

Constantinos Antonopoulos – CEO, INTRALOT

Paul Jason talks with Constantinos Antonopoulos about the management structure of the 21st century global corporation, the importance of innovating technology and content to drive growth, and replacing illegal underground gambling operators with regulated operators.



Constantinos Antonopoulos

Paul Jason: *It's not usually our focus to talk about stock prices and such, but your stock has more than doubled in such a short time; is there anything in particular that you would point to as the main driver to INTRALOT's success?*

Constantinos Antonopoulos: In my opinion, what the stock price as well as the confidence of our share holders reflect, is the fact that in the last 3 or 4 years we have won several important contracts around the globe. This of course has also to do with the model we have been building for many years, which is more technology and operations oriented. This scheme is becoming the driving model in our industry. It's less about sales and marketing and more about a management structure that delivers great technology, innovative game development and executes well.

PJ: *Achieving this level of success in one or two markets, in such a short time, would be an impressive accomplishment. How do you*

conceived equilibrium between the central management and the peripheral/local units of a multinational company. It's about a combination of several control technologies and mechanisms and then the distributed environment of the client serving and marketing around the continent. And today we have established a HUB in every continent which takes responsibility for everything – sales, marketing, operations. Everything except technology, because it's being produced in the headquarters and it has been very well managed centrally.

PJ: *It seems like in the business press we can't read enough about "think globally but manage locally," but how many people are implementing this successfully? We can see why INTRALOT would be a case study for academic research into how a 21st century corporation really does execute globally.*

CA: That's correct. And, may I add also that as soon as the company finds its growth path, then it becomes easy to attract the best people in the industry. Our business model supports both rapid product development and central control mechanisms that facilitate a distributed global management structure. The success of this system attracted experienced professionals and motivated good managers from other companies in our in-

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achieve such rapid success in such a variety of cultural and political and business environments all over the world in such a short time?

CA: That's a very good question. The truth is, I have been invited to speak at universities and institutes about our approach to managing the rapid expansion of a global enterprise. INTRALOT is becoming a case study from the international management point of view. As your question implies, accelerated revenue growth means that many things must happen simultaneously – rapid product development, operational excellence, diversification of geographic expansion in all five continents, recruitment of talented people. We have started using a well

dustry to join INTRALOT. This was not the case 10 years ago.

PJ: *And so knowledge of local markets informs your global management. But just as importantly, the resources and global perspective you have concentrated centrally would also enhance the effectiveness of your local operations as well.*

CA: Yes. It is not a coincidence that our motto is "A Global Leader, Your Local Partner." Although, we are a global technology leader driving growth and innovation in the lottery industry, we also focus our attention on customer support, on a local basis.

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PJ: *We've already been sort of addressing the synergy question. You operate as both a supplier but also as a lottery operator. How do the competencies and skill sets and operational knowledge acquired in the one area, say as a lottery operator, inform your approach to the other areas, say product development?*

CA: I think that the crucial thing and the secret behind the success story of INTRALOT is the combination of the technology solutions' provision and the operational know-how. It's about a synergy. Our technology is much more user-friendly because we are also using it ourselves. We are not just trying to convince the client to buy whatever the engineers are producing, because we, ourselves, are the client to our own engineers! And we are very tough clients because our operations side demands nothing less than the best from our product development side. Our solutions are flexible, user-friendly, comprehensive, safe, reliable and technologically advanced, because we are the user and the supplier at the same time. That's why the engineering and product development has a free built-in R & D department in our opera-

CA: B-On has already been installed in various countries, such as in Turkey and Israel and we have identified opportunities in other countries as well, i.e. Malta. I believe that these platforms will become popular and necessary in the gaming industry in the coming years. The reason for their slow introduction and acceptance is mainly because of their limited content. The platform itself may not be so attractive; the interesting part is the content. New, exciting, content-rich games that feature fast-paced action and 3-D animation. Simple, user-friendly, yet challenging games with enhanced play-value and Entertainment value. In INTRALOT we have already identified that crucial need and we are now developing new games that suit the different player groups and new distribution channels, as well as the new mobile way of life and the emerging gaming culture.

PJ: *How will regulatory policy and public policy impact your product development, and doesn't the fact of these policies varying so much throughout the world pose a difficult barrier to meeting and fulfilling all these different regulatory and public policy constraints?*

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tions divisions. This not only informs product development in a way that accelerates the implementation of innovative ideas, it also enhances profitability. And we become better operators because of this positive feedback cycle as well. As the capabilities of the technologists and engineers in our systems' division get integrated into operations, this yields not only operational excellence but also increased efficiencies and profitability. This synergy results in two sources of profitability and it is common knowledge that profitability is really the driving force for the economic progress that benefits everyone.

