sales. Lottery Corporate Accounts Director Scott Smith and the grocery chain's lottery category manager met with Shay Wahl of Schafer Systems Inc. to discuss the challenge. The retailer was looking for solutions to expose consumers to instant games in

the checkout lane instead of limiting game availability to the customer service desk or vending machines. The solution would need to work with two different checkout configurations while meeting all security and space requirements. After some brainstorming and the development of several prototypes, a winning design was found: an in-lane 4-game dispenser at the registers with a custom menu board to showcase the games. It will be used in a pilot program set to begin in early 2016.

Another Pennsylvania Lottery project involved game displays at newsstand retailers. Since most of the games were dispensed from under- or back-counter displays, customers could not always see new or top games for sale. Retailers would typically tape the voided tickets to their window, which was unattractive and disorganized. They were in need of a display solution that required limited space. Prototypes for this solution by Schafer Systems Inc. resulted in creation of a 4-game Ticket menu Board that attaches to newsstand windows using suction cups and maintains branding by customizing the design with the Lottery's logo.

"This new display influenced sales, is easier to see, and causes less corrosion on the windows," said Lottery Deputy Project Manager Floyd Wedderburn. "Focusing on our retailers' needs is our number-one priority, and the overall grade from our retailers was an A+."

Even branding and logo customization is becoming ever more important as lotteries need to find new ways to get games noticed. Consumers are inundated with lights, sounds, and many products in the common retail environment. We need to get more creative in order to get visibility and exposure for the product. Norsk Tipping (The Norwegian National Lottery) recognized a need for just that and partnered with Schafer Systems Inc. to develop a custom colored game mount with branding around their stack of dispensers. This really enhanced the look and caught the attention of the consumer in their Lottery retail locations.

Those are just a few examples of the many point-of-sale challenges that Lottery retailers face. The key is to recognize that when a solution is needed, a one-size-fits-all approach is not always the answer. It's im-



portant to reach out to a vendor that can customize and create a new standard of displays.

Schafer Systems: Delivering on our promise to bring you high quality, durable, and long-lasting products for your lottery location needs. ■

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Driving Growth in Jackpot Lotto: Powerpool Changes the Game

By Kaisa Kivilaid, Edwardian Publishing, LLC.

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According to Marty McFly and Dr. Emmett Brown from the 1989 American cult classic film *Back to the Future Part II*, it's 2015 and we are officially in the "future". From flying drones, biometric devices, hand-free gaming consoles, video phones and cars that use

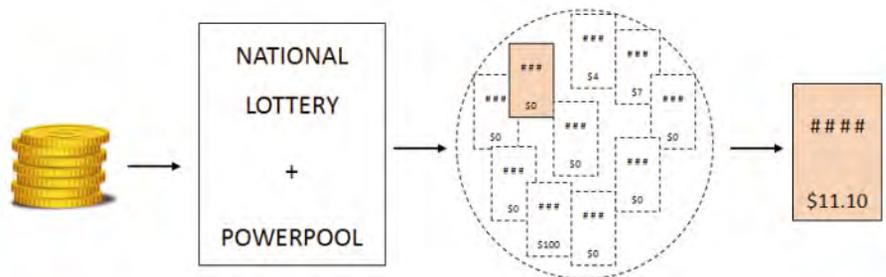
alternative fuel, the movie speculated on what 2015 was going to look like, and it was not far off. We have come a long way in almost 30 years. Computing has been at the heart of this impressive growth. And now it's time to apply that power to transform the player experience of the Jackpot Lotto games.

One thing that has managed to stay the same since 1985 is the way we play the state and national Lottos. The jackpot rolls over to progressively larger amounts until somebody wins it. The players know they are not likely to win the jackpot. But they enjoy playing anyway and sales have increased every year since the first ticket was sold back in 1988. Until last year. Last year was the first ever decline of YoY sales for Powerball. And it was not a slight dip that could be chalked up to some aberration in the marketplace or economy. Powerball sales declined by 19%. The decline has

continued in 2015 – sales are down by 40% in the first half of FY15 compared to the first half of FY14. Mega Millions has not fared much better.

The amazing thing about this picture isn't that the lotto games are struggling to maintain sales growth. The amazing thing is that the lotto games stayed relevant and popular for so many years with practically no change to the product, marketing, or distribution! The odds matrix may change, the price for the Powerball ticket may go from \$1 to \$2. But other than that, the consumer is playing the exact same game they played almost thirty years ago. That kind of a product life-cycle is totally unique in the modern age of consumer markets - And was bound to require a refresh at some point, and it would appear that point has finally arrived.

There could be any number of reasons for the market pressure on the Jackpot games. One of the reasons, though, would certainly be the basic value proposition, i.e. the likelihood of winning.



*This version has been simplified for proprietary purposes. Powerpool system at work: When a lottery ticket is purchased, the Powerpool computer-implemented method will introduce the lottery ticket into a pool of size 2 to 100 (here, of size 10). The player whose lottery ticket was not a winner can still receive a payout due to the other tickets in the player's pool.

Consumers have intelligently addressed this challenge in the past by creating office pools to increase the odds of winning. If there are ten people in the pool, for instance, that increases the odds of winning by a factor of ten times. That's huge, right? Of course, that also means that a Jackpot of, say, \$300 million is then split among all ten players. So instead of \$300 million, the pooling players win \$30 million. For most of us, \$30 million is still a "life-changing" event!

Enter **Powerpool**, a tool that is built right into the game and enables the player to select an option that increases the odds to win a "life-changing" Jackpot. The next generation of lottery players, aged 18-30, has more access to information than any other generation in history and has been conditioned to look for deals and sales. From eBay, Facebook, Twitter, Instagram, Zipcar and GoFundMe, collaborative consumption is more mainstream than ever before.

Millennials are driven by transparency, eco-consciousness and big-data technology, and are expecting a better value in purchasing goods and services than their parents. More than past generations, they seek out value propositions that make sense. So how do we apply this to playing the lottery today? By integrating the Powerpool option into the Jackpot games. **Powerpool** delivers the following benefits to the Lottery player and Lottery operator:

- A computer-implemented method that allows a player to pool their ticket with other players, generally between 2 to 100 other players or tickets;
- A system that can either choose the pre-determined pool sizes randomly or as directed by the player;
- An automated routine that determines the winning tickets and payouts associated with each ticket in the pool;

- An integrated procedure performed by software programs such as R, C++ or SAS;
- A modernized, integrated system that can optimize sales and improve player participation by increasing the chance of a payout either with or without raising the price of a ticket;
- A patented solution that can be incorporated into any US national and international lottery game, such as Powerball, Mega Millions or Eurojackpot.

A simplified version of the **Powerpool** pooling method is depicted on the figure below. Using this system, the overall odds of winning are increased by the fraction of the pool size. The smaller the pool, the larger the actual prize of the single winning ticket. The larger the pool, the higher the odds of winning (but the share of the jackpot will be smaller because it is divided among the larger pool of players).

"Powerpool is an idea whose time has come, and is poised to lead in this new era for the next generation of lottery players".

Lotteries depend on the higher-margin lotto games to make their budgets. Progressive lotteries are working hard to accelerate the pace of innovation. As Susan Golightly from CODEI points out, the lottery industry must adapt to the changing landscape where consumers expect agility, sophistication and integrated solutions.¹ And fresh ideas to engage the consumer and enhance the value proposition. When it comes to the Jackpot Lotto games, the consumer wants better odds that improve the chances to win. In 1989, *Back to the Future* looked twenty five years into the future. Well, the future has arrived. We are on the cusp to leap-frogging into a new era of gaming. **Powerpool** is an idea whose time has come, and is poised to lead in this new era for the next generation of lottery players. No matter what industry you are in, staying competitive and anticipating trends is the key to the future.

¹ Golightly, Susan (2105). *Is "Jackpot Fatigue" the Real Problem?* Public Gaming International. January/February 2015.

and will continue to be our number one priority. That is true even in those markets where iLottery is most developed, as in the Scandinavian countries. However, all lotteries must reach out and be relevant to the next generation of lottery players. Lottery is modernizing in every way and should be an invaluable partner to the modernization of land-based retailers as well.

Frankly, it seems to me that retailers need our help to make themselves more relevant to the modern shopper. Why couldn't Lottery take a technology leadership role and help retailers to modernize for the benefit of the retail shopper? Integrating an online component would simply be a part of that process.

