EVOLUTION in Public Gaming

The Ascent of the Full Gaming Service Provider

By Connie Laverty O'Connor and Matt Mansfield, GTECH Corporation

Just when it seemed that nothing was changing in public gaming, the more it changes.

As might be expected, the technological drives toward instant communication and instant transportation have opened new markets of opportunities. Yet, even within the traditional retail world, shifts are taking place at very basic levels. Adaptation to these disparate forces of change requires a more complex and complete solution for survival.

The Dynamic Environment

A quick look at a recent analysis by GBGC for expected growth trends in gross gambling yields (GGY — revenue generated after prizes are paid to players) for global markets during 2007-2010 compared to 2003-2006 illustrates the shifts among major segments in the big picture *(Table 1)*.

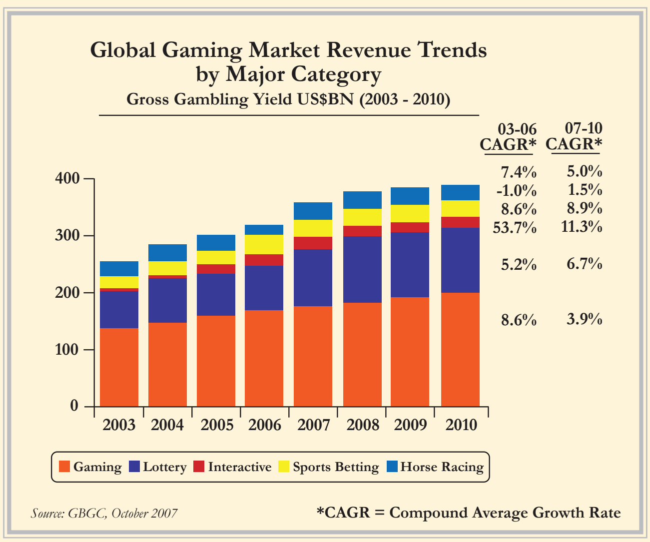


Table 1

While growth in the global gaming market is expected to slow from 7.4% to 5.0%, lotteries are still expected to perform slightly above average at 6.7%, driven by instant and social games. The overall growth drivers are interactive gaming and sports betting.

The aggressive expansion of the interactive sector arises from its diverse portfolio: lottery wagering, bingo, poker, casino-style games and skill gaming appealing to different player bases. Sports betting will be driven by both retail locations and a slightly faster pace for the new online (internet) sales segment.

Player Selection

These gross gambling yield projections are grounded in what players are saying and doing with their lottery and non-lottery gambling preferences. A GTECH 2008 World Player Survey conducted with 8,000 lottery players in ten countries (three North American, four European and three Far Eastern) provides a clear snapshot of two and potentially three segments driving gaming sales, especially for lotteries:

- A broad player group of all ages, including "casual" impulse players and dedicated "core" frequent players, who like big game concepts
- A smaller player group of the "core" frequent players, generally older, who also like more specific games
- A younger group, from all different parts of the world and especially the Far East, attracted to gaming through new technologies

A comparison of "Total" (within past year) and "Past Four Week" playership immediately shows that the large player base games are consistently the Multi-state/National, In-state Lotto and Instant Scratch Games while all the other games have much smaller monthly participation *(Tables 2 & 3)*.

