



Jay GENDRON

Senior Vice President
North America Lottery, IGT

On Building Sustainable Growth for Government-Lottery

PGRI Introduction: It has been just seven months since GTECH and IGT completed their merger. You wouldn't know it, though, by the new products on display at the Company's NASPL and G2E exhibit booths. It would appear that IGT is way past the integration stage and moving quickly forward with new products and innovation. My discussion with Jay Gendron bears this out, as the focus is now on harnessing IGT resources to enable its customers to take full advantage of a future rich with opportunity. And to make that happen now.

Jay Gendron is a lottery industry veteran whose mission is to redefine the industry standards for customer service. Evidence of Jay's success can be seen in his recent election into the Lottery Industry Hall of Fame. Over the past 20 years, Jay has served in a wide variety of leadership roles across all different disciplines within GTECH and now IGT. Our discussion traverses the wide array of opportunities and challenges facing the lottery industry today.

Paul Jason, PGRI: *You have worked for a number of world-class business executives and are now yourself a senior executive at IGT. What do you think is the most pronounced character trait of successful leaders?*

Jay Gendron: I believe the most important character trait is integrity. In business, that translates into being straightforward and consistent; being willing to fight for the right thing even when it may not be advantageous; and sticking with that position notwithstanding pressure to bend. It's about calling your customer right away if there is bad news or an an-

swer that you know they do not want to hear; and about always accepting responsibility. It is critical to communicate candidly with our customers.

Complete transparency is a Customer First value and pays off for everyone in the long-term. It is only when we all understand each other's constraints, as well as goals and objectives, that we can truly work together to find the best solutions. Complete transparency creates trust, confidence, and is the foundation for an effective business relationship. This culminates in serving everyone's best inter-

ests and drives the best business results.

Is there a tradeoff between the goals of delivering value to the customer and value to your corporate shareholders, the economics of cost to you versus value to the customer?

J. Gendron: I am responsible for optimizing customer satisfaction and managing the P&L for IGT North America lottery customers. The primary method in which IGT can generate a profit for its shareholders is to ensure that our customers are successful and generate a return on investment (ROI). There

is no tradeoff because the two go hand-in-hand—a happy customer is good for business. In my experience customers are willing to pay a reasonable premium for quality products and exceptional service. Recognizing this additional investment will bear dividends in many areas of their enterprise. That's why IGT never compromises on product quality and service. With respect to the cost-value equation, IGT's interests remain completely aligned with those of our lottery customers.

How has the merger made legacy GTECH better? How has it improved performance with the result of producing better results for your Lottery operator customers?

J. Gendron: Everybody at IGT is excited about the merging of the two market leaders because we see the benefits that accrue to our customers. I'm sure there was some angst during the period of transition following legacy GTECH's announcement of its merger with IGT. It is natural for people, both within IGT and among our customers, to be concerned about how the merger would affect them. Now that the strengths and synergies of the merger have become so evident to everyone, we are all embracing the new operating structure. The focus on delivering value and superior service to the customer has never been higher.

The logic of the merger is pretty simple. Over the past number of years, the distinctions between lottery and other gaming categories have blurred. Treating them separately no longer serves the best interests of our customers operating in the different gaming categories. Our lottery customers are already benefiting by the integration of game content and development, brand licensing and technological assets, and strategic marketing capabilities that have come over from legacy IGT. The structure of the new Company is now designed to combine the resources, technologies, and skill sets

with the broadest global base of market and game development intelligence. These capabilities are all being applied to position our lottery customers for long-term success.

The marketplace is changing. It is our job to ensure that our government-gaming customers grow. Harnessing all the capabilities of IGT—central system technologies, innovative game content, social gaming expertise, global consumer and retailer insights, as well as the broad range of assets migrating from iGaming, mobile, and electronic games, will help drive the success of lottery into a future rich with opportunity. The merger of GTECH and IGT ensures that we have the depth and scale of capabilities to help lotteries to take full advantage of growth and work collaboratively with them to shape the optimum business model evolving with the changing marketplace.