PJ: *Does it seem that your role as a supplier would enhance your ability as an operator because as a supplier you appreciate the importance of testing new ideas that might not yield short term profit? Then, too, as an operator, you can realize that it's worth the investment to test new ideas even though it won't be the most profitable thing in the short term.*

CA: Yes, exactly.

PJ: *The future of distribution and looking at the product of B-On, where is it being implemented now and how might that product evolve?*

CA: That's a very serious issue for our industry. Today, there are different approaches around the world. For instance, there is a strong momentum towards privatization of operations, even in the United States, which is contrary to the state controlled and operated type of model of lottery. Then, we also have a strong movement towards liberalization, removing monopoly control and freeing up the markets to allow some competition. We saw that in Italy and also in Spain, the market in sports betting is opening up. So, there is a very big and ongoing discussion in the global industry about the new legislation and regulations that will govern the lottery sector in the future. We closely monitor these emerging issues, which directly affect the business model we, as vendors, develop and the industry itself.

PJ: *Is it the case that Europe has evolved into a more dynamic marketplace that is more responsive than the U.S. operators to changes in player game style and motivation and life style and manner and methods of social interaction and the like?*

CA: That's true. We should understand that Europe is a more multicultural region than the United States. In the United States, state-controlled lotteries operate on a somewhat similar model in every state. In Europe, different models and approaches

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exist. For instance, we go from having a totally open market in the U.K. to a very closed and protected monopoly like France. In Greece, the state lottery is a public company listed in the stock exchange. There are Scandinavian lotteries that sell poker over the Internet, which is a very new and advanced development in our sector. Therefore, I think the European market is more dynamic because the jurisdictions operate on a wide variety of different models. And they all watch each other so that they are progressing faster because of this exchange of experiences. I think that some states in the U.S. are looking at the possibility of privatizing because they have realized some of the restrictions of the government controlled model, and maybe they wish the operator to be more independent and apart from the regulator.

PJ: *It seems like an obstacle to turning over the operation of the lottery to a private corporation is the concern over corporate social responsibility. Advocates for preserving government control might contend that there's a conflict between corporate social responsibility and the profit motive that lies at the heart of free market capitalism. So, the question is: Can regulated private operators deliver the same level of protection against problem gambling and the same level of integrity in every other respect as a government operated system?*

CA: The answer is very clear. There are many examples in the global industry that prove that there is no problem having a private operator and the government regulator work well together to address all issues of social responsibility required of a lottery operator. One example is Camelot in the U.K. It's a private operator and they have very good results and are highly respected for their record of corporate social responsibility. Another example is the national lottery in Malta, which has been operated by a private company for the last 3 years. There's no problem in having a private operator and at the same time protecting what we would like to have in terms of social responsibility.

PJ: *Isn't it the case that technology can do a lot more to help to address societal needs like problem gambling and prohibiting offshore operators from entering controlled markets?*

CA: There are a lot of technological improvements in terms of online systems, which provide the lottery operators with the necessary tools to safeguard players from overspending or frequent playing. But, allow me to point out that lotteries provide soft games. They should not be considered in the same way with casino gambling. It's hard to imagine somebody spending his or her

life savings on scratch tickets or by playing Powerball or Mega-millions. There's no proof that there's a problem with compulsive lottery playing. Doesn't it seem that people who want to protect the government monopoly in lottery are comparing playing the lottery with casino gambling when these two really are quite different in terms of gambling? Corporate social responsibility is such an important priority that we all must embrace, but we must not exaggerate the alleged problem of excessive lotto and scratch playing by mixing it with casino gambling.

PJ: *Are there particular examples that illustrate how a gaming market can grow and prosper and yet serve societal needs in an exemplary and responsible way?*

CA: There are several cases in Europe. The big issue in the lottery world is the illegal gaming, gambling, and lotteries. If someone goes to Asia, there he will realize how big the illegal market is. The issue is not whether to have a private operator or to keep the government monopoly. Society's needs will be served in the best way by putting the illegal operators out of business, making everyone conform with the laws and regulations. For instance, if new lotteries could be set up in a way that all would adhere to the same rules and government regulations in order to keep the illegal operators off business, wouldn't that be a great thing for the society? Not only because of the income that would be reinvested back to society, but also because this would stop businesses and players from breaking the law. If private operators, held to the highest standards of accountability and social responsibility, were more effective than government owned monopolies at competing with these illegal operators, maybe the society would be better served by allowing private operators to compete for the business. Instead of arguing about whether we should privatize, outsource, lease, or keep the government monopoly, we should stop fighting each other regarding such issues and instead concentrate our efforts to fight against the illegal markets and operators.