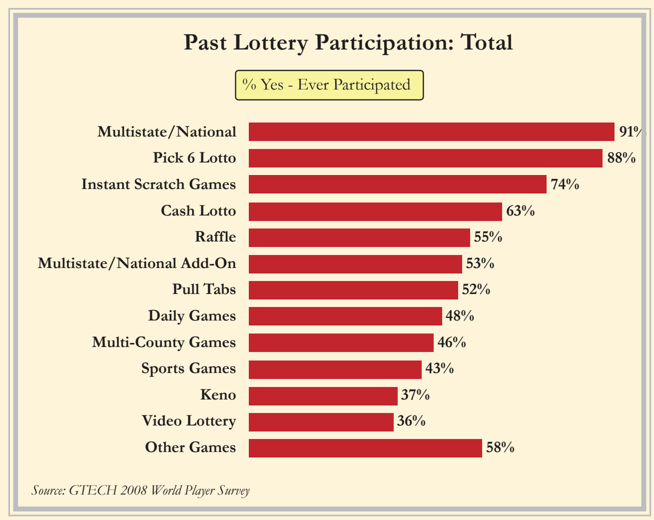


Table 2

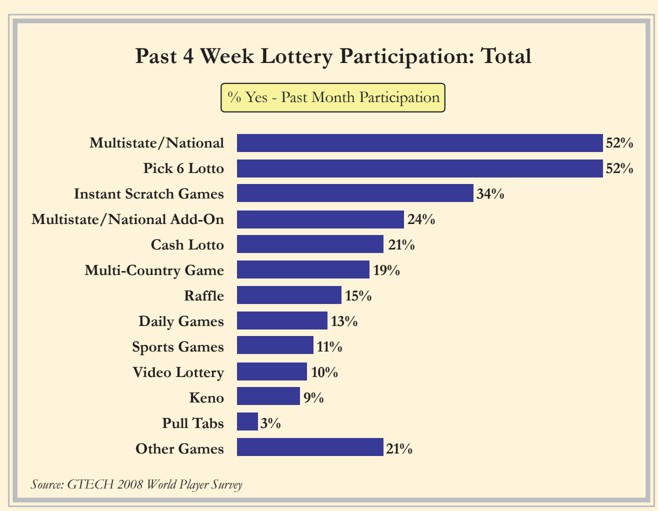


Table 3

However, the frequency of weekly playership is just as high for the smaller player base games as the large player base ones indicating a very dedicated playing group, hence, consistent sales performances (*Table 4*).

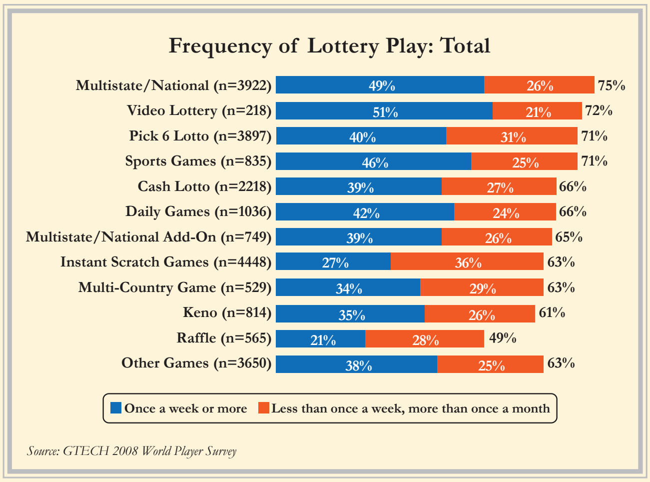


Table 4

Regarding participation in non-Lottery games that people attend "in person," raffles have a very high level while other forms such as betting on sports events, visiting casinos, playing video lottery machines are at levels similar to those for the lottery games with more dedicated player bases (*Table 5*). This survey also indicates that one of the chief motivations for playing these games was "you know immediately if you've won."

Participation in gaming through the internet is relatively low

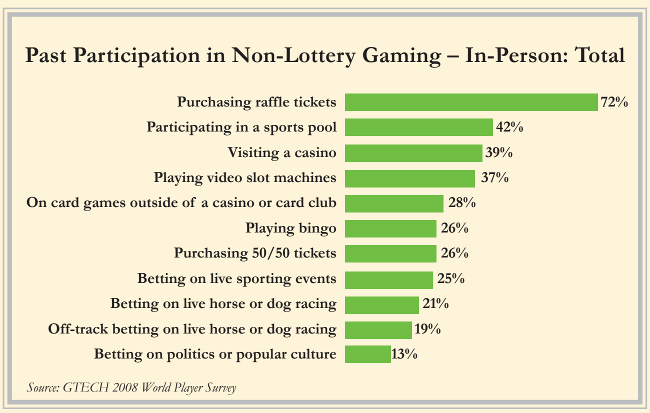


Table 5

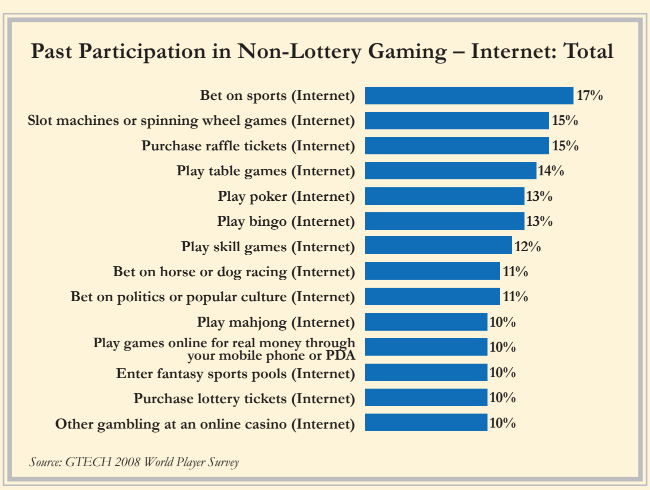


Table 6

compared to in person participation and lottery playership. The motivation of immediately knowing if you have won has equal importance (*Table 6*).

