



The most important ones include mobile phone recharging, selling tickets for sports, entertainment, and other events, and brokering payments for goods and services. In its most significant launch of non-lottery products ever, Sazka Mobile was introduced in February of this year and leaped to the number four position in a field of over fifty cell-phone service providers in the Czech Republic. Sazka distributes its products mainly through a network of over 6,900 sales outlets located throughout the Czech Republic.

Mr. Chvátal has led the charge since 2013. We visited at Industry Days (Lisbon in June) to discuss the amazing transformation of Sazka into the leadership role it was born to have.

Robert Chvátal

Chief Executive Officer,
Sazka, the Lottery of the Czech Republic

PGRI Introduction: *Sazka was founded in 1956, and for decades its brand was synonymous with lottery. In 2010, Sazka was the most valuable brand in the Czech Republic, with 95% share of the markets that it operated in. It then encountered various problems that created a fiscal crisis that led to temporary insolvency in 2011. Sazka was then purchased by the KKCG investment Group.*

The subsequent years were challenging, but Sazka successfully moved through its stabilization phase, reaffirming its long tradition of excellence, and now has re-emerged as a formidable and highly respected operator. It continues to vigorously develop and consolidate its dominant position in the Czech lottery market. Today, it holds a 97% share of the lottery products market.

The Sazka brand is once again among the most famous Czech consumer brands. "The new visual identity of Sazka is not just a "new coat" but it is a commitment of all those working for Sazka that an entertaining, innovative and reliable company will develop trendily and successfully under the new brand," says Robert Chvátal, CEO and member of the Board of Sazka. Under the current owner, the KKCG investment group, Sazka enters into a new stage of its development. It will continue to offer a broad portfolio of lottery and non-lottery products and will continue to modernize and adapt its activities to trends of the 21st century.

Sazka's main portfolio of products includes instant tickets, draw games, sports betting, and fast turnover games. Non-lottery products are the second pillar of the company's business.

Paul Jason, PGRI: *The Sazka story of the past few years is unique indeed! We all read about the events in 2010 and 2011. But I don't know if we are all clear on how it has unfolded since then.*

Robert Chvátal: *Sazka was mismanaged during the years of 2008 to 2011, which caused a decline in the perception of the Sazka brand. Sazka never stopped operating, though. Even during this tumultuous period, Sazka honored all its obligations to the players to reward prize monies, and fulfilled its other financial obligations as well.*

What was the cause of the problems in 2011?

R. Chvátal: *Mismanagement in a variety of ways. The main financial problem was that management ventured out of its core business of lottery and built a huge multi-purpose arena in Prague. The arena is beautiful, but way beyond the scope of what Sazka was financially capable of doing. Sazka was then purchased from the*

investment group of KKCG. Since then, Sazka has been restructured, refocused back on the core business. The guidance and support from our new owners led to a well-conceived plan to rebuild the brand and its business. That plan included an ambitious strategy to extend the brand into business categories that are synergistic, mutually supportive and reinforcing to the core business of lottery. We are now into the second year of implementing the plan. Sazka Arena was sold. We managed to stabilize the company so that sales in 2012 rebounded to its previous level. Sales then increased by 20% in 2013.

Congratulations! It certainly appears that you are on the right track. I would think that changing and reinvigorating the internal corporate culture of Sazka must have been a massive undertaking.

R. Chvátal: It was. Previously, the corporate structure and culture was rigidly hierarchical and rather imperialistic. Thankfully, the people of Sazka are a talented group who readily embraced the opportunity to restore Sazka to its previous high standing as a world-class operator. I can tell you it is a blessing to work with such a dedicated and forward-looking team. The challenges, as you might imagine, were formidable. But the brand was intact, the people of the Czech Republic gave us the opportunity to prove what we could do, and Team Sazka delivered in amazing fashion. Our owners, KKCG, worked with us on developing the over-arching strategies, but then gave us free reign to execute and deliver on our commitments. The abilities and potential of Sazka employees was unleashed, the big hearts of the Czech people accepted us with open arms, and now we are set on a course to fulfill an ambitious mission to be an integral part of the lives and lifestyles of the people of this great country.

You were the CEO of T-Mobile in Czechoslovakia and Austria prior to your appointment to be CEO of Sazka.

R. Chvátal: And we did bring into Sazka talent from outside the lottery industry to assist us on our new course. But there is an abiding appreciation and respect for the industry-specific knowledge, experience, and dedication of the Sazka team which has been working in the lottery industry for many years. It is that Sazka employee brain-trust that informed our ambitious plans with a strategy that integrates forward-looking vision with the heart and soul of the lottery industry. The current Sazka is a synergistic blend of new blood and lottery veterans.

Using the lottery terminals to sell ancillary services, like cellular phone time and paying utilities bills, has always been a part of the Sazka business model.

