



**Francisco
Ibarra Arana**
General Manager,
Board of Social Protection
Operator of the National Lottery
of Costa Rica

PGRI Introduction: The national lottery of Costa Rica is operated by a division of the Costa Rican government that manages a wide variety of social services. Its mission is to operate the lottery for the benefit of 300 state and non-state organizations that work to help the most vulnerable groups of society. In the interests of increasing the funds for social services, the Board of Social Protection has embarked on an ambitious plan to modernize lottery operations over the next two years. Implementing a new network of retailer terminals, adjusting the prize-payout structures, establishing new distribution procedures, developing a new technological platform, re-engineering the organizational structure to respond to a more competitive environment, updating and improving existing products and launching new products – these are among the objectives of the Board of Social Protection for the national lottery. It is an ambitious vision. Now begins the job of turning this vision into a concrete agenda and then a reality. The general manager of the Board of Social Protection, Francisco Ibarra Arana, describes the action plan that his team is implementing over the next two years. The name for “Board of Social Protection” in Spanish is “Junta de Protección Social”, which is shortened to the acronym “JPS” in conversation and also in the following interview.

Paul Jason, Public Gaming: *What is the stakeholder structure of the Costa Rica Lottery?*

Francisco Ibarra Arana: The Lottery is under the management of the Costa Rican Board of Social Protection (JPS), which is a government institution. Operating since 1845, JPS is one of the oldest institutions in Costa Rica. The Board of Social Protection began operations with a hospital and thus became the first institution for social protection and security in Costa Rica. Since that time, JPS has added to the number and variety of ways in which it helps the neediest people of Costa Rica. The lottery was first started in 1885, with a draw lottery.

What percentage of your revenue is made up by the draw lottery?

F. Ibarra Arana: Right now there are two games in the draw lottery. The Lotería Nacional is our main game, and comprises 59% of the revenue. The other is called the Popular Lottery, and it comprised 31% of the total revenues in 2011. So, 90% of our business is in the two draw lottery games. Instant lottery is just 2.2% of revenues.

Could you describe the distribution system used to sell the draw products?

F. Ibarra Arana: We have 2,100 street sellers who are selling our draw or passive products. This is the primary distribution

channel. Additionally, we have a relatively small network of terminals, with only 195 points of sales that are retail stores. These are just PC computers connected by the internet to our central system. In this point of sales, we distribute draw products and electronic products.

We recently selected GTECH to install 1,000 terminals in stores all around the country. Additionally, there will be 400 mobile devices used by retailers to execute transactions and sell our products. This will dramatically change the entire way we do business. It will give access to more consumers, making it much easier to buy the products, and making the way we process transactions and manage the business much more efficient and modernized. This will be implemented the first half of 2013. We will go from having 195 retail stores to 1,400 retail POS's, including supermarkets and gas stations.

What about the street sellers? Will they still be selling the lottery products?

F. Ibarra Arana: We want them to continue to sell the lottery products, to serve their customers, and for lottery to continue to be a useful form of employment for the street sellers. But they are afraid of cannibalization, that they will lose a portion of the market to the new network of retail store terminals. They are protesting our plans to implement the network of retail POS's.

What can you do to try to get their support or overcome their concerns?

F. Ibarra Arana: We are creating new games for the street sellers to sell that the retail stores will not sell. They are: Tiempos digitales, a number game that the street sellers don't have now, but they will have the possibility to sell with the new mobile devices, Pega Millones, a lotto game, and a Sportbeating game..

Excellent. So you're providing them with a mobile device that they don't currently have, enabling them to sell more products than they currently sell, and enabling them to sell some products exclusively, that the retail stores will not sell.

F. Ibarra Arana: Exactly. That is the idea. We do need to make the product more accessible to the consumer. And so we do need to modernize with installation of networked terminals in retail stores. But we also want all of our channel partners to be successful with selling lottery products. This is the livelihood

of street sellers. We do care about them, we do want them to be able to make their living selling lottery products. And they have their lottery customers, many of whom may prefer to buy from them than the retail stores. So we want to do our best to earn their support and cooperation. This is not so very different from the challenge that lottery operators have in the USA to convince their land-based retailers to support their efforts to sell lottery products over the internet. The best way to minimize cannibalization and channel conflict is to grow the business, increase the size of the pie instead of fighting over the same piece. That is our goal, to grow the business, and give the street sellers the tools and the products to succeed. Good for the street sellers, good for the consumer, and good for the funding of social services in Costa Rica.

