



## Evgeniy Vlasenko

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**PGRI Introduction:** *Located in Eastern Europe, it borders Russia to the east and northeast, Belarus to the northwest, Poland, Slovakia and Hungary to the west, Romania and Moldova to the southwest, and the Black Sea to the south. The Ukraine is the largest country in Europe by land mass, and has a population of 45 million. Ukraine is an economically prosperous country, traditionally being the world's fourth or fifth largest grain exporter and also having a well-developed manufacturing sector, particularly in aerospace and industrial equipment. And the literacy rate in Ukraine is the highest of all the former states of the Soviet Union.*

*There are currently four groups licensed to operate lotteries in the country. The largest of these is the MSL LLC Lottery. The other three licenses are Ukrainian National Lottery (UNL), CJSC Patriot, and OJSC State Savings Bank of Ukraine. UNL and Patriot are active operators while the Bank does not produce any of its own lottery while its branches sell tickets of the other three operators. Evgeniy Vlasenko was appointed to lead MSL in the beginning of 2011. Meeting with Mr. Vlasenko at Industry Days Conference in Lisbon in June, I asked him about the regulatory framework, gaming culture and consumer trend-lines, and competitive environment in the Ukraine. Of course, the military conflict and political strife causes severe hardship for the Ukrainian people, and creates unique challenges for the business serving the consumer.*



**Paul Jason, PGRI:** *What does "MSL" stand for?*

**Evgeniy Vlasenko:** The company was originally called Molod Sportloto. "Molod" refers to youth and Sportloto just refers to the state-owned lotto. It was launched in the middle 1970s to raise funds for the Moscow Olympic Games. Its original mission was to raise funds for the development of sports in the Soviet Union. Of course, that mission changed when the states became independent in 1991. But by that time, the abbreviation MSL had become our brand so we retained it even though the original meaning of Molod Sportloto no longer applies.

*What is the history of MSL and the lottery industry in Ukraine since 1991?*

**E. Vlasenko:** After the Ukraine gained independence in 1991, there was a period of time when government regulatory structures

were not fully intact. There were no regulations and private operators were free to start lotteries, sell tickets and take in money, then close without paying out prizes. Public trust in lotteries was destroyed. In the year 2000, a regulatory system was implemented. Even so, and even though MSL always operated with integrity, the entire industry was tainted and it was very difficult for MSL to reestablish public trust and confidence. But we succeeded, step by step, in re-establishing consumer confidence that our operations are totally transparent and prize monies are paid out promptly and we always operate with integrity. The business of lottery relies not just on the confidence of the consumer. Your retail and advertising partners also need to be confident that the time and resources allocated to lottery will generate a positive ROI for them, and that the lottery operator will be a good business partner in every way.

*What is the regulatory model in Ukraine?*

**E. Vlasenko:** In the Ukraine, there is no monopoly in Lottery. The minister of finances issues licenses to operate. There are four licensed lotteries in the Ukraine and no new ones have been issued since 2012. Currently, activities of the lottery operators are directed by the Law on Lotteries which was first adopted in Ukraine in fall 2012. Gambling in the form of casinos and slot machines is forbidden since 2009, but the regulations need to be enforced.

*What lottery games are offered in Ukraine?*

**E. Vlasenko:** The Ukrainian lottery market is comparatively small. During the period of the EuroMaidan revolution (concurring with the Russian annex of Crimea and war in Eastern Ukraine since the beginning of this year), there was 50% devaluation of the Ukrainian currency

(UAH) against the USD and euro. So if we convert total 2013 sales into USD as per the current exchange rate, the sales results become automatically much lower than in the time it was reported in Jan 14. Before the political and military turbulence, the market was growing considerably. MSL sales were increasing at an annual rate of 50-80% between 2010 and 2013.

The lottery business has declined amidst this turmoil, down by 14% with the loss of the territories which are currently under no central Ukrainian jurisdiction.

Still, just 18% of the adult population plays lotteries. So the potential for sales increases is significant when there is peace instead of war so that we can build proactive growth plans. Instead, now we experience decline. Among classic lotteries (without sports betting), bingo ranks first at 30% of revenues, scratch cards second at 24% and growing fast, and Lotto third at 6%. Sports-betting and toto is 40% and is the fastest growing category.

Total turnover in 2013 was over 2.5 billion UAH (approx. \$150 million euro today but twice that before the devaluation of the past year). The operators are required by law to pay out at least 50% any games. The current licensing requirement is for the lottery operators to pay 18% of revenues to the state. These funds pay for the development of sports, culture, and health care of children.

