



## Dermot Griffin

Chief Executive Officer of the  
Irish National Lottery

**INTRODUCTION BY PAUL JASON:** The Irish National Lottery was founded in 1986 to support initiatives in the areas of sport and recreation, health and welfare, national heritage and the arts, and the Irish language. Since gaming operations began on March 23, 1987, over €3.4 billion has been raised for these causes. Two-thirds of Irish adults regularly play National Lottery games. Lottery spending per capita in 2009 was €183, putting it into the top 20 lotteries in world. The National Lottery is operated by the An Post National Lottery Company, a subsidiary of Ireland's postal services provider An Post.

Dermot Griffin was appointed Chief Executive of the National Lottery Company in 2006. Previous to this appointment, Mr. Griffin served as Commercial Director, and Finance Director at Vodafone Ireland.

Mr. Griffin and I attended a presentation at the WLA Brisbane that inspired us to explore the ways that game content is developed, and compare how it's done in the gaming industry versus how it's done in other industries. The iPhone, for instance, has over 300,000 applications. What did Apple Computer do to unleash this incredible explosion of content development and are there things that gaming solution providers could do to foster that kind of creativity, or to encourage a more prolific game content development environment? Of course, there are many constraints in the gaming industry that don't apply to other industries. Software that processes millions of financial transactions, guarantees the integrity of a highly dynamic betting system or even just the sale of lottery tickets, and operates under a politically charged media microscope as does gaming, would certainly need to meet a different level of security than the applications implemented for the iPhone. And as

a matter of public policy, it isn't necessarily the goal to overwhelm the market with exciting content. Even so, the mission of Team Lottery should include being the leader in technology and forward-looking game content.

**Paul Jason, Public Gaming:** *Apple creates software application development kits that make it super-easy for developers to create content. How is this done in the gaming industry? Are platforms and protocols built to make it easy for third-party game content and software application developers to create product for the lottery and gaming industry?*

**Dermot Griffin:** Look at the way the mobile phone industry evolved. Nokia, Nortel, Vodafone, Ericsson and others all had 3G technology years before Apple even thought about

getting into the mobile phone business. Then the iPhone comes in and takes over the market. The mistake that was made by the originators of 3G technology is to over-control the different revenue streams. They thought of the users of mobile phones as their customers. Those customers bought the phone from them. They bought telephony services from them. And so why shouldn't they buy the content accessed via the new 3G technology from them? They recognized that 3G technology would be key to turning the mobile phone into a truly smart phone that would deliver much more value than just telephony. Since they controlled the phone itself, why shouldn't they control the profit from the sale of the content and applications? It was called a 'walled garden' approach in which the

seller of the handset and telecom service would control everything that came into their garden. Apple, of course, chose a different strategy, essentially tearing down the walls of the garden. They made it super easy and economical for anyone to build and implement new applications over their system. So developers built literally hundreds of thousands of applications that the customer could buy for practically nothing. I know that the success of the iPhone is partly attributed to its graphical user interface. But what really unlocked the value of the new technology was the explosion of great content. Apple shrewdly realized that their core expertise was in hardware technology and that becoming the platform for a universe of third party content developers would increase the value of their prod-

uct to the consumer, which is what ultimately drives sales. Even Apple probably did not appreciate the amount of content that would result. There is an incredible wealth of talent that's just waiting for the opportunity to build great content. Content development never took off, even though the 3G technology was there to support it, until the proprietors of the hardware and systems technology made it possible for the third party developers to enter the business.

