

Following is an edited transcript of the panel discussion held at PGRI Lottery Expo NYC on October 30, 2019 in New York. You can view a video of the complete panel discussion at PGRItalks.com.



GLOBALIZATION OF LOTTERY: Protecting the brands, channeling the consumer demand towards legal operators, and combating illegal iLottery

Moderator: May Scheve Reardon, Executive Director, Missouri Lottery and Member of the WLA Illegal Lotteries and Betting Committee

Gary Grief, Executive Director, Texas Lottery

Bret Toyne, Executive Director, Multi-State Lottery Association (MUSL)

Gordon Medenica, Director, Maryland Lottery, Lead Director of Mega Millions Consortium

Barry Pack, Executive Director, Oregon Lottery

The WLA convened the Illegal Lotteries and Betting Committee to address this issue. The purpose of this panel discussion is to hear some of the different opinions on how best to address the problem of illegal iLottery, and to explore the options for expanding the legal distribution of Powerball and other lottery products, outside of the United States.

May Scheve Reardon: This discussion has a few different moving parts. First,

PGRI Introduction: A problem has arisen in recent years with the advent of “synthetic” lotteries and operators who buy lottery tickets and re-sell them into markets without proper authorization – giving rise to some questions. How should the global demand for lottery products be met? What should the community of government-authorized lotteries do to protect the value of its brands, combat the illegal sale of lottery products, and channel the economic benefit of international sales back to their stakeholders?

the lotteries which own the Powerball brand would like to explore options for increasing sales. One option is to expand distribution into markets outside of the United States. The international demand for Powerball is presently being met by commercial operators. We will talk about some of the pros and cons to the different methods of making Powerball available in international markets. A different but related part of this picture is the way the

Powerball brand has been misappropriated by “synthetic” lotteries which basically sell a bet on the outcome of the lottery draw. The player experience is quite similar to playing Powerball. In fact, consumers may even think they are playing Powerball when they are actually placing their order, technically a bet on the outcome of the Powerball draw, with a commercial company.

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As you might imagine, there are different opinions on this topic. One point of view is that the toothpaste is already out of the tube. Powerball is already being made available through numerous channels and so the best way to get control of the international market-place and channel funds back to good causes is to make sure we are a part of the supply-chain. Another point of view is that, first and foremost, we need to do everything we can to make sure Powerball is not being sold in violation of any jurisdictional rules and regulations, including the international markets where Powerball is being sold without proper authorization from the jurisdictions where the players reside. There is also a concern that the brand might be devalued in the U.S. if or when consumers in foreign markets start to win big jackpots. There is no perfect agreement over how to best reconcile this set of objectives and concerns. Let’s see if we can’t sort these issues out and let’s start with Gary.

Gary Grief: I have very strong views on this and I’m in the camp that says that the genie is out of bottle. When I hear talk about how we need to adhere to a certain set of core values and never allow our product to be sold internationally because our players just won’t stand for it, I just harken back to old companies that failed to evolve with the times. I wonder

if Mr. Sears and Mr. Roebuck didn’t have these same conversations back in the 1970’s, arguing about whether they adjust their retailing strategies to compete with newcomers who were disrupting their industry. Or IBM and Digital Equipment Corporation in the 80’s. Or Blockbuster and Kodak in the 90’s. We can see that resistance to market-driven trends simply does not produce the desired results. I believe we need to stay open-minded and get creative and find a way to leverage the international demand for Powerball to drive sales for the benefit of good causes. There is a whole host of companies that are selling not just Powerball and Mega Millions but other branded products like Lotto Texas and NY Lotto and EuroMillions and countless others. And the number of these operators is growing because they are making money. I believe that the best way, perhaps the only way, to combat the illegal lotteries and protect the integrity of our brands is to find a way to sell internationally with the blessing of the international community.

I would like to add that I respect the fact that lottery directors are accountable to their in-state constituents who may have different agendas. The laws and political priorities vary from state to state – there are many factors that go into determining whether or how we should expand the sale of Powerball into international markets.

