

In spite of the economic slowdown, the distributed gaming environment has been growing. The consensus seems to be that there will always be a market for “destination casino-resorts”. But governments looking to turn gray market gaming into regulated and taxed economies, and raise money for public service causes, are implementing a model which brings gaming out to where the customer lives. “Distributing” the games out to a large number of locations spread over a large geography is opening up entirely new markets. The player benefits from the convenience of being able to play in an honest, safe and secure environment. The general public benefits for having its government regulate and tax this economic activity. How is serving this market different than large venue casinos? Indeed, how has distributed gaming become the catalyst for opening up a host of new technologies and processes that will benefit everyone?

Victor Duarte

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Paul Jason, Public Gaming: *Conceptually, we could think of the “Distributed model” as making the product more available to the consumer. In effect, it reduces distribution costs, albeit the costs borne by the customer in the form of travel to the destination resorts to gamble. All products go through basic life-cycle changes, one of which is the reduction of costs and the making it more widely accessible to the customer. To what extent should this be thought of as the natural next step in the evolution of the product we call ‘gaming’? And if that is the case, will the destination-resort model wither on the vine as the customer enjoys the benefits of easy access delivered by the distributed model?*

Victor Duarte: I don’t know if those classical supply-demand, life-cycle dynamics will play out in this case. What you describe is driven by markets and economics. While there is certainly a powerful component of traditional market economics that shapes our industry, there are many other factors that influence the way the gaming industry evolves. Gaming and gambling are highly regulated industries, and these regulations have a big impact on how it evolves. For instance, the reason the distributed model is expanding at this point in time is not because the demand wasn’t there sooner, right? It’s because the shapers of public policy are in some cases deciding that this is the right time to implement this model. Likewise, it is probably a mistake to think that the destination-resort, large venue model will be displaced by the distributed model. First, the resort model does deliver a different set of customer benefits and so there will continue to be a demand for that in addition to the local venues of the distributed model. Second, public policy may favor large-venue resorts in some cases, perhaps in many cases. For those two reasons, I don’t think you’ll see a displacement of resort-destinations by the distributed venue model. They’re two different products, serving two different markets and two different public policy objectives, and they’ll co-exist.

I would think that the vendor core competencies would be slightly different for large

venues versus distributed venues. Mainly, the distributed venue would rely far more on central server, networking, and communications capabilities than is required in large venue applications. Yet you win contracts in large venue applications like Maryland and Quebec as well as distributed venues like Italy and Oregon.

V. Duarte: Sometimes our core competencies seem to eclipse the fact that we have other strengths. As you point out, networking communications, a well-tested central server and client terminal system are key to the distributed gaming market, and we are recognized for being the leader in those areas.

Gaming, though, is also about delivering games that the players like to play. That seems simple and obvious, but think about the difference between the distributed venue and the typical casino. There's a big difference in primary buyer motivation. The distributed venue is mostly about fun and convenience. The stakes and prize payouts are lower. Our focus on this market has driven our R & D and game development people to create a gaming experience that appeals to the player in spite of a less compelling prize payout percentage. This was done to make up for the lower payouts typically found in the VLT distributed market venue. Of course, players in higher payout venues also enjoy a more entertaining gaming experience. Even though their dominant buying motive may be more about winning money, they enjoy an entertaining game experience just as much as anyone. We are finding that the knowledge of player behavior and the skill sets we acquired to appeal on this entertainment level are serving us very well with all players and all markets. Too, we think the trend is towards even more emphasis on the fun and entertaining parts of the gaming experience. The thrill of winning will always be an important driver, but the 'next gen' gamer really wants it all. They're expecting the games to be as entertaining as the video games they grew up with.

Another strength is that we have a long history – 20 years – of working in the highly regulated government gaming sector. Spielo started out with the mission of serving this market, not the casino gambling

market. So our products, capabilities, and entire corporate culture are all really tied in with the government gaming sector like nobody else's is. The industry as a whole recognizes that, and our customers have come to know and trust our ability to meet the needs of lotteries and the highly regulated sector in general.

Your terminals would be more of the thin client variety, wouldn't they? As opposed to the cabinets that house everything within the machine itself?

V. Duarte: We do both. And actually, most of the machines in the Spielo portfolio are the traditional thick client machines, with all the game logic and game math based inside the machine. Italy is a market, however, where it is somewhat thin. Many functions, like the game logic and math, are delivered by the central server, not the game machine itself. It's called a 'central determinant' system because the wagering outcome is generated on the host system and displayed on the gaming machine. We do both, depending on the public policy, regulatory, and market needs. Sometimes the operator has an objective that's better accomplished with more functionality residing in the cabinet. Some data-rich games require that. Or maybe the operator wants the venue to have some flexibility to manage the game content available on the individual terminal. If that's what the operator wants, and if the regulatory framework allows it, then we're certainly capable of delivering that. Italy, for instance, does not want that. They want the vast majority of control to be executed at the central server level. They feel that method yields the highest level of integrity and security. Too, the technology to support really great games in a thin client platform has become quite advanced, so you're not sacrificing an enhanced play experience in order to host all game content at the central server level.

I would think that the future of CRM (customer relationship management) in our industry would include integrating the many different games, channels, media, promotions, etc. to create a more cohesive, consistent face to the customer. Too many options with different

user interfaces and protocols will lengthen the players' learning curve and impair their ability to absorb more product. Wouldn't the customer who plays a game on a VLT at the bar want to see the same game with familiar rules of play and interaction on their computer when they get home and jump online?

