

# FEATURE INTERVIEWS



MAY SCHEVE REARDON



PAULA OTTO

## PANEL DISCUSSIONS

**States vs. Federal Government:  
Who Determines  
Regulatory Policy  
in the U.S.?**

**On Governance of  
the Multi-State Games  
and the Challenge  
to Meet and Exceed  
Rising Consumer  
Expectations**

**Connie Laverty  
O'Connor  
Recipient of the  
Rebecca Hargrove  
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PGRI 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](mailto:pjason@PublicGaming.com) or call U.S. + 425.449.3000.

Thank you!

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## FEATURE INTERVIEWS AND EDITORIALS

- 6 Paul Jason:** From the Publisher
- 8 Why National Consumer Brands Need to be Supported by National Marketing, Brand-Messaging, and Distribution**  
 An interview with May Scheve Reardon, Executive Director, Missouri Lottery
- 14 How Coordination of Strategy and Execution of the MONOPOLY Millionaires' Club™ and the other Multi-State Lottery Games is Positioning U.S. Lotteries for Long-Term Sustainable Growth**  
 An interview with Paula Otto, Executive Director, Virginia Lottery
- 20 Panel Discussion: On governance of the multi-state games and the challenge to meet and exceed rising consumer expectations**  
 Rebecca Hargrove, Chief Executive Officer, Tennessee Education Lottery Corporation and Senior Vice President of the World Lottery Association (WLA) (moderator)  
 Gary Grief, Executive Director, Texas Lottery, President of the North American Association of State & Provincial Lotteries (NASPL)  
 Carole Hedinger, Executive Director, New Jersey Lottery  
 Stephen Martino, Director, Maryland Lottery and Gaming Control Agency  
 Charles McIntyre, Executive Director, New Hampshire Lottery  
 Connie Lavery O'Connor, Senior Vice President and Chief Customer Officer, GTECH
- 28 Online Gambling and State Lotteries Should Be Left Up to the States and Not Congress**  
 Jeff Anderson, Executive Director, Idaho Lottery  
 Stephen Martino, Executive Director, Maryland Lottery and Gaming Control Agency  
 Charles McIntyre, Executive Director, New Hampshire Lottery
- 30 Panel Discussion: States vs. federal government—who determines regulatory policy in the U.S.?**  
 Scott Bowen, Commissioner, Michigan Lottery (moderator)  
 Scott Gunn, Senior Vice President, Global Government Relations, GTECH  
 Mark Hichar, Partner, Chair of Gaming Law Practice Group, Hinckley, Allen Law Firm  
 Kevin Mullally, Vice-President of Government Relations & General Counsel, Gaming Laboratories International (GLI)  
 Lynne Roiter, Secretary General, Vice President Legal Group, Loto-Quebec, and General Secretary of the World Lottery Association (WLA)  
 Philip Smith, Director of Legal Services, Missouri Lottery  
 Philippe Vlaeminck, Partner, Altius Law Firm, Legal Counsel to the European Lotteries
- 36 GTECH and IGT: Two global leaders combine to define the future of gaming entertainment and deliver a customer-first experience to government lotteries**  
 An interview with Jaymin Patel, President & Chief Executive Officer, GTECH Americas
- 40 How the Government Lottery Industry Is Applying Its Brain-Power to Take Maximum Advantage of Forward-Looking Macro-Economic and Business Trends**  
 An interview with Jim Kennedy, Executive Vice President, Group Chief Executive of Lottery, Scientific Games Corporation
- 44 U.S. Lotteries Connecting the On-line World of Internet, Mobile, and Wireless Communications to the Off-line World of Land-Based Retail**  
 An interview with Tom Little, President and Chief Executive Officer, INTRALOT USA
- 46 Australia to Germany, a JUMBO Size Step: Jumbo Interactive now selling for all 16 German lotteries—a population of 80 million people**
- 48 A Federal Law Restricting Internet Gambling Could Lead to Unintended and Devastating Consequences for State Lotteries**  
 Mark Hichar, Hinckley Allen and Snyder
- 50 Standing Still Is Not an Option: Growing retail sales in a mature lottery**  
 GTECH's comprehensive retail optimization program to boost the sales and revenue of even high-performing lotteries
- 53 Pulse of the Industry News**
- 60 Connie Lavery O'Connor, Senior Vice President and Chief Customer Officer, GTECH**  
 Recipient of the Rebecca Hargrove Award for Mentorship
- 61 Government Gaming Enters an Era of Innovation and Growth**  
 Tom Jurkovich, Vice President for Corporate Affairs, Tennessee Education Lottery
- 62 Corporate Profiles: The lottery industry drivers of innovation and progress**
- 69 Pioneering a New Lottery Space: Shoutz's progress to mobile**
- 70 Playbook for Launching an i-Lottery Website**  
 Pall Palsson, Executive Product Manager, Betware
- 73 Is it Time for Lotteries to Face the Zero Moment of Truth?**  
 NeoPollard Interactive Helps Lotteries Compete for Consumer Mind-Share at the ZMOT.
- 74 MONOPOLY Millionaires' Club™: The biggest new game launch in the history of U.S. lotteries**

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# From the Publisher

By Paul Jason, Publisher, Public Gaming International Magazine

## U.S. Lotteries find ways to say “YES” to technological progress

What drives companies to push for innovation and change? It might seem like it's the consumer who drives change. But is that true? In answer to the question as to why he does not conduct consumer focus-groups to try to discern what the consumer wants, Steve Jobs famously remarked that consumers do not know what they want. The consumer did not know that they wanted a graphical user interface (GUI), or many of the attributes of the i-products. Neither the consumer nor the pioneers at Netscape and AOL realized that e-mail would turn out to be the “killer-app” that would propel the internet into the transformational technology of the last three generations. And no consumer would have said “yes” to Ted Turner’s vision for a 24-hour news channel or a library of old movies (in fact, the entire TV and media industry thought he was a fool).

Those three examples have something in common. They were enterprises which had little to lose by disrupting the status quo. Recall that Nokia ruled the smart-phone roost in the early 2000's. Apple was struggling and without a viable growth strategy when it created the i-products and the i-phone. AOL and Netscape were start-ups which had nothing else to do but dive into their mission and hope for the best. Ted Turner was, well, let's just say Mr. Turner is iconoclastic and was not beholden to the conventional risk-assessment models of the day. Why didn't Microsoft invent the internet, or Xerox capitalize on its ownership (or at least first rights to) the GUI, or Nokia be the one to transform the smart-phone industry, or CBS introduce cable television? I would submit there was little compelling reason for any of these established companies to reshape consumer expectations. They were already highly invested in the existent state of consumer behavior which was already buying billions of dollars of their products. And this is not a new phenomenon, something emanating from the age of the internet. Consider *power steering* in the automobile. It was invented in 1876. General Motors developed the technology to be commercially viable in the early 1930's. But it was Chrysler which introduced power steering to the mass-market, and they did not do that until 1951 (so long after its invention that the patents had expired)! Of course, as soon as Chrysler put *power steering* in automobiles, General Motors followed the very next year, installing power steering.

It does not have to be that way. General Electric's Jack Welch was one of the first to try to break out of that Big-Company-Stasis syndrome. GE was formed in 1892 and was one of the original stocks to be listed on the Dow Jones Industrial Average. It does not get much more old-school establishment than GE, operating successfully if conservatively for almost a century before Welch was appointed CEO in 1981. He transformed business strategic management by inventing new risk-assessment models and applying entrepreneurial principles to a multi-billion dollar enterprise with fully established markets. He showed the world that a big company can act entrepreneurially, that it is better to “change before you have to”, that it is better to obsolete your own products before someone else does it for you. GE grew by 4,000% over the twenty-year period of his tenure to become the most valuable company in the world in the early 2000's (and still in the top ten most valuable companies).

The U.S. lottery business is becoming the GE of the modern era, driving new products and innovation while preserving the value of its \$70+ billion business. The vision, creativity and flat-out intelligence that went into *MONOPOLY Millionaires' Club™* is awe-inspiring. Consider the collaborative effort to bring multiple lotteries together to conceive, nurture, and then implement this complex project. Consider the complexity of integrating this into the existing portfolio of games. Consider the zero-tolerance for jeopardizing the brands and the revenue streams so vital to the support of good causes.

But it's more than that. When it comes to real-world business decision-making, the top priority is to protect that \$70 billion revenue stream and the brand equity associated with it, right? That is a pillar of risk-assessment that is not unique to Lottery, and rightly so. In fact, Lotteries are clearly managing risk while driving growth much more adeptly than its counterparts in other industry sectors. Accomplishing the balancing act of driving growth and innovation while preserving the foundations of success that took decades to build is key, and Team Lottery is demonstrating to everyone just how that is done.

Haven't we all been thinking that the government-gaming sector is conservative, risk-averse, even slow to change and adapt? This self-image may be betrayed by this new reality. I'm reminded of the title of Andy Grove's (the genius CEO of Intel who led it from start-up to be the most valuable company on earth) *Only the Paranoid Survive*. Maybe, ironically, it is our keen sense that there is so much more we can do that is driving the government-gaming sector to be thrust into this leadership position?

A no-nonsense index for the measure of business acumen is the financial community, the ultimate arbiters of resource allocation. And it's placing its bets on the government-gaming sector and its commercial partners! The acquisitions of IGT by GTECH; and Bally and WMS by Scientific Games are momentous, with huge implications for the entire games-of-chance industry. This would have been inconceivable just four or five years ago. The allocation of financial resources is coalescing around the two largest suppliers to operators of government-gaming. This is, I would submit, reflective of the leadership role that the government-gaming sector is taking in the broader games-of-chance industry. Leadership as relates to consumer and player trends, leadership in terms of business model that aligns with public policy objectives, and leadership in terms of drive to innovate and evolve with the consumer and distribution partners.

Thank you to our interviewees and editorial contributors for sharing your vision and ideas for how this industry will continue to exceed the expectations of the modern consumer and stakeholders of Lottery. Government-gaming operators are innovating in ways that are resetting consumer expectations, causing the entire industry to adapt to a new normal. In partnership with its vendors, they are carving out a leadership role that will benefit consumers, stakeholders, and most importantly, the good causes supported by the long-term success of government-gaming.

See you at Lottery Expo Miami, and then at NASPL Atlantic City, and then at the World Lottery Summit in Rome! ♦



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## May Scheve Reardon

Executive Director, Missouri Lottery

**PGRI Introduction:** Powerball and Mega Millions have both been massively successful brands. Still, lotteries are applying all their energies to make them even more successful, and now are adding to the mix with Monopoly Millionaires' Club. Right now, the mission of implementing the most exciting new game launch in the history of U.S. lotteries is somewhat all-consuming. Thinking that this is a good time to begin the dialogue on building a plan for long-term sustainable growth for all of the multi-state games, I asked May Scheve Reardon if she could share her thoughts on cross-jurisdictional marketing and distribution.

Creating consistency for nation-wide branding and marketing is a challenge when there are forty-five different lotteries whose mission is to serve their own in-state stakeholders. Developing and executing cross-jurisdictional initiatives will always be challenged by the fact of different state statutes, different business and public policy agendas, and different business processes. State lotteries and their commercial partners have done an amazing job at identifying the elements that should remain the province of each state, focusing on those areas where cross-jurisdictional standardization is do-able, and capitalizing on the tremendous benefits to building on those areas of commonality.



**Paul Jason, Public Gaming:** *When cross-selling began in 2010, Powerball and Mega Millions were managed by two different groups of lotteries. And not all lotteries signed on to both games right away. Going forward, now that all U.S. lotteries sell both Powerball and Mega Millions, what is the purpose of having two separate management groups to manage the two games? Wouldn't the ability of lotteries to work collaboratively and create consensus be significantly enhanced if there was one management group to manage both games?*

**May Scheve Reardon:** Powerball, Mega Millions, and the new Monopoly Millionaires' Club game are national brands that can benefit greatly from having one central body that oversees all aspects of these games. One governing body could provide more cohesive guidance and address the issues relating to operational efficiencies, risk management, brand awareness, and all the elements that go into the business of building these brands. The end result would be much better coordination of nation-wide initiatives that would generate increases in sales for each individual lottery.

It should be noted that there are forty-five different state lotteries with forty-five different sets of statutes, rules, constraints, political cultures, and business agendas. Having one governing body does not change the fact that it is very difficult for anything we do on a multi-state level to align with the objectives of all forty-five lotteries. That problem will never go away. I still think that having one governing body would serve as a better foundation for working together to find the solutions that will free up the tremendous ca-





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capacity for growth in the multi-state game category. It would enable us to think about the multi-state games as an integrated product category, and not as three isolated products.

Of course, the Powerball and Mega Millions Consortium do work well together already. We meet and try to coordinate plans to maximize the overall aggregate performance of both games. But, the process of the two groups meeting separately to work on their own game and then all of us getting together to coordinate our plans restricts our ability to build momentum for a long-term strategy to build the category. Working together as one single governing body, so that all decisions regarding both games are made as a single group with the focused goal of maximizing overall sales for the entire category of national games, would just be a more productive for of governance.

*Strategies to build the product category would seem to mean managing the national brands for maximum synergy and overall results. Is that a big part of the dialogue now?*

**M. Scheve Reardon:** We all agree that the business needs to be managed with the objective of creating maximum overall results and that would mean applying a category-management approach that focuses on synergy between the brands. We think that the Monopoly Millionaires' Club is differentiated quite effectively from Powerball and Mega Millions already, so we aren't obsessing over the broader concept of category management right now. Our energies and resources are all focused on effective implementation of Monopoly Millionaires' Club. But I am sure that the principles of category management will be applied as we develop the next National Premium Game (NPG), and even as we evolve the management of the three current national games. When a fourth game is added, we will almost certainly need to manage the portfolio of national games strategically, for optimal synergies and overall results.

