



Richard Bateson

Commercial Director, Camelot UK
(operator of the UK National Lottery)

Re-Shaping Lottery to Compete in the Modern Market-Place

PGRI Introduction:

Camelot UK Lotteries Ltd has operated the UK National Lottery since 1994. Over the past decade, Camelot has grown UK lottery sales by over 40%, and the UK National Lottery has become one of the nation's best-known consumer brands, delivering around £30 million to Good Causes every week. However, the global industry is now at a very interesting juncture, one that includes fresh opportunities along with formidable obstacles. Nowhere is this more evident than in the UK.

Since joining Camelot in 2001, Richard Bateson has served in a wide variety of leadership roles within both Camelot UK and more recently in Camelot Global. His recent appointment back to the UK as Commercial Director tasks him with invigorating growth in the UK National Lottery after 18 months of sales decline. Operating in what is by far the most intensely competitive games-of-chance market-place, team Camelot has their work cut out for them!

Paul Jason:

Richard, you recently re-joined Camelot UK as Commercial Director after five years at Camelot Global – what were your first impressions coming back into the business?

Richard Bateson: My main observation from day one was that our competition has intensified drastically in the five years I have been away. I had obviously known that this was something that lotteries around the world have been facing for quite some time, but it didn't quite hit home for me until I saw in black and white what it meant for Camelot.

CAMELOT

In the UK, our main competition is coming from bet-on-lottery firms, such as Lottoland, purporting to offer the same products as The National Lottery and from large 'umbrella-style' society lotteries – like the Health Lottery and the People's Postcode Lottery. As you know, The UK National Lottery was set up on a single-operator basis and, as its sole licensed operator, we have a very strictly limited advertising and marketing budget. These companies do not come even close to approaching our revenue, but they are regularly outspending us on advertising and marketing. This causes our 'share of voice' to decline, but it also means that we have to pay more online to maintain our search terms – particularly for EuroMillions where the bet-on-lottery firms are bidding directly against us.

So, while I would never want to use competition as an excuse – as we have always operated in a competitive market and have vied for consumers' discretionary spend – it needs to be on a level playing field. To my mind, the stark difference between 2013 and now is the fact that we are regulated as a monopoly, but are operating in an increasingly competitive space.

You mentioned Lottoland – a company that has been making a name for itself around the world and which has caused many lottery operators to speak out in protest. What is the current situation with Lottoland in the UK?

R. Bateson: The problem we have been having with Lottoland here is that they are offering bets on the outcome of the EuroMillions draw to UK consumers, but companies aren't allowed to take bets on the outcome of The National Lottery and its draws. Lottoland has been getting around that by saying they are offering bets on the outcome of the Spanish EuroMillions draw or the Austrian EuroMillions draw, but we all know there is just one EuroMillions draw across the nine countries – which is coordinated by La Francaise Des Jeux in Paris.

This has been causing confusion for UK consumers because they are seeing what they think are EuroMillions tickets offered through a different website, at a different price – our price is £2.50 because we have an add-on game that makes two millionaires in every draw and offer various promotions throughout the year, but Lottoland has been undercutting us with its product at £2. Also, a fundamental point is that people know that when they buy a National Lottery

game, a portion of that ticket price goes to Good Causes – so they just assume that the Lottoland offer is the same.

Thankfully, the UK Government recognised that this was a loophole, launched a consultation and recently took the decision to prohibit third party betting on non-UK EuroMillions draws – we look forward to this coming into effect.

Camelot's sales have been down recently, but a strategic review was announced last summer and Nigel Railton (former CEO of Camelot Global) has now been confirmed as Camelot CEO – does this mean that things are looking up?

R. Bateson: Well, that's the million-dollar question, isn't it? But, seriously, I was honoured to be asked by Nigel to come back into the UK business at this pivotal time – and I think we both felt I could bring a lot of what I'd learnt from working with various European and US lotteries back here to the UK.

The strategic review is now complete and, in some ways, I think you could look at what is coming out the other side as almost going back to basics. We've been analysing every element of our business to determine what's working well, what's not working so well, and where there are any gaps.

So, for example, we're looking to ensure our games, both draw-based games and instants, are as good as they can be – making sure we have the right number of games, the right variety, that they are all offering distinct prizes, and that there is a wide assortment of price points. Where we've been quite reliant on only a couple of games in our portfolio over the past few years, our focus will now be on growing the whole portfolio and offering an improved range of games with prizes and prices to suit different tastes and pockets.

We're also looking at how we can make more of The National Lottery's primary purpose. Yes, making lots of winners is obviously really important, but the reason The National Lottery exists is to raise money for Good Causes. So, we'll be put-

ting more marketing spend behind promoting this and we'll also be working closely with the National Lottery Distribution Bodies – the 12 independent organisations that allocate National Lottery funding – to deliver a clear brand with one voice. This will help us all more effectively communicate the uniqueness of The National Lottery and the life-changing good that it does.

From a channels perspective, we'll continue to invest in our digital capabilities as consumers continue their shift towards digital. We need to make sure we're continuing to meet consumer expectation in terms of giving people convenient ways to play. In particular, we'll be focusing on player experience and enhancing our mobile offer. And we're also in the process of upgrading our CRM so that we can provide a more tailored, personalised experience without it being intrusive.

