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PGRI Introduction: Supreme Ventures Lotteries (SVL) is a diversified operator of gaming, gambling, sports-betting, and lottery products in Jamaica. Licensed by the Jamaican government and owned by private shareholders, SVL has built a wide portfolio of gaming products and technologically progressive distribution infrastructure. What makes the SVL model and approach to the business so interesting and informative is the flexibility it has to adapt to consumer preferences and to the competitive landscape. SVL has both more freedom to expand into new games and categories, but also the challenge to deliver the kind of results that cause potential competitors and the Jamaican government to rely on SVL to continue to be the gaming operator of choice for the Jamaican consumer.

Paul Jason, Public Gaming: *What games are offered by SVL (Supreme Ventures Lotteries)?*

Brian George: Our license on lottery games is exclusive. Our licenses on sports-betting and slots is not exclusive. We offer the entire portfolio of gaming, gambling, and lottery products. The only part of the gaming business we do not do is horse racing.

While we are the dominant player in all gaming categories, our place in the market has to be earned. In lottery games we have an exclusive license, but that could change if we did not meet and exceed consumer expectations. In all other sectors of the gaming industry, we are not the only operator and so compete in the market-place, endeavoring to deliver the



games and value that will most appeal to the consumer.

Since you offer the entire range of gaming products, you might have some insight into the degree to which the consumer migrates from one category to another. Is there much cross-over, or do you find that lottery players stick with lottery and do not do sports-betting or go to casinos? Specifically, are you able to cross promote, pitching lottery to casino patrons and vice-versa?

B. George: Cross-promoting is difficult for a few reasons. First, the traditional lottery player would be the 35 to 65 year old demographic, and probably slightly skewed towards women. The sports-betting demographic tends to be younger and skewed male. So there is not much overlap between the consumer profile of the sports-betting player and the lottery payer. The older horse-betting crowd, the one game category that SVL is not involved in, might have an overlap with lottery, but the new style of sports-betting consumer does not so much.

There will be an increase in cross-over, though. The interesting thing is that the consumer migration from one game category to another will not be driven by either changes in consumer tastes or by cross-promotions initiated by the gaming operators. That's not to say that consumer tastes won't be changing or that gaming operators won't be cross-promoting. It's just that the real impetus that drives these changes is technology which increases access to a larger variety of games to new consumer groups. For instance, up until recently, electronic gaming machines delivered a certain type of gaming experience that did not include playing the lottery. The casino player was not clamoring to buy lottery tickets. Nor was the lottery operator targeting the casino gambler in cross-promotions. However, the simple act of making lottery products available for purchase on electronic machines gives those products exposure to an entirely new consumer group. That phenomenon will be even more evident as applications for mobile gaming are imple-

mented. More consumers will have access through more channels of distribution and media and that will make it so easy for the consumer to try new games. Increasing consumer access to the products is the single most predictable way of increasing sales. The integration of technological platforms makes it easy to deliver a wider variety of game content to each medium – be it an electronic game machine, a mobile device, your home computer, a sports-betting terminal, or the terminals in retail stores. All these media used to deliver one type of game. Now the operator can make all manner of games available through all the different devices and consumer touch-points. The consumer will be presented with many more options than ever before and that is what will lead to more consumer migration between different game categories.

Why will casino operators want to make lottery products available on their EGM's?

B. George: Because it is incremental sales. You are right to think the casino operator would not want to do that if they thought that whatever the consumer purchased in the way of lottery products would have been spent on the slot machines anyway. Of course, that is not what happens. Give the consumer options and the gross volume is likely to increase. This is basic consumer marketing 101. Technology is enabling operators to turn every PUI (player-user-interface) into a vehicle to make available the entire portfolio of games. This benefits the content providers by giving the widest exposure to their games. It benefits the distributors by enabling them to sell more products and deliver better value to their customers. And it benefits the consumer by giving them more options and making it easy to exercise their freedom to choose. In the end, the consumer will gravitate to the distributors who make it easy and convenient for them to have access to the biggest variety of great game content, whether it's slot games, sports-betting, i-poker, or lottery. That is why all, or at least most, game content will be distributed over all the different channels of distribution. And that, more than operator cross-sell promotions or consumer demand, is what will lead to players trying new games.

Is there data or statistics that tell us how quickly the consumer will adopt mobile gaming?