*What percentage of your sales happen at land-based retail stores, Internet, or other channels of distribution?*

**E. Vlasenko:** 97% of MSL's sales are at land-based stores. Internet is a small portion of the sales, but we are developing the online business together with Neo Games. A peculiarity of MSL is that it is successor of the Soviet state lotteries which traditionally worked via their own chain of POS. And so now, over 80% of total sales of MSL are generated from its own specialized stores. So MSL has been very tied to and committed to its own network of retail stores. We will continue to be committed

to the land-based retail channel, but our new strategy is to build a strong network of land-based agents and stores which is the model that works so well for the developed markets in Western Europe, U.S., Canada, Australia, and elsewhere.

We are now recruiting outlets like general stores, private entrepreneurs, corner stores, press and tobacco shops and such to increase coverage and educate them about the lotteries. Without proper training and all round education this segment will not sustain. In this respect experience of our colleagues from European Union makes represents a value for us. We train our partners-retailers on how to run the business. We continue to assist in merchandising to make sure the POS materials are properly maintained and updated to maximize sales of lottery products. But most important is that we train them how to talk to the players and treat them professionally. Our field sales managers visit the stores on a weekly basis to assist in all aspects of merchandising lottery products and assist in other aspects.

*This sounds like a massive transformation of the whole distributional system.*

**E. Vlasenko:** You need to recognize that prior to 1991, there was no private ownership of retail stores. They were all owned by the state. There was no commercial distribution industry. The kind of retailing infrastructure that you take for granted, one that is an efficient mix of large department stores, small retailers, and specialty retailers did not exist. So it had to be created. At the time, in the 1990s, I worked for the Mars Corporation. Pet food initially was available only in a limited number of specialized stores and retailers did not want to put it to the shelves next to food or other items. Now you will not find a solid supermarket or grocery without pet items. In fact, specialized pet stores well survived. And consumption increased. That is what we are doing with the lottery retail model right now. We have just 18% of the adults playing lottery, and specialized lottery

shops that dictate rules and volumes in the lottery industry of Ukraine.

Transitioning from a state-owned economy to a capitalist system is a big transition. You might imagine that it is just a matter of installing modern business practices and models. But the cultural adaptation as well as economic and logistical transformation is not so easily accomplished. Of course, we are over twenty years into the process. The cultural transformation has largely been accomplished and so now it is largely a matter of executing on fundamental business plans to develop a network of dynamic entrepreneurs to operate the stores.

There is huge potential for MLS to increase player-ship just by making the product more accessible to the consumer. Building the retail network is the primary way to make that happen. We have only 18% of the population in the Ukraine who plays the lottery at least once a year. That compares to 70% in the UK. We are confident that player-ship will increase with an increase in the number of retail stores and the effectiveness of owner-managers at selling and merchandising the products. Our business model is entirely based on making the product more accessible, provide more Ukrainians with the opportunity to have fun playing the lottery, bring more people into the game so that the games are a fun and healthy form of recreation with nobody playing more than they can afford. Just expanding distribution, making the product more available, is the key to connecting with that 82% of the population that does not play the lottery.

*Some products carry higher margins than others. Do you allocate budgets for promotion based on the profitability of the product category?*

**E. Vlasenko:** There are different ways to measure profitability. Sports-betting, for instance, has a much lower margin than the draw games. But the GGR and especially turnover is much higher in sports-betting than it is for lottery products. And sports-betting costs more to operate. Higher rents for stores, higher payroll for staff to run the

stores, higher costs for municipal services, etc.

Our business objective is simply to offer all the products and games that the consumer wants to buy. We want the consumer to know about the products, know how and where to play the different games, and maximize consumer access to the games.

*It is hard to compete with online sports-betting operators since they don't pay taxes.*

**E. Vlasenko:** Of course. Our share of the sports-betting market is low, but we want to provide our customers with the option to play at a legally authorized and trusted store. 40% of our total revenue is from sports-betting, and only 2% of that revenue is online. The rest is all at land-based stores.

Illegal online gambling is vast. There are more than 270 sites accessible to the Ukrainian customers. They are not properly regulated or taxed. First, the government needs to understand and specify the regulatory and taxation framework. Then they need to prepare, adopt and issue rules and conditions for licenses.

MSL has a corporate philosophy of supporting Good Causes and that translates into a strategic philosophy of being first and foremost a lottery company. Government gaming operators have an entirely different reason for being than do the bookies which operate sports-betting or other games illegally online. As we learn from presentations at the EL Conferences, even in jurisdictions where these bookies do acquire a license to operate legally, online sports-betting operators typically pay a tax rate that is much lower than the percentage that government operators turn over to their government and to Good Causes. We do want to provide our customers with the complete portfolio of gaming options. But we need to be realistic about our ability to compete for market share. Our mission is about providing a service to the consumer, a safe and secure environment to play the games, and to generate funds for Good Causes and to the shareholders.

