



SANTA CASA

Misericórdia de Lisboa. Por boas causas.

Fernando PAES AFONSO

Vice-President of Santa Casa da Misericórdia de Lisboa
Chief Executive Officer of Santa Casa Gaming Department
First Vice President, European Lottery Association (EL)

A Fresh Perspective on “Innovation”

PGRI Introduction: With a background in Economics, Mr Paes Afonso began his professional career in the Portuguese National Parliament, and also served in financial services companies and the commercial construction sector. He has a vast experience in the lottery business, being responsible for several major and decisive changes in the business. During his first term at Santa Casa's Gaming Department (2002–2005), Mr Paes Afonso led the modernization of the lottery brand (Jogos Santa Casa), the introduction of the multi-channel Portal as well as the player's card and the launching of the multi-jurisdictional Game of Euromillions. Over his current term he updated the network of gaming terminals, and launched the online instant lottery and the land-based fixed-odds sports-betting, among other significant changes introduced to update the Lottery-playing experience to complement the lifestyles of the modern consumer. My discussions with Mr Paes Afonso always gravitate towards the ways for Lottery to connect with the modern consumer. As a realist whose goal is to bridge the gap between Lottery as a governmental institution and Lottery as a market-driven enterprise, he is a concrete thinker who focuses on the actionable. “Innovation” isn't about futuristic technology or creating the ‘next big thing’ in games. It's about using our imagination to see opportunity to improve the way we operate, to unlock value that already resides in the existing infrastructure and ways of doing business.

Paul Jason, PGRI: *The EL has always been a powerful advocate for its members in the political/regulatory arena. Now you are giving special attention to innovation, and the ways Lottery can compete in the market-place.*

Fernando Paes Afonso: Like any business, we need to adapt to reality and optimize performance within the constraints of that reality. The EL has always been bold and proactive at ad-

vancing the interests of its members in the political arena. And their educational seminars and conferences equip its members to compete in an intensely competitive market-place.

Innovation is a top priority for all of us. Our first EL Innovation Seminar was just held in Warsaw and was very successful. Wojciech Szpil, the CEO of Totalizator Sportowy (the Polish Lottery) was the organizer and he did a

fabulous job.

Our charter requires us to be risk-averse. Preserving the value of the brand, assuring the security and integrity of the operations, and promoting a responsible approach towards gaming are the values that we hold most dear. That means we are conservative and cautious in everything we do. Fortunately, there is huge potential for government-Lottery to drive innovation and progress

and we are setting an ambitious pace to meet the needs of the modern consumer. Lottery should feel good about how it fulfills the expectations of its variety of stakeholders. And we are excited about the opportunities to continually improve and further increase the value we deliver to the players and our stakeholders. That is our goal now—to create the platform and set the standards for operational excellence while also driving innovation and progress.

Government-Lottery operates in a very special place. We must compete for the business, as we are disputing a share of the consumer's leisure expenditures, in a market-driven system. And yet, we are bound by obligations to a standard that is higher than anyone else's. That is as it should be, as long as others in the games-of-chance industry raise their standards so that the overall level of security, integrity, responsible gaming, and all other measures to protect the interests of the consumer are always improving.

Much of what we are doing is still at the early stages. The EL president, Hansjörg Höltkemeier, is setting the agenda and we are all working together to chart the course for the EL to optimize its support for its membership of European Lotteries to build successful and sustainable businesses.

Your focus on innovation is more on the logistics, distribution, and operational sides of the business. And Retail in particular. Less about technology and new products.

F. Paes Afonso: Innovation is so often associated with technology and creative game development. Let me give you an example about how a focus on process delivered a tremendous benefit to the government and the consumers of Portugal, as well as to Santa Casa Games Department and its beneficiary Santa Casa

da Misericórdia. We saw that there were two issues, seemingly unrelated. One, we would like to have our players register to play and be assigned a player card. But we wanted to make it as easy for the consumer as possible. We didn't want to impose a process that would potentially discourage player-ship, right? The other issue is that the government has a hard time collecting sales taxes from businesses. Some businesses would give the consumer a small consideration to entice them to pay in cash, waive the requirement for a receipt, and then not report the sale to the government, and in that way avoid paying the tax on the sale. Of course, this is not an uncommon problem for governments everywhere. We recognized an opportunity to both help the government solve this problem and make it easy for the consumer to register with the Lottery.