J. Gendron: We should also keep in mind that interactive isn't just about Internet sales. It also includes mobile phone applications with a robust set of features and functionality to support the retail channel. That includes things like proximity marketing, digital play slips, jackpot alerts, barcode scanners for checking tickets and entering alternate second-chance drawings, general game information and instruction, retail location finders, winning numbers, etc. So there is tremendous variety of other value-adding components to interactive than just enabling online product sales. Lotteries are building out a database of registered players, which will open up a whole new channel of communication for them to interact with the players. Direct target marketing, retail cross-sale promotions, co-branding initiatives, and many other innovations will drive players back to retail and improve consumer awareness of, and affinity for, the countless other products sold in the retail environment.

We need to be collaborative and appreciate and respect the concerns of our retail partners, and ensure that there is an open and consistent line of communication. The

facts as revealed by the experience of other operators already selling online will help U.S. retailers overcome their natural fears as long as we continue to make them part of the value equation. Then, and only then, the result of modernization will be good for everyone, and drive a new generation of consumers into their stores with mobile co-op offers and the like.

IGT and its Lottery customers have far more resources and technology and vision than retailers. How is that being applied to help retailers to modernize and be more successful?

J. Gendron: The pace of change at retail is exponential. And we are committed to looking closely at advances in the retail environment and understanding emerging and future trends. In fact, we have created relationships with a number of innovative and future-oriented companies to work with us to drive change and progress at retail. We are working to translate these combined resources into the development of a smart open technological platform and a broad suite of solutions that will help deliver our lottery retail vision of the future. Consumer driven, retailer friendly, open, and agile platforms deliver a greatly enhanced player experience at retail. This approach will require innovation, and not just from a technology perspective.

Lotteries and their commercial partners need to offer more flexible business models for our retailers. The cashless retail trend is one example. Simplifying of lottery account management for retailers is another. IGT's national customer Retailer Innovation Workgroup is working diligently on various strategic initiatives like "scan base trading," and employing Big Data analytics that convert data into actual insights to drive optimized retail performance. One area where lotteries can potentially take a leadership role is in proximity marketing which includes leveraging a mobile ap-

plication which most lotteries have, retail locations equipped with beacons which some lotteries have, and back-end content and management systems that channel content to the customer user-interface, and coupon incentives to be delivered to the mobile. Progressive retailers are already experimenting with this technology to gauge consumer acceptance and adoption. Of course, the implementation must be compliant with state statutes and jurisdictional regulations.

It seems like IGT has made a special effort over recent years to be more flexible and open to helping lotteries integrate third-party suppliers and vendors.

J. Gendron: We understand we are not the only source of innovation. We want our customers to have the very best products and services to drive their business forward. We will negotiate with third-party vendors and work with our customers to integrate new technologies into the infrastructure. Linq3 is an excellent example that comes to mind. We have worked with our customers in California and Missouri to enable the implementation of Linq3's play-at-the-pump technology.

And your new Aurora platform is designed with the flexibility to reduce the cost of integrating third-party technology into the IGT infrastructure, isn't it?

J. Gendron: Our new Aurora platform builds on the success of our Enterprise Series system. It provides an entirely new level of system flexibility to seamlessly integrate third-party applications for games. Additionally, we are working with our competitors to form standard APIs for all platforms in the industry.

The integrity of our system and our data has always been paramount; 100% accountability and data integrity are a mandate. We will therefore always be cautious and diligent in managing third-party interfaces. We

are fortunate our brand new Aurora platform is the most technologically advanced and is explicitly designed to make the integration process far more streamlined and efficient to reduce the cost and time of modifying software to make it interoperable and integrate third-party solutions.

Consumers are expanding their adoption of cashless payment methods and this trend is expected to explode in the coming years. How can Lottery and its retailers make these options available to the consumer?

J. Gendron: There is an explosion of innovation in the cashless payments space. The consumer is quick to adopt cashless payment methods. Our industry has long been a purely cash-based business. We believe, though, that lotteries would see incremental sales from expanding the payment options. Cashless is particularly important as lotteries strive to be relevant to the next generation of lottery players. Very few of them carry any cash. In addition to traditional cashless payment vehicles, like debit and credit cards, IGT is working to integrate the latest in cashless methods such as Apple Pay, Google Wallet, and others that will be hitting the market soon. The evidence is in—expanding the variety of payment choices almost always leads to an increase in lottery sales.

The low hanging fruit is found in the checkout line. Some lotteries have initiated marketing campaigns to educate retailers that cashless options lead to an increase in sales. Self-service is ready for cashless but there remains some questions around the business model. Retailers and lotteries are concerned about the banking fees associated with accepting credit and debit cards. These fees would take a cut of either the retailer commissions or the net funds that lotteries are able to return to good causes.

Lotteries perform a whole variety of business functions. Some lotteries operate with a super-

lean staff and outsource most of those business functions. And others opt to do more things themselves. How might lotteries go about the business of assessing the pros and cons of these various outsourcing options?

J. Gendron: First, there's no single 'best model' for operating a lottery. We have strong partnerships with both high-outsourcing and low-outsourcing clients, and everything in between. It is really the decision of governments and lotteries as to how they elect to develop their operating model to optimize performance. Among the most important factors for success is the quality of the business partnership between the lottery and its key suppliers. That includes the systems provider, the instant ticket printing companies, advertising firms, and internal and external business execution teams. Many U.S. lotteries struggle with insufficient funding for new game innovation, for advertising, and for just keeping pace with the diverse skill sets needed in the changing marketing landscape. More strategic outsourcing can be an effective tool to resolve some of these issues as long as all parties are aligned and incentivized around a common business goal. And that last part is of particular importance.

The alignment, trust, collaboration, and commitment are what really make the difference in the business performance and outcomes produced by the diverse stakeholders that support lottery operations. Without this level of alignment, outsourcing cannot succeed and simply adds more complexity by slowing down decision-making and suppressing the agility and flexibility a modern lottery needs to sustain growth.

So the guidance that we have for lotteries that are evaluating the various insourcing and outsourcing approaches is pretty simple. Based on the legislative, regulatory, and market conditions in any state, how can we bring together the most focused and productive team of experts to all pull in the same direction to create fun games and

maximize revenues for good causes? There is no black and white answer to the question. There's only the common attributes, which create an effective high-performing lottery team.

Tribal and commercial casino gambling interests spend big money on lobbyists to promote their interests in the political domain. Their agenda is to shape regulatory and taxation policy in ways that are usually not favorable to Lottery. Lottery can't hire lobbyists to promote its agenda with political stakeholders. So, what can Lottery do to defend itself and the interests of its stakeholders, like the good causes supported by Lottery?

J. Gendron: For decades, state lotteries have proactively engaged all stakeholders to deliver their message regardless of the strategy and tactics of their adversaries. The success that lotteries have enjoyed in the U.S. has not come because those lotteries have viewed politics through a prism that creates good guys and bad guys. State lotteries are fully aware that they sit at the intersection of government and gaming and they know that avoiding politics is not an option. They need to engage and they do.

IGT is very excited and optimistic about the future of government-gaming operators, the traditional lottery product, and the health of brick and mortar retail. There will be change, even disruption, in the marketplace, but the lottery industry enjoys many advantages such as exceptional brand awareness, a massive consumer base, and a secure proprietary retail network. It will be a matter of leveraging those assets, innovating to keep pace with the modern consumer, enhancing the retail consumer experience and, above all, flawless execution, focus, and follow-through. IGT is privileged to lead the charge working closely with our customers to ensure a sustainable future for the global lottery industry. ■

Pulse of the Industry



THESE NEWS STORIES COMPRISE A SMALL FRACTION OF THE GAMING AND LOTTERY NEWS STORIES POSTED EVERY DAY TO WWW.PUBLICGAMING.COM. TOO, THESE STORIES ARE THE SHORT VERSIONS. YOU CAN VISIT OUR NEWS WEBSITE AND GO TO THE "SEARCH" FIELD AT WWW.PUBLICGAMING.COM TO PULL UP THE COMPLETE STORY. SIGN UP FOR OUR FREE E-NEWSLETTER BY JUST SENDING YOUR E-MAIL ADDRESS TO SJASON@PUBLICGAMING.COM.