But I think our biggest shift back to basics probably comes in the form of what we're planning in retail. The retail landscape in the UK is constantly changing, so we need to adapt our presence to better reflect the different ways in which people are shopping. For example, we're looking to make National Lottery games available at self-checkouts, as well as in discount supermarkets whose market share has grown considerably in recent years. In addition, we're doubling the size of our sales force and investing £20 million in retail initiatives designed to boost levels of engagement and improve in-store display, merchandising and game availability.

That is very interesting about your investment in in-store initiatives, as many lotteries around the world are going the opposite way and shifting their focus to digital. What is your reasoning behind this?

R. Bateson: It all depends on what stage you're at and, more importantly, what your players want. Here in the UK, we were one of the early adopters of selling tickets online when we started back in 2003. This has been hugely successful – we now have over 10.5 million registered online players, our digital sales reached a record £1.58 billion in 2016 and sales through mobile reached an all-time high of £619 million last year. So, it's clearly important that we continue to meet customer demand by having a fantastic and evolving digital presence.

However, retail purchases still make up nearly 80 per cent of all our sales – so it's vitally important that we're doing both channels

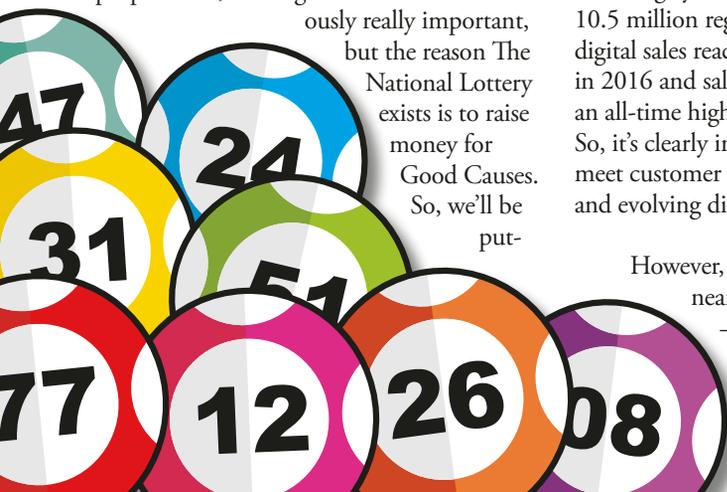
justice. This retail push aims to improve our engagement with our 46,000 retail partners and uses some of our learnings from other jurisdictions to make our in-store offering as good as it can possibly be. This is also in light of the fact that more and more people are becoming multi-channel players. For example, many of our players might normally buy a ticket from a shop on their way home from work, but if they don't have time, they're just as comfortable buying a ticket via the app instead. Either way, we need to be providing a consistent, high-quality experience no matter how they choose to play.

We've also been taking it even further back to basics in recent months by asking all 750+ Camelot employees to let us know if they spot an issue in any of our retailers. So, when people are going about their daily lives and in a shop buying milk or bread or whatever, we're asking them to have a look at the National Lottery displays and to flag anything that's incorrect. This could be anything from gaps in the Scratchcards dispenser to a retailer having an out-of-date poster displayed. We've set up a dedicated employee helpline and online form where colleagues can report this sort of thing, and we've had various incentives to encourage them to get involved.

We have a great group of people working for us – they're engaged, excited and passionate colleagues. And this is about encouraging everyone – whether they work in marketing or IT or HR – to take pride and ownership in the National Lottery brand, and to make our in-store presence the best it can be. It's a win-win because it helps our retail partners, but it also ensures we're raising as much money as possible for Good Causes.

You also talked about making your games the best they can be. As part of your strategic review announcement, you said you were looking at an annuity game and changes to your main Lotto game. Was the annuity game your idea, Richard, given the success that annuity games have had in many US states, and do you have any update on Lotto?

R. Bateson: I'd love to say that the annuity game was purely my idea, but sadly, I can't make that claim. Obviously, I've seen it work really well with 'Cash4Life' and 'Lucky for Life' in the US, but it's something that Nigel has been keen on for a long time and it makes a lot of sense when you look at our portfolio.



stop the spread of sports betting would lead to an interpretation, in order to hold it constitutional, where all limits on sports betting were removed.”

Justice Gorsuch also wondered to what extent sports betting prohibitions could be repealed without the respondents claiming that a partial repeal would constitute “authorization” under PASPA. He asked Mr. Clement: “But where is the line? The Third Circuit said *de minimis* private gambling isn’t covered. [Y]ou indicate maybe the state could have a certain dollar threshold, and that wouldn’t be authorizing. ... I’m really not clear why that wouldn’t be authorizing if you specify a threshold dollar amount in state law. ... [W]hat if they said you can do it at the Elks Club, is that authorizing? [W]here does the government draw the line?” Mr. Wall responded that whenever the state “is channeling sports gambling to ... state preferred providers, that’s an authorization.” Justice Gorsuch countered: “But [we] have no record about that, as Justice Sotomayor points out. And the Respondent took the position that authorizing means any repeal of any degree of any kind. Why shouldn’t the Respondent have to live with that invited error, perhaps, now in this case?”

