

PLAYERS AND PLATFORMS – THE RAPID EVOLUTION OF GAMING: Canadian lotteries, like those owned by governments in other jurisdictions, are taking steps to remain relevant to players – all players – into the future. Not only does that mean taking a long, hard look at the core business of traditional lottery products, it means realistically assessing the competition on the doorstep.

Canadian lotteries have been offering safe entertaining games for years, with the primary objective being protection of players. The beneficial by-product is revenue for essential public services. That is their mandate.

The reality of today's Internet gaming market and its critical mass, require lotteries to step up to meet demand. At the core of Atlantic Lottery's growth strategy is the player, and according to President and CEO Michelle Carinci, knowing the player is one of her organization's greatest strengths.

Paul Jason, Public Gaming: *There's been a lot of media coverage from Canada about online poker and casino. What's happening and why now?*

Michelle Carinci: The wired world has done two things for lotteries. It has created a huge market for Internet gaming entertainment around us. Players are making the choice to play on illegal sites every day. Unfortunately, without the ability for us to offer the games they want in a safe, regulated environment, Atlantic Lottery can only watch as they play unprotected, and the revenue that should be of benefit to our region flow away.

Atlantic Lottery has been in the Internet business since 2004, first offering players the option to play lottery and various instant games over the Internet, before introducing interactive games like Mahjong and golf. Frankly, none of these contributed significantly to sales. Then Bingo was introduced and caused a spike in sales because it is interactive; players in chat rooms play bingo with each other in a social way. That was a key indicator and confirmation to us about player preferences trending toward interactive experiences.

The wired world has made the gaming world incredibly small, and put the competition right on the doorstep. I read a comment recently from Gao Xiqing, chair of China's sovereign wealth fund: "The world is becoming a lot smaller, and a lot more crowded. When you get crowded, you have a stronger sense of needing to protect yourself."

While he was talking about China's investment strategy, that quotation speaks to the nature of our industry today— if we don't re-

spond we will be crowded out.

One thing we have that our competitors do not, is a long-standing, intimate and trusted relationship with our players. A relationship cultivated over four decades for many of us. If we step back and consider why we are in this business in the first place, isn't it about protecting the players?

So are you saying that governments need to care about competition not because it means lost revenues, but because of their moral responsibility to protect players?

M. Carinci: We need to remember how and why lotteries were created. Government got involved in gambling in to make an illegal activity which was difficult to control, controllable and safe. Regulation was put in place to protect citizens. That's government's role – regulating an activity that has risks. The beneficial by-product is revenue that stays at home for good causes, like education, health care, roads, veterans, whatever is important to citizens.

The environment has definitely changed. Gone are the days when we held all the cards. In fact, today, we don't even know all of the players at the table. Trust me when I say the players of today will not be the players of tomorrow. We need to understand the virtual world they live in today, and anticipate what they will need in the wired world of tomorrow – before they even realize themselves.

The Internet enables us to build a dynamic relationship with the player. We don't just provide the Responsible Gambling tools and hope our players use them. We proactively use the direct line of communication to continu-



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ally educate the customer on the need for responsible play. That's something we can't do in our traditional retail network.

We have tremendous assets to bring to bear. We have a powerful brand that stands for integrity and great games. Our game development and marketing talent is as good as anyone's. We have a strong customer base and a brand that is trusted to provide safe fun games.

So how do you really know those players? And if you talk about catering to a younger demographic, what about those core traditional product players, the older guys, do you just forget about them?

M. Carinci: Absolutely not. Our current players are not just playing at retail, they are online today, and we will continue to meet their needs. The emerging player of tomorrow, who lives in the virtual world as comfort-

ably as they do in their own neighborhood, demands something entirely different from us. If we are going to remain relevant beyond the baby boomers, we need to have the foresight to figure out what the players of tomorrow will want before they even come of age. That's innovation, and where the future of our industry really lies. Knowing this player will be the competitive advantage across the business. Relevance in the digital realm protects our core lottery products into the future.

So who is this player?

M. Carinci: This player is in control, plain and simple. But that's the only thing plain or simple about them. I call these players digital natives, and the one consistent thing about them is that they are not consistent. They have more than one lifestyle, more than one identity. They stock their fridge with organic produce, but are happy to eat fries from a drive-thru. They wear \$200 jeans with a thrift shop shirt. They save for the future, but buy virtual commodities with real money. They are a dichotomy, an enigma. These digital natives are comfortable in this world. Evolution for them is about control and personalization. It's about instant gratification and two-way conversation. They set high standards and expect us to meet their exacting demands. They want what they want when they want it; even if they don't know exactly what they want. Sounds daunting, doesn't it?

How can you hope to be successful in meeting the needs of this player if they are such an enigma?

M. Carinci: We only have to look at our successful track record to demonstrate the attainable. We need to have solid data and research, we need to talk to players, and we need to rely on the experience of the past decades. Let's not negate the benefit of four decades of experience in our traditional channels. For us there is a delicate balance between player and profit.

Just over a year ago, the five Canadian lotteries launched LottoMax, a new multi-jurisdictional weekly draw game, and the first new national draw product in more than 15 years.

The key to LottoMax's success was knowing through research and experience, what the players wanted and ensuring the final product reflected those needs. In this case, they wanted the big jackpots of our other national games, and a game that would provide the opportunity for more people to become millionaires. LottoMax's unique value proposition does both. And consumers have responded positively.

No amount of research would eliminate unanticipated and undesirable consequences. At some point, a leader has to decide to pull the trigger. The amazing thing is that all the Canadian lottery CEO's seem to be similarly predisposed towards action. How did you get there?

