



Lottery as Both a Public Trust *and* Market-Driven Business

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Lotteries, whether state sanctioned or privately operated, have long been with us, going back to ancient times, and have almost always been used to fund public purposes and good causes. It is believed that officials in the Han Dynasty funded portions of the Great Wall of China through lottery proceeds. From at least the time of Augustus, the Romans employed lotteries for city repairs and portions of the public infrastructure conceived by the Empire's fabled engineers. And many of the landmarks in Europe's Medieval cities – what we still see as stolid walls and fortifications, quaint bridges and cobbled roads – were made possible through lotteries common in those times.

Early America saw a similar reliance on lotteries as a form of needed fund raising for both private and public purposes. Prevalent on the Continent, lotteries were brought to the New World for all sorts of uses and impacted all manner of significant –and historically meaningful – undertakings. Indeed, iconic Jamestown itself, our first permanent English colony, was established and funded in part through lottery-derived financing made available to the Virginia Company in London. Thereafter, with the settling of the colonies, countless lotteries were used to finance roads, canals, bridges, hospitals, and even churches, and were utilized by such notable figures as George Washington and Benjamin Franklin. In addition to providing much of the needed infrastructure, lotteries in colonial America funded most of the colleges established at that time, including such revered institutions as Harvard, Yale and Princeton, and the Continental Army could not have survived the outset of the Revolutionary War without early reliance on funds generated from lotteries authorized directly by our fledgling Congress.

That contemporary lotteries trace their lineage across the span of time and place, including some of the most noteworthy moments in the American experience, gives context and historical understanding to our contemporary industry setting. It's revealing, maybe even comforting, to know that for centuries enterprising folks have tapped the widespread attraction to "chance" to accumulate resources needed for a larger good. Still, while these early lotteries share a fundamental concept and basic purpose with our modern version, they were relatively simple affairs, often more akin to a large raffle or a simple numbers drawing, a far cry from the sophisticated operations of today's state-sanctioned lotteries.

Unfortunately, all too often the view from the outside lacks understanding of the nature of today's lottery industry. The notion that lotteries are little more than a simple game delivering easy proceeds is encountered far too often among the general public and policy makers alike.

That lotteries exist for and serve myriad good causes – e.g., scholarships and education, environmental initiatives, after-school services, programs for seniors – is increasingly recognized and appreciated. Enough money has been invested in enough good causes with a multitude of beneficiaries that the stakeholder community is now vast.

It remains the case, however, that the characteristics of the lottery business are not widely understood. And that's the critical concept: business. The modern lottery operates as a business, a complex, sophisticated, market-driven business. Operating much as any other private sector enterprise, the modern lottery is a business that provides a consumer product that competes for consumers' discretionary dollars in the same manner as do countless other products.

Yes, there are certainly some differences with the run-of-the mill private sector consumer product company. Lotteries, in fact, have additional burdens, unique challenges apart from the need to satisfy the profit imperative. Foremost perhaps is the obligation to pursue proceeds in a responsible fashion, safeguarding against the potential social costs that sometimes accompany uninhibited gaming practices. And, as Paul Jason of Public Gaming Research Institute has written, in addition to fulfilling commercial and financial objectives, lotteries and their executives are held "accountable to a dizzying array of political constituencies, to the player community, to the retail channel, to the media, and ultimately to the larger general public." Such is the nature of the industry.

Still, in most every relevant respect, a lottery is a business enterprise and operates accordingly, with an eye to delivering on the bottom line. Whether set up as a traditional state agency or commission, or in the corporate form found in more recent iterations, contemporary American lotteries operate as a commercial, profit-driven enterprise, albeit one with a public purpose. Acting pursuant to a budget prepared by executive leadership and often approved by commission members or boards of directors, lotteries, like all businesses, seek to sell their products and operate in such a fashion as to maximize profits. That ongoing effort involves constant attention to such things as prize payout, marketing and advertising efforts, retailer needs, distribution channels, sales force goals and organization, technological advancements, player services, and, of course, customer demand. The better structure allows lotteries to operate with appropriate oversight but minimal intrusion from regulators and bureaucratic requirements. Such an approach vests authority within the lottery executive structure, allowing decisions regarding strategy, budget, expenditures, organization, advertising, and similar matters, to be based on business-related factors and address market demand.

As in any business, lottery profits can't be mandated or pre-determined. The same qualities that give rise to private sector success – such as flexibility in decision making, a commitment to customer service, an understanding of the relevant market forces, a willingness to innovate and the wise use of technological advances – lead to high-performing lotteries. Success, then, is the result of a series of sound business choices and the effective allocation of the available resources. Operating as a business in this manner means profits are maximized and proceeds increased for good causes.

Knowing that many of our oldest and most esteemed universities were originally financed with proceeds from colonial lotteries gives context to our understanding of this industry. But knowing the subject matter taught in the business schools now housed in such institutions is what gives us the tools and insights necessary to create and sustain the high performing enterprise that is today's modern lottery. History may provide the foundation, but today's lottery edifice requires so much more. ♦