*It's taking larger and larger jackpots to capture media and consumer attention in the national games. Is "jackpot fatigue" reaching a high-water mark where it will become difficult to meet consumer expectations? And, is Monopoly Millionaires' Club the antidote?*

**M. Scheve Reardon:** Jackpot fatigue syndrome has been a challenge for many years, even decades. The fact that it is a challenge

does not seem to diminish sales and consumer excitement for the game. Sales keep going up for Mega Millions and Powerball.

Instead of being an "antidote" to jackpot fatigue, Monopoly Millionaires' Club will provide a new gaming experience that will draw in new consumer groups. We expect sales of Powerball and Mega Millions to continue their growth and success. When we were figuring out the concept for a new national game, we took into consideration that we had two very successful national jackpot games. Our objective was to create a new game that would appeal to play styles and buyer motives that did not overlap the two successful jackpot games. The primary objective for this new game is to expand the market, to bring in new consumer groups. Since the jackpot-driven play-style is already being met quite handily by PB and Mega, we decided to create a new design that would share the wealth, create a "shower of millionaires" instead of one ginormous winner. Monopoly Millionaires' Club is an entirely different concept from PB and Mega and we expect it to appeal to entirely different consumer groups. You know, players have always said that they wished there would be lots of smaller jackpot winners instead of giving all the money to one winner. The truth is that the PB and Mega players may say that, but they buy way more tickets when the jackpot gets big. We don't expect them to change that buying pattern. And that's fine because that's the buyer motive that drives the tremendous sales of PB and Mega. We just think that there are in fact a lot of consumer groups who really will be motivated by the prospect of having a higher likelihood of winning a million dollars, or \$15 million or \$25 million.

And since we started this game from scratch, we could integrate into it a whole constellation of promotional drivers that are not a part of the other games. The Lottery TV Game Show is the obvious biggie in that department. But there is a whole multi-media campaign that includes website and Mobile-based promotional initiatives and a large variety of creative concepts to engage consumer interest. Monopoly Millionaires' Club is truly a game-playing experience as opposed to just buying a ticket with the singular purpose of winning a huge jackpot.

So, it's not our goal to convince people to switch from the jackpot-driven games. It's our goal to expand the market by appealing to new consumer groups and play-styles.

The Monopoly Millionaires' Club does

do a lot to nationalize the whole playing experience, to build a truly national consumer brand. The Lottery TV Game Show will create that sense of being a part of something really big, something national with tens of millions of people involved. And that's exciting. But even the TV Game Show will include representative winners from each and every state lottery. That is built into the game. One of the benefits of Monopoly Millionaires' Club is that there will be that many more winners from our state of Missouri. The "shower of millionaires" means that we will all be able to celebrate more winners that come from our own state. And each and every U.S. lottery enjoys that same benefit.

*There is an economy of scale for the production of the TV Game Show that couldn't really be accomplished on an individual state basis. Are there economies of scale being derived on the other components of the advertising and promotions package?*

**M. Scheve Reardon:** Definitely. Economies of scale enable us to pay for the best creative, the highest production values, the smartest and most effective promotional strategies. That is what you will see with Monopoly Millionaires' Club. Achieving these economies of scale is one of the key rationales for working together to build nationwide brands. The Lottery TV Game Show is something that could only be done with scale, with multiple states joining together to share the cost. And it's not just about production costs. The whole media buy as measured by cost per impression, or cost per viewer, comes down dramatically when you wrap it around a bigger market instead of local markets. A national phone app and website with links to the states is another important element all states should embrace, as their statutes allow, to help promote the national brands with today's omni-channel consumers.

*But what about the aspect in which state lotteries like to brand the uniqueness of their own state, their own cultural heritage?*

**M. Scheve Reardon:** That's a good question because the reality is that our mission is to deliver results for our in-state constituents. And we all have strong convictions about how to do that. When I came on as director of the Missouri Lottery in 2009, our team agreed that the brand was outdated, very 80's with a digital look and feel that may have been cutting edge then but needed to be modernized to appeal to the more emotional and lively



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spirit of our times. We changed that and gave it a sweeping look with lots of confetti and vibrant colors. We feel very good about that. We knew it needed to be done, that it would be successful, and we take personal pride for having done it. This was our team effort, our own advertising firm, our own marketing people, and we did it together for our own business - the Missouri Lottery. The time and energy we put into it created a result that is unique to the Missouri Lottery. Not to be philosophical, but we value that uniqueness and the sense that there is a soul to the Missouri Lottery that is in fact not interchangeable with all the other lotteries. There is a big part of us that does not want to be subsumed into a national brand.

Gary Gonder, the Lottery's chief branding officer, focuses on strengthening, extending, and enhancing the Missouri Lottery brand. He and our advertising agency are not thinking about national consumer markets. Their focus is on how to appeal to and personally connect with the people of Missouri. A number of state lotteries are applying a similar focus on brand identity and image and use that as a cornerstone for guiding the marketing decisions. Cindy O'Connell, for instance, wrapped a whole re-branding campaign around her logo change and to great effect. It translated directly into robust sales increases over the past three years. The mission of state lotteries is to build all the brands for the purpose of increasing sales in their own state.

There is a similarity between this sense of state ownership of their brand identity with the state's rights to control their own regulatory policies. The conviction that we do not want to turn over the right to control our destiny in the realm of regulatory policy could also apply to marketing and all other aspects of managing the business. We all have a deep sense of pride and personal responsibility towards our in-state constituents and it definitely is a sense of home-town pride. We are proud of our own sports franchises and feel that they are unique. We are proud of our individual state culture and feel that it is unique. And you can see the differences among all the state logos and the way each lottery presents itself to the public. Some want to be more conservative, and others want to be more creatively adventurous. It can be thought of as a states' right issue on the marketing front just as in the political front.

So those are some of the reasons why we all tend to be provincial. The reality is,

though, that the question could be re-framed. Does creating national brands, with consistent messaging that appeals to all consumers across the country conflict with a lottery's desire to create an identity unique to their state, unique to their business? The reason there is no conflict is that most lotteries have a large portfolio of in-state games and a wide berth for creating their own individual state lottery brand and unique identity. Lotteries can and will continue to brand their games and their own state lottery. And that branding will emphasize the local culture and uniqueness. The national brands should have national brand messaging, marketing and promotional campaigns that are conceived for national consumer appeal, consistency in the logos, and standardized systems for distribution. They should not be particularized for each local market because that is inefficient from an operations and distribution point of view, and ineffective from a consumer marketing point of view. Fortunately, the commonalities to consumer behavior far exceed the differences, and we can focus on those commonalities as the basis for effective national marketing and advertising campaigns. And all that can be done without compromising each individual lottery's focus on creating its own unique identity and branding.

*Even Powerball and Mega Millions are branded to appeal to local markets. Monopoly Millionaires' Club is different in the sense that states lotteries are required to comply with the agenda to build a truly national brand, isn't it?*

**M. Scheve Reardon:** Monopoly Millionaires' Club is designed to have much more consistency in branding, messaging, and overall marketing. There will be much tighter control over the logo which will look the same wherever you go.

*I am sometimes asked what does it matter, why do we need nation-wide consistency when our market is confined to the borders of our state.*

**M. Scheve Reardon:** Because our consumers and distributors expect us too. My children actually noticed and commented on the difference in the way the Powerball logo looked as we travelled from one state to another. They are just not used to the concept that a huge consumer brand would be different in different states. It would be like driving into Arkansas and seeing McDonalds with purple arches instead of golden arches,

or Coke cans that aren't red. Of course, nothing surprises me when I drive into Arkansas, but I probably would be less likely to drive into a McDonalds with purple arches. Not only would I be less likely to buy at McDonalds with the purple arches, the dissonance of that image with what I am used to would stay with me. And that dissonance is not what a marketer is trying to achieve. It impairs the whole brand image we work so hard to build. We want to leverage each brand impression, regardless of its origin and consumer touch-point, to create positive thoughts and feelings, not dissonance and wondering why something is other than what I expected it to be. When you see those golden arches, you not only instantly know what it is, you make an emotional connection that reinforces the positive feelings about that brand. And that happens whether you stop there and buy something right then, or not. We want to build that positive emotional connection to Monopoly Millionaires' Club. Whenever you see the Monopoly Millionaires' logo on a billboard or a website, the positive impression is reinforced in your mind and that stays with you and builds over time. You won't have to read the words or anything. You'll just see the top hat and colors and instantly know what it is. And I do think these basic principles of branding should be applied to Powerball and Mega Millions too.

*McDonalds is such a great example. Insofar as these ideas apply to the new National Premium Game, why wouldn't they also apply to Powerball and Mega Millions?*

**M. Scheve Reardon:** Remember that Powerball has been around for decades and so may be tied to some legacy policies, and states may feel like they have developed their own in-state brand for Powerball that trumps the benefits of nation-wide consistency. Frankly, we should all get together and decide that legacy policies that don't support the long-term value of the brand should be changed. We should explore the possibility of applying to Powerball and Mega Millions some of the ideas that are being applied to Monopoly Millionaires' Club. Perhaps the success of those ideas in Monopoly will be the catalyst to transfer some of them over to PB and Mega as well. But the main thing is that we saw some things like the need for consistency in logos, and built them into the new National Premium Game. For that matter, we probably will learn some new things

...continued on page 67



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## Paula Otto

Executive Director, Virginia Lottery



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**Paul Jason, Public Gaming:** *Is it a stretch to say that Monopoly Millionaires' Club is the biggest U.S. game launch in almost twenty years?*

**Paula Otto:** Not at all. Lotto\*America was launched in 1987 (Lotto\*America becoming Powerball in 1992), The BIG GAME was launched in 1996 (becoming Mega Millions in 2002). There has been no new game launch of that magnitude since 1996, and that's almost 20 years. Of course, up until cross-sell in 2010, even PB and Mega were not national games. For its scale, vision, its national TV game show and promotional agenda, and the number of lotteries participating, Monopoly Millionaires' Club is the first truly national game launch that we have ever had.

*Why wouldn't all states jump in with the initial October launch?*

**P. Otto:** Lots of different reasons. Lotteries need time to get stakeholders' approval for the game, the rules, the regulations, etc. Lotteries need time to coordinate internally how resources are allocated and operations are focused to execute on the plan. Lotteries need time to coordinate externally with their advertising, promotional, and retailing partners to ensure the launch impact is optimized. The Monopoly Millionaires' Club launch is similar to the cross-sell launch in that there will be a first large wave of states in October. And then there's a second wave in Q1 of 2015, then more lotteries will come in as they are able. Virginia is in that second wave. Of course it's good to start a game with as much participation as possible, as many states as you can. With 20+ states to start and more to follow, Monopoly Millionaires' Club is off to a fabulous start.

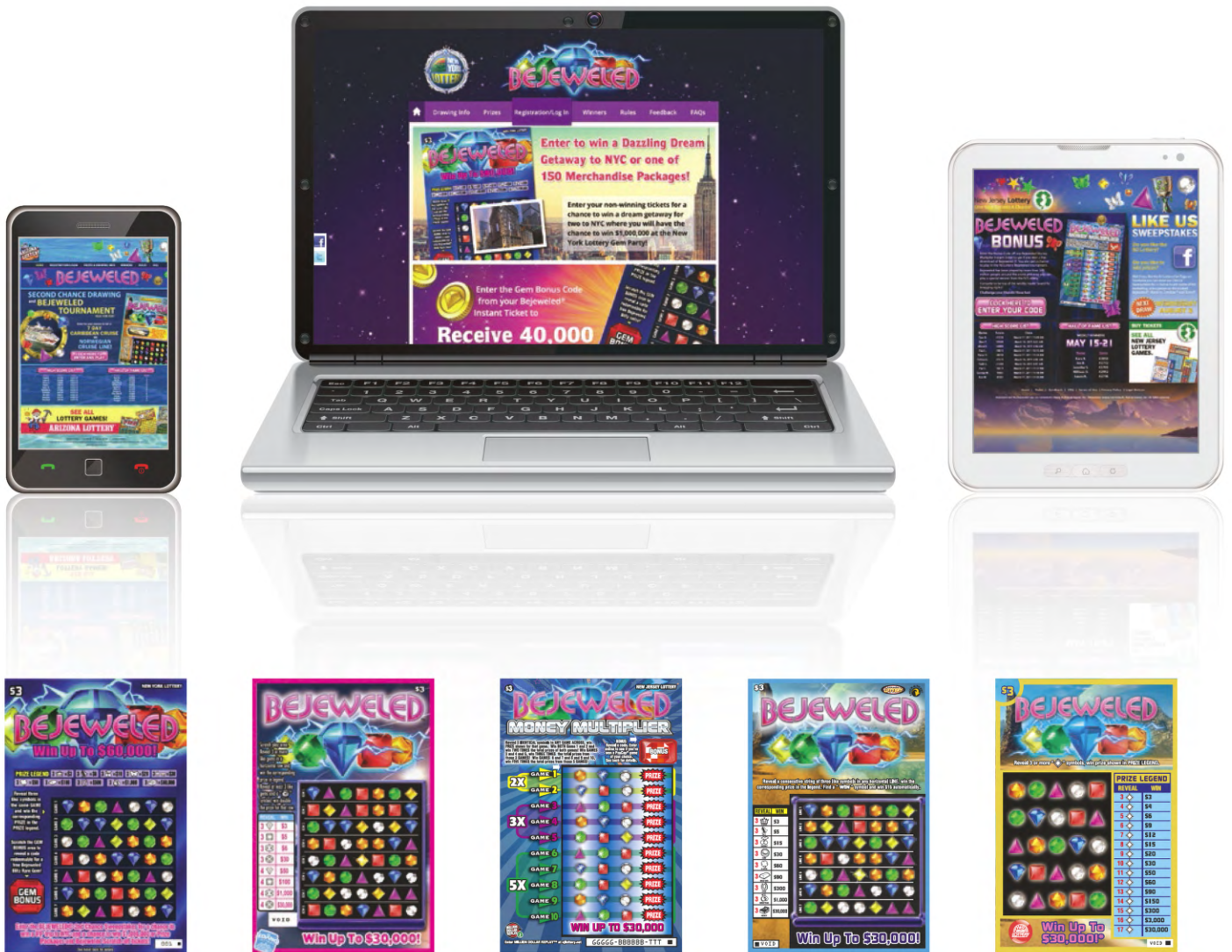
**PGRI Introduction:** As the lead director for the Mega Millions Group, Paula Otto has contributed much to the incredible innovation-train that's been carrying the multi-state games to new heights. That innovation continues with the biggest game launch in the history of U.S. lotteries: Monopoly Millionaires' Club on October 19. It's not just the scale of this new national game. The vision and scope that includes multiple media, a national TV Game Show, and a wide variety of promotional tools, position it to bring in new consumer groups and add incremental sales to the \$70+ billion in U.S. lottery industry revenues.

