

PANEL DISCUSSIONS:

Long-Term Sustainability
Versus Short-Term Sales

Expanding the Portfolio of
Multi-Jurisdictional Draw
Games in the U.S.

The Ancient
Walls of
Jerusalem:
Scene of
the opening
night
reception
for the EL
Congress

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Player Experience

Constantinos Antonopoulos,
Chief Executive Officer, INTRALOT Group

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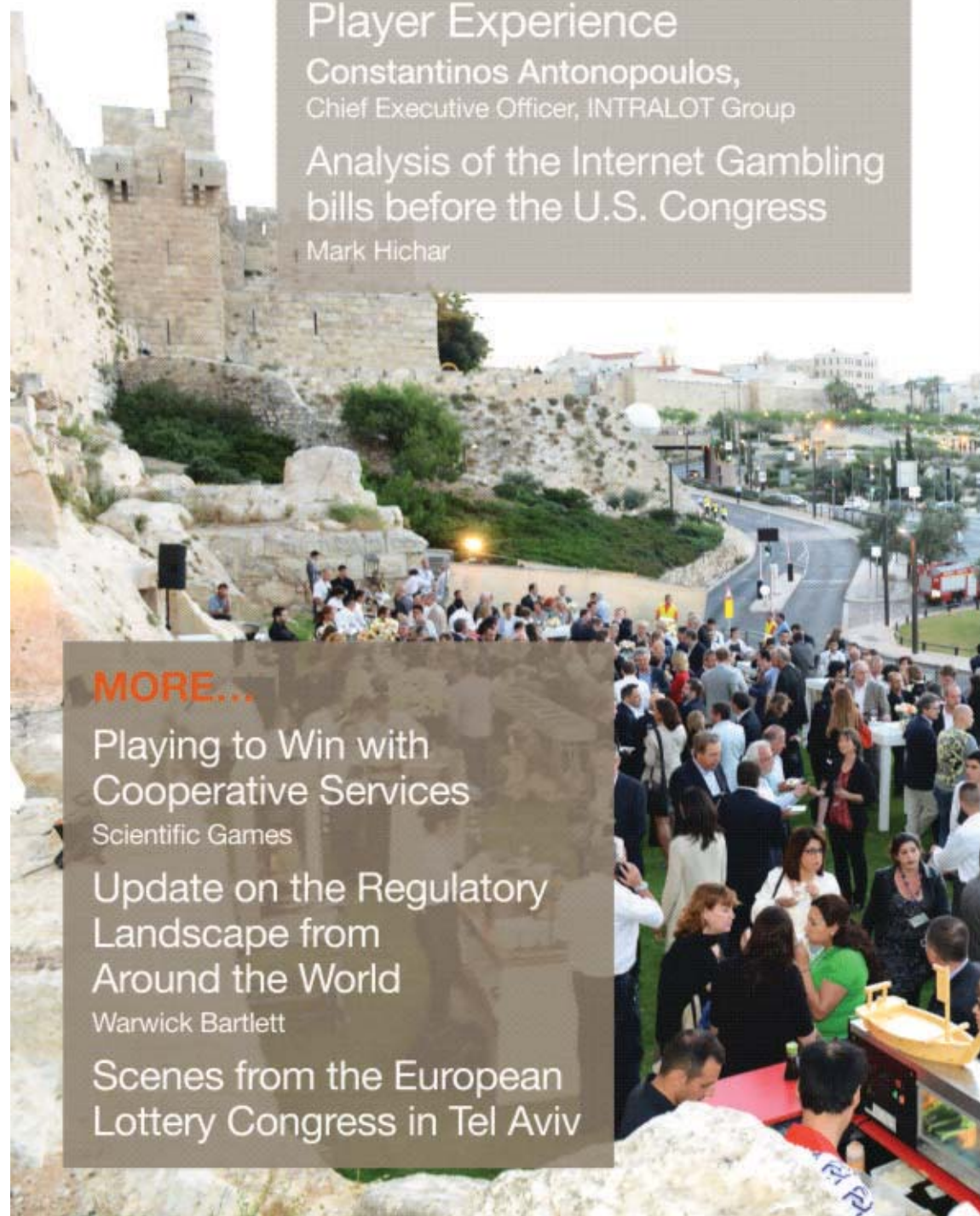
Update on the Regulatory
Landscape from
Around the World

Warwick Bartlett

Scenes from the European
Lottery Congress in Tel Aviv

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PGR Institute is much more than a news aggregator. We follow-up on the news to deliver the perspective and genuine insight you need to understand the gaming industry and how it is likely to evolve. Any questions or comments, e-mail Paul Jason at pjason@PublicGaming.com or call U.S. + 425.449.3000.

Thank you!

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Features

Feature Interviews and Editorials

- 6 Paul Jason:** From the Publisher
- 8 On Building a Long-Term Strategy for Expanding the Portfolio of Multi-Jurisdictional Draw Games**
Smart-Tech Panel Discussion, New York City, April 6, 2013
- 12 Sustainability Versus Short-Term Sales: Is this an Either/Or Proposition?**
Smart-Tech Panel Discussion, New York City, April 6, 2013
- 18 Re-inventing Innovation: Pioneering Technology Transforms Player Experience**
An Interview with Constantinos Antonopoulos, Chief Executive Officer, INTRALOT Group
- 24 Analysis of the Lottery-Relevant Provisions in the "King" and "Barton" Internet Gambling Bills**
Mark Hichar, Partner, Chair of the Gaming Law Practice Group, Hinckley Allen Law Firm
- 26 Playing to Win with Cooperative Services**
Scientific Games
- 30 Are Unlicensed Online Distributors of Lotteries Misleading Consumers?**
Who are www.CongaLotto.com and www.Trillionario.com?
- 32 Scenes from the European Lottery Congress in Tel Aviv**
- 34 Update on the Regulatory Landscape from Around the World:** Review of the Gaming Executive Summit 2013 in Barcelona; Update on U.S. gaming legislation; UK government gambles on new legislation; New Jersey online gambling. Warwick Bartlett, Chief Executive Officer, Global Betting and Gambling Consultants (GBGC)
- 42 The Lottery: Gambling or Leisure?**
Nour-Dean Anakar, CEO of Sorteo Games Inc.

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PUBLIC GAMING INTERNATIONAL

PUBLISHER & PRESIDENT Paul Jason
 ART DIRECTOR Lisa Robinson
pjason@publicgaming.com

EXECUTIVE VICE PRESIDENT Susan Jason
sjason@publicgaming.com

HONORED FOUNDERS

Doris Burke
 Duane Burke

CONTACT PUBLIC GAMING

Tel: (425) 449-3000
 Fax: (206) 374-2600

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From the Publisher

By Paul Jason, Publisher, Public Gaming International Magazine

Industry conferences provide a looking glass into the most current hot topics and issues, the most forward-looking success strategies, and the opportunity to visit with the leaders who are making it all happen. The character and focus of these events differ quite distinctly from one another.

The speakers and panelists at the European Lottery Association Congress (www.european-lotteries.org) all hailed from Europe. The NASPL Professional Development Seminar focuses on operational issues with different tracks for everything from Retail to IT to Auditing. NASPL's annual conference and trade show (Providence, RI the first week of October. See www.NASPL.org) is the seminal North American lottery event and focuses on big-picture issues. And PGRI's spring and fall conferences endeavor to deliver an experience that differs from and augments that of the industry association events.

The thing is, we can learn from all of them. In fact, we can perhaps learn more from the experience and insight of those who operate outside of our own isolated slice of the universe. A big theme at the EL Congress was the importance of looking outside of our industry for inspiration and ideas for how we might move our own businesses forward. The keynote speech (Hamish Taylor) braced the audience for the kind of problem solving which begins with the recognition that if the answers could be found by studying our own data and our own experience and relying on the experts within our own industry – we would likely have found them already. For all the increased capacity to crunch numbers and analyze data, Taylor regaled us with examples of how research is too often

framed to yield a continuation of legacy practices. In this sense, a focus on “best practices” as defined by the business as it currently operates within our own industry may be the obstruction to innovation that will move us forward.

That leads to the question of what kind of “innovation” is it that will drive genuine progress? “Why can't Lottery be the ones to produce the next Angry Birds?” was a question posed to top executives from GTECH, INTRALOT, and Scientific Games at the EL Congress panel discussion. The response was to protest that maybe innovation is not an end in itself if it takes us away from the elements that make Lottery the \$180 billion industry that it is today. Thus ensued a discussion about the role of “big-data” and data-analytics as tools to help us understand consumer and market behavior, and inform the strategic decision-making process. What are its limitations? And is there a conflict between the qualitative interpretive strengths and “soft insights” of the right-brain and the application of left-brain analytical methodologies? How can we avail ourselves of the benefits of different approaches which clash over the relative value of their differing strengths and limitations?

While we may not want Lottery to develop the next Angry Birds, the keynote speaker (Robert Tercek) at NASPL Professional Seminar described how Angry Birds morphed from a silly fad game into a mega brand strategy that includes theme parks and a dizzying array of brand-extending ventures that expand its reach to new consumer groups. The operative buzzword du jour is “audience maximization” as opposed to revenue maximization. As Google and countless others are demonstrating (including much maligned Facebook which is now back to its

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“One reason why my lottery sales have grown is because I treat my customers like they are special. But just as important is the fact that GTECH, working with the lottery, treats me like I'm important too; they are always there for me. When I let Denise in GTECH product marketing know my scanner wasn't working well, right away



IPO stock price because ad revenue and earnings are steadily increasing), the focus of take-no-prisoners, steely-eyed, bottom-line, business leaders should be on expanding the customer base and engaging the audience more than increasing profit. A business model that focuses on profit instead of audience maximization is vulnerable and will ultimately lose to those who figure out how to monetize that engaged and expanding audience (just ask Yahoo. Even though it's cash-rich, it's dwindling audience renders a bleak outlook for ever catching up to competitors). Remember how the bottom-liners who, in the early days of Google and Amazon, snickered at how "old-school" economics would eventually eat their lunch? Yes, I do appreciate that business is still about maximizing profit. It's just that clearly there are new ways to beat a path towards the same goal.

Our Smart-Tech Panel discussions reflect this respect for how the world has changed and the pathway to long-term Sustainability is evolving to get in sync' with the modern consumer. Discipline and attention to business fundamentals will always be a prerequisite for success. But they don't preclude an intelligent recognition for emerging phenomena and ways of thinking, especially now that we have copious examples to demonstrate how and why they apply.

Since the focus of our next conference is on Retailing, I asked Constantin Antonopoulos if he would help me to understand how technology is being applied to transform the business at the retail level. Retail is, after all, the face of Lottery to the customer. And retail will continue to be the key driver of Lottery for many years to come. So it's exciting to see how much is in the pipeline, ready to launch and modernize the land-based consumer experience.

For Lottery to transform the consumer experience at Retail, we need the guidance and active support of our retail partners. We know what kind of POS will appeal to consumers and drive sales. We have extensive experience with all varieties of Plano-grams, and we know that effective signage will get the message across at the zero moment of truth when the customer is standing in line. But what if we don't know what we don't know? Do we really know all there is to know from the retailers' perspective? That's the question I have been asking top retailing executives for the past couple months. Part of the answer is that the top brass of retail chain stores do understand how important Lottery is to their business. They love Lottery. But at least some of the executives that I have been talking to have never been asked by Lottery what could be done to work together to achieve better results. These retailing executives will be joining us at Lottery Expo for the purpose of forging a more effective and collaborative relationship with Lottery. They expressed respect for the fact that we are the experts in Lottery. And I expressed to them respect for the fact that they are the experts in their business: retailing. The Retailer Executive Summit is our opportunity talk with our customers, break down barriers, identify opportunities, and unlock the extraordinary potential that a genuinely collaborative relationship would ensure for both Retailer and Lottery.

So please mark your calendars to attend PGRI's next conference: Lottery Expo in Miami on November 4 to 7. For conference updates, please follow our news website, www.PublicGaming.com, and our conference website, www.PubicGaming.org. Thank you for your support. I welcome your feedback, comments, or criticisms. Please feel free to e-mail me at pjason@publicgaming.com. ♦

a technician installed a new one. They always make me aware of new technology, and ask for my opinion on how their ideas will work with customers. That kind of hands-on support from GTECH has helped me grow my lottery sales and keep my customers happy."

Karan Pathania, *Convenience Plus, Rhode Island Lottery Retailer*

For more about this story and others like it, visit us at gtech.com.



Karan Pathania

The video-recording, with power-point slides, of this panel discussion can be viewed at www.PGRItalks.com

PGRI Introduction: As the number and variety of products increases, the challenge of managing a more complex portfolio of games becomes more critical. Smart portfolio management minimizes cannibalization and maximizes synergy between the products. How should Powerball, Mega Millions, the next national game, the regional lotto games, and the in-state lotto games be differentiated and positioned for optimal overall performance?



ON BUILDING A LONG-TERM STRATEGY FOR EXPANDING THE PORTFOLIO OF MULTI-JURISDICTIONAL DRAW GAMES

MODERATOR:

Terry Rich, President and Chief Executive Officer of the Iowa Lottery Authority

PANELISTS:

Gary Grief, Executive Director of the Texas Lottery

Jim Haynes, Executive Director of the Nebraska Lottery

Connie Laverty O'Connor, Sr. Vice President and Chief Marketing Officer, GTECH Corp. and Chief Executive Officer, GTECH Indiana

Chuck Strutt, Executive Director of the Multi-State Lottery Association (MUSL)

Terry Rich: *Changes to the two big U.S. jackpot games, Powerball and Mega Millions, have produced an increase in overall sales. Powerball sales have increased significantly, and the strength of that brand is even greater than anticipated. However, Mega Millions has suffered a decline. What should we be thinking about as we work to build on strengths, shore-up weaknesses, and set a plan for testing and launching new multi-state games?*

Gary Grief: I'm very proud of our MUSL and Powerball colleagues for collaborating to make that \$2.00 change in Powerball. The \$2.00 Powerball game is a true phenomenon. That game is the rarest of breeds. It's performing amazingly. Mega Millions, however, has not fared as well. Texas is a legacy Mega Millions state and so it is a priority to re-set that game onto a growth path. The time to make a change to the Mega millions game is right now. We need the jackpots to roll to make that game viable.

The historical changes to the matrix in Mega millions over time

are very interesting. The last three matrix changes were made after population changes. But with Florida coming into the Mega millions game, we will have had a 91% population increase in the Mega millions game without a single matrix change. I think that tells us that we're way overdue for a change to that game. So I am very pleased to report that at yesterday's Mega millions meeting, my colleagues and I voted on a change to the base game and we believe that change is going to keep some of the attributes that research has indicated our players do value, like the \$1.00 price point. I believe we need to preserve the attributes that have traditionally driven sales, while also improving the game to allow for bigger jackpots and better overall odds while still keeping that price point at \$1.00. Now, though, we are all working together to build a more strategic approach towards managing the entire portfolio of draw games. We still have to determine what the megaplier or multiplier feature will be for the new base game. The research on that begins immediately to enable those decisions to happen quickly, over the next few months. We're targeting the fall of this year for a change to the Mega Millions game that we think will deliver excellent results. The future looks bright for the Mega Millions game. And these changes will position us to evolve the entire portfolio of multi-jurisdictional games.

Jim Haynes: We can all see how rapidly the world is changing and that these changes are directly impacting the lottery industry. The challenge to keep up with these changes is complicated by many factors, and the constraints we all must work within. But we do have options and our constituents and lottery beneficiaries depend on us to push forward.

