



Gregory Smith

Executive Director,
Illinois Lottery

Onward and Upward: A New Era Begins at the Illinois Lottery

Paul Jason:

With all the changes taking place at the Illinois Lottery now, and in the near future, it may be helpful to begin with a description of the current state of affairs.

Greg Smith: Northstar's tenure as private manager ended on January 1, 2018. The termination agreement reached in September, 2015 was extended through to that date to allow for the completion of the procurement process for a replacement manager. Camelot Illinois began their tenure as private manager on Jan 2, 2018 after reaching agreement with the State for their private management contract. Northstar's primary subcontractors for the gaming system and iLottery platform (IGT), and instant ticket printing (SGI), remain in place until the transition to Camelot's primary subcontractors can be completed (estimate by the end of 2018). Camelot's primary subcontractors are Intralot (gaming system), Camelot Global (iLottery platform), and SGI (instant ticket printing).

After a couple years of uncertainty, it seems like the Illinois Lottery has an action-plan going forward. What are some of the component parts and next steps you will take to set a positive course for growth and prosperity for the beneficiaries of the Illinois Lottery?

G. Smith: We do not want the experience with our first private manager to define the private management approach going forward. We now have more realistic revenue and profit projections in place, a stronger and more detailed contract, and aligned incentives that should strengthen

the partnership between the State and the new manager – Camelot Illinois. No guarantees for performance exist but we will work to create a smooth path, and see if they can successfully execute their plan. We have had essentially flat sales for four straight years, so all parties believe that good potential for growth exists.



Changing from one private manager to another is something that no Lottery has ever done before. Are there some learning lessons that might be of interest to your colleagues, things that might apply to broader issues of governance that apply to all lotteries?

G. Smith: For starters, try to avoid changing private managers, gaming vendors, and developing a new i-lottery platform over a 15-month period. They are intense projects, and it is an incredibly heavy lift for the Lottery staff while simultaneously doing their regular work.

Setting clearly established roles and responsibilities of all parties is critical. While this seems incredibly basic, issues arise weekly

that require reference to who does the work and who is a party to the decision making. The gaming systems are not all designed the same by the various gaming vendors, but they have strongly similar output. We spent significant time on drafting and reviewing specification documents used on system and process development. We needed to replicate what existed as best possible and allow for potential modification in the future. Just like with the contract negotiations, putting the time in up front should create better alignment and more clear understanding of execution and performance by all parties – Lottery staff, Manager staff and subcontractors.

We all know the thought that exists among lotteries – don't be the first to do something. Let another state blaze the trail and learn from their missteps. Illinois was the first to try private management, and now the first to change managers. We have looked at how NJ and IN approached private management, but also know that state statutes and collective bargaining agreements may not allow for adjustments to be made. We have learned a lot from the issues that arose over the past six years and seek to avoid repeating them. Ideally, our agreement and partnership with Camelot Illinois will enable that to occur. The private management approach is quite different than State run models, and the transitions are complicated. Focusing on this work is important but we also had to make sure Lottery customers and retailers were attended to. After stepping up in

Continued on page 32

Northstar's final months to ensure continuity until Camelot was prepared, we need to step back and let Camelot to do their job.

Implementing a private management model involves a lot of time, costs, and uncertainties? Is it worth the effort? Do you project that in three or five years, the answer to that will be "Yes, it was worth it"??

G. Smith: Yes it takes a lot of time and expense, and a fair amount of uncertainty exists under all management models, including the state run model and public benefit corporation model. Private management creates another layer of required oversight as the State ultimately maintains control over all decisions. We all seek to develop confidence and trust in our staff, and a private manager is no exception in this regard. But the State cannot just say "... only tell me the important items and move forward on everything you think is right."

The change process for private managers following below average or poor performance gets implemented more slowly, and that can be costly to the State in two ways: (1) the expense of changing out a full company, and (2) likely stagnation of sales and profits during the transition. In my opinion, it is much easier to change leadership and direction under the other management models than with private management. It is important to remember that there are a number of situations where the Manager can choose to walk away from the engagement – slower growth may not reward their investment sufficiently.

I project that we will know the answer in 3-5 years, but do not know what the answer will be.