IGT has increased its investment in lottery-specific research & development (R&D) by over 50%. Additionally, traditional lottery receives indirect R&D benefits from other verticals, like iLottery, iGaming, social gaming, and electronic games. The real-world consumer market, after all, is not segmented into silos that exist independently from one another. Our new operating structure facilitates the cross-pollination of R&D and marketing intelligence so that our lottery perspective is now informed by a comprehensive understanding of the whole games-of-chance industry and marketplace.

Legacy IGT investments in R&D and the technologies of mobile, social gaming, player user-interfaces, and consumer behavior as it relates to the broader field of game-play, all far exceeded what legacy GTECH had at its disposal. The fruit of these investments is now being leveraged across the entire base of IGT customers. The legacy GTECH and IGT cultures

were always focused on innovation and customer satisfaction. Combined, we are engrained with a passion for innovation and offer unparalleled breadth and depth of experienced global resources, across all disciplines to support the ongoing success of our customers.

You have experience in all the different disciplines of business operations within IGT. That career path is typically applied to those who are being groomed for a senior management position. How have these different perspectives informed or shaped your management style? Too, from an enterprise-management point of view, how are the different world views and perspectives of different corporate divisions integrated into a single harmonious corporate mission?

J. Gendron: I've been fortunate to work in many different areas of the company and to work for some truly great leaders. I've learned an incredible amount from my superiors through the years. Lottery is a complex and nuanced industry that intersects government and gaming. A broad and diverse perspective is necessary in order to lead us forward, and effectively respond to business issues within the appropriate context.

It is a challenge to integrate the different perspectives of the leaders in finance, manufacturing, product development, marketing, distribution, government relations, communications, sales, etc. The different disciplines bring differing priorities to the execution of the overall corporate mission. That is as it should be. However, creating alignment between these perspectives is often challenging. That's why diversity of senior leadership experience is so necessary. Each of us has passion for one of the areas and our business approach reflects that. Experience across multiple disciplines enables us to appreciate the priorities of our colleagues and be better equipped to find the mutually agreeable solutions that result in opti-

mizing value for the customer. This is why IGT has prioritized diverse business training opportunities to round out our senior leadership.

That's evidenced by what appears to be quite an explosion of innovation from IGT. The trade-show exhibits at G2E and NASPL revealed an incredible variety of new technology and products. It seems like the integration with IGT is all coming together and now you are launching the fruits of that process.

J. Gendron: It is an ongoing process. It certainly did not happen overnight, or without tremendous effort, focus, and energy. Our most senior leadership, the architects of the merger, always had a clear vision for how this would unfold. Notwithstanding this, it has taken the entire organization to pull together to execute on that vision to get us to this point. And, of course, we've only just begun. This is an exciting time of tremendous transition for the entire industry. The opportunities are incredible, but the way forward will have challenges. IGT is set on an accelerated track to deliver on this potential—to enable our customers to take full advantage of the opportunities, and to future-proof against the inevitable challenges within the industry.

The opposition of NACS to meeting the needs of its own customers is frustrating for many of us. What can we do to enlist the support of NACS for online iLottery sales?

J. Gendron: NACS leadership continues to lobby against Internet sales, and unfortunately promote the false notion that online sales will hurt the sales of its members' bricks and mortar locations. To convince NACS that online sales will raise the watermark across all distribution channels, U.S. lotteries need to continue to develop programs that will prove what the international lotteries have seen over the last two decades. In both Georgia and Michigan, for example, the lotteries developed a retail component to their online sales program

which proved vital to build retail cooperation and trust. This proved to be very successful. The sales of traditional lottery sold in retail stores have grown right alongside Internet sales channel. We look forward to similar results with the Kentucky Lottery when it begins online sales shortly.

As an industry, our collective messaging needs to be that the land-based retailer is and will continue to be our number one priority. That is true even in those markets where iLottery is most developed, as in the Scandinavian countries. However, all lotteries must reach out and be relevant to the next generation of lottery players. Lottery is modernizing in every way and should be an invaluable partner to the modernization of land-based retailers as well.