The competition we face is not limited to the discretionary dollar spent on recreational gaming. We are competing with all forms of entertainment for the consumer's time and attention. The consumer is being faced with an explosion of media and entertainment op-

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tions that continually raise the bar for what it takes to get their attention and engage their interest. Lottery needs to think about how the game attributes will compare and compete in this kind of environment. Collaboration, diversifying the portfolio of games, differentiating those games to give the consumers options that they can quickly and easily understand, and adding entertainment value and extended play formats are some of our priorities. Powerball is on a positive trend-line but, as Gary said, we need to develop a portfolio management approach to maximize growth in Mega Millions and position us for further expansion of the multi-state games. We should all recognize, though, that legacy Mega states have benefited by the addition of Powerball, and that Powerball states benefit when the Mega jackpot rolls. Evolving a portfolio of national games, and hopefully national promotions to support those games, will benefit each individual lottery. MUSL also has a diversified portfolio of regional games, sixteen games over the past twenty-five years. Sales trend higher every year and that momentum isn't driven by Powerball alone. Now, it's more important than ever to think about how further expansion can be done so that sales and overall results continue to improve.

Some of the things we have planned for the future won't happen right away. For Powerball, we are looking at ways to reduce the guaranteed jackpots amount, expand the demographics, and create new kinds of promotions to support the games. Changing the price-points of the games, or adding new games with new price-points, is always an option. But we can't limit ourselves to the one product attribute of price-point. We need to find new ways to differentiate the products and add real value for the consumer.

One other point: we have to be fearless. We have to be ready to step out there. There was a lot of debate that led up to the decision to go to \$2.00 Powerball. But that debate led to productive discussion and research. We will never have perfect information about the future, which means there will always be an element of risk. We moved forward in spite of some uncertainty. We need to be ready to do the same again – we can't wait until we have perfect visibility into the future because that will never happen.

Chuck Strutt: First, congratulations for a great kick-off of Powerball in California! Dramatic Powerball TV commercial and a little healthy controversy over the billboard ad's got lots of press attention. With California joining Powerball, and Florida joining Mega Millions, we now have two truly national games. As an industry, we should take advantage of that national experience and presence and partner with big consumer products firms that are very adept at motivating people to go out and buy a product.

And also congrats to the Mega Millions group for working together and making decisions that will give players a clear choice that is more than just a price-point. That will be great for the game and for the goal of working together to develop the portfolio of draw games.

Connie Laverty O'Connor: We are all focused on selling lottery tickets, and generating more revenue for Good Causes. The key component to making that happen is our retail partners. In our business, big jackpots drive sales and store traffic.

The wonderful thing about cross-sell is that it ushered in an era of genuine collaboration across the industry. The Powerball states working with the Mega states. The vendors working with each other as well as with their lottery customers. This level of mutual support and collaboration is a testament to this industry. We need to work together as one brand to manage the portfolio of multi-state

products for maximum overall growth. There is no other brand that has the ubiquitous appeal and recognition of Lottery. It's trusted, it's respected and it's driving traffic into stores. We need to recognize and leverage that value to fully engage our retailers' commitment to our brands and to continue to drive lottery sales.

We need to manage the national brands as a portfolio of games. The draw-based games had a net of 9.2% growth in the past decade and have the highest profit margins in the industry. We need to find ways to increase the number of jackpots and position Mega Millions for long-term growth. Draw games are vital to every single lottery, they are the most profitable games, and they're growing. Where else do we get such a positive return for innovation? Now, the national games enable the whole country to execute against a coordinated strategy.

Lastly, especially with the new changes to the Mega game in the fall, it would be outstanding if we could collaborate on retail execution. It's all about keeping it simple and focusing everyone on the sell message. It's about the retailers and clerks understanding the products, how to communicate that to the players, and managing the games like a portfolio. So on one night, it might be Mega with the \$70 million jackpot. On the next night, it might be Powerball with an even higher jackpot. The games can feed each other and create ongoing fun and excitement for the consumer.

As both Jim and Gary pointed out, we need to push on in spite of the fact that the future is not knowable. Change and innovation can be like legislation. The process is not pretty. But that doesn't mean you don't do it. We work together to maximize consensus and minimize risk, but in the end we push on because it's the only way to achieve our goals for the benefit of Good Causes.

Terry Rich: *What's happening with the new national game?*

Chuck Strutt: We are incredibly blessed in that we have so many projects and games on the stove that we need to decide as a group where these projects are going to fit and the time frames we want to set for implementation. RFI's are soon to go out. I think everyone feels that the goal is to create something new. For instance, we are seriously exploring the possibility of creating a national television show as Scott Bowen presented today. We need to explore these fresh new ideas and also look outside of our industry for inspiration and for opportunities to collaborate with national consumer brands and distributors.

Gary Grief: Progress on the national premium game has been slower than we would have liked. The good news is that the process has been a tremendous catalyst for creative, outside-the-box thinking. Speaking only for myself, I would submit that Powerball has proven to be an even more powerful brand than we had even anticipated and that we should explore ways to further leverage the Powerball brand. Perhaps we could use the Powerball brand as a platform to extend the number of games and price-points?

Terry Rich: *Instants are priced all the way up to \$20 and even \$50 dollars a ticket. At \$2 a ticket, have we price-pointed ourselves too low for our biggest brand?*

Jim Haynes: I don't think so. I think we priced ourselves just about where we need to be for right now. And I think that's evident by the sales that have been created at this point. Of course, as we go forward we may want to introduce draw games with higher price-points. Giving the consumer more price-point options has worked well for

...continued on page 21



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LONG-TERM SUSTAINABILITY VERSUS SHORT-TERM SALES: IS THIS AN EITHER/OR PROPOSITION?

SMART-TECH PANEL DISCUSSION, NEW YORK CITY, APRIL 6, 2013

The video-recording of this panel discussion can be viewed at www.PGRItalks.com.

PGRI Introduction: My original concept for this panel was based on the notion that the goal of long-term sustainability conflicts with the goal of maximizing short-term sales. An example from the commercial sector: An article in Bloomberg Business explains how the giant consumer products company, Proctor & Gamble has been underperforming and needs to make major structural changes in order to rebuild a business that is positioned for long-term growth. This article asks "whether the shareholders and board of directors of P & G are willing to undertake real organizational transformation, which can depress short-term profits, at the very moment that Wall Street is clamoring for better earnings?" I wondered – at what moment is Wall Street not clamoring for better earnings? At what moment are lottery beneficiaries not in need of more funding? Is there ever a moment when stakeholders are willing to accept depressed earnings/funding? Sacrifice sales growth in the short-term in order to build a solid foundation for long-term sustainability – that's a tough call for P & G and its shareholders. And it's an even tougher call for lottery directors. The Good Causes which depend on Lottery funding can't put their needs on hold while Lottery positions for the long-term. Fortunately, Arch Gleason and his panel have lots of thoughts on how to reconcile a plan for long-term sustainability with the mandate for short-term sales – And how to turn the dilemma of 'short-term sales versus long-term sustainability' into solutions that deliver both.



MODERATOR:

Arch Gleason, President & Chief Executive Officer, Kentucky Lottery Corporation, Former President of the World Lottery Association (WLA)

PANELISTS:

Carole Hedinger, Executive Director of the New Jersey Lottery

Anne Noble, President and Chief Executive of the Connecticut Lottery Corporation

Paula Otto, Executive Director of the Virginia Lottery

Paul Sternburg, Executive Director of the Massachusetts lottery

Arch Gleason: *In our pre-panel discussion last week, we agreed that the big-picture challenge to building long-term sustainability is comprised of real-world operational issues that we are dealing with right now. For instance, we know we need to develop new*

channels for distribution, like the internet, to attract new players and make the product more accessible to the consumer. And yet, we also know that land-based retailers, C-stores in particular, are the life-blood of the industry. They have been for decades and that won't change for many, many years. A sustainable business model depends upon reconciling our need to evolve with the consumer and our need to retain the loyalty and good will of our retailers. Another pressing concern is jackpot fatigue. Now it seems to take a \$200 million dollar jackpot to get the media and the players excited about Powerball and Mega Millions. Solutions to these issues clearly have a bearing on both short-term results as well as long-term sustainability.

Another issue is the aging player base. How do we embrace the digital age of gamers while continuing to appeal to the consumer who supports this business to the tune of \$67 billion dollars a year in the U.S. alone? A sustainable strategy needs to deliver the entertainment value and digital access expected by the new age consumer along with all the traditional values that appeal to the core lottery player. How do we evolve our business while optimizing short-term results? You will find that there are some interesting dif-



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ferences in the perspectives represented by the panelists.

We will begin with four-minute precludes from each of the panelists. Let's start with Paul Sternburg. We all know that Massachusetts is the most successful lottery on the planet with the sales of instant scratch-off tickets at a per capita rate that is literally twice that of the next highest U.S. lottery and seven times the national average of what is sold in instant tickets. They have refined the product over many years and have really tested the ability of increased prize-payouts to generate sales and net funding. Sales growth had stalled a few years ago prior to Paul assuming the role of Director. He has managed to jump-start sales even in this highly penetrated market. Paul, how will you continue to sustain growth in this mature market?

Paul Sternburg: Sustainability is really a top-of-mind issue for us. Our advertising budget has been cut to a small fraction of our sales. And, with our instant tickets paying out blended rate of 78%, our prize-payout percentage is at a maximum. Flexibility to deliver a better value proposition combined with advertising are two keys to attracting new players and increasing sales, and we somewhat maxed-out in both of those areas. So what we've done is focus on our portfolio. We've worked with the vendors to revamp the designs and composition to freshen everything up. It's made a big difference. I expect overall sales to be up about \$100 million dollars this year even with the extreme winter weather and the lower Mega Millions jackpots.

We normally release 30 games a year: four to five games every six to eight weeks. The "Lifetime" suite of games (lifetime annuity games like '\$1,000 a day for life,' for example) have done especially well for us. The consumer has the option of choosing from the different price-points: \$1, \$2, \$5, \$10 and \$20 tickets. We do new things to grab consumers' attention, like using fluorescent inks. I'd like to think they are good looking and appealing – in the "lottery sense." What I will say, they sure do pop out at the POS – the consumer standing in line at the counter can't miss them. Bottom line is, the Lifetime tickets sold very well. The \$2 offering sold all 40 million tickets in less than a year. We revisited the suite/family of games concept in January for the Multiplier series: a 5X, a 10X, a 20X and a 50X ticket - which are performing even better than the 'Lifetime' series.

Getting the market to respond to higher-priced tickets is one way to increase sales. But the key to building a sustainable business is to bring in new players. One strategy we use is to offer an array of lower-priced tickets to appeal to new players. And we hope through the fun and exciting experience of playing our games, that they will eventually move into a higher-priced tickets. Our strategies are geared towards increasing our overall playerbase as opposed to increasing the overall spend of our existing players. And we've seen great results with this approach.

We don't have the authorization to sell online, so we use social media tactics and retailer events to try and reach a younger demographic. We have a very actively engaged membership. Our social media person stays connected 24/7, answering questions and engaging in chat whenever she is not sleeping. Even though we get a return of \$4.52 net for every dollar that we spent, our low ad' budget makes it difficult to promote product effectively. We could do so much better if we had a bigger ad' budget. But as you all know, legislatures have their difficult public policy decisions to make when it

comes to setting state budgets which we must respect.

Our vendors are developing exciting new ways to make instant tickets more vibrant and appealing and are combining those efforts with a thoughtful approach towards defining the target demographics and creating a focused marketing campaign. Using special effects, like Scratch FX from Pollard and the fluorescent inks from Scientific Games, have made a huge difference in our portfolio. Our sales are up and continue to climb. With the rapid increase in sales, we have also seen the prize payout percentage/rate of payout increase from 76.6 percent to 78 percent due to timing of cashing on Instant prizes by players. We anticipate that the overall prize payout percentage will return to the average of approximately 76.6 percent on instants by the end of the fiscal year. Every tenth of a point is around four or five million dollars. There's a little anxiety as we get towards the end of the fiscal year and we hope our projections prove accurate.

It also helps that I have a boss in State Treasurer Steve Grossman who believes that the Lottery should be run as a business, as opposed to a state agency. He defends our mission and the need to evolve the business, and allows management to operate autonomously (but obviously within reason/the rules). He had to fight hard with the state Legislature to get our ad' budget increased from \$2 million to \$5 million, which is still too low to support a close to \$5 billion sales portfolio, but at least an improvement from the previous year. My hope is that recognition for the tremendous ROI that our ad' budget produces will increase amongst budget makers as long as we can constantly demonstrate diligent stewardship of all of our resources, make sure we get the most out of every dollar spent, and deliver on all of our commitments.

For us, sustainability is all about executing on the thousands of details that contribute to the goal of bringing in new consumers. It's not philosophical, it's operational. Make better products and execute well.

Carole Hedinger: I'm often asked, why can't you be more like Massachusetts? Look at their sales. Why can't New Jersey have sales like that? Like Arch, I am a CPA. So I focus less on sales than I do on net revenue. Our sales are lower than Massachusetts, but our net funding is higher. Paul works harder and makes less money than we do - I kid of course, because the reality is that we all come into the job of lottery director with a legacy business to manage. We all inherit a set of circumstances and conditions and public policy objectives that determine much of how we operate the business. For instance, in New Jersey, we are required by law to contribute at least 30% of sales as net revenue. I do not have the option to increase prize-payouts to drive sales. So it's a good thing that I am predisposed to focus on the bottom line anyway.

So we take a slightly different approach. I first analyzed the obstacles to growth. We identified some obstacles to sustainable growth and then focused on those obstacles that we could do something about. First, there always seemed to be a lack of long-term planning. Everything was short-term. The entire focus was how to make this year's plan. Now, I've had two different tenures as director of the New Jersey Lottery. At the beginning of my first go-around, we were doing \$1.5 billion in sales. So I made a 5-year plan to get us to two billion in sales. We achieved that in less than five years. We scrutinized all of our marketing and game strategies over a long period of time, so that we didn't just do quick fixes to make



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one year's sales goals. We mapped out a strategy that would sustain growth for five years.

A problem that many of us deal with is that changes in legislators and governors can lead to changes in policies that affect our ability to stick with a long-term plan. For instance, state budgets are determined annually. But a 5-year plan depends on a roadmap of resource allocation that happens sequentially over that entire period. So I tackled that problem early on with our state treasurer, getting agreement that a \$1.5 billion business needs a long-term plan, that a long-term plan depends on a predictable budget to fund it, and therefore we need to commit to a 5-year budgetary plan. At this time, I'm fortunate to have a larger ad' budget than Paul does. But the main thing is that last year it was \$23 million, this year it is \$23 million, and next year it will be \$23 million. I think that kind of commitment may be unusual for a lottery. But it makes all the difference to our ability to execute a long-term plan. It enables us to plan advertising cycles that are coordinated with game changes and for all this to be conceived to optimize a long-term sustainable growth.

Another obstacle to growth is that state agencies are not typically required to respond quickly to market changes. We operate within a system of state rules and procurement processes that make it hard to be nimble. We can't be quick. We can't jump over that candlestick. We have to go through excruciating, painful processes just to buy anything. I wish I could say that I have a solution to that, but I don't, since I can't control our division of purchase and property. I think this is a problem that we all have to deal with. It has resulted in bundling everything into as few a number of contracts as possible. It's not the best way to support a market-driven consumer products company. We put out one gaming system contract, try to cram everything that we can imagine into it, and hope it covers everything. We really need to have more flexibility to take advantage of technological innovation on the supply side of the business, and to adapt to changes in consumer tastes and market conditions on the demand side.

It's possible that some of these obstacles to long-term planning and sustaining growth for the future may be addressed by Private Manager Contracts – PMAs. I call it outsourcing of services. As you may know, we are exploring those options right now in New Jersey (A PMA contract was signed with private operator Northstar New Jersey in June). I can tell you that a primary driver of that is the goal of instilling a sustainable approach to the lottery business. The very topic of this panel discussion, building a long-term sustainable approach to this business, is absolutely central to the process of assessing the PMA.