*How does it work in the gaming industry? Do manufacturers of hardware and systems provide open platforms that make it easy for third part developers to build content?*

**D. Griffin:** We'll have to see what they do. All of the main systems, terminals, and technology providers appear to be assembling a stable of content development companies that augment their own core competencies. That does not need to be thought of as a bad thing, unless their intention is to be the provider of all products and services to the exclusion of others. For instance, if the system provider acquires a content provider, won't the systems provider make more money on the content sold by their own subsidiary? And if they make more money when the customer buys content from their own in-house content provider, won't they be tempted to do things that make it easier and more cost-effective for the customer to do that, to buy from their in-house content provider and not from a third part content provider? So the truth will be in the pudding. Most lotteries have great relationships with their main systems providers. I know we do. And so we will be perfectly happy to buy content from them as well as hardware and systems and service. But hopefully, they will not make the mistake that so many businesses have made and attempt to over-control the customer. They need to make it super-easy for third party content providers to implement their products over their systems. They need to provide effective software development tool kits that enable those third party developers to build and implement their game content. They need to create open platforms with standard protocols so that content can be readily launched with minimal modification. And importantly, they need to make it as cost efficient as possible for content providers to provide their games on the Lottery platforms.

The thing that was revealed over the past couple of years with the iPhone phenomenon is that nobody controls creativity. Nobody has any kind of proprietary ability to control creative talent. Almost by definition, the creative talent that drives content development cannot be bought and put into a lab' and told to unleash the magic that produces the great products that will transform the industry. That creative talent

emerges from all manner of unpredictable and uncontrollable sources. Which means that there is no alternative to opening the systems up to engage the talent of tens of thousands of game developers from all across the world. Maybe you can buy a company to fill certain gaps in your technological and infrastructure capabilities. But you'll never own the engine of creative content development in that way. Let's do the smart thing and position lotteries to become the purveyor of the most fantastic game content in the gaming industry. Let's position lotteries to do for the gaming and wagering industry what Apple did for the smart-phone industry.

*That's quite a vision. And I don't see any reason why it can't and shouldn't happen. Who else has the connection to millions of consumers to convert added value into increased market share?*

**D. Griffin:** Exactly. Working smart is what will benefit all of us. Apple actually needed a cash infusion from Microsoft to just stay alive less than a decade ago. And now I read that Apple has a market capitalization that is second only to Exxon Mobile. It's higher than Microsoft, IBM, GE, and Google. Why can't we do what Apple did and unlock the creative talent of everyone to drive Team Lottery to be the Apple of the gaming industry? We've got the technological infrastructure, the brand equity, the distribution, the trust of consumers, and the thousands of consumer touch-points to make it all happen. And the purpose of everything we do is to serve Good Causes. With all those assets and the mission to serve the public good, there's no reason we should not lead this industry; and not just the lottery business, but the wider gaming and wagering business and even take a chunk out of the broader entertainment industry.

It's all about doing everything we can to add value for the benefit of the consumer. We need to tear down the garden wall, allow others to pour in the talent and resources to maximize value to the consumer and grow the overall market. Let's do what Apple did and invite content developers to create the breakthrough innovations and new game concepts that will grow this market.

*Any notion about what those new game concepts might look like?*

**D. Griffin:** Sure. Just look at all the entertainment-only non-money games that are taking the world by storm. Start by looking at what others with far fewer resources and who can't even offer prizes and rewards are doing to engage the players' interest. Look at the popularity of massively multiplayer online role-playing games like World of Warcraft and social games like Farmville and countless video-games. Drill down to figure out exactly what makes a game popular and fun for

the consumer. The first thing that many people would say is, well, we can't do this or that. My point is two-fold. First, even without knowing how it can possibly apply to the lottery business, we should engage with creative content developers to understand the underlying dynamics that make their games so popular. Even though the principles and structures that govern the lottery business may not allow us to do some of the things they do, we still want to understand why their games are so appealing to players. Maybe with some creative thinking and ingenuity we would find that there are some things they do that we could integrate into our own game development. Second, while it's true that we can't do some of the things that other purveyors of games can do, it's also the case that we can do something that they can't do. Our ability to offer prizes and rewards is a huge competitive advantage. What if we could combine that entertainment value, or even some part of that value, with the ability to win prizes? Combining the ability to win prizes should enable content developers to create game concepts that are way better than Farmville and give lottery a significant competitive advantage. Prizes could really bring these games to life. Combine the ability to hope and dream with exciting entertainment.

*Why isn't it happening now?*

**D. Griffin:** I think it is starting to happen but very slowly, we need a more conscious effort to open the garden to content developers from outside the lottery business, to attract them in and start building momentum.