In Portugal, everyone has a "fiscal number" that is used in any transaction. When I go to a restaurant and pay for the lunch, the receipt has my fiscal number, only if I want. We proposed to the government to organize a weekly draw game based on all receipts transmitted electronically from the sellers to the treasury administration with the fiscal number of the buyers. A high standard car is the weekly prize. The only thing one has to do to become eligible for the draw is to ask the receipt of a purchase with the respective fiscal number. They do not have to enter in personal information of any kind because the government already has that on file. Their personal information is associated with their unique fiscal number. In order to be sure that my receipts are considered for the draw, the only thing I have to do is to enter my personnel fiscal e-account. If one receipt is not there I can up-load it. This causes the consumer to request a receipt for all

of their consumer purchases so they can enter it into the draw game. The receipt identifies the merchant and the sales amount. The merchant now must report the sales properly because the government auditors are able to connect the receipt numbers entered into the draw game with the sales that the merchant has made. That in turn causes the merchants to comply with the law that requires them to report the sales and pay taxes on those sales. The prize that is paid out to the winners of this draw game is a very, very small portion of the tax receipts that accrues to the government as a result of businesses now complying with the law to report their sales.

That's amazing. It also creates a fresh form of brand awareness for the Lottery. A whole new game, a new way for the consumer to play the Lottery.

F. Paes Afonso: Exactly. Market-driven solutions are always better than government fiat. The Lottery is a fun game. Let's figure out ways to use that fact to engage the consumer and drive behavior in ways that benefit everyone.

This draw game that uses the fiscal and receipt numbers was started in 2014. Now, it has become very automatic for Portuguese consumers to enter this weekly draw, entering the receipt numbers for a chance to win a prize. And restaurants, convenience stores, and consumer-facing merchants are reporting and paying their taxes properly. And we have a consumer who is registered and engaged in an interactive online relationship with the Lottery. Further, consumers are now much better informed about the resource that is their own personal fiscal number. This enables them to view their own fiscal history and data on all matters, not just Lottery. Now, most Portuguese know their fiscal number and password by heart.

I wonder how many consumers even knew about this resource, that they could access their own personal government file in this way. The Lottery has performed a valuable service for helping the people acquire a better understanding of these resources which can help them manage their financial lives.

F. Paes Afonso: The technology has been there for a while, but it has been under-utilized. That's often the problem and it is also an opportunity. We can look at the process, the way we are doing things, and unlock the hidden capacity for the tools and infrastructure that already exists. That's innovation!

Now this system of using the fiscal number as a player identifier is being applied to sports-betting. Player identification is more important in sports-betting because it is a higher risk product than Lottery. Sports-betting is a much more fertile ground for criminality like manipulation of the outcomes and money laundering. It was decided that entering the fiscal number would be a requirement for sports-betting. But we marketed it as a tool to protect the safety of the player and the player's winnings. The ticket that is the receipt of the bet has the player's fiscal number on it. If it is lost or stolen, it cannot be redeemed by anyone else. In fact, it is in the record associated with the fiscal number who is the rightful owner of the prize. So, again we use market-driven tools to modify human behavior, to appeal to consumers' own interests as the reasons why they should adopt the methods that we want them to adopt.

Anyone who plays online has always had to register. It is that way in Portugal as it is everywhere in the world. But now we have a way to entice the land-based players to enjoy the same benefits of registration as the online players. And everyone loves it because they see it as a benefit to them instead of a burdensome

requirement imposed by us. Of course, it is a huge benefit to the Lottery too. It connects us to our entire land-based player-ship, turning them from anonymous consumers into a customer base that we communicate with on a regular basis. It is a responsible gaming as well as a marketing tool.

It is so important for the industry to think about how to integrate Lottery into the lifestyles of the modern consumer. Instead of selling a product, you're connecting to the broader landscape of the consumers' everyday activities and concerns and aspirations.

F. Paes Afonso: Here is another example of that. We know that most of Lottery's sales are at land-based Retail. That is still true for everyone, even the Scandinavian countries which have a larger proportion of online sales. We know that Lottery has a distinct competitive advantage at Retail. Lottery must compete in the online world with many other games-of-chance offers which have higher prize-payouts than does Lottery. Lottery does not have that level of competition at Retail. So, we want the consumer to play the games at Retail, right? Of course we also want to provide the consumer with options and to maximize accessibility to Lottery in all the different channels of distribution. But most of our sales will continue to be at Retail and that is alright. In fact, it is a good thing.

Now, in Portugal, there is a concern that young people are spending too much time online. As a society, there is concern that we may get out of balance, that recreation in the form of online games and socialization in the form of texting and Facebook is consuming more and more time, perhaps too much time. I am not suggesting that video games and social media are bad or unhealthy in themselves, just that maybe we can have

too much of a good thing. Television, for instance, is not bad or unhealthy, but too much television may not be a good.