LOTTERY LEADERSHIP APPOINTMENTS AND CHANGES

LOTTERY LEADER JOHN MUSGRAVE RETIRES

John Musgrave, the longtime director of the West Virginia Lottery retired effective October 31, bringing to a close a more than 19-year run that has included work for four different governors. "I love this job. I've been so fortunate. I like doing what I do and serving this administration, as well as the others, but there's something that just tells me it's time," Musgrave told West Virginia MetroNews. The lottery had annual revenue of approximately \$220 million when Musgrave took over in 1997. Musgrave grew those revenues to \$1.5 billion. It now has topped \$1 billion in sales for several years. He did that serving under four different governors from both Democratic and Republican parties. "They felt it was very important to have consistency and I think that had a lot to do with it," Musgrave said. "We've got a great team left here and so I leave with confidence that the Lottery is in the right hands and we have the right people to move it forward," he said. Musgrave said he'll miss handing out those oversized checks to lottery winners. "I've had the opportunity to meet folks who have taken their winnings and they've just abso-

lutely given back to the community. So that's a great part of this job," he said. "This won't be easy" Musgrave told a large crowd at his last lottery commission meeting. "This is a job that I love."

JOHN MYERS APPOINTED AS ACTING DIRECTOR OF THE WEST VIRGINIA LOTTERY

Myers said he anticipates few changes within the commission. "There are two main things for me: We're regulators, and that's first and foremost for us," he said. "The second thing is to continue to generate revenue for the state so we keep these good programs going." Myers said he will also be monitoring changes within the industry, including development of innovative methods of delivering lottery and gaming products.

Myers, who has been with the Lottery for 7½ years and has been assistant director since 2008, succeeds John Musgrave, who retired Friday after nearly 19 years as the Lottery's director. "He's been quite a good mentor and good friend to me," Myers said of Musgrave.

CHRISTIANE JANSEN APPOINTED MANAGING DIRECTOR OF WESTLOTTO

Effective January 1, 2016, the North Rhine-Westphalian lotteries WestLotto

transitions its leadership to Christiane Jansen. The current managing director and spokesman (since 2010) of Germany's largest lottery, Theo Gossner, retires effective March 31, 2016. The role of WestLotto spokesperson is assumed by former managing director Andreas Kötter. The appointment of Christiane Jansen secures for the West German lottery GmbH & Co. OHG continuity in the management of the company and follows the path of consistent and sustainable positioning as a modern and leading provider of legal Gambling products. "The orderly succession in the management makes WestLotto future proofed while ensuring stability for the ongoing efforts of the market leader to consolidate in the lottery sector and expand. Today's personnel decision also strengthens WestLotto for the needs of the future, including the discussion about the future structure and legal regime of the German gaming market" says Michael Stölting, Chairman of the Board WestLotto and responsible board member of the General Partner NRW.BANK. "The approach taken by Theo Gossner in his leadership of WestLotto, with the European lottery Euro Jackpot draw up nationally and progress in other areas of the business, is now positioned for consistent and sustainable accomplishments. For this we

wish Christiane Jansen and Andreas Kötter good luck!”

Christiane Jansen is currently the head of the division of Advice & Infrastructure Finance. She has many years of experience in corporate strategic matters and also has expertise in communications, parliamentary and European Affairs. The 49-year-old qualified lawyer is privately engaged in international Social Environment Volunteering.

With an annual turnover of around 1.6 billion euros WestLotto is market leader in German Lotto and Toto block. The company's 340 employees and its network of approximately 3,500 collection points a year generate over 600 million euros for the common good and the state of North Rhine-Westphalia.

PRESS CONTACT: West German lottery GmbH & Co. OHG, Axel Weber, Tel: 0251-7006-1341

MICHAEL R. SWEENEY APPOINTED EXECUTIVE DIRECTOR OF THE MASSACHUSETTS STATE LOTTERY COMMISSION

“Working closely with Michael over the last several months, it became clear that his previous experience at both the local level and within the Treasurer’s office has prepared him for the challenge of leading the most successful lottery in the country,” said MA State Treasurer Deborah Goldberg. *“Michael has quickly demonstrated excellent management skills and a commitment.”*

“I am grateful to Treasurer Goldberg for entrusting me with the responsibility of leading the Lottery,” Michael R. Sweeney, Executive Director said. *“I am fortunate to be joining an accomplished and dedicated team and look forward to leading this team as we strive to position the Lottery for sustained success over the next decade.”*

The Lottery posted record-setting gross sales of \$5.014 billion and a record net profit of \$985.8 million in fiscal year 2015.

HUGO LÓPEZ HAS BEEN APPOINTED DIRECTOR OF THE

CALIFORNIA STATE LOTTERY

Hugo López has been chief deputy director at the California Department of Motor Vehicles since 2013. He served as director of administration at the California State Treasurer’s Office from 2000 to 2013, director at the California Debt and Investment Advisory Commission from 1999 to 2000 and was chief budget consultant for the California State Assembly from 1997 to 1999. López was a staff finance budget analyst at the California Department of Finance from 1989 to 1997 and a business tax representative at the California Board of Equalization from 1987 to 1989.

TOM DELACENSERIE APPOINTED AS INTERIM SECRETARY OF FLORIDA LOTTERY

In September, Governor Rick Scott appointed Tom Delacenserie as the Interim Secretary of the Florida Lottery. Delacenserie had served as the department’s deputy secretary of sales and marketing for the Florida Lottery. Delacenserie started in the Florida Lottery in 2000 as a district manager based in Fort Myers. In 2005, he was named director of sales for the lottery before taking over as Deputy Secretary of Sales and Marketing in 2013. *“Tom has over 30 years of experience in the private sector and 15 years of service at the Florida Lottery where he helped the organization hit their highest sales record ever,”* Governor Scott said. *“Tom is laser-focused on making sure the Florida Lottery continues to contribute critical funding to our education system so students have the tools they need to succeed.”*

CYNTHIA O’CONNELL RESIGNS FROM POSITION OF SECRETARY OF FLORIDA LOTTERY

Governor Rick Scott said, *“Cynthia has been part of my team since my first year in office and she has done a tremendous job serving Florida families. Under her leadership, the Florida Lottery has achieved record sales, and last year the Lottery transferred over \$1 billion to Florida’s education system. Cynthia’s constant marketing efforts have not only enhanced our school system, but given*

many Florida students the opportunity to excel in the classroom. I truly appreciate her dedication to making Florida the best state in the nation for families and our students, and I hope she will continue using her skills to serve our state even as she moves on to other career opportunities.”

NEWS FROM AROUND THE WORLD

WLA REPORTS THAT LOTTERY GLOBAL IS GROWTH UP 4.6% HALF-YEAR ON HALF-YEAR; GROWTH BUOYED BY SALES SURGE IN LATIN AMERICA.

Basel, 15 September 2015—After a sunny start to the year in which sales grew by 8% quarter-on-quarter, growth slowed in Q2 2015, with aggregate half-year on half-year growth coming in at 4.6% globally. Regionally, growth in the Americas strengthened, while growth across the African, Asia Pacific, and European markets moderated.

The Latin American region was the standout performer in H1 2015, with participating Latin American lotteries reporting an aggregate first-half on first-half increase in sales of 20.3%. Spearheading a very good first half for the Latin American lotteries was Chile’s Polla Chilena, where sales increased by 39% half-year on half-year. Sales at Argentina’s Lotería Nacional Sociedad del Estado also continued to perform strongly, with the Argentinian national lottery reporting an increase in sales of 26.1% for the first half of 2015, as against the first half of 2014. Elsewhere in Latin America, sales at Brazil’s Caixa Econômica Federal grew modestly over the same timespan, while Mexico’s Lotería Nacional para la Asistencia Pública held steady.

Continuing its robust first quarter showing, the North American market also enjoyed a strong second quarter, participating North American lotteries reporting an aggregate increase in sales of 6.6% for the period January–June 2015, versus the corresponding revenue period in 2014. Yet again, the standout performer in the North American region was the California Lottery, which oversaw a first-half on first-half increase in sales of 15.1%. The Kentucky Lottery, Minnesota State Lottery, and the Tennes-

see Education Lottery Corporation all also performed strongly, reporting H1-on-H1 increases in sales of 8.7%, 7.5%, and 7.1% respectively. Similarly, sales at the Connecticut Lottery and Canada's Ontario Lottery and Gaming grew by 6.3% and 6.2% respectively over the same timeframe. Framing the series of positive results reported by the participating North American lotteries was the improving U.S. economy, which saw real gross domestic product—the value of the goods and services produced by the nation's economy less the value of the goods and services used up in production, adjusted for price changes—increase at an annual rate of 3.7% in the second quarter of 2015; this according to the U.S. Bureau of Economic Analysis second estimate.

