

Erik Dyson

Senior Vice President,
Latin America and Caribbean
GTECH Corporation



PGRI Introduction: I posed a straightforward challenge to Erik Dyson. How can we expand the markets and increase sales in Latin American and Caribbean lotteries? Part of the answer is to be flexible to adapt to and take full advantage of the unique circumstances and opportunities of each individual micro-market. The other part of Erik's answer, thankfully, is to provide lots of detailed examples that illustrate how different solutions have produced some truly great outcomes.

PGRI: *Can you give an overview of the Latin America and Caribbean markets?*

Erik Dyson: While I have not had the experience to work in other lottery markets around the world, what has struck me most (in my five years working in this Region) is that it is in fact a very diverse part of the world that must be carefully analyzed country by country. Starting from the highest level, Latin America and the Caribbean have very little in common with regard to culture, language, and consumer behavior patterns – so they must be addressed in different ways. For example, while we group them together (for business management reasons) we actively work to segment these two very distinct markets with local expertise, understanding, and oversight.

Taking this down to the country level, we also have repeatedly found (in our 28 years working in this part of the world) that great differences exist between countries that are partly the result of the historic development of each country, current sources of economic wealth, geographic location, size and influence of indigenous groups, etc. – so there is truly no “one size fits all” approach that leads to long-term success. What is popular in the Dominican Republic does not necessarily mean it will be popular in Barbados.

Even within countries (regardless of size), we also have found very interesting regional and local variances that drive buy-

ing behavior and preferences. For example, in Mexico, our partner (Pronosticos para la Asistencia Publica) has a very successful daily fixed odds number game, Tris, that sells disproportionately in the southern portions of the country. This is similar to the experience we have seen in other Caribbean countries. And it is different than what we see in the rest of Mexico – that Lotto jackpot games are the most popular.

Finally, our customers span the full spectrum of business models from product sale customers (as we have in Argentina) to facility management operations (which include Jamaica, Trinidad and Tobago, Chile, Mexico, and the Dominican Republic) to outsourced operator contracts (as we have in Colombia and throughout a number of Caribbean islands). Each model has been developed, based upon the local environment and situation, and clearly requires different skillsets and customer engagement strategies.

While we start at the macro level, we then quickly have to work with our customers to drill down to the local level (taking into account the business model) to ensure we are addressing the products to the customer's local preferences and desires.

What are some of the most important trends in Latin America and the Caribbean with respect to the game portfolios?

E. Dyson: As has been widely discussed, lotteries today face the reality that very little

new on-line content has been recently developed to introduce into markets and deliver material growth. With that said, our customers have diligently looked at their game portfolios and made seemingly small changes that have delivered fantastic results.

Our customer in Jamaica, Supreme Ventures Limited, has been at the forefront of engaging their players in order to understand what they want and then coming back with game innovations that are truly appreciated. For example, their core game “Cash Pot” (a one digit fixed payout game), was being drawn twice per day and players expressed a desire to have more frequent draws to fit their changing lifestyles. A third daily draw was introduced which saw a 16.5% increase in sales. Six years later, a fourth draw was introduced that resulted in an additional 10% increase and these increases have been sustained. While not revolutionary, this evolutionary approach to the base business has yielded great results for the lottery and the government.

Another example is our customer, the lottery National Lotteries Control Board in Trinidad and Tobago, which recently made modifications to their popular Pick 2 game that has resulted in sales increases in excess of 43%. They modified the base price, top prize, and subsidiary prizes – to address player comments – and the response has been truly overwhelming.

With regard to instant tickets, I would

point to the example of the introduction of the \$10 price point in the Caribbean jurisdictions that make up the Leeward Islands Lottery Company (which are owned and operated by GTECH). Conventional wisdom had dictated that high price point games were not possible outside of the U.S. and Europe – yet when we introduced this price point we saw sales increase by an overall average of 15% and now this price point makes up 18% of the overall portfolio. This has yet again proven true in Trinidad where we had previously stayed away from higher price point games (the highest was TT\$20). In 2012, we introduced a TT\$50 price point game which resulted in Instants sales increasing by 41%.

These are just a few examples where we have worked with our customers to understand the true customer wants and then developed thoughtful strategies to successfully grow the business. While we have made great progress, I feel that the opportunity still exists to further refine and improve on-line and instant portfolios to benefit all stakeholders.

With fewer retailers per capita in the emerging Latin American and Caribbean market, than in other markets, should lotteries increase the number of land-based retailers?

