



## Bill Huntley

President, Lottery Systems,  
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PGRI Introduction: Scientific Games is bullish on the prospects for accelerated growth in the traditional lottery products space. Wanting to understand the basis for that optimism, and also get insight into decisions regarding capital investments, and how IT providers are differentiating their product and service, I asked Bill Huntley to share his views on these and other issues. Also included are some thoughts on what lottery operators can do to further optimize the performance of their businesses, and what Scientific Games is doing to help them in that mission.

From 2000 to 2006, Bill Huntley served as president of Lottery Systems at Scientific Games. He then served as president of Scientific Games Racing, Sports and Gaming Technology from 2006 to 2007. In 2011, Bill returned to Scientific Games as president, Lottery Systems.

In this role, he is responsible for U.S. Lottery Systems, European Lottery Systems, Video Gaming, Systems Support and Project Management. In the years prior to rejoining Scientific Games in 2011, he provided consulting services for several of the company's key business development initiatives.

*Paul Jason, Public Gaming: SG is recognized worldwide in the lottery industry, predominantly for its strength in the instant tickets business, but not everyone in the industry is aware of the size and depth of the company's systems business. In the big picture, though, couldn't it be said that systems really drives the technology behind everything?*

**Bill Huntley:** Well, when a company invents something as game-changing as the world's first secure instant ticket, there will always be that initial perception – even 40 years later. But our company's systems division has been here all along and we really do drive the technology behind everything happening at Scientific Games. Right now we have over 40 gaming systems globally, including systems within our instant ticket services contracts. In Europe, we are actually a leading systems technology provider, and manage an engineering center out of Vienna, Austria. Our gaming control systems monitor more than 97,000 slot and video gaming machines throughout the world. We launched the China Sports Lottery a few years back and that's grown from 1,500 terminals in one province, to tens of thousands of terminals throughout every province in China. In the U.S., we've completed several large systems conversions

for lotteries in Indiana, Pennsylvania, and most recently Iowa. So, yes, you could say that our technology systems and engineering teams are definitely enabling some exciting programs here at SG and for the industry.

*By most conventional measures, the lottery industry would appear to be in the mature stage of its life cycle. Still a lot of profit legs left, but not necessarily poised for the kind of growth associated with the early to middle stages. And yet, Scientific Games appears to be doubling down on the future of the government-sponsored gaming sector and the lottery business in particular. Do you see the traditional products getting back into high single-digit growth or even higher; and what factors will drive that growth?*

**B. Huntley:** That is a great question. SG is actually very bullish on growth opportunities within the industry. We believe in the potential of the core product offering and the potential for growth through new game content, platforms and distribution points. Given the fiscal crisis facing many states, lotteries are challenged to not only maintain their current proceeds in the face of increased competition from other forms of gaming and entertainment, but to meet the growing financial needs of the beneficiaries that depend upon them.

We think there are tremendous opportunities to evolve the traditional lottery products, improve marketing and penetration to reach new players, and create more engaging and entertaining gaming experiences.

From a product perspective however, many lotteries are still offering the same draw games that they've had for the last 20 to 30 years – and for the most part at the same \$1 proposition. So, we see the industry as a whole looking to move to more fun and entertaining offerings, adding to the product mix, extending the game experience with website interaction and incorporating what we've learned on the instant product side of the portfolio.

In addition to the product side, there are still plenty of opportunities to enhance retail performance – to increase the presence of the lottery category at retail. But we all have to educate retailers, particularly chain accounts, that lottery can be positioned as its own business within the business. With our SalesMaker™ program, we've seen some fairly dramatic results – participating retailers have experienced 20 to 30 percent increases in sales. In fact, as part of our partnership with the lottery in Maryland, we're launching a statewide program to increase execution at retail. As for sales distribution channels, we see lotteries

expanding into non-traditional retailer locations, to the internet, to mobile devices and to third-party networks.

Growth is also expected to come from engaging players with loyalty programs and interactive game content, where legally permitted. So far, we're having great success with our Properties Plus® program. And Sciplay, our joint venture with Playtech, is developing new interactive products for the next generation of players who have grown up with the internet.

The challenge for the industry remains the ability of state lotteries to have the flexibility to function like private businesses, to have the ability to procure products and services that will have the largest return on investment in actual dollars to their beneficiaries. More state procurement policymakers are recognizing that the growth opportunity is not with the least expensive offer, but with an investment approach in programs, games and technologies that generate the greatest profits.