In the Asia Pacific region, the situation was more nuanced. Relative to Q2 2014, sales for Q2 2015 in Asia Pacific moderated, with the result that participating Asia Pacific lotteries recorded an aggregate first-half on first-half increase in sales of 4.6%, down from an aggregate first-quarter on first-quarter increase in sales of 14.3%. The moderation in sales was most notable with respect to the mainland Chinese lotteries, with the China Sports Lottery recording a half-year on half-year increase in sales of 6.2%, and the Chinese Welfare lottery reporting a half-year on half-year increase in sales of 4.4%. The comparatively modest positions of the mainland Chinese lotteries for H1 2015 relative to H1 2014 is apparently attributable to the effect of the 2014 FIFA World Cup, the staging of which led to exceptionally large sales for Q2 2014 at the China Sports Lottery in particular. Thus, for example, sales of Guess Lottery (sports betting) were down by 66.8% in Q2 2015, as compared to Q2 2014. Elsewhere in Asia Pacific, Australia's Lotterywest saw its sales increase by 4.8% for the first six months of 2015, as against the first six months of 2014, while Japan's Takara-kuji lottery saw its sales dip slightly over the same timeframe.

The picture in Europe was similarly nuanced. Although participating European lotteries eked out an aggregate increase in sales of 1.6% for H1 2015, as against H1 2014, a number of European lotteries nonetheless recorded stellar double-digit growth. In particular, the Czech Republic's SAZKA a.s., Poland's Totalizator Sportowy, and Hungary's Szerencsejáték Zrt. recorded half-year on half-year increases in sales of 30.1%, 28.5%, and 21.6% respectively. The growth in sales at these lotteries was occasioned by a confluence of factors. At the Czech Republic's SAZKA a.s., for example, the main engine of growth was the Eurojackpot multi-jurisdictional game, which SAZKA a.s. joined in Q3 2014. An increase in the price point of SAZKA a.s.'s flagship lotto game Sportka also affected sales figures. On the other hand, an incredibly high jackpot of HUF 5 billion on Lotto 5/90 (Ötöslottó) at the end of May 2015 resulted in a high sales income at Hungary's Szerencsejáték Zrt.; moreover, this very large jackpot had a knock-on influence on other games such as instant games and Szerencsejáték Zrt.'s Joker game. At the same time, relatively high prizes in the January 2015–April 2015 period stimulated the sales of the Hungarian lottery's Tippmix (sports betting) game. The results from the central European lotteries were all the more impressive given Europe's continuing lackluster economic performance, which saw seasonally adjusted GDP rising by an anaemic 0.3% in the euro area (EA19) and by a lukewarm 0.4% in the EU28 during the second quarter of 2015 (according to Eurostat). Offsetting these positive results, however, was the performance of Italy's Lottomatica, the third largest lottery in the world. Sales at Lottomatica contracted over the period January–June 2015, as against the corresponding revenue period in 2014; given Lottomatica's position as Europe's largest lottery, this inevitably impacted upon the performance of the European region as a whole.

In Africa, the state of affairs was also quite complex. Overall, African lotteries participating in the WLA Quarterly Lottery Sales

Indicator reported an aggregate increase in sales of 1.3% for H1 2015, as against H1 2014. At one end of the scale, Ghana's National Lottery Authority continued its strong run from the first quarter, reporting a first-half on first-half increase in sales of 33.7%. At the other end, sales at the Mauritius National Lottery contracted sharply over H1 2015, as compared to H1 2014. The performance of the Mauritian National Lottery for the period in question was adversely affected by budgetary measures taken to ban Quick Win cards on the one hand, and by a prohibition of advertising of the lottery on the other, with the ban on quick win games resulting in an exceptional inventory writeoff. In addition, the restructuring of company operations resulted in downsizing that led to an exceptional severance payment. Set between these two extremes was the performance of lotteries in Morocco, with Loterie Nationale reporting a first-half on first-half increase in sales of 7%, and La Marocaine des Jeux reporting a first-half on first-half increase in sales of 6.9%.

The World Lottery Association (WLA) is a member-based organization to advance the interests of state-authorized lotteries. Our vision is for the WLA to be recognized as the global authority on the lottery business, to uphold the highest ethical principles, and to support our members in achieving their vision for their own communities.

www.world-lotteries.org

THE EUROPEAN LOTTERY ASSOCIATION (EL) REPORTS THAT STAKEHOLDERS AND POLICY-MAKERS AGREE ON THE IMPORTANCE OF CO-OPERATION TO ENSURE THE SUSTAINABLE FINANCING FOR GRASSROOTS SPORTS

At a debate on sports funding hosted by EL at the European Week of Sport today, participants highlighted the importance of grassroots sports to the European economy and society, and spoke of the need for co-ordination between the diverse funding models for grassroots sport in Europe to ensure a sustainable future. The European Week of Sport was created with the aim

of promoting sport and physical activity across Europe.

Addressing the debate, The European Lotteries President, Mr Hansjörg Höltkemeier, highlighted that the European Lotteries members' are amongst the foremost champions of sports, having been primary contributors to sports for decades, providing sustainable funding of more than €2 billion to European sport each year. Ms Stephane Pallez, CEO and President of French lottery La Française des Jeux, pointed out *"it is necessary set a common agenda on which all can agree in order to have a multiplication impact on Lottery funding"* and ensure that sport continues to be accessible to all.

Concluding the debate, Mr Höltkemeier reinforced that *"elite sports are just the tip of the iceberg"* and attention must be paid to the grassroots and the important role they play in economic, health and societal terms. *"Sustainable funding needs a sustainable business model. The discussion showed that a balanced approach is necessary in the regulation of those business activities that support grassroots sport."*

The European Lotteries (EL) is the umbrella organisation of national lotteries operating games of chance for the public benefit. The EL brings together state-owned and private operators, both profit and non-profit, who operate on behalf of the state. Our members only offer gambling and betting services in the jurisdictions in which they are licensed by the respective national government. Our Association was created in 1983 under Swiss law and is headquartered in Lausanne, Switzerland. We promote the sound and sustainable gaming model for the benefit of society that we stand for and that is based on the values of subsidiarity, precaution, solidarity and integrity. We advance the collective interests of our members, the national lotteries operating games of chance for the public benefit, and defend our model in the discussion on the societal, political, economic and regulatory framework for gambling.

Our organisation is a proactive and strategic forum for reflection and discussion between our members and a true laboratory for the design and implementation of the

further development and architecture of our model. We promote the cooperation between our members by providing them with the platforms for exchange, educational offerings, precise information and sound support.

www.european-lotteries.org

AGA REPORT HIGHLIGHTS TIES BETWEEN ILLEGAL GAMBLING AND ORGANIZED CRIME IN US

The perception of gaming often drives policy decisions. Since debuting the American Gaming Association's (AGA) "Stop Illegal Gambling—Play it Safe" initiative, illegal gambling has emerged as an important issue for both the AGA and law enforcement. The AGA released groundbreaking new research by Virginia Commonwealth University's Dr. Jay S. Albanese exposing how illegal gambling funds large criminal enterprises involved in racketeering, money laundering, extortion and fraud. *"The ties between illegal gambling and organized crime are undeniable. This is not a victimless crime. Illegal gambling siphons critical tax revenue from communities and is void of any of the consumer protections provided by regulated gaming,"* said Geoff Freeman, president and CEO of the AGA. *"We are proud to be taking a proactive lead on an issue that preys on consumers, funds illegal activities and hurts the highly regulated legal gaming industry."* Distinguishing these criminal networks that rely on illegal gambling from our highly regulated, \$240 billion legal gaming industry is necessary to change outdated and inaccurate perceptions of gaming. The prevalence of illegal gambling has been so significant that, in 2014 alone, 80 operators in 23 states were convicted of running illegal gambling businesses. The report also underscores the critical importance of joint investigations between local, state and federal agencies.

The research also notes that many illegal gambling enterprises are large-scale, involving an average of 8 to 33 participants. AGA, through its "Stop Illegal Gambling – Play it Safe" initiative, is working with law enforcement and the private sector to dis-

tinguish the highly regulated, \$240 billion legal gaming industry from illegal gambling and criminal enterprises that fund horrific crimes. Earlier this year, the AGA assembled an Illegal Gambling Advisory Board to provide advice regarding industry efforts to develop actionable tools for law enforcement and to reduce the demand through public awareness; guide partnerships with law enforcement at the local, state, federal and international level; and provide strategies and perspective on necessary steps to plug existing holes in enforcement efforts.

