



LOOKING INTO THE FUTURE OF DISTRIBUTION FOR LOTTERIES

Warwick Bartlett, Chief Executive,
Global Betting and Gaming Consultants (GBGC)
www.GBGC.com

Lotteries are presently navigating the evolution into a “multi-channel” distributional model. The challenge is that government lotteries are, for good reason, conservative. The existing brand value and revenue streams are immense and cannot be jeopardized. That is why the natural response to proposals to innovate are met with a cautionary desire to see how it works for others first. The problem with that is the inertia resulting as everyone waits for others to be the first.

A useful way around this conundrum may be to gain foresight by looking at how other related industries have evolved. The UK betting market provides a most telling story, one that should give lotteries the visibility they need to move forward. The conclusion: Land-based retail is evolving but is here to stay and will continue to be a vital POS for consumers. This is true for bookmakers in the progressive UK betting market and even more true for lotteries all around the globe. Even so, the Internet channel is a vital medium of communication, as well as an increasingly meaningful channel for distribution, bringing in new consumer groups and driving sales.

The UK has a rich experience in gambling that dates back to the 1750's. Gambling started with the landed gentry racing their

horses one against another. It was not long before the farm workers and servants began to bet amongst themselves on the success or failure of their employer's horses. The odds, of course, were unfair. Some horses were much better than others, and so the bookmakers stepped in to assess each horse's chance and offer the appropriate odds and absorb the risk. For many years, the UK flirted between gambling being banned or partially legal then in 1963, exactly half a century ago, the “Betting, Gaming and Lotteries Act” decriminalised all forms of gambling in the UK.

Over the next five years, the number of retail outlets exploded to 15,800. The number has subsequently fallen to around 8,500 for two reasons, taxation and competition from other leisure pursuits.

There are four major retail betting chains in the UK: William Hill, Ladbrokes, Coral, and Betfred. All have an Internet website where casino, slots, sports bets and poker are offered. They also bet on the outcome of European Lotteries.

The evolution of distributional strategies is quite interesting. William Hill now derives 30% of its profits from Internet, and 70% from the retail estate. In its January research note to investors, Morgan Stanley predicts that the percentage of William Hill's Internet profits will rise to 50%, or close to 50%, in 2014. However, in spite of the trend-line, and in spite of the wildly competitive UK market with betting stores on countless corners, William Hill and the others are investing in expansion of their retail network.

All of the bookmakers place great emphasis on both divisions, internet and land-based retail. Their retail model is changing significantly, mostly because of dramatic changes in the demographics of the UK which are driving big changes in play styles and preferences. The 2011 census in the UK came as a shock to most people, but not these retail bookmakers. The census revealed that between 2004 and 2006, 1.2 million of non UK born residents arrived in England and Wales. Another 1.2 million arrived between 2008 to 2009. Only 59% of the UK is now Christian. This huge influx of immigrants has mainly occurred in London where only 44.9% of Londoners are white British.

The retail betting stores' main product was always UK horse racing with some greyhound racing. But this rapid change in demographics and nationality has caused the gambling industry to change its offer to the new customers. Horse racing is a complicated product and one that the new arrivals from India, Pakistan and Eastern Europe are not familiar with and have no desire to learn, so bookmakers now concentrate on the FOBT's (fixed odds betting terminals) and numbers betting to satisfy the demand from the new gamblers.

Ladbrokes and William Hill are now investing large sums into the retail estate, relocating to better and larger premises. The average store now costs \$200,000 to fit out. In the early years of internet wagering, these traditional bookmakers implemented their i-gaming businesses independently from their retail store network. Now they are evolving an integrated approach and recognize the huge value of their land-based network. Bookmakers are now acknowledging that many consumers are connecting with both the internet and retail stores, and that these are the most valuable customers. So now there is more and more cross marketing between the two. Managers of shops have become affiliates and are incentivized to sign up their customers to the company's Internet offering.

Ladbrokes customers can apply for an account card that enables

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iGaming and landbased channels include the British Columbia Lottery Corporation and Loto-Quebec, while Svenska Spel has operated in both channels for several years.