*What is SG doing to position its lottery operator clients to truly optimize the growth potential over the next three years (ROI timelines being more compressed now!)?*

**B. Huntley:** One of our key areas of focus as a company is to customize our offerings to meet the dynamics of each individual jurisdiction – to optimize the lottery's current game portfolio, including adding categories such as monitor games, exploring avenues for price point growth, positioning products at retail, and re-engaging with existing and new players through web-based platforms like loyalty clubs. We are working with our customers to capture the next wave of gaming opportunities as platforms develop with internet and mobile. The key is listening to our customers, understanding the dynamics in their business and bringing proven programs and games that work.

*Do lottery operators, and more importantly their political constituents, necessarily even aspire to truly optimizing their growth potential? Aren't there systemic factors that cause there to be an underlying ambivalence about achieving their full potential?*

**B. Huntley:** We see lottery organizations around the world working diligently to deliver revenue performance to the governments they serve. This is a complex business with many stakeholders: government, retailers, beneficiaries, players, employees, vendors. Lottery leaders do have the accountability to maximize performance within the boundaries of social responsibility, and for the majority, we see a focus on managing to the potential. Where policy restrictions present barriers to business execution, lotteries are exploring how to strategically outsource the management of business functions. This creates in essence a

public-private partnership model that maximizes the strengths and capabilities on both the government side and private business side.

*Hasn't IT become a commoditized business? Can a more effective IT strategy serve as a competitive differentiator? How can the lottery systems business in general evolve to deliver a competitive advantage to the operator?*

**B. Huntley:** Yes, IT has absolutely become commoditized, in our industry and in broader technology industries. But, fortunately, we are not solely in the business of providing IT deliverables. While technology infrastructure is a significant part of our product offering, we consider technology the enabling platform that supports our business mission – and SG is in the business of helping our customers fulfill their mission of maximizing lottery transfers to beneficiary programs.

While some states have recognized that the procurement for a systems contract is not simply buying new computers and terminals, others are restricted by state procurement rules that focus only on lowest cost – not on investing in programs that maximize net profit to Good Causes. A lottery's ability to dramatically grow profits by focusing on retail sales opportunities on already lean operating expenses. So, the lotteries coming out of fiscal crisis in the best position are those that have been able to invest in growth – not cut expenses to the point of restricting growth. This is why SG has been selective in which opportunities we bid, as well as how we bid. It adds no value to our existing customers, or our company, or our shareholders, if we assume contracts that are not structured to be profitable. We'd rather invest in innovative products that help our existing customers grow their business than take on contracts that are financially unprofitable.

So, back to your question Paul, the shift from growth-based solutions to lowest-price solutions has accelerated the commoditization of the industry and led to stagnation. It's time now to focus on innovation and growth, reinvigorating the brand of the lottery, attracting new players and increasing distribution points.

*The traditional lottery products have had a life-span that is virtually unmatched in modern economic history. How much longer can it continue without a major refresh? What can Team Lottery do to reboot its products, its distribution strategies, its marketing and pricing strategies, its broader portfolio management strategies, its retailer optimization strategies, and everything else?*

**B. Huntley:** Lotteries in general need some flexibility within the confines of state government to be able to "invest" in their business. For example, during times of fiscal

constraint, advertising is almost always the first line item to get cut – and sales suffer as a result. The Pennsylvania Lottery is a great example of a lottery that has invested in the future by investing in more retailers, both traditional and through self-service, as well as exploring non-traditional means of communicating with their players such as digital content at the point-of-sale. The combination of these efforts has resulted in a 4.6 percent increase in total sales for fiscal year 2011 over last year – and an all-time record sales year for instants of almost \$2 billion. Many of these programs are available to lotteries through their existing contracts as options. It is a matter of working with lotteries to implement these options and really drive sales. The Iowa Lottery recently challenged the vendor community and sought innovation through its systems RFP. We were fortunate to win that bid and just completed a very successful technology conversion. Iowa exercised a number of creative product options to grow their sales and engage their player base, such as our new iPhone app and our web-based player loyalty program. They've just completed a record of \$271 million in total sales in fiscal year 2011 – up 6 percent over last year.