The team effort includes all U.S. lottery directors and Scientific Games and GTECH and all the vendors. Continued progress, and effective execution of the Monopoly Millionaires' Club, will involve ongoing collaboration between forty-five lotteries and their vendors. Evolving the means to facilitate that process calls for vision to appreciate the benefits of such collaboration, and the recognition of the power of multi-state initiatives and to build truly national brands.

Director Otto was a member of the original team of people who worked to launch the Virginia Lottery back in 1988. As the Lottery's first Director of Public Information, she was responsible for shaping and protecting the Lottery's public image during those formative years. In 1997, Director Otto left the Lottery to accept a faculty position at Virginia Commonwealth University, eventually rising to the position of Associate Director of the School of Mass Communications. Eleven years later, in February of 2008, she was tapped to lead the Lottery as Executive Director.



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*Monopoly has so many moving parts, making it even more critical that the run-up to launch be planned and executed well.*

**P. Otto:** Frankly, that has been done. This project has been years in development. It is extremely well thought-out. The steering committee, of which I've been a member, has worked very hard on many of the little details that make a big difference when you're launching a game of this magnitude. Of course, we realize we do not have a crystal ball that predicts every outcome, and have even planned for that.

The exciting and invigorating thing about Monopoly is that this is actually by far the biggest launch the U.S. lottery industry has ever had and it is being done from scratch: brand new game, brand new everything. Powerball (originally "Lotto\*America") launched with just seven jurisdictions and Mega Millions (originally the "Big Game") was launched with six states. The scale of Monopoly is huge, and the entire project epic. The number and variety of component parts are exhilarating. Of course, there is the TV Game Show which has never been done on a scale like this, and that is incredibly exciting. I think the selection of Billy Gardell as the host is brilliant—he has a hit TV show and is a very skilled entertainer. And the game itself has more ways to play and win than anything we have ever done. There is a whole group of promotional elements surrounding the game, along with a well-orchestrated application of internet, social media, and Mobile initiatives to engage the consumer and augment the whole Monopoly Millionaires' Club player experience.

*You are on the committee that is working on the Mobile apps and social media strategies, aren't you?*

**P. Otto:** Yes, and it is truly a pleasure to work with everyone to bring these concepts to fruition. Think about the fact that there are forty five jurisdictions and no two are completely alike. So as we create all these value-added components to the game, to the promotional agenda, to the whole sphere of player experience which includes a big menu of Mobile, online, and social media tools, we need to do it in ways that allow each individual state to participate in the way that fits within their regulatory constraints, their gaming culture, their whole state-specific agenda. Of course it's a challenge - but it is interesting, it's fun, and it's getting done. It's an exciting opportunity to

build a brand from the ground floor and try to build into it all of the game-playing attributes that today's consumers expect.

*Some of the great things you are doing for Monopoly could have been applied to Powerball or Mega Millions. But it must be hard to tinker with an existing multi-billion dollar franchise.*

**P. Otto:** From the outset, we knew we wanted to integrate into Monopoly the entire range of exciting game attributes, promotional and consumer engagement strategies, Mobile and web-based initiatives, etc. We thought about all the things that the modern consumer might want in a lottery playing experience. We knew from the start that not all states would be able, or perhaps even want, to do everything that was available to them. So from the outset and to whatever extent possible, we designed the program to enable states to participate in those aspects of the promotional agenda that work for them, and not in those that don't work for them. We are able to do that because we are building the game and the entire apparatus that supports the game from scratch. For instance, the internet restrictions in some states are very limiting and that needs to be respected. There are some states that have restrictions on the application of Mobile even as a purely promotional medium. Some states may have restrictions that prohibit Second-Chance Draws. While all of the participating states have agreed to the basic operation of the game, they have some flexibility in how they'll use the internet and mobile components.

Powerball and Mega Millions are established brands, with established market positions and legacy consumer expectations as to how they're played, how they're promoted, and how they're distributed. We need to respect that legacy because consumers are supporting those two brands to the tune of \$8 billion a year. And from a practical standpoint, it can be an arduous process to change those games, but both groups are working to be more agile and to respond more quickly to consumers. And that is as it should be. What we're finding with Monopoly is that it's much easier to overlay social media, web-based promotions, TV game shows, and other innovations to a game from scratch than to experiment with the two biggest brands in the industry. So that's what we did. We created a cafeteria of options for states to be as innovative as they want to be with Monopoly Millionaires' Club.

*But aren't you trying to develop a more national approach to brand management and advertising? That as opposed to Powerball and Mega Millions where each state has control over the messaging and even the brand.*

**P. Otto:** States still retain autonomy with Monopoly. That's as it should be. But Monopoly has built into the cost structure of the game a budget for advertising that will be created and made available for states to use. The advertising and promotional campaigns are being done by the Creative Agency David and Goliath. They produced the famous "California Dreaming" commercial that won so many of the Batchy awards for best TV commercial last year. They have developed a multi-faceted campaign which includes TV commercials, but also a wide variety of new media and innovative promotional campaigns. And, yes, we do hope that as many states as possible will work together towards the goal of building a national brand, with some measure of consistency that will be the foundation for much deeper consumer engagement, and increased sales. This is a new game that will connect with consumers in ways that no other game is doing. It promises to bring in new consumer groups, to appeal to a set of buyer motives and play styles that are different from Powerball and Mega Millions. Applying all the tools and resources at our disposal to build a brand that connects with a national consciousness, a brand that reflects these ambitious objectives, means working together and thinking about the broader, national implications of everything we do. Maximizing sales and net funds to the beneficiaries of our in-state beneficiaries is the goal. But thinking big, building a national brand is the means to accomplishing it.

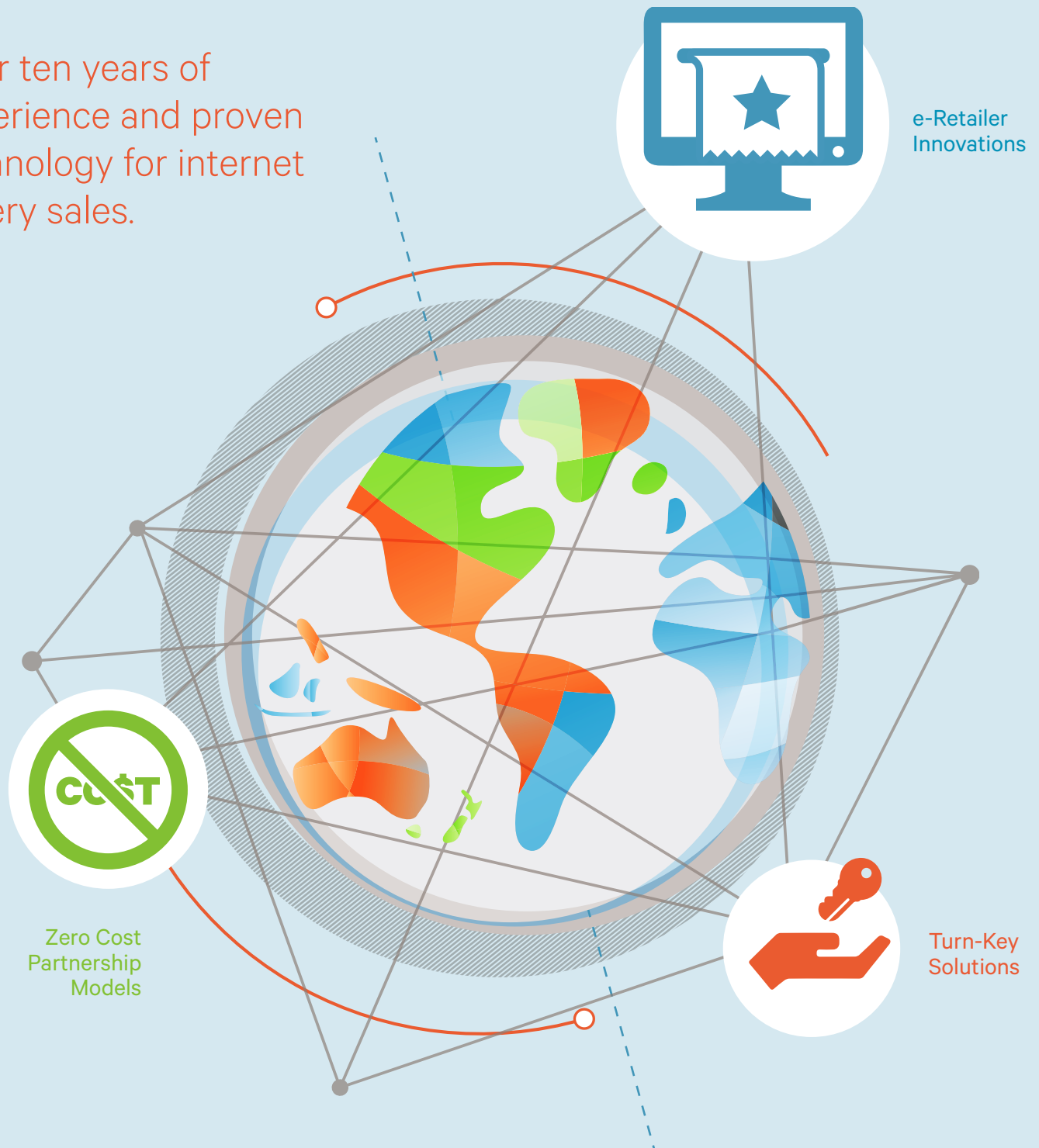
*Media buys will continue to be done on only at the state level?*

**P. Otto:** The TV Game Show is national, and it's the first national lottery TV game show ever. We expect the impact of this on Monopoly, and on consumer awareness of lottery in general, to be transformative. It is a collaborative effort, funded by the game itself, and so is, in effect, a "national buy." The Monopoly TV Game Show will include players from every Monopoly state lottery. Other advertising and promotion relating to Monopoly will be executed and funded at the state lottery level—but states will be able to use the national spot, so there will be consistency. At this point there has not been



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any discussion about other national buys.

But there will be an effort to build consistency into the messaging and branding of Monopoly. There is one logo, for instance, that everyone will use. The messaging, branding, and advertising will be created for the national market but with the ability for states to add some local color.

*On that topic of consistency, Scott Bowen commended you (in a previous interview) for giving an effective and eloquent voice to Mega Millions: "Paula Otto did an extremely good job of representing not just Virginia but the entire Mega consortium." From your Public Relations perspective, how important will it be to have consistency on the national media stage of Monopoly, or Powerball and Mega Millions too?*

**P. Otto:** Lotteries are both a state business and a nationwide industry. I think it is always to our benefit as a state business to leverage any and all opportunities to build our image and brand as a national industry, to carve out a role for brand Lottery on the national stage. The obvious opportunity for that is when there is a big jackpot. That becomes national news and we try to take full advantage of those opportunities to reinforce the image of a national brand. But we shouldn't wait for opportunity to be presented on a silver platter. We should create our own opportunity. The Monopoly TV Game Show is one example of a proactive initiative to build national presence.

I do think it is vital that the U.S. lottery industry has a means of getting the message out there and become a part of the national conversation, to be a staple in the national media and not be so restricted to local media. I don't know that we need a single spokesperson to be the face of lottery. I just think we need to be more systematic in the way we go about the business of garnering national press and leveraging that to build nation-wide awareness for our brands.

*To what degree are the three national games being managed as a single category, to work together synergistically for optimal overall results?*

**P. Otto:** There is always the possibility of cannibalization between lottery games. As an industry, we are always keenly aware of the need to harmonize the products for optimal overall results. We have done extensive research for the introduction of this new National Premium Game and are confident that

it will appeal to a demographic profile and play-style that will bring in new consumer groups. We're confident that it will generate net overall increases in sales.

