



GTECH

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PGRI Introduction: *Convergence and integration—two catch-words that are defining the future of the games-of-chance industry. Markets are converging as players migrate across multiple gaming categories. Channels of distribution are converging as the smartphone comes to inhabit every aspect of our lives. And GTECH has assembled a comprehensive portfolio of games and technologies to make those games available to the consumer. Key to success of lottery operators will be integrating the games, the multi-channel IT platforms that deliver the games, and the brand and CRM strategies that form the foundation for a dynamic long-term relationship with the consumer. It is an exciting world filled with opportunity for the progressive operator to establish itself as the gaming destination of choice for the consumer!*

Lottomatica, GTECH's lottery operator in Italy, was co-host of the incredible World Lottery Summit in Rome. Lottery operators and their commercial partners from all around the world convened to chart a course for the industry. This is an exciting time of change and opportunity for the industry, and for GTECH's customers. Matteo Monteverdi shares a vision for how government-gaming operators can integrate the online and off-line worlds to build a relationship with the modern players, maximize the lifetime value of the customer, and carve out a meaningful place in the lifestyle of the modern consumer.

Paul Jason, PGRI: *Everyone understands the power of mobile and the Internet as channels for distribution. But how might mobile, and the Internet in general, be used as a medium of communication and the foundation for an interactive relationship—completely apart from the transaction-enabled aspect of it?*

Matteo Monteverdi: Every consumer-products company should have a clearly articulated Internet strategy, defining how to use the medium to communicate and interact with its customers. The traditional marketing funnel was built on specific steps designed to produce a sale, a transaction in which the consumer makes a purchasing decision. The purchase itself was the conclusion of the process. That paradigm is changing.

The smartphone and the Internet have become more than simply tools to accomplish specific tasks or fulfill concrete needs. Today, people are constantly connected in a way that transcends that purpose-built objective. As consumers we rely on Internet-enabled devices to connect us to one another, to information resources, to the services that inform our actions and buying decisions, to the merchants we do business with, and to the entertainment that amuses us during down-time. Our connection to the entire world around us transpires over the smartphone. What was once a device to facilitate the execution of specific tasks has become the prism through which we see and interact with our external environment, in effect mediating the entire relationship we have with the world around us.

The power of the Internet allows us to reshape our connection to the consumer. For lottery operators, that means creating a “circular interaction” with the players. Every single consumer touch-point of contact needs to be synchronized with an overarching strategy that positions the brand and messaging to fit into the lifestyle of the modern consumer. Once we get our minds around this new reality, the Internet changes everything about our relationship with the consumer. It becomes the virtual world that we all inhabit right alongside our friends. In order to achieve circular interaction with its players, Lottery needs to inhabit this world with them, just as its players inhabit this world with their friends.

With this new construct in mind, the Internet becomes the shared space where

“messaging” evolves into an interactive relationship. As communication becomes customized to the individual player, that interaction evolves into a dynamic relationship based on trust, shared experience, and even friendship. This is the future that we will all inhabit, coming together in a virtual world that mediates our relationships, our decisions, our activities, our entire lives.

How do we apply existing marketing resources and skill-sets to make this transition from messaging and brand management to Internet-based relationship-building?

M. Monteverdi: It’s not a great leap. It certainly continues to involve messaging and brand management. And it does involve commitment. Resources should shift from above-the-line mass marketing media to the development of Internet-based initiatives. When you build your marketing mix, media plan, marketing programs and campaigns, the Internet should become a major piece in the overall equation. That is not happening today. Businesses—not just lottery, but many businesses—still tend to think of the Internet as just a medium for communication and transactions and fail to appreciate the transformative impact it is having on the whole lifestyle of the modern consumer.

The percentage of marketing resources allocated to interactive is typically a small fraction of that going toward above-the-line mass media communication. That is in spite of the fact that interactive communication strategies and initiatives produce a higher return on investment.

How do we even measure the ROI of the broad-based Internet strategy when success often results in sales at retail?

