

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

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

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



## Frank Cecchini

Chief Commercial Officer, Novomatic Lottery Solutions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



## NOVOMATIC

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### LOTTERY SOLUTIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Lottery does need to refresh its games.

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

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

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