Are there other gaming operators in Costa Rica?

F. Ibarra Arana: There is the Red Cross, which operates bingo. And there are casinos and sports betting operations in Costa Rica. But JPS is a legal monopoly with the exclusive right to operate lottery in Costa Rica.

Of course, like everywhere else, we have many illegal operators. They copy our games, like Tiempos, and sell them illegally and have an significant share of the market. We calculate that illegal lottery revenues are more than \$100 million a year. We do expect that our new retail terminal systems will capture a portion of that. Increasing the POS's will enable more consumers to have easier access to buying the games and that will help JPS to regain market share and revenues from the illegal operators. And we will be augmenting the new network of terminals with new and refreshed games and modernized operations.

The Instants category has been growing at a very fast rate in some other markets. For instance, it now makes up well over half the total sales in the USA. Do you project the Instants category to increase much over the next two years?

F. Ibarra Arana: Yes. Our main distribution channel is presently street sellers and they can only carry one Instant product at a time. Implementation of retail terminals will bring lottery into the stores and enable us to sell a much bigger portfolio of products. So we will expand our portfolio of Instant products as well. When you look at some of the most successful lotteries, like Massachusetts for example, it would appear that a big reason

for their success is the wide variety of Instant products they sell. We hope and expect that giving the consumer lots of options at the point of sale will increase sales in general, but especially in the Instants category where the ability to offer a big variety is much greater than in the draw games. Enabling retailers to sell our products, and having a modernized system for processing transactions through a variety of channels, will enable us to increase the entire portfolio of products, refresh the games more frequently, and make those products more accessible to the consumer.

We also hope to add sports-betting to our product portfolio. That will not only increase our overall sales revenue, it will bring in new gaming categories that will give JPS a higher public profile and make JPS more relevant to the consumer.

There is a lot on your agenda over the next 18 months. Undoubtedly it will all add up to increased funding for the social welfare of Costa Rica. Is law enforcement very effective at stopping the illegal operators?

F. Ibarra Arana: Frankly, no. Our police department and authorities don't enforce the laws against illegals because they have more important matters to deal with. They just do not have all the resources they need to stop more harmful criminal activities, so they focus those resources on areas other than the illegal lotteries.

JPS does not participate now in a multi-jurisdiction or international lottery, correct?

F. Ibarra Arana: No. Right now we don't have a multi-national game. We are considering the options and exploring the possibilities and studying a proposition of GTECH. Super Lotto is the multi-jurisdictional game operating in the Caribbean Islands. And so it is possible that we may join a game like that. Our legal department is studying the laws and clarifying the legal restrictions and precisely what JPS is allowed to do by law. We can see the tremendous success of Euromillions, PowerBall and other multi-jurisdictional games. Small countries like Costa Rica would benefit economically by being able to join with others and be a part of the bigger jackpots that those games enable. Even so, it may be the case that JPS is not allowed to be a part of a multi-national game.

Your two big goals for the next 18 months are to increase POS's and distribution and increase the portfolio of games. And especially increase revenues in the Instants category.

F. Ibarra Arana: Exactly. Another goal that we have is to enhance the public image and consumer awareness of JPS and the traditional lotteries. Right now we only have three offices in the three major cities. But that leaves a large part of the country without a JPS office that is close by. So we are going to expand the physical presence of JPS with more offices. This is important because the street sellers need to have an easy way to return unsold product. To do that, they need a physical office to return them to. This is another benefit for the street sellers to help them operate more efficiently and we hope these benefits will result in

their being supportive of JPS and lottery.

We are also going to add bar coding to our products to improve control over inventory and prize payments. The tickets are printed in our own office and we are working hard to earn ISO 9001 and ISO 14001 certification for safe, reliable, and high quality products.

You have very ambitious plans.

F. Ibarra Arana: Everything we do is for one purpose: Contribute funds to the 300 institutions that the Board of Social Protection supports in their efforts to help the neediest people in Costa Rica. There are so many social needs, like helping the poor, children

who are abandoned, the disabled, people who cannot afford the medical attention they need. That is the real mission of Board of Social Protection, to help these people. That is the purpose of installing new retail terminals, expanding the product portfolio, improving business processes and modernizing our operations, and trying to reduce illegal gaming.

That's a very exciting vision. And it sounds like you're well on your way to accomplishing it. Truly you are taking the steps to turn your dreams into a reality.

F. Ibarra Arana: Thank you. And I hope that God makes you a prophet! ♦