



Matson



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A theme I have been focusing on is Integration. Promotional strategies integrating land-based retail distribution with the Internet; players becoming more open to trying new games; markets absorbing an influx of more gaming options. Game portfolios, channel mix, and promotional strategies are getting larger and more complicated. The potential to increase sales by integrating products, promotions, and market segments is enhanced and that spells opportunity for the lottery operators.

Paul Jason, Public Gaming: *Instant make up a much higher percentage of lottery sales in the United States than in other parts of the world. Why is that? How does the Instant market in Europe differ from the United States?*

Kathy Matson: In most cases, payout percentage in the EMEA region is much lower than it is in the United States. And the number of Instant games that are launched in a year is typically much lower in Europe compared to the average in the United States. Lotteries in the U.S. launch an average of close to 50 games a year. In Europe it's more like 24 games a year and as low as 9 in some markets.

But some countries are doing more. Italy has had tremendous success with their Instant product, re-launching games with a higher payout and refreshed branding. Other important variables, like distribution channels, were also introduced at the right time and place in Italy. They focused on achieving high objectives, made the necessary changes, and exceeded everyone's expectations.

Jacqueline Deragon: Most countries in Europe run the same games for years. Some of the games are literally ten, twenty, even thirty years old. The players enjoy playing familiar games that they know and like, so the operators don't change them. There's cultural difference from the U.S. where the consumer has been trained to expect a constant supply of new and different games. The fact is, though, it really isn't just one or two things that produces a successful Instant program. There are hundreds of different variables. That's why a Best Practices approach is so important.

Analyzing the ways in which these different variables work together, and then integrating that analysis with the gaming culture, distribution infrastructure, regulatory framework, etc. specific to the jurisdiction, all of that goes into the business of producing sales in the Instants category. But I would say that there is lots of room for growing Instants in many of the European markets.

Do we have any read on whether the results would be improved in Europe if they increased the number and frequency of new product launches?

Will Higlin: That's hard to measure without being able to isolate the different factors. Payout percentage, for instance, would likely have more impact on sales than accelerated product launches. The big revenue driver in the United States has been the higher price points that have been implemented over the past few years. \$50 tickets are now available in some markets, and \$20 and \$30 tickets are becoming increasingly more common. Instants have a higher prize payout percentage than lotto which is noticed by both players and retailers, ultimately helping to drive sales.

J. Deragon: Higher price points have not worked well in Europe, possibly because the positioning of the price point and prize payouts has not always been optimal. But it's changing. Italy, the UK, and France are experiencing great results with higher price points and it is creating a great impact on sales as these price points are bringing in new players. Everyone recognizes that the markets need to be pushed towards higher price points – it's just a matter of time and available funds.

Why couldn't GPC produce the whole marketing, advertising, and promotional campaign for your lottery clients? Your in-house capabilities and resources are far superior to those of advertising agencies. And your ability to augment your capabilities with more creative would be far more do-able than the ability of advertising agencies to replicate your knowledge and experience. Why don't lotteries just have you do everything that ad agencies do, or at least do a much bigger chunk of it than you're doing now?

J. Deragon: That is an interesting question. With our licensed products, we are offering "turnkey" solutions for the lottery that include a much more comprehensive and integrated approach towards marketing, advertising, and promotion. Our Aerosmith program is a good example of bundling a larger suite of services. TV, radio, and prints

ads, along with POS materials were all prepared and made available to the lotteries at a much lower cost than what would have been incurred if they'd produced these items themselves. The fact that lotteries all have different approaches and different regulatory laws and guidelines for marketing communication efforts makes it hard to produce a 'one size fits all' package for advertising and POS. But the benefits in terms of costs savings and the quality of the finished product and campaigns, all made it very worthwhile. I think this is a very good start towards what you described.

Will Higlin: Another benefit of this turnkey approach to the Aerosmith campaign is the approval process. There are so many licensing requirements that need to be approved with the brand licensor. We're now able to do all of that more expeditiously than ad agencies could possibly do and offer lotteries pre-approved materials. Our customers are looking for more marketing resources and may want their suppliers to provide more turnkey solutions.

