



## Alan Eland

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**PGRI Introduction:** When we look at year-over-year growth rates for lotteries in North America, the difference between the high-growth lotteries and low-growth lotteries does not seem to be very big. The cumulative effect, though, adds up to be quite significant.

The difference in levels of market penetration varies widely. Removing the skewing variable of VLT revenues, sales per capita range from below \$100 per cap (18 or 19 lotteries in that category) to over \$200 per cap (13 or 14 lotteries in that category). Six lotteries have a market penetration of over \$290 per cap. There is even a wide difference between lotteries that offer the exact same portfolio of products, with some lotteries having literally twice the sales per cap as others that sell the same range of products. It should be acknowledged that in some cases the lower sales per cap may be a public policy choice. But I would think that at least in some cases, this variance in market penetration would represent a huge potential to increase sales and funding to Good Causes. This issue inspired a conversation with Alan Eland in which we explore the drivers of growth and the application of the Player-Centric model. The Player-Centric model provides a blueprint for migrating from what is essentially a transactiondriven business, i.e., selling the “hope and dream,” toward a relationship-driven business based on delivering a genuinely engaging game-playing experience.



*Paul Jason, Public Gaming: By most conventional standards, the lottery industry is in the mature stage of its life cycle. And yet GTECH seems to be doubling down on the prospects for growth, the kind of investment strategy that would be more reflective of being in the earlier stages of the lifecycle. How do you see the traditional products getting back into high single-digit growth, and what factors will drive that growth?*

**Alan Eland:** Let me start by saying that we view the opportunity to work with our customers on growth potential as having to be earned. In my role as COO of North America, my priority is to first ensure that GTECH delivers on its commitments with the highest levels of service. And only when we exceed customer expectations on the quality of products and services that we provide do we have the privilege of working with them on things like sales growth initiatives. I think of that as being the foundation upon which we can enable our lottery customers to achieve what-

ever objectives they set for themselves.

I absolutely see that there's potential for traditional lottery products, online and instant, to produce significant growth in both the near and the long term. Today, there are lotteries that are experiencing very strong growth: high single digits or even double digits in some cases. And most interesting, the high growth is occurring in some of the more mature lotteries. I am talking about organic growth within the traditional products. Now, some of the growth is partly driven by legislative changes that give a lottery more control over things like prize payout percentages. But there are other states that are experiencing similar growth without such regulatory changes. So, higher growth rates are being achieved.

From a business management point of view, that raises two simple questions: What are these lotteries doing differently, and can this be replicated in other jurisdictions? By this I don't simply mean, can we transfer best prac-

tices from one state to another. Each lottery is different and faces its own challenges and opportunities for growth. The key to seizing on these opportunities is to first understand exactly what is happening inside the respective jurisdiction. It starts with analyzing the data and transforming it into information that can be shared across the entire lottery organization. That information enables us to develop knowledge about what is happening across the business and out in the field. This knowledge can then be used specifically to develop insightful strategies to grow sales and profits based on unique opportunities identified within each individual jurisdiction. The drivers in each jurisdiction may be different, but the underlying principles for how you identify and develop executable strategies based on those insights are consistent across any jurisdiction.

*You make it sound easy.*

**A. Eland:** It's not easy, but it is, in fact,

mostly a matter of execution. We talk a lot about innovation and accelerating the rate of change; however, much of the growth can be accomplished without any high-risk innovation or change with low visibility of the future outcomes. Without doing any of that, we can first just do what many successful lotteries have already done and have demonstrated to produce desired results. I would submit that we are halfway there if we can reduce this challenge to a simple matter of executing on a well-conceived plan, which is based on data and information unique to each jurisdiction that can be used to identify specific opportunities that will engage the player.

There is another basis for optimism about the prospects for growth in the U.S. lottery markets. The last couple of years have been uniquely productive with respect to collaboration between lotteries and vendors. First, there was the breakthrough “cross-sell” initiative that enables all lotteries to sell both Powerball and Mega Millions. Then in June, the lotteries approved the increase of the price for Powerball tickets to \$2. This was a vital step toward setting the stage for more progress and collaboration. The games need to be better differentiated in order to allow for further expansion of the market and introduction of more products that will appeal to a wider variety of player segments. It’s incredibly exciting to go through this period of time, where collaboration enables us to increase the value that all lotteries can bring to their players. The end result will be increased sales for the lotteries and increased funding for Good Causes.

