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PGRI Introduction: Key to understanding the mass-market appeal of lottery, and to capitalize on that appeal, is to understand the role of soft-games and the application of player-centric product development and marketing strategies. Commercial partners have built an increasingly sophisticated portfolio of tools to help the lottery operator analyze player preferences, segment the market, and build products customized to appeal to the increasing variety of play-styles. Marrying state-of-the-art technology with a dedicated player-centric strategy is the current challenge. As lotteries move onto the internet, customer relationship management, data-mining and converting that into better products and promotional strategies, and understanding the unique characteristics and values that define the lottery market are what will drive consumer engagement and sales. As global leaders of interactive scratch cards and lottery games, NeoGames brings a uniquely informed perspective to these issues.

Paul Jason, Public Gaming: *We just saw two presentations here at the ICE London show that posed two different views. One posited that multi-channel distribution will drive a convergence of consumer markets and that lottery should evolve to appeal to a wider variety of play styles. The other stressed the core values and existent mass-market appeal of lottery and that we really need to recognize the fundamental attributes of our lottery player and focus on consolidating our position within those values.*

Barack Matalon: I firmly agree with the latter. It's important to start with the player, to understand the player. There is much discussion about the convergence of player profiles, i.e. that multiple channels will deliver all games to all consumers all the time and this will result in a convergence of play styles. And of course there may be some convergence. I feel, though, that the more important thing for lottery to understand is how their market is in fact not converging with other, more hardcore gaming domains. Lottery appeals to a mass market that casino games do not, and the lottery players do not perceive themselves as gamblers. These are crucial differences. And the fact that there are differences serves the interests of the lottery operator. It's the lottery market that is the envy of the entire industry. We want to appreciate that and work to preserve those differences as opposed to promoting a convergence. With a little creativity, lottery products can be designed to appeal to all age groups, both genders, and lots of different play-styles. We just need to have a keen understanding of what our core values are, what is fundamental to the lottery player profile. Lottery is rich with potential to innovate, but we do want to stay clear on what appeals to our customers. That's why NeoGames wants to help lottery consolidate and extend its position with the traditional player, not try to reshape lottery to appeal to casino style players or player profiles not consistent with our fundamental values.

To what extent is the internet a channel of distribution for existing products versus a medium that redefines the playing experience and so requires fundamental changes in game design?

B. Matalon: We break it all down into three areas. The first priority is to understand the player. A player-centric strategy focuses clearly on the play styles and preferences of the consumer. For all the talk about convergence, the profile of the lottery player remains distinctly different from other player profiles, in particular the casino player. Second is the communication media that connects you to your customer. There are the traditional mass-market media like television, newspaper, radio, billboards. And there is new media which is all about digital. That includes everything internet and mobile, and the social network media like Facebook. Third is actual distribution, the POS where the customer is directly engaged and transactions are executed, which now includes the internet and mobile world as well as the land-based retailers. NeoGames' mission is to provide a full platform solution to integrate those three elements into an effective player-centric strategy for the operator.

Let's start with the player. Could you help me make more sense of how multiple channels will drive convergence and, more to your point, how it won't?

B. Matalon: The hope and dream is a key design element for all lottery products. We need to appreciate that our key value proposition is more compelling than ever. Lottery appeals to a mass market not just because of convenience. It appeals because most people value the hope and dream more than they like to gamble. The lottery operators and their commercial partners want to embrace the hope and dream player and not feel like we should try to become something we are not. The outcome-focused gambler is not our market. If you ask any of the lotteries that already launched in parallel to their Lottery and Instant offering also a Poker offering, how much convergence do they see between their lottery interactive players and their poker interactive players, they will admit they see very low, even close to zero convergence levels, and we should not allow our focus to be distracted by trying to appeal to them. We do need to reinvent our products to appeal to up and coming consumers in new and exciting ways. But we want to stay true to the fundamental concept of lottery which has that mass-appeal. That hope and dream appeal can be augmented with extended-play and entertainment-enhanced attributes, but NeoGames' player-centric vision keeps us true to the fundamental values of lottery.