I am not a marketing person. Like Arch, I'm a numbers person whose goal is simply to maximize the bottom line – net funding. But lottery is an incredible business and we need to be sure that our resources are marshaled for long-term success as well as meeting our short-term targets.

Arch Gleason: *Two different approaches from Carole and Paul. Paul's lottery not only has the highest per cap' instant ticket sales in the world, but they also have the highest net return per capita in dollars. That's an important measure, especially with legislators. And New Jersey is the most profitable as a percentage of sales of any of the US lotteries, and has been for many years. Legislators sometimes get so focused on controlling expenses that they do*

not focus as much on the actual dollars earned for Good Causes. Massachusetts and New Jersey are two great examples of different business models, both of which are being truly optimized. And Anne has the second or third highest per cap' sales in instant ticket sales.

Anne Noble: Actually, that's a perfect segue, Arch. My approach to answering the question of how do you sustain growth is a blend of the philosophical approach that Carole takes towards long-term planning, and Paul's practical approach towards improving products and focusing on the countless details of implementation. Before talking about the management philosophy that we have at the Connecticut lottery, I would observe that my team operates within a corporate structure that affords us some flexibility. We're a quasi-public corporation, privatized many years ago. So we do have some of the flexibility needed to respond to the market-place. Our approach is based on a 100% commitment to tactical excellence. Great companies fail more often because they made mistakes by acting too quickly rather than taking considered time to make a thoughtful, strategic decision.

We also have corporate social responsibility built into our core values. That harkens back to what we hear from our lottery colleagues in other countries, and what Rebecca Hargrove has often talked about. The emerging demographic is more tuned into the culture and values of the companies they buy from. We integrate Social Responsibility, Responsible Gaming, and the mission to benefit Good Causes right into our brand and messaging. Like all lotteries, we have to succeed notwithstanding whatever constraints we must work within. Blaming interest rates or bad weather is not part of a sustainable growth strategy. Too, we have a very complicated overlap in our jurisdiction with Tribal gaming. We are working together.

Like others, we do have some draconian statutes in place that constrain our use of the internet. That's one reason for our tenacious focus on tactical excellence and the avoidance of mistakes which can cripple even the best-laid plans.

Our portfolio of instant tickets has seen steady growth, even though we reached our highest price point many years ago. We have had a disciplined approach like New Jersey to our prize payout. But in 2008 we had a bloated, fat instant portfolio that cost us a lot of money to produce. That was replaced with a focus on producing a smaller number of really great products. Along with reducing the number of games, we institutionalized the notion of spotlight games and licensed properties. And we committed ourselves to an advertising budget and a coordinated point of service in advertising campaigns, especially on those tickets that we know are going to bring people into the retail environment. 'Connecticut Lottery Pink,' for instance, is a ticket that I think speaks to that emerging demographic. It extends our ability to capitalize on gift giving other than during the holiday season. I'm only sorry that our social media presence is not as robust as it should be. We're like on the last leg of the mile relay – we'll get there, but we're playing catch-up.

I think the elephant in the room is the challenge to grow the portfolio of draw games; and to build a sustainable growth plan for those games. Starting in 2009, we committed to diversifying our product portfolio and reducing our reliance on the jackpot-style games. We had no choice in that regard, given what was happening in the in-

...continued on page 20



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Constantinos Antonopoulos

Chief Executive Officer, INTRALOT GROUP

PGRI Introduction: Just as it has for the last two decades, INTRALOT's growth continues to be driven by innovation. It's not just about technological innovation, though that is key. It's even more about applying technological capabilities to solving real-world problems. Technology that adds real value to the products and improves the player-experience translates into increased consumer satisfaction and increased sales of lottery products.

On the technology: INTRALOT recently earned the highest certification of the standard bearer for technology standards ... ISO 20000. "ISO" stands for the International Organization for Standardization and establishes objective benchmarks for businesses to measure quality in manufacturing.

On applying technology to the real-world of selling lottery products: It's not about selling over the Internet. It's about improving the consumer experience at retail. The lottery business will continue to be driven by land-based retailers for many, many years to come.

The result: INTRALOT continues to grow and acquire new customers, resulting in a stock price that has more than doubled in less than a year.

My conversation with Mr. Antonopoulos at the European Lottery Congress in Tel Aviv included impressive demonstrations of these ideas in action which, unfortunately, can't be replicated by mere text. What does come through loud and clear is that the consumer retail experience will be transformed by the smart application of digital technology.

Paul Jason, Public Gaming: *INTRALOT just achieved the service management certification of ISO 20000. What does that mean and how does it benefit your customers?*

Constantinos Antonopoulos: INTRALOT'S ISO 20000 certification assures our customers that the quality and reliability of our technology services meets the highest standards.

INTRALOT has certified its existing service management framework that is based on alignment with market needs, innovation and continuous improvement in ensuring stakeholder and customer trust and satisfaction. Our vision is closely coupled with pioneering. Our strategy is to prove it in any possible manner. Within that scope INTRALOT managed to become the first international vendor to gain such a certification in the gaming market.

It seems like when we think of digital transactions, we think Internet and at-home and mobile gaming. But you are demonstrating that digitization applies just as much to the retail environment.

C. Antonopoulos: Lottery does need to move into all the new media, like the Internet and Mobile, to connect with the modern consumer. INTRALOT'S R & D is developing the most forward-thinking technologies to enable the lottery operator to take full advantage of the incredible power of new media to transform the relationship with the consumer. But the reality is that lottery sales are mainly driven at retail, and that will not change anytime soon. The amazing and wonderful thing is, there is huge potential for technology to transform the consumer experience at retail. The results are very encouraging. The consumer is quite ready for the retail experience to be brought up to date with their lifestyle, their ways of communicating and getting information, and their ways of purchasing and conducting business transactions. We have successfully integrated the digital world with the retail world. Our smart-phones, tablet computers, our strategies for WiFi and NFC (Near Field Communication)-based, anytime/anywhere computing – these are all now a part of the

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lottery players' retail experience, creating a very interesting and exciting environment.

Let's start with the Dream Touch terminal/winstation lottery vending machine. This turns the traditional push-button vending machine into a dynamic and powerful communication channel, enabling an enhanced player-controlled gaming experience.

C. Antonopoulos: Exactly. The LCD displays entertaining programming to get the consumers' attention. Consider that vending machines are placed within large food stores, super markets or hypermarkets, where shoppers follow a mission (to do their household shopping) and doing so, they cognitively select what is relevant and deselect what is not. A vending machine, like any selling space has to 'stop' the shopper, 'hold' her and 'close' the sell. Dream Touch scores across all three requirements: STOP by allowing advertising and communicating product claims within the point of sale, something that is a very powerful sales driver (sales uplift may be as high as +40% depending on the message); HOLD by providing an attractive and easy to navigate user interface, based on touching the screen, where product display is vivid, dynamic and attractive to help the consumer choose the gaming options that appeal to him; CLOSE by naturally helping the shopper make a purchase selection. With Dream Touch we have transformed a vending machine into both a com-

munication medium and into a great product display within a food store, or retail store or any land-based venue.

It all comes back to your Unified Playing Experience of turning Lottery into a game that fits into the lifestyle of the modern consumer – Digitizing the player experience wherever and however the consumer buys a lottery product.

C. Antonopoulos: The Gablet is another example of that. The Gablet is a novel gaming framework, based on a tablet computer with 22" touch-screen and advanced gesture-based navigation, that brings the interactive experience to retail stores. The innovative functionality of Gablet-live combines the act of buying a lottery ticket with live content-display on the same screen. The consumer selects the game and is also given access to other information that the operator wants to communicate to engage consumer interest and prolong the gaming experience if the player wants that. The main thing is that the Gablet is interactive and so adapts to the individual consumer's play styles and preferences. The player can just buy a lottery ticket and be done with it if that is their play style, or can explore other options and turn it into a longer-play experience if that is their preference. And if the lottery operator is allowed to offer a broader portfolio of games, the Gablet provides access to information about all the different games and information like odds, results, statistics, winners, etc. And the navigation options are user-friendly to appeal to the traditional lottery player. Of course, at this point, even the core players expect to navigate by touch, gesture, voice command and text search and that's what the Gablet provides.

The Gablet really does have the power to transform the entire constellation of relationships between the player, the lottery, the game, and the selling agent. It provides lotteries a powerful communication medium to address players where and when they are most receptive, which is at the point-of-purchase, right in the store. And it brings the benefits of Players Clubs and other internet-based features right to the POS.

And it's paperless.

C. Antonopoulos: It is pa-

perless, eliminating paper pay-slips and tickets. That reduces costs and garbage, and reduces time and labor for store clerks. But paperless transactions also fit in with the lifestyle of the modern consumer who is so used to digital technology and expects merchants to adapt to the digital world. We see the evolution to paperless as being a key step for lotteries to allow the consumer to move their playing experience to their smart-phones and their own personal tablet computing devices and at-home computers. I realize that many lotteries are not selling tickets over the internet yet. The thing is, even the lotteries who are selling over the internet are not seeing significant growth through these other channels. The reason for that is that the lottery customer is so used to paper tickets and push-button vending machines. We want to at least provide the consumer with the option to migrate the mode of purchasing lottery tickets over to the digital platforms that they are already quite familiar with. What we are doing is really no different than what the entire retail industry is doing. The forward-looking leaders in land-based retail recognize that they need to evolve the entire retail experience to get in sync' with the modern consumer. And that means integrating interactive digital technology right into the land-based retail consumer experience. Digital technology reduces costs, speeds up the selling time, unifies the brand experience, appeals to the modern consumer, provides an interactive playing experience that is especially appealing to the younger demographic, and reduces the environmental footprint.

It's all about bringing digital technology into the stores.

C. Antonopoulos: Yes and No. It's about the consumer experience. Digital technology is an enabler, but technology does not transform the consumer experience. It's the creative application of technology that makes it come alive for the consumer. There is a lot of inertia to the ways that humans behave. We need to be given really compelling reasons to change our behavior. So that's the key. For instance, you see the moniker on the terminal "Dream Touch?" That's our promise to the consumer and that is the vision we need to fulfill. We need to create an interactive experience that comes so alive that the consumer needs to feel like they do in fact Touch their Dream. The touch-screen technology and video entertainment on the LCD is only the start. That's when the real work begins to use this technology to create a user experience that truly excites the player. Technology itself could never evoke the "dream" experi-





ence that we promise. You may guess that we spend much of our R & D on studying human behavior and looking at how other industries have excelled at this challenge of adapting technology to human behavior and not waiting for humans to adapt to the technology.

The keynote speaker (at the EL Congress in Tel Aviv) this morning talked about that very thing. True innovation can only come from looking outside of our own industry and using imagination and creativity to see how the things being done outside of our industry can be applied to our industry. Innovation is never going to happen from looking inward because that constrains us to all the obstacles and parameters that interfere with creativity and innovation.

C. Antonopoulos: We are all for it, with a twist: we look at other industries through the

eyes of lottery players. Immersion into player daily reality and experiences leads us into looking at other markets and sectors and learning from the ways other industries have been addressing challenges and opportunities that are similar to the ones we face. That said, we do need to be guided by the consumer experience that is unique to lottery. We do need to respect the cultural legacy of lottery. We need to stay grounded in the historical evolution of the industry and take up the challenge

to make sure that we always meet the needs of our customer. Lottery has a huge customer base to serve and it needs to protect the multi-billion dollar revenue stream that reflects a customer base that knows and loves lottery. As innovative and forward-looking as INTRALOT is, we make sure we never lose sight of the fact that billions of people love lottery already. We want to evolve with the consumer and make sure that they continue to love lottery for decades to come.

Isn't the lottery operator evolving too? It's no longer the government agency that is reluctant to innovate. Operators see the need to evolve and are getting more and more support from their political stakeholders to push for progress.

C. Antonopoulos: I think so. The consumer has more and more choices. More va-

rieties of gaming and entertainment are being introduced constantly. Governments also have more options for how they manage their lotteries. And governments everywhere are recognizing the power of their own lotteries to generate sorely-needed income. So that becomes a fertile ground for motivation to innovate, improve the value of each of the products, create a playing experience that appeals to the consumer, and get better in every respect. And governments themselves are being exposed to more options on how to accomplish the results they want. They can outsource more to commercial companies, or they can give their own management more flexibility to adapt to competitive pressures in the market-place. There are lots of different ways that governments can increase income from their lotteries and also stay true to their public policy priorities.

Doesn't innovation cost more, carry a higher risk, and impose a longer ROI timeline than just trying to maximize profit from current infrastructure?

C. Antonopoulos: Sure it does. A sensible business needs to do both - maximize the value of the existing business and create new markets for itself. Innovation positions a company for long-term success. And the alternative to that is long-term demise. You know, behind every success there are always several losses or failures. That's a rule of life and it's certainly a rule of business. We learn from that, apply those lessons to improve our approach, and that's what progress is all about! ♦

Long-Term Sustainability Versus Short-Term Sales ...continued from page 16

dustry. We introduced 'Lucky for Life' in 2009, which is not a draw game and does not depend on growing jackpots. We also started paying very close attention to product life-cycle. We thought long and hard about what 'Lucky for Life' was going to look like in the future. Then it became regional in 2012 so that now the New England lotteries are working on the third iteration of 'Lucky for Life.' We had never had a raffle-style game in Connecticut. We now have three raffle-style games. In the beginning, sales were barely a drip in the bucket. Now it's turned into a stream, and we're talking about the next generation of those raffle-style games. Again, we are focusing on non-jackpot-dependent games. For us, it's all about diversification, attention to the product life-cycle, and tactical excellence. All the little things do matter and we focus on those details.

Diversification does not refer to just the product portfolio. We also want to create a diversity of ideas as applies to all aspects of the business. A key to sustained growth in Connecticut is creating and fostering an environment of competition between and among new ideas. That can mean bringing in talent from outside the industry. It's really fun and refreshing to see what we can learn from people who have not been in this industry for a long time.

We also have launched what we call Best-in-Class Supplier Diversity Program. We think that if we can bring new people, new ideas, and new companies into the supply chain, that will foster innovation. And finally, we're really pleased to partner with the other 'Lucky for Life' New England lotteries on an RFI for a new lottery game. I'm not sure what that will bring, but in less than two years' time, the New England Lottery launched a game, came up with the second iteration of it, and put together an RFI for a new game. So we think we're moving forward and in the right direction. Lotteries are a business, and like all businesses, a sustainable growth strategy is one that accomplishes the objectives, now and into the future, while working within the constraints, regulatory and otherwise.

Paula Otto: And Virginia provides yet a fourth approach to sustainability. Some of the differences between our approaches may be related to the difference in culture and gaming history. Paul, Carole, and Anne's lotteries are all in the Northeast. Virginia was the first southern, conservative state to approve a lottery. This is our 25th

...continued on page 38

Instants. There's no reason it wouldn't work well for the draw games.

Connie Laverty O'Connor: We've been talking about managing a portfolio of draw-based products. The retail space is a limited resource and we want to help the retailer manage that space to create a consumer retail experience that is mutually supportive of all the products. Instants have moved up the price-points to great effect. Powerball moved its price-point up to great effect. Creating higher price-point games should be a part of the plan to expand the draw-games and create more options for the consumer. The key to any strategy is increasing the number of retailers and increasing sales per store.

Gary Grief: Those of us lucky enough to still have a true in-state lotto game need to think about how we are going to position it within this new landscape of increasingly exciting multi-state games. With Florida joining Mega and California joining Powerball, those games are going to drive more jackpots at higher levels than ever, resulting in even more momentum for the national games. So we need to make adjustments and position our in-state game strategically for it to survive and thrive.