E. Dyson: While there is always room to grow the number of retailers, I am convinced that retail optimization is where the greatest return exists for our customers. What has intrigued me, as I travel around the different jurisdictions to visit with retailers, is that no retail trade style is guaranteed to be a success. Our best retailers range from dedicated lottery shops (in Argentina) to multi-service kiosks (in Colombia) to “mom and pop shops” in Trinidad and Tobago – in fact, our best retailer in Mexico is a shoe store!

I recently visited some small towns, near the north coast of Jamaica, and saw retailers that average sales greater than \$10,000/week – yet they were little more than small kiosks. The reason they were successful, however, is that the agents truly saw this as their business and actively delivered customer service to the players, day in and day out.

I don't believe the answer is to just put out more terminals to get to some financial metric, but to clearly develop flexible models and explain the value proposition to the specific retail trade style that is being approached. For instance, the conversation with an individual entrepreneur is completely different from the conversation with the manager of a hypermarket. In Colombia, we now have over 800 small stands (at

the entrance to major grocery stores) generating great sales because we have agreed to manage this, on behalf of the store, and take away the operational issues for them.

Also, looking more closely at geographic distribution and consumer traffic patterns is key to the success – we can have two retailers next to each other (with very different customer bases) that can be successful. On the other hand, small towns that may not be able to support sales for a lottery terminal can be viable once we overlay other services (bill payment or cell phone top-ups) to the product offering to achieve wide geographic coverage. For example, we have worked closely with our lottery customers in Chile, Colombia, Jamaica, Trinidad and Tobago, and Barbados to offer cell phone top-ups, over the lottery terminal, to offer as an additional product to retailers and thus make more locations viable.

This type of creative and flexible approach is where we focus most of our time and energy, as we discuss with customers how to maximize their retail networks.

How can Latin America and the Caribbean leapfrog a generation of transaction-processing and/or communications technology where there is not existing land-based infrastructure?

E. Dyson: Interestingly, many countries in the Region were the first to enthusiastically embrace technologies that addressed their needs, even though they were considered “cutting edge” at the time. At first blush, the fact that these markets embraced technological innovation may seem surprising. But when one understands that the legacy communications systems in place did not meet the needs, this is actually completely logical. For example, we have pioneered the use of GPRS cellular technologies in a number of countries (Mexico, Dominican Republic, Chile, Jamaica, Trinidad and Tobago, etc.) that leverages the existing cellular networks. This has allowed us to deploy terminals in far wider geographic footprints, at a reasonable cost, while still ensuring levels of service that our customers require. Given this willingness to embrace innovation, I am confident that the lotteries will continue to welcome creative solutions that allow them to expand their presence in cost effective yet reliable ways.

What is the timeline for adoption of internet and mobile technologies in Latin America and the Caribbean? Are there strategies that might accelerate the rate of adoption?

E. Dyson: Mobile phone penetration exceeds 100% in most countries, yet the predominant method of payment is on a prepaid basis (vs. postpaid models common in other parts of the world). Given this, the migration to cell-phones (for lottery products) continues to be slow and I do not foresee that changing in the short term.

Internet penetration, however, is quickly growing and this seems to be a more dynamic area where our customers are turning their attention. In Chile, our customer (Polla Chilena) has been at the forefront of introducing their products - today they offer a complete suite of on-line games, electronic instants, sports betting, and social games via the Internet. Even with constraints on prize payout, this approach has helped to ensure that they exploit this developing distribution channel as a first mover. This is the model we are seeing others exploring and believe will continue to grow and expand in the coming years.

In Latin America and the Caribbean, what are the obstacles to growth and what are some possible solutions, what are the biggest opportunities and what is needed to capitalize on them?

E. Dyson: The biggest obstacles we face, as we look at growth, also are the biggest opportunities. By that, I mean that many countries still have regulatory structures that pre-date electronic lotteries and most certainly never contemplated distribution channels like the Internet or cellular phones. For example, our newest customer (La Junta de Proteccion Social in Costa Rica), had to have legislation enacted to allow them to change fundamental aspects of their games (payout, distribution of prizes, etc.) in order to have the ability to launch an international bid for a provider of services for their new electronic lottery. This process took many years and during this time they have not been able to capitalize upon this proven segment of the market to generate additional revenues to fund good causes.

Many other jurisdictions in Central America and the Caribbean face this challenge and it takes a concerted effort, by government and other stakeholders, to make the necessary legislative changes to allow them to enter the electronic lottery market. What is most unfortunate is that when no government regulated provider is operating in the lottery space, the market is often filled by illegal operators who pay no taxes, who are not concerned about player welfare, and do not contribute to good causes. ♦