However, we can subdivide our lottery market in many ways. For instance, if you look at the instant and scratch-card games, they are really not so much about "life-changing" as they are about changing your day. The rewards are smaller, more frequent, and revealed in real-time. This provides a powerful basis for appealing to today's gamers. The combination of hope and dream and entertainment of Instants Scratch-offs provide a basis for new game concepts that can appeal to new up-and-coming consumer groups, and to new-age online gamers. At the same time, Instant Scratchers have mass appeal, with a basic game design that enables us to integrate a change-your-day state of mind with a big dose of entertainment. NeoGames' product strategy is to really exploit this potential to combine entertainment with the hope and dream of having a great day.

Players do like to win, of course. So it's not as if there is no outcome-focus on the part of lottery players. It's just that the calculus that motivates the player is based more on enjoying life and its recreational activities than it is on winning money.

Is lottery able to integrate some of the attributes of massively multiplayer games like World of Warcraft and social Zynga-type games?

B. Matalon: I don't compare lottery or casino games to Farmville or World of Warcraft. They are completely different entertainment and social gaming spaces. But we are observing that traditional casino and poker game operators are attempting to move into and establish new business models for that social gaming space. So I would think that lottery products will likely evolve to appeal to the social and multi-player gaming space. Of course, lottery should use all media and especially social media to communicate with their players, and to create forums for players to communicate with each other. And I do think it is the case that the traditional products could evolve with minor adjustments to fit more directly into the Facebook and social gaming world.

These are attractive concepts for the lottery operator who is reluctant to impose radical change on this multi-billion dollar mass-market franchise. Lottery growth may have slowed in recent years, but it's actually still growing faster than the broader gaming and gambling sector, and faster than the general economy for that matter. It sounds like your message is that radical change is neither necessary or desirable. The player really just wants game design adjustments to leverage the entertainment value of new media like internet and mobile.

B. Matalon: First of all, I don't completely agree that lottery directors don't want to have radical changes. We met a lot of the lottery leaders in both in the U.S. and around the world. They are very smart people who understand that change is necessary, that the traditional products will not continue forever to appeal to a consumer that is constantly being exposed to exciting new game concepts. These leaders are looking for change to make their products just as exciting as others in the sector. For some kinds of changes, modernization of the regulatory framework may be needed. For others, approval may be sought from the lottery commission to use a new channel like internet and mobile. And for others, they look at internet and mobile as being a new channel of distribution that already complies with their enabling legislation. The thing is, it may not be radical change, but effective integration of the internet and mobile into lottery operations does in fact drive radically different results. Incremental change in key areas can increase growth rates from low single digits to high single digits and from there to double digit growth. And that's huge. Look at Veikkaus in Finland and Camelot in the UK for evidence of that. Their i-lottery and i-gaming revenues have grown in double digits year after year. More interesting, though, is the growth of their land-based retailers has also grown at a rate that is faster than the industry average. It may not be radical change, but the impact on consumer engagement and sales can be dramatic nonetheless.

Camelot is the second biggest player in the internet soft-gaming market in the whole UK. That is remarkable when you recognize how competitive the UK market is. The opportunity to take soft-gaming to the internet is huge, and Camelot, Veikkaus, the Canadian lotteries, and many others are showing us that Lottery is perfectly suited to do it as well or better than anyone. And the sales potential of the soft-gaming market is much greater than other categories because it's a mass market consumer category.

Could you clarify what exactly is meant by "soft-gaming?"

B. Matalon: Let's go back to the player. There is casino gambling which, as Nigel Beaney of Camelot explained in the presentation we just saw, the casino gambling model is really not a mass-market model. Their business is all about focusing on the big-spending players. Whereas Lottery really focuses on expanding the player base, appealing to the largest number of consumers, and creating a larger number of small transactions. Ours is the mass-market. Soft-games are those that appeal less to the gambler and more to the mass-market consumer. Lottery is soft-gaming because it less intimidating than, say, poker, it's lower turnover than slots, appeals to a different buyer motivation than either, and is about small transactions that augment an entertainment experience as opposed to the outcome-focused transactions of the casino gambler.

The term soft gaming refers to the language of this space. Instead of the loud, brassy, aggressive language of casinos offering higher percentage payouts and introductory sign-up bonus plays and such, the language of lottery is softer, gentler, speaking more about life and change and hopes and dreams more than the prospect of winning money. It's in that sense that the whole language, the communication with the player, is much softer in lottery, and we want to preserve that sensibility to appeal to our player profile on the internet and mobile as well.

Is there an overlap between these two play-styles, and is the multi-channel approach of gaming operators and lotteries alike beginning to drive an expansion of that overlap?