Terry Rich: *Should states consider the option of abandoning their in-state lotto games and just do small multi-jurisdictional lotto games instead?*

Connie Laverty O'Connor: My answer would be no. The big jackpots of the multi-jurisdictional games do have consumer appeal

and will garner the most attention. But we can still nurture value of the in-state game, differentiating it as the home-town game, being a fun outlet for home-town affiliation and pride. Lotto brand equity is very strong and so we want to preserve the variety of consumer options, including the in-state games, to extend that brand as much as possible.

Gary Grief: I agree. There's a tremendous amount of ownership in an in-state lotto game. The revenue stream may be smaller than the multi-state lotto games, but we work hard to retain the loyalty of Texas consumers who do love their in-state game. There is still lots of room for growth in this category, but we need more games, and those games need to be differentiated. Smaller jackpots, but better odds and home-town pride should work for the in-state games.

Terry Rich: *We've got four industry leaders from the lotto perspective on this panel. Let's have each of you wave the magic wand and look into the crystal ball and describe what the ideal lotto portfolio will look like in five years.*

Gary Grief: I think we will see the lotto category follow some of the success strategies that have worked so well for Instants over the past twenty years. One obvious strategy is to create more price-point options for the consumer. I would think there will be \$5.00, \$10.00 and maybe a \$20.00 ticket within four years. The other thing we can do is to evolve more interactive play styles for lotto.

...continued on page 31

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A COMPARISON OF AND COMMENTS ON THE LOTTERY-RELEVANT PROVISIONS IN THE “KING” AND “BARTON” INTERNET GAMBLING BILLS

by Mark Hichar, Partner, Chair of the Gaming Law
Practice Group, Hinckley Allen Law Firm

The chart at right compares certain lottery-relevant provisions of the “Internet Gambling Regulation, Enforcement, and Consumer Protection Act of 2013” (H2282) introduced June 6, 2013 by Representative Peter King (R-NY) and the “Internet Poker Freedom Act of 2013” (H2666) introduced July 11, 2013 by Representative Joe Barton (the “New Barton Bill”). Under each Bill, states would be included automatically in the federal scheme unless they affirmatively “opted out” within a specified time. However, state lotteries in states that “opted out” would still be subject to the restrictions on their internet game offerings described below.

Neither bill is considered likely to pass. The King Bill is a particular long shot, because it would authorize all types of internet gambling (other than sports gambling). Thus, it would offend those who – while they might begrudgingly accept poker because of its popular acceptance and dependence on player skill – view games of pure chance (e.g., roulette and slot machines) as particularly pernicious. While the New Barton Bill is limited to poker, considers Native American interests and is friendlier to state lotteries than prior bills, it still restricts state gambling and sets up a federal licensing infrastructure. In addition, the New Barton Bill is unlikely to satisfy conservatives who would allow poker only in exchange for more robust restrictions and enforcement with respect to other internet gambling, because the Bill does little to prohibit internet gambling other than unlicensed internet poker. It may be, however, that the repeated introduction of federal gaming bills and the frequent Congressional committee hearings on internet gambling have created a fictional reality regarding state-regulated internet gambling that has given rise to an artificial imperative for federal legislation.

As those in the lottery industry know, not much has changed since the DoJ’s December 2011 opinion narrowing the scope of the Wire Act. Only the Illinois and Georgia Lotteries actually have daily lottery games online, and the Delaware Lottery is expected to go online with poker this fall. Nevada and New Jersey have authorized the licensing of private online gaming operators, but only Nevada has gone “live.” While several other states are considering online gaming, those few moving forward are doing so cautiously and deliberately. Regardless, the rhetorical hyperbole used by legislators pushing federal legislation of internet gambling (particularly when

it would benefit their own states) often goes unchallenged. For example, at the July 17, 2013 hearing on internet gambling, Senator Dean Heller (R-NV) told the Senate Subcommittee on Consumer Protection the following:

With one decision, the Department of Justice effectively rendered all laws that we have on our books – the very laws this body has passed – useless to regulate and stop Internet gambling.

Patchwork state and tribal regulations have sparked a regulatory race to the bottom, ...

Due to the regulatory uncertainty created by the 2011 DoJ decision, the Internet has effectively turned it into the “wild west” for online gaming.

These statements are simply wrong. Among other laws, the Unlawful Internet Gambling Enforcement Act (the “UIGEA”) was unaffected by the DoJ’s decision, laws restricting interstate lottery communications laws still have teeth, and the Wire Act still effectively bans Internet sports gambling. As to the regulatory “race to the bottom,” that statement must have come as a surprise to regulators in Senator Heller’s own State of Nevada. Nothing suggests new gaming regulation is any less rigorous than pre-existing “bricks and mortar” casino regulation. And finally, as to the internet having become the “wild west” for online gaming, we have yet to hear a single “Yee-Haw!” from the states. To the contrary, those states that are moving forward are doing so carefully and deliberately.

Given this steady drumbeat for federal legislation, however, states must remain ever vigilant if they wish to preserve their right to decide for themselves what gambling should be permitted within their boundaries. ♦

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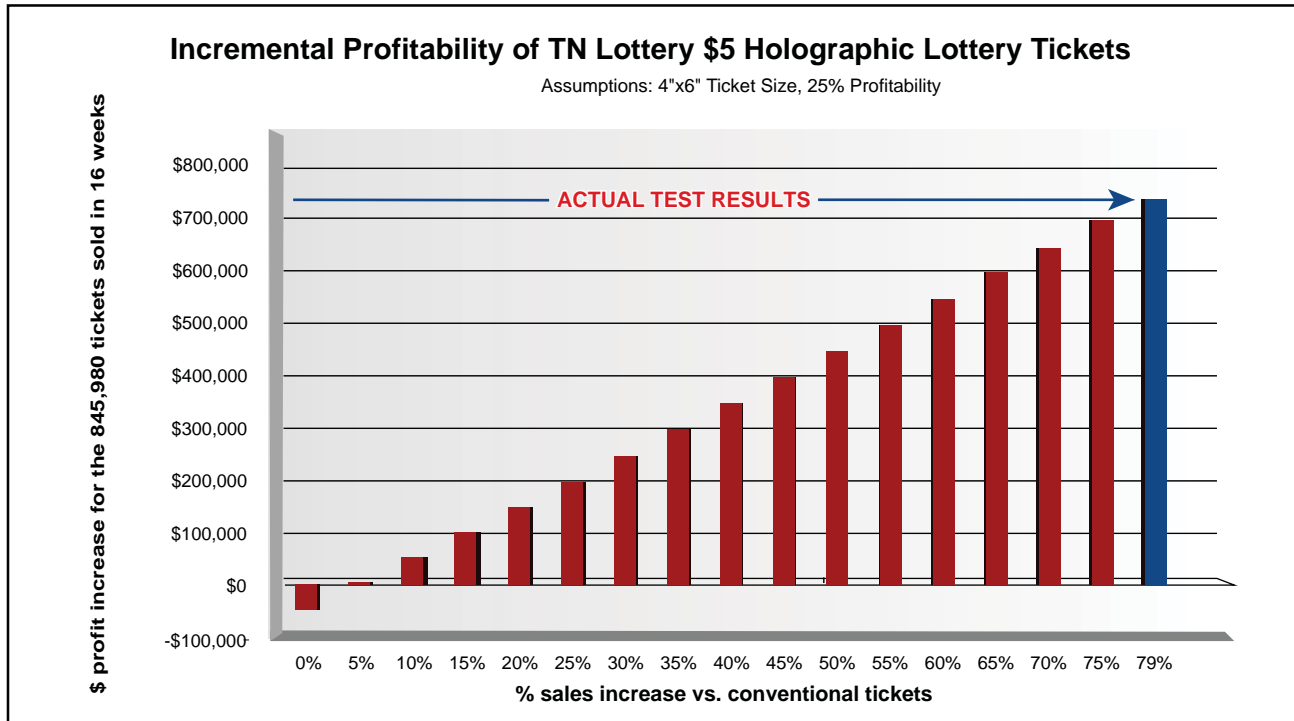
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A QUANTITATIVE COMPARISON OF A HOLOGRAPHIC INSTANT GAME VS. ITS CONVENTIONAL COUNTERPART



The Tennessee Lottery recently conducted a controlled quantitative test that was run to compare the sales of one of its core \$5 games (\$100,000 Jackpot) which had been traditionally produced on conventional board stock with a holographic version of the same game that utilized an identical size, ticket value, prize structure and payout percentage. The only key variable in this comparison was the use of holography.

Sales results were compared by contrasting sixteen weeks of the conventional game's sales with sixteen weeks of sales of the holographic version of this game. The holographic version was transitioned into the marketplace immediately following the depletion of the conventional version of this game. The results of this comparative test showed that during its initial 16 weeks of sales, the holographic version of this game achieved an index of 179 when compared to its conventional counterpart.

The incremental cost of the holographic board for the tickets sold during this initial 16 week period was fully absorbed when less than a 6% increase in sales (vs. the conventional game) was attained.

The financial impact of the 79% increase in sales that was observed during this 16 week period for the 845,980 holographic tickets that were sold during this time frame resulted in incremental profitability for the TN lottery of \$723,000.

This increase in profitability can be directly equated to the opportunity benefit resulting from the reduced amount of time required to sell through the holographic tickets vs. the increased amount of time that would have been required to sell a comparable quantity of conventional tickets.

No evidence of cannibalism was observed with the other \$5 games being sold by the TN Lottery (or for that matter, with any other instant games of any value being sold by the TN lottery) during this 16 week test period.

It should also be noted that upon the depletion of the holographic game tickets (27 weeks), sales of the holographic version of this game exceeded sales of the plain board version for the same time frame by more than \$1.4 million.



240 South Water Street
 P.O. Box 189
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HAZEN PAPERS PERFORM

	THE KING BILL	THE NEW BARTON BILL
LICENSED ACTIVITIES	All types of gambling other than sports betting (with the exception of pari-mutuel wagering on racing events as permitted by law).	Only poker, and then only when played by two or more people playing against each other and not against the "house."
INTERNET GAMES THAT MAY BE OFFERED BY STATE LOTTERIES	<p>Without a federal license, state lotteries could offer only the following internet games (subject to the grandfather clause described below): Games (i) not related to sporting events; (ii) in which chance predominated, and (iii) offered exclusively on an intrastate basis. Limiting lotteries to games of chance would preclude poker if poker were held to be a game of skill under federal law. (Last year, the District Court for the Eastern District of New York held that poker is a game of skill under the federal Illegal Gambling Business Act. (U.S. v. DiCristina, 886 F.Supp. 164 (E.D.N.Y. 2012). However, that decision was reversed on August 6, 2013, by the United States Court of Appeals for the Second Circuit. Docket No. 12-3720)</p> <p>Because lotteries would be limited to intrastate games, a multi-state internet lottery game – unless implemented in the same manner as PowerBall and Megamillions – would not be possible without a federal license. Obtaining interstate compacts would be academic, since interstate lottery games would be unlawful absent a license. (Currently, multistate games are operated as individual lottery games of each participating lottery. Each state lottery keeps all the profits of sales made in its state. A detailed description of how Powerball is operated is at http://www.powerball.com/pb_faq.asp.)</p> <p>The King Bill would not restrict internet gambling authorized, licensed, and regulated by a state or Indian tribe as of the day prior to enactment of the Bill (although it may restrict expansion or other changes to such internet games).</p>	<p>The New Barton Bill expressly authorizes state lotteries to offer (without a federal license) internet games (i) in which chance predominates, and (ii) offered exclusively on an intrastate basis. Poker would be precluded, since poker is defined in the Bill as a game in which skill predominates. Sports gambling is not expressly prohibited, but would be prohibited under other federal laws.</p> <p>Unlike prior bills, however, the New Barton Bill does not contain a broad prohibition on internet gaming. The Bill would prohibit the operation of an "internet poker facility" without a license, but that term is limited in scope to "internet poker." Thus, unlike the King Bill, lotteries would remain free to enter into interstate compacts and to operate multi-state internet lottery games pursuant thereto.</p> <p>The New Barton Bill would not supersede or affect the interpretation of any state or tribal law that was in effect before the enactment of the Bill. Thus, pre-existing state laws authorizing internet gambling would not be preempted by the New Barton Bill. Moreover, the New Barton Bill expressly states that it would not affect the rights or obligations of state or tribal lotteries under other applicable federal, state, or tribal laws.</p>
ELIGIBILITY FOR LICENSING	It would be difficult for state lotteries to get licensed under the King Bill. Among the licensing requirements, applicants would have to show that they have or will acquire adequate business competence and experience in the operation of casino or internet gambling facilities. However, unlike prior bills, there is no requirement that the applicant control or operate a casino or race track, or be a casino machine manufacturer.	State lotteries would likely be unable to obtain licenses under the New Barton Bill. To be eligible for a license, applicants would have to (i) own or control (or be owned or controlled by) a company that operates a casino or qualified card room, or (ii) have manufactured and supplied slot machines to casinos with at least 500 slot machines. Because "casino gaming" expressly excludes lotteries of states or of federally recognized Indian tribes, even lotteries that operate or control casinos likely would not be eligible for licensing.
EFFECT ON WIRE ACT	The Bill amends the Wire Act so that it is not limited to wagering on sporting events, as was determined by the Department of Justice ("DoJ") in its December 2011 opinion. This would make unlawful internet wagers accepted by unlicensed state lotteries that were (a) from out-of-state players regardless of the game, and (b) on games of skill, even if from in-state players to in-state data centers.	The Bill does not amend the Wire Act and leaves intact the DoJ's December 2011 opinion.

Mark Hichar is a Partner with the law firm Hinckley Allen and Snyder, LLP and the Chair of the firm's Gaming Law Practice Group. Mark's clients include casinos, suppliers of gaming systems and services (for both "bricks and mortar" and online gaming), and investors in and lenders to gaming businesses. Mark is a frequent writer and speaker on developments in Gaming Law and related regulatory actions, and has authored several articles on developments in the laws relating to online gaming. See <http://www.hinckleyallen.com/mark-hichar/>

PLAYING TO WIN WITH COOPERATIVE SERVICES PROGRAMS



The MONOPOLY® Board game has been played by more than a billion people since its inventors took a chance in the mid-1930s and pushed their new game out to department stores. Flash forward to 2013 when the Florida Lottery realized it could land its fiscal year on \$5 billion and played its own Chance Card.

HOT OFF AN UNPRECEDENTED \$1 BILLION

growth over the last two years, the Florida Lottery had just broken the all-time record in the Lottery's history in fiscal 2012 with \$2.8 billion in instant game sales.

"We knew that MONOPOLY™ was such a popular brand that if we pushed out new MONOPOLY scratch game inventory early, we had a chance to hit \$5 billion in total sales for 2013," shared Cynthia O'Connell, Secretary of the Florida Lottery.



"What gave us the ability to know three weeks out that we had a shot to reach that \$5 billion was predictive ordering. The ordering system allowed us to do opportunistic marketing. Point-of-sale wasn't even up yet but we pushed our new \$10 MONOPOLY game out early to our largest retailers. Without predictive ordering, we would not have the opportunity to do this."

The rest of the story – a record-breaking \$5 billion in sales in fiscal 2013, with over \$3 billion from instant games – has landed the Florida Lottery in headlines across the industry and the U.S. Celebrating its 25th anniversary this year, the Lottery will make a more than \$1.4 billion contribution to education in the state.

O'Connell said the drivers behind the recent growth is a year-round marketing campaign focused on attracting a broad player base, and an experienced staff who are intent on delivering the right product mix to more than 13,000 Florida Lottery retailers.