M. Monteverdi: There are ways to measure the ROI of interactive strategies, and the tools for doing so are constantly improving. More to the point, though, the tools used to measure the impact of interactive are more precise than those used for mass media advertising. Modern consumers want to affiliate with their merchants and be engaged in ways that transcend the

fulfillment of the need or desire to buy something. Interactive provides a platform that enables not just the measurement of impact, but the two-way dialogue that informs an ongoing refinement of the relationship to get more and more in-tune with the player. The interaction is dynamic and ongoing, focused on building the relationship more than creating the sale. The thing to appreciate, though, is that the interactive relationship will result in more sales, and a more sustainable and loyal customer base, than does the kind of messaging that just pitches the product.

What about Point-of-Sale materials and displays? Is that considered “above-the-line?”

M. Monteverdi: It’s all about interaction. Point-of-Sale communicates relevant information, and I am not suggesting that it does not impact consumer behavior. It does. But it does not always engage the consumer in the ways the consumer wants to be engaged. You enter a store and you leave without the opportunity to have a personalized and interactive playing experience. When the transaction is completed, the relationship is over. It’s like buying a commoditized consumer product. Conversely, interactive channels allow lotteries to keep the encounter alive, to learn about the preferences and behavior of their customers, and to integrate that understanding into the product development, marketing, and customer-care process. Furthermore, an interactive strategy that provides a complete view of and creates a dynamic relationship with your customers should bolster sales at retail. Lotteries need cross-fertilization of both channels to be ready for the future.

Lotteries are doing a fantastic job in communicating the product and brand strategy. Point-of-Sale and mass-media communications will continue to be a necessary and impactful part of the marketing mix. We just need to think of the Internet as a platform upon which we build the kind of relationship with the consumer that will be the backbone of the long-term sustainable business model.

It goes back to your earlier comment about creating that circular interaction with the consumer.

M. Monteverdi: Exactly. Traditional strategic thinking views the retailer as a channel partner working on behalf of operators to sell products. It is only natural to transplant this conceptual framework over to the Internet, and to think of the Internet as just another, separate channel for distribution. That leads us to replicate the methods that have worked in the off-line world into the online world. However, in order to optimize the ability of the Internet to truly transform the relationship that lottery has with the consumer, we need to think about all the ways that lottery fits into the Internet, not about how the Internet fits into the marketing mix of lottery. We need to envision business models that involve a concerted strategy to build consistency of brand and messaging and interactive protocols across all channels and consumer touch-points. Instead of utilizing the Internet as an extension of the retail sales channel, it needs to be integrated into the fabric of a dynamic and engaged relationship with the consumer.

We also tend to focus on size of market. And the size of the Internet market is still quite small relative to the land-based retail market.

M. Monteverdi: The overall interactive wagering market is approximately €25 billion a year. Only 10% of that is coming from the lottery business; 45% comes from licensed and regulated gaming markets, and 45% transpires in the unlicensed and illegal unregulated markets. That means that €11.25 billion is being wagered with operators that are not subject to the regulatory requirements that protect players and promote a responsible gaming approach. This represents a tremendous opportunity for lottery, one that can be realized by capturing the transformative potential of the interactive relationship.

While the global market for land-based traditional lottery market is significantly larger—it now measures more than €235 billion—the interactive space is growing

much faster. More importantly, though, the interactive channel is the medium to build a relationship with the consumer that results in sales at land-based stores as well as online.

That is the case in Finland, the market with the highest level of Internet gaming. 40% of their players are registered online. But 33% of those registered players have never even bought online. They have that online relationship with Veikkaus, but they buy the product at land-based retail stores.

M. Monteverdi: The evidence clearly shows that these registered players are more loyal to lottery as a gaming category and play at a higher volume than players who are not registered. And the players who buy on multiple channels—that is, both land-based retail and online—are the most loyal customers.

The Internet effectively blows up the mass market into smaller and smaller segments.