About AGA: The American Gaming Association is the premier national trade group representing the \$240 billion U.S. casino industry, which supports 1.7 million jobs in 40 states. AGA members include commercial and tribal casino operators, suppliers and other entities affiliated with the gaming industry. It is the mission of the AGA to be the single most effective champion of the industry, relentlessly protecting against harmful and often misinformed public policies, and paving a path for growth, innovation and reinvestment.

ONLINE I-POKER OPERATORS POKERSTARS AND FULL TILT APPROVED IN NEW JERSEY

The New Jersey Division of Gaming has approved the applications of PokerStars and Full-Tilt to be licensed to operate i-poker in NJ. PokerStars and Full Tilt were forced to shut down U.S. operations some four years ago. The U.S. Department of Justice indicted companies that were operating online poker in violation of U.S. laws. The UIGEA states that all gambling is illegal throughout the U.S. until and unless such activity is approved by the individual states themselves. Since individual states had not approved and licensed these companies to operate i-poker, they were deemed to be operating illegally and forced to stop operating in the U.S. PokerStars and Full-Tilt were and are the largest operators of online i-poker. Now that states are taking up the business of regulating and taxing i-poker, PokerStars and Full-Tilt are applying for licenses to operate legally in those states that are deciding to regulate the online gaming industry.

Amaya acquired the two online sites for \$4.9 billion back in 2014.

THE UNITED KINGDOM HAS SEEN A REDUCTION IN UNREGULATED GAMING ACTIVITY SINCE THEY INSTITUTED THEIR NEW REGULATORY SCHEME

A report released by the UK Gambling Commission for 2014-2015 stated, *"As far as unlicensed activity is concerned, we have found no evidence of the threatened move underground or emergence on any scale of illegal websites targeting Britain."* The report also noted that some operators halted operations once being notified that others had been cut off by payment processors and advertisers. The United Kingdom now believes that it regulates almost 100% of *"domestic remote market instead of less than 15%."*

SHELDON ADELSON'S MINIONS RE-FLOATING 'RAWA LITE' CONCEPT

Whereas the original RAWA would have enacted a blanket ban in the US against online gambling, the RAWA Lite version would instead institute a "moratorium," attempting to forbid more US states from legalizing and regulating online gambling while "more studies are done." Exactly what the studies are supposed to accomplish that's different than those that already exist isn't quite clear; online gambling is increasingly understood to be a non-cannibalising form of gambling that can complement existing land-based venues. But the Adelson camp doesn't want to hear about that research; they want to fund their own, control the results through leading questions and assumptive findings, then reshape the argument in Congress. And in the meantime, impose a cease and desist on all internet gaming operations while these studies are conducted.

RAWA Lite isn't much more likely to pass than its predecessor, the original RAWA. And yes, the passage of the bill would be bad news indeed for American

gambling interests. All that said, talk about RAWA and the threat it poses isn't much of a bad thing at all. Already, legislators in both Pennsylvania and New York have cited the possible RAWA threats from Adelson as a reason to move on online-gambling legalization bills now, rather than allow the US Congress any chance of usurping states' rights and shutting down possible revenue streams.

VEIKKAUS (FINNISH LOTTERY) ISSUES REVISED GUIDELINES GOVERNING THE ORAL MARKETING OF ITS LOTTERY GAMES

Shoppers in Finland will no longer be verbally invited to purchase lottery tickets by staff working at point of sale stations. Police top brass say the practice constitutes aggressive marketing and have persuaded the national betting agency Veikkaus to prohibit it.

SOUTH AUSTRALIA LEADS FIGHT AGAINST THE DIRTY TACTICS USED BY ONLINE BETTING COMPANIES

SA Business Services and Consumers Minister Gail Gago said the changes were prompted by questionable practices used by sports betting agencies outlined in an August report by Financial Counselling Australia (FCA), as reported by The New Daily. *"In some cases, account holders are offering credit ranging from \$200 to the tens of thousands [of dollars] with no consideration given to the person's circumstances, their capacity to repay or their well-being."* Also revealed in the report is that betting operators were offering credit to a person already in arrears *"and things like making it extremely difficult to withdraw funds from their accounts."* FCA policy manager Lauren Levin said the organisation welcomed the proposed changes and that SA was showing leadership, urging other states and territories will follow their lead. She said the effects on gambling addicts by ruthless practices used by legal online sports betting companies licensed in Australia, was harrowing.

SWEDEN, NORWAY MEDIA OUTLETS UNDER FIRE OVER GAMBLING ADVERTISING

It is illegal to advertise for gambling firms not named Svenska Spel, but Sweden's media outlets have routinely flaunted this prohibition. Across the border in Norway, the government is asking local media outlets to be on the alert for stealthy advertising by companies other than the Norsk Tipping and Norsk Rikstoto monopolies. Last December, the Ministry of Culture determined that unauthorized international online gambling sites were responsible for 90% of all TV betting ads.

THE GAMING INDUSTRY IS LOSING BILLIONS BY IGNORING WOMEN

The games industry appears to have only focused on a rather narrowly defined demographic of males, aged 18 to 34 years old. And by doing so, it's been missing out on a global market opportunity in the range of \$30 billion to \$45 billion annually. Boys and men still account for 83% of the audience for classic genres like shooter games on PC. On mobile, however, there's a much more equal distribution, with women accounting for 46% of the player base. And if we look at casino-style games on PC, mobile, or tablet, we even see women accounting for well over two-thirds of the player base. The notion that women don't play video games is absurd.

"HUMAN-CENTERED APPROACH" DRIVES E-COMMERCE: WALMART

Lotteries could take a page from the world's largest retailer, Wal-Mart, which is using psychology to make shopping easier, more enjoyable and more convenient by implementing *"the human centered approach."* Although personalization is a common feature of most modern e-commerce sites, @WalmartLabs isn't satisfied with that and is going a step further to understand human behavior. The result is a deeper knowledge of what customers want and leads to people see themselves using things when the context is right. In turn, that can generate sales. For example, one Walmart executive explains *"We identify non-traditional customer segments. For example, ice cream is popular in the South on hot days or gardeners*

buy more on sunny days. People see themselves using things when the context is right.”

This understanding needs to be coupled with an innovative workplace to attract the best and brightest by offering the freedom to create the products to meet the customers’ needs. This is the dynamic created at @WalmartLabs which, rather than locating in its home city of Bentonville, AR, established itself in Silicon Valley, home to many of the world’s largest high-tech corporations, as well as thousands of tech start-up companies. That decision alone sets the stage to identify @WalmartLabs as an e-commerce venture, not just an arm of a discount department store chain.

@WalmartLabs, and lotteries, are not without their challenges in the e-commerce world. @WalmartLabs and the Walmart headquarters face the task of integrating their efforts into one channel. Lotteries have to retain existing customers, some of whom may not be interested in embracing technology, while at the same time attracting the much-coveted younger demographic to its Internet offerings. And, lotteries often face limits or restrictions imposed by their legislatures, adding yet another layer of complexity to their challenge.

SIDE-BAR: As of November 15, 2015, the market capitalization of online retailer AMAZON was \$309 billion. Walmart’s market Cap’ was \$188 billion. Investors have that much more confidence in the future earnings potential of AMAZON than Walmart. Further to that, while Walmart is building out its digital strategies and online consumer connection, AMAZON is building land-based stores. “Convergence” may be a bit of a cliché, but the actions of these industry leaders indicate that the “omni-channel” model is becoming a reality.

YOUTUBE ENTERS GAMING WORLD WITH STREAMLINED APP

Gaming enthusiasts, including lottery players, will have a new option in the digital arena when YouTube makes its move to launch YouTube Gaming, aimed at meshing the gaming culture with the YouTube culture.

Next summer, the media player giant is expected to announce a series of updates to its streaming capabilities, the most notable of which is a shift to HTML5. After that, users will see the gaming arm, which is expected to consolidate gaming news, reviews and live videos into a single, streamlined app and website. Users will see features like high frame rate streaming at 60 frames per second (fps), DVR and automatic conversion of streams into YouTube videos.

With a \$91.5 billion market, the global gaming community is a next logical step for YouTube. Currently, an estimated 15% of all YouTube uploads are game related, and YouTube is reportedly the third most visited website in the world. YouTube, which has been around since 2005, will likely see considerable growth once it launches its gaming debut.

YouTube, however, isn’t alone in its pursuit of the gaming crowd. Earlier this summer, Twitch.tv, the live streaming video platform owned by Amazon, also joined the ranks of companies ditching Flash to explore newer options with JavaScript and HTML5.

Twitch is still the leader in the game, accounting for over 43% of all live video streaming traffic by volume, and is miles ahead of ESPN and WWE. How YouTube Gaming will alter the field remains to be seen.