But still, there remains lots of untapped potential. What can lotteries do to improve performance and increase sales?

**A. Eland:** We divide the growth drivers into four primary categories. The first is communication, and that includes the distinctive positioning of the lottery and the value of the brand. Positive brand value with a high public awareness translates directly into sales growth. Next is product innovation. Innovation needs to be well-conceived and focused in order to minimize risk and maximize impact. For instance, instant ticket growth is not just about prize payouts, but the optimal mix of price points, prize structure design, distribution of prizes and games, and launch frequency, along with a host of other variables that all contribute toward a product plan that produces sustainable growth. The third area is distribution. We’ve talked about this for years, and the lottery industry is now on the cusp of getting some of these initiatives off the ground. Whether we’re talking about drugstore chains or big box retailers, we need to be flexible with

how we meet these new retailer requirements to enable our products to be marketed through the retail locations where people shop. Supporting and strengthening our core retail network will always be vital and a primary source for growth. Augmenting the existing network with business models that will attract new chains and enable the industry to make lottery products more accessible to consumers will also be a key driver of growth for the future. The final area is modernization, in terms of having the technology and operational infrastructure that are needed to meet retailer and player demands efficiently – ensuring that we have optimal delivery systems, production and operation processes in place that will enable us to create the optimal consumer experience and increase the value that players get from our products.

*With respect to your third driver distribution, Massachusetts has the highest per cap' sales of traditional lottery products. Director Paul Sternburg explained that they think of their retailers as customers, and that the business of the Massachusetts Lottery is to help the retailers feel really good about their relationship with the Lottery and to help them achieve their business goals and make more money.*

**A. Eland:** I think Paul is absolutely correct in his view. The Massachusetts Lottery has the lowest retailer per capita in the country and what you just pointed out is that they

*“It’s incredibly exciting to go through this period of time where collaboration enables us to increase the value that all lotteries can bring to their players.”*

work hard to optimize the performance of each individual store. Massachusetts is a great example of a lottery that embraces high retailer density as an opportunity to make lottery products successful across all of the different store formats and ensure that lottery products work well within each “It’s incredibly exciting to go through this period of time where collaboration enables us to increase the value that all lotteries can bring to their players.” retailer’s unique environment. Actual execution involves a large number of moving parts that feed into the four pillars of growth that we discussed earlier.

Another example of complex execution is occurring right now in California. Acting Di-

rector Linh Nguyen is implementing a sophisticated, multifaceted plan to position the Lottery for maximizing the long-term benefit of increased flexibility to control prize structures.

So, the fact that it’s all about execution does not mean that it is simple! More retailers per capita may be a simple notion, but actual execution of a plan to achieve that, and extracting maximum productivity from each store, is not easy. Likewise, increasing prize payouts can be expected to increase sales, but implementing a thoughtful plan to create a foundation for sustainable growth is no simple matter. The business of lottery is complex, but it’s not without a blueprint of what we can do to make it better.

*Second chance draws would seem to be the gateway toward redefining the relationship with the consumer. It's so much more than an effective promotional tool, isn't it?*

**A. Eland:** No doubt. Second chance drawings are a great way to give additional value to the player. While it opens the door, it also really only scratches the surface of what can be accomplished. We take a view where we put the player right in the middle. When you put the player in the middle and focus on the player, it becomes clear that there are multiple ways that you can interact with that player. And technology is enabling even more ways to engage with our players. Clearly, one of those ways is the retailer. That interaction can be leveraged in new and bet-

ter ways, with strong merchandizing, point of purchase digital advertising, and product innovation to better connect players clubs, loyalty programs, second chance draws, and mobile applications to the player. The number and variety of consumer engagement opportunities is expanding rapidly. Keeping the player at the center of the strategy is critical for driving growth.