B. George: There are about 2.7 million people in Jamaica. And there are about 3 million active cellular accounts. Even though the number of accounts actually exceeds the number of people, there are still many people who

do not have cell phones because lots of people have two accounts. Even so, cell phone technology clearly has a very, very high penetration rate in Jamaica. Currently, Blackberrys have the dominant market share. But providing the consumer with appealing new options like Android and the Apple iPhone is driving even more ubiquitous adoption of smartphone technology. The obstacle to mobile gaming is not the cost of the technology or the consumer use of smart-phones. The biggest constraint to mobile gaming are the regulations that apply to the lottery industry, and the gaming industry in general. Technology and the consumer are moving much faster than are the legal and regulatory frameworks that govern this industry. That's true everywhere, whether it is in Jamaica, or North America, Europe, Asia ... everywhere. But the laws will evolve and so the migration to mobile gaming is inevitable. It's only a question of time.

The consumer does not go to a travel agent anymore to buy airline tickets. Likewise, the consumer won't accept the single option of buying their lottery products from a terminal in a retail store. They will be buying them online, via their smart-phone or home computer.

The lottery operator does want to make their products more accessible to the consumer, over the channels that the consumer wants to buy them. On the other hand, lottery operators need to be careful about how they go about this since they do not want laws to be changed that would impinge on their control of the market, right?

B. George: That is very true. But again, the geo-location technology has been operational for years, and is proven to be reliable and effective. But it is true that lottery operators need to be vigilant to make sure that laws do not change in ways that allow others to enter the market. As we see in Europe especially, a straightforward technological solution can become politicized and complicated with different interest groups lobbying for laws that would change the basic regulatory structure that protects the market for lottery operators. Obviously, lotteries do not want that to happen. On the face of it, though, what lotteries have done with multi-jurisdictional games like Powerball, Mega Millions, Euromillions, Eurojackpot, and Super Lotto in our region, is far more complicated than a geographically restricted offering of mobile games. Lottery operators have proven to be very adept at working together to drive progress, and integrate technological innovation, without altering the basic structure of a protected marketplace. It's just that the regula-

tory laws need to catch up to technological progress. The process of doing that does not need to turn into an issue of public policy, but unfortunately it often times does.

The business of lotteries generating funds for public-service causes should be protected. But insofar as technology is enabling multiple games to be distributed through multiple channels, do lotteries need to be explore the potential to enter into new gaming markets that are open to multiple operators? SVL has an exclusive license to operate lottery, but a non-exclusive license to operate other games like electronic games and sports-betting. But isn't your ability to deliver more value to your lottery customer enhanced by offering this larger portfolio of gaming content, and isn't your ability to protect your lottery market enhanced by being more of a full-service provider?

B. George: I think so. The Nintendo generation is maturing into a gaming market that enjoys new play styles like multi-player, social and skill-based formats. As these consumers become adults and the option of playing games of chance becomes available to them, they will not suddenly stop enjoying multi-player games and switch over to traditional lottery games. The consumer will want games of chance that resemble the games they enjoy. This demand will be met by somebody. The traditional suppliers of social games like Facebook and Zynga will meet that demand with games that add the chance to win real money or prizes with their social multi-player portfolio of games. Lotteries need to do the same thing from the other side – integrate social and multi-player attributes into at least a portion of their portfolio of lottery games.

The technology, consumer demand, and even the game content is already there to integrate games-of-chance with multi-player formats. The only bottleneck to merging the two is regulatory and legal restrictions that apply to all games-of-chance. This is good for lotteries since it creates a formidable barrier for the non-money game content providers and distributors to overcome. There are also constraints to the kinds of games that lotteries can offer and that is a barrier to entry. But from a regulatory perspective, it is much easier for lotteries to move into the social gaming space than it is for social gaming operators to move into the games-of-chance space. On the other hand, it will take years for lotteries to acquire the knowledge, business skill sets, and content to be competitive in the multi-player game space. If regulations were to evolve to allow the commercial operators in

the non-money game space to add a wagering component to the games, they would have an incredible portfolio of games launched and available for public consumption in months. They already have them available and are applying for licenses in the UK, and probably elsewhere too. And they may find creative ways to accomplish their goals of combining social with games-of-chance. Lotteries need to do the same thing – find creative ways to meet the demand for multi-player games that include a wagering component that is compliant with regulatory constraints and public policy agendas. The window of opportunity could close at any time, and it is frankly hard to imagine that lotteries could catch up once Facebook, Caesars Entertainment, Betfair, Zynga, and the like get their foot in the door.

Isn't there the opportunity for emerging economies and markets to leapfrog a generation of technology and in fact be the early adopters of mobile and internet-based gaming?

B. George: Absolutely. Jamaica is a good example of exactly that. Cell phone technology became affordable for most everyone about ten years ago. There were approximately 150,000 active users in 2001. By 2008, that number had grown 2 million. So the fact is that the emerging markets actually are better poised because they typically don't have legacy infrastructure that provides some measure of service and that they have to protect. The impetus to leverage the technology platforms and infrastructure that already exists in mature economies can be the ball and chain that impedes progress and the adoption of new technology. It is, paradoxically, the very lack of legacy systems that frees emerging markets to evolve more quickly with the adoption of new technology and the new markets that they create, like mobile gaming.