One of the ways the Lottery delivers the right product mix to its retailers is through the predictive ordering system, OrderCast™, which is part of the services the Lottery receives through a Cooperative Services Program (CSP) with Scientific Games. Initially developed with the New York Lottery in 1985, the CSP program was implemented in Florida in 1997. The Florida Lottery reports that over the course of the program, instant game sales have increased 391%.

The CSP program is a full instant game category management program that is customized to meet each individual lottery's needs with a menu of services including game analysis and planning, inventory control,

A record-breaking \$5 billion in sales in fiscal 2013, with over \$3 billion from instant games, has landed the Florida Lottery in headlines across the industry and the U.S. Celebrating its 25th anniversary this year, the Lottery will make a more than \$1.4 billion contribution to education in the state.

inside sales, field sales, warehousing and distribution, marketing services, retailer recruitment, game dispensers – and of course, game design and production.

PASSING GO

There have been so many technology changes since the Florida Lottery began in 1988, to 1997 when we started the Cooperative Services Program with Scientific Games, to today," says O'Connell, who helped launch the Lottery under Rebecca Paul, now Rebecca Paul Hargrove and currently the President and CEO of the Tennessee Education Lottery. "With so many changes, the vendor-partnership relationship is critical to success. So I credit Scientific Games for working with us so closely, for the great give-and-take relationship we have established. When we want to do something they think may not work, we talk about it. And when they suggest something we may not be comfortable doing, but is in our best interest, we talk about it."

An example that O'Connell gave was the six-week launch schedule Scientific Games recently recommended after a comprehensive analysis of the Lottery's instant game sales, launches and schedules that is part of the CSP services the Lottery receives.

"Scientific Games has helped us come to terms with a six-week launch schedule and it's proving to generate sales because it gives us a longer time to promote the game in our retail outlets before we change point-of-sale and go to a new game. And it gives players more time to settle into the game. I can see it working," says O'Connell.

The six-week schedule allows the Lottery to offer Florida players bigger games and better prize structures. "The marketing support and the hands-on support from the marketing and research team at Scientific Games have certainly benefitted us. It's just a partnership that has helped us work," O'Connell adds.

"When we enter into a CSP agreement with a lottery, we do a complete instant product category assessment based on our 15 Determinants of Demand. It's an analytical approach to determine what specific services can help maximize performance and net profits for the lottery. This is our starting point and we discuss it openly as partners," says John Schulz, Vice President of Global Cooperative Services at Scientific Games. "We provide a dedicated, instant game general manager, and in some cases, an instant products person to work onsite at the lottery. And of course, the rest of our team provides support from many different areas of expertise. That's what makes it Cooperative Services; it's not warehousing and distribution like other programs."

With instant product sales up more than 36% in Florida over the last two fiscal years and 2013 instant weekly per capita sales reaching \$3.09, the Lottery is working to create instant games like their Guy Harvey series, *(Continued next page)*

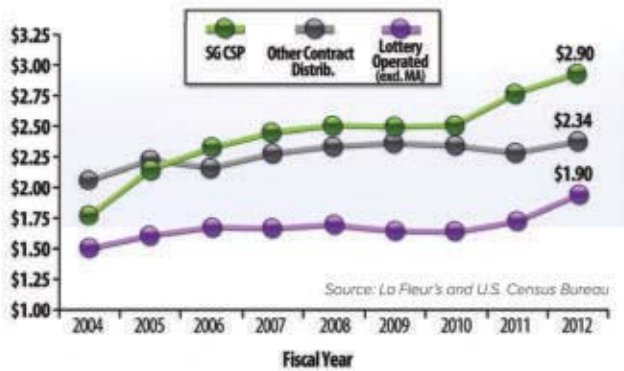


The Florida Lottery's 25th Anniversary Millionaire game and the Guy Harvey collector series were 2013 favorites.

In every phase of the instant product life cycle – from game development to printing, initial allocation and weekly replenishment, to research and sales analysis – the Pennsylvania Lottery works hand-in-hand with Scientific Games to drive the instant product forward. The goal: increase revenue growth to support older Pennsylvanians.

that appeal to a new player. Over the last several years, the Lottery's product development team has worked with Scientific Games to launch the Cash Multipliers family of games, which have consistently indexed high.

Historical Instant Weekly Per Capita Sales



"The Cash Multipliers family of games has been very good; it's really caught on like another game we have called Gold Rush that is also doing very well. Our core players have come to expect these games because they know they win and there are lots of chances to win," says O'Connell. "They continue to attract new players through word-of-mouth as well as advertising. It's a great product category for us and we will probably keep it in stock for a long time."

COMMUNITY CHEST

Currently, nearly two dozen lotteries around the globe participate in Scientific Games' CSP program including five of the top 10 lotteries in the world for instant per capita sales (La Fleur's FY2012).

"CSP has forever changed how our customers can manage their instant product category," says Schulz. "With a CSP partnership, the lottery can choose from a broad range of operational, administrative and marketing functions and assign some of these responsibilities to Scientific Games. This allows the lottery to focus more resources on their organizational

goals and long-term strategies while retaining policy control and final approval of all business decisions."

Another one of the highest performing U.S. lotteries that has entered into a CSP agreement with Scientific Games is the Pennsylvania Lottery, which experienced over 460% growth in instant game sales since the program began in 1997.

In every phase of the instant product life cycle – from game development to printing, initial allocation and weekly replenishment, to research and sales analysis – the Pennsylvania Lottery works hand-in-hand with Scientific Games to drive the instant product forward. The goal: increase revenue growth to support older Pennsylvanians.

The Lottery's fiscal year 2013 closed with \$2.3 billion in instant game sales, a more than 19% growth over the last two fiscal years. Weekly instant per capita sales for 2013 rose to \$3.46 in Pennsylvania.



The Pennsylvania Lottery's 2013 favorite instant games were across the board in themes, price points and prizes

"I think that the biggest, overarching driver behind our growth is the partnership approach to how we deliver instant games through the Cooperative Services Program. That cooperation comes on both sides – the Lottery and Scientific Games – from product development, to vending equipment, professional sales staff both inside and in the field, and most importantly getting the fresh, new products delivered to the retailers as soon as possible," says Todd Rucci, Executive Director of the Pennsylvania Lottery.

Rucci explains that he and his staff work very closely with Scientific Games, meeting several times a week to plan supply chain operations and to discuss ways to help the Lottery's more than 9,000 retailers display instant game products in their stores, whether in vending machines or on counters. With next day delivery services, product orders and re-orders can arrive within 24 hours.

2012 Average Instant Sales Per Retailer



"This efficiency has been the biggest reason for the Pennsylvania Lottery to use CSP and it's amazing what we've been able to accomplish," says Rucci. "The partnership is something we hang our hat on: our ability to work together to try and get our products to our retailers and to our players quickly and efficiently." The Lottery has received great feedback from retailers around the state who appreciate that Scientific Games' inside sales team is in touch with them on a weekly basis, at times that meet their individual schedules, and that they have established informed relationships that recognize there may be some stores that sell specific price points or games better than others.

"Different retailers need different products and different allotments of products at different times. So

we're looking at blitz allocations when we launch a new group of games to make sure we serve each retailer and that it's not just a one size fits all," says Rucci. "We're constantly tweaking, looking at each retailer's potential to sell a particular game better than another retailer, for whatever reason that might be. And also making sure that the product is not only there, but displayed properly. If it's not displayed properly, if the retailer doesn't know how to do this, it's not going to help sales. So we're really getting into the granular level of the food chain."

ROLL AGAIN

Besides celebrating a record-breaking year, back at the Florida Lottery's headquarters in Tallahassee, O'Connell's staff is focused on building the retailer base as well as increasing instant game dispensers at key existing retailers with more full-service and instant game vending machines.

"Working with Scientific Games, we are able to help our retailers better understand the price points they should be selling versus the price points that aren't doing well at their store," says O'Connell. "They want to offer the \$1 and \$2 games their customers want, but when we put the \$5, \$10, \$20 and \$25 games in their stores in multiple facings, it gives them and the Florida Lottery the opportunity to increase sales. So we're helping to educate our retailers through the CSP process, and that's good."

At Rucci's command central for the Pennsylvania Lottery in Middletown, Pennsylvania, he and his staff have just wrapped a stellar year but continue to tweak.

"We understand that we always need to be changing and delivering product in new ways for our retailers and players. We're agile, we're striving for even more efficiency and we never want to get comfortable in our own skin because we want to be the best we can be," says Rucci. "We learn through Scientific Games and other lotteries about what new things are working in the industry. The partnership is something we truly strive for, working together to make it work." ■

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ARE UNLICENSED ONLINE DISTRIBUTORS OF LOTTERIES MISLEADING CONSUMERS?

Who are www.CongaLotto.com and www.Trillionario.com?

There are two websites that market and distribute tickets online in ways that appear to be unlicensed and un-authorized by federal and state authorities. Check out www.congalotto.com, which sells lotto tickets to U.S. consumers. The lottery tickets they sell include Powerball, Mega Millions, Hot Lotto, Euromillions, Eurojackpot, Mega Sena, SuperEnalotto, LaPrimitava, El Gordo, along with the state lotto tickets of California, Indiana, Florida, New York, and also lottery tickets from the UK, Australia, Ireland, France, Germany, Spain. The Spanish language website that sells lotto tickets in the Latin American markets is www.Trillionario.com. It sells Powerball, Eurojackpot, La Primitave (Spain), California SuperLotto, and Florida Lotto. The websites explains for the online consumer: "How It Works"

- 1 You Choose:** Choose the official lottery that wants to play and your favorite numbers.
- 2 Buy:** Our local agents buy the tickets on your behalf.
- 3 You Play:** You will receive by email a scanned copy of the ticket with your name
- 4 You Win!** The prizes you win will be credited immediately to your account.

It would appear that these websites are not licensed or authorized by the national or state lottery jurisdictions to legally sell these lottery tickets. The laws limiting the right to distribute lottery tickets exist to protect many different interest groups. One of the victims of unlicensed distributors is obviously the consumer. Government lotteries all operate legally, comply with the highest standards of security, operate with complete transparency, and fulfill all obligations to pay prize-payouts. Unlicensed operators are not monitored and audited to ensure compliance with those standards. The redemption process appears to rely on the integrity of the un-licensed distributor to pay the prize. Are there adequate controls to guarantee that the winner of a big jackpot would in fact be able to redeem the prize?

We can expect that if laws against unlicensed distributors are not vigorously enforced, the illegal activity will proliferate as more and more un-licensed distributors enter the market. That would likely result in severe damage to the reputation and the brand of lottery.

According to Nour-Dean Anakar, CEO of Sorteo Games, a licensed distributor of national lottery games in Mexico: "Ledenford S.A. is a company based in Malta and operates the two websites, Congalotto.com and Trillionario.com. The way it works is explained on their websites, as you indicate in your introduction. The purchase



of the physical lottery tickets by Ledenford in each local jurisdiction is not illegal. It is the re-selling of those tickets across jurisdictions and the added service charges and the way the consumers' purchase transactions are processed online that are questionable.

In the case of the U.S., Congalotto.com markets and promotes itself to US lottery players as a web service that allows consumers to open e-wallet accounts online and uses those e-wallet accounts to purchase lottery tickets from all major lottery jurisdictions worldwide. Trillionario.com does exactly the same in Latin America, selling lottery tickets in most jurisdictions without a license. This is done with complete disregard of each jurisdiction's federal and state gaming and lottery distribution laws.

"In the case of Mexico, Trillionario.com is aggressively promoting and distributing non-Mexico lotteries to Mexican consumers through web services locally, including Powerball and MegaMillios and EuroMillions. This is a violation of Mexico's National lottery laws, as well as the Mexican Federal Gaming Laws. In the case of the US, selling multi-state lottery tickets, in-state lottery tickets, and non-US international lottery tickets over the internet is clearly un-authorized in many state jurisdictions. U.S. merchant banks have mechanisms to classify and code all transactions to guard against these kinds of un-authorized gaming transactions. A lottery purchase through these websites would be recognized by the U.S. banking system as an authorized online gaming transaction and therefore blocked.

"We have spoken with several lottery players in Mexico and California who have used the Trillionario.com and Congalotto.com websites to purchase lotteries. They have all reported that the transaction receipts they get after making the lottery ticket purchase online show a payment transaction receipt for merchandise instead of a



purchase of a lottery ticket.

"As an industry, we need to take action to defend the interests of the licensed lotteries, their commercial partners, and the consumer. While these unlicensed lottery distributors may well pay out the smaller prizes to their ticket buyers, there would not appear to be any mechanism to ensure that the method of redemption guarantees that the consumer would be able to redeem the winning jackpot ticket. A business model based on selling lottery tickets and then paying out only the small cash prizes would be very profitable indeed. The ones who lose are the lottery operator, the companies who invest in the business of producing, marketing, and distributing lottery products, and the consumer. In fact, it would seem that the brand of legally licensed government lotteries would be severely impaired if a consumer were to have their winning ticket not be redeemable. The lottery consumer has no idea these types of off-shore operations are unlicensed and un-authorized by state or federal authorities, which creates confusion in the market. Furthermore in the case of Mexico and other countries in Latin America, the Trillionario principals showcase that they distribute major lottery games like Powerball and Megamillions in the US in order to gain credibility and to secure access to lottery content in those markets.

SMART-TECH Panel Discussion ...continued from page 21

Chuck Strutt: I agree. Interactive and Mobile are keys. Of course, there does not need to be a trade-off between new games and preserving the appeal of traditional play styles. Jackpots and Scratchers will be sales drivers in five years just as they are now. But we need to develop some new concepts that involve more player participation. Too, just as in other industries, we will be engaging the consumer more directly in the process of deciding what games they like to play and create ways for the consumer to guide the process of creating those games.

Jim Haynes: I agree with Chuck and Gary. Over the next few years we will see the creation of more interactive games that are accessed through more channels, like Mobile. The portfolio of products will become much more diversified to appeal to younger demographics as well as the traditional core players.

Connie Laverty O'Connor: As important as the Internet and Mobile are, bricks and mortar will remain the foundation of this business for at least five years and I would say much longer than that. The exciting thing is that there is still huge untapped potential to grow sales at retail. I believe that the existing retailer base could grow sales by at least 25%, just by optimizing the tools we already have. And 25% of a \$67 billion dollar revenue stream in the U.S. alone adds up to a huge amount of funding for Good Causes. There are simple straightforward things that can be done to make that happen. And I believe that if retail optimization strategies were effectuated across the continent, we would be amazed at the results.

Of course, I agree with Gary, Jim, and Chuck that Powerball is arguably the strongest lottery brand in the world, and we need to take full advantage of that. For instance, a \$5.00 Super Powerball is a no-brainer. Maybe we should have additional games that run just two or three times over the course of the year? We should realize that innovation does not have to be complicated. Innovation is more about hard work than inspiration. It's follow-through. It's perseverance. It's tenacity. It's listening to other people. It's getting everyone from all the different jurisdictions to participate. And it's always

Below is an example of marketing e-mail correspondence from Congalotto.com:

From: Congalotto.com [mailto:info@congalotto.com]
Sent: Thursday, June 06, 2013 01:31 PM
Subject: It's a Mega-Rollover as EuroMillions Hits €100 Million

Hi,

These Mega-Rollovers just keep right on coming and this Friday is no exception as we gear up for yet another €100 Million draw on EuroMillions. This is your chance to score the jackpot win of a lifetime on Europe's Richest Lottery and live the dream thanks to Congalotto.

Plus, don't forget to check out Spain's June Special Draw Millionaire Raffle, which is paying out a guaranteed €84 Million on Saturday night, giving you a 1-in-3 chance of winning a cash prize.