*Loyalty programs would seem the perfect mechanism to drive this player-centric approach.*

**A. Eland:** Yes. Loyalty programs are huge. Look at how Caesars Entertainment, formerly Harrah’s, revolutionized the casino gaming sector with the most comprehensive player

data collection system and rewards program ever implemented in the gaming sector. The casino industry has its current challenges, but its growth in loyalty program membership between 2006 and 2010 is estimated to be over 70%. Altogether, there are over two billion loyalty club memberships in the U.S. alone. But 54% of these memberships are inactive. (Source: 2011 COLLOQUY Loyalty Census.) So the real key to an effective loyalty program is sustainability, keeping the membership engaged and active. Data collection is just the first step. Converting the player information into customized campaigns that deliver the right products to the right people at the right times is what makes it all work. Again, it all has to do with keeping the player at the center. We think of it as a concentric circle that puts the player needs and preferences at the

*“The key to a good loyalty program is to reward the players with something they value.”*

something they value. Knowing their preferences through the information gleaned by tracking player activity and from direct player feedback enables us to target the promotions that will further engage the players' attention and interest. This yields more detailed information about player preferences and forms the basis for a positive feedback cycle.

We're really on the cusp in our ability to drive growth from this, and we haven't even scratched the surface yet. Other industries are so much further along the learning curve, but that just means that we can fast-track our embrace of loyalty programs by analyzing the strengths and weaknesses of other approaches. In fact, Northstar Lottery

Group will launch an approach in Illinois that has been implemented with great success in other industries but not yet in lottery. That is to reward a player for the actual purchase of lottery product. Lotteries have rewarded the player in the form of second chance drawings, but never a reward directly connected in realtime with the purchase of the product.

Consumer research has told us that players prefer free plays to merchandise. Extra plays are easier and more

cost effective for the lottery to deliver. More importantly, perhaps, is that rewarding with the product itself does so much more to reinforce the relationship the player has with the lottery. Keeping the customer in the middle generates the positive feedback cycle needed to drive sales.

#### *Any concerns about privacy of information?*

**A. Eland:** Lottery players value rewards and the opportunity to be a part of a community of like-minded people. Research has demonstrated that players are willing to register and appreciate the value they will receive from the points they would earn. More specifically, the research tells us that they're willing to register, and what they value is something directly related to what they play. The players value the reward of free play or an extra play, for example, much more than merchandise that's unrelated to their original purchase. And for that value they'd be willing to waive their anonymity and actually register in these

programs. Free play and extra plays are easy to deliver, engage the consumer, and reinforce the positive relationship with the brand and with the lottery.

Engaging the player with the ability to access a loyalty program or other lottery content through mobile applications is another example of a contemporary way to interact with players. While players value this convenience, at GTECH we're focused on ensuring our lottery customers have secure protocols that will enable the mobile applications to interface with existing systems and still uphold the high standards of integrity required in our industry.

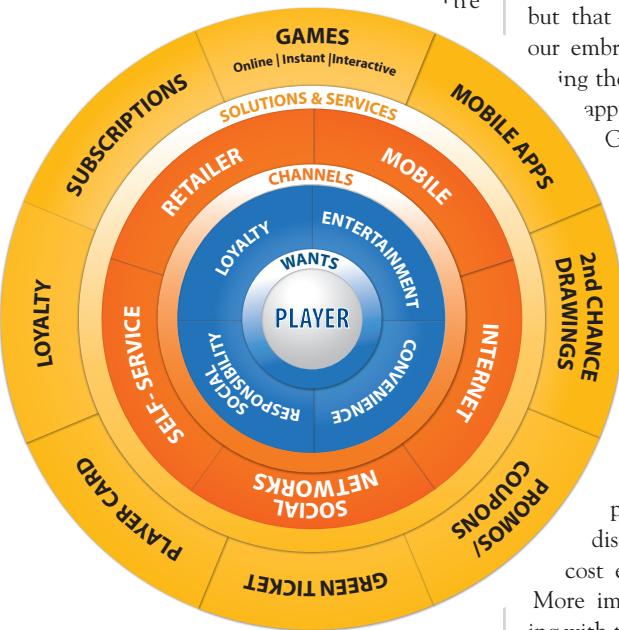
This is an opportunity to actively, not just passively, engage with the player to derive value from these programs. Programs that have been based on long-term passive reward programs have higher rates of inactive members. We are prepared to take loyalty programs to the next level, where we actively engage players with games, offers, and entertainment that they value and want to affiliate with on a regular basis as part of their online community.

