



## Vernon KIRK

Executive Director Delaware Lottery

### Lessons from the U.S. Lottery which Sells Casino-Style Games Online

**PGRI Introduction:** Now in its 41st year of operation, the Delaware State Lottery offers the largest variety of game-of-chance through a wider variety of distribution channels and media than any lottery in the U.S.

Video Lottery games were introduced in 1995. Sports-betting was launched in 2009, and casino gaming was launched at three racetrack casinos in 2010. A couple years later, Sports Lottery was expanded to select Sports Lottery Retail locations throughout the state.

On November 7, 2013, the Delaware Lottery launched its online gaming system offering casino-style games such as poker, blackjack and more, making them available for play on the websites of Delaware's three casinos: Delaware Park, Dover Downs, and Harrington Raceway & Casino. The roll-out has been one of steady development. By design, no high impact promotion or PR to drive rapid growth. With traction building, and perhaps reaching a tipping point, the first half of 2016 was almost double the net revenues over the first half of 2015. Now is a good time to ask Director Kirk to reflect on the impacts and insights gained from these first few years of online gaming.

**Paul Jason:** *Describe your relationship with stakeholders over the past four years as regards to the implementation of online gaming in Delaware. Have the general media, land-based casinos, legislators, and the lottery all been in agreement with how casino-style internet gaming should be implemented and managed in Delaware?*

**Vernon Kirk:** The Delaware Gaming and Competitiveness Act of 2012 which, among other things, authorized iGaming, put forth some requirements of operations (i.e. must be in the State of Delaware to play), but gave the Lottery wide latitude for implementation and operation. Delaware's three land-based casinos are in partnership with the State as the Lottery has administrative and regulatory oversight of their gaming activity and the State shares in the profit distribution. iGaming in Delaware is required to be offered only through the websites of the casinos, but the platform is provided by the Lottery through its vendors, Scientific Games and 888 Holdings. The State, the vendors, and the casinos all worked hand-in-hand during the long, complicated development

of the product and in the end, all stakeholders had ownership.

*What do you do to nurture and manage positive relationships with all the different interest groups?*

**V. Kirk:** There is constant communication with all of the groups involved. We have regularly scheduled meetings and phone conferences to assess what is working well, what may not be working the way we thought it would and what can we do to improve and make the customer experience better.

*Further to the previous question: I would think some stakeholders press for a focus on a slow, steady, responsible gaming approach towards growing the online business. And others press for higher revenues. And aren't there are countless other issues to resolve into a singular strategy for the Lottery to pursue. How do you clarify objectives and execution to satisfy stakeholder agendas that sometimes conflict with each other?*

**V. Kirk:** From the very beginning, Delaware emphasized providing a safe, secure and stable platform for its iGaming. I know Nevada and NJ were similarly focused. It was critical

for these first launches to be successful, not only for the individual states, but for the industry as a whole. There were more than a few iGaming opponents who said you couldn't do reliable geolocation, couldn't do proper player identification, couldn't do safe payment processing, etc. Any slip-up had the potential to set-back iGaming who knows how long. But Delaware, along with the other jurisdictions, have had no serious or significant operational or integrity issues since their respective launches. No cheating scandals, and no underage players or players from outside state boundaries. To your point, I have been on several panels with Nevada and NJ and we always get asked about revenue and we all reply in the same manner. The question should be does it work, not are you disappointed in how much revenue you are generating. Delaware has now turned its attention to player acquisition with more targeted marketing. Having established a strong and reliable operational platform, we are now able to focus even more on the revenue-building component. I think the results are really beginning to show, with a 93% year-over-year increase for the first six months of 2016 versus the same period last year.

*Does your experience indicate that there is much cross-over between players who play lottery at retail stores, those who buy online, those who play casino-style games online, and those who play in land-based casinos?*

**V. Kirk:** We have no direct evidence that players migrate between traditional lottery customers and iGaming, or even land based casino customers and iGaming. Questions relating to consumer play-styles and behavior will be part of a player's survey that's being planned now.

*Do your promotional strategies facilitate and encourage consumers to go to different channels and try different game-styles?*

**V. Kirk:** Yes, we have tried to promote exactly that. For example, the casinos have poker tournaments that start on-line and finish with live tables at the casino. Also, coupons and other giveaways are awarded online and redeemed at the brick and mortar facility, and visa-versa.