It's all happening in Europe this weekend and you'd be mad to miss out, so PLAY NOW!

Good Luck!

Customer Service Manager

Congalotto.com

If you have any queries please send an email to support@congalotto.com ♦

putting your customer first; whether it's the retailer, the consumer or, in my case, it's actually all of you. Appreciation and respect for the diversity of opinions and points of view is so important.

Terry Rich: *It took at least two years for cross-sell and another two years for \$2 Powerball to happen. How can we accelerate the process, and move the needle on the next game?*

Connie Laverty O'Connor: I think retailers are starting to realize that we need to move quicker. It's not only competition for dollars anymore, it's competition for attention of the player. Retailers realize that too, and will be more receptive for the need to evolve with the consumer.

Gary Grief: I want to echo what you heard previous speakers say today - that is the importance of collaboration. It's so rewarding for me to be on the stage with these three other wonderful people that represent different parts of our business. We've broken down so many of the barriers between the MUSL and the Mega Millions Groups. The participation of our friends from MUSL in our meeting yesterday was so helpful. That kind of collaborative process will be even more important as we go forward and develop the strategic portfolio management approach of the future.

Chuck Strutt: I think we need to recognize that a culture of innovation inevitably involves a dynamic interaction of different ideas. That means disagreements and debate. Sometimes the fresh new idea will be misguided. But even then, the new idea can be the springboard for other new ideas that get us closer to the breakthrough ideas we are looking for. A few weeks ago, for instance, we had an idea that I absolutely loved. Took it out to the directors and they trashed it. So we modified it and took it back to a different set of directors and they trashed it. Now we're on the third iteration and I think this one is actually brilliant. I told Connie a little bit about it this morning. Of course, she pointed out some flaws! Back to the drawing board. I think that is what a healthy culture of innovation looks like. ♦

Scenes from European Lottery Association Congress Tel Aviv – June of 2013

Congratulations to Bernadette Lobjois and her team at the European Lottery Association (EL), and also to Mifal Hapayis and the TOTO (The Israel Sports Betting Board), and to all the members of the EL Association for producing another fabulous conference and trade show. The EL holds its big regional conference bi-annually (on the years when the World Lottery Association is not holding its big bi-annual event. The World Lottery Summit for 2014 is in Rome!). The EL Congress has established itself as a seminal important industry event. The next EL Congress will be held in June of 2015 in Oslo, Norway – I hope to see you all there!







UPDATE ON THE REGULATORY LANDSCAPE FROM AROUND THE WORLD

By Warwick Bartlett
Chief Executive Officer, Global Betting
and Gaming Consultancy (GBGC)

GAMING EXECUTIVE SUMMIT 2013 IN BARCELONA: REVIEW

All the sun, sea, and sumptuous surroundings of the W Hotel could not disguise a slightly muted atmosphere at the 2013 Gaming Executive Summit in Barcelona last week. The tone was set by Quirino Mancini, SCM Lawyers, who gave a very downbeat assessment of the internet gambling sector in Italy. "A few operators are doing very well but the majority are simply surviving," explained Mancini. This is a particularly concerning view of the Italian e-gaming market because it is the model that has been adopted across many European markets.

Bwin.Party's CEO Norbert Teufelberger: "The Group's revenue performance since the beginning of April 2013 was softer than expected due to a lower than expected gross win margin in sports betting during April and June as well as competitive pressures in bingo. Ahead of the launch of our new poker product, the trends seen in Q1 in casino and poker continued during the second quarter. Whilst we retain a leadership position in our two

largest markets, competitive pressures in both the UK and Italy have continued to hold back our bingo business."

Friedrich Stickler, president of the European Lotteries Association, was on the same CEO panel. Now that the likes of Bwin.Party have fallen into line and either taken local licences or withdrawn from markets, Stickler's new targets seem to be the Asian sports books, which he deems 'illegal.'

Sean Ryan from Facebook outlined the company's plans for e-gaming and showed off the new Paddy Power real-money in-play sports betting app for the platform, as well as Zynga's new real-money poker service. It is clear that Facebook is taking a cautious approach to e-gaming and is using the UK as its test market. Facebook has a small e-gaming team and is most interested in markets that are regulated and have a sizeable population. Denmark, for example, whilst regulated, would not be a priority because of its small population. There are also no definite plans for e-gaming on Facebook in any US states that might regulate.

The fact that two of the most upbeat presentations of the conference were delivered by speakers with no direct involvement in the gambling sector – Kevin Slavin, Assistant Professor at MIT Media Lab, and David Rowan, Editor of Wired Magazine – is a good reflection of the state of certain sectors of gambling at the moment.

UPDATE ON U.S. GAMING LEGISLATION

Time was when the framing of U.S. policy on Internet gambling was the cause célèbre of the Democratic Party. Massachusetts' inimitable Barney Frank springs to mind and, more recently, Nevada's favorite son, Harry Reid. However, these days on Capitol Hill it's a different story. Right-wing Republicans are behind the two bills now under consideration in the 113th Congress.

The latest, introduced in the House of Representatives earlier this month, comes out of the Tea Party stronghold of northeastern Texas. The "Internet Poker Freedom Act of 2013" it's called, and its sponsor is 63-year-old Joe Barton, an anti-tax crusader and lifelong champion of energy deregulation and the rights of Big Oil and chairman emeritus of the House Committee on Energy and Commerce. Mr. Barton has been known to log on himself to play the "all-American game," as he likes to call it (never for real money, he adds), and this is his second go in two years at trying to make Web poker the law of the land. "I continue to be supportive of the Americans who play poker online," he said. "They deserve to have a legal, on-shore system that makes sure everyone is playing in an honest, fair structure."

Whether he's more successful in getting them one this time around is another matter. The prevailing wisdom, subscribed to by Reid himself, holds that there is little appetite in Washington for federal regulation, a politically toxic issue at best and one generally seen as best avoided. This is especially the case now that several states have taken the initiative to regulate the industry within their respective jurisdictions.

A bill introduced in the House in June by Long Island Rep. Peter King, whose hawkish views have earned him the chairmanship of the Homeland Security Committee's Subcommittee on Counterterrorism and Intelligence, has collected one co-sponsor to date, Massachusetts Democrat Michael Capuano. Barton's bill was routed on 11 July to Energy and Commerce (where Mr. King's bill has principally resided since 7 June) and the Financial

Services Committee with no co-sponsors.

Reid, who once called online poker “the most important issue facing Nevada since Yucca Mountain,” has been able to deliver nothing so far for his corporate casino constituency in Las Vegas. But the leader of the Democrats’ slim majority in the Senate has been working to mend fences with GOP leaders he angered over the election year politicking that helped doom his 2012 bill before it ever got to the upper house. Reports are he’s readying a new bill for introduction, possibly before Congress goes on holiday on 2 August, in consort with fellow Nevadan Dean Heller, the Republican whose first full term in the Senate he tried to prevent last fall.

Reid is proceeding more carefully this time. In a bid to get his own party lined up behind the need for federal regulation – and no doubt to take an initial reading of the political winds on both sides of the aisle – the Senate Commerce Committee’s Subcommittee on Consumer Protection, of which Heller is the ranking Republican, scheduled a hearing on 17 July titled “Internet Gambling: Assessing Consumer Protection Concerns.”

Barton’s bill over at the House of Representatives (H.R. 2666), like King’s (H.R. 2282), would establish nationwide oversight through a super-agency within the Commerce Department (King’s would be installed in the Treasury Department). Regulation and enforcement ultimately would lie with the secretary of Commerce and the National Indian Gaming Commission as the bodies charged with reviewing and approving the actual licensing authorities at the state and tribal levels.

H.R. 2666 is likely to run afoul of a number of constituencies whose views Washington won’t want to ignore. Unlike H.R. 2282, which would permit casino-style games and would open the market to state lotteries and the racing industry, Barton’s poker-only approach (his bill also would permit other “skill” games) restricts licenses to commercial and Indian casinos and card rooms in operation for at least five years. Moreover, its provisions would supersede any regulation the states already have in place, in contrast to H.R. 2282, which would grandfather in existing intrastate networks. H.R. 2666 also locks out for five years any entities convicted of having operated illegally in the United States post-UIGEA.

As a poker-only measure it’s more in accord with what the casino industry and their Washington lobbying arm, the American Gaming Association, might find palatable. The AGA hasn’t taken a formal position on either bill, however. King’s endorsement of casino-style games is a concern for them. The land-based sector has never been of one mind on the competitive threat posed by the Web, and those that have embraced poker did so only after the recession hit and traditional revenues tumbled.

U.S. states, led by the National Governors Association, actively opposed Reid’s abortive 2012 legislation, and it’s expected they will work to defeat both King’s and Barton’s and anything like them that attempts to supersede their historical primacy over gambling within their borders. The lottery freeze-out in H.R. 2666 will strike them as particularly noxious.

No hearings were scheduled on either, as of this writing. The prospects for H.R. 2282 are in the hands of über-conservatives Lee Terry of Nebraska, who heads the Energy and Commerce Subcommittee on Commerce, Manufacturing and Trade, and Jeb Hensarling of Texas, who chairs Financial Services. The bill also

was sent to the Judiciary Committee, chaired by Bob Goodlatte of Virginia, who also co-chairs the Congressional Internet Caucus and is best-known in the industry as one of the leaders of the federal effort to outlaw Web gambling prior to the passage of UIGEA.

As a longstanding member and a former chairman, Mr. Barton wields some tenure on Energy and Commerce, but that’s no assurance H.R. 2666 will see the light of day, and he has acknowledged as much.

It’s interesting and telling how the responses to Congressman Peter King’s online gambling bill (H.R. 2282) so closely mirror those of all the failed attempts at federal regulation in the past: Advocates outside the commercial casino establishment are enthusiastic; they’re guarded and non-committal within; and the public lotteries and the Indian tribes and the leaders of the states where they reside are as ever skeptical and resistant.

In a broad sense these are views that speak to the historic fault lines riddling U.S. gambling policy that no regulatory scheme out of Washington, except in regard to sports betting, has been able to repair or surmount. Weigh in the near-total absence of any political capital to be gained with that to be lost from appearing to endorse Internet gambling as a matter of national policy, which is what regulation implies, and Mr. King’s bill is not expected to fare any better.

“I don’t see anything happening,” said Nevada’s Harry Reid, who heads the slender Democratic majority in the U.S. Senate and has all but given up on the possibility that either his chamber or the Republican-controlled House of Representatives will get behind the poker-only legislation he favors, let alone a bill like King’s that legalizes casino games as well.

One U.S.-based reporter in the poker blogosphere went further, pronouncing the bill, which has attracted no co-sponsors, “100% DOA” (“Dead on Arrival”).

It’s reported that for the sake of a poker bill aimed at salvaging a nationwide player pool for his Las Vegas casino constituency, Reid is trying to mend fences with the Republican opposition. But he knows the votes don’t exist and has said as much. A poker-only bill his staff had crafted last year in partnership with GOP Senator Jon Kyl, who has since retired, was bungled over election politics. Not that it had any chance, given language in it that sought to lock up regulatory primacy for Nevada and freeze out the lotteries, and it never made it to the Senate chambers.

The American Gaming Association, the Washington lobbying arm of those same Las Vegas companies and the most vocal advocates of a poker-only industry, also knows the votes aren’t there, and the legislation tossed into the void by King, a New York Republican, on which Reid was not consulted and which appears to have caught him unawares, has sparked a war of words between the senator and the AGA’s president, Republican heavyweight Frank Fahrenkopf.

Fahrenkopf, who is retiring this month, called the Reid-Kyl fiasco his “biggest disappointment” in 18 years at the helm of the association. A spokeswoman for Reid fired back at what she called “revisionist history” and later issued a statement saying, “Perhaps if Mr. Fahrenkopf had spent less time dealing with the presidential debates [he is co-chairman of the commission that oversees them] and more time actually doing his job as head of the gaming association we could have passed the bill.”

Nevada lobbyist Jon Porter, a Republican who served three terms in Congress representing parts of Las Vegas and the surrounding area, blames divisions among the various stakeholders in the debate and says casinos need to work with the lotteries and the Indian tribes and not against them.

"Those are some powerful groups," he noted at a recent industry conference in Las Vegas.

The King bill (H.R. 2282), introduced in the House on 6 June 2013 as the "Internet Gambling Regulation, Enforcement, and Consumer Protection Act of 2013" (a title borrowed from former Congressman Barney Frank's failed crusade of the last decade), attempts to address some of these issues by providing for licensing for all providers, including lotteries, the tribes and online race-betting, under the auspices of an Office of Internet Gambling Oversight within the U.S. Treasury Department. It allows states to opt out of the system if they choose and it would grandfather in states with networks of their own in place—of which there is one currently, Nevada, with Delaware expected to be up and running this autumn with casinos games operated by the state lottery and New Jersey in the process of drafting regulations for intrastate games operated by Atlantic City's casinos. The AGA hadn't taken a formal position on H.R. 2282, at the time of writing this article. The bill's endorsement of casino-style games is a concern. The land-based sector, Las Vegas' especially, has never been of one mind on the competitive threat posed by internet gambling and embraced poker only after the recession hit and began tearing into profits.

The states, led by the National Governors Association, actively opposed Reid-Kyl, and it's expected they will work with same energy against the King bill and anything like it that comes down out of Washington. "We believe the federal government should be respectful of states' rights to regulate online gaming," said a spokesman for the National Conference of State Legislators, "and we see these bills as an affront to states' sovereignty." This appears to be the position of the Obama administration as well. Certainly it was implied by a December 2011 memorandum from the Justice Department clarifying the legality of state lotteries operating online.

Reid believes that, with individual states actively pursuing such licensing and laying the groundwork for networking agreements with other states and with foreign operators, the prospects for the federal government to take control of nationwide market that is estimated to be worth US\$7 billion – \$10 billion over the next five years – is small. "I felt online poker would be good for the state of Nevada," said Reid, who recently expressed the belief in an interview with the Las Vegas Review-Journal that a "golden opportunity" was missed. I will continue to work on it, but it would be stretching things to think we could get something done," he said. "It's opposed by governors, lotteries and Indian tribes."

Porter, on the other hand, remains optimistic about something happening at the federal level. "It will come back this session. It won't be a stand-alone bill. It will be attached to something else."

H.R. 2282 has been referred to three committees: Financial Services, Judiciary and Energy and Commerce. No action had been scheduled on it, as of this writing. Congress recesses on 2 August and returns 9 September. It will meet for 39 days after that. The session ends 13 December.

UK GOVERNMENT GAMBLES ON NEW LEGISLATION

The internet gambling sector in the UK is one of the most fiercely competitive and open markets in the world. There is no limit on the number of licences, all gambling activities are permitted – from betting exchanges through to live dealer casino games – and gambling firms can advertise their services in print and on television. All of this was permitted by the Gambling Act 2005. But the nature of the UK market could be changed by the new Gambling (licensing and advertising) Bill announced in the Queen's Speech in May 2013.

The UK Gambling Act 2005 recognised the internet gambling licences issued by certain other jurisdictions such as Gibraltar, Malta, and the Isle of Man. This meant that operators licensed in those jurisdictions on the 'white list' would be able to operate and advertise in the UK. The advantage was that it enabled firms to remain 'offshore' from the UK and not be liable for the UK's 15% remote gambling tax, which was the main weak area of the Gambling Act. But the proposed Gambling (licensing and advertising) Bill will bring this situation to an end.

The overall aim of the new Gambling Bill is to introduce e-gaming taxation based on a point of consumption scenario. To this end, operators wishing to take money from UK-based customers will have to hold a licence in the UK and will pay the UK rate of gambling tax on their gross win from UK players. It will still be possible for firms to be located offshore under the proposed regulation if they hold a UK licence. The Gambling Bill effectively ends the 'white list' arrangement, although white list licence holders will not have to go through complete relicensing process by the UK Gambling Commission.

