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PGRI Introduction: As governments assess the pros and cons of different management structures, some basic questions come to mind. How do the different approaches affect lottery performance? And what exactly will a “private manager” do that could not be done by a lottery operating under a state-agency model? Camelot Global Services is the division of the Camelot Group that provides consultative and management services to lottery operators outside of the U.K. Richard Wheeler is forthcoming with thoughts on these and other questions about how the management structure can unlock lottery performance.

Paul Jason, Public Gaming: The “private manager” model would seem to afford more flexibility in the day-to-day management of the Lottery. Or do government constraints and sometimes politically-driven oversight impinge on lottery operations no matter what the model?

Richard Wheeler: The lottery can be a tough area for governments to get their arms around – they understand it’s an asset that generates significant amounts of cash for the state, but often are not clear on how they should position and develop it in a way that is both profitable and responsible. That can result in a lack of clarity for the state-agency operated lottery as regards its business objectives and its public policy mandates. That is why it can be such a challenge to operate as both a state agency and a consumer-facing, revenue generating marketing business.

The clarification of public policy and fiscal objectives can happen under any model, including the state agency model. But the private manager model is certainly a helpful vehicle to clearly reset these objectives. Further, we believe a private manager model based on the fully aligned economic incentives is a helpful construct for driving the behaviours required to achieve long term growth.

In the UK, we deal with a very specific regulatory framework – including the types of games we can offer, and the economic model we operate within, which mandates us returning 41% of revenues back to government. Regardless of any specific constraints, governments must realize that the lottery needs a singular focus on the consumer, one that is driven by a complete commitment to responsible gaming – expanding the player base, and making lotteries less regressive.

What are government lotteries not doing now that they should do and that a private manager would likely do right away if given the chance?

R. Wheeler: Each lottery is facing its own specific challenges but, there are some structural principles that all governments should consider adopting that would be consistent with a private management philosophy of running the lottery more like a business:

- Freedom to attract and incentivize individuals and teams, particularly the sales force.
- Create an operating framework that encourages

innovation rather than stifles it.

- Look at alignment of incentives – this is central to Camelot’s theme, and should be to any business. Specifically in the US, most suppliers are paid on a percentage of sales basis, while the lottery itself is ultimately judged by the amount of net income it brings to its beneficiary. As a result, there are numerous instances where sales have increased at a much faster rate than profit. The mandate to increase profit will not be achieved if the economic incentives of all parties involved are not properly aligned to this ultimate goal.
- An assessment of ROI across the entire business – Identify which activities, investments and areas of operation are contributing effectively to profitability and which are not. We see many examples across the US where decisions are taken, or worse being perpetuated, without being subject to sufficient rigorous analysis to assess their long term profitability to the state. This manifests in a number of ways, including the introduction of new games, the effective use of prize payouts, planning media spend, or the size and shape of the retail network. Understanding ROI can be complicated, but there are numerous tools/practices available from the consumer goods industry that can be applied to provide new insight.
- Interactive is clearly a huge opportunity and state governments should work hard to establish clarity on the federal legality as soon as possible.
- Formally identify all key stakeholders, measure the level of relationship and immediately put in place a plan to manage and improve those relationships from day one.

What about the unfortunate dynamic that a lottery director is much more likely to get fired for a small mistake than promoted and given a big bonus for achieving stretch goals ... doesn’t that create a pretty profound structural impediment against change and innovation

R. Wheeler: Great point, and clearly an impediment to state-operated lotteries reaching their full potential. As I mentioned before, one of the first things we would do as a private manager is incentivize our entire team to reach stretch goals, starting



with senior management. Rewarding for performance and having the ability to attract and pay for the best talent, both inside and outside the lottery universe, is essential to long term success. Look at the relative success of the semi-private lotteries in the US who are allowed to incentivize their employees and properly pay their senior management as an indicator of proper incentives.

Based on your California experience and elsewhere, what are some low-hanging fruit actions that a lottery can take to unlock some of their entrepreneurial capital?

R. Wheeler: I think there are four main things:

- 1 **A profitability assessment of the business** – develop an objective, detailed and data driven understanding of what is delivering on the bottom line, and what isn’t. This should be a short sharp two- month process.
- 2 **A wholesale refocus on the consumer**—where games are carefully differentiated and designed to appeal to all segments of players, including core, occasional and lapsed.
- 3 **Talent and personal development** – there are some US lotteries that have adopted first class management development programs.
- 4 **Focus on doing the basics better. Innovation is clearly important** – but there are so many other simple things that we often don’t think about in day to day business that are fundamental. For instance, we have a program in the UK called ‘Site-Stock-Sell’ – it’s about doing the basics of retail management better and backing that up with data we can use with store managers and chain head offices. Basic execution that yields improved results. For example, we have been able to show that positioning of a playstation in a single store can impact sales by a few hundred pounds per week in certain cases. This is very powerful when our sales teams are discussing playstation positioning with store managers. Looking at other consumer based industries is a great start in understanding and adopting best practices. True best practices never involve adventurous risk-taking. It’s about basic execution of tried and true business principles. ♦