How does your role as director of the Illinois Lottery, with its private manager structure, differ from your role as director of the Vermont Lottery, with its more conventional model as a state agency?

G. Smith: They are barely comparable. I have always held the notion that directors of smaller lotteries (like VT) have to be more involved in greater detail than directors of larger lotteries, largely due to staff size. My experience in Vermont was critical to developing my knowledge base to achieve success in IL, especially during the private manager transition and the technical transition (changing gaming vendor). I cannot afford to dip too low into details myself without becoming a bottleneck and slowing things down. That said, I do need to ensure that

someone with the Lottery or the Manager is digging into the details and reporting back to me. The questions that need answering during a transition of manager or gaming system are the same whether you have 20 – 40 staff members or 200 – 400.

Once we are done with the private manager transition I need to fade back a bit and let Camelot take full responsibility for their assigned duties. While I might do things differently, we need to let them run their plan as long as it is not detrimental to the Lottery or the State.

How has your management style and strategic thinking changed since assuming this role that involves liaising between a gaming commission, a state legislature, governor's office, the Illinois Lottery staff, and the private manager?

G. Smith: Certainly the Illinois Lottery, with private management, almost \$3 billion in annual sales, and the political climate in the State has required me to "up my game". Illinois has proven itself as progressive with its lottery: first to offer special benefit instant games for organizations like veterans and Special Olympics; first to use the private management model; and first to sell lottery draw games online in the U.S. Most U.S. lotteries face competing agendas for growth in profits, responsible gaming, and addressing or responding to the goals of their State Legislature and Administration. I firmly believe that a well thought-out strategy with clear explanations can succeed even with resistance from various factions. Probably all of us working for lotteries and vendors are 75% identical in thought or approach to successfully operate a U.S. lottery. The remaining 25% comes down to which levers to hit, and in what order. If the industry is growing and your lottery is not, you need to re-evaluate your plan. I have found that mixing input from vendors (industry point of view) with the State's knowledge (boots on the ground) yields the best plan that can withstand most pressures and conflicts.

Anything specific to describe as to plans to expand into new games, new channels of distribution, other kinds of action-plans to increase sales?

G. Smith: After spending 2+ years terminating Northstar, and then transitioning to Camelot-Illinois and all of their subcontractors, I would describe IL as behind in offering or successfully applying some industry basics like 2nd chance drawings & extended play online game offerings, cross channel and game promotions, and

evaluating our portfolio of daily number and draw games. Camelot-IL will bring forward their plans to improve sales in all channels, improve existing games or offer new games, and work with retailers on best practices for product placement and POS use. That is clearly their responsibility. The Lottery will work with the Administration and Legislature to provide a clear playing field on which to perform. We will make progress on those basics, and hopefully see results in growth in sales and profits for our beneficiaries. Personally, I think there is great potential here, and believe that Camelot-IL and their subcontractors feel similarly.

And to wrap up?

G. Smith: The next 12-18 months for the IL Lottery, Camelot-IL and its subcontractors will be packed full of meeting transition milestones, getting used to working together, and limiting the impact on players and retailers. All stakeholders will benefit if we can provide a smooth, consistent playing field on which the plan can be executed. And, while doing all of this, we must maintain and improve our responsible gaming effort to protect those who need assistance. If we can do all of this we will have a very good story to tell. ■

.....
Gary Gonder continued from page 10

and Responsible Gaming committees. Mr. Gonder has helped host several NASPL events in Missouri and has actively presented at numerous NASPL, WLA, PGRI and La Fleur's conferences on a wide variety of topics, including Branding, the Customer Journey, Retailer Modernization, Winner Awareness, Crisis Communications, Responsible Gaming and Underage Prevention.

Mr. Gonder hopes his legacy at the Missouri Lottery will be having led employees and stakeholders to discover the power of living the "why" in the Lottery's purpose.

Gary holds bachelor's degrees in advertising and photojournalism from the University of Missouri School of Journalism and a Master of Public Administration from the University of Missouri College of Business and Public Administration. Mr. Gonder is a graduate of NASPL's first Lottery Futures College, the BC Lottery's Erehwon Case Studies Program and is a NASPL Powers Award recipient. ■