The new bill is being promoted as offering better protection to the customer, an argument that has been used across Europe for the new internet gambling legislation that has been passed. But the Gambling Bill will bring in some extra tax revenues too. GBGC calculates that UK gamblers spent GB£ 1.72 billion on internet gambling in 2012. The majority of this spending was with companies based offshore and not liable to UK gambling tax. Under the new regulatory set up, the UK government would have collected some GB£ 260 million in gambling tax, assuming a rate of 15%. By the time the new bill actually comes into force in 2014/2015 the amount the government will collect in gambling tax will be approaching GB£ 300 million. Such an amount will not solve the UK's debt problems but it is a useful contribution and is a tax that is fairly easy to collect.

Prior to moving their operations offshore, the likes of William Hill, Ladbrokes, Betfair, and Coral all ran successful internet sports betting divisions from the UK under the 15% tax rate. Bet365 still does so, as one of the only major betting firms that has not moved offshore. What is less certain is how online gaming – poker, casino, and bingo – will fare under the 15% rate. Few companies have ever run their internet gaming services from the UK. The evidence from other countries around Europe is that the likes of internet casino and poker do not thrive in high-tax set ups. The markets in France and Italy can hardly be described as great successes for many of the operators, although they are doing a good job of collecting tax for the respective governments.

The original model for internet gambling was based on low

taxation and a high payout to the customer. The reason that the UK became such a competitive and successful internet gambling market was precisely because it allowed operators to work to this model and advertise their services. The UK is too important a market for many operators for them to choose to leave or opt out when the new regulation is enforced but it will alter the reason for being in offshore jurisdictions for certain groups of operators.

GBGC understands that under the new Bill, revenues from non-UK based players will not be taxed by the UK government under the new arrangement. A point of consumption tax, rather than a country of origin tax, suggests that a UK-licensed gambling company will, therefore, not be required to pay gaming tax on revenues from players in the likes of Asia. So, for those companies with very few UK-based customers but who wish to sponsor English Premier League teams to advertise to their Asian-based customers, the new UK setup could look quite attractive to them.

In Gibraltar it is reported that the Gibraltar Betting and Gaming Association (GBGA) has created a legal 'fighting fund' to try and get a judicial review into the proposed UK regulatory changes, which would have an impact on the business model of many of the Rock's key licence holders. Earlier this year the GBGA made a submission to the House of Commons Culture, Media and Sport Committee in which is said: "In the event that the Government determines to proceed with the proposed legislation and fiscal reforms, the GBGA will regrettably have little alternative but to institute judicial review proceedings to challenge these measures." This statement was made before the new Bill was included in the Queen's Speech, so presumably the GBGA's challenge will now take place.

The GBGA believes that the UK government's proposals are unlawful and set out its arguments in its written submission to the committee:

"The proposed measures both separately and together with the related changes to the tax regime for online gambling are unlawful in terms of EU, national and international law and are liable to successful legal challenge."

"Absent some cogent evidential and rational basis for the change, EU law will not permit the UK to arbitrarily switch from a free market system that it specifically set up and reinforced in the Gambling Act 2005 to a significantly more restrictive regime that takes no account of licensed operators established and regulated within the EEA. It is a well established principle that where trading and fiscal rules are to be changed, the compatibility of any new rules with EU law must be examined in light of the pre-existing regime."

NEW JERSEY ONLINE GAMBLING: HOW BIG? HOW SMALL?

New Jersey will come out of the gate with an obvious advantage in terms of liquidity over tiny Delaware, its closest competitor, and Nevada, the first mover in the nascent US online market, which has the allure of Las Vegas going for it but less than one-fourth the population. It's also a market that finds itself happily sandwiched between two of the largest metropolitan areas in the country in New York City and Philadelphia.

The Wall Street view, expressed by the likes of Spectrum Gam-

ing Capital's Robert Heller and Macquarie Capital's David Berman, has been upbeat. Heller believes it could be the "savior" of a market that has seen its land-based business plummet more than 40 percent over the last six years. Berman, speaking at May's East Coast Gaming Congress, called it a "big boon for Atlantic City and New Jersey". Beyond that, estimates of the potential vary, and markedly, although nearly everyone agrees that Gov. Chris Christie's initial estimate of a \$180 million windfall for the state budget, which at a tax rate of 15 percent implies a market worth \$1.2 billion, is not realistic. The governor's forecast appears to be based on Wells Fargo's projection of a \$1.5 billion industry by 2017, which in turn derives from the bank's first-year forecast of \$650 million to \$850 million, which also appears to come down on the aggressive side.

Global Betting and Gaming Consultants own forecasts are for first full-year revenues of US\$ 246 million for casino and poker combined.

Washington, D.C.-based lobbyists Interactive Media Entertainment & Gaming Association pegged the first-year potential at \$230 million. That was back in 2010. From here things acquire more of a glow. John Kempf, managing director of RBC Capital Markets, puts the annual revenue potential in the early going at \$500 million-\$600 million. Las Vegas-based investment brokers Union Gaming Group expect the market to generate \$530 million in its first full year, growing to \$840 million "after a five-year ramp."

In a recent note to investors, UGR broke this down between \$244 million for poker (growing to \$297 million by 2019) and \$290 million for casino games (growing to \$546 million by 2019). This assumes a poker penetration rate among adult New Jerseyans of 1.5 percent in the first year – supplemented by adult visitors to the state at a rate of 0.2 percent – and a casino games penetration rate of 1 percent of locals and visitors. In estimating wagers as a percentage of per capita gross domestic product the base they use is a 2014 estimate for New Jersey of \$66,854, which is rather higher than the U.S. government's 2012 estimate of \$57,078 in current dollars and \$49,430 in real terms. (For the nation, real GDP for 2012 stood at \$42,784.) Other notable assumptions are that adult visitation to the state will grow by roughly 7.7 million over the next five years and that poker penetration will increase over that time to 2.8 percent of New Jersey residents and to 1.5 percent for casino games.

The latest edition of GBGC's Interactive Gambling Report is available now. We have revised our global internet gambling forecasts downwards from our last report in April 2013 because of the sluggish revenues from the Spanish and Italian gambling markets and the delays to i-gaming regulation in Germany. Consequently, GBGC now makes the forecast that the global interactive gambling market will be worth US\$ 44.0 billion in 2014, including revenues from Nevada and New Jersey, rising to US\$ 49.5 billion by 2017. The new Interactive Gambling Report contains updates on the i-gaming regulatory position in numerous markets including: Australia, Denmark, Ireland, Spain, UK, and the US. The report (and others) can be purchased at www.GBGC.com. ♦

year in operation. Florida preceded us, but the market and culture of Florida does not exactly represent what some might call the bible-belt conservative culture of the South. Kentucky started right after us. Public and Regulatory Policy reflects the culture so we operate a very conservative, very traditional lottery, with advertising constraints and other constraints on the types of games we can offer that reflect that cultural heritage.

We look at sustainability as a three-legged stool. The first leg is growing that part of the business that we feel we have the most control over, and that's the instant ticket sales. Secondly, there are actions we can take to grow the number of retailers, so we focus on that. Third, and most important, is growing the number of Virginians who play the lottery on a regular basis.

Instants: Like New Jersey we have instituted a disciplined approach to prize payout. And that has certainly helped us to be a little more profitable. Earlier today, Diamond Game in their presentation noted that, nation-wide, about 6% of lottery sales come through vending. In Virginia we have 1,700 vending machines and about 25% of our Instants sales come through vending. Overall, our total lottery sales that come from vending machines is about 15%. About two-thirds of those vending machines are full-service, which means they include the draw games. So vending has been an important part of our instant ticket success.

Growing the number of retailers: Like most of you, we lost a lot of retailers in the down economy. But we worked very, very hard to keep that number stable. As a result, we're up about 400 retailers over the number we had in 2008. That makes a huge difference.

Where we have really focused our efforts during the last couple of years is on the third leg: growing the number of Virginians who engage with the lottery on a regular basis. We feel that is the most socially responsible way to grow our revenues. We can't keep asking the same group for more and more money. Our research shows that 30% of adult Virginians have played the lottery in the last 30 days and we want to increase that percentage. This socially responsible approach is resonating with those policymakers who want assurance that lottery gaming is not harmful to the public. To that end, we started down a different path to find fresh insights, doing research that was different from anything done in the previous 25 years. We didn't look at Virginians as players and non-players. Instead, we looked at all Virginians as consumers. We worked hard to understand the Virginia consumer, completely apart from their relationship to our specific product and marketing. What makes them tick? What do they want out of life? What are their behaviors, their attitudes about life, their shopping habits? What do they like to watch on television? How do they use technology? Only after gathering this kind of information did we begin the process of researching their thoughts about the lottery. The goal was to really understand our customer before trying to figure out how lottery fits into their lives, and how we can evolve the lottery to create a better fit. As a result, we segmented the consumer base into six categories. One segment is our core supporters where the fit is already good. Another segment is busy women who enjoy the lottery, but don't play it often. As you would expect, there is a segment of young, "digital natives" who we found like the lottery, but don't play it

often, in part because it's not where they are socializing, communicating and shopping. The fourth segment is older, well-educated and successful professionals who only play the lottery occasionally. The final two segments are ones which most likely will never play the lottery.

Our plan now is to assess everything that we are currently doing: what kinds of products are we offering; what kinds of special events are we doing; what kinds of technology and delivery systems are we using; what is our standing with retailers; what are we doing to attract new consumer groups. We have uncovered what we think are some interesting insights. For instance, we've heard a lot about the need to attract younger adult players. We've found through our research, though, that it's not only about the 20-somethings, the proverbial "digital natives." There is this other group who are in their 40s and 50s who are well educated, financially successful, and not opposed to the lottery. We call them the "alphas." We are convinced that they could be attracted to the lottery, but we have to bring the lottery to them in ways that work for them. They're at the top of their game, they have busy jobs, they're techno-savvy, they process information and make decisions quickly, and they expect the merchants with whom they do business to think and operate the way they do. Our research tells us that there is nothing at all incompatible between the sophistication of these alphas and the desire to buy into the fun of the lottery.

We sell subscriptions via the internet in Virginia, but we're not allowed by law to sell anything other than subscriptions on the internet. The minimum amount that you can purchase at one time is 13 weeks. You can't buy tickets one day at a time or in real-time on the internet – it must be a subscription that lasts for, as of right now, a minimum of 13 weeks.

We're working very hard to expand our presence in the internet space. For example, in April of this year, we just launched, with our partner Scientific Games and MDI, a \$5.00 scratch ticket for a chance to win a Jeep®. In addition to cash prizes, this \$5.00 ticket provides a second chance to win an exciting vehicle. It's a traditional game that appeals to our core players. But it also has the internet component with a second-chance drawing to win additional cash and a Jeep®. And then, in addition to those two games, we've created a whole new mobile campaign. It's very exciting because it is, for us, a breakthrough initiative to appeal to young people and those alphas. It's giving them a chance to experience the Lottery in a very different way. Virginia players can go to JeepSeeker.com. And there's no charge for them to play the game. First, they answer trivia questions about Virginia. Then, through Google maps, the player searches for hidden Jeeps®. Depending on how many Jeeps® the player finds, the player is entered into a drawing. We have a leader board and tried to create a digital playing experience that would appeal to the younger and those "alpha" demographics. There won't be the "consideration", but there will be the game, and there will be the prize. So it's not a lottery and therefore it's ok under our laws and statute to do it. The main thing is that it is a fresh way for us to connect with that younger demographic while staying compliant with our statute.

In conclusion, our strategy for creating sustainability: Focus on the things we can control. Pay attention to the instant tickets, the

part of the portfolio that we feel we have the most influence over; grow the number of retailers, continue to concentrate on the bricks and mortar; and grow the number of Virginians who interact and play with us on a regular basis.

Arch Gleason: *You have all touched on this already, but now let's dig deeper into how things like social media, loyalty rewards programs, and experiential prizes fit in with your strategies.*

Paula Otto: We've done some Facebook-specific sweepstakes. The thing is, the digital connections we make with these initiatives do not necessarily generate a positive ROI in the beginning. We have to be willing to make an investment in developing those connections anyway, because that is what will form the foundation for long-term success, a sustainable future. Lottery simply must connect with the digital consumer. The good news is that we're not just talking about younger adults. The cross-section of consumers who are responding to our initiatives to connect with them through new media is huge, and not limited to specific age and gender categories.

Paul Sternburg: The collaborations we do with our local professional sports teams and established brands like Cadillac have been very successful, and Facebook is a primary promotional tool for that as our media spends are very limited. The promotional programs include experiential prizes like playing basketball with top-tier pro players like Paul Pierce, meeting Tom Brady, or accompanying the Patriots on an away-game trip. Those are things you can't buy. We can offer these prizes only because of our relationships with the teams. We try to create experiences and build prizes on things where the actual cost to the Lottery is much less than is the value to the consumer – which is priceless.

Arch Gleason: *The Kentucky Derby is a huge event and festival that includes the largest fireworks display in North America called Thunder Over Louisville. We got the opportunity for one of our players to push the button to start the fireworks. No cost to us but a hugely valuable experiential prize for one of our players.*

Anne Noble: We certainly think customer loyalty and building a long-term relationship between the lottery and the customer is critically important to sustain growth. We are just now embarking on phase three of our social media program. I mentioned that we have some catching up to do. But we think of that as a good thing, an opportunity to make real progress and generate some positive results. But ours is a deliberate, calculated approach. We don't explore the options by trial and error as a method of finding the best strategy and tactics. I place a high priority on avoiding miss-steps. For instance, I just bought a Subaru and am being bombarded with communiques promoting their loyalty program and trying to create a Subaru fan club. I do get the idea of creating a community of fans, building a feeling of shared value with your customer. But what if there are lots of people like me who just want to buy the car without being pummeled with digital communiques to get me to affiliate in ways that I just don't care to do? I'm working closely with our social media expert to try to get more visibility into the underlying dynamics of these media and would like to find ways to interact with the consumer in the ways that meet their needs and don't inadvertently alienate them. I am concerned that we may have a one-size-fits-all approach, assuming that everyone wants a

deep bonding relationship based on social media. I am committed to developing a world-class social media program, but want to be sure we understand what exactly that means and how it will best serve our players.

Carole Hedinger: We jumped into social media in a big way, not having a clear picture of where we were going. We just thought it had potential to help us connect better with our customers. It was a mountain to climb and so we decided to just climb it. We were fortunate to have an expert get us off to a really great start. And we were also fortunate enough to have a governor who had a Facebook page when he was elected, so there was the political support. Now the New Jersey Lottery has a very large fan base. One of our strategies has been to try to create an affiliation between our fan base and other fan bases. For instance, we make sure that the sponsorship agreements with our sports teams include a connection between their fan base and our fan base so that we can cross-promote. The iPads we give away as the second-chance prizes and other kinds of prizes are skinned with the logo of a sports team. Our Players Club has a very large VIP club, sort of a premium customer class. And that 250,000 member club became the base for people getting onto our Facebook page, which tied those two things together. Social media engagement has worked out very well for us in terms of the quality and the quantity of the consumer engagement that we have.

A legislator passed a law stipulating that once a certain numbers of prizes had been paid out of instant games, we had to pull those games off the shelf. The way it was structured it would have caused the games to end before their time. So we started second-chance drawings with those games. Now we have millions and millions of entries from people through our Facebook page and through our lottery website. And we sometimes tie them to our Facebook page so that we get as much mileage as we can out of our presence in social media.