In the past, developed countries sold their old technology to lesser developed countries. So the lesser developed countries were always one or two generations behind in technology. Now, instead of building or upgrading an expensive land-based wired communications system, emerging economies can move right into the wireless world. Emerging markets could become the early adopters of new technology. The implications of this are very interesting. Insofar as there are fewer market-based obstacles to adoption of new technologies, the consumer markets are more flexible to evolve with the technology. This could enable the lottery and gaming markets leapfrog the mature markets. So I think that internet-based gaming could take hold faster in emerging markets

than in mature markets. Apple Computer is an example of that. They were so far behind the market and their competitors in the late nineties that they had no choice but to invent the next generation of consumer electronics and user-interface.

Instead of playing catch-up, emerging markets could become the source of true innovation that will surpass that of mature markets that are potentially stuck in the past.

Haiti is a good example of this. Haiti is moving quickly from having a very limited technological infrastructure to being on the most advanced cellular platform. Mature markets continue to have cellular communications networks using older platforms like TDM, TDME, and GSM. The most advanced standard is now GPRS (Global Packet Radio Service, the basis for the "3G" network). The cost of acquiring new technology is coming down such that countries like Haiti can now afford to move straight into GPRS without having to figure out what to do about existing communications platforms. The irony is that Haiti will soon have a more advanced cellular communications network than the more developed countries.

One thing for lottery to worry about is that cell phone companies may apply for license to offer mobile gaming. It may sound unlikely, but the key asset in this market will be the customer connection and relationship. It would be hard for anyone to compete with a cell phone company that leverages its account list to enter the gaming business.

The lottery revenue of SVL increased by an amazing 28.15% in the first quarter of this year over the first quarter of last year. What can you tell us about the lottery business and this amazing growth trend that you've got going?

B. George: There are a few consumer trends that are aligned with our own actions to fuel this growth. The consumer wants more options, more game content. So we are giving the consumer what they want and increasing the rate at which we launch new products. Our cash-cow game, "Cashpot," was launched ten years ago and had two draws a day. That has now gone to four draws every day. We have acquired some of our competitors and added games such as the Pick-4 and Pick-3 games, and been fairly aggressive in introducing new products. We are simultaneously implementing new games while increasing the draws of the existing games. I can't guarantee that the 28% growth rate is sustainable, but our revenue will continue to grow in double digits and not retreat from this higher benchmark

that has been established.

I should also acknowledge that part of the increase is due to the depreciation of the U.S. dollar. When the Jamaican consumer gets more value for their Jamaican currency, they tend to spend more. Too, the prize payout for some of our games has increased. Our average game payout is now at 64-65%. So we have adopted a model that allows for higher prize payouts to drive consumer interest and sales. We believe that a pricing strategy that is flexible to respond to competitive pressure in the consumer marketplace is the best way to increase profitability. The margins diminish a little over time, but we believe that this is inevitable in a dynamic and growing industry, and necessary to retain customer loyalty. The alternative, high margins with declining market share, is not a good long-term strategy even if short-term profitability appears to be stable.

On the other hand, am I wrong in thinking that you don't want margins to erode any faster than is necessary to maintain market share?

B. George: Of course there is a tipping point beyond which you are giving up margin without optimal impact on consumer buying behavior. But we want to grow our market and deliver the best value proposition, always. Having a constantly refreshed portfolio of products along with an increasingly powerful value proposition is our approach to meeting the needs of the consumer as well as our stakeholders.

Well, for instance, it sounds like you just described that your margin this year is somewhere around 35%.

B. George: Gross margin, yes.

Do you project that next year it will be like 34%? Or more like 28%?

It's really more a question of the mix of profits. We don't have a strategy to deliberately shrink margins in order to grow our business. I am just saying that we are not afraid of introducing products that have a higher payout percentage just because they will have the effect of reducing overall gross margin. There will be new gaming products and concepts that have lower margins and we need to be flexible to pursue that business. A product that has a 25% gross margin, but adds incrementally to the bottom line, is good for the business even though it reduces our overall margin.

Being flexible to allow for changes in margins is more about being flexible to expand into new gaming categories than increasing the traditional lotto revenue. You

don't want to allow the margins on your lotto products to erode any faster than absolutely necessary. Even long-term profitability of lotto is best achieved by trying to maintain that higher margin, isn't it?