*Aren't development costs another barrier? How can developers predict a sufficient ROI to support the cost of creating the great content? After all, the cost of developing game content is far higher, isn't it, than the cost of developing applications for mobile phones.*

**D. Griffin:** That brings us to another issue that is holding this industry back. It is the lack of standardisation in our entire technical infrastructure. Referring again to the telecom industry: Look at the great lengths they go to create standard platforms and protocols that all suppliers across all geographical locations conform to. In the lottery industry, technology and infrastructure differ from country to country. That requires there to be a country-specific approach to content development. As you point out, the need to customize and adapt content for each market increases costs. Without coordinated trans-national marketing and distributional efforts, you have lower revenue potential. Higher costs and lower revenue potential means lower development budgets. It all adds up to a lack of momentum driving content development and the kinds of games that will transform the in-

dustry. And it does not make sense because the worldwide lottery industry is a massive business, with an established player base that would likely be responsive to exciting games offered by their lottery operator. And one of the key factors in games of the future is the social multi-player platform. We have a great opportunity if we can leverage our existing player base. Yet another reason for lotteries and their commercial partners to figure out how to standardize technological and infrastructure platforms and build a multi-jurisdictional approach to all aspects of the business. If we're not the ones to produce the next Farmville phenomenon, it's because all of our efforts to create content are so focused on small initiatives to meet the needs of individual markets.

It doesn't have to be that way. The bloc games like Mega Millions, PowerBall and EuroMillions are tremendously successful and demonstrate the capability of what can be accomplished if we think bigger and work together to create common platforms, global branding, and a master marketing plan. It will need Lottery operators to compromise on some of their specific requirements but the benefits make this worth it. Why can't the next bloc game be something completely different – something that integrates all the appeal of the mega-successful social and multi-player games with the prize structure of lottery? It will take people with vision who can find a way to channel development funding towards an objective that would have the potential to be a new phase of growth for Lottery operators, providing existing players with exciting new games and attracting in a new younger generation of players.

*As a practical matter, how does that get accomplished? You referred to the bloc games. Is that a model for how commercial partners and lottery operators can all work together to accomplish a bigger objective?*

**D. Griffin:** It's a matter of looking beyond our immediate challenges and envisioning what we could accomplish down the road. Don't try to wrestle down all the specific impediments that appear in front of us right now. Instead, imagine what we could accomplish under different conditions and then work to create those conditions. First, recognize the power of standardization to create economies of scale which reduce costs as a percentage of revenues while increasing overall development budgets. The ability of the entire industry to grow will be greatly enhanced by adopting a standard set of protocols that enables interoperability between games and platforms. Other more mature industries have standardised in this way. Our commercial partners need to take the lead on this as they operate across many markets. They need to attract/encourage/incentivize content providers in the gaming space to

adopt games for the lottery business.

*What about security? Non-money entertainment-only games do not need to comply with the same levels of security that lottery games do, with millions of financial transactions.*

**D. Griffin:** There are many mobile phone applications for banking and e-commerce that require equal levels of financial security. The technology is there and its application is widespread and proven. It's true that security is a critical issue and the highest standards of quality and control must be adhered to. But there's no question that it can all be done.

**EXAMPLE:** We have a number of instant games up on our website. And we also have a TV show called Winning Streak which is one of the top TV programs in Ireland. We wanted to replicate something like the TV show on the internet. We commissioned a third party to develop the game. They developed the game, and then worked with GTECH to implement it online. The end result is an online game that replicates what happens on our popular TV and game show. It's by far our best online performing game. GTECH does have a library of games to sell, but as our commercial partner they want to help us deliver the very best product to the consumer. If an outside developer figures out a way to combine some of the popular elements of Farmville with lottery, then GTECH will want to help us make that available to the consumer. The Apple strategy worked because they did everything they could to enlist the active support of the worldwide community of developers. That's what we want to see in the lottery business.

