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Think Global, Act Local—Integrating Success Strategies from Global Markets into the Local Gaming Culture and Market-Place

Paul Jason: *What can the industry do to unlock entrepreneurial creativity that drives innovation and growth?*

Michael Conforti: Everyone agrees on the importance of innovation. Without new products that appeal to the next generation of consumers, without technology-driven enhancements to product distribution and the retail shopping experience, without investing in continual improvement, lottery is in danger of losing its dominant position in the gaming marketplace. Fortunately, the technologies and capabilities to modernize and drive growth are already available; however, these innovations will only be delivered to the market if the procurement process recognizes their value. A shift in government-procurement focus from price to overall value and ROI would incentivize the vendors to deploy innovative solutions that can drive sales and profits for both the lottery and its ultimate beneficiaries. In other words, lottery vendors should be challenged to deliver on metrics focused on net funding for good causes.

But might the government-procurement officer protest that performance of any kind

must be quantifiable and measurable, including the creative aspect of innovation? If performance metrics can't be specified in an RFP/RFQ, there is no way to measure and compare competing bids. How can lotteries assign concrete, measurable metrics and incentives to innovation?

M. Conforti: Government procurement officers have the difficult job of balancing price with the overall value of a given proposal. Many of the evaluation criteria can be based on objective data, such as the company's product and service performance in similarly situated jurisdictions. However, there needs to be a certain degree of subjectivity and flexibility to try new and promising solutions. Contracts can be constructed in such a way that the achievement of stretch goals result in an incremental financial benefit to the vendor. In this construct, the lottery is only absorbing incremental cost in the event the innovation delivers significant benefits. In fact, the cost of innovation to the lottery likely represents only a small fraction of the financial benefits that the innovation will deliver to good causes.

Lottery's high margins mean that a large portion of every increase in sales goes to the

bottom line. So, innovation that drives sales growth would have an extremely high ROI.

M. Conforti: Many lotteries struggle with the challenge of how to get the most value from their business partners. Unfortunately, the challenge is often exacerbated by significant constraints on how a government can run its procurement process. For example, regulations may dictate the weighting of price versus other equally important evaluation criteria. However, if the lottery has some level of discretion in how it procures goods and services, then the RFP should encourage prospective bidders to describe their growth strategy in detail—citing the expected impact of each discrete component of their offer including all options they are invited to propose.

What is the basis for a qualitative assessment of the bids then?

M. Conforti: A qualified vendor should have a wealth of experience supported by detailed customer case studies that prove the impact of its claims. A qualitative assessment might assign value to the number of similarly sized customers supplied by the vendor; the percentage increase in each of its customer's return to good

causes; the number of new games/play styles in its library, and; the number of new games the vendor commits to developing during the term of the contract.

I hear two contradictory mantras. One is that lotteries should apply best practices as they are revealed in success strategies (new and innovative promotions and games, new retail optimization strategies, etc.). The other is that success strategies that work in one market don't necessarily work in another because individual markets, business, gaming and pop cultures and sensibilities are uniquely local. So how or why should best practices be applied?

M. Conforti: It's not an either/or scenario. Understanding the cultural nuances of a given jurisdiction is necessary to design the most appealing product portfolio, which is why it is very important to conduct extensive testing before launching any game. There can be significant differences in player profiles even within the same jurisdiction. Take China for example—players from Yunnan Province in the south, Heilongjiang in the far north, and Sichuan in the central region respond quite differently to the same game.

However, despite the importance of tailoring content to cultural nuances, it is very clear that global best practices are still critically important in establishing a strong foundation of high performing games. In China, more than 50 percent of the games are 'shelf games' that are continually reprinted due to nationwide demand. The remaining games are constantly refreshed to reflect both global best practices and a localized look and appeal.

It is important that lotteries continue to push for innovation and work creatively with their vendors to constantly evolve their business model to unlock the full potential of their market.

What are some examples of innovation in the lottery owner-management structure lotteries that have the potential to drive performance and results?

M. Conforti: A good example of a jurisdiction re-evaluating the approach to its

core business can be found with CAIXA Economica Federal in Brazil. Instant game sales in Brazil were so low that the CAIXA decided to discontinue the business. Instead of giving up on the product category, they decided to revise the supervising regulations to completely reinvent their instant game business model in ways that should dramatically increase sales well above historic norms. Not only is CAIXA increasing prize-payout to well over 60 percent, they have decided to sell a controlling interest in a newly formed instant ticket subsidiary (CAIXA Instantanea), effectively creating a partnership with a qualified entity that should unlock the enormous untapped potential of the Brazilian market while demonstrating the benefits of a public-private partnership.

Globally, the games-of-chance marketplace is becoming more fluid and dynamic. The internet makes more games available to everyone, everywhere. Casinos are within easy driving distance for

most players. Lottery players are exposed to more game entertainment options than ever, and governments are slowly beginning to reduce barriers-to-entry to products that have historically been reserved as part of the lotteries' exclusive domain. These trends represent challenges for government-sponsored lotteries. However, the lottery industry is ideally suited to grow in a more competitive environment, particularly if it embraces innovation and works collaboratively with its vendors. For example, lotteries have the advantage of nearly universal name recognition: a favorable brand, a reputation of integrity, nearly ubiquitously deployed points of sale, entertaining products, and the ability to generate very exciting prizes. The lotteries that thrive in an increasing deregulated marketplace are those most willing to take chances, focus on all manner of retail distribution, and truly engage with their legacy consumers while reaching out to the next generation of players. ■