Despite low current participation, interest in lottery gaming through new technologies is high, especially among Far Eastern, Mexican and younger players, suggesting future, if not immediate, sales potential (*Table 7*).

This observation is further reinforced by median spending on lottery

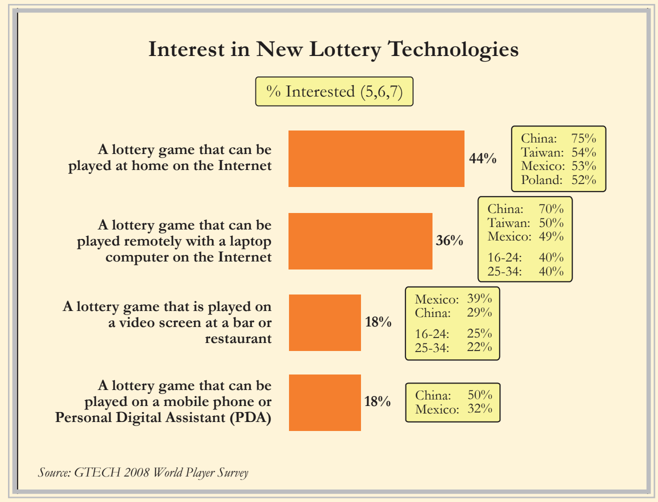


Table 7

and non-lottery (in person and internet) gaming during the past four weeks among younger and middle-age demographic groups (*Table 8*).

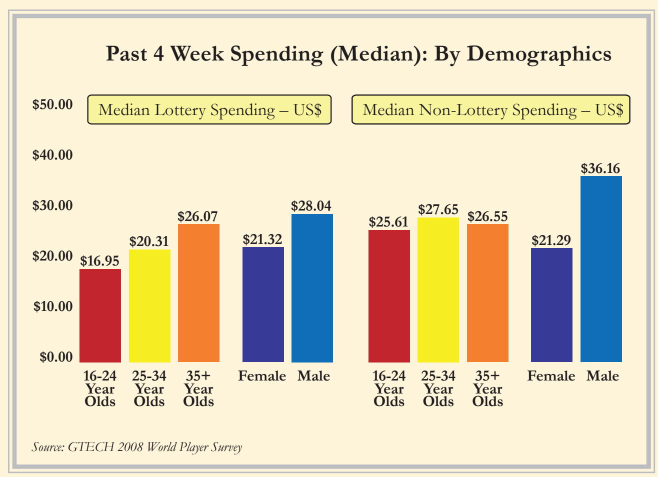


Table 8

Shifting Lottery Traits

While the development of new markets is evident in the global gaming projections and player attitudes, traditional lottery gaming built on *retail convenience* is undergoing its own evolution. Over the past forty years lottery games have become much more familiar, hence, understood and accepted by the public, including large player and retailer groups.

While the retail lottery model of separate clerk-activated terminals is still the industry standard, there is growing reliance on player self-education, self-service and expectations that lottery transactions should be integrated into the retail mainstream. Some of the real and potential impacts are:

- Self-service equipment with instant and online game offerings as well as other services such as ticket validation
- Integration of lottery transactions into retail point-of-access (POA) systems at checkouts
- Digital lottery promotional displays at retail for more cost efficient and timely marketing communication
- Player card services for managing transactions, promotion and money

Coincidentally, the traditional game portfolio is being pressured by player demand, through their actions or inactions, for new gaming formats and winning experiences. Depending on the legislative constraints on prize payouts, these conditions are leading to:

- Diversification of online, instant and monitor portfolios to add promotional and long-term games and add-on features
- Collaboration with third-party developers within the industry and from other non-lottery groups to create games and promotions
- Need for "on demand" systems with turn-on turn-off flexibility for game and promotion management

Yet, these developments may not satisfy all "gamers," especially those who are the "core" players and those interested in gaming delivered through new channels. With the technology revolution, the progression of lottery gaming has branched into two divergent lines:

