



Victor Duarte & Robin Drummond

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The variety of games that are readily accessible to almost everyone is exploding, as is the variety of media and channels of distribution. The player will want to easily navigate this new superstore of options, migrating from one game style to another and using the most sophisticated account management tools

to facilitate access to all the different gaming options. The technological infrastructure and central system server will be required to support a far more complex environment that manages customer relationships. The operator in this new gaming environment needs to enable all this to happen. These are positive trends for those operators positioning themselves now for the next generation of gaming enthusiast.

SPIELO and its affiliate, GTECH, are on the leading edge of this trend towards convergence of products, games, and distribution channels. Public Gaming visited with Victor Duarte and Robin Drummond of SPIELO at the G2E Las Vegas trade show to talk about the strategies and products that operators are implementing to meet the demands of this new gaming environment. We also talked about the different approaches taken by Sweden, Illinois, Italy, Oregon, the Canadian lotteries, and other jurisdictions.

Public Gaming: *SPIELO has had long-standing relationships with many lotteries that operate in highly regulated gaming environments. How have those relationships informed your research and development process?*

Robin Drummond: We've been very fortunate to have developed these relationships that contribute to our R & D. Most are focused on the lottery and VLT business. When you look at the trends in our industry, those relationships position us very well for the new jurisdictions coming on board. Svenska Spel in Sweden has been in the VLT business for decades, and is unquestionably one of the leaders in the industry. A lot of the trends that we see coming into the industry start in Europe, then migrate to Canada, and then migrate to the United States, to jurisdictions such as Oregon. So the fact that we've had that long-standing relationship with Svenska Spel and with customers in Canada like Atlantic Lottery Corporation and Loto Québec, and the other Canadian lotteries, helps to keep us on the leading edge in technology and games. Now we're starting to see more of the U.S. customers, like Illinois, follow Oregon's lead. SPIELO is in a unique position to help those new programs because of the relationship that we've built up in the lottery business over the course of the last 20 years.

Our customer-directed product development has taken place in three fundamental areas of the business. We credit our relationship with Svenska Spel for facilitating the development of our latest generation central system. The INTELLIGEN™

Central System has very well-developed and advanced value-added features that have never been seen in a central system before. These value-added features allow our customers to invest only in the functionality they need, and help customers manage their businesses and player bases more effectively, while introducing concepts like Responsible Gaming to the marketplace.

The second element of customer-directed development is the machine itself. As a result of cooperation with various lottery customers, the WinWave Vu™ and the prodiGi Vu™ cabinets were developed to meet and exceed the expectations of the government-sponsored market. These are innovative, value-driven cabinets incorporating the features and functionality that our customers want. They are easy to service, reliable, and do exactly what the lotteries need them to do, for as long as they're needed to do it. The replacement cycle is typically in the 7-to-10 year range, often in distributed networks that are difficult to reach and service, since they don't have dedicated onsite personnel. This is a very different situation from the traditional casino. It is imperative that you have a product that's robust, and that has long-standing capability to perform day after day.

Of course, the most important part of this picture, from a revenue-generating standpoint, is the games themselves – this is the third element. Bars and taverns are different from big casino floors. The player styles and preferences can be different as well. Our R & D team studies those

differences and creates content that appeals to each specific market. There are new ideas and new markets being created all the time. Community play and appealing to the players' desire for social interaction is becoming more important. Networking bars and taverns for progressive games, creating other games for players to compete with each other, or at least allow them to be dialed into the activity of the other players... these are some of the things we are working on to truly maximize the appeal of our games in each market. And we rely on the special relationship we have with our customers, the operators, to help us develop and produce the best products. This enables us to help new jurisdictions launch their programs and generate income as quickly and efficiently as possible.

So there is sort of a positive feedback cycle where the work you do for each jurisdiction drives your R & D process, and ultimately helps you be a better partner with all of your clients.

Victor Duarte: Exactly. The impetus for developing the INTELLIGEN Central System was Svenska Spel and their needs. We spent a lot of time listening to their needs, playing back to them what we thought we heard, and making sure that we were on the same page. And we didn't stop there. We actually took that information and went to all of our customers, such as Oregon, Atlantic Lottery Corporation, and Loto Québec, and validated those needs with them. Once we really understood the needs, we were

able to build products and functions that met those needs. So it becomes a self-fulfilling prophecy, or a positive feedback cycle, as you put it. We make sure we have heard our customers correctly. We then build the product to meet their needs. And when a new requirement comes up, either from a new jurisdiction or from an existing customer, we are in a great position to combine what we already know about the market with the new idea that we integrate into our knowledge base. Everyone benefits – especially new jurisdictions that are just starting out. Our depth of experience and knowledge in meeting the needs of markets all around the world enable us to help new operators launch their programs quickly, and with the right products.

It's sort of a unique thing, isn't it, to be the supplier to customers who are in essentially the same business, and yet they aren't competing. And so everyone can feel free to help each other succeed. And everyone benefits by helping you to produce a better product since that will contribute to their own success. Are there any obstacles to cooperation that I don't really see, or the fact that everyone is basically operating in different markets means that no, there are really minimal obstacles to full and open collaborative efforts?