As regards to category management, my perspective is that it does not matter how the pie slices up as long as the aggregate total net revenues generated from Powerball, Mega Millions, and Monopoly continue to grow. That fulfills our mission to the good causes that lottery supports.

Right now, the business of launching Monopoly Millionaires' Club is getting our focus. As time goes on, we will certainly be assessing the market-response to Monopoly and look at ways to enhance the overall results of all three national games. I expect that will likely involve deep analyses into how they work together in the marketplace and how we might differentiate and drive synergies between the brands, and how we might otherwise evolve the brands to drive further growth in the category of national draw-games.

*What makes the Monopoly Millionaires' Club so different from Powerball and Mega Millions?*

**P. Otto:** It's not a "jackpot" game. Monopoly is a numbers/draw-based game which has a top prize and then lots of million-dollar prizes. The whole dynamic is different than the jackpot-driven games of Powerball and Mega Millions. Consumers often ask why the \$400 million jackpot couldn't be used to create 400 millionaires instead of one "mega" millionaire. We know there will continue to be many players whose behavior will be driven by the high jackpots. And that's fine. But this game will appeal to the consumers who want better odds to win a million-dollar prize instead of the mega-jackpot prize. Monopoly does have top prizes that are still very attractive: The prizes will begin with a \$15 million Top Prize and ten \$1 million Club Prizes. If the Top Prize is not won, it will continue to increase in value for each subsequent draw up to \$25 million. Then, if no one wins the Top Prize, all additional prize monies will create additional \$1 million Club Prizes until someone wins the Top Prize. But as the game continues to roll past the top prize, the ongoing game revenue goes towards the creation of more and more one-million dollar prizes instead of driving the top prize higher and higher. The tagline that we are excited about, and feel that the consumer will be excited about, is the notion

of a "Shower of Millionaires." It is a different kind of game, appeals to a different play-style and motivation than the jackpot games, and that's why we are confident that it will bring in new consumer groups and have minimal cannibalization impact on Powerball and Mega Millions.

And as we have already talked about, Monopoly Millionaires Club has an incredible array of innovative promotional campaigns to engage consumers in whole new ways. The breadth and scale of this project is unlike anything that has ever been done in the U.S. lottery industry.

*Monopoly represents a new high-water mark for innovation in the U.S. lottery industry. How can the momentum be maintained, even accelerated, going forward?*

**P. Otto:** We have come a long way over the past four years. Cross-sell, then \$2 Powerball, now Monopoly Millionaires' Club. Seeing all these things come to fruition causes me to feel very positive about the ability of state lotteries to work together. Can we do better, can we try to move faster? Absolutely we can and we are constantly working to do so.

The challenge of getting forty-five jurisdictions and multiple vendors to work together, make decisions together, vet proposals and decisions with countless stakeholders, and coordinate the action-plans that actually result in new products and strategies, is that it requires time. Combine that with the fact that the complexity of the games and promotional strategies, and the business in general, has become more and more complex. The nature of our business is that we can't market-test beta versions of a product. We have to research and test to whatever extent necessary to ensure that it is perfect right out of the box. That is a tall order, and it is not accomplished in weeks or even months.

Innovation and change creates uncertainty, and we need to mitigate that uncertainty as much as possible. It's been observed that this is a risk-averse industry. Well of course it is. We simply can't afford to do anything to jeopardize the value of this brand. Even a minor oversight that results in a mistake could cost us literally billions of dollars in brand equity. We are very serious about increasing the speed from concept to market, but we won't compromise the rigor of our planning and testing, or jeopardize the

...continued on page 68



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For the past two decades, Powerball and Mega Millions have dominated the multi-state big-jackpot scene in the U.S. Monopoly Millionaires' Club is the new "National Premium Game" (NPG) and it will launch on October 19. At the time of this panel discussion, "Monopoly Millionaires' Club" had not been announced as the "National Premium Game", so in this discussion it is referred to as the "National Premium Game," or "NPG."



## ON GOVERNANCE OF THE MULTI-STATE GAMES

In 1997 (the launch of "Big Game" Mega Millions), there were nineteen state lotteries that sold Powerball and five lotteries that sold Mega Millions. Additional state lotteries proceeded to join one or the other game. Since each state lottery could only sell one game and not both games, it required two separate organizations, MUSL and the Mega Millions Consortium, to manage and operate the two different jackpot games. Now, all forty five U.S. lotteries offer both games, but the games continue to be managed by two separate organizations. Some are arguing that this bifurcated organizational structure does not facilitate the consensus-building necessary for efficient decision-making, and so does not support innovation and a smooth fluid progress from concept to action-plan to execution. Since all state lotteries sell both games, is there still a purpose to having them continue to be managed by two separate organizations?

FOLLOWING IS AN EDITED VERSION OF A PANEL DISCUSSION THAT ADDRESSES THESE TWO TOPICS. THE VIDEO-RECORDING OF THE ACTUAL PANEL DISCUSSION CAN BE VIEWED AT [WWW.PGRITALKS.COM](http://WWW.PGRITALKS.COM).

### MODERATOR:

**Rebecca Hargrove**, Chief Executive Officer, Tennessee Education Lottery Corporation and Senior Vice President of the World Lottery Association (WLA)

### PANELISTS:

**Gary Grief**, Executive Director, Texas Lottery, President of the North American Association of State & Provincial Lotteries (NASPL)

**Carole Hedinger**, Executive Director, New Jersey Lottery

**Stephen Martino**, Director, Maryland Lottery and Gaming Control Agency

**Charles McIntyre**, Executive Director, New Hampshire Lottery

**Connie Lavery O'Connor**, Senior Vice President and Chief Customer Officer, GTECH

**Rebecca Hargrove:** *There was a time, not so long ago and not so far away, when people would drive for hours or even get on an airplane to go to a store where they could buy a ticket for the chance to win a \$40 million jackpot. Hard to imagine that now. Times have changed and now our customers don't get that excited until the jackpot is way north of \$100 million. In fact, it is becoming a real challenge for lotteries to keep up with rising consumer expectations. We just heard Chuck Strutt's presentation in which he described the relationship between jackpot size and level of play or ticket sales. We've had Mega Millions jackpots in the \$600 million range. Powerball jackpots in the \$500 million range. Is that jackpot chasing mentality sustainable?*



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*Is it a problem that our customer, and the media, keeps raising the bar, waiting for a higher jackpot level to cause them to jump into the game?*

**Carole Hedinger:** Some of us are old enough to remember the old days when we started to talk about jackpot fatigue and the jackpots were in the \$20 to \$30 million range. We began to worry about it even more when jackpots rose to the unheard of level of \$40 to \$50 million. In spite of concerns and dire predictions that this could not possibly continue, we kept selling tickets, jackpots kept rising, and we sold even more tickets. The model has been sustainable for decades now in spite of our concerns. So I suspect we will be talking about this same issue at PGRI conferences for many years to come.

Seriously, though, we do seem to be headed for a billion-dollar jackpot, and we should think carefully about the implications of that. Do we want a billion-dollar jackpot? And when the frenzy of media and consumer excitement has subsided, will we be saddled with a consumer expectation that eventually becomes undeliverable?

**Charlie McIntyre:** I'm wondering how the billboard folks will adjust. Most billboards are set up for only three digits before the word "Million." Remember the Y2K Problem—Maybe we should prepare for an over-the-top marketing event to take full advantage of the frenzy and havoc that will be caused by the billion-dollar jackpot? Or maybe a teaser to create a Y2K speculation about how the world will change when we hit that billion-dollar threshold?

Back to reality, the size of jackpot necessary to attract media attention and consumer excitement is increasing at a rate that is difficult to keep up with. That is a problem. But, as Carole pointed out, it has always been a concern.

**Gary Grief:** In spite of our concerns, sales of the jackpot games continue to increase. And put into historical perspective as Carole just did, I think we can be confident that they will continue to grow. But I also think that a billion dollars is a watershed moment for our jackpot levels. How will we fare if the consumer perception of big jackpot recalibrates to a billion dollars? And where do we go from there, to \$1.1 billion, then \$1.5 billion? It wasn't too long ago that the media would give us a big boost once the jackpot hit \$100 million. Now we have \$200 million jackpots come and go with little media coverage. I hope we think very carefully about how we manage our jackpot levels up to that \$1 billion. There are some discussions taking place in the MUSL group regarding possible jackpot management techniques. I have never been a fan of jackpot capping. But I think the billion dollar mark might be different for us, and we need to be concerned and explore new ways to generate more consumer excitement for jackpot levels that are below the half-billion mark.

**R. Hargrove:** *How do you all feel about capping jackpots? I remember some thirteen years ago when you were at the New York Lottery, Connie. And the "Big Game" was recruiting New York to join it in what became Mega Millions. There was some discussion then about capping jackpots. But New York Lottery basically said that the reason they want to join is for the big jackpots. What do*

*you think, Connie, about capping jackpots now?*

**Connie Lavery O'Connor:** The power of jackpots to drive retail traffic and ticket sales is incredible. We have plenty of evidence in recent years, from cross-sell to \$2 Powerball, that actions to drive jackpots produce higher sales. Even now, we can see that bump when sales go over \$100 million. That is obviously a good thing. But as an industry, we need to think about how we can extract maximum value from the power of rising jackpots to drive sales. Or, from a sustainability point of view, we may need to take measures to ensure that the power of rising jackpots to drive sales does not diminish over time. For instance, we can also see that recent changes to Mega Millions precipitated a sales increase of 90%, but Powerball fell by 16.4% before we went into this last roll up. So I believe that jackpots are fantastic to drive incremental play but that we have to be very proactive as an industry to embrace the notion of jackpot management at a certain level. At some point in the future, it may take the form of reducing the roll-up over \$600 million, or maybe it's re-apportioning the prize pool to fund some kind of overlay promotional games or exciting bonus plays. Maybe the re-apportioned prize monies could fund special games to celebrate certain holidays. Maybe we could use it to fund new game-plays that could further differentiate Mega Millions, Powerball, and the new National Premium Game.

**R. Hargrove:** *Thank you for bringing up the National Premium Game, Connie. We have held extensive meetings this week, worked through most of the issues, and I am pleased to tell you that the National Premium Game is going to launch on October 19. I believe the majority of U.S. lotteries will participate. And I believe everybody on this panel is probably going to participate in the October launch. The game is going to be different from Mega Millions and Powerball, offering many different levels of million-dollar winners, probably the most million-dollar winners ever seen in a single night. Instead of one single \$100+ winner, the National Premium Game is structured to produce lots of million-dollar winners with every draw. Is that a way to combat jackpot fatigue?*

**Stephen Martino:** I love the national premium game. I love the idea of it and that the idea has come to fruition. I do think it will complement the two other big jackpot games, hopefully providing an alternative play-style and appealing to a buyer motivation that is not consumed by mega-jackpots.

In Maryland, our way to hedge against jackpot fatigue is to diversify our game portfolio so that we are not so dependent on the big jackpot games. Maryland jackpot games generate around 13% of our overall sales. We make sure we build the playership of games like keno and instant tickets. Like everyone, we benefit when the jackpots go higher and higher. But we can't control that or predict that. One of the reasons why I like the National Premium Game so much is that it's different - creating those frequent million-dollar winners.

One of the things we continue to struggle with is getting new people in Maryland to play the lottery. We're stuck at about 48-50% participation in any given survey. And 2/3 of our players are



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over 45 years old. I am very confident that the National Premium Game, with national marketing and a national TV Game Show, is going to bring new people into the game and that will be a powerful driver of increased consumer participation. Ultimately, I am held accountable for how much money we return to the state. But I also need to ensure that sales grow in a responsible manner. To me, that means getting more people to participate in the games as opposed to increasing the spend of our core players. I think the National Premium Game not only helps us to grow our revenues, it does so in a sustainable and responsible way.

**R. Hargrove:** *Stephen is enthusiastic about the national marketing campaign for the NPG. Charlie?*

**C. McIntyre:** Likewise. We all just saw a fabulous presentation from the DC Lottery. Buddy (Roogow) and Tracey (Cohen) compared the best practices and benchmarks of the major consumer products companies to those in the lottery industry. The brand must be established on the national stage. And that's just the start. The long-term model, the success of the National Premium Game, along with the continued success of Mega Millions and Powerball, depends on leveraging the foundation for brand extension. New games, new brands, can be introduced to a market that has already bonded with our flagship brands. Coke had a built-in market for Coke-Light and then Coke-Zero and who knows how many extensions of the brand they could do. When I was a kid, each brand of sneakers, or tennis shoes, had one model. Nike and Adidas and others have since extended their brand to have lots and lots of models, a different shoe for a mass market of consumer profiles that is further and further subdivided. These concepts for fully leveraging the power of the brands we have, and adding onto it a plan for systematically extending the brands with the introduction of new products, should be done on a national scale. They need to be done on a national scale because they simply would not work well on an individual state level.

The scale is required for lots of reasons. For one thing, the cost to each lottery for developing the concepts and then the games, managing the projects, implementing the business plans, managing the games on an ongoing basis, will be much less if shared among all forty five lotteries instead of being done on a single state basis. Second, the effectiveness of our advertising and promotion could be much improved with a nationalized, or at least regionalized, approach to media purchase and planning.

As Stephen suggests, the NPG is a new type of game, different from our current mega-jackpot games. This will provide us with a platform to tell a new story in a fresh and different way. As we move forward with the NPG, let's think about things like brand extension along with a nationalized approach to our media buys and brand imaging. Too, I think we will discover new ways of managing this industry that we will be able to apply to our other multi-state games.