*How else can the Internet be integrated into the instant game and the promotion of extended-play formats?*

**A. Eland:** Consider that there is almost an infinite number of things that you can do with an instant ticket. There's the graphic presentation of the ticket, the size of the ticket, the shape of the ticket, and the flexibility on price points and prize funds. When you consider the flexibility that the instant product line gives you, there are countless ways to tie that into an interactive experience.

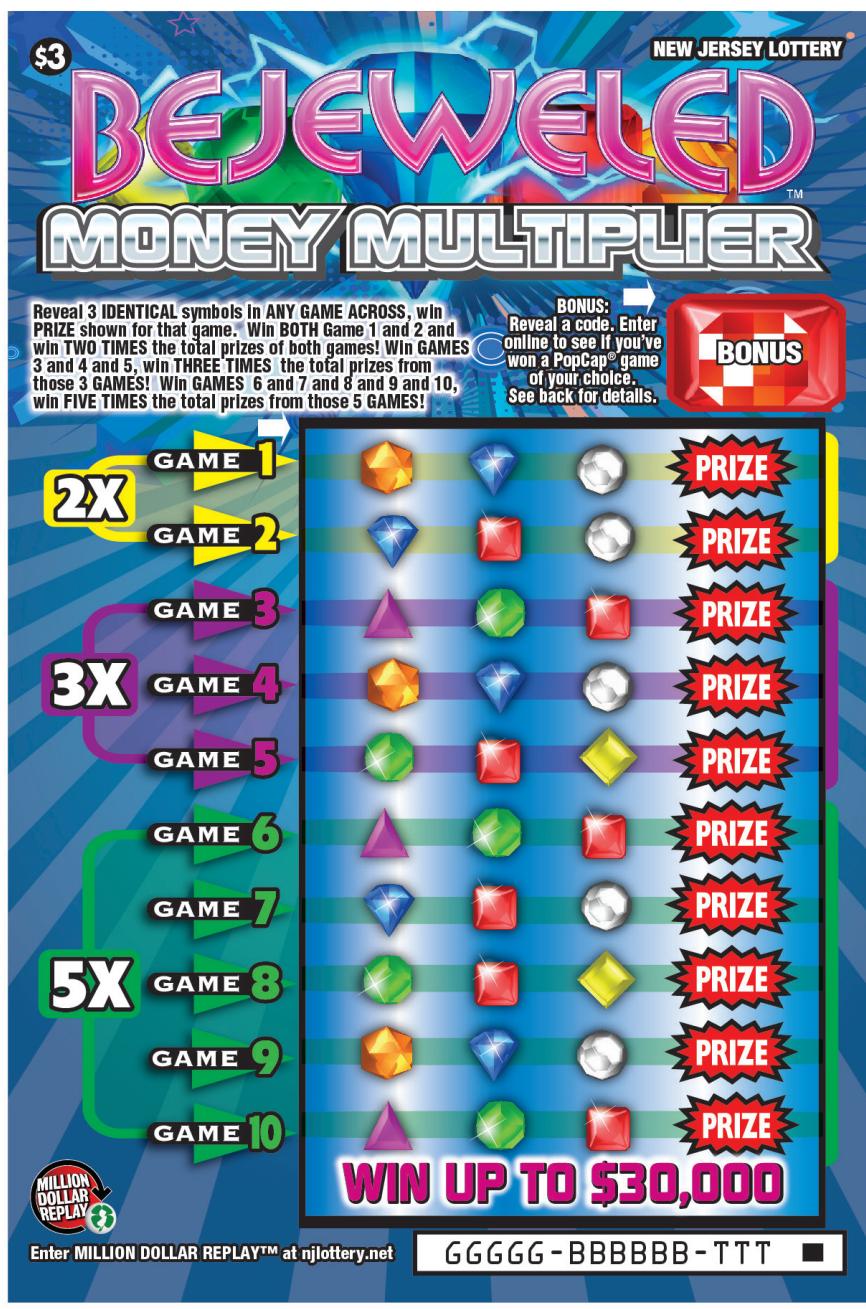
For example, this past July, the New Jersey Lottery launched their \$3 Bejeweled Money Multiplier game. GTECH Printing provided the Lottery with a turnkey marketing program for their Bejeweled game, complete with an interactive microsite on their website and a Facebook "Like Us" sweepstakes. Once on the Bejeweled microsite, players can log on and play Bejeweled games for fun and see if they can get their top score on the top of the leaders board.