V. Duarte: I really don't see obstacles. In fact, I see the opposite. I see the Canadian jurisdictions getting together with Oregon and Sweden to actually talk about how to move the industry forward, and getting suppliers to meet their needs as well. The jurisdictions then come back to us and tell us what they need collectively, and ask us what we can do to meet those needs. Not only is it not competitive, it's actually a very collaborative environment, and we help facilitate and participate in that.

R. Drummond: From a vendor's standpoint, this also reinforces your need to live up to all the commitments that you're making. These jurisdictions are all communicating with each other – some on a daily basis. Because the communication is so quick and so collaborative, what happens in one jurisdiction like Svenska Spel is immediately known by another, such as Oregon State Lottery, and what you do in Oregon is immediately understood by the Alberta Lottery, and so on. Of course, that can have both positive and negative implications. Our reputation is something that we value extremely highly. We realize that our performance is being evaluated every day, and those evaluations are shared among all of our customers in real time.

Convergence... Is there any reason why all different products can't be distributed through all different channels and games? Like using the VLT cabinet to sell lottery tickets?

R. Drummond: GTECH is well-positioned

to take advantage of the potential created by convergence of channels, products, and markets. There are four different parts of GTECH's business that are positioned to specialize in different areas of the gaming industry, but most importantly, they're positioned to build an integrated approach to the business. The players want the operator serve up these products in ways that support the kind of flexibility that young people in particular expect. We have the core online lotto business, the printed product business, the new media and sports betting business with G2, and of course we have the video lottery gaming and casino gaming business with SPIELO and ATRONIC. The operators want to be able to manage a more complex relationship with the player – one in which players easily migrate from one game type to another. The players want something similar. They want to be given the tools to manage their play across all of the different channels and games. The primary vehicle for doing that is the central system. The central system enables the kind of dynamic dialogue between operator and player, and provides the technological tools to manage a more complex set of distribution channels and wider variety of games. You need a system that provides a player account, so that if the player wins on a scratch ticket provided by printed products, they can use that scratch ticket money to go and play a VLT, and when they go home they can use their VLT winnings to play on the Internet, and then take that and purchase a PowerBall ticket. Their account allows them to manage their play across all four of those product lines. That would also facilitate doing things like playing PowerBall or Mega Millions on the VLT. These capabilities exist, and will become increasingly relevant. In the short-term, there also is the question of whether or not one wants the player to be able to migrate easily across all game types and channels. It raises questions about the effect convergence could have on time-on-device, for instance. In the short term, the operator will want to think carefully about how to introduce these capabilities, and make sure they are implemented in ways that contribute to revenue for their operation and satisfaction for their players. In the long-term, the young players will demand this kind of flexibility and will be quite capable of managing a wider variety of interests without being confused or distracted by the variety of options. We need to move now to build convergence into our systems to meet the needs of our players, because it is definitely the direction our players are going in.

I read that you just signed on with a distribution partner in Illinois. Are you required to partner with a local distributor to maintain and service the product?

R. Drummond: This is a new program in Ill-

inois, so they didn't want people parachuting in and taking advantage of the new program and becoming a distributor with no track record as an Illinois company. The requirement in Illinois is that the distributor has residency and that the company has been operating in the state of Illinois for four years or more. GTECH has been the provider to the Illinois Lottery for more than four years, so we could distribute our own product if we wanted to set up the infrastructure. We could be our own distributor because we do meet the residency requirements. However, an existing distributor has the advantage of pre-established relationships with the operators, as well as connections to those contacts and the places where the equipment is located all around the state. We decided that we would serve the customers best by partnering with AG&E, the subsidiary of Wells-Gardner, primarily because they have those relationships with the community that put them into a better position to deliver great service and support.

The VLT program is overseen by the Illinois Gaming Board. Are there any kinds of dotted-line connections between the Illinois Lottery and the Illinois Gaming Board? Does the State Lottery have anything at all to do with the VLT program?

R. Drummond: No. They are separate organizations. However, they are both obviously agencies of the State of Illinois.

Will the Illinois program be a performance-based system allowing the best machines to replace the under-performers, like it is for many of the state lotteries?

V. Duarte: Illinois would operate in a very similar fashion, except that the individual operators are making the decisions, not the lottery. In states like Oregon, Rhode Island, New York, Delaware, and in jurisdictions in Canada, the lotteries make the decisions. Commercial partners win or lose machines on a regular basis through a structured process. However, in Illinois, the operators are going to be making the decision about what machines they'll buy. And they'll be making that decision presumably on the basis of how those machines are performing. The speed with which they choose to replace those machines will be very dynamic. The business model they have for their five machines, 500 machines, or 1,000 machines – depending on how large the operator is – is one they can adjust on a daily basis. It is a very entrepreneurial situation, with each operator deciding every day, "Do I want to stick with the same machines that I have? Are they already written off? And even if they aren't already written off and paid for, is there a benefit to switching to a higher-performing machine anyway? What can I do today to maximize the profitability of my business plan?" Those decisions will be made by the individual operators. ♦