M. Scheve Reardon: So how do we forge a consensus or at least a quorum to decide how to proceed?

G. Grief: I feel better about our prospects now because just this week we had discussions about this topic in both our MUSL meeting and our WLA International Workgroup meeting, and I think we made significant progress. We have an outstanding new chair of our MUSL game development committee in Drew Svitko. I think between Drew’s leadership from the MUSL perspective and Rebecca’s leadership from the WLA International Workgroup perspective - positive things will come out of these discussions and begin to happen.

M. Scheve Reardon: Barry – What are your thoughts?

Barry Pack: I have been 100% transparent about our activities in Oregon to sell Powerball to players internationally. I think that the community of U.S. lottery directors needs to come to terms with the fact that we exist in a global marketplace, that players are not just residents of our states or even our country but that the demand for our product is global. The Powerball brand is valued throughout the world for its reputation for integrity and for the big jackpots it generates. People everywhere are now used to purchasing things where they want, when they want, and how they want. If we can accept that fundamental market-driven truism, then I think the question becomes how do we as a group address the underlying concerns that prevent us from being the ones to control, or at least participate in, the global distribution of Powerball. I think we need to work towards building a brand messaging, marketing, and distributional strategy that we can all come together and support. I think that MUSL and the Powerball Game Group need to define what the Powerball brand is, what we stand for, and what our objectives for the product are. And we need to be the ones to decide how the global demand for Powerball should be met.

The global demand for Powerball is not going away. The disrupters in the marketplace will continue to find new ways to make the product available everywhere in the world. So I think it is incumbent upon us to be very frank and open and honest and transparent with each other about what are the concerns or objections to selling internationally and how do we address those concerns. And, like Gary, I submit that we need to talk about the options in a constructive manner which does not include using inflammatory words like “illegal” and “criminality” and “aiding and abetting.” As our Oregon Lottery motto says, “Together we do good things.”

Gordon Medenica: On a serious note I do want to thank Barry for the transparency

that he has had throughout and that has enabled all of us to learn a lot more about the global demand for Powerball and the ways it is being distributed now. I want to start with the observation that the real threat is not so much the re-sellers as the synthetic virtual “bet-on-the-outcome-of-the-lottery-draw” model. Unlike the re-sellers who at least buy the tickets from an authorized retailer so at least one Lottery benefits from the sale, the synthetic lottery is not even buying our tickets and so are denying the economic benefit that should accrue to the owners of the brand and their beneficiaries. As the synthetic lotteries acquire more and more customers, what is to stop them from developing their own branded lottery products to compete with our products. We turn over 25% to good causes while they employ more aggressive promotional strategies to build their customer base and channel the economic benefit to private shareholders. Their methods have severely disrupted the markets of Europe, Australia, and Canada. We want to make sure we do not do anything to weaken the regulatory barriers that have thus far prevented them from penetrating the U.S. market-place. We should not take our monopoly status for granted as it is only as relevant as the regulatory frameworks that protect us.

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Mega Millions Consortium feels that the potential benefits of international sales are far outweighed by the likely downsides that come with internationalizing the sale of lottery products. We are concerned about the impact on the perception of value in the U.S. when the players feel like they are competing with hundreds of millions of consumers spread across the entire planet. But the real concern is that if we think we can sell into other markets, what makes us so confident that they won't figure out how to sell into our market? Right now, U.S. lotteries enjoy an effective monopoly in the richest consumer market

in the world. Is it worth jeopardizing that status for whatever benefits you think might be gained by marketing outside the U.S.? The monopoly status of lottery products is being threatened almost everywhere else in the world. We are confident in the efficacy of our regulatory structures and enforcement mechanisms in the U.S. I am just concerned that we not be over-confident that actions on our part combined with well-funded lobbying efforts on the part of adversaries in the commercial operator sector combined with a rather immutable global trend towards less regulation and more free-market competition – that these factors might represent a threat to our monopoly status in the U.S.