We will launch a new program soon at the Oregon Lottery that uses traditional instant ticket play as the vehicle into an interactive engagement with the player on the Inter-



inner ring, consumer engagement and distribution opportunities in the next ring, and the products themselves in the outer ring. The products are just a derivative of everything that emanates from the player. Through this nexus of interaction we understand the wants and needs of the player, and the process that turns that knowledge into products that fulfill those needs and are made accessible where the player expects to have them.

A catalyst to keeping the player at the center is a sophisticated loyalty program. That is the medium that enables the dialogue to happen, the interaction between player and operator to yield the information needed to deliver just the right products at the right time through the right channels. The key to a good loyalty program is to reward the players with



net. But it's not only a second chance draw opportunity. Instead, players can also enter into play for fun competitions with other registered members. They're games of skill where the player has the opportunity to earn points. Players can use their points to enter prize tournaments. Rewards can be merchandise, experiential prizes or something else, or they can be extra lottery plays, as we discussed. Players can track promotions on a live Twitter feed, challenge their friends to a game, and track all of their top scores on leader boards. All of these features can be offered as engaging, value-added components to a dynamic loyalty program that will encourage the player to visit the website more

frequently. The player gets introduced to the lottery website and gets engaged in the whole social aspect of gaming, with the opportunity to earn reward points.

California is planning to launch a similar program in the future. This is an example of a way that we can interact with the player that is completely different from and more comprehensive than anything a lottery has ever done before. It really changes the whole dynamic from what could be called a transaction-driven business into a relationship-driven business.

*And drives sales.*

**A. Eland:** It may not translate immediate-

ly into big sales growth numbers. But you are engaging the players in a whole new way that will support long-term growth and the ability to evolve with your customer. We are all trying to reinvigorate lottery sales. But what we really need to think about is how to set a course that is genuinely sustainable, that positions us to continually refresh our products and business model to evolve with the changing tastes of the consumer, changing market dynamics, new technologies, and new media.

Once again, the key is to keep the customer in the middle as the focus that drives all of our business decisions and strategies. The key to keeping the customer in the middle is engagement, staying lock-step connected to the player. A loyalty program is the foundation for an ongoing relationship that the customer values because they are rewarded with prizes that resonate for them. How do we know they resonate? Because it is an ongoing interactive relationship in which customer preferences are continually dialed into the process that determines the right product, the right reward, the right time, and the right place or medium. Players register to get rewards and to engage in social games, purchase tickets, or win tickets, and all this informs the data analysis and marketing process, which gets better and better at knowing exactly how to appeal to the consumer in general, and to the individual player more precisely. It does require a level of technological sophistication not applied to lottery before. But it's being applied now and we have the benefit of seeing just how it's done by companies like Caesars, American Express, and Southwest Airlines. The blueprint for successful conversion of these principles is clear. It requires an investment, but never has there been a better example of "product innovation" to engage the player.

*Collaboration. Any silver bullets to overcome obstacles to More, Bigger, Better multi-state collaborations? Like nationalizing aspects of brand management and advertising?*

**A. Eland:** I would just say that the evidence clearly shows the powerful impact of collaboration. I don't know that we need a silver bullet, because lotteries seem to recognize this and are acting on it. We all need to recognize that what has been accomplished over the past two years is quite impressive. Things that seemed unlikely even a few months ago, such as a nationalized advertising campaign, or more consistency in brand management of the multi-state game products, or national coordination of a promotional campaign, may become a reality sooner than later. The process may not always be pretty, but the debate and critical thinking that it sparks are necessary components and produce

even stronger results. Crosssell and \$2 Powerball are powerful examples of what our industry can do when we collaborate.