The key for lotteries is not accepting status quo. We as an industry can't manage the product set with the same business assumptions from 10 or 20 years ago. For example, an area like retail licensing needs a refresh if we are to bring on new retailers and grow distribution. Keeping an eye to the future, incorporating new business methods, and listening to the people that sell the games, retailers, and the people that play the games – the players – will keep the industry moving forward.

*What can be done to enhance the lottery playing experience, to lengthen the playing experience, to 'gamify' it or add the play into the lottery experience?*

**B. Huntley:** Gamification seems to be taking off as the latest buzz word in our industry! At SG, we remain very focused on new product development. Re-engaging players and reaching new players is a key focus across the company, in all business units. We recently announced the formation of MDI Interactive for this very purpose, and will continue to launch and develop new products including interactive games, second chance promotions, linked games like Wheel of Fortune®, third party games and games with a national focus. Our mission on the systems side is to develop the enabling platforms to support these products. And of course, to guide our customers to ensure that the player experience is seamless and delivered with the best consumer marketing principles.

*The products themselves: Anything genuinely*

*new under the sun? Any game concepts that represent something innovative and/or non-traditional, something that will depart from the fundamental forms and structures of traditional lottery?*

**B. Huntley:** We start with the player and work our way back from that point. It is all about enhancing the player's experience. Once we make that leap, opportunities continue. We are seeing tremendous movement in the area of loyalty-based rewards programs and products that connect with players on multiple levels and provide an entertaining experience. If you widen the view beyond the U.S., there are many examples of games, promotions and delivery mechanisms that have been instrumental in growing the draw game portfolio. There is no reason that some of these programs can't be adapted and implemented right here in the U.S. As you know, many states are turning to slot and video gaming machines for additional funding. Especially in the distributed model outside of large casino facilities, we see tremendous opportunity to introduce technology and services to continually bring fresh content to players to enhance their gaming experience.

*Creating alignment between the objectives of lottery operators and their commercial partners would seem to be a key component to success. It does not seem like it should be so hard to create compensatory and organizational structures that support a clear embrace of mutually desirable goals. And yet it's not always been done to great effect. What can both vendors and lotteries do to create a keener alignment*

*between lottery operator objectives and the focus and investment strategies of their commercial partners?*

**B. Huntley:** It's always been a core part of SG's philosophy to align ourselves with our customers' goals. The challenges come with constraints placed on the lottery to invest in growth and the general hesitation to trying new things in the marketplace. Government administrations that embrace an entrepreneurial spirit and support the lottery in their plans to grow proceeds have the greatest positive impact. We see our role as supporting our lottery customers in educating their stakeholders and constituents. In fact, we just collaborated with the Pennsylvania Lottery to increase their retailer network. Wawa is a very successful Pennsylvania-based convenience store chain – and they have successfully integrated technology, including self-service, into their retail model. The Pennsylvania Lottery made it a priority to bring Wawa onto the retail network, and we enhanced our self-service solution to integrate into their infrastructure and business model. As a result, the Pennsylvania Lottery has added over 200 highly profitable Wawa stores to their retailer base. Creating a business relationship that is built on trust with common definition of business goals naturally creates alignment.

*Having left the role of president of Lottery Systems in 2006 and returned to it early this year might give you an interesting take on a standard journalism question: How have the key issues*

*changed in this industry over the past five years? What areas have become more problematic? Where have interesting opportunities emerged?*

**B. Huntley:** The challenges facing the industry remain the same, but some of the issues have become dire – more budget deficits, more focus on cost control versus growth, less consumer discretionary dollars available for entertainment – and increased competition from other areas of gaming and entertainment. This has created a call to action to address the challenges. Coupled with this, and likely as a result of the current environment, I do also see more collaboration in the industry than five years ago – not only between lotteries themselves but also between lotteries and their vendors, and even between vendors, to allow for interoperability and open systems that embrace products that can help grow the industry as a whole. In Canada, we see how new product development on a national basis has come about as a result of strong, ongoing and goal-oriented collaboration. We applaud the leaders in the U.S. and worldwide that are working across jurisdictions for the betterment of the industry. For centuries, government sponsored lotteries have been in existence to provide a unique and much needed service to those in need of financial support. We believe the lottery industry is on the verge of an exciting new period of growth and innovation, and I am glad to be part of this forward movement. ♦