I noticed GTECH G2 recently won contracts to support the Austrian Lotteries and Loto-Quebec's Internet gaming ventures. Aren't games and promotions being implemented across product categories and channels in a way that requires someone to figure out how to integrate them? Does the ability of GTECH Printing to collaborate with GTECH G2 facilitate that process of integration?

J. Deragon: We are constantly incorporating the different business units within GTECH, and that does give us the ability to produce a more integrated approach. Operationally, we can create a synergistic approach to managing different games and channels together, building integrated sales, marketing, and distributional efficiencies and cross-promotions that increase sales. GTECH Printing's Instants programs can easily integrate with G2's Internet platform and other New Media services to create a powerful synergy for new lottery or promotional games.

W. Higlin: Another cornerstone to our corporate strategy is our respect for the fact that each lottery is different and we are focused on building a customized approach to helping each lottery accomplish its objectives. We appreciate that each lottery understands its business and its priorities better than we do. We bring to bear a wealth of research and customer information gleaned from our operations all over the world. But this information is useful to inform the process, never to dictate what should be done based on what has

worked or has not worked in other jurisdictions. We take our Customer First approach throughout every division of GTECH. Our primary mission is to listen to and understand our customers' needs.

K. Matson: Lotteries are all unique and they need their suppliers to understand their individual needs. Our understanding is informed by our knowledge of how the industry works in other markets and other jurisdictions. We have tremendous research capabilities so we can help our clients with Best Practice solutions and a better understanding of how other jurisdictions have overcome similar obstacles or changed strategies successfully. But in the end, we need to customize our approach with each of our customers as no two lotteries are the same.

Are there mechanisms to integrate the research and customer data that the different GTECH divisions are accumulating?

K. Matson: One of GPC's primary tasks is to integrate customer information and data from all of the different GTECH divisions and turn it into an analyses and framework that helps us to understand player's needs and wants, and how to drive sales in each product category. The industry is in the infancy stage of adopting an integrated approach that promotes all the different products through all the different media and channels. Understanding the player will enable us to provide the right mix of game content to our customers, whether they are instant, online, or Internet based games, with consistent and relevant marketing messages and POS. In gaming, the potential to enhance the overall player experience by leveraging what we know about their preferences is immense. We are selling entertainment and we are limited only by our imagination combined with the knowledge and acceptance of our customers.

By adopting a Customer First approach we utilize all of the resources within GTECH to ensure we're providing the best intelligence and actionable solutions for game planning and product positioning.

What about the willingness of lotteries to collect the information and the willingness of players to disclose personal information?

K. Matson: Each lottery has complete control over the process. They decide the kinds of questions to ask and sometimes they ultimately decide that they do not want to collect data on their customers at all. We appreciate

that it is a sensitive issue. We contend that collection of customer information can be done in ways that do not infringe on the privacy of the players; and that 100% security and confidentiality can be guaranteed. I am not aware of an issue either with a player or with a lottery over the manner in which data is collected or the ways that we can use the data to improve the products and service to the customer. That said, it is imperative that we always stay consistent with the lottery's agendas in every way, including the collection of customer information and marketing data.

Players have the option of giving us feedback on their likes and dislikes. The kind of information that is most useful to us right now does not require the player's identity to be revealed to us or the operator. We do not need to connect the information to the player for it to be an extremely useful tool that drives our game development and promotional strategies. The information about their behavior and preferences helps us to understand the markets in a broader context and enables us to improve our products and service, and it can do all that without the players disclosing their identity.

My generation shares personal information on a "need to know" basis. Facebook and Twitter reflect a completely different attitude towards sharing personal information. I read an article that explained why that this new culture of openness and transparency is not likely to change; the good news being that it will be easier to connect with the customer. The ability to build a more nuanced and intimate relationship will become a new customer expectation, won't it?