SPIELO G2 is the largest iGaming provider to lotteries around the world, and recently, Norsk Tipping selected SPIELO G2 to launch the lottery's first range of iGaming products exclusively for the Norwegian market. On the landbased side, SPIELO International was 100% successful in bids for the Canadian VLT and systems replacement cycle, winning all 11 of its competitive procurement bids. As a unified force, SPIELO International and SPIELO G2 can now inform decision makers and regulators about navigating both channels, and understanding the overlap between.

"We can consult with clients on a regulatory structure that optimizes the environment for both products and channels, without cannibalizing one another. We can also advise on entering the market, and on taxation practices as they typically apply to each channel in order to streamline and simplify the process," says Drummond. *"In this way, we're a single partner assisting them in long-term strategic planning for their market and their players, which is particularly valuable to a new market introducing both at the same time."*

For gaming suppliers, the challenge is providing content that's equally compelling across different channels, not just the same game with identical play mechanics, mimicked on different devices. SPIELO International's approach has been to continue their market-leading practice of player research and market validation. They let content be the driver of their games, but they recognise that content has to match what the player wants, in the environment that the player chooses.

This intimate knowledge, combined with the 360 degree view of the player, unlocks the secret of what players want, giving the supplier the framework for what new content to develop, keeping in mind the importance of matching it to their players' lifestyle and chosen methods of play. And we all know that an entertained player, playing across all their devices, means sustainability and success for lottery programs. ♦



them to gamble at call centres, betting stores, or Internet. They can deposit cash at the store, bet on-line, and return to the store and pick up cash. Ladbrokes realised that there is still reluctance amongst some people about using credit cards on the Internet. Since the oncoming of the recession twenty eight percent of people no longer have credit card facilities in the UK.

Camelot is the operator of the UK National Lottery and has also done exceptionally well over the period. From 2007/8 to 2010/11 sales have increased by 17.2%. In the current fiscal year they have achieved sales of £3.63 billion for the first six months. A stellar performance that if maintained would see them 20% above the previous year. However this was Olympic year in London with many lottery promotions to celebrate the games.

The major focus is still with the retail agents, and in this respect Camelot does do a good job. Point-of-sale materials are top-class with live screens in gas stations and convenience stores that advertise the latest jackpot payout and any roll-overs so as to stimulate customer awareness and interest. At some point in this next two years the two must come together with cross promotion between Internet and retail agents for mutual benefit.

Lotteries are easy to understand, easy for the consumer to learn, and are available throughout the world. The huge jackpots on Euro Millions, Instants with \$1.5million prizes are available everywhere, and the UK's new residents have clearly warmed to these products. Internet lottery is still relatively new, the marketing is quite passive, yet it has managed to reach nearly 20% of Camelot's sales.

The Loteria Nacional of Mexico has produced a touch screen game especially for the stores that has more content and is particularly appealing to the younger generation of players. In his interview with PGRI, Benjamin Gonzalez Roaro stated "We are analysing the play styles and preferences of a new generation of Internet gamers and reinventing lottery games to appeal to the new style of games that are social, facilitate sharing with friends and family, are longer playing and deliver more entertainment value."

And they will be available through both the Internet and land-based retail stores. Integration and cross selling to optimize both channels is the direction that progressive gaming operators are pursuing ♦

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eration. And the work we are doing to reinforce the integrity of sports-betting will provide a good foundation for developing similar global initiatives in other categories of internet gaming. But our resources are limited. So for the time being, we want to be focused and concentrate on the immediate and urgent need to help the governments prevent corruption in sports-betting.

What are your personal goals as president of the WLA?

J. L. Moner-Banet: My personal goal is to clarify the purpose and the importance of international cooperation, to enhance the level of genuine and productive communication and interaction between lotteries all around the world. That is, I feel, the foundation for all the other goals we have. We all have so much to gain by working together. As long as we realize that and act on it, there is no limit to how much we can accomplish. ♦