Frankly, it seems to me that retailers need our help to make themselves more relevant to the modern shopper. Why couldn't Lottery take a technology leadership role and help retailers to modernize for the benefit of the retail shopper? Integrating an online component would simply be a part of that process.

J. Gendron: We should also keep in mind that interactive isn't just about Internet sales. It also includes mobile phone applications with a robust set of features and functionality to support the retail channel. That includes things like proximity marketing, digital play slips, jackpot alerts, barcode scanners for checking tickets and entering alternate second-chance drawings, general game information and instruction, retail location finders, winning numbers, etc. So there is tremendous variety of other value-adding components to interactive than just enabling online product sales. Lotteries are building out a database of registered players, which will open up a whole new channel of communication for them to interact with the players. Direct target marketing, retail cross-sale promotions, co-branding initiatives, and many other innovations will drive players back to retail and improve

consumer awareness of, and affinity for, the countless other products sold in the retail environment.

We need to be collaborative and appreciate and respect the concerns of our retail partners, and ensure that there is an open and consistent line of communication. The facts as revealed by the experience of other operators already selling online will help U.S. retailers overcome their natural fears as long as we continue to make them part of the value equation. Then, and only then, the result of modernization will be good for everyone, and drive a new generation of consumers into their stores with mobile co-op offers and the like.

IGT and its Lottery customers have far more resources and technology and vision than retailers. How is that being applied to help retailers to modernize and be more successful?

J. Gendron: The pace of change at retail is exponential. And we are committed to looking closely at advances in the retail environment and understanding emerging and future trends. In fact, we have created relationships with a number of innovative and future-oriented companies to work with us to drive change and progress at retail. We are working to translate these combined resources into the development of a smart open technological platform and a broad suite of solutions that will help deliver our lottery retail vision of the future. Consumer driven, retailer friendly, open, and agile platforms deliver a greatly enhanced player experience at retail. This approach will require innovation, and not just from a technology perspective.

Lotteries and their commercial partners need to offer more flexible business models for our retailers. The cashless retail trend is one example. Simplifying of lottery account management for retailers is another. IGT's national customer Retailer Innovation Workgroup is working diligently on various strategic initiatives like "scan base trading," and employing Big Data analyt-

ics that convert data into actual insights to drive optimized retail performance. One area where lotteries can potentially take a leadership role is in proximity marketing which includes leveraging a mobile application which most lotteries have, retail locations equipped with beacons which some lotteries have, and back-end content and management systems that channel content to the customer user-interface, and coupon incentives to be delivered to the mobile. Progressive retailers are already experimenting with this technology to gauge consumer acceptance and adoption. Of course, the implementation must be compliant with state statutes and jurisdictional regulations.

It seems like IGT has made a special effort over recent years to be more flexible and open to helping lotteries integrate third-party suppliers and vendors.

J. Gendron: We understand we are not the only source of innovation. We want our customers to have the very best products and services to drive their business forward. We will negotiate with third-party vendors and work with our customers to integrate new technologies into the infrastructure. Linq3 is an excellent example that comes to mind. We have worked with our customers in California and Missouri to enable the implementation of Linq3's play-at-the-pump technology.

And your new Aurora platform is designed with the flexibility to reduce the cost of integrating third-party technology into the IGT infrastructure, isn't it?

J. Gendron: Our new Aurora platform builds on the success of our Enterprise Series system. It provides an entirely new level of system flexibility to seamlessly integrate third-party applications for games. Additionally, we are working with our competitors to form standard APIs for all platforms in the industry.

The integrity of our system and our data

has always been paramount; 100% accountability and data integrity are a mandate. We will therefore always be cautious and diligent in managing third-party interfaces. We are fortunate our brand new Aurora platform is the most technologically advanced and is explicitly designed to make the integration process far more streamlined and efficient to reduce the cost and time of modifying software to make it interoperable and integrate third-party solutions.