B. Matalon: There is an overlap but I feel that the overlap is small. We both heard a presentation, not the Camelot executive but a commercial i-gaming executive, a short while ago, Paul, in which the speaker talked about the need for Lottery to evolve its products and promotions to appeal more to this outcome-focused player, the gambler. That's not right. For one thing, the convergence of these two player profiles will not help lottery. It will hurt lottery and help the casino operator market. The reason for that is that the audience of big spenders that support casinos is actually very small. The audience that supports lottery is very large. The casino operators need to change their products to appeal to a broader player profile. Lotteries already have the mass-market, so they need the casino player market much less than the casino operators need the lottery market. Whatever overlap is happening is being driven by the casino operators. Lottery should work not to appeal to casino players, but to reinforce the appeal they have for their traditional consumer markets. Forget about the gambler, or even the space of hard-core competitive games like World of Warcraft. Lotteries should consolidate their strength in the mass-market. Focus on our traditional values of fun, recreation, hope, and dream.

That is really what NeoGames is about – helping lotteries sell billions of dollars in scratch cards a year by creating game concepts that keep the player entertained and coming back for more.

Isn't it the case that the average age of the lottery player is increasing, and that the game preference of young adults is less likely than previous generations to grow into the lottery as they hit their mid 30s?

B. Matalon: That's a key question that is on everyone's mind. How can we lower the average age of our player base? The answer from my perspective seems to be fairly obvious. We need to look at each of the three areas that drive our businesses. First is connecting with the consumer. The consumer gets information of every variety from the internet and mobile. So lottery needs to be there in force. And frankly, that is now true for all age groups, but of course it is especially true for the younger audience. Smart phones and iPads will continue to be huge. Second is distribution. Designing the product to be transacted across all channels of distribution. Third is the creating a product that appeals to younger people. Make it more interactive with extended-play and bonus-play options. Instant scratch-offs lend themselves to this kind of product innovation and that is what NeoGames focuses on. But these three areas, communication, distribution, and product design are what drive consumer behavior and sales. There is huge potential for innovation and modernization that will make lottery more accessible and appealing to younger audiences. These are not even difficult things that require regulatory change. And this is how we lower the average age of our player base.

I would add, though, that for all of our focus on attracting the "younger demographic," the 40 and up age group is the sweet spot for lottery revenues in the internet. and that is not a bad thing since they have the higher discretionary income to spend on lottery. That is not to say that the young generation is not active, in fact the group of 20-29 is close to 25% of the subscriber base we see for our products, it is to say that the average spend per player is higher. The solution is to recognize that the internet enables us to segment and target differing play-styles in ways that the mass-market media and distribution channels are not as well suited for. The traditional approach tends to make products for mass-appeal that do not target sub-markets in ways that could bring in new consumer groups and appeal to younger play-styles. NeoGames has segmented the market into about thirty different groups profiled by gender, age, player behavior, game preferences, play-styles, transaction size and response to different prize and bonus structures, varying degrees of response to outcome versus hope and dream attributes and promotions, etc. This is really nothing that the most sophisticated consumer products companies haven't been doing for years. We just need to apply this level of analysis, segmentation, and target marketing to lottery. The internet is key to doing that. Land-based retailers will continue to be the most vital POS, but they do not yield the kind of customer feedback that the interactive quality of the internet enables.

An interesting change we have seen in the last year is mobile. When we launch our smartphone platform the 20-29 age group are the biggest group with the highet player value. we all of a sudden noticed that the player spend, how surprising, is in the younger age groups.

It's that interactive quality of the internet, the ability to capture, measure, and analyze player behavior that enables product development to be customized for ever more focused consumer groups.

B. Matalon: Exactly. Product development must be driven by the player, but in order to do that, you need much more granular detail about what really motivates the consumer. We developed a system which we call the NeoSphere which combines every aspect from the player management point of view, enabling the lottery to convert, in real-time, detailed information about player behavior into products that are more and more personalized to appeal to more tightly defined consumer groups.

Sounds complicated.

B. Matalon: It's not! One of our core values is to keep it simple. But the business of processing, categorizing and analyzing over two billion tickets a year does require a sophisticated IT infrastructure. The ROI is tremendous, the cost is borne by NeoGames, and the benefit to the operator is increased player engagement and sales.