**R. Hargrove:** *On the subject of national marketing, Gary, could you comment on the national telecast that's going to be tied to the National Premium Game and what you think that may*

*bring to the party.*

**G. Grief:** The NPG is designed to create lots of millionaires instead of a small number of multi-millionaires. This will appeal to the many people who protest that it does not make sense to give a \$600 million jackpot to one person when you could make 600 people millionaires instead. That's always a great sound bite. But what people say does not always match up to how they behave. We know that it's the huge jackpots that drive Mega Millions and Powerball. But now, the NPG will allow us to appeal to that buyer desire for more millionaires instead of one big winner, without altering the appeal of the mega-jackpot-driven games. Another exciting thing about the NPG is the \$5 price point. That is an entry point we've never had on a national scale for a draw game. Now, we need to incorporate what Connie and Charlie mentioned about the portfolio approach. We know there's a market for the additional price-points and the NPG will take care of that niche of the \$5 price-point.

Then there is the TV Game Show - nothing like this has ever been done before, at least nothing remotely close to the scale of what this will be. This is a chance for us to reach new players who may not be excited about the traditional lottery games sold at the convenience store. A game show that features lots of people being turned into millionaires is something so new and different, it has the potential to tap into an entirely new buyer motive and bring in entirely new consumer groups. Augmenting all of that with a national advertising and promotional program will further differentiate the NPG.

The NPG depends on scale and that depends on maximum participation from all the state lotteries. I hope everyone appreciates the magnitude of impact that the NPG could have, and communicates that to their boards and commissioners and legislative bodies so that you can all be a part of the October 19 launch.

**C. Lavery O'Connor:** Absolutely. Many states are fiercely jackpot dependent. For instance, in Indiana, even though instant sales are up by 12%, and non-jackpot games are up 17% year-over-year, the factor that determines whether we hit our budget is the jackpot games, whether there is a jackpot run that drives those sales. We're an industry where we actually make our budgets or miss our budgets by what happens to the jackpot. The NPG will be such a welcome addition to the portfolio of national games. Instants are a big part of everyone's business, and we all appreciate the profit contributed by Instants. But building the high-margin draw games contributes much more to the bottom-line funding for Good Causes, and that's what the NPG will do. With a 54% prize-payout, including the TV Game Show prizes, instead of the 60% to 78% prize payout of the Instants, the NPG will be a welcome contributor to net proceeds. The cohesive multidimensional properties of this game, its ability to draw in new players, a design that includes digital and TV overlay features—the NPG has the potential to reshape our industry's approach to national games and add vitality to the lottery brand. Compliments to MDI, and the community of lottery directors, for the five years of effort to develop this



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game. At GTECH, we are pleased to collaborate with the entire vendor community to make this game successful because our customers need it and we all need it as an industry.

**R. Hargrove:** *In fact, some personal call-outs are in order for the five years of work that went into the development of the NPG. Let's thank Arch Gleeson, Margaret DeFrancisco, Ed Trees, and Tom Shaheen and the many other people who worked on this project in years past. Without their foundational efforts, we probably would not be where we are today with an October launch of a new NPG.*

*Let's go back to Mega Millions and Powerball. How can we make those two games more appealing to the consumer? We're all excited about the NPG, but what can we do to drive continued growth in Mega Millions and Powerball?*

**C. Hedinger:** I think we need to invest in branding those games nationally instead of each state trying to promote those games on a state-by-state basis. And I think the entire community of U.S. lotteries needs to agree to work together, and make the investment in building a robust national agenda that includes branding, advertising, promotions, and whatever else would help us to grow those games. As a Mega Millions state, we have invested in web design and that kind of thing. But I think we all need to come together to take a bigger step and hire experts who can develop a more comprehensive strategy to brand the games nationally. We all need to participate because we will all benefit. It will take an investment that we all need to be willing to make. \$2 million, for instance, divided by forty five lotteries is less than \$50,000 per lottery. We can all afford to do that and it would, I think, be transformational. That is such a small amount to create national branding programs for Mega Millions and Powerball.

**R. Hargrove:** *We have this conversation frequently among the MUSL directors and most of us agree with you, Carole, that we need national branding. But we can't get forty five lotteries to agree. How do we get that agreement from everyone to invest \$50,000 apiece?*

**C. Hedinger:** Let's start with a proposal. Maybe the MUSL team could propose a plan to develop a nationalized branding strategy. I think my Mega Millions colleagues would be perfectly willing to buy into an effort that we think will be effective. All I see are piecemeal proposals for better web design and such. We need a bigger vision, a more expansive strategy that includes multiple media and lots of different brand imaging concepts. I don't see anything resembling a grand strategy.

**C. Lavery O'Connor:** Sometimes it's very hard for us to talk about the elephant in the room—and that is a fear of change. Change creates uncertainty, so it is not illogical to be concerned about the outcomes. For example, understandably, there are some lottery directors who feel that developing a national brand and promotional strategy might impinge on their state-specific efforts to keep their own state brands front and center as the consumer focus. As consumer marketers, we want to stay connected to our

customer. Some may worry that the consumer connection should be locked onto the state lottery and identity and not be redirected towards a nationalized brand.

We need to ask ourselves, though, what is the goal? Isn't it to maximize revenues in a responsible manner, as Stephen said earlier? Nationalized branding would strengthen the consumer connection, adding to the value and appeal of these powerhouse brands, and increase profits. Think about the presentations we heard this morning. They all point to the same thing. Gary Grief and Friedrich Stickler talked about the importance of working together to create a more cohesive face to the consumer, a brand image that supports the emotional connection that drives purchase. This simply cannot be done just at the state level. Gardner Gurney presented on the New York Lottery mission to bring Education for Life to the people of NY, to connect emotionally with all the people of his state. Why shouldn't we explore the ways to connect emotionally with the entire legislated lottery population of the United States? Wouldn't that benefit each and every lottery? After all, not every state can do the things that a New York and California can do. But together we can accomplish brand relevance at a national level.

As an industry, we need to agree that Powerball and Mega Millions are national brands and they should be positioned and marketed as national brands. The dividends in terms of brand awareness, and sales, would be substantial. And we should not limit the scope of nationalization to advertising, or a particular promotional campaign. We should, as Carole points out, invest in the development of an over-arching strategy to nationalize in a broader way, knowing that the cumulative effect will be far greater than the sum of the parts. It should include PR, Brand Imaging, promotions, social media, and most importantly the consumer experience at retail. For instance, we have been told by the big-box chain stores that operate in more than one state that we need to standardize sales data report formats. There are countless ways of embracing the national character of these huge games which would benefit this industry. The marketing plan for the NPG will reveal more opportunities to nationalize our approach than we even realize right now.

**S. Martino:** Could I jump on that, Connie? I agree and I like Carole's suggestion to think bigger. Instead of doing small initiatives because that's all we can agree on, or that's all we think we can afford, I too think we need to take a more expansive view, develop a grand strategy that befits the multi-billion dollar revenue stream that we are talking about here. We have to invest jointly in the experts who know how to do that and trust them to develop the strategies that will achieve the full potential of these national brands.

But to my mind, none of that will happen if we do not address the issue of governance. I think it's going to be very hard to have national branding and marketing of Mega Millions and Powerball without common governance. As it is, we are too fragmented to make decisions and agree on an actionable plan. As excited as we all are to finally be launching the New Premium Game, and I hate

...continued on page 35



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# Online Gambling and State Lotteries Should Be Left Up to the States and Not Congress

By Jeffrey R. Anderson, Stephen Martino, and Charles McIntyre

**WASHINGTON**—From public education to increasing economic development to promoting health and public wellness to funding programs for veterans and senior citizens, state lotteries across the country have contributed billions of dollars to make our states and communities better.

In 2013 alone, the nation's 44 state lotteries raised more than \$20 billion for good causes. This means more teachers in the classroom, enhanced public services and more vibrant communities.

Because of the important role state lotteries play in investing in our communities—and our states' futures—we are concerned with the recent efforts in Congress to pass a nationwide ban on Internet gambling and lottery sales.

We firmly believe that all decisions about gambling should continue to be left to each individual state. It should be at their discretion what games, if any at all, are offered and through what manner they are delivered.

Some of the undersigned lottery states have no intention of offering expanded gambling, but we are united in our belief that this is not and should not be a federal "one size fits all" decision.

For Congress to pass a sweeping nationwide ban

would be a devastating blow not only to lotteries but to everyone impacted by their contributions.

A recent analysis shows that if this ban, which includes major, unintended consequences to long-standing lottery business practices, should pass, states could lose up to \$5.5 billion annually.

What would that mean in practical terms? It would mean less money for schools and fewer teachers. Fewer police officers on the street. Less care for seniors. Fewer services for veterans. Its inevitable consequence would be some states losing out on much-needed revenue to provide the services their citizens need and have come to expect.

It also would be a direct assault on states' rights. Since 1964 with the founding of the first modern state lottery in New Hampshire, states have effectively, safely and responsibly operated lotteries. They have ensured transparency and promoted fair play.

Should some states choose to employ Internet gambling or lottery sales, the same extensive safeguards and high standards would be put into place. But it's a choice that each state should have the option to make.

Modern public policy regarding casino gambling and lotteries has been governed by the sensibilities of the states. Efforts by some members of Congress to substitute their judgment for those of the states on Internet gambling and lottery policy should be rejected.

The proposed federal ban on all Internet gambling that also contemplates sweeping changes to long-standing lottery business practices would hurt those who benefit from the good causes lotteries support, weakening our communities and their futures. ♦

## ABOUT THE WRITERS

**Jeffrey R. Anderson** is the director of the Idaho Lottery, **Stephen Martino** is the director of the Maryland Lottery and Gaming Control Agency, and **Charles McIntyre** is the executive director of the New Hampshire Lottery. Readers may write them at 700 13th Street NW, Suite 600, Washington, DC 20005.

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# States vs. Federal Government

## Who determines Regulatory Policy in the U.S.?



THE FOLLOWING IS AN EDITED TRANSCRIPT OF A PANEL DISCUSSION HELD AT SMART-TECH IN NEW YORK CITY ON APRIL 2. DUE TO THE SENSITIVE NATURE OF THE DISCUSSION, AND THE FACT THAT THE COMMENTS ARE EDITED LIBERALLY AND NOT VERBATIM, THE NAMES HAVE BEEN REDACTED FROM THE TRANSCRIPT.

### MODERATOR:

**Scott Bowen**, Commissioner, Michigan Lottery



### PANELISTS:

**Scott Gunn**, Senior Vice President, Global Government Relations, GTECH



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

**Kevin Mullally**, Vice-President of Government Relations & General Counsel, Gaming Laboratories International (GLI)



**Lynne Roiter**, Secretary General, Vice President Legal Group, Loto-Quebec, and General Secretary of the World Lottery Association (WLA)

**Philip Smith**, Director of Legal Services, Missouri Lottery



**Philippe Vlaemminck**, Partner, Altius Law Firm, Legal Counsel to the European Lotteries

## THE REGULATORY FRONT

*What is the current status of the fight for U.S. states to preserve the right to control Internet regulatory policy, over against federal intrusion into the regulation of i-gaming and i-lottery?*



- We are in a battle to preserve the future of the lottery industry. And it's not just about the right to sell lottery products over the internet lottery. It's about the power of different industry sectors to lobby for regulations that divert economic proceeds from the public sector, i.e. the Good Causes supported by Lottery, over to private interests, i.e. commercial casino and i-gaming operators. And now, commercial gambling operators are not only lobbying for laws that allow them to expand their businesses. They see Lottery as a threat and so are lobbying the U.S. Congress to pass laws that impair the ability



of lotteries to expand their businesses, or even to meet the basic needs of the lottery consumer. Bills are being proposed at the federal level that prohibit lotteries from selling online. The potential for federal laws to tip the competitive landscape to favor commercial interests over state lotteries poses a very real threat.

- In December of 2012, The U.S. Department of Justice (USDoJ) issued a statement clarifying that the Wire Wager Act of 1963 applies only to sports-betting. Prior to this USDoJ clarification, nobody was clear on whether the prohibition to transact betting over the "Wire" (electronic communications which now include the internet) applied to forms of betting other than sports betting. Lobbyists for certain commercial interests, most notably Sheldon Adelson, multi-billionaire chairman of Las Vegas Sands, are now contending that the original intent of the Wire Act was that it applies to all forms of wagering, and therefore prohibits internet transactions for all games of chance, including lottery. In effect, these lobbyists are pressing the U.S. Congress to countermand the USDoJ judgment that the Wire Act applies only to sports-betting. Of course, the USDoJ does not create law—it is tasked with enforcing the laws that Congress creates. As the legislative branch of government, Congress does have the power to redirect the law or change the way that the USDoJ interprets the law. Bills are being filed in the U.S. Congress by Senator Graham from South Carolina and Representative Chaffetz from Utah that purport to bring the Wire Wager Act back to what the proponents are claiming was the original intent. Not surprisingly, these bills include carve-outs for areas that favor the interests of the casino operators who want to offer i-poker; and include provisions that would constrain Lottery's ability to sell lottery tickets online.
- Most of us in this room today agree with the USDoJ clarification and contend that the Wire Act was only ever intended to apply to sports-betting, especially in light of the fact that the internet and the current spate of i-gaming products did not even exist when the Wire Act was introduced back in 1963. Further, these commercial lobbyists are trying to twist the meaning and intent of the UIGEA (Unlawful Internet Gaming Enforcement Act) to be that it prohibits i-gaming. The UIGEA was, and continues to be, exactly as its name





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states clearly: an Act that empowers agents of law enforcement to enforce the law. It prohibits Internet Gaming that is “unlawful.” It does not prohibit internet gaming that is in fact lawful.