M. Carinci: Look at what happened to Blockbuster Video. It was clear for a decade that Netflix's basic value proposition was superior and they were steadily peeling away Blockbuster's customers. Blockbuster must have recognized from the very beginning that Netflix posed a fundamental problem that surely threatened their long-term survival. In the real world you don't upend a profitable business model when you see a negative trend line. But at some point you have to face the facts. If you wait too long, like Blockbuster did, it's too late to save your business.

As lotteries, we are quite attached to the huge profit streams generated by the traditional games distributed through traditional channels. But it is a big mistake to ignore the undeniable warning signs that we need to reposition our businesses for a new generation of consumers. Once you realize the cost of change doesn't decrease, but increases over time, the decision to be action-oriented becomes easier.

The former CEO of General Electric, Jack Welch, said the best time to implement change is when you're doing well. In spite of the recession, lotteries everywhere are doing well. But we can see the inevitable trend lines and need to adjust our course and make changes now. Instill a culture that is proactive in dealing with the problematic aspects of our business. Push ourselves to act now to optimize the long-term success of the business even if it impinges on current profitability.

That's hard to do because we are all under pressure to produce better results each quarter, and realize it's not going to get any easier to effect change.

The best time for Blockbuster to redesign its model was years ago when it still had 90 per cent market share; likewise for lotteries. We need to reposition lotto and move aggressively into new media. We need to do it now.

I remember, in the planning of Lotto Max, the exact question that tipped the scales for the five CEO's of the Canadian lotteries. Would we be prepared to launch a game that would have a negative impact and actually hurt our flagship product, which is Lotto 6/49, if the overall net impact on the lotto category was positive? Once we agreed the answer was yes, going forward with conviction

became much easier. In fact, it had a bigger impact on Lotto 6/49 than projected. But we were, and are, committed to moving forward, even knowing things will break. They'll break, sometimes in bigger ways than we'd planned, but we won't let that stop us from taking action. We'll fix it and keep moving forward. Otherwise, lottery will go the way of Blockbuster Video.

When you think about it, does anyone ever say they don't see the need for change? Everyone agrees that change is necessary; however, often we will focus on how change will disrupt current business or the reasons why change should be delayed, like requests for more studies. Delaying action has the same result of continuing with the status quo. We'd be doomed if we followed that course.

How do you create consensus between the different provincial lotteries for your national branding and marketing campaigns like you did for Lotto Max?

M. Carinci: You just do it. There are powerful incentives to working through differences. It's driven by basic economics. We sell more with a consistent brand strategy that does not confuse the consumer with mixed messaging. We can leverage our investment in advertising by implementing it on a national basis and not just locally. Collaboration essentially increases sales and reduces costs. That's a good combination. It's not always easy to work through differences. But we've learned that putting our heads together to collaborate brings the biggest win.

There is the added challenge of having two official languages, French and English. All advertising, brand, and marketing management allows for flexibility for regional differences, including how a campaign developed in English can be effectively executed in French. We have more in common than we might think. Our customers have similar play styles and motivations. Once we get over ourselves, it's not hard to find the common ground where great advertising and marketing works well across the country. The importance of the national brand is a given, so we lock ourselves in a room and deal with the different needs up front.

Do Canadian "Crown corporations" have more freedom to make changes than U.S. lotteries do?

M. Carinci: It might seem that way. In fact we deal with many of the same issues as directors in the United States. We're held

accountable to a host of different masters within a media landscape that is challenging. Just like in the U.S., effective communication with our stakeholders and shareholders, to get them all on the same page with us is important to ensure we have the freedom to act. That goes with the territory.

That relationship with government is interesting. What challenges do you face within your regulatory and legal system as you work to evolve the industry?

M. Carinci: The biggest challenge is the current age of our laws and regulations. When the federal Criminal Code, which makes Internet gaming in Canada illegal except as authorized by the provinces, was written so many years ago, the Internet was not even an idea. The same is true of legislation and regulations. The updated regulation we need to offer multi-jurisdictional games is not a huge barrier, but getting agreement that this is the right time is not always an easy barrier to overcome.

Where do the Canadian Lotteries stand when it comes to implementing poker and casino games on the Internet?

M. Carinci: It's a work in progress, at different stages of development and implementation. It was logical that we work in partnership with British Columbia and Quebec to develop a common platform. Only Atlantic Lottery and BCLC have a current internet offering; the only two lotteries in North America who are online and have been since 2004. As you know British Columbia added casino games this summer, and will join Quebec in the near future to offer poker. But there is dialogue in every jurisdiction about the next stage in the evolution of online gaming.

No single province is large enough to generate a critical mass for a successful multi-player poker site. We have to collaborate to create that mass. This is not a new story. The same was true for the big lotto and instant games. The Canadian lotteries partner when we need each other, when it's clear a collaborative effort will produce a superior result for each individual lottery.

Wow. You make it all sound so easy.

M. Carinci: Of course it's not easy, Paul. The context of today is clear. Players are already choosing to play with or without us, and don't understand why they can't choose a safe alternative that keeps the money they spend at home. The research is clear. They want us in the game. We have hurdles to overcome, not the least of which is getting everyone involved to understand the impact of not moving forward. We need to face facts. Status quo will have impacts: on the value of the enterprise, on the players left without protection, and on communities left without the billions of dollars we collectively return to provinces and states for good works.

Like all progressive companies, addressing the opportunities and challenges of the Internet is necessary. Otherwise the next phase of evolution for lotteries is harvest mode.

I'm up to the challenge and I know others are as well. This is an exciting time to be a lottery CEO. Think about it, we have the opportunity to deal in the art of the possible. ♦