It's hard to say precisely how and when social media initiatives will contribute to our revenue generating objectives. But we can't allow the lack of 100% visibility into the future to stop us from moving forward. I'll give you an example that illustrates the fact that many answers are not forthcoming until after the fact. A couple years ago, we lost our funding of \$1 million for broadcasting the draws live on TV. No more televised draws. So we started live streaming the draws on Facebook. Ironically, we are back on TV now because our Facebook initiative became so popular that CBS invited us back. For free! We used to pay over \$1 million dollars a year for that and now there is no fee. So we're trying to be in every media to be visible to everyone, so that no matter what happens as far as technology and social media trends are concerned, we'll be there and in a position to take advantage of it for the benefit of our lottery, for the benefit of Public Education, and for the benefit of our players.

Paul Jason: It sounds like the main obstacle to moving more aggressively with social media is regulatory constraints as opposed to limited resources to allocate towards new initiatives.

Paula Otto: Certainly resources are limited for all of us. In Virginia, the amount we can spend to operate the lottery is limited to 10% of sales. Fortunately, we've been operating at 5% for a long time, so we do have the resources to allocate. Even so, we are

expected to operate as efficiently as possible, ensuring that every dollar spent has a meaningful impact on the results we are trying to achieve. So we're taking a hard look at our organization, what could be done differently to improve results, where the budget could be trimmed and resources redeployed to better effect. For instance, our customer service operates 9 to 5, five days a week. Now, we know that the digital native is not constrained to a 9 to 5 environment. We need to be prepared to provide a whole new level of customer service, starting with uninterrupted 24/7 customer service operations and instant response. This is a whole new cost-center that did not previously exist. But changes in the marketplace are also creating opportunities to reduce costs in other areas of the business.

Anne Noble: Connecticut is quasi-public, so we're off state budget. For us, it's really all about ROI – return on investment. We're not always committed to the lowest cost provider or contract. It's about the overall value. Is the investment prudent and will it deliver more profits to our general funds?

Paul Jason: What if an ROI timeline for investing in social media initiatives, or other forward-looking investment options, is longer and less predictable than simply increasing the funding of current advertising and promotion? Does your business model, Anne, allow you to make that investment in an initiative that has a long-term payback, even if it impinges on short-term profits?

Anne Noble: Like Carole in New Jersey, I have a board that's committed to a strategic planning process. Even though we budget year to year, we plan over a five to ten year period, limited less by constraints on ROI timelines than simply having adequate data and information to help us predict the future with some measure of accuracy.

Paul Sternburg: We operate on a very tight budget. Our overhead is 1.92%. Our budget is allocated by the legislature with no retained revenues. Planning is a year-to-year process, with the annual budget being approved at the beginning of every fiscal year. So resources are definitely limited, and we do not have any guarantee as to what will be allocated in the coming years and so can't always accurately budget for the long-term. But we are accomplishing our goals, and we are the home of Jimmy O'Brien who created the formula for instant tickets in Massachusetts that has driven the success of that product throughout the country for the last 30 years. I hope you all get to meet him – Mr. O'Brien is here today to be honored with the PGRI Lottery Industry Lifetime Achievement Award this afternoon.

For all of the talk about social media and online play, I would still contend that one of the vital components of a long-term strategy for sustainable success is to support the network of land-based retailers who sell our products. We have more retailers per capita than anywhere in the country, about one retailer for every 800 people, and our staff is always working on helping them in any way we can. Our average retailer makes about \$37,000 a year from the sale of lottery. Lottery is their lifeline, not just for the revenue it generates, but for the foot traffic it creates at retail locations. So if we can get more customers to come in and buy lottery tickets, and to increase the average in-store spend on all items, lottery and beyond, then the retailer will be even more motivated to help us accomplish our sales goals. That's actually the cornerstone to both our short-term

business plan and our long-term strategy.

Jeff Anderson: A lot has been said about the discipline that has been put into managing and maximizing our instant ticket portfolios. Don't we need to do the same for the draw games? Over the last few years we've seen an expansion of the major multi-state draw games, first with cross-sell, then the \$2.00 Powerball, and with the regional multi-state games as well. Just as the Instants are managed for optimal overall performance and synergy, I think we need to apply more discipline into managing the draw games portfolio.

Anne Noble: I would agree. We have to look at the draw games as a portfolio. As well as Powerball has done this past year, in Connecticut the combined sales of Mega Millions and Powerball is flat year-over-year. And even in Powerball, our sales are still not up to the level we had in 2006. Sustained growth in the jackpot games is a huge challenge. And the fact that 44 lotteries, with different perspectives based on a diversity of market conditions and objectives, have to figure it out and agree on action plans together makes this even more challenging. I think we would all welcome thoughts on how to address this challenge of managing the portfolio of draw games for sustainable growth.

PGRI post-script: *The June issue of Harvard Business Review features numerous articles on the current thinking about "Strategy for Turbulent Times." I was struck by one of the articles which appears to me to be consonant with some of the thoughts of this panel discussion. The article posits that "In a world where a competitive advantage often evaporates in less than a year, companies can't afford to spend months at a time crafting a single long-term strategy." Of course, the life-cycles for lottery products and strategies are much longer than the products in most other industries, especially consumer products. But the thesis – that companies "need to constantly start new strategic initiatives, building and exploiting many transient competitive advantages all at once" – applies to our industry as well as those discussed in the HBR article. This thesis, as well as our esteemed panelists, also answers my first question regarding supposed trade-offs between short-term optimization of profit and long-term sustainability. That is, optimization of long-term potential is, to some degree, nothing more than taking full advantage of all the short-term opportunities. The caveat to enabling this to happen, and an ongoing theme emphasized throughout this and all recent HBR issues, is that "speed to market is paramount and must replace deliberations that are precise but slow." ♦*

Olympic and Paralympics Games 2012 wouldn't have been possible without the financial contribution from the National Lottery. The National Lottery contributed £2.2 billion to the Olympics, almost a fifth of the total spent on the Games. Almost all of the money for the infrastructure of the Olympic Park and venues across the UK came from the National Lottery, for which they contributed £1.1 billion. The lottery also gave £16.6 million towards the Cultural Olympiad, a celebration of British music, film, theatre, art and other cultural pursuits. Not only did this help make London a vibrant city during the Olympics, but it had a positive impact on communities throughout the country who participated in the celebrations and has had lasting effect even after the closing of the games.

In Latin America, the impact of the lottery is even more pronounced. Over the last ten years, \$50 billion has been generated by lotteries in the region for use in welfare projects. The lottery is now the primary means of funding education and social welfare programmes, vital to the wellbeing of our nations.

In Mexico, for example, the role of the lottery in supporting social welfare is reflected in the name of our oldest lottery: the Lotería Nacional para la Asistencia Pública – meaning the 'national lottery for public assistance'. Both the Lotería and Pronósticos Deportivos are mandated by the Mexican government to raise funds for public assistance through the sales of lottery products, with all profits delivered to the Ministry of Finance and Public Credit. The Ministry then distributes these funds to the state enterprises and public agencies that administer social programs. Given the size of our industry and its continued growth despite the international economic downturn (the Mexican lottery market is projected to grow to c.\$3 billion by 2016), the scope for fundraising through lotteries – and hence benefiting society – is huge.

This direct impact of the lottery on the lives of not simply the lucky individual winners, but communities and society more broadly helps to position the lottery as a mainstream cultural activity – and a leisure form to be enjoyed by all.

PUBLIC PERCEPTION INDICATES THAT THE LOTTERY IS A LEISURE ACTIVITY

The recognition of the lottery as a fundamental, and beneficial, part of society distinguishes it from gambling. Playing the lottery is a fun, accessible leisure activity that is enjoyed by a significant proportion of the population: over 40% of Latin American citizens play lottery games on a daily basis, and 70% of adults in the UK play on a regular basis. In fact, the UK National Lottery is such a popular institution that 95% of the population recognise the crossed fingers logo.

So why do so many people play the lottery? Unlike other gambling products, the lottery provides much more than simply an opportunity to reap reward: it is a source of entertainment to be shared with all.

The methods by which tickets are purchased render the lottery sociable and also socially acceptable. Lottery tickets can

“The National Lottery has become as much a part of our society as talking about the weather or going for a curry.” National Lottery Commission

be bought worldwide in most shops ranging from local corner shops to huge supermarkets, along with groceries and other convenience goods. These situations are not associated with other activities that can result in 'problem gambling': there is no alcohol involved in the act of buying a lottery ticket, impairing judgement. As a result, despite the greater accessibility of lottery tickets and the lower age (16 as opposed to 18) at which they can legally be bought, instances of addiction are significantly lower for the lottery than for other forms of gambling. According to the most recent British Gambling Prevalence Study, published in 2010, problem gambling was only apparent in 1% of lottery players – a fraction of the 13% of gambling addiction found amongst poker players.

The lottery is a game that doesn't require – and, indeed, can't be affected by – skill or stamina: everyone is equal. Children can share in the excitement of scratching off the foil to reveal potentially life-changing symbols underneath or eagerly awaiting the roll of the ball. The lottery easily lends itself to being played by groups entering as syndicates – often initiating or maintaining interactions that otherwise wouldn't be occasioned. By contrast, placing a bet or playing roulette requires a trip to the bookmakers or casino, or simply playing on the internet at home – neither method being conducive to community or family life.

Playing the lottery forms part of a normal daily routine, like buying a lottery ticket along with a pint of milk, and is an inclusive, mainstream leisure activity. In Mexico, for example, the lottery can be played not only by buying tickets from shops or a myriad of street vendors, but also at restaurants following Sor-teo's launch of the KENO game on Intralot terminals. The purchase of lottery products in such environments encourages una cultura abierta – an open culture. The Mexican lottery provokes further engagement in the local community compelling lottery players to visit the host of vendors to purchase a ticket – contributing to a more open and social culture enjoying a shared leisure activity.

GAMBLING OR LEISURE ACTIVITY?

The lottery plays a fundamental role in people's lives throughout the world. Whether it is enabling mass spectacles such as the Olympics or funding social welfare and education, it is a power for good within the whole community. Its role as a daily form of entertainment that permeates all levels of society globally – giving them the prospect of 'winning big' and allowing them to dream and share the excitement with their friends and family – positions the lottery as an inclusive leisure activity to be enjoyed by all. ♦

As originally published in the July, 2013 issue of Gambling Insider.

THE LOTTERY: GAMBLING OR LEISURE?

By Nour-Dean Anakar, CEO of Sorteo Games Inc.



PGRI Note: *Should lottery be thought of as a form of “gambling?” Or is the activity of playing the lottery something else, something other than gambling? The question is quite relevant, from both a public policy and a consumer marketing perspective. Lottery brings people together, and occupies a place in our lives that is so much more than, and different from, just another form of gambling. Nour-Dean Anakar makes a persuasive argument as to why, for many reasons, we should consider lotteries as a leisure activity.*

The lottery is entrenched within the culture of many countries across the world, but where does it sit: is it gambling or leisure?

The lottery provides a life-changing opportunity. Through the exchange of money for a ticket, you take a chance – or a gamble – to win a prize. However, playing the lottery is as much a mainstream activity as going to the cinema or the bowling alley – a form of entertainment that is shared with the family.

Having spent over 25 years working with companies such as Ladbrokes and CODERE across Europe, Latin America and the USA, before establishing Sorteo Games, I have experienced firsthand the true value that the lottery provides to families and communities. To them, it is a leisure activity – something to be enjoyed together.

I will make the case for the lottery as a leisure activity with reference to two excellent, but contrasting, lottery systems – those operating in Mexico and the UK.

THE LEGISLATIVE PICTURE

Legislatively, playing the lottery is distinct from ‘gambling’ – as demonstrated by the regulatory background in Mexico and the UK.

With the somewhat ambiguous nature of the Mexican gambling laws that legalized sports book betting and bingo halls, the lottery is considered by many regulators as the only legitimate ‘gambling’ option available to Mexicans. This distinction between the lottery and other forms of gambling is increasingly being emphasized by the law: for example, the Senate of the Republic of Mexico has recently proposed a new Federal Gaming Law that intends to regulate all gaming and betting services that are not part of the National Lottery as well as raffles and draws performed by charities, TV, internet and telephone. Legislation will also ban slots in stores and casino parlours, and would establish a strict control on all electronic gaming and remote betting that is not part of the National Lottery.

If approved, the initiative will replace the current Federal Games and Draws Law from 1947, and will sanction illegal gaming operations with up to nine years of prison and 1,000 days of minimum salary. Public officers who boost or help in the operation of those illegal places will also be prosecuted. The lottery, however, will remain untouched – demonstrating how it has been separated from the gambling sector in Mexico.

By contrast, in the UK, the lottery has always, legislatively,

sat alongside gambling activities, including betting shops and casinos. Small lotteries were first legalised alongside betting by the Betting and Lotteries Act 1934, updated by the Betting, Gaming and Lotteries Act 1963, and subsequently the Lotteries and Amusements Act 1976.

The Gambling Act 2005 established the Gambling Commission, the regulator for all gambling in Great Britain. However, the National Lottery, the primary lottery in the UK, was exempt from this Act and remains governed by the National Lottery Commission. Furthermore, for society and local authority lotteries, the Gambling Act 2005 enacted a general relaxation of lottery law, such as allowing rollovers of the prize fund from one lottery to another, the sale of tickets by an automated process, and removing the maximum price for a lottery ticket. Such liberalisation is indicative of the recognition by the Gambling Commission that playing the lottery is a safe pastime.

A draft Bill that would merge the Gambling Commission and the National Lottery Commission is currently being scrutinised by the House of Commons’ Culture, Media and Sport Committee. There is little uncertainty that this Bill will become law; the National Lottery Commission has already relocated from central London to the Gambling Commission’s office in Birmingham. However, this merger is perhaps more based on administrative streamlining as the lottery continues to be perceived as a separate from the other activities that are regulated by the Gambling Commission.

This demarcation between the lottery and gambling by authorities in the UK and Mexico reaches beyond the regulation of the game to its proceeds.

LOTTERY PROCEEDS PROVIDE SOCIETAL BENEFITS

Across the globe, the lottery represents a significant source of finance for public projects within sectors such as health, sports and education. For example, 28 pence out of every pound raised by the UK National Lottery is dedicated to the aforementioned sectors. So far, over 390,000 projects – large and small – have benefited from lottery funding, with the National Lottery Commission’s latest annual report and accounts showing that 2011/2012 was the best year since the launch of the Lottery for raising money for good causes.

In fact, the UK’s success as hosts of, and participants at, the

...continued on page 41



PARTNERSHIP

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ASSIST
SHARE
ADVICE
SUPPORT
COOPERATE
COLLABORATE

RETAILER EXECUTIVE SUMMIT MEETING

For all the talk about "new media," it still all happens at *Retail*. That's where the goal of maximizing short-term sales converges with the goal of building a model for sustainable long-term growth. Retailing executives from the commercial community are coming to Lottery Expo to help us forge a fully symbiotic, mutually rewarding relationship.

Lottery and land-based Retail is truly a match made in heaven. It's so vital that we all work together to make the very most out of this relationship. We need to understand the concerns and expectations of our retail partners. We need to understand future trends and how Retail is reinventing itself to be the channel of choice for many generations of consumers to come. We may be the experts in Lottery. But they are the experts in their business: *Retailing*. *Let's listen to our customers and unlock the tremendous potential that a genuinely collaborative relationship ensures.*

The other big theme of **Lottery Expo 2013**: *Evolving a strategic approach towards managing the expansion of the portfolio of multi-state games.*

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Please visit www.PublicGaming.org for complete details and registration information. Or e-mail Paul Jason at pjason@publicgaming.com. Or call PGRI at 425.449.3000

There is no charge for lottery operator executives to attend. Retailing and sales executives are especially encouraged to be a part of the Retailer Executive Summit Meeting.

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