I do want to thank Barry for respecting the wishes of the Mega Millions Consortium to terminate the sale of Mega Millions to international re-sellers. He has always been transparent and quick to align with the Mega Millions agenda and our desire to prevent, or at least minimize, international sales of Mega Millions. I also want to thank MUSL for including us in its International Working Group. I do think we all want the same things – increased sales and funding for good causes while building a sustainable business model that serves our

stakeholders for many years to come. We may just have different views on how to get there.

M. Scheve Reardon: Bret has so many bosses with differing opinions, it's hard to imagine how he walks the fine line of making sure everyone signs on to anything and don't shoot the messenger. What are your thoughts, Bret?

Bret Toyne: I should preface that these are just my opinions and I am not speaking on behalf of the MUSL Board or the International Working Group. As Gary and others have pointed out, I do

think we are making good progress. I think it is about developing consensus by finding a middle road through thoughtful data-driven decision making. It is about clarifying the elements of a business case, putting that in front of the committee members and being transparent with all of our stakeholders. I think that is what we are doing and I think we are working towards a good solution.

M. Scheve Reardon: What if we created a different game that would satisfy the international demand but actually not compete directly with Powerball? Maybe make it be a \$5 Powerball and call it World Powerball or GlobalBall. We sell that game outside the U.S., and continue to restrict the sale of Powerball within the U.S. Would that make sense, Gary?

G. Grief: I would submit there is a more pressing sense of urgency that precludes that as an option. A new \$5 game international game takes years to develop. Develop the game, find the countries that are willing to be a part of something new that doesn't have instant brand credibility, then work out the terms and conditions with all the different jurisdictions around the world, then install all the mechanics for marketing, advertising, promotion, POS's, distribution, etc. And all that to be done without the benefit of a predictable revenue stream. Who knows how long it will take to engage millions of people to play this new game and drive the jackpots up to the levels that Powerball delivers quickly and predictably.

Gordon just made a powerful presentation that illustrates the urgent need to reignite sales of Powerball and Mega Millions. These flagship brands are losing momentum and are in need of the major jump-start that internationalizing the sales would deliver. That's why my focus has been 100% for rapid expansion of Powerball into the international market-place.

M. Scheve Reardon: Bret, how long have you been working on this project?

B. Toyne: We brought this idea to the attention of the MUSL board almost three years ago. That is when we began to explore the options, conduct research and look at the data with these new possibilities in mind. As you can tell by the discussion we are having right now, it is a somewhat complicated picture with lots of moving parts. There is the need to increase the sales of Powerball, the need to protect our brand-marks, the

need to channel economic benefit away from unauthorized operators and over to the operators which support good causes. We also need to respect the rules and regulations of other jurisdictions. And we must be mindful of the potential to diminish the brand value in the U.S. if winners start popping up in other parts of the world.

M. Scheve Reardon: I asked Bret to serve on the WLA Illegal Lottery and Gaming Committee. It will be so good to have all of us working together to reconcile these different priorities. Gordon, you were talking about what happens when people in other countries win. When I travel our own state of Missouri, I often hear complaints from people in rural towns that Powerball is always won by residents of the big city of St. Louis. When I am in St. Louis, I hear complaints that winners always hale from rural parts of the state. I can't imagine what they would say if the winner resided in Dubai or Sydney or Moscow.

G. Medenica: I think this falls into the category of a known unknown. Some of us just need to respectfully agree to disagree about the impacts that foreign winners will have on the U.S. consumers' perception of value. The perspective of the Mega Millions consortium is that the prospect of winners from foreign countries diminishing the perception of value for U.S. players represents a real and unacceptable risk to the brand equity so we want to do what we can to minimize the sales of Mega Millions outside the U.S. And we definitely do not want to facilitate and encourage re-selling of Mega Millions outside of the U.S.

The potential for negative consequence of a big jackpot winner in a foreign country is real. But we don't know what the effect will be. That's why Mega is supportive of the different Powerball initiatives. I think it's one of the great things about having two groups running the two games – you're allowed to have differences of opinion and experiment with different hypotheses and we will all learn from it.

