



LOTTERIES HAVE NOTHING TO FEAR

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The United States on a state by state basis is beginning to embrace egaming. First New Jersey, Nevada then Illinois and possibly at some point California. Other states will probably watch and see but not for long.

At first blush these appear to be challenging times for lotteries but it is my opinion based on the experience of the UK that lotteries have nothing to fear.

Of the G20 countries the UK is the most competitive gambling market. Let's take a snap shot look

U.K. Gambling Market

Segment	Outlets	GGY £M
Betting Shops	9,049	2,841
AGC's	1,820	275
Casino's	146	868
Slots	35,852 (number of machines)	1,447
Bingo	697	404
UK Internet		2,784 (GBGC estimate)

Then there is the National Lottery managed by Camelot producing yearly revenue of US\$10 billion from 30,000 retail outlets..

That is not all. If you wish to raise money in the UK for charity you can set up a Society Lottery of which we have 476 all doing good work for cancer research, saving children in Africa and so on. One hundred and forty nine of those lotteries are on the Internet.

Looking now at the bookmakers there are four major chains. William Hill, Ladbrokes, Betfred and Coral.

All realise that to run a successful betting shop chain you need the support of well run Internet sites with mobile APPS because your shop is not always convenient to the customer's day to day movements.

Both are supported by loyalty programmes with Ladbrokes you have an account card that accrues points when you bet. When you reach a prize point you get a free \$8 bet.

The Internet for William Hill in particular has been an amazing success. They have developed one of the best sports betting websites in the world. However 70% of William Hill's profits still come from the betting shops 30% from Internet.

What's more all of those companies are expanding their betting shop estates and Camelot is expanding its retail outlets from 30,000 to 37,000 at a time when their website is hitting record numbers. They are doing US\$ 1.5 billion a year from 9 million online players.

How can this be? Well the UK gambler has been weaned on value. He has become one of the most astute gamblers in the world. I have seen over the last ten years foreign companies come to the UK to supposedly set the world on fire. They have lasted two years! However those that come to target their domestic market in Europe have been more successful.



This chart says it all. It is an odds comparison site similar to something like Priceline where they find the best available flights at the lowest price.

Here you see 24 bookmakers posting odds on a soccer match with three potential outcomes home win, away win and draw. Each bookmaker offers the odds they are prepared to take and margins are tight. If you have accounts with all these bookmakers you can on occasions bet all three outcomes and make a profit. What we call a sure bet.

That is not all; above the bookmaker's names is an offer. If you do not have an account sign up and they will give you free bets, Paddy Power £250, Bet 365 £200. Of course conditions apply to

the free bets but nevertheless it is something for nothing.

So the UK gambler hunts for value and the Internet makes life easy for him. Speed of service is essential if a customer is in line in a betting shop and wants to take a price and by the time he gets served and the price has gone in the wrong direction for him you lose your customer. If you have a website that hangs the customer will switch to another, you lose your customer.

All of this has created an environment of falling margins egged on by competition, betting exchanges and bookmakers having to extend their prices during a slow economy.

The payout ratio to the UK customer has never been higher in the history of gambling.

With all of this going on you could be forgiven for believing that the UK has more problem gambling than anywhere on the planet. Wrong. In incidence of addiction is in fact quite low, less than one percent according to the UK's Gambling Commission.

Propensity to gamble

Country	GGY per capita US\$	GGY / GDP(%)
Singapore	984	2.28
Australia	802	1.44
Canada	485	1.05
Japan	414	0.97
Hong Kong	383	1.21 (excludes trips Macau & illegal)
Finland	368	0.83
Italy	345	1.01 (excludes illegal)
New Zealand	312	0.97
UK	306	0.85 (eighth)
USA	298	0.64 (excludes illegal gambling)



This chart re-enforces that view.

The chart shows the GGY per capita spent on gambling in US\$ and the GGY as a percentage of GDP. In other words what the gambler spends in proportion to a nation's income.

Of course there are anomalies that need to be explained. Singapore is top because on a relatively small population the country has two mega casinos whose GGY will be approaching the entire GGY of the Las Vegas Strip.

Australia is genuinely high. A rich country whose citizen's love horse racing, slots, sports betting and casinos.

Hong Kong on the other hand is understated. Its citizens are regular visitors to Macau and the local police estimate that illegal gambling could be three times higher than legal gambling.

Then we have the UK where there is virtually no illegal gambling but only eighth on the GGY/GDP list.

The USA is surprisingly bottom of the chart which indicates that gambling has been suppressed for many years. Illegal gambling is also prevalent in some states. This leads me to believe that this market has a long way to go. This is confirmed by the level of activity just taking place north of the border in Canada.

Canada produces GGY/GDP% of 1.05. Sixty four percent higher than the USA. I can see no reason at all why given reasonable taxation and a good licensing regime why the US market should not expand to meet the numbers in Canada.

The US market is therefore set to expand exponentially and lotteries have nothing to fear because they will share in the growth. But to do so they need to adapt and take on board the very latest marketing techniques and the State legislatures need to make sure they have the tools to compete.

So what of the future?

We know that the US is legislating State by State. It is GBGC's view that this will create a mish mash of differing laws and levels of taxation. The separation on the Internet between one state and another is not as easy as one first thought. As James Maida stated in the Smart Tech Conference in New York a citizen in a city in one state can have his Internet service provider's network and thus IP address in another! If that determines where the tax is to be paid then you can see problems arising.

All of this will create opportunity for the President to one day announce a tidy up through Federal law with oversight, to protect the citizen, and such oversight will require funding through taxation. States need to cooperate with each other on taxation and law if they would prefer money to stay in the State.

GBGC believes that the Internet gambling market will default to the model of the financial market where you have three major hubs. New York, London and Tokyo. That does not mean to say that jurisdictions such as Malta, Isle of Man and Alderney will not exist, they will.

However the majority of employees, IT infrastructure will in our view be centred on the east coast of the USA, London and hmm a tricky one. Asia is a long way behind in egaming and countries seem to have difficulty in embracing Internet gambling. Hong Kong would be ideal but you have oversight from China that has designated Macau as a gambling destination. Singapore has all the ingredients for success. We will have to wait and see.

On future lottery products I did enjoy the presentation by ?? from the Michigan State Lottery. They have produced a TV game where players at home and on the show interact and have a lot of fun. Sales are going well and this could be the future.

TV bingo is a product we believe could come into its own due to new technology. The ipad or iphone can be the bingo card and people can play at home and watch the numbers drawn on a game show on TV. The game was first developed in 2000 for the Russian market and in 2001 reached a peak of 7.6 million cards being sold. It was the largest bingo game ever played. The game is currently being played in Croatia to great success.

Conclusion

- The US market is ready to expand, lotteries will share that growth.
- In the most saturated market the UK, Camelot is expanding its outlets from 30,000 to 37,000 and has 9 million registered Internet accounts producing US\$1.5m in revenue.
- The lotteries in the US have nothing to fear from the market expanding and have everything to gain but they must embrace change.
- States need to give the lotteries the tools to compete. ♦

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