- Regulatory and taxation policy as applies to gambling and lottery has always been a matter for individual states to decide for themselves. The big-picture problem is that the intrusion of the federal government into matters of gaming regulation of any kind is a slippery slope. There is no way for the federal government to get involved in regulating without it getting into the business of deciding which games should be regulated, how they should be regulated, and how they should be taxed.
- The federal government is actively involved in the regulation of inter-state commerce. That is as it should be. However, the fact that the internet involves the transmission of signals across state lines does not make it “interstate” gambling. When the player and the operator are both located within the borders of a jurisdiction, when the transmission both begins and terminates within the borders of the state, then the transaction is intra-state and the regulation and taxation should be determined by the state legislature. Advocates for prohibition of internet gambling are attempting to twist this basic concept to mean that the law potentially prohibits transactions in which both buyer and seller are located within the same state.
- The implications for Lottery of federal intrusion into the business of regulating gambling could be profound—and it is not limited to i-gaming and i-lottery. Some of the basic functionality with regard to self-service terminals and ITVMs could end up being regulated at the federal level if these bills actually pass. Adversaries insist that is not their intent. First, I am not so sure they are being honest about their intent. Second, regardless of their intent, it’s the outcome that matters. And the outcome of any federal intervention into the regulation of gambling is potentially disastrous for lotteries. Currently, apart from sports-betting, the federal government defers completely to states’ rights to regulate and tax gambling and it is vital that it remain that way.
- The legal interpretation of any legislative act can create a Pandora’s Box of confusion. States that control the legislation can fix it as needed. Federal legislation that is intended to apply to all 50 states would be extremely difficult to fine-tune to address all the questions that come up. For instance, the language in these bills bring considered right now refers to lotteries being allowed to conduct only “in-person transactions” in a store. Does that mean a sales clerk must be involved? And if it does mean that, does that mean that ITVM’s and other forms of self-serve devices will not be allowed? Further, VLT’s and ITVM’s often communicate with a central-server that is not located in the same state. Does that constitute “interstate” gaming? Proponents of the bill say “that’s not the intent.” Regardless of the intent, it could well be the outcome. Too, seemingly innocuous language like that referring to the infrastructure that is currently in place at the time the bill passes can have profound effects. For one, it means that states that do not currently have

a lottery are prohibited from starting one. Two, it prevents lotteries from evolving their current infrastructure as technology changes. The strictest interpretation of the language of these bills could even mean that data packs of any kind could not travel across state lines even if the point of transmission and destination are both within the state. That would cripple the entire lottery industry. These things can happen. The one thing we can know for sure is that if the federal government becomes a part of the regulatory system, the outcomes will be decidedly negative for Lottery.

- There are states that already have i-gaming, and states that sell lottery products over the internet. Some of the bills being considered by the U.S. Congress do not have a “grandfather” clause that would allow them to continue. They would be forced to terminate their i-lottery and i-gaming operations. More to the point, if the federal government gets involved at all, states will forever be subject to the lobbying efforts of commercial interests which will impinge on lottery operations in ways that we can’t even predict right now.
- I think there are two prongs to an effective agenda. First, I agree that there is no such thing as a good federal bill from a lottery perspective. Regulation has always been determined by the states and it should stay that way. And two, it continues to befuddle me as to why internet distribution is feared. From a public policy and responsible gaming point of view, internet-based gaming has many benefits over land-based gaming. Look at the typical scratch-ticket consumer experience now. You walk into a retailer. They don’t know who you are. They don’t know how old you are. They don’t know what types of games you like to play. They don’t know how many games you played today, this week, this month, or this year. The sales clerk who serves as your first line of defense for all responsible gaming and integrity issues is typically a low-skilled employee with little training or impulse to implement a player-friendly and consumer-protection agenda. Compare that process to the process that takes place on the internet. On the internet, I know exactly who you are, where you are, how old you are. I know what types of games you like to play. I know how many games you’ve played today, this week, this month, this year. I can now offer you controls to set your own limits as to how much you want to spend on this activity. And I can now offer you a more interesting game that’s more socially engaging and one that is ongoing, so that the playing experience becomes genuinely recreational and fun as opposed to a simple wager for the opportunity to win money. Internet gaming offers a far more fertile basis for gamifying the whole consumer experience. From a responsible gaming and sustainable growth point of view, the internet is the vehicle to evolve the entire consumer experience over to one that is more focused on fun and games as opposed to simply buying the chance to win a jackpot. Why is that a bad thing?
- Who likes this argument? I hear this one all the time. It makes sense. I just wonder if it’s a winning argument. Opponents to internet gaming insist that it can’t be adequately controlled for age and location. Does talking about Responsible Gaming



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cause us to go on the defensive?

- With all due respect to the Flat Earth Society, there's overwhelming evidence throughout the world that internet gaming poses no risk to consumers, to the need for security and integrity, and for the application of a comprehensive Responsible Gaming agenda. In fact, the internet provides a basis for far better control than does the land-based retail channel. Geo-location technology and other tools enable a high degree of control. For instance, I was in Bulgaria last week where they are in the process of building a very robust system for not only knowing who their players are but being able to tax them in a multi-jurisdictional environment. Bulgarian players that are playing in Bulgaria are taxed according to Bulgarian tax structures; and Europeans residing outside of Bulgaria can play in Bulgaria and be taxed according to their own country's tax structures. Now if they can do it in Bulgaria, why can't we do it in Michigan?
- The Canadian experience is quite a bit different from the U.S. First, the fact that we are ten provinces instead of fifty states may make it easier to forge agreement on the issues. But I think the key factor is that the gaming legislation in Canada is really crystal clear. The criminal code clearly establishes that the provinces control all types of gaming, gambling, and lottery. That applies regardless of the channel of communication and distribution. And it has been a matter of public policy that one of the primary objectives is to channelize the activity of gambling. So, for instance, a primary reason for us to regulate internet gaming is to give the consumer a safe and secure place to play lottery and casino-style games online. The alternative to regulation, from our point of view, is that the consumer who is determined to play online is forced to play on the websites of illegal operators. The result of that is that the consumer is not protected, the government is unable to tax the revenues, and the illegals profit because they don't pay taxes. That is why we think it is better public policy to regulate the internet gaming industry.
- I would point out that was basically the original rationale for starting lotteries in the U.S.—to channel the illegal numbers gaming revenues over to a legal channel that captured the economic benefits for society, and to protect the consumer from the criminal elements that were operating the numbers games. So, yes, that same reasoning as applies to the Canadian situation should also apply to internet gaming in the U.S. right now.
- One of the keys to success in the political arena is to have at least one leader in the state legislature who is a champion, a big supporter for, the lottery. The lottery director can't lobby on behalf of the lottery. We need to depend upon our legislators and the governor's office to be our advocates and supporters, and our defenders if that's what is needed.
- The European situation is very complicated. I would just affirm that you are right to be concerned about the interference of the federal government into the regulation of gambling. The regulatory confusion in Europe can all be traced to one thing – the reluctance of the European Union Commission to acknowledge simply and once and for all the final authority of the member

states as regards to all matters of regulation and taxation of gambling. We have a term called 'subsidiarity' that essentially is comparable to the U.S. concept of states' rights. The EU Commission, like the U.S. federal government, should defer to the rights of its member states to decide matters of regulation and taxation of gambling and lottery. The EU Commission, though, has asserted itself into the regulatory policies of gambling and lottery and that has caused profound problems. The fact that there is confusion about what the member states are or are not allowed to do creates many problems. Perhaps the most pressing problem now is that illegal operators are able to capture more and more of the market because the member states do not have the authority and the clear legal basis for stopping them. You do not want to repeat our mistakes in the U.S.

- There is the long historic precedent of leaving gambling matters to the sensibilities of states and allowing them to decide for themselves all of the terms and conditions in which gambling takes place within their borders. But from a purely legal point of view, Congress does have the constitutional right to rule on matters of interstate commerce. We would argue that transactions that originate and terminate within the jurisdiction do not constitute interstate commerce. But others would argue that it does and the U.S. Congress could decide that it does constitute interstate commerce and that they want to regulate it.
- The problem is that lotteries are being attacked with such well-funded PR and lobbying campaigns. We're up against huge money. Sheldon Adelson (multi-billionaire casino magnate) has so much money and he's willing to spend it to accomplish his goal of prohibiting internet gaming and completely reshaping the way the entire industry is regulated. This has become a battle that is different than anything that we have fought before. Fortunately, there is lots of opposition to these bills that he is sponsoring. And we need to continue to speak out and harness every resource we have to defeat these efforts to undermine the ability of lotteries to succeed. Thankfully, these bills are so bad, so egregiously contrary to the interests of the states, it is hard to fathom how governors and state attorney generals will stand by to let it pass. But it could happen if the political firepower of the states is not mobilized to stop the federal government from over-stepping its authority.
- Given that i-lottery and i-gaming and geo-location technology is working so well in jurisdictions all around the world; given all the advantages that the internet offers to create a more healthy and sustainable gaming culture—I do not understand why the U.S. federal government thinks it should change the system of states being allowed to properly regulate internet gaming. Why should critical public policy decisions like these be driven by a multi-billionaire whose company, Las Vegas Sands, has just been penalized \$41 million for money laundering? Hopefully, our representatives in Congress will, in the end, not be swayed by campaign contributions and choose instead to protect the interests of their constituents and vote to preserve the rights of states to regulate the industry to serve the interests of society and Good Causes. ♦



to be a wet noodle, but it shouldn't have taken five years to get that off the ground. It's up to us to reconfigure so we can move from concept to launch within a much tighter timeline. All of us, all of the lotteries, need to sit at one table to decide the future for both games. I would submit that we need to find a way to merge the two groups, MUSL and the Mega Millions consortium. I think that goes to Connie's point about fear of change. That would be a big change and it takes guts and vision to make that kind of a change. But it needs to be done. Perhaps we should also be afraid of the outcomes of not changing, of continuing on the same path? In my opinion, we will never accomplish our goals without solving these governance issues.

**R. Hargrove:** *I hope and expect that the new governance structure for our national premium game will be a step towards making that happen. Connie, I want to piggyback on something you said about national branding and how powerful that would be for the consumer. On Monday, May Scheve met with some retail executives of the big national chain stores. If we want to get into the national retailers we need a national voice and a national look. They don't want to advertise our product one way in Tennessee and another way in Kentucky, and another way in Indiana, and another way in Illinois. So I think the sooner we can get to a national*

*branding, the easier it will be for May and her committee to help us get in to these national retailers.*

*We have covered a lot of ground today. We have not talked about the important topic of how social networking and social gaming will be integrated into the multi-state gaming platform. Suffice to say that is high on the agenda too.*

*As you can see, we are in a good place right now. The New Premium Game has the potential to be truly transformational. More and more lotteries are recognizing the importance of nationalizing our strategies as well as the need to evolve our game management structures to facilitate cooperation and unified action. But as you can also see, there are many unresolved issues. As an industry, we tend to rally for action when times are tough, and be less inclined to change anything when jackpots are rolling. It shouldn't be that way. The time to drive hard for innovation and progress is when we are strong and have the wiggle room to take risks. That's the way peak performers in the commercial world look at it and that's the way we should look at it too. Let's not wait for things to reach crisis proportions before we take the positive action that will set us on a course for long-term success.*

Gary Grief, Carole Hedinger, Stephen Martino, Charlie McIntyre, Connie Laverty-O'Conner—Thank you very much, Panelists! ♦



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**PGRI Introduction:** On July 16th, GTECH announced its intent to merge with IGT in a deal valued at approximately \$6.4 billion, bringing together the world's leading global lottery business with the world's largest global gaming equipment company. Combined, this transaction will create the world's leading end-to-end gaming company with scale and scope across all business segments of the gaming landscape. Marco Sala, Chief Executive Officer of GTECH S.p.A. said, "This outstanding combination of two global leaders truly defines the future of gaming entertainment. Together we are uniquely positioned to provide the industry's broadest and most innovative portfolio of best-in-class products, solutions and services." Paul Jason sat down with Jaymin Patel, President & CEO, GTECH Americas, to better understand the impact of this merger for WLA customers.

## Jaymin Patel

President & CEO, GTECH Americas

**Paul Jason, Public Gaming:** *What is the overriding rationale for the merger with IGT?*

**Jaymin Patel:** Bringing GTECH and IGT together produces the largest best-in-class supplier of products and technology in the industry. That translates into enhanced value to our customers who operate and deliver the games, and to the consumers who play the games.

Government lotteries and gaming operators are GTECH's primary customers. In some jurisdictions, such as New York, that also includes VLT operations. In others, it includes both VLTs and Interactive. GTECH has been building its portfolio of products and services with the goal of helping our customers evolve with the marketplace.

IGT's customers include both casinos and consumers for online social gaming. The combination of GTECH and IGT encompasses a spectrum that covers virtually every gaming category. We will create the world's leading end-to-end gaming company, with significant positions across all segments. This tremendous scale and global reach allow us to leverage the best, most experienced talent in the industry, and apply it to creating, marketing, and delivering games to the consumer. It also gives us direct access to the data that helps guide our understanding of consumer behavior, trend-lines, and the dynamics of the marketplace and retail operations, and informs the process of creating and delivering games of chance.