B. George: Absolutely. We look at things on the increment, each product category as an independent profit center. But we also would want to avoid cannibalization of high margin products by new products that have lower margins. We simply want to manage a portfolio of different products, different game concepts, and different value propositions that appeal to the wide variety of consumer profiles for gaming products. Of course we do not want to introduce products that would cause a migration of revenues from high to low margin business. Maximizing the total profits, and positioning our brands and our company for long-term growth is what we focus on, not margin percentages. Fortunately, I have a boss that has had the patience to allow the business to expand into new products and new portfolio management concepts. Some are more successful than others. We have a combination of government stakeholders and private shareholders, and they are committed to a five year horizon and not swayed by short-term fluctuations.

In spite of being the exclusive provider of lottery products in Jamaica, SVL operates very entrepreneurially.

B. George: SVL is the exclusive operator of lottery games in Jamaica, but our thinking has to be very different from a monopoly. We need to earn the right to be the exclusive operator by delivering value to the consumer, the government, and our stakeholders. The government of Jamaica has the prerogative to appoint other operators if they feel that their interests would be better served by doing that; which means that we need to perform so well that they do not feel a need to do that.

We can't leave gaps of unmet consumer demand in the market-place. When it comes to gaming, if we are not delivering value to the consumer in any category or game, the government is free to license someone else to operate the games in addition to us. Including lottery. For instance, there might be a new game that cannibalize other higher-margin games such that it may be the right business decision for the monopoly operator to not offer it. But if it is a game the consumer wants and we fail to offer it, then someone else may propose to the government that they be licensed to offer it. In this sense, we

need to operate like a hard-driving commercial enterprise, making sure that we meet consumer demand, and recognizing that if we don't meet it, somebody else will.

It would seem that part of your job is to communicate the accomplishments of SVL to the shapers of public policy such that they feel that Supreme Ventures is delivering the overall optimal value for the business.

B. George: Yes. But our main focus is to in fact produce those results so that it is apparent to everyone that SVL is exceeding consumer expectations and that the market does not need another gaming operator. Our goal is to cover the market so well that potential competitors look elsewhere for opportunity. And that has nothing to do with communicating to policymakers, that has to do with pure business.

SVL leverages its retail network to sell non-lottery products, like topping-up cell phone

That is a good example of how technology both enables and obsoletes new business opportunities. Cell phone operators needed a way to avoid the high cost of preprinted cards with 13-16 digit numbers that customers used to add prepaid calling credit (Top Up) to their phones. The cost of printing and distributing these cards, along with issues of managing inventory and pilferage, was burdensome to the cellular companies. We had the retail distribution and the transaction-processing technology to enable them to top-up the consumers' SIM card instead of constantly replenishing with new plastic cards. Eliminates all the costs and burden of distributing millions of plastic cards. Good for the consumer, good for the cell companies, and makes money for SVL shareholders. This was a fantastic idea seven years ago. However, if you fast forward to today and you look forward into the future, several things are happening that obsolete that value added capability. The consumer can now do phone-to-phone and direct top-ups and so has less of a need to go to a retail outlet to buy a top-up because there are these other potentially more convenient options. Technology gave our retail network a big competitive advantage and now technology is taking away that competitive advantage. By creating more and more options for the consumer to acquire cell phone minutes, technology is eliminating B2B layers in the distribution chain.

Decreasing 'friction' in the distribution process is good for the consumer and the producer of services and content, but creates challenges for the B2B sector.

B. George: Of course. And all that is fine

for those of us who see technology as dynamically opening as many doors as it is closing. We think SVL is as good as anyone else at figuring out how to evolve at least as fast as the market, to stay ahead of the curve with new products, new business processes, new ways to add value to our consumer relationship and compete in this dynamic competitive environment. That applies to all aspects of business and products, not just distribution technologies. It certainly applies to lottery products.

Super Lotto is the multi-jurisdictional jackpot game sold simultaneously in the Dominican Republic, Barbados, St. Maarten, Anguilla, Antigua, St. Kitts & Nevis and the US Virgin Islands, as well as Jamaica. What is the future? Why not combine with even more jurisdictions to create bigger games for bigger markets?

B. George: I see Super Lotto as being a stepping stone to a larger, world-wide block of lotteries. There is tremendous opportunity to expand the multi-jurisdictional games. Super Lotto reaches about 13 million people. That is not much more than the state of Illinois. The multi-jurisdictional games enable even the smallest market to be an equal part of an exciting gaming experience. There are obviously many challenges to making that happen. But the benefits to everyone are very compelling. Multi-jurisdictional games will continue to grow. The games themselves will need to evolve to appeal to a more diverse consumer base, and the technologies that make them available to the consumer will also need to evolve. And yes, we see Super Lotto as the means to an end, the harbinger of things that are much bigger. ♦