*Internet sales is a small portion of your revenue. Less than 4%. Do you think that will be growing in the future?*

**E. Vlasenko:** Yes. Adoption of smartphones is skyrocketing, and that will drive commercial activity onto the internet. Facebook is not as popular here yet, but social networking is becoming a bigger part of our lives in the Ukraine, and as more and more people are engaged in social networking, that will drive the increase in social gaming. It will be most interesting to see how these new media and distribution channels will evolve over the next two years.

Our website is [www.msl.ua](http://www.msl.ua). As a first step, our commercial partner NeoGames is implementing an online Instants program. We realize that it is important to engage the consumer online. The multi-channel approach is a cornerstone to the long-term success of any lottery operator. The consumer connection to social networks is fast becoming the primary source for information in general. These social networks function as the key medium for communication, and they are also a powerful engine for disseminating information. As a business, we need to be a part of that, and that means making our products available online.

We started in Internet with traditional lottery products. The sports-betting space is far too competitive for us to compete in that category online. Although, since 2013 our brand Sportliga is available on line as well. But for us, we find that the consumer likes buying lottery products at retail stores because they trust retail stores to pay out the prizes. By providing good service, retailers establish a trust relationship with the consumer. The consumer sometimes knows the retailers personally. Even if they do not have a personal relationship with the retailer, knowing that there is a physical place and an actual person for them to talk with engenders trust and confidence. The consumer also trusts the brand which is represented at the POS's and signage at stores, so that also reinforces confidence in the integrity of our retailers. Especially as applies to sports-betting, the consumer is less

likely to trust the online operator.

Ukraine recently signed an association agreement with the European Union. This makes it possible for us to join Euromillions or EuroJackpot in the future. We know these games are very successful in Western Europe and are confident they will do just as well in Ukraine.

*How has the political situation and unrest impacted your operations?*

**E. Vlasenko:** We stopped operations in Crimea once it was annexed by Russia. And Eastern Ukraine is a war zone. It is impossible to operate a consumer business under the artillery shells in Donetsk and Luhansk and the other cities in the Donbass region of Eastern Ukraine. Losses are big. Many places in the military zone are without electricity, people do not get salaries and pensions, so they do not have the time or the money to play the lottery. These are unfortunate times. But Ukrainians are peaceful by nature. There has been peace and stability over the past 23 years since independence from the USSR. If the war is not forced upon us by outside interference, I believe it will stop soon and Ukrainians will go back to their natural activities: grain production, composing songs and, I believe, playing lotteries too. The people just want to return to normal life but that is just not the situation in Eastern Ukraine. And unfortunately, a resolution does not appear to be imminent.

*The nature of business requires us to plan ahead in spite of a lack of certainty about the future. I can't imagine what that must be like under conditions so uncertain as those in the Ukraine.*

**E. Vlasenko:** In years past, maybe fifteen or twenty years ago we would all operate with five and ten year business plans, right? More recently, technological, cultural, and lifestyle changes have shortened the realistic timelines for business plans down to eighteen months or two years. In the conditions that exist here in the Ukraine, we do not know what will happen tomorrow. That requires a whole dif-

ferent style of management. You have much less control. You need to depend on others to use their judgment and make the right decisions in situations that require immediate action. Security of the people and physical premises and deliverance of products and services is a major challenge. We still have offices in combat zones, and even where there is not heavy military activity, there is still unrest. Our job now includes taking many telephone calls to counsel our staff on how to deal with threats to their personal safety. Sometimes we need to help them figure out whether it is safer to try to leave the office to go home or to remain in the office and hide behind tables

and hope that the fighting ends soon so you can quickly run to your vehicles to get away. As important as our corporate mission is to grow the lottery, the issues caused by these conditions take priority! There is much less time to focus on normal business operations. And it's not as if any of us are trained to deal with these kinds of situations. So we all figure it out as we go, and do the best we can.

*But in western Ukraine, life is normal and safe and stable for the conduct of commercial activity and operating the lottery?*

**E. Vlasenko:** Yes. Ukraine is in a very unusual situation. People from all different nationalities, religions, and cultural back-

grounds have been living peacefully here for so many years. Nobody thought about the different backgrounds, we all just lived as equals, as friends and countrymen. Now we just want this military turmoil to stop so we can return to normal life. This is very hard for all the people of Ukraine. People are dying and others are losing their jobs and their life savings. And that also makes it very hard for businesses to survive. And when businesses suffer, so do the government services because of the decline in tax receipts. War is a vicious cycle that hurts everyone.

We do join you in prayer, Mr Vlasenko, and hope for the best! ■