V. Duarte: Exactly. The customer is going to want their user interface to be user-friendly. That means they want it to be simplified, familiar, and consistent. They'll want the provider of gaming entertainment to make it easy for them to access the vast variety of options that will become available in the coming years. The players don't want to be forced to learn the protocols and operating instructions and user interfaces of all the different cell phones and computers, right? Likewise, they'll want their game provider to make it easy for them to access and play the games they like. Lotteries are in the ideal position to deliver this unified, simplified user experience. The direct connection they have to the largest pool of customers in the gaming industry gives them an almost unique ability to create this 'anytime, anywhere' gaming experience.

We are working with our affiliate companies, GTECH, GTECH G2 and GTECH Printing, to help our clients create that player relationship. We're working together to help lottery operators integrate the games and channels so that the player will be on familiar ground when they switch from the VLT that they were just playing at the nightclub over to the Internet-accessed site on their home computer. We can build user interfaces and protocols that make it easier for the player to try new games and even discover new channels. Player cards and loyalty programs will be a key part of any good CRM strategy. You can see this being done now with second chance drawings in lottery. The lottery player who buys tickets at the store is invited to enter a second-chance drawing online. This eases the player into a new channel with a product and game provider they know, trust, and like. We feel that the customer wants the operator to create a broad comfort zone that includes all varieties of games and channels, and so we want to help the operator do that. We feel that creating this ho-

listic relationship with the player – that is, integrating the games, channels, and media – is the Holy Grail of gaming. Lotteries are truly in a better position than anyone to achieve this.

Delivering on this promise of integration is key to Lottomatica's long-term strategy. GTECH, Spielo, GTECH G2, GTECH Printing are all working to achieve it, and you'll see some breakthrough initiatives within the next two years. In fact, this broad portfolio of capabilities has been brought together under the Lottomatica umbrella for the purpose of achieving it.

To what extent is the Italian model going to be emulated in other jurisdictions?

V. Duarte: I hope to see this model in other jurisdictions, since Spielo has fared so well under the most demanding expectations represented in the Italian model. Italy has certainly done many things worth emulating. But all jurisdictions are different – they each comprise different cultures, different gaming legacies, and a different socio-political fabric. So the regulatory frameworks will always be different. Italy, though, took all of their different objectives into consideration, assessed the different options for accomplishing those objectives, then set forth a system of rules and regulations that were rigorous, even uncompromising, but also straightforward. Those high standards, combined with a complex gaming environment, tested the commercial community's ability to deliver. I'm very proud of the way our team met the challenge and truly delivered on every front. And Italy has ended up with one of the most ambitious and sophisticated gaming models in the world. Spielo was the first solution provider, launching before anyone else, and to date connecting more facilities and games than anybody else. And it's all performing magnificently.

This is a truly distributed market on a more massive scale than has ever been attempted before, correct? And all that on an accelerated timetable.

V. Duarte: It definitely brought out the best in everyone who was able to meet the established standards. And yes, it is a

massive implementation. But most importantly, it is highly regulated. The operators and their commercial partners are required to perform at such a high standard, that we're all learning and taking away a whole new level of competencies from our experience in Italy. It's a combination of a gaming infrastructure that meets the needs of the people; complies with the most vigorous standards for security and integrity; employs innovations that virtually guarantee that tax obligations are always met and that fraud is eliminated; and minimizes or even eliminates gray markets of all stripes. These accomplishments reflect the amazing vision of the Italian regulators and the resourcefulness of their commercial partners. Of course, Italy is not the only regulatory framework that warrants praise. Sweden, Atlantic Lottery, Quebec, Oregon, and many others are all setting standards in their own way, and serve as great examples for other jurisdictions exploring their options for regulatory frameworks.

Player cards would seem to me to be such a key part of any progressive customer relationship management (CRM) program. How reluctant are the players to disclose their identity and are their ways to overcome that reluctance?

V. Duarte: There are many different kinds of player club programs, and some do not require the players' identities to be disclosed to anyone, including the operator. So there are systems that can meet the needs of players who are more reticent about revealing personal information. A player can be given an account number that could, for instance, allow points to be credited to the account for frequent play, or could allow the operator to credit the account with different kinds of promotional incentives or awards or bonusing, or that could enable the operator to collect data that informs game development and responsible gaming programs, and much more. There is much that Player Clubs and i.d. cards can do to engage player loyalty, increase player satisfaction, provide marketing data, all without sacrificing player anonymity.

And the great thing is that young adults totally understand that, don't they? They're not

as skeptical about the ability of technology to work properly to protect their interests.

V. Duarte: Young people can have strong opinions about what they consider appropriate behavior for businesses. Their sense of who they are and how they manage different sets of relationships can also be different than their elders. They typically share much more about themselves with a much broader circle of friends, and derive their sense of self from the social networks they develop.

This notion of where an individual draws a line between personal and public information differs not just by age, but also by culture. This has actually been an object of much study for us, and we've found very interesting differences in attitudes towards privacy across different cultures. Of course, attitudes about so many things vary, and that's why researching information about player preferences in individual jurisdictions is so important. In the end, player i.d. cards are a valuable tool to help the operator create a better overall player and gaming experience, as long as the decision to implement the cards is based on sound market and player research.

What is the most critical action an operator could take to "future-proof" oneself?

V. Duarte: The first thing would be to choose your commercial partner wisely. You want a partner that has extensive experience developing technology tailored specifically to your gaming model. But that's obvious. Another thing to do would be to ensure you invest in technology that communicates using open standards interfaces, and that is able to integrate new innovations, new game content, and evolve with your needs. The Gaming Standards Association (GSA) champions a system of protocols that enable interoperability in game to systems and system to system processes. Spielo has worked extensively with GSA to promote the value of open standards for distributed VLT operators, and we've developed protocol extensions that meet the distributed VLT market's needs. ♦