EXPECT MOBILE GAMING SUCCESS AND PROFITS TO TAKE TIME ... AND SOMETIMES A RE-BOOT

With the continued strategizing and decision making on the part of lotteries to incorporate mobile gaming into their portfolios, they should realize that success, and profits, don’t happen overnight.

That’s according to Mark Pincus, a co-founder of social gaming giant Zynga in 2007. He stepped down as CEO of Zynga in April 2014 and then returned a year later to bring it out of a funk that resulted in a \$7.6 million loss in just the last quarter. Pincus recently acknowledged that “overnight” successes actually takes two to three years to achieve. But at some point, a business does cross a line and word of mouth begins to ignite growth, supplementing everything

else that is already being done. And this is the growth that lotteries need; it is what will allow them to gain a better understanding of what their players want, and what products they need to provide in order to keep them playing. Each audience segment is going to have different play patterns, behaviors and interests and any business, including lottery, that is trying to engage them will need to apply an in-depth understanding of how demographics, player profiles, and consumer segmentation is changing.

Few people in the gaming world are unaware of Zynga mega successes with Farmville and Words with Friends, both of which took the social gaming world by storm just a few years ago. Despite enjoying enormous popularity, the two games are now on the downslope of their life cycle.

The only way to avoid the kind of dramatic slumps faced by Zynga is to evolve the product by maintaining an interactive relationship with the consumer that can be used as the basis for development. Zynga now has a very aggressive plan in which it updates reels every two weeks. And it is introducing new product lines on a consistent schedule. For example, it has found an overlap between the match three play and slots audiences and is hoping to capitalize on it with the launch of FarmVille: Harvest Swap, in late May of this year. Lotteries too can find their own overlap audiences and look for games that will appeal to them.

Although all lotteries are charged with generating funds for good causes and are often under pressure from their state legislatures to increase those contributions, Pincus notes that profitability comes after the value is delivered, not before or in the early life-cycle stage. So while it takes time to grow into success, it takes time to grow into profitability as well. It is about “*playing the long game*,” as Pincus puts it.

Pincus predicts that in the next 10 years, game-playing is going to occur in conjunction with social media and social networking. To optimize success, and to compete with the explosion of new gaming options, Lotteries will want to integrate social media and networking into the overall player experience. ■

Lottery Industry Hall of Fame 2015

Program for Ceremony to Induct the North American Members of the PGRI Lottery Industry Hall of Fame



Joseph S. (Jay) Gendron

SENIOR VICE PRESIDENT,
NORTH AMERICA LOTTERY, IGT

Jay is a Lottery Industry Veteran Redefining the Industry Standards for Customer Service. He began his career at GTECH in 1995, as an Assistant Account Executive.

The following year, he became a Regional

Account Director, a position he held until 1999. He then became an Account General Manager, was named Director of Video Operations in 2001, and then Vice President of Global Sales, Gaming Solutions. In 2007, he was promoted to Regional Vice President, Eastern Region Operations—GTECH's largest region. In 2014, he became Senior Vice President, North America, today serving IGT customers in both the U.S. and Canada.

He has served some of the industry's largest lotteries, an experience giving him an appreciation of the challenges these complex lotteries face. Jay manages IGT's Texas Lottery partnership to ensure resources, products, services, and retail innovation support the customer's diverse and unique business model. "I have known Jay for more than 10 years now," said Gary Grief, Texas Lottery Executive Director. "I quickly came to realize that Jay doesn't do anything halfway. He follows through and always goes the extra mile for the customer. Jay hits the ground running, and he quickly became familiar with my staff, our board, and the massive operation IGT has in place in Texas."

IGT has more than 40 customers in North America, and Jay is dedicated to supporting and driving the success of each and every one of them. "Over the past 19 years, regardless of what position Jay held at GTECH, he remained a steadfast supporter and friend of mine and the Rhode Island Lottery," said Gerry Aubin, Rhode Island Lottery Executive Director. "Always willing to listen to any concerns, offer solutions, and follow through on all commitments he made. When I joined the Lottery in 1996, Jay Gendron was one of the first people I met. It didn't take long to realize that Jay was not only hard working and knowledgeable, but also sincere, trustworthy, and loyal."

Trust, Integrity and Responsibility: Understanding customer needs is imperative. And, if the adage holds true that the key to business success is to foster positive relationships, then Jay has designed the blueprints for customer care in the lottery industry. Trust, integrity and responsibility are the attributes are the foundation on which Jay has built a successful career at IGT, and in turn, his influence has reinforced those qualities throughout the industry. Whether he is helping a customer find the best business solution for their lottery or speaking at the grand opening of an IGT After School Advantage computer lab, Jay has helped redefine the standards of customer service.

Jay is a graduate of Saint Anselm College in Manchester, N.H. He and his wife, Leah, reside in Rhode Island with their two sons. ■



Dr. Ioannis N. Katakis

LOTTERY INDUSTRY
CONSULTANT

Dr. Katakis has served as Director of Lottery Systems, Services, and Strategy for INTRALOT S.A. during 1998–2015. In that capacity, he evaluated new opportunities in the gaming sector, analyzed new business opportunities in the global markets, assessed the financial models, and proposed the required strategy to the company's top management.

Ioannis served as the lead in winning contracts in the following countries, Chile (2002), Holland (2009), Korea (2009), Malta (2002 and 2012), Morocco (2010), New Zealand (2005 and its extension 2009), Skopje, Spain (2005), South Africa (2006), Taiwan (2007), Turkey (2004), Victoria (Australia) (2007), Western Australia (2005). He also set up the companies in Beijing (China), Hong Kong, Madrid, Malta, New Zealand, Perth (AUS), Romania, Skopje, Taiwan, and Victoria (AUS).

Ioannis was appointed to lead MALTCO upon its establishment, in 2001, as the operator of the National Lottery of Malta. Its history since then is most exciting. Malta is home to a thriving internet-based gambling business. In spite of that, and with a total dedication to its land-based retailers, in 2014 MALTCO has doubled its revenues over the last ten years to 207 euros per capita more than double the European average. Ioannis' background has shaped his approach as an achiever in business in a profound way mainly because of his vision, leadership and staff management.

Trained in the sciences (Ph.D In Biomedical Engineering; Bachelors and Master Degrees in Electronic Engineering), Ioannis followed his academic career with five years as a medical scientist. He worked in the Telecom Sector for INTRACOM (1989–1994) and EUROCOM EXPERTISE (1994–1998) hired on as a technologist and engineer at INTRALOT (to implement its first online lottery and design and Implement the first video-lottery system). He then moved into operations and business development (responsible for acquiring many of INTRALOT's 'private management' contracts as General Commercial Director in Europe, Asia, Australia, New Zealand, S. America and S. Africa) and, since the renewal of the license in 2012, serves as executive CEO of MALTCO Lotteries. Ioannis continues to be involved in every aspect of the business. And he makes a strong case for why that is necessary in order to bridge the gap between technological development and the user experience.

Ioannis served in the Spinal Injury Unit at Glasgow General Hospital (1986–1987), and conducted important research into the application of neuromuscular stimulation to help paraplegic patients and previously he had a two year Research contract with the British Ministry of Defense while at the University of Sheffield. He holds the following academic degrees:

- Ph.D in Bioengineering (1983–1987; University of Strathclyde Glasgow, Scotland),
- M.Eng in Electronic Engineering (1981–1983; University of Sheffield, Sheffield, England), and
- BEng in Electronic Engineering (1978–1981; University of Sheffield, Sheffield, England). ■

Congratulations to the newest members 2015 Lottery Industry Hall of Fame! The sixty members of the PGRI Lottery Industry Hall of Fame have voted and elected these eight industry leaders to be inducted into the 2015 Class of the PGRI Lottery Industry Hall of Fame. The North American members were inducted on October 12 at the NASPL Conference in Dallas, TX. The Global members will be inducted at a ceremony in Europe in the first half of 2016. Visit www.lotteryindustryhalloffame.com to read about the Hall and its members.