Justice Sonia Sotomayor’s position is less clear: Justice Sonia Sotomayor’s position is less apparent than the positions of the other justices, because she was critical of both the appellant’s and the respondents’ arguments. After Mr. Olsen admitted that gambling is a commercial activity, Justice Sotomayor asked: “So...if it is a commercial activity by the state, haven’t we already said that the federal government can regulate that activity by the state? ... So why is it that telling the states [sic] that it can’t license, participate in, authorize, or otherwise involve itself in gambling a strict prohibition of a commercial actor?” Mr. Olsen responded that if Congress had regulated sports betting rather than prohibit states from allowing it, Congress could have preempted inconsistent state laws.

However, Justice Sotomayor also seemed skeptical of Mr. Wall’s argument on behalf of the United States. Justice Sotomayor asked: “[W]hy is a partial repeal unconstititutional – or in violation of the preemption clause? Because if the law didn’t exist, the fact that they’ve carved out a certain section of the – of the population for whom the law will stay in existence, that’s not actually authorizing. That’s just

merely repealing.” Mr. Wall responded: “[W]hen the state says, we’re going to repeal our law in such a way that nobody in the state can run a sports lottery or sports book, except for the 12 state licensed casinos and racetracks that already conduct authorized gambling operations.” Justice Sotomayor countered: “[Y]ou might be right if the licenses that those two [sic – probably 12 was intended] facilities hold really are... general and say, you’re authorized to do any gambling permitted by law. Then you might have an argument. But if all they do is repeal, what does it matter?”

Conclusion:

In summary, based on the Justices’ questions asked during oral argument, it seems that five of the nine justices favor New Jersey’s argument that PASPA unconstitutionally “commandeers” states to maintain state-law prohibitions on sports betting or that New Jersey’s “partial repeal” law does not violate PASPA. The Supreme Court’s decision is expected by the end of June 2018 and has the potential to change the gaming landscape in the United States. A decision favoring New Jersey could (1) remove the federal prohibition on state-authorized sports betting (if PASPA were struck down entirely) or (2) provide a road-map for other states to follow in order to permit sports betting (if New Jersey’s “partial repeal” law were held compliant with PASPA). In either event, online interstate wagering would still be prohibited under the federal Wire Act. A holding in favor of New Jersey would permit states to decide for themselves whether to allow sports betting within their borders. ■

¹Christie v. NCAA, et al., 832 F.3d 389, 396-397 (3rd Cir. 2016), cert. granted, 2017 U.S. LEXIS 4279 (2017) and consolidated with New Jersey Thoroughbred Horsemen’s Association, Inc. v. NCAA, et al., U.S. Sup. Ct. Nos. 16-476 and 16-477. Respondents are the National Collegiate Athletic Association, the National Basketball Association, the National Football League, the National Hockey League and Major League Baseball.

²N.J. 2014 P.L. c. 62, §. 28 U.S.C. §§ 3701 – 3704.

⁴New York v. United States, 505 U.S. 144, 166 (1992).

⁵All quotes are from the transcript of the oral argument before the U.S. Supreme Court, available at https://www.supremecourt.gov/oral_arguments/argument_transcript/2017 (last accessed December 28, 2017). Justice Clarence Thomas did not ask any questions during the oral argument and therefore this article does not speculate on his view of the case.

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At the moment, we have EuroMillions with its huge, rolling jackpots and Lotto which has multi-million-pound jackpots, and then also a game called Thunderball with a top prize of £500,000. However, we don’t currently have any games for people who dream of lifelong financial security, rather than just big jackpots overnight. We don’t yet have any details about the prizes, cost of play or anything like that – as we’re still looking at all the potential options and aren’t looking to introduce such a game until 2019 – but think an annuity game will fit well in our portfolio.

In terms of Lotto, we made some changes to the matrix and prizes back in 2015 that were intended to meet player demand for bigger, rolling jackpots. But the game hasn’t performed as expected – primarily because a long series of rollovers has made some players feel like the jackpot is now too difficult to win.

So, we’ve listened to what people (players, non-players, retailers) are telling us they want from Lotto – decent jackpots that can be won regularly but without further major disruption to the game – and we’re planning to make improvements to the game this year. We’re currently testing a number of possible game options, but think we can give people a better game without the upheaval caused by changing the matrix again. That’s good news because it means we can improve the game for them more quickly. So, watch this space.

It sounds like you and the Camelot team have a lot to do in 2018 and beyond – do you have any final words of wisdom to share?

R. Bateson: I’ve said it already, but I think one of the main things I have been reminded of since returning to the UK business last summer is what a fantastic bunch of people we have working for us. I think it’s really important that all lottery operators remember that it’s the people who make up your organisation that really make your business – and bring your brand to life.

Our next focus will be on transforming our commercial capability – and, again, it comes back to people. You need to have the right people, following the right processes and then the right support functions to execute your plans.

Yes, we have a big job ahead of us, but we’re all up to the challenge. ■