G. Grief: More and more states, including Texas, are allowing top prize winners to remain anonymous so we do not know who is winning anyway. And this strikes me as the same types of conversations we had when we moved to cross-sell Powerball and Mega-Millions. The vote won by the narrowest of margins because many directors protested that making Powerball available in the bigger Mega

Millions states would result in too many winners from the more populous states and the players in their own states would not like that. Of course, Texans don't like it when New Yorkers win Powerball. But does that impact how much money they spend to play Powerball? I don't believe it does. Did that prevent us from approving cross-sell? Thankfully it didn't.

B. Toyne: We have crossed this bridge a number of times. Powerball started over twenty-five years ago with fifteen member states. There are now forty-eight jurisdictions offering Powerball and every time population was added, there was a logical concern about it reducing the odds of the winners coming from your jurisdiction. Mega Millions and EuroMillions have evolved in the same way – adding markets which increase the population and player-base. This issue has been tested many times and it continues to be a worldwide success story for multi-jurisdictional games. Of course, there is the potential for any change to cause some players to react negatively. I'm sure some people stopped playing when Powerball went to \$2. But sales increased then just as they increased with cross-sell – so the aggregate effect would appear to be positive.

We do want to make sure we have a great product for all player styles and preferences. We certainly want to always have a big multi-jurisdictional jackpot game for players who want the market restricted to only be in the U.S. Some players even prefer to play an in-state game. We need to have our portfolio be robust enough to respond to a wide variety of player demands.

M. Scheve Reardon: What would you like to see happen as our organization moves forward to deal with this issue, Bret?

B. Toyne: I think in a perfect world, the game portfolio should include some games that are made available to a global audience. Maybe the obstacles or the collateral consequences will make that impossible. But I believe we should try to overcome them and expand into international markets. Perhaps it's Powerball that could be a start. I think globalizing the sale of Powerball does two things. It could revitalize and add some excitement to the game here in the U.S. And it could provide a boost to the MUSL membership if we offer the game in the UK and other jurisdictions. The revenues would increase their

contribution to their own good causes as well as ours. It allows the UK National Lottery and Camelot to be competitive with gray-market courier services, synthetic lotteries, and "society lotteries" like the Health Lottery. MUSL working with the UK National Lottery and Camelot strengthens our ability to protect our brands from third parties that don't contribute to good causes either in the UK or here in the U.S.

M. Scheve Reardon: I know I speak for all MUSL members when I thank you and the entire MUSL staff, Bret, for all that you do support us and manage these games. Gary, what about you?

G. Grief: I'll give two scenarios. One would be my personal vision which will probably never be achieved. That would be to forge partnerships with resellers like Jackpocket, TheLotter, Lottery.com. We could do that today and be selling Powerball internationally within 60 days. Have them subject to rule 2 and all of the terms and conditions required of current MUSL member state lotteries. We brought that idea up two or three years ago, but it was met with a resounding thud. Now that I am a part of the International Working Group, I fully support the approach being taken to try to forge a partnership with a very well-known, highly respected and reliable international partner which has a substantial population base that we can add to Powerball. With Camelot UK, we could prove the concept works, prove that we can overcome obstacles like time zone and currency differences. Once we prove it works without negative consequences, others will want to work with us as well. I'm hopeful that our colleagues on the MUSL Board will have an open mind and understand the urgency of what we need to do. Drew Svitko talked about the levers that we can pull if we want to have a substantial impact – we can change the frequency of draws, we can change the matrix, we can change the price point of the game, but the most important thing we can do and the one we did with cross-sell is to increase the playing population. And that's what the international expansion does for us and why I'm optimistic we can get there.

M. Scheve Reardon: Gentlemen, I appreciate your sharing your insights and serving on the panel today! I do think we contributed to a better understanding of the issues, the opportunities, risks, and trade-offs. ■