Stavros A. Michael

DIRECTOR CYPRUS
GOVERNMENT LOTTERY

In 1981 Stavros A. Michael was appointed Statistical Assistant 3rd Grade of the Statistical Service. In 1986 he was appointed Finance Officer in the Economic Research

Directorate, Ministry of Finance. In 1991 he acquired the position of Finance Officer A' in the Budget and Fiscal Control Directorate, Ministry of Finance and in 1997 he was promoted to Senior Finance Officer. Stavros was promoted to Director of Finance in September 2001 in the Directorate of Budget and Fiscal Control at the Ministry of Finance. The basic mission of the Directorate is derived from Articles 165-168 of Part XI—Financial Provisions of the Constitution of the Republic of Cyprus and encompasses the implementation of the state fiscal policy. He is also a member of the Cyprus Cultural Foundation as well as of the Board of Directors of the Agricultural Insurance Organization and the Oncologic Center—Bank of Cyprus.

Stavros was appointed Director of the Cyprus Government Lottery in June 2000 by the Council of Ministers. Since his appointment in 2000 the sales of the Cyprus Government Lottery had an upward trend and from 52 million Euros in the year 2000 to reach 70 millions Euros in 2008. After 2009 due to the economic crisis which affected Cyprus the sales have dropped to 35 millions in the year 2014. Having in mind the whole economic climate, competition and the small size of our market, the financial results of Cyprus Government Lottery are considered satisfactory. Revenues generated by the Lottery have always been returned to the State for the benefit of the society.

Stavros was elected internal auditor of the European Lotteries in 2005 and since then has been re-elected every two years by the General Assembly of the Association. Every year since elected as Internal Auditor, Stavros prepared and presented with the other joint internal auditor the audit report to the Executive Committee. The Executive Committee has always taken into consideration their recommendations. Afterwards they present their audit Report to the General Assembly of the European Lotteries and always the General Assembly unanimously approves the report of the internal and external auditors.

Stavros is married and has three children. He graduated from the Larnaka Lyceum in 1975 and studied Economics (BA) at the University of Athens (1977–1980). From 1988 to 1994, Stavros specialized in the field of Public Finance at the International Monetary Fund and the Civil Service Academy in Washington D.C. and acquired a Master Degree in Public Sector Management (C.I.I.M) (1994). ■



Jim O'Brien

STRATEGIC MARKETING
VICE-PRESIDENT, SCIENTIFIC
GAMES CORPORATION

A 35 year veteran of the lottery industry, Jim's original and inventive methodologies have helped the instant-ticket sector

grow into a global industry worth over \$80 billion and his influence is seen across the major markets in the U.S., Europe and Asia. Jim also designed the world's top two lottery Keno games currently running in Massachusetts and Greece.

After spending 21 years with the Massachusetts State Lottery Commission, where he climbed the ranks to the level of Marketing Director before joining Scientific Games Corp., O'Brien was given the responsibility of developing and initiating new mathematical formulas and strategies. That assignment yielded incredible insights into the nature of player behavior, consumer market dynamics, and product portfolio management. Those insights provided the catalyst for the mammoth growth in the lottery's instant game sales. In fact, the work undertaken by O'Brien at the company is attributed with a huge proportion of the credit for the growth of the business' sector from \$54 million per year, to \$54 million per week by 2001. As Scientific Games Massachusetts's Account Manager, Jim continues to help shape the Massachusetts Lottery in achieving record instant sales in FY 2015.

The innovative O'Brien joined Scientific Games Corporation in 2001 and for the last 14 years helped to shape the industry through the creation of custom product marketing and game plans for the company's lottery customers using the 15 Determinants of Demand methodology he developed. Working closely with scores of lotteries including the Georgia Lottery, the Massachusetts Lottery, Florida Lottery and globally with the Italian Gratta e Vinci and China Sports Lottery.

Jim is engaged daily with customers and Scientific Games colleagues providing deep knowledge and training with the company's marketing, research, insights and product development groups to continue to innovate all of the lottery product category management best practices he continues to create. ■



Douglas E. Pollard

CO-CHIEF EXECUTIVE OFFICER,
POLLARD BANKNOTE LIMITED

Doug Pollard joined Pollard Banknote in 1997 and after successfully leading Pollard Banknote through a variety of new business ventures, he was appointed Co-Chief Executive Officer in 2011. During his tenure as Co-CEO, he has been integral to the company's growth and leads by example in setting Pollard Banknote's high standard of quality, innovation, marketing and client service. His passion for helping lotteries drive sales to benefit good causes ensures that every client lottery receives exceptional customer service and care. Doug encourages Pollard teams to engage with clients at all levels of their business, from the "bricks & mortar" retail development to the adaptation of emerging technologies and social media.

As Co-Chief Executive Officer, Doug brings a dynamic, customer-centric, and forward thinking approach which benefits client lotteries worldwide. His visionary style has been honed by previous leadership roles at Pollard Banknote, including General Manager of the company's France-based, international subsidiary and through the development of Pollard Banknote's Lottery Management Services business unit.

Doug works closely with his brother and Co-CEO, John Pollard, who since 1986 has led the operations and finance divisions, and with his brother Gordon Pollard, Executive Chair of the company's Board. The three brothers have built on the success of their father, Lawrence Pollard, steering the company from its beginnings in the Lottery business in Canada in the 1970's to become the thriving, global company it is today, now publicly traded on the Toronto Stock Exchange.

Pollard Banknote has enjoyed enduring success for over a century because Doug, John and Gordon have maintained its core values while the company's business strategies and practices have adapted to a rapidly changing world. Based on the entrepreneurial vision and leadership of Lawrence Pollard—and now his three sons—the company is founded upon the principle of driving innovation to the benefit of our customers—a belief that Lawrence and his three sons still value today.

Doug continues to live up to his motto—"never fall out of love with your core business"—by focusing on maintaining the company's position at the forefront of the instant ticket market with an eye on continuing growth as the company transitions into an exciting new era of omni-channel offerings.

Doug also plays an active role in setting the agenda for the Pollard Family Foundation through which hundreds of worthwhile causes have found the means to help the communities in which Pollard Banknote is a part. Doug holds a Masters of Business Administration degree from the University of Western Ontario and a Bachelor of Arts degree from the University of Manitoba. In addition to English, he is fluent in Spanish and French. ■



Thierry Pujol

DIRECTOR OF SPORTING
INTEGRITY, LA FRANÇAISE
DE JEUX

Recognizing his world class level of expertise in the area of security and integrity, Thierry Pujol, was recruited in 2005 to assume the position of Director of Risk Management and Security and at La Française des Jeux (FLDJ). At the same time, Thierry also became a member of the Managing Board of FLDJ. Thierry's dedication to service is also reflected in the leadership roles he performs for the World Lottery Association (WLA). Preservation of the security and integrity of the global government-gaming industry is a genuinely mission-critical priority, the most critical component to player trust and ultimately brand equity. Thierry's impact on this mission has helped to shape a leadership role for government-gaming within a rapidly changing global gaming industry. As Chairman of the World Lottery Association's Security and Risk Management Committee (SRMC), Thierry works collegially with the members of the committee from lotteries all around the world to develop and constantly improve security standards. A recent accomplishment is the implementation of the WLA's new sports betting surveillance entity—GLMS. Prior to this role, Thierry served as Chairman Public Order and Security Working Group for The European Lotteries Association (EL). As a result of a particularly unique experience in intelligence for the French army and government, Thierry Pujol contributes to an original and different vision of the security and risk management issues as applied to the gaming industry.

Additionally, Thierry is our industry's greatest ambassador for the goal of integrity and for encouraging lotteries all across the world to build the standards that merit formal WLA Security accreditation. This voluntary service to the industry is appreciated by all of his colleagues, not just for the results that it has produced, but also for Thierry's personal style which is self-effacing, never seeking recognition for himself. He is always ready to help his colleagues and to share his expansive knowledge of security issues which have not only been developed in his experience in the lottery business but in his previous profession in the armed services. Thierry is also now serving as Director of Sport Integrity and Special Advisor of the President of La Française des Jeux. ■



Tom Shaheen

EXECUTIVE VICE PRESIDENT,
LINQ3

Tom's 27-year career in the lottery industry includes 22 years with five different lotteries, and five years with LinQ3, a technology company specializing in enabling lottery sales at unmanned point-of-sale devices. Tom's boundless drive, high level of integrity, work ethic, willingness to take calculated risks, and perseverance have led him from his start in 1987 as a sales representative with the Florida Lottery to become director of two different state lotteries and success in the community of commercial partners to government lotteries. In 1992, Tom joined the Texas Lottery start-up team. In 1993, Tom moved on to become Vice President of Sales as part of the Georgia Lottery start-up team. During his tenure with the Georgia Lottery, he was promoted to Senior Vice President of Sales and Marketing, and then Executive Vice President.