*Any possibility of standardizing transaction-processing and infrastructure to enable the national chains to even begin the process of selling your product?*

**A. Eland:** I would not characterize transaction-processing as being the primary obstacle to breaking into the “big box” distribution network. We are looking at the whole business model of lottery and national chain stores, and there are a variety of ways to bring the two together. The standard lottery-retailer model involves paying a commission of 5% to 7% to the retailer, along with certain requirements surrounding the validation and sale of the products. That may not be the best model for national chain stores. Maybe a better model would be a small fixed fee for the lease of the space with the lottery or another third party fulfilling route management responsibilities. Maybe self-service will be best for some chains. So I think the biggest obstacle that we need to overcome is for all of us to be more flexible to develop a national approach to meeting the needs of the chain stores. We’re getting there. Lotteries and their commercial partners do see the potential and are working to build the solutions. But it’s less about transactions and reporting than it is about flexibility to explore the mechanics of different business models.

In the end, it is all about putting the player in the middle, driving all aspects from product development to delivery to loyalty programs to every aspect of the business. ♦



PGRI: GTECH acquired Creative Games four years ago and rebranded it as GTECH Printing Corporation (GPC). You started with fewer than 10 customers. Now you have a state-of-the-art printing facility and well over 50 customers world-wide. It would seem that you have established yourself as a top-tier provider of instant ticket products and services. The general question is, what’s next on the agenda? The more specific question is, are you integrating with the other divisions of GTECH to provide a more seamless face to your customer, the lottery operator?

**A. Eland:** The two are related. You’re correct that our first objective was to get established with world-class manufacturing, a solid customer base, game content, and a positive growth trend for the business. That’s been accomplished. In fact, we have far exceeded our benchmarks for sales growth, manufacturing quality and capacity, and operational effectiveness. We were able to achieve this early success because we carefully staffed GPC with strong industry experience. People like Kathy Matson and Jean Turgean brought their considerable printing experience to GPC, and that’s made all the difference.

We are well along in the process of integrating with GTECH to help our customers really get the most out of the entire portfolio of products across the board. As the number of lottery products expands in all categories, like it is with all lotteries, the opportunity to build synergies between products and categories also increases. The combination of GTECH and GPC resources enables us to identify opportunities and deliver a more sophisticated level of portfolio management to the lottery. One example of that is the work we do for the Texas Lottery. GTECH Printing became a qualified supplier in fiscal 2010 and we printed one game for the lottery in that first year of our relationship. For fiscal 2011, the Texas Lottery ordered 28 games from GTECH Printing. We attribute that phenomenal growth to the integration with GTECH, enabling us to propose instant ticket concepts that take full advantage of the market opportunities open to the Texas Lottery. Of course, there are similar market opportunities existent in all lotteries. It’s just a matter of identifying and acting on them.

*What are some of the challenges of integrating two companies like GPC and GTECH?*

**A. Eland:** I would take you back to the integration and the acquisition of GTECH by Lottomatica. These are huge companies. But the integration wasn’t difficult because we didn’t have businesses that overlapped. They are complementary businesses, so you don’t need to figure out how to reorganize to purge duplication and realign human resources and manufacturing capabilities. We did not have manufacturing capacity in the instant ticket space. So the acquisition of Creative Games did not produce overlapping inefficiencies. Now we bring a full complement of capabilities to our customers.

This enables us to service our customers with a view of their perspective in trying to deliver more value to the player across all product lines. When we look at the business through the lens of the customer, we can listen and respond better with solutions that take all of their business goals into consideration. We have the ability to take a more holistic view of the products and services that will help our customers take a total portfolio management approach to growing their business. With technological advances and the more recent introduction of loyalty programs and mobile applications in the lottery industry as we discussed earlier, this type of strategy becomes even more important. Market research has proven that the most loyal consumers purchase your products through multiple distribution channels. Enabling the lottery to have one unified brand that speaks to consumers across multiple product lines and in different gaming channels provides them with the ability to market their brand consistently and efficiently.

Northstar Lottery Group will be the ultimate manifestation of what can be accomplished with a fully integrated portfolio of games, marketing and promotional services, and field service and sales operations. We’re committed to double-digit annualized growth over a five-year period. The process of producing that growth will reveal to all lotteries the tremendous opportunities available to them to increase sales. As the largest and most successful lottery operator in the world, Lottomatica itself brings hugely important skill sets to bear on the Northstar initiative. ♦