R. Chvátal: True. It just needed guidance and focus to integrate the different product and service categories into action-plans that support a clear vision. For instance, our efforts to extend the brand of Sazka into areas other than just lottery is motivated not just by the desire to add additional revenue sources. It is more about increasing the number and variety of consumer touch-points to maximize exposure and rejuvenate the brand. It is a brand-positioning strategy. We want to demonstrate that the brand of Sazka is not only building onto its traditional past but is ready to embrace a future that is diversified and includes a direct connection with the lifestyles of the modern consumer. For instance, we envision a convergence of gaming and Mobile telecommunications. So we see Sazka's service in the Mobile space as naturally synergistic with its traditional business of lottery gaming. Mobile Sazka positions us to develop a brand-messaging strategy that focuses on both Mobile and gaming.

Providing Mobile services also connects you to the customer data that can help develop the interactive component to the gaming business.

R. Chvátal: Exactly. The revenue gener-

ating aspect of topping off cellular time is the least important of three objectives. First is to rejuvenate the Sazka brand by creating a diversified set of consumer touch-points. The consumer will come to know us through a variety of services and solutions that we provide. This brand extension reinforces consumer awareness for all our products, including or perhaps especially our portfolio of lottery products. Second, the Mobile services involve sharing of information that becomes the customer database and digital connection that will be so vital to consumer marketing in the future. The additional revenue stream is only the third benefit to diversifying our services.

So Sazka Mobile, your cellular service, is creating the platform for further interaction, a communication platform or medium for you to promote lottery products and build the interactive relationship that is so key to the future.

R. Chvátal: And provide us with a platform for promoting Responsible Gaming and build a sound basis for long-term growth.

I think the success of Sazka Mobile is one of the important proofs of Sazka's revival. For the vast majority of its history, Sazka has been one of the most well-known and respected brands in the Czech Republic. Now that legacy has been restored. Sazka is once again respected for its integrity and reliability, even to the point where we are able to launch a big project into the highly competitive category of cell phone service. The capture of significant market share in such a short period of time is testament to the enduring strength of the Sazka brand.

We recognized that extending the brand would be key to revitalizing consumer confidence and awareness of the brand. Sazka was already known not just for its lottery business but also for having one of the largest retail networks in the country. So we leveraged the retail network and terminal network to provide ancillary services like topping off your GSM prepaid card or paying your water and electricity bill,

or buying a ticket to a sports event or a Lady GaGa concert. Sazka consolidated its brand as a transaction-enabling business. And now we are extending the brand further with Sazka Mobile.

And like the transaction-enabling services, Sazka Mobile is less about new revenue streams as it is about brand extension and broadening your consumer connection.

R. Chvátal: Much more than the transaction-enabling services, Sazka Mobile is directly linked to our broader mission of building a strong consumer connection based on digital media. Sazka Mobile connects us to the consumer in more and more ways that makes the brand more valuable and puts Sazka in the position of vending its other products, like its gaming products.

Diversifying our services also increases the value of Sazka to the retailers. As a commercial partner, our relevance to the retail shoppers and ability to drive store traffic is significantly enhanced by the additional services that we provide to the consumer. This augments the entire perception and impact of the Sazka brand with the consumer. Likewise, it also augments the entire perception and impact that Sazka has on the business of the retailers. These services are powerful drivers of store traffic. The consumer comes into the store for the express purpose of paying their bills, of topping off their cell phone time—just like they come into the store for the express purpose of buying a lottery ticket. Retailers know that our products and services are contributing to the sales of all their other products. As a direct result of our expanded portfolio of services, retailers' commitment of resources to promote Sazka products and services is much greater than it would be if we only sold lottery products.

You refer a number of times to visual identity. Could you clarify exactly what is meant by that?

R. Chvátal: Sazka as a brand was very well known. But there was a lack of clarity as to what that brand should stand for. The

visual elements, the logo, and brand messaging were not related to a vision, a clear identity for who we are, for our mission and what we exist to accomplish. One of the first things we did was to sit down with the Sazka team, and the market research company Millward Brown, and put together what we called a “brand ideal.” Why exactly does the brand of Sazka exist? We clarified who our customers are, who our partners are, what are the current perceptions of the brand, and what do we want the perceptions to be. We then looked to the future to develop a long-term orientation of the brand. We dug deep into the broad topic of entertainment and circled back around to why people play the lottery. We ultimately defined the essence of the brand with just one sentence: Sazka exists to awaken the dreams among the people. That led to the creation of a new identity wherein everything we do, all consumer-facing imagery and messaging, and even product design, had the clear and unmistakable signature of Sazka. The name “Sazka” became a part of the name of every product and service we offer. The result is an entirely new relationship to the marketplace, one with a visual identity that is instantly recognizable, one that evokes an immediate emotional response.

One that awakens the dreams among the people.

R. Chvátal: Yes! The colors are bright yellow. The materials are modern. The imagery creates a 3D impression instead of 2D. The design appeals to the youthful, tech-savvy sensibility of our customers. The glow and design of everything we do is upbeat, positive, radiating optimism and a sense of purpose for a generation that is reshaping the future to be in their image. That's not just our logo. That is the visual identity that we want to inhabit everything we do, everything we produce.

So the process of creating the visual identity is really not just a media campaign. It is

really a re-design of who you are and what you stand for?