*Is there anything that promotes Lottery to casino and i-gaming players?*

**V. Kirk:** We have not found much of a market for cross-over between our traditional game Lottery players to the casinos and we are currently not well positioned to encompass the same to iGaming. We have tried various types of casino promotions such as selling NASCAR instant tickets in conjunction with races at Dover Downs, but with modest success. We have had success cross promoting our Sports Lottery with casino gaming with such things as buy a Sports Lottery ticket of a certain value and receive a match-play coupon for table games (i.e. blackjack, roulette, craps, etc.). Our Vegas style iGaming is more difficult to coordinate with our traditional products, but when we get to the stage where we will be selling our traditional products online, I'm confident we will be able to find ways to promote to both types of players as they will both be familiar with the genre. For example, some online loyalty programs offer game play and that could serve as an introduction and transition to our iGaming platform.

*What have you learned about player behavior that has surprised you, or that you did not know five years ago?*

**V. Kirk:** We have a large contingent of young players online. That is not surprising in and of itself, but a large number of them are young women, and that has been a bit surprising for me. They are very loyal and enthusiastic players, especially on certain virtual video lottery games.

*Why not sell traditional lottery products online?*

**V. Kirk:** We definitely will, but our Agency is very small and we have had a lot on our plate. Going back to the Delaware Gaming and Competitiveness Act of 2012, we were authorized to expand our Sports Lottery from the 3 casinos to include retailer locations. We did that first so that we could launch in time for the 2012 professional football season. We were also authorized to start Keno, which was number two on our agenda, and we successfully launched in January 2013. We then turned our attention to iGam-

ing and what I call eLottery (traditional products online). We had thought we may be able to do them in parallel, but that proved way too ambitious, so we made the business decision to do iGaming first. We launched iGaming in late October 2013. Then, in February 2014, the Governors of Delaware and Nevada signed the Multi-State Internet Gaming Agreement, the first of its kind in the nation. This agreement allowed for the two states to share poker liquidity where players from both states could sit down at a virtual poker table and play against one another. We added mobile for iGaming in May and then were tasked with establishing limited video lottery in fraternal organizations throughout the state. As soon as we catch our breath, we will look toward eLottery!

*How has development of online gaming impacted traditional lottery revenues?*

**V. Kirk:** We have seen no impact on our traditional lottery revenue. FY13-15 were all record years in traditional sales for us (2015: \$149.7 million; 2014: \$148.3; 2013: \$144.1). Then we shattered the record in FY16 with \$175.0 million. All of Delaware's products were up, but the primary reasons for the increase were the resurgence of Powerball (up 45%) and the continued success of our instant games (up 21%, in part fueled by our first \$25 price point game).

*What do you do to maintain growth in the traditional lottery sector in the face of increased consumer options for recreational gaming?*

**V. Kirk:** Like many if not most, our traditional lottery growth has come from instant scratch-off games. We have focused on value in all price points and introduced our highest (\$25 per ticket) just a few months ago and it became the first instant game the Lottery ever re-ordered.

*It appears to be the case that the DE legislature will not legalize Daily Fantasy Sports? Do you think that might change? How do you think the Fantasy Sports phenomenon will impact the broader games of chance space, and lottery in particular—not just in DE but across the country?*

**V. Kirk:** There is a Delaware Attorney General advisory letter that states fantasy sports are games of chance, not skill, and as such, according to Delaware Law, are a lottery, and must be under the administrative and regulatory control of the Lottery. Fantasy sports companies insist they are a game of skill, and to concede otherwise would cloud their participation in much larger states than Delaware. Delaware residents already have great sports betting options, possibly causing the fantasy sports operators to focus more on other states.

*The Delaware Lottery model is unique in the U.S. for having the widest variety of games distributed through the widest variety of distributional channels ... What do you think is*

*least understood about it?*

**V. Kirk:** Delaware Law states that there be only two kinds of gambling in Delaware—Lottery and horseracing. If there is prize, consideration and chance, it is a lottery and must be operated by the Lottery. Anything else, like games of skill, is illegal.

*What challenges do you think are underestimated, what solutions are not being adequately embraced?*

**V. Kirk:** Honestly, the Delaware Lottery has always had tremendous support from a succession of administrations and has been given the freedom to manage gaming from a professional perspective. We appreciate a high level of harmony with our stakeholders who share the objective of building a

professional gaming operation that meets the needs of consumer with the highest standards of player protection and responsible gaming.

*What has the implementation of the Multi-State Internet Gaming Agreement and the multijurisdictional, progressive video lottery network taught you about the challenge of forging multi-jurisdictional collaboration?*

**V. Kirk:** Anything can be accomplished with cooperation. We are different jurisdictions, but working together for a common goal embraces that diversity and allows us to solve problems. A clear focus on the outcomes that benefit our respective stakeholders gives us all the will to overcome obstacles and create mutually agreeable solutions. ■