Consumers are expanding their adoption of cashless payment methods and this trend is expected to explode in the coming years. How can Lottery and its retailers make these options available to the consumer?

J. Gendron: There is an explosion of innovation in the cashless payments space. The consumer is quick to adopt cashless payment methods. Our industry has long been a purely cash-based business. We believe, though, that lotteries would see incremental sales from expanding the payment options. Cashless is particularly important as lotteries strive to be relevant to the next generation of lottery players. Very few of them carry any cash. In addition to traditional cashless payment vehicles, like debit and credit cards, IGT is working to integrate the latest in cashless methods such as Apple Pay, Google Wallet, and others that will be hitting the market soon. The evidence is in—expanding the variety of payment choices almost always leads to an increase in lottery sales.

The low hanging fruit is found in the checkout line. Some lotteries have initiated marketing campaigns to educate retailers that cashless options lead to an increase in sales. Self-service is ready for cashless but there remains some questions around the business model. Retailers and lotteries are concerned about the banking fees associated with accepting credit and debit cards. These fees would take a cut of either the retailer commissions or the net funds that lotteries are able to return to

good causes.

Lotteries perform a whole variety of business functions. Some lotteries operate with a super-lean staff and outsource most of those business functions. And others opt to do more things themselves. How might lotteries go about the business of assessing the pros and cons of these various outsourcing options?

J. Gendron: First, there's no single 'best model' for operating a lottery. We have strong partnerships with both high-outsourcing and low-outsourcing clients, and everything in between. It is really the decision of governments and lotteries as to how they elect to develop their operating model to optimize performance. Among the most important factors for success is the quality of the business partnership between the lottery and its key suppliers. That includes the systems provider, the instant ticket printing companies, advertising firms, and internal and external business execution teams. Many U.S. lotteries struggle with insufficient funding for new game innovation, for advertising, and for just keeping pace with the diverse skill sets needed in the changing marketing landscape. More strategic outsourcing can be an effective tool to resolve some of these issues as long as all parties are aligned and incentivized around a common business goal. And that last part is of particular importance.

The alignment, trust, collaboration, and commitment are what really make the difference in the business performance and outcomes produced by the diverse stakeholders that support lottery operations. Without this level of alignment, outsourcing cannot succeed and simply adds more complexity by slowing down decision-making and suppressing the agility and flexibility a modern lottery needs to sustain growth.

So the guidance that we have for lotteries that are evaluating the various insourcing and outsourcing approaches is pretty simple. Based on the legislative, regulatory,

and market conditions in any state, how can we bring together the most focused and productive team of experts to all pull in the same direction to create fun games and maximize revenues for good causes? There is no black and white answer to the question. There's only the common attributes, which create an effective high-performing lottery team.

Tribal and commercial casino gambling interests spend big money on lobbyists to promote their interests in the political domain. Their agenda is to shape regulatory and taxation policy in ways that are usually not favorable to Lottery. Lottery can't hire lobbyists to promote its agenda with political stakehold-

ers. So, what can Lottery do to defend itself and the interests of its stakeholders, like the good causes supported by Lottery?

J. Gendron: For decades, state lotteries have proactively engaged all stakeholders to deliver their message regardless of the strategy and tactics of their adversaries. The success that lotteries have enjoyed in the U.S. has not come because those lotteries have viewed politics through a prism that creates good guys and bad guys. State lotteries are fully aware that they sit at the intersection of government and gaming and they know that avoiding politics is not an option. They need to engage and they do.

IGT is very excited and optimistic

about the future of government-gaming operators, the traditional lottery product, and the health of brick and mortar retail. There will be change, even disruption, in the marketplace, but the lottery industry enjoys many advantages such as exceptional brand awareness, a massive consumer base, and a secure proprietary retail network. It will be a matter of leveraging those assets, innovating to keep pace with the modern consumer, enhancing the retail consumer experience and, above all, flawless execution, focus, and follow-through. IGT is privileged to lead the charge working closely with our customers to ensure a sustainable future for the global lottery industry. ■