

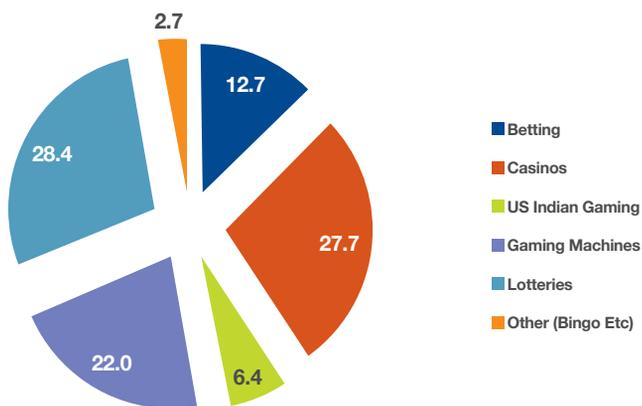
Is Interactive Gaming Key to the Future of Lotteries?

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State lotteries around the world are failing to take advantage of the opportunities afforded by Internet and mobile technology to boost sales in mature markets. In an increasingly competitive global gambling market this failure to use new technology – either through reticence or regulatory constraint – is costing lotteries dearly.

Share of Global Gambling Revenues (%) by Category 2011p

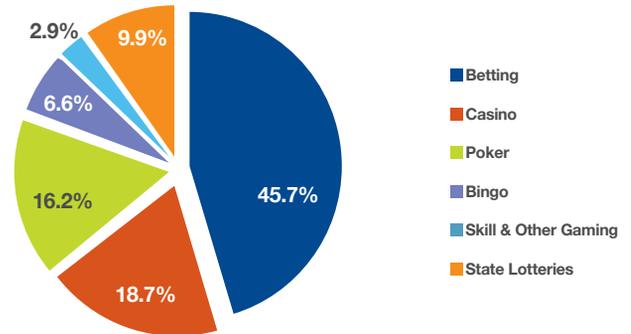
Global Gambling Revenues
Global Gambling Revenues by Category (%) 2011



Source: GBGC Global Gambling Report

Share of Interactive Gambling GGY (%) by Category

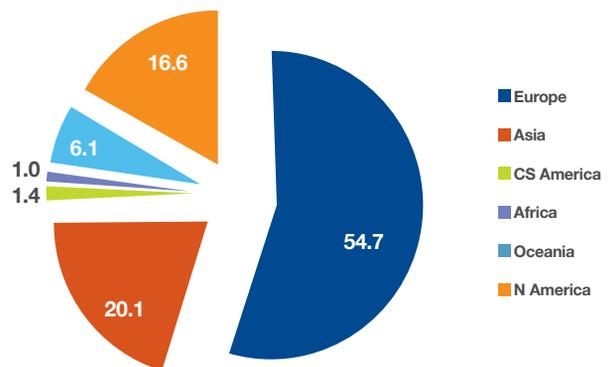
Interactive Gambling Revenues
Global Interactive Gambling Revenues by Category (%) 2011



Source: GBGC Interactive Gambling Report

Share of Interactive Lottery GGY (%) by Region

Interactive Gambling Revenues
Global Interactive Lottery GGY by Region (%) 2011p



Source: GBGC Interactive Gambling Report

Globally, lotteries accounts for 28% of gambling revenues (gross gaming yield). This share makes lotteries the leading gambling category. But in the interactive sector (Internet and mobile), state lotteries account for less than 10% of revenues (2011p: 9.9%).

Europe's state lotteries lead the way in developing online and mobile sales channels for their players. Eu-

rope accounts for 35% of global lottery revenue but has a greater than 50% share of the global interactive lottery GGY at present, so is punching above its weight. Lottery operators like Camelot in the UK and Austrian Lotteries in Austria have really embraced Interactive sales channels. Camelot, for example, generated around 15% of sales from interactive channels in 2010 and had some 3.5 million active players.

Lottery draw games are ideally suited to both online and mobile play. Lottery software developers like Betware have created some innovative and user-friendly applications to allow lottery purchases both online and mobile device. But many state lotteries have, so far, failed to capitalise fully on interactive sales channels.

Up until this point there have been a number of reasons as to why state lotteries have not embraced new technology to expand their audience and increase sale:

- Regulatory constraints
- Fear of cannibalisation of existing retail sales
- Concerns about responsible gambling

But in the current climate where lotteries are being asked to fund ever more good causes and public pro-

grammes; where expansion in other sectors of the gambling industry is causing ever more competition; and where consumers are increasingly making purchases of all values online or via mobile, many of the arguments against interactive lottery sales fall away.

The technology is already in place to facilitate interactive sales as well as monitor players' age, location, and spending. With the recent legal opinion on the Wire Act in the US, GBGC would expect the online lottery landscape to change dramatically in the coming years.

GBGC will be presenting at the Public Gaming Smart Tech Conference in New York in March 2012 discussing the topic of lotteries and the Internet. ♦

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are appealing to which demographic profile and why and such. The internet captures all that data automatically with every transaction. It is kind of a mind boggling thought.

B. Matalon: That's true but the internet also does allow for a much more interactive relationship, promoting customer feedback and also conducting surveys that yield valuable insights to complement the aggregate transaction-driven data. Our support team interacts with players constantly and is dedicated to turning every contact into insight that informs product development and operations. And we in fact survey the players constantly, generating thousands of responses a month. We use any and all tools and consumer interaction to learn more about the consumer and how to deliver a better and better playing experience.

An obstacle for U.S. lotteries expansion of internet initiatives appears to be coming

from the National Association of Convenience Stores (NACS). I'm working hard to defuse the misconception that i-lottery cannibalizes land-based sales. The channels are mutually supportive and retail will benefit by lotteries expansion into new channels that bring in new consumer groups and reinvigorate the core groups.

B. Matalon: We do need to appreciate their concerns. People do not like change and the retailers feel threatened. Retailers do benefit with increased store traffic and lottery sales, as you say, and we just need to explain to the operators and their channel partners why that is true. A cooperative and healthy relationship with retail is a vital component to the fully integrated approach that the both players and lottery operator want to achieve.

The companies that are most successful, like Camelot, Austria Lotteries, Veikkaus-

Finland, Norsk Tipping-Norway, all the Canadian provincial lotteries, have shown us how to implement that integrated solution, increasing sales at retail while implementing an effective i-lottery program.

B. Matalon: And in the U.S. too. Second-chance draws have proven to be very successful. The lotteries you mention have expanded into new i-lottery concepts, game designs, and promotions, and all the while evolve new and increasingly effective ways to integrate their retailer partners into the whole process. i-Lottery sales have increased by double digits but retail sales have gone up too. An effective application of the tried and true principles of these operators, along with continual innovation driven by genuinely player-centric methodologies, will result in a more engaged consumer and increased sales for both operator and retailer. Everyone wins. ♦