PJ: *So you are saying that a vital part of any plan to defeat illegal operators would be to engage the creativity and ingenuity of private enterprise because that's where the ability exists to compete and be creative and clever and think of new and innovative ways to take over the markets from the illegal operators?*

CA: Well, I see that something different is needed to be done. And I think that private operators could be more effective in attracting the new generation of players. We have some very good

examples around the globe. But let's look back at the United States. Sports' betting is an enormous and by law illegal market in the United States. Taking into account that we're talking about the most developed country in the world, little has been done in practice to deal with this illegal market. As far as I can tell, nobody is really even discussing this problem in the United States. So, I think these are the issues that we should start discussing.

PJ: *In the United States, you've won some very important contracts. Is there anything interesting that you could share about what might be happening next in the United States market or perhaps as it relates to INTRALOT in particular?*

CA: We are pleased to have won these contracts and to have established our credibility in the United States much faster than expected. For the next round we are preparing ourselves to go to the big state lotteries and fight for successes there, but also we are concentrating now on the new privatization projects which have been initiated first in Indiana and Illinois. We expect several other states to follow this path. We are extremely interested in these opportunities because we feel that we are very well qualified to help the states build a new path in the way that lotteries and gaming are operating. As you know, we are very good at all aspects of technology because that has been our focus and mission since we established INTRALOT. But now we have a tremendous operating experience as well. We have been implementing games and managing operations all around the globe, in all five continents, within different regulatory environments, public licensing requirements, and I would speculate that nobody else has this depth of proven successes and experience. We would be very effective at integrating the needs of all the different stakeholders – the government, the regulators, the citizens of the state, the players...

PJ: *Do you feel a need to get into the business of printing scratch-offs?*

CA: Not for the moment. Scratch tickets are a commodity business. We are focusing on the total solutions. If we are the operators, we can buy the tickets, or we can leave our clients to buy tickets from any supplier they want. We want to stress our attention and resources where we can add more value.

PJ: *With respect to product and content development, is the industry changing at a rate that is keeping up with its customers, or where is it lagging, and how can it catch up?*

CA: I think lotteries are making more progress now, especially since some of them are implementing an Internet gaming strategy. Game content technology moves very fast... Much faster than lotteries actually deploy. Vendors develop new games and try to persuade lotteries to utilize them, not as distribution channels, but as a total solution. We hope lotteries would understand this, because we are ready to provide new games, new technology

and overall we have the ability to implement these.

PJ: *It seems like a reason for the success of casinos is the exciting social environment of a casino. The next generation is, to some extent, deriving that sense of community and interacting with others from the internet. The success of Internet poker could be seen as an example of that. How can we integrate some of these lessons into our game development initiatives?*

CA: Of course, the Swedish lottery has introduced Internet poker to Swedish citizens. I don't encourage activities that bring casino style games into the lottery world because of the social responsibility matter we talked about earlier. Instead, I think that the lottery should stand for something different than casino style games. Games of skill and entertainment provide a very promising potential and a new business environment for lotteries to expand. Casinos are mostly about luck and less skill, and they are developed in a fast-pace gaming environment that provokes aggressiveness, so that the player may lose too much money, too quickly. I think lotteries could stand for a game that is made soft with a focus on entertainment and games of skill which bring entertainment. I think that this approach is more consistent with the need for social responsibility. On the other hand I think that these kinds of games are what the players want and consequently it is a very profitable way to grow the lottery.

PJ: *I hadn't really thought of it that way – that compulsive gambling becomes an addiction to that element of luck which is what casinos are about, as opposed to a game of skill. Are you proposing that a game of skill would be engaging and fun, but it would have a less addictive element to it than a game of luck?*

CA: Undoubtedly! But after all, if we assume that a phenomenon of addiction emerged in skill games too, this would not be as harmful as in games of luck, because it is not so much about winning money, but winning the game. And if it is not so much about the compulsive desire to win money, the player is less likely to gamble and spend money lavishly and irresponsibly.