M. Monteverdi: Yes. The products, the company, the value proposition, and the communications can all be customized and directed to appeal to the individual, or at least to tightly drawn consumer profiles. For example, the traditional core player may not want to engage in group play or social gaming. And at this point, the larger revenue streams will continue to come from the traditional core players. But even the traditional players use the Internet and will likely value some services that the Internet can provide; simple things like a mobile app that emails or texts the winning numbers have the potential to appeal to everyone including core players. Establishing that simple online connection to the core player provides the platform that can be extended to other value-added services, such as new games, educational forums explaining how new games are played, geo-location-based draw games, or special promotional offers. Core players may eventually even check into the chat room and become a part of the social networks that are revolutionizing the way that brands inhabit the mind-share of the

consumer population.

The future resides with the Digital Native, who is seeking new and different playing experiences. These emerging markets represent a huge opportunity for lottery to bring in new consumer groups and drive incremental sales. Connecting with the next generation of players involves much more than the value-added services that appeal to the core players. We need to reimagine the way that traditional games are played. For instance, the Internet enables a wide variety of ways that purchasing tickets can become a group activity, and that's just the tip of the iceberg. We need to reinterpret the games for the socially networked world of the Digital Native. Even within the fundamental limitations of lottery game mechanics, the canvas is rich with potential to reshape itself for the Internet.

Isn't the Digital Native who has been raised on non-money games used to a play experience that is more entertaining and delivers instant feedback?

M. Monteverdi: There is some truth to that, but I think that notion is limiting and misleading. The enhanced play experience of online games is not limited to entertainment and instant feedback, at least not in the form that games conventionally provide. We need to apply a much more expansive view toward understanding the multitude of play styles and how changing life styles are revealing themselves in changing play styles. Internet-based social networking, for instance, is one of the most profound phenomena of the current era. Becoming a part of the socially networked universe of the modern consumer should be a priority.

There are many ways that increased entertainment value, longer-play games, and instant feedback can be incorporated into traditional lottery games to make them more appealing to the Internet gamer. For example, eInstants are an ideal game format for the Internet, because they do deliver entertainment value and instant gratification. Electronic scratch cards rep-

resent an excellent opportunity to reinterpret traditional games for the Internet. The recasting with interactive twists of games created for the land-based market has been done to great effect in Italy and many other markets. Lottery can leverage the incredible power of its brand to connect with the online consumer, but we need to provide a product that delivers a play experience that is different from the one in the retail store.

As a wider variety of games becomes available, and as consumers have such fast and easy access to this increasing variety of games, won't that cause players to try out new and different categories, to migrate from one game category to another in ways that they might not have done even five years ago?

M. Monteverdi: Absolutely. Players are already migrating among categories, and that will be even more the case for the next generation of players. Game attributes that appeal to consumers in electronic games will influence lottery game design, and vice versa. That is why it is so important to facilitate a cross-pollination of game development—and to have an online relationship with the consumer. The interactive platform captures invaluable data that is transforming the whole business of market analyses, game design, and promotional strategy. Instead of surveys and focus groups, every keystroke made while online is a window into actual player behavior, providing real-time, real-world, comprehensive data. This data will be invaluable to guide operators in their efforts to implement the responsible gaming strategies that are so key to building a sustainable business. Ultimately, online crowd-sourcing will enable players to design games and promotions themselves. This not only will be a reliable guidepost for operators, it will also reinforce player engagement, engendering more loyalty along with a more rewarding player experience.

If the percentage of the online gaming market increases, doesn't this pose a formi-

dable threat to lottery operators? Will lottery be able to compete in this space?

M. Monteverdi: Not only can lottery compete, it can win. Lottery operators have far more consumer awareness and trust than any other type of gaming operator. Lottery tends to underestimate the power of its brand. This is a tremendous asset. Put that brand next to unknown online operators, and who will the consumer want to deposit funds with?

The other asset that differentiates lottery is its network of land-based retailers. That is an overwhelming reach of consumer touch-points that could never be replicated by its competitors.

Integrating the online and off-line worlds would seem to be a complicated task!