We expect to generate operational synergies and efficiencies through the IGT merger. That is important because it will further enhance our ability to focus more resources where they add value to our customers' business. In the end, this is all about delivering maximum value and support to our customers.

*There seems to be little overlap, not just in the product mix (IGT's strength being in casino games and GTECH's strengths being in all things Lottery). The product mix also falls into different industry segments, with IGT's strength being in the casino sector and GTECH's being in government-gaming sector.*

**J. Patel:** True. There are some interesting geographical synergies as well. Both IGT and GTECH have a global footprint, but IGT's penetration is deeper in some parts of the world, like Asia. The complementarity between our assets is quite compelling – even in Interactive, where we are both strong. GTECH has a portfolio of Interactive contracts, including customer-facing B2C operations, but IGT's success with DoubleDown's free-play entertainment games is like nothing else in the industry.

*DoubleDown is one of the jewels in the IGT portfolio of assets.*

**J. Patel:** DoubleDown Interactive is a wholly owned subsidiary of IGT. DoubleDown's game development talent and understanding of players are deep. It is rapidly growing and a market leader in a space where we know we need to be – free-play social gaming. DoubleDown positions us to provide a pathway for lottery operators who are not in the iGaming space but want to offer Interactive free-play or to deliver an augmented iLottery player experience. Free-play online games will prove to be a vital part of the portfolio of consumer-engagement strategies for many traditional lottery operators. In fact, we would submit that lottery operators will benefit by building an online gaming connection with their players. DoubleDown's expertise in monetizing "freemium" players (getting people to buy virtual currency) can help make that happen.

GTECH already has a robust portfolio of Interactive gaming products and services that we provide to operators all around the world, including the U.S. We just acquired Probability, an innovative UK-based developer of mobile games, both casual social games and money games. By combining the mobile expertise of Probability, the social gaming expertise of DoubleDown, and GTECH's global offerings, we now have a diverse range of product expertise in the Interactive space.

IGT has done a very good job of converting its casino content into social games. Just as IGT casino customers benefit by its acquisition of DoubleDown, so too do GTECH's



customers benefit by our merger with IGT. For instance, lottery operators have created players' clubs, loyalty programs, and second-chance draws to great effect. DoubleDown's resources have the potential to take these initiatives to a whole new level.

Of course, it is the lottery operator who understands what works best in their market. We respect that fact and are pleased to work in concert with our customers to bring to bear our resources in whatever ways the operator deems best or appropriate.

GTECH can deliver many different products and pathways to appeal to new demographics while staying within the regulatory constraints. Integrating the experience and know-how of the leaders of the two largest gaming sectors will provide the fertile foundation for doing just that. Staying aligned with our customers will always be our first priority, and the key to our success.

*I would think there will be tremendous synergies from the merger.*

**J. Patel:** The real benefit is the enhanced player experience. Customers who operate in multiple channels will benefit from having an easy pathway to deliver a player experience that appeals to the modern consumer, who wants to migrate from retailer to gaming machines on the casino floor, to self-service or VLT console, to home computer, smartphone, or other Interactive devices. Convergence may not seem to be happening in all jurisdictions right now, but we think that is the direction in which the world of recreational gaming is headed. The merger of IGT's strength in the casino space and GTECH's strength in the government-gaming space creates synergies that will benefit all of our customers, including lottery operators.

*Won't the cross-pollinating of resources and market intelligence across all the different gaming categories drive faster innovation and more forward-looking game development?*

**J. Patel:** That's the plan. I can tell you that we see tremendous growth potential in government-gaming and traditional lottery. The challenge is that the markets are changing rapidly all around the world. That is a positive thing for those who are positioned to evolve with the consumer. Traditional state lotteries have a monopoly and so have not always thought in terms of "competitive landscape." But even traditional lotteries need to take a strategic approach toward engaging the casual social-gaming market, toward game

development and distribution that retains their customer base, and toward capturing the attention of the consumer who is participating in a variety of gaming categories.

*How does diversification enhance your ability to support and drive performance in the traditional lotteries that do not anticipate expanding into new game categories and distribution channels?*

**J. Patel:** Integrating capabilities from all game categories provides operational efficiencies, cross-pollinates game development, and opens other avenues for innovation.

For example: In order to appeal to the young adult player, lotteries understand the need to evolve to games that appeal to the consumer who was raised with visually exciting computer games that provide a multiplayer and/or a social gaming context. The casino industry has been struggling with the same challenge. Traditional slot machines are not attracting the younger adult in the same numbers as they did a generation ago. The solutions that help IGT solve this challenge for its casino operators will inform the problem-solving process for lottery, and vice-versa.

DoubleDown has an active player base of millions who are playing non-money social and casino-style games. It is a model that is not entirely different from Zynga-style games, only they are game styles that are more closely linked to games of chance. This is called a "freemium" model, in which players can pay for an enhanced player experience, or they can choose to play without wagering or paying for anything.

*What about lottery operators who might ask why it is relevant to them that you provide products and services for market segments that they never expect to be involved in?*

**J. Patel:** Two things about that. First, the world is changing, and we want to be in a position to support our customers as the demands on their businesses change and as opportunities arise for them to expand and grow into new games and channels. Government-gaming operators are already expanding into new products, channels, and market segments, and we expect that trend to continue, or even accelerate. Our diverse product offering supports that growth in the way that best fits the objectives and constraints of our customers.

Second, the distinction between products, services, and market segments is narrowing. Consumers are migrating from one gaming category to another, and operators are adapt-

ing to this trend.

Insights into the behavior of players in all gaming categories inform our understanding of games in each individual category. Our global footprint as both supplier and operator gives us important insights into what works and what doesn't work, what new innovations are creating positive impact, and what innovations may not be ready for primetime. The business of land-based retail is changing, for instance, and we are keen on capturing and analyzing the results so that we can share that with our customers.

With IGT's input, consumer behavior in the broader space that includes casino-style gaming will provide additional context for a database of information to better understand this behavior and how we can adapt our products and solutions to enable our customers to grow their business in each sector, including traditional lottery. The operator is free to use and apply this knowledge as they see fit, integrating it with their own understanding of their own markets and their own gaming and social culture.

There is also tremendous synergy between the understanding of mathematics and game logic in the lottery and casino worlds. Marrying the resources and experience of GTECH and IGT should be a catalyst for some exciting and innovative ideas in game development. GTECH's traditional strengths in technology, operational excellence, and customer service will now be augmented by the deepest bench in creative game development and innovation.

*How can your assets/skill-sets in the lottery sector be applied to enhance value to the IGT casino side of the business?*

**J. Patel:** Delivering a good consumer experience ultimately comes down to understanding consumer behavior. Lottery must appeal on many different levels to attract consumer attention. That has given lottery a unique perspective on consumer behavior. The business of marketing lottery games is quite different from casino games, and the casino player is obviously different from the lottery player. But that doesn't mean that the insights gained by experience in the lottery world could not be applied with positive effect to the casino industry. There is an overlap in so many of these areas of gaming.

*Interactive has been a big topic for years. But the lottery business all around the world is still driven by land-based retail, especially*

...continued on page 66







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## Jim Kennedy

Executive Vice President,  
Group Chief Executive  
of Lottery, Scientific  
Games Corporation

**PGRI Introduction:** This has been an eventful year for the lottery industry and for Scientific Games. Changes are taking place across the industry and progress is happening worldwide that promises to change the face of government lotteries. In this discussion with Jim Kennedy, the changes are all about consolidation, convergence and content. The result of these changes is creation of scale and a cross-jurisdictional business model that helps position government lotteries for a successful future by keeping pace with shifting consumer needs and maximizing access to best distribution partners.



**Paul Jason, Public Gaming:** *What exactly is meant by consolidation? Who and what is consolidating in our industry and for what purpose?*

**Jim Kennedy:** Consolidation is simply a natural phase that drives the economic system across all industries. It is driven by economics—the drive of companies to succeed by positioning themselves to produce and deliver better products at efficient prices. The consolidation of independent retail stores into multi-state operations, for instance, is producing an improved consumer shopping experience, more efficient operations and lower prices for the consumer. It is simply more efficient, effective and profitable to operate as a cross-jurisdictional retail organization, and it enables the enterprise to offer products and services at a higher quality and greater value on a more consistent basis and in a more cost-effective way. Another example of this can be seen in the consolidation of media companies, which enables the integration of nationwide multimedia campaigns so that they are more impactful while drastically reducing the cost per consumer impression.

The consolidation independently taking place in the lottery industry and the gaming industry—and in these two industries together—should result in better game content being delivered through multiple channels of distribution, media and consumer points of access. Combining and integrating corporate assets via mergers and acquisitions enhances the ability of the modern enterprise to compete, deliver shareholder value and create unique customer value. The success of Scientific Games lies in our ability to deliver the best products and services—and the best value—to our customers.

*Independent from one another, Scientific Games, WMS and Bally are all world-class businesses, supplying excellent products and services to the gaming and lottery in-*

*dustry. Why should they all be brought under the one corporate umbrella? Who benefits and why?*

**J. Kennedy:** We completed our acquisition of WMS late in 2013 and we are now almost at the one-year mark of our business integration. On August 1, 2014, Scientific Games entered into a definitive agreement to acquire Bally Technologies, Inc. Certainly, we have already seen the benefits from our integration with WMS. Our customers benefit, our shareholders benefit and the consumer benefits. Scientific Games succeeds when we enable our government lottery customers to increase sales, market share and net profit performance. That goal is achieved by enhancing the products and services we provide. In our Lottery Group, our direct customer is the government lottery operator. But our games are delivered to and purchased by consumers. Combining game content, delivery systems, technologies and all of our resources under one corporate umbrella greatly enhances the ability of every one of our customers to connect with their consumer, the player.

The mission of an individual state lottery is largely to build its share of a targeted market of traditional lottery players by marketing and selling through traditional channels. Even within this context, there's a lot of room to innovate lottery games and to expand the retail footprint—and Scientific Games is more focused than ever on advancing this plan for our customers. For many, though, the long-term business plan will be to expand into new games, new channels and new demographic markets. Our goal is to innovate for our customers and create the best game content and marketing programs to reach consumers across multiple distribution channels. We bring together an industry-leading portfolio of game content, game development, distribution networks, insights and technology resources. Each customer we serve in every jurisdiction will benefit by the depth and breadth of having this entire portfolio of capabilities all under one roof.

The common thread behind consolidation is cross-jurisdictional reach. That applies to our industry just as it does to all others. We may think of the lottery marketplace as being defined by the borders of a juris-

diction, state or province. But the modern digital-age consumer does not think this way. Multi-state retailers do not think this way. The media companies that are a part of the firmament of all powerhouse consumer brands do not think this way. And for all lottery operators, future success will involve working together with other jurisdictional operators to build national brands as well as the multi-national distributional, media and promotional strategies that drive the success of those brands. The integration with WMS has given us improved scale, diversity of capabilities and cross-jurisdictional reach in ways that help our customers optimize their business plans—and not just now but into a future filled with new opportunities and competitive challenges.

*You said that it is the convergence in the consumer marketplace that is driving supply-side industry consolidation. How is consumer behavior changing? More specifically, how is the behavior of the recreational gamer and lottery player changing?*

**J. Kennedy:** Gaming options for the consumer have become available everywhere, through all varieties of distribution channels and venues. The notion that the lottery player doesn't play other games of chance may have been true when they had to get on an airplane to go to a casino. But that's no longer true. Now, well over a third of the population of the United States lives within 25 miles of a casino. And research is mounting that indicates the cross-over between lottery and casino play, going both ways, is increasing every day.

The modern consumer enjoys variety and is much more willing than past generations to experiment with new forms of recreational gaming. Their willingness to adopt new devices and services, and to try new shopping and entertainment options, is completely reshaping the consumer marketplace. This appetite for what's new, different and innovative will apply to recreational gaming as well. The modern consumer may not even go into c-stores, or be satisfied with a limited network of land-based retailers where they can buy lottery games. This is especially true for the younger demographic who grew up in the digital age of non-stop change and fresh alternatives to stimulate their interest and engagement on a personal level.

The consolidation of operations to address these trends is happening on the con-

tent side—the consumer wants to have the option to play different games. And it's happening on the distribution side—the consumer wants the option of self-serve systems, to buy and engage via the internet, and to buy in all varieties of storefront locations including restaurants, financial institutions, as well as at Costco, Wawa, Walmart, Walgreens and all the other big-box retailers. C-stores will always be a major channel for lottery products. However, even they are consolidating or being absorbed by large chain operators.

Again, we are clearly seeing consolidation happening on the media side as well. Lotteries have collaborated with each other to take full advantage of this media consolidation—delivering promotional information over the internet and other media, integrating with TV game shows that feature lottery winners, and potentially collaborating with the brand, messaging and promotional strategies of other consumer brands. This is smart customer marketing using today's best strategies.

It is partly a chicken before the egg scenario. Marketers must adapt to trends in consumer behavior. But the trends will gain momentum as consumers adapt to advances in consumer marketing. As the industry consolidates and as companies like Scientific Games make it easier and easier for the consumer to access multiple varieties of games from more and more consumer access points, this will drive further consumer migration among game categories and distributional channels. This may sound like a mixed blessing if a company thinks that it has a monopoly over consumer behavior. But there are three things to consider. First, making life easier and more convenient for the consumer is never a bad thing, especially if you are the first-mover and stay close to the consumer. Second, delivering more and better game content along with easier access for the consumer to buy the product will absolutely expand the market. And third, operators, traditional retailers and suppliers don't really have a choice. It is the consumer who ultimately decides. The marketers who give consumers what they want—ideally, anticipating what they will want and making sure it is already there waiting for them—will succeed. Any strategy based on offering the consumer access to lottery products at a limited variety of access points will result in lost market share, declining sales and declining net returns to good causes.