J. Deragon: I think that is true in Europe. There is more willingness to be open and share personal information today, with both Facebook and Twitter creating a culture in which everything is shared. I do think of it as a great opportunity for lotteries to build more proactive programs to engage the players in a dynamic and ongoing dialogue. And yes, it should create a more receptive climate for gathering customer data and market information.

K. Matson: I would say that is true in the U.S., Canada, and many other parts of the world as well. That attitude invites a more personal connection and will enable the operator to communicate with its customers in ways that will enhance the playing experience.

Second Chance Drawings, Players Clubs,

Loyalty Programs, and other new ways to connect with the customer generate a positive ROI in the short-term in the form of increased sales. These are also the things we need to do to position ourselves for a future that might include regulatory changes allowing more forms of Internet gaming. So I would think that lotteries should make sure the platforms that they invest in today will enable the different games and channels to be effectively integrated in the future.

K. Matson: Second Chance Drawings and Player's Clubs have really skyrocketed in the past few years. Many lotteries are taking a stair-step approach to building and connecting to their player base through the Internet. The beginning might be a Second Chance Drawing that simply has additional prizes for some small number of non-winning ticket numbers. That is an excellent way to get double exposure for the brand, deliver more value to the player, initiate an Internet relationship with the consumer, and hopefully stimulate sales.

The next stage might create a Players' Club and Loyalty Program in addition to the Second Chance Drawing. That would enable the operator to develop a dialogue and raise the level of interaction with the customer. The operator can email special promotions and the results of the drawing, create chat rooms for the players, and educate players about new games. The operator could also ask the customer to anonymously share demographic information, their likes and dislikes, etc.

The next step is for the operator to do all those things with an eye towards an end result that includes a bigger variety of Internet games. Even though it may not be happening next month or even next quarter, there is no reason why the operator could not integrate a long-term vision into these shorter-term initiatives like Second Chance Drawings. Having that longer-term objective gives shape and focus to the short-term initiatives. For instance, implementing non-money games that are played just for fun delivers great value to your player, engages your player in a more dynamic and interactive relationship, introduces the concept of extended-play games, and is a great way to promote the products and increase short-term sales. It's also a great way to position the Lottery's Players Club and website as the Internet destination for fun and games which is exactly where the next generation of gamers wants to be.

So, in terms of investment in systems, platforms, and IT infrastructure, the decisions of

how to allocate resources do not need to involve a trade-off between short-term profit and long-term positioning. Does the same hold true for the games and products themselves? How do you decide how much to focus on the next generation gamer as opposed to meeting the expectations of the core player?

W. Higlin: First, we always focus on meeting the expectations of the core player. That's who drives the revenue for now and for the foreseeable future. Engaging the interest of the next generation player isn't a project that is somehow separate and apart from the core player. Their preferences are not as far apart as you may think. For instance, it is a mistake to think that the core player is not on the Internet today. They are on the Internet and that's why Second Chance Drawings are so successful. Second Chance Drawings are being driven by the core player, as well as attracting new players. Promotions that include an Internet component appeal to core players just as much as they do to the next generation players. Second, it is mistake to say core players do not like the new and exciting innovative play styles that appeal to younger players. Yes, it's true that we need to make sure we continue to provide product to the core player that is more traditional and may not appeal as much to the next gen' player. But the core player is just as anxious as the next gen' player for fresh, exciting, and new games.

K. Matson: There needs to be careful consideration of all the different objectives. While it may appear that some of the objectives are not aligned, they really aren't in conflict. With a little creativity and open-mindedness, strategies can be created that accomplish everything without these trade-offs.

W. Higlin: Keep in mind that we do not need to convince twenty-somethings to buy lottery products. What we do need to do is make sure we meet their needs when they move into the target market segment a few years later. We don't want to be sanguine and think we don't need to innovate and evolve our products and promotions. We do need to accelerate the integration of the Internet and social media into our strategies. The twenty-somethings will turn into thirty-somethings, but they will still be on Facebook and Twitter and they will be expecting the same kind of game play experience that they grew up with. ♦