PJ: *Do you see some differences between Europe and the U.S. with respect to the R.F.P. process and the way vendors and service providers are selected? I'm asking that because it seems like European jurisdictions differ so much from each other and there's a lot bigger variety of suppliers and ways of meeting the demand in Europe than there is in the United States.*

CA: I figure that nowadays the main difference between most of the European lotteries and the American ones is that the Europeans buy the technology, whereas the Americans lease the technology. I personally think that the American model is more advanced, because the lottery operator is better to let the vendor put everything in place and then share a portion of the profit on top for capital costs. This model is becoming more and more successful. European lotteries are becoming aware of that and are no

longer buying the terminals and technology as much as they used to. On the other hand, Europeans are used to outsource more parts of their businesses to private operators, which has not been the case in the U.S. Sport betting is a good example. But as our industry becomes more global, everyone sees what works well and what doesn't. And in the near future, we will begin to see a more uniform environment as operators everywhere pick up on the things that work well and stop doing the things that don't work so well.

PJ: *With product life cycles getting shorter, it would seem like a benefit of leasing is that it outsources the cost of changing to keep up with the rapid turnover of product life cycles, and that since the rate of change is accelerating that means the benefits of leasing versus owning are going to increase in the coming years.*

CA: Correct. Games, technology solutions and also distribution channels will be changing and it is better to let the vendor assume the cost of keeping up with these changes.

PJ: *I saw that INTRALOT was the first company to win a one hundred percent approval score from MUSL for your Idaho implementation. That would point to aspects of execution and other types of capabilities that would seem to me to be very hard to measure. Do you have any solution or any thoughts on how the process of evaluating bidders could be improved in order to integrate things like the ability to innovate and collaborate and execute. How can these things be measured?*

CA: This is difficult to answer. Keep into the mind that it took us ten years to prove that we are a credible vendor. So, it's not an easy answer. Every lottery must evaluate all the aspects - as the capabilities, the reliability, the experience - that will make the lottery operator realize how much the chosen vendor is able to deliver the best systems and overall support.

PJ: *Is competition resulting in better performance, better products and service from the industry's suppliers?*

CA: Well, there has been observed some consolidation in our industry, partly because the revenues in the global lottery industry have not been increasing quickly enough. So now, there is a small number of vendors, each being capable of supplying the systems and services in demand to the industry.

I am now optimistic that the income potential will increase because of the upcoming privatizations and liberalizations, especially in Europe. The focus should be placed on the positive potential that our industry has, instead of being so intensely competitive over existing business. The only thing we accomplish by

this way is to hurt the industry itself. There are some recent cases where the competition became so intense and fierce, where the result was the "freeze" of the local games. As everyone can understand, this kind of implications are bad not only for the lotteries, the vendors and the players but for the whole gaming industry - not to mention the local economy.

PJ: *The situation that you describe would seem to happen if there is increasing supply going after a shrinking demand or contracting market. But that's not the way it is, is it? Isn't the market expanding? Why shouldn't there be enough opportunity for aggressive, ambitious growth on the part of all well-run commercial enterprises?*

CA: The truth is that our global market will not expand but it can grow further within its threshold. Most of the lotteries operate in the traditional, time-tested fashion, offering products and services that overlook the changes made in the technology, media or even the way of life of people nowadays. We let, for instance, Internet be exploited by the non-state operators - illegal or not-where state-of-art content can be displayed. I think that the driving force and the agent of change within the lottery industry will be technology and content, which will create intense competition and at the same time will favor the players and the market itself. Investments in innovation, research and development are needed in order to identify the new players' profile and offer customized products and services to expand the existed players portfolio and therefore to create new opportunities of growth. To do so, there is also the need of cooperation with providers of alternative or complementary products/services (i.e. Internet providers, telecom, content providers, even educational institutes etc) in order to develop new dimensions in the offering products.

The Lottery Industry is reaching its maturity. If we all don't take the necessary measures and we let ourselves be self-delusional that the market as it is can be productive, the loss of profits, players' chances in general, will be inevitable.

PJ: *This is a very positive and optimistic vision for our industry. Doesn't it seem like the easier or safer path for managers to achieve their numbers is to try to improve on what's already being done, go after already existing business?*

CA: The more challenging path is for the leader of a large enterprise like INTRALOT to create a culture that is forward looking, willing to take risks and invest more time and creative energy in helping to develop new business and helping the market expand in a responsible and intelligent way. ♦

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