*You began a rebranding campaign in 2008. I would think that the increasing complexity of product portfolio management will call for a reassessment of brand strategy.*

**D. Griffin:** We did not initially plan to change the brand, and certainly not to rebrand everything. Our initial goal was simply to link all of our products together in some way without actually rebranding. This is a relatively very young industry. Many of us started less than 30 years ago. We started small and evolved the brand to integrate additional products as they came along. That was fine when we just sold Scratch cards and Lotto. Then we brought in TellyBingo, then Winning Streak, EuroMillions and more games followed. A strategic review of where we were and where we're going revealed that while lots of games had been added, our strongest brand continued to be Lotto. It was even stronger than our corporate brand. And EuroMillions was seen by our players as a totally different company competing with Lotto. We originally tried to link them in some way together without changing

the different branding elements more than necessary. But the more we looked at the issue, the more we felt that a total rebranding was necessary and that we should have an umbrella brand. We would tie everything into the National Lottery with our Masterbrand logo.

Everything is consistent now. We may add a symbol to our corporate logo to promote specific games and seasonal themes but it always remains consistent with our Masterbrand. We feel that this combines a feeling of freshness and newness while also sticking to a consistent program of building the brand. So now, every new game launch leverages equity we've built into our Masterbrand logo. And every new game launch also adds to that brand equity so it is a continually self-reinforcing feedback cycle. For the first time ever, we now have a master brand advertising campaign that systematically integrates our product portfolio to make it easy for the consumer to know that it is all a part of the National Lottery.

*Do you anticipate changes to the product mix in the future? Are there any interesting trend lines in player game preferences?*

**D. Griffin:** In the short term I don't expect our product mix to change much. Our players tell us that they love playing Lotto and so Lotto will always be the main game. We'll certainly look for ways to reinforce the excitement of the game. Likewise with EuroMillions and scratch cards, both of which we consider to be core games. One of the elements of our current strategy is to consolidate and grow our core games. We brought in a number of new games over the last few years and now feel a need to refocus and promote some of our established games. We think some of the attributes that made the core games so popular with previous generations will also appeal to the next generation. Our impulse to update the products does not need to completely supplant the core games that players of all generations seem to like.

*What is your most important merchandising initiative in 2011?*

**D. Griffin:** One of our projects this year is to update our in-store Digital signage. The plan is for us to install digital screens into 1,000 of our 3,800 stores. Effective signage has become more important as the number of games and price points and jackpots increases. This signage will ensure that we always are getting the right jackpot messages to the players, the right mixture of games being promoted on the correct days, and enable us to easily switch our game focus from one day to the next, keeping everything more dynamic and exciting for the customer. It also allows us to add in other messaging like respon-

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*Through your subsidiary Global Draw, Scientific Games has become quite proficient at the business of true server-based wide-area networked gaming. That is, implementing electronic game consoles in a large number of remote locations, each with a small number of units. Why couldn't that form the basic platform for a console that would dispense all varieties of gaming products, including lotto and instants? Create a Player User Interface that would make it easy for the lottery customer to buy all different kinds of gaming products from each POS?*

**L. Weil:** That is an example of something that we're working on right now. That is a perfect example of convergence, and is exactly what Kennedy and Beason are working on. Kennedy's job is to understand what that terminal you're describing needs to do. That is a complicated issue, of course, because of all the differences in regulatory requirements. Then Beason's job is to figure out how to aggregate the technologies and implement the consoles, systems, and networks that deliver the end result that's desired. In cooperation with the retailers and operators, we are developing a family of products to deliver the kind of seamless access to all games that you described. The lotteries themselves are under huge pressure to increase funding to Good Causes, and so all of their resources are channeled towards maximizing profits in the current fiscal year. Which means they don't usually have the resources to invest in next generation technologies. But it absolutely has to get done. The upside potential is significant and we don't want to let that pass us by. Perhaps more importantly, though, is the downside consequences of not keeping up with your customers. Lotteries think of themselves as operating in a monopoly environment. But the consumer will be presented with more and more options for games of entertainment that are merging with games of chance. Lotteries need to hit the refresh button and do it sooner than later. We're making the investment to help them evolve with the consumer. We conserved

over the past three years so that we could step up when the timing was right to invest in growth with new products, new initiatives, and innovative strategies that would pay off for our customers. That time has arrived. In fact, we all now need to move quickly just to keep up with the marketplace.