We know that trying to dictate behavior is usually not very effective. So, we need to think like marketers and give people a reason to modify their behavior, something that benefits them personally. So we thought about how our mild climate and the Latin culture is naturally social. People just need a reason, even just an excuse, to leave the virtual world, get out of the house, and actually interact with real live human beings in the terrestrial world. Let's make the player the center of our focus and appeal to their wants and needs for real live social interaction.

Then we think about how our retailers have the same goal. They too want people to leave their computers, get out of the house, and visit their stores! The consumer is also at the center of their worldview. So let's collaborate together with our retail partners to accomplish the goal of giving the consumer more compelling reasons to come and play the Lottery at a retail store. And let's package this campaign to serve a socially valuable role of creating more balance in peoples' lives by replacing Virtual Socialization with real live Physical Socializing.

Yet another great example of true innovation that is not technology-enabled but process-enabled, focusing on how the way that we interact with the existing environment can be changed for the better.

F. Paes Afonso: I should emphasize that we are not technophobes. We just want to find better ways to leverage technology, especially existing technological infrastructures, to enhance the lives of consumers. For instance, integrating the digital world with land-based Retail is a technology-rich endeavor. And that is definitely part of our strategy. And us-

ing our online connection to inform and communicate with our players is a vital part of Lottery's future. And, for that matter, we certainly do want to provide an attractive option for those consumers who want to buy Lottery products online. We just see all these goals as being compatible, even mutually reinforcing. And we are working with our Retailers to help them embrace all these tools, and all forms of human behavior and lifestyle goals, as being consistent with their own business interests.

I notice, Paul, that you often use the word "transformational." None of these things that I am talking about are transformational or revolutionary. No dramatic visions of a future taken over by technology. They are based on the way the world operates right now, not in some unpredictable future. They are very actionable and produce material near-term results. That's the beauty of it. Innovation does not need to be transformational. It just needs to re-imagine the way we do things to see how we can do things in a better way.

What are you doing to entice the consumer to spend more time at the retail stores?

F. Paes Afonso: We are working to make the Point-of-Sale into a destination to play games as opposed to buying a product. One of the things we are doing is to use pari-mutuel horserace betting and Sports betting as a way to bring the customers into the store and think of the store as a recreational venue. Our real goal is to promote Lottery and we are at the same time developing a play-station approach that engages the consumer in ways that other games do. It is all about reinventing the traditional POS consumer experience. We want people to rediscover the fantastic public space we have in Portugal, and the joy of experiencing

that with other people. And we are using the fundamental Lottery-playing environment to make that happen.

And your online sales are growing right alongside of retail sales?

F. Paes Afonso: Absolutely. It is a synthesis of strategies that supports our business objectives with an appreciation for how Lottery might fit into the lives of the modern consumer. We invest in our online channels but with a focus on building a foundation that engages the consumer at Retail as well as online. For us, online is not just a channel to drive sales. It is a digital communication network that informs and enhances our overall engagement with the consumer. It is all about sustainability, delivering value to the consumer, and doing that by identifying and highlighting the uniqueness of the Lottery-playing experiencing. And that always brings us back to the consumer experience at Retail.

How was the EL Innovation Seminar different from other EL Educational seminars?

F. Paes Afonso: There was a focus on process and creating a culture that stimulates creativity and innovation. The presentations showed us how Lotteries really need to look outside of our industry for ideas and insights into how others are driving progress and innovation. For example, we should understand more about the internal culture of start-ups. We think of Lottery as an established business, and a big business that leverages scale. So, what can we learn from start-ups? Well, start-ups don't have scale or capital. They have only one thing to leverage and that is their ingenuity, their creativity. Their only real asset is their ability to innovate. In that sense, start-ups are the experts at innovation. And media companies. Their only real product is their imagina-

tion. How do they foster and support a culture that stimulates imagination? The presentations helped us to deconstruct the concrete elements, the specific things that can be done to create the environment that drives innovation, and provided examples of how to build a culture of innovation inside lotteries. For example, Française des Jeux showed us some unusual approaches to fostering creativity in the design of new digital games. This was the first seminar of its kind in the EL. Wojciech Szpil, the CEO of Totalizator Sportowy (the Polish Lottery) was the organizer and he did a fabulous job. He comes from the world of advertising and so has a wealth of experience that he is bringing to this industry.

There is no other economic activity that engages and involves all sectors of economic society like Lottery does. The government, the good causes supported by Lottery funds, and the general public are our major stakeholders. And our player-ship is so broad that the general public is basically our customer. We are accountable to all these institutions and yet we are also a market-driven business enterprise. Lottery is right in the middle of it all which makes this a most interesting position to operate in. Most of all, though, is the special privilege it is to work alongside colleagues throughout the world in service to our stakeholders in the mission to raise funds for good causes. ■