

R&D Compensation = Lottery Growth

By Steve Saferin, President, Scientific Games Ventures



At the risk of sounding like a broken record – or is it a defective CD? – I would like to focus this article on the important role that vendors can and must play in the growth of our industry.

I don't think there would be a lot of argument that for lotteries to grow their profits they either have to generate higher margins on the product they currently sell, sell more product or a combination of both.

There are very few industries where the contributions of the vendor community are as integral to the health and potential for growth than the lottery industry. Quite simply the vast majority of lotteries, particularly those in the United States, have no research and development capability and without R & D as it applies it to new games, new retail configurations or new anything there can be very little growth for a mature industry.

Both lottery and vendors are, I think, keenly aware of this reality and many vendors have made a significant R & D commitment. However, the recent trend in lottery RFPs for almost all services seems to indicate that lotteries do not want vendors to reap the benefits of successful R & D efforts. These RFPs serve as a disincentive to vendors investing the dollars necessary to fund research and development. And if vendors do not fund R & D, then who will? And how will we grow our industries revenues?

As best as I can interpret things I sense a fear on the part of the lottery com-

munity that one or more vendors will develop a product that will put the vendor in an unquestioned position of superiority in a commercial negotiation with one or more lotteries. It certainly is a reasonable concern on its surface but if you examine it in the bright light of the reality of our industry its flaws are apparent. It is a simple exercise in deductive reasoning:

- R & D is necessary for growth in almost any industry
- Lotteries do not engage in R & D
- Vendors can and will invest in R & D
- Vendors need to be fairly compensated for the successful fruits of their R & D
- If lotteries insist in some form on attaching vendors' intellectual property which is the result of successful R & D endeavors without receiving fair compensation vendors will cease their R & D efforts
- If vendors cease their R & D efforts there will be no new products or methods for lotteries to employ
- Without new products or methods our business cannot grow

We are faced with a unique business dynamic where the needs of the private sectors intersect with the requirements of the public sector. It seems that on the issue of intellectual property we are hurdling towards a head-on collision.

Harry Truman, who along with Winston Churchill is one of my two political heroes, prided himself on being plain spoken. So here is some plain speaking. The continued commoditization of lottery products and services will eventually lead to the stagnation and possibly a significant deterioration for our industry. The most successful vendors to our industry are public companies charged with returning profits to our shareholders. And before you groan and say lotteries are charged with returning profits to their constituents, consider that these two agendas are not necessarily in conflict. If lotteries continued to force prices of traditional services down without giving vendors the opportunity to recoup loss margins through the creation, ownership and fair compensation for their fruits of their investments in research and development, vendors will cease research and development and cut back in the many areas of support that lotteries now expect and rely upon. In the end all of our various constituencies will suffer. Recently Scientific Games proposed IP Content Standards to govern intellectual property issues in our industry. I would like to take this opportunity to again set these out for your consideration. This is an issue that must continue to be discussed, debated, and eventually resolved to the satisfaction of both the lottery and vendor community. We need to accomplish that goal so that we can work together for the growth of our industry.

IP Content Standards

1. Lotteries will not claim ownership to IP not developed exclusively for them.
2. Lotteries will not distribute IP jointly owned by the lottery and the vendor to other lotteries. The vendor will have such rights.
3. Vendors will make on-line IP content available to all lotteries whether they are the on-line vendor or not.
4. On-line vendors will not block the implementation of on-line content from other vendors.
5. Lotteries and vendors will agree to certain general standards to be employed when seeking to patent on-line game concepts.
6. Lotteries recognize the rights of vendors to receive a fair return on their investment in IP. ♣



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