*The concept of outsourcing management of the lottery, like the IL Private Management Agreement (PMA), seems to have a lot to recommend it. Offload the capital intensive role of investing in the future, as well as the risk of an uncertain ROI timeline. Lock in a predictable payment plan. Engage the commercial partners to do what they do well, provide financial incentives for them to invest in growth, and retain ownership of the asset. Seems a good bet.*

**L. Weil:** It is. But it's actually not as much of an innovation as it may seem. Commercial partners have always performed many of those services. This isn't the first time that contractual terms have been incentivized to pay for performance. Our instant ticket co-op services business, for instance, engages us directly in both the upside benefit of exceeding objectives, and downside consequence of falling short. We share the fruits of success with the operator. And it's not a coincidence that the co-op services system was also adopted in a down economy. The lotteries in effect outsourced the cost and risk associated with developing and launching new products. Payment for doing that came out of the increased profits. So it really was a win-win. It worked so well that there was a ten year period of time when the instant ticket business grew at 20 times the rate of the online, going from half the size of the online business to being twice the size of the online business. Now we've gone through a period when we've had very intense pressure on the profitability of instant tickets. The industry will be healthier, sales and profits will grow, only if there is an ROI that supports research, development, and innovation. Lottery operators and their

commercial partners need to come together to assess the entire situation. They need to identify exactly who is going to do the R & D that is the source of innovation and growth. The IL PMA is one way. And it is a very good way. But it's not the only way to engage the commercial community directly in a risk and profit sharing structure that benefits everyone.

*But doesn't your Northstar venture point the way towards a more open-minded approach to managing the lottery business? Won't this example predispose legislators everywhere to consider a wider variety of ways to collaborate with the commercial community to achieve the results they want?*

**L. Weil:** Certainly the Northstar venture is a step in the right direction of thinking outside the box and trying to conceptualize a model that is going to create incentive for suppliers to invest on behalf of the industry and work harder to drive growth. Another example is the joint venture that we have with Lottomattica in Italy in the instant ticket business. There's more than one way to skin a cat and produce a great result. And sure, I do hope that we are entering a period in which governments and commercial participants experiment with different operational models. I don't think it will ever be a one size fits all. There will be more innovations in the way lotteries collaborate with their commercial partners, the way commercial companies collaborate with each other, and the way that lotteries collaborate with each other. There doesn't seem to be any shortage of permutations and combinations! The ultimate driver, of course, is delivering maximum value to the consumer. The beauty of capitalism is that success comes to those who focus on that rather than legacy notions of how business should be conducted. Scientific Games and all of its affiliates are truly excited about the possibilities in store for lotteries to be the innovator, the leader, in the coming era of growth for this industry. ♦

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sible gaming and local beneficiary projects that are being supported by funding. It just gives us a whole new level of control over the messaging that the consumer is exposed to at the time and place that they are making their purchase decisions. The messaging can also differ by region as needed. It all happens with the flick of a switch from a centrally controlled network. In one of our player surveys, the number one reason for buying a ticket is because someone else in the queue bought a ticket or they've seen a sign in

the store about it. So it's really about making sure that our messages are very strong in the store. One of the things that we've learned as part of this project is that people's attention span is much less in the store than it is when looking at the television or reading the newspaper. So our messages will be condensed into 5-7 seconds for digital broadcast in-store.

*Could you clarify the ownership structure of An Post Lottery Corporation. If it's 80% owned by the*

*Ministry of Finance, and 20% by the Post Office, then that means it's essentially owned by the government of Ireland, right?*

**D. Griffin:** Yes, it's a state body and so in effect we're 100% owned by the government. But structurally we are a separate corporate with our own board of directors. And in terms of corporate governance we're a separate body. We have two shareholders: the Postal Service and the Department of Finance. ♦