Increasing sales by even a small percentage of a multi-billion dollar revenue stream is huge. Data-mining is a start. But the ability to convert that data into real-world results would seem to be the key.

B. Matalon: You're 100% right. The goal is to isolate the elements that go into a successful product and target increasingly focused consumer segments. Fine-tuning product development like that is the key to truly optimizing the core business in ways that do not jeopardize the brand and value to any one segment. In particular, it enables us to integrate younger trending concepts while maintaining the attributes that appeal to the over 40 player that constitutes the lion's share of lottery revenues. Of course, many of the new concepts that appeal to younger players are also reinvigorating interest from the over 40 crowd as well. It's not just about the games, or the distribution channel. It is about a fully managed solution to integrate player profiling with product development. The potential for that to increase sales is huge and that is what NeoGames is focused on. NeoSphere is our back-office platform that supports and integrates this kind of customer relationship management, market analysis, and product development approach.

A problem with land-based retail is that there does not seem to be good mechanisms for capturing player data. What products

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rope accounts for 35% of global lottery revenue but has a greater than 50% share of the global interactive lottery GGY at present, so is punching above its weight. Lottery operators like Camelot in the UK and Austrian Lotteries in Austria have really embraced Interactive sales channels. Camelot, for example, generated around 15% of sales from interactive channels in 2010 and had some 3.5 million active players.

Lottery draw games are ideally suited to both online and mobile play. Lottery software developers like Betware have created some innovative and user-friendly applications to allow lottery purchases both online and mobile device. But many state lotteries have, so far, failed to capitalise fully on interactive sales channels.

Up until this point there have been a number of reasons as to why state lotteries have not embraced new technology to expand their audience and increase sale:

- Regulatory constraints
- Fear of cannibalisation of existing retail sales
- Concerns about responsible gambling

But in the current climate where lotteries are being asked to fund ever more good causes and public programmes; where expansion in other sectors of the gambling industry is causing ever more competition; and where consumers are increasingly making purchases of all values online or via mobile, many of the arguments against interactive lottery sales fall away.

The technology is already in place to facilitate interactive sales as well as monitor players' age, location, and spending. With the recent legal opinion on the Wire Act in the US, GBGC would expect the online lottery landscape to change dramatically in the coming years.

GBGC will be presenting at the Public Gaming Smart Tech Conference in New York in March 2012 discussing the topic of lotteries and the Internet. ◆

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are appealing to which demographic profile and why and such. The internet captures all that data automatically with every transaction. It is kind of a mind boggling thought.

B. Matalon: That's true but the internet also does allow for a much more interactive relationship, promoting customer feedback and also conducting surveys that yield valuable insights to complement the aggregate transaction-driven data. Our support team interacts with players constantly and is dedicated to turning every contact into insight that informs product development and operations. And we in fact survey the players constantly, generating thousands of responses a month. We use any and all tools and consumer interaction to learn more about the consumer and how to deliver a better and better playing experience.

An obstacle for U.S. lotteries expansion of internet initiatives appears to be coming from the National Association of Convenience Stores (NACS). I'm working hard to defuse the misconception that i-lottery cannibalizes land-based sales. The channels are mutually supportive and retail will benefit by lotteries expansion into new channels that bring in new consumer groups and reinvigorate the core groups.

B. Matalon: We do need to appreciate their concerns. People do not like change and the retailers feel threatened. Retailers do benefit with increased store traffic and lottery sales, as you say, and we just need to explain to the operators and their channel partners why that is true. A cooperative and healthy relationship with retail is a vital component to the fully integrated approach that the both players and lottery operator want to achieve.

The companies that are most successful, like Camelot, Austria Lotteries, Veikkaus-Finland, Norsk Tipping-Norway, all the Canadian provincial lotteries, have shown us how to implement that integrated solution, increasing sales at retail while implementing an effective i-lottery program.

B. Matalon: And in the U.S. too. Second-chance draws have proven to be very successful. The lotteries you mention have expanded into new i-lottery concepts, game designs, and promotions, and all the while evolve new and increasingly effective ways to integrate their retailer partners into the whole process. i-Lottery sales have increased by double digits but retail sales have gone up too. An effective application of the tried and true principles of these operators, along with continual innovation driven by genuinely player-centric methodologies, will results in a more engaged consumer and increased sales for both operator and retailer. Everyone wins. ◆