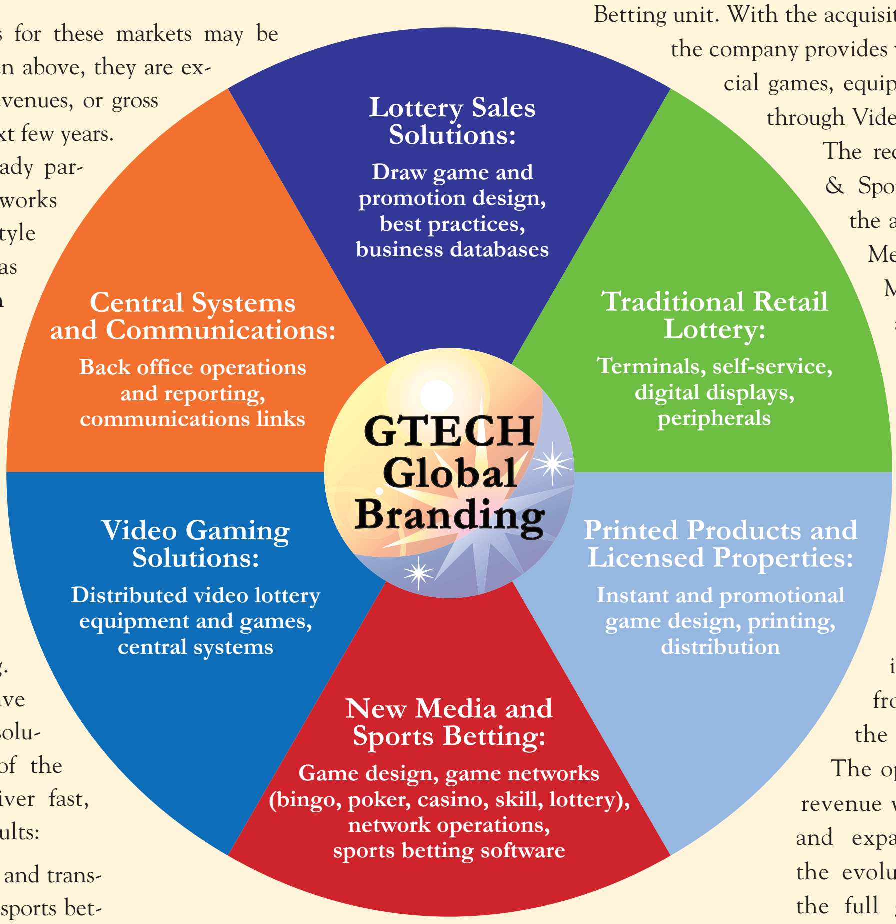
- *Anywhere, anytime gaming* delivered through the internet
- *Destination gaming* with enriched video on dedicated machines

While the player bases for these markets may be numerically smaller, as seen above, they are expected to produce high revenues, or gross gaming yields, over the next few years.

The first group is already participating in gaming networks for bingo, poker, casino-style and skill games as well as sports betting through PCs or mobile devices. Traditional lottery games such as eScratch are also part of the portfolio mix. As implied by the descriptor, the "destination" group is brick-and-mortar commercial locations for sports betting, casinos and video gaming.

These new worlds have pushed development of solutions taking advantage of the latest technology to deliver fast, accurate and complete results:

- High speed information and transaction management for sports betting, internet and on premise gaming networks
- High quality browser-based game and transaction execution
- Immediate payment methods with eMarketing and CRM features
- Proven, reliable security support for these systems



Full Gaming Service Provider

Adapting to Change

To meet the challenges of evolution for the traditional and new lottery markets has required adaptation within the lottery and commercial gaming support businesses. An example of this process at work is how GTECH is making changes, organically and through acquisitions.

The company continues to develop solutions in equipment, central systems and communication networks for traditional lottery models with an intense focus on integrating lottery transactions and marketing into the retail mainstream.

At the same time, recognizing that lotteries have pressing needs for immediate sales results for which typical procurements may take too long, it has expanded its marketing capabilities with a Lottery Sales Solutions team drawing from best practices, sales databases and game design to advise customers.

While known for its online game development, management and support capabilities, GTECH has expanded into the instant game design and printing as well as licensed properties segment with the formation of GTECH Printing Corporation (GPC) and the addition of the IGI promotional game design group.

To keep pace with the new growing market segments, GTECH has created a Video Gaming Solutions unit and a New Media & Sports Betting unit. With the acquisition of Spielo and Atronic the company provides video lottery and commercial games, equipment and central systems through Video Gaming Solutions.

The recently formed New Media & Sports Betting unit following the acquisitions of Finsoft, Boss Media, Dynamite Idea and St Minver offers customers the ability to realize income from the creation, marketing and management of internet-delivered gaming in the form of game networks and operations as well as sports betting.

As public gaming progresses, the pressure on lottery gaming is to not only get more from but also go beyond the traditional portfolio. The opportunities for sales and revenue will require both detailed and expansive solutions, hence, the evolution of and reliance on the full gaming service provider to maximize legislatively enabled gaming potential. ◆