In 2000, Tom was appointed Chief Executive Officer of the New Mexico Lottery Authority. Under Tom's leadership, lottery sales in New Mexico rose by 40% and the return to education increased by 55%. In December of 2005, Tom left the New Mexico Lottery to become the inaugural Executive Director of the North Carolina Education Lottery (NCEL). The launch in March of 2006 set a new benchmark for the fastest US lottery start-up at that time. Among other things, that involved the installation of over 5,000 retailers in 115 days. The NCEL went on to post consecutive sales and profit growth each year while the retail base grew to over 6,200. Upon his departure in September 2010, total NCEL sales had grown to over \$5 billion.

Tom Shaheen is also dedicated to service of the Government Lottery industry. Tom served as the President of NASPL in 2005, and as President of MUSL in 2009-2010. He previously served as Chairman of the NASPL Standards Initiative Committee in 2004, and on several other NASPL and Multi-State Lottery (MUSL) committees that advance the industry in both product development and integrity. During his tenure as President of MUSL, he served on the national cross-selling committee and was a major contributor to its implementation. A by-product of this committee resulted in lotteries across the U.S continuing to this day to develop and implement joint games as well as joint advertising campaigns.

In September 2010 Tom joined LinQ3 and serves as Executive Vice President. He has played a significant role in LinQ3's development of new distribution channels for selling lottery tickets on non-traditional point of sale devices. He has been instrumental in providing LinQ3 with guidance on how the model should be designed to meet the requirements, needs and concerns of state lotteries, their gaming vendor partners, and MUSL. ■



Philippe Vlaemminck

PARTNER AND CHAIR OF ITS
GAMING LAW PRACTICE GROUP,
ALTIUS LAW FIRM

Philippe became involved in the European debate on Lotteries and Gambling in 1992. On an ongoing basis since 1994, Philippe has represented the Belgian Government in all cases on lotteries and gambling (more than 40 cases up to now) at the Court of Justice of the European Union (comparable to the US Supreme court). In 2010, Philippe assisted the Presidency of the Council of the European Union in adopting Conclusions (with unanimity of all European States) whereby for the first time ever the "specific role of state lotteries for society" was recognized. This is a vital step towards differentiating the role and regulatory treatment of state government lotteries from that of commercial gambling and i-gambling enterprises.

In 2000, Philippe came to work with the Belgian National Lottery, assisting them in reorganizing the legal and contractual structure of their retail network and other intermediaries. Additionally, at the request of the Belgian Government, he drafted a new National Lottery law. He now serves in the defense of the Belgian government (both the National Lottery and the Gaming Commission) in infringement procedures launched against the Kingdom of Belgium.

For the past 20 years, Philippe has served as the legal adviser of The European Lotteries (EL), providing strategic EU regulatory assistance. He helped the EL in developing the EU regulatory approach and created the EL quarterly Legal newsletter. On behalf of the EL, and also partially on behalf of the WLA, he has also been involved in the trade dispute, and supported the opposition of efforts by UK-based remote gambling operators to provide i-gaming to US consumers (WTO & TBR cases on cross border Internet gambling services).

He assist on a regular basis European state Lotteries (including a.o. in Austria, Belgium, Czech Republic, Cyprus, Estonia, Finland, France, Germany, Greece, Iceland, Ireland, Israel, Latvia, Luxemburg, Malta, Norway, Poland, Romania, Sweden, The Netherlands ...) in developing a consistent EU legislative approach, and in litigation and/or defense against allegations of the European Institutions. Philippe is also highly involved in the legal structure of the multi-jurisdictional EuroMillions game.

He started his career as a Member of the Bar in Belgium in 1984. He also worked part-time at the European Institute of the University of Gent (research on EU law), as a visiting professor at this University from 1999 until 2001, teaching European Judicial protection.

Philippe speaks on a regular basis at international lottery conferences and seminars (including EL, WLA, Smart Tech, and in October 2015 also at NASPL). He publishes in various lottery and gaming journals including in the EL Magazine and Public Gaming International. ■

Scenes from
NASPL
Dallas, TX
October, 2015





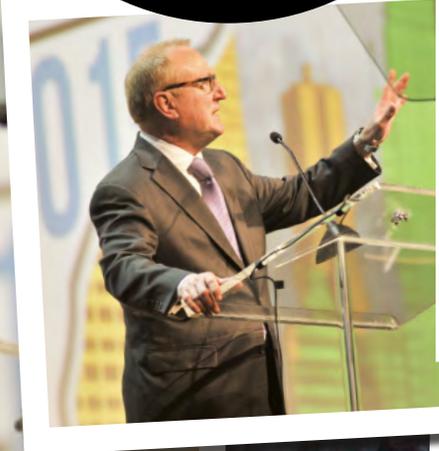
Scenes from
NASPL
Dallas, TX
October, 2015







Photos & Scenes from
**PGRI Lottery Industry
 Hall of Fame
 Ceremony at NASPL**
 in Dallas on
 October 15, 2015





Following is a letter from MARK BRNOVICH, ATTORNEY GENERAL for the state of Arizona, to the U.S. Senate. It is a concise yet cogent and articulate statement for why the federal government should respect the authority of individual states to regulate gambling ... all categories of gambling including online gambling and all forms of Fantasy Sports. Wouldn't it be great if all Attorneys General could sign onto a statement like this to present a united front to the U.S. Congress?

Mark Brnovich, Attorney General
OFFICE OF THE ATTORNEY GENERAL
STATE OF ARIZONA
Senate Russell Office Building 413
Washington, D.C. 20510

October 26, 2015

Dear Senator Flake:

I am writing to register my opposition to S. 1668 (Restoration of America's Wire Act). I believe that the best place to determine gambling policy—prohibition, regulation or something in between—is at the state level, where historically such decisions have been made.

With the current proliferation of gambling over the Internet, including the rise of Daily Fantasy Sports games (DFS), states must consider both the legality and possible regulation of such activities. Recently, some states have moved to petition the federal government to step in with national laws to address these issues, which I believe is a mistake. As someone who has spent a great deal of my career regulating gambling as the Director of the Arizona Department of Gaming and prosecuting gambling crimes as an Assistant United States Attorney, I would like to offer the following information for your consideration.

Both the structure of the Constitution and the Tenth Amendment reserve to the states the exercise of their traditional police powers. See, e.g., *Roth v. U.S.*, 354 U.S. 476, 493 (U.S. 1957). Gambling is an area traditionally regulated pursuant to the police power, and has long been recognized as such by the courts. Beginning with *Champion v. Ames*, 188 U.S. 321, 357 (1903), the Supreme Court has acknowledged that “a state may, for the purpose of guarding the morals of its own people,” regulate or even forbid gambling “within its limits.” The role of Congress, consistent with principles of federalism, is confined to the regulation of interstate wagering. *Id.* (“Congress ... may prohibit the carrying of lottery tickets from one state to another.”). The insight from *Champion* has not eroded with passing decades. See, e.g., *United States v. Wall*, 92 F.3d 1444, 1451 n. 16 (61 h Cir. 1996).

Likewise, states have owned and asserted their police power over gambling. See, e.g., *Bird v. State*, 908 P.2d 12, 20 (Ariz. Ct. App. 1995) (“The government has the constitutional power to regulate or prohibit gambling in general.”); *Army Navy Bingo, Garrison No. 2196 v. Plowden*, 314 S.E.2d 339, 340 (S.C. 1984) (“[T]he State’s power to suppress gambling is practically unrestrained.”); *State v. Thompson*, 60 S.W. 1077, 1078 (Mo. 1901) (“[T]he State may, in the exercise of its police powers, prohibit [gambling] altogether.”).

To be sure, there are problems with S. 1668 that extend beyond the principle of federalism. For example, the bill might not effectively address DFS, as it contains a sports exception; the bill could hamper the ability of states to offer lottery and other games on the Internet—which many are now safely providing, to generate revenues for public needs like education, property tax reform and advanced consumer protections; and the bill does nothing to help individual states address such challenges as Internet sweepstakes, which have evolved through state sweepstakes laws.

You and I agree that the principle of federalism should be a major factor in any assessment of federal legislation. We know that not every problem warrants a federal solution. Internet gambling is a matter for the states.

Respectfully,
Mark Brnovich, Attorney General

PGRI 2016 SMART-Tech Conference

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Smart-Tech provides a unique forum for industry leaders to address the most challenging issues and intriguing opportunities that face our industry today. We hope to see you there! Mark your calendars now for April 5, 6 and 7 for SMART-Tech at the fabulous Park Lane Hotel in New York City. And visit www.PublicGaming.org for updates and conference info.

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