M. Monteverdi: It is largely a matter of clarifying who you are—how you want your brand to be represented—and making sure that everything you do is consistent with that image and the brand strategy. Every single consumer touch-point should reinforce that image. For instance, as soon as you call Walt Disney Corp., you are drawn right into the Disney experience. Their brand and image cut across everything they do, ranging from theme parks to movies, to clothes and consumer products, to licensed properties and franchises, to countless other product categories that are a part of the Disney empire.

For lottery, a true game-changer is implementing simple mobile apps that announce jackpot sizes and winning numbers and promote new games, even though the consumer purchases may still happen at retail. The mobile app changes the entire relationship, from anonymous and disconnected to connected and engaged. Digital coupons, virtual currency, and in-store Wi-Fi have already brought the smartphone into the stores. Retailers are positioning themselves for an off-line world that is fully integrated with the online world.

And in spite of the fact that many lotteries have not focused on developing the inter-

active online relationship, traffic to lottery Websites is huge.

M. Monteverdi: Think about what online casino operators in Europe spend to acquire these sites: more than €300 per player! Online operators make that investment because the lifetime value of the online player is so high. It would cost lottery operators much less to convert their online traffic of anonymous surfers into registered players. Lottery is positioned perfectly to turn its massive consumer connection into engaged and loyal customers.

Then customer retention becomes the key to maximizing that lifetime value of the player.

M. Monteverdi: Yes. And that requires a clearly defined interactive and customer relationship management strategy. CRM should begin right now, regardless of whether there is online wagering or not. As you just pointed out, the online connection is a catalyst for off-line sales as well as for forming the basis of an ongoing relationship with the players.

One obstacle is that funds are limited. It must be a tough decision to shift funds away from the media strategies that everyone is familiar and comfortable with, especially in years when it is challenging to hit the short-term revenue goals.

M. Monteverdi: This brings us back to the issue of reshaping lottery for the Internet, and not seeing the Internet as just another channel in the marketing mix. Duplicating a robust IT infrastructure on a jurisdiction-by-jurisdiction basis would be very costly. Fortunately, that is not necessary. Cloud technology, Software as a Service [SaaS], enables the sharing of state-of-the-art interactive technology, dramatically reducing the cost while optimizing the functionality and performance of the interactive strategy. There are huge savings to be gained by technologies that support the Internet and CRM initiatives of multiple operators.

As with any new technology, and especially in the government gaming industry, security and integrity are mission-critical.

Cloud-based service is now used for even the most sophisticated and sensitive applications. The FBI, the U.S. Department of Defense, and financial institutions are all in the cloud. Cloud-based applications has been proven to meet the highest standards of security and integrity.

Yesterday we visited your retailers in Rome. At more than €400 per year, Italy has one of the highest per capita spends on lottery gaming in the world. How does GTECH's role as operator inform and enhance its ability as commercial supplier to lotteries around the world?

M. Monteverdi: As the largest B2B lottery vendor in the world, GTECH has a unique position in the market. We have products in every single regulated gaming category and in approximately 100 countries all around the world. This global footprint supports the scale, the breadth of operating experience, and the depth of research and internal resources needed to help our customers succeed in a rapidly changing gaming environment. Serving our government gaming customers is our core business. Our experience as a B2C operator yields insight into consumer behavior, how the business works, and the real issues facing lottery operators. We also have an entire division devoted to converting the data derived from all of our operations into actionable best practices that help us to optimally serve our lottery operator clients.

The key to the future of this industry is integrating online and off-line worlds to provide a holistic, user friendly player experience. That is the reason for GTECH's acquisition of the most diverse portfolio of products and services in this industry. IGT will augment our capabilities in ways that are beneficial to our customers. DoubleDown Interactive (a subsidiary of IGT), for instance, is a market leader in free-play games, which will be crucial to evolving lottery to become the gaming destination of choice for the modern consumer. The future, after all, will be all about creating the game content that appeals to the modern consumer and integrating platforms to make that content readily available. ■