R. Chvátal: Exactly. Design is not just about appearance and marketing. It is also about, even primarily about, the product. When it comes to lottery products, the game itself is just one component. What people are really buying isn't a piece of paper with numbers on it. They are buying the “hope and dream.” But, the hope and dream for what? That's what our design is appealing to. Awakening the dreams among the people. We are redesigning the product to be less about the dream to live like a billionaire, with big houses and fancy cars. Our redesign is attempting to tap into the emotions and awaken much more exciting dreams. For instance, the shared experience of being a Czech who enjoys playing the games that millions of others are playing can awaken dreams that are much more uplifting and inspiring than just being able to buy more stuff.

You don't have an exclusive on sports betting. But you do have an exclusive on the draw games, right?

R. Chvátal: No. The regulatory regime in the Czech Republic is very liberal. Free-market competition in every line of business is allowed, including competition in draw-based and Instants games as well as sports betting. We also have competition in transaction-enabling and Mobile telecommunications services. So we have competition in every line of business we are in.

Our market share is the highest, 95%, in the classical draw-based games. We have a leading market share in Instants - 55%. But we don't have a monopoly in anything. For example, our market share in sports betting is less than 4%.

Are all of the operators required to turn over the same percentage of profits? Is it a level playing field competitively in that sense?

R. Chvátal: In the draw-based games, Instants, and sports-betting, all operators are required to pay the same percentage of

the lottery tax. All licensed operators for draw-based games, scratch cards, or sports betting have to pay 20% of GGR (Gross Gaming Revenue).

Given that you do not have an exclusive monopoly, to what do you attribute your ability to command 95% market share in the draw-based games?

R. Chvátal: The Czech legislation does not yet allow draw-games to be sold online, on the internet. Our retail network, combined with our integration of other consumer services at the retail stores, combined with the solidity of the Sazka brand, gives us a unique position in the minds of the consumer. But that advantage is tied in with our presence in land-based retail. Conversely, sports-betting is offered on the internet. Since 90% of sports-betting is conducted online, Sazka's strength at retail does not give us a competitive advantage in that space.

That will change, though, in 2016. That is when all games will be allowed to be sold on the internet. At least that is what the regulators have indicated is the current plan.

How are you preparing for that change in regulations?

R. Chvátal: Two things about that. First, we will continue to focus on reinforcing the integrity and excitement of the Sazka brand. We think that our brand equity, our dominant position at retail, and our long history of serving the people in this game category gives us huge momentum as we move into the internet space. Second, the draw-based games depend on big jackpots to drive sales. Sazka has the player-base that provides the liquidity and volume of play that drives those big jackpots. It will take time for others to build the player base and liquidity necessary to replicate that kind of draw-based games business model. And in the end, I think the customers will prefer to come to Sazka on the internet just as they prefer to come to Sazka at retail.

Too, we just added Eurojackpot to our portfolio of draw games. That is very ex-

pecting for us to be a part of this fantastic multi-national game. And it rounds out our portfolio to further consolidate our position as the operator of draw-based games.

Of course, the competition will be much keener in e-casino style games on the internet. We already have an internet platform for sports-betting, and will expand on that to offer the expanded portfolio of games. And Sazka Mobile already gives us that digital connection to the customer base. Leveraging those two assets to integrate new games, like draw-based games, will come naturally to Sazka.

To what extent did your experience at Proctor and Gamble and T-Mobile help you to formulate this strategic approach towards brand extension?

R. Chvátal: The principles we are applying are not revolutionary. The lottery industry is unique in some ways. But it's not unique in most ways. It is a consumer business driven by the same rules of market-economics that apply to other industries. A thoughtful approach towards identifying the success strategies as applied to other industries yields very useful guideposts for what we can do to create success in the lottery industry. We need to be sensitive to the ways in which the government-gaming business is in fact different than other industries. But most of the challenges we face have already been faced by multi-billion dollar enterprises with the sophistication to chart intelligent and effective courses of action. We can learn a lot by looking at the solutions being applied outside our industry instead of feeling like we need to always be reinventing the wheel.

The future...

R. Chvátal: I think that the online world is key to any long-term success strategy. The competition is just a click away. Anyone who thinks they are protected by regulatory restrictions needs to just look around to see that the world is changing and our world

will change soon too. The good news is that lotteries all around the world have a level of brand equity that no other gaming operator comes even remotely close to. We all have a window of time during which we can consolidate our position in the market-place, lock in that brand equity by reinforcing our bond with the consumer and the affiliation they have with our brand.

We also need to excel at new competencies, like business intelligence and data mining and analysis. That means we need to first digitize our relationship with the consumer, create an online interactive relationship, a conduit for two-way communication. As we learn more and more about our customer, the products we design and the dialogue we have will appeal more and more to the specific play and communication styles and preferences of our customers. The impact of digitizing our relationship with the consumer is potentially transformational. Lottery already has the broadest base of consumer awareness and participation. We just need to convert that into a dynamic and interactive relationship that can be reinforced and developed more and more over time.

The proprietary position that lotteries everywhere have held with their network of land-based retailers is awesome and we will always do everything we can to build upon that asset. But we can't depend on that to protect us against a future that includes new channels of distribution, new media, and new business models to attract consumers to the games-of-chance industry. ■