*Why is consolidation a positive thing for those government lotteries that focus on traditional lottery products and aren't necessarily interested in the digital realm and iLottery games?*

**J. Kennedy:** Consolidation is a positive thing for government lotteries because it offers a more efficient system for creating and delivering the games consumers want and making the games available where and when players want to play. Lotteries already have scale in the one area that all businesses strive hardest to achieve—they have lots of customers. It is more important than ever—and especially so for the lottery operator that focuses on traditional lottery games sold through land-based retail stores—to enhance the consumer connection, to maximize the brand power of lottery and create relationships with players, and to turn anonymous consumers into loyal, repeat customers. Consolidation is strengthening the important area of consumer insights which in turn informs a lottery's marketing strategy to be relevant with its consumers.

*It does seem like everyone agrees on the importance of building national brands. That would seem to mean that state lotteries need to integrate a cross-jurisdictional approach to everything from brand messaging, to promotions, and to business processes that facilitate cross-jurisdictional distribution.*

**J. Kennedy:** At the end of the day, consumers play games, whether they are Powerball® games, Jumbo Bucks instant games or the new MONOPOLY Millionaires' Club™ national game. We are looking at how game content can be shared and leveraged from one category to another across all industry sectors. Along with our WMS colleagues, we are researching consumer behavior as it manifests differently in various regional and state markets, across game categories like lottery and electronic games, and across different gaming venues and points of consumer access like retail stores, internet, casinos, self-serve, etc. We've learned that the appeal of different game concepts and popular licensed properties bridges game categories. The content is shareable across all categories. Scientific Games is now in a position to introduce concepts that are successful in the electronic games environment to the lottery player, and vice-versa. And even with the addition of all the game content and capabilities of WMS, we are very open to col-

laboration with third-party companies when it best serves our customers.

*Are you responsible for integration of all lottery functions?*

**J. Kennedy:** We are now in the process of fully integrating our global lottery business at Scientific Games. This includes our systems business, our MDI licensed properties and promotional marketing, our instant products business and our interactive business. Going through this process has shown us so many opportunities where we can best partner with our customers to deliver innovation, creativity and operational excellence. Working together in a single organization that's solely focused on lottery and our global lottery customers has been one of the most professionally rewarding experiences of my career. I am proud of this industry, proud of our customers and proud of the talent at Scientific Games.

*There seems to be intractable obstacles to cross-jurisdictional distribution of lottery products. That is, making lottery business processes acceptable for multi-state retailers.*

**J. Kennedy:** Multi-state retail operations are horizontally integrated. Efficiency and streamlined logistics are cornerstones to their business model. Placing product and technologies into a large retail chain like Walmart, Dunkin' Donuts or Walgreens with 37 different requirements from 37 different lotteries does not and will not work. It is a barrier to entry. It just does not work for the retailer because they want to deal with a single supplier, or at least a common system for accounts receivable, a common set of metrics, standardized report formats, and uniform sets of business practices on every level. A very practical reason that lotteries aren't growing in their distribution footprint is that distribution has become far more horizontally integrated than their jurisdictionally bound business processes.

I'm going to tie this back again to the media industry because I see many parallels. It is no longer just about TV commercials and billboards. Consumers of social media and other forms of non-broadcast media are far more horizontally integrated across multiple platforms. Like land-based retail, media is expanding horizontally to adapt to the convergence of the consumer market into all forms of new media. Players clubs, loyalty programs and 2nd Chance drawings

are just beginning to tap the potential of a multi-media, multi-platform approach. The national TV game show and other promotional strategies being applied to MONOPOLY Millionaires' Club will take us further in the right direction.

*MONOPOLY Millionaires' Club took years to come to fruition. What can Lottery do to put these great ideas onto a faster track from concept to implementation?*

**J. Kennedy:** Create a path for everyone to leverage their expertise, their specific core competencies, for the benefit of the industry. Creating a national premium game that resulted in MONOPOLY Millionaires' Club was a tremendous learning experience for everyone. And it ultimately came down to doing what has always worked well for lotteries and for the industry. Lotteries have demonstrated a great capacity to come together to evaluate proposals and sort out an action-plan to implement successfully. It was actually less than a year ago that the request was issued that specified what was wanted, inviting the commercial industry to respond with creative solutions. These solutions were evaluated and we were all given our marching orders. That's a pretty good turnaround time.

*Still, a business with net margins of 25% to 30% should be able to fund even more innovation, more vigorous game development, more initiatives that would meet the needs of cross-jurisdictional retail operations, and fund initiatives to penetrate completely new retail sectors. With an ROI on investment being so high and so predictable, why is it so hard to get funding? For instance, why couldn't you, the commercial community, fund it and be paid from future profits?*

**J. Kennedy:** I have been trying to solve that puzzle for 20 years. The process of deciding on and implementing MONOPOLY Millionaires' Club will hopefully provide some answers and open some doors. Put out a request for getting something done across jurisdictions and invite the supply-side to respond. I do think the industry is evolving to respond to the needs of a marketplace that is more and more horizontal and cross-jurisdictional.

The U.S. lottery industry is a \$70 billion consumer category. There is an enormous amount of marketing and consumer product presence that can be brought to bear if

we see ourselves as a \$70 billion product category instead of a fragmented collection of smaller markets. MONOPOLY Millionaires' Club could be the breakthrough product that lets the lottery industry see itself as a national force instead of an affiliation of individual jurisdictions.

*Why is it so important to have a national presence when each lottery actually only sells within its own borders?*

**J. Kennedy:** One of the persistent challenges that we face in our industry is growth in playership and growth in retail touch-points. Those have been the two limiting factors in our business. By creating a national presence that has the ability to leverage the dynamism of a fully integrated, nationwide marketing and promotional campaign built upon a consistent brand messaging strategy, lottery will become much more attractive to a broader population. This scale enables the funding for more creative game development, higher-impact marketing, and the resources to overcome obstacles to cross-jurisdictional retail sales. It will change the way that lotteries perceive themselves, how consumers perceive the lottery industry, and how retailers perceive the lottery industry. That shift is going to translate into more people playing—and more retailers and distribution partners wanting to be associated with the good causes that lotteries support.

I keep coming back to the word "scale." We get scale now—nationwide consumer buzz and engagement—when we have a big Powerball or Mega Millions® jackpot and the media jumps in to help us brand and promote it. But we as an industry are not actually creating scale; we are waiting for scale to happen. And as we have seen, this leaves us very vulnerable to changes in consumer expectations and the willingness of media to perform its part to help us promote jackpots. Why can't we have that level of consumer buzz all the time? Lottery as a whole needs to be proactive at creating that scale itself, at engaging the level of consumer interest on an ongoing basis that we now only see when the jackpot exceeds hundreds of millions of dollars. The successful consumer marketing powerhouses don't wait for consumer engagement to happen. They take control and create it for themselves. This is our opportunity, and I'm excited to see our collective industry leadership embrace this positive change. ♦



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# intralot

## Tom Little

President and Chief  
Executive Officer,  
INTRALOT Inc. USA

**PGRI Introduction:** U.S. lotteries are working hard to forge a more collaborative relationship with their retail partners. This is challenging for a number of reasons. For one thing, the National Association of Retail Stores (NACS) is obstinate in its opposition to internet sales of lottery products. How can we overcome that opposition and convince our retail partners that the multi-channel approach will drive store traffic and generate more sales and ultimately benefit them?

In the U.S. and all around the world, INTRALOT has been most progressive at the business of bridging the on-line and off-line worlds at Retail. I asked Tom Little to sort out the strategies for how this could be a pathway towards building a more collaborative relationship with our retail partners. Couldn't we partner with retailers to make sure they truly do benefit by Lottery's migration towards the multi-channel model?



**Paul Jason, Public Gaming:** *There is much talk about the “omni-channel”—making lottery products available to the consumer on all varieties of devices, media, and venues.*

**Tom Little:** It was not too many years ago that lottery products were only available for purchase at land-based retail stores. Now, almost all lotteries in Europe, Australia, Canada, and the rest of the world make the product available for purchase online. U.S. lotteries are beginning to do the same as well. Multiple channels of distribution, and providing a variety of ways for the customer to interact with the brand, came to be referred to as the “multi-channel” model. That multi-channel approach has now been taken to a whole new level. The “Omni-Channel” model is not just about making the products available through more and more channels and devices and media. It's about creating what we call the Universal Gaming Experience. It's not enough to just make the products available through multiple channels. It is about creating a seamless user experience, enabling the players to migrate from one channel to another, from one game to another, and not be frustrated by confusing interfaces and login protocols and other barriers that make it inconvenient for the con-

sumer. Just on a logistical level, we want to make the interface to all access points be user-friendly. Login procedures and knowing how to access the game and play the game or purchase the ticket should be easy and intuitive. The methods of playing or buying the games should be identical, or at least similar, from one channel to another.

Further, the customer wants to feel a singular connection to the brand. Lotteries are offering a larger variety of games than ever, the games are more interesting and engaging (and that can mean more complicated), and the portfolio and complexity of the games will increase even faster in the future. It will be so important that we develop a brand strategy that reinforces an emotional connection with the consumer, and not allow that connection to the brand be diffused by complexity and inconvenience. That is what the Omni-Channel is really about. More and more games made available through more and more channels can get complicated. The customer does not like complications. The customer likes easy and intuitive. That's what we have to deliver.

For instance, INTRALOT offers central determinate games (server-based gaming) at retail with our TAPP IT™ games. As we build out this technology to be implemented on other devices, it needs to provide a



player-experience that is fun and readily understood with an easy learning curve as the consumer migrates from smart-phones to tablets to TAPP IT™ and other self-serve in-store deliver systems. Essentially we will provide a single user interface for any device the consumer wants to use. In addition, we need to build in the ability for the operator to integrate the retailer in whatever ways fits their strategy, i.e. commissioning and cross-promoting and other agendas that we may not even know about right now. We have great game developers that are integrating with us through our API so that retailers and consumers alike can readily embrace a migration process to more sophisticated, and entertaining, games and channels. Omni-channel is about enabling all this to happen such that the high-tech back-office technology appears simple and user-friendly to the player and retailer. Of course, this process is all being implemented in partnership with the lottery partners, which we serve, the retailers that sell lottery products, and the consumers who buy the products. Together we are evolving this business to position government-gaming operators to be the gaming destination of choice for the next generation of consumers.

*Are there ways to integrate a social networking experience into the lottery playing experience? Why can't we create an easy path-way for the player to post his "like" for Lottery on Facebook? Post that she just won \$50 and is buying her friends drinks tonight and such? And maybe loop in the retailer in some way?*

**T. Little:** We already can create an easy path-way for the players to post their "like" for Lottery on Facebook or post that he/she just won \$50 and is buying their friends drinks tonight. There are a number of different ways to directly interface with Facebook and other social media channels. We believe the best way is to design games that have some sort of life after the ticket reveal or the drawing. More specifically, add value to the losing tickets after the reveal. The winning tickets already deliver value. So, in effect, our job is to create good losing tickets. Players could perhaps accrue points for their losing tickets to be redeemed in some way. Or why not create a social media Zynga-like game—losing tickets could be used as currency to buy virtual goods. That would cost Lottery nothing, other than the game development and maintenance cost. And it

could add a very interesting component to the game. After all, the vast majority of our players end up with losing tickets. We need to focus our resources on enhancing the value to the consumer experience of purchasing losing tickets. The social networking that you refer to is already being done. Play that goes through the web enables the game results, player comments, etc. to be linked directly to social media sites.

*One obstacle is our inability to enable Retailers to understand how and why the Omni-Channel approach will benefit them.*

**T. Little:** The biggest issue facing the lotteries when it comes to integrating the Omni-Channel approach with brick & mortar retailers is communication. For example, NACS (the Retailers' Association), in a recent debate, said that one of the reasons that they were against play on the Internet was because of underage play. Another reason was that they were worried about out-of-state play. These types of issues have already been solved from a technical standpoint to assure that they don't happen. Games of chance in general, and that includes lottery tickets, have been sold online for many years almost everywhere else in the world without incident. The technology to prevent underage play and out-of-state play is proven to work. Of course, the people at NACS know this. They just hope that the disinformation can create concern on the part of the legislators they are trying to convince to prevent Lottery from being sold online. Retailers are understandably worried that they will lose business and commissions. They should not be because the Omni-Channel approach draws in more consumers, drives more store traffic, and benefits retailers. John Kennedy said "A rising tide lifts all boats" and that is what the Omni Channel approach does for lottery products, lottery operators, and retailers. This has been proven over and over again with lotteries that are able to sell on the internet. NACS rebuttal to that is that they might have had larger increases in their land-based stores without internet sales taking place. That is a convenient argument since there is no way to prove or disprove it. The thing is, that there are many ways to integrate the retailers into an Omni-Channel model. Commissions can be shared and lottery websites can be an incredibly powerful medium to promote retailers and drive store-traffic. When you consider the increased store traffic that lottery online promotion

would drive, the net result for retailers is unequivocally positive. Many retail stores are employing an Omni-Channel approach already, and so we should be able to engage their support. We have internet solutions available for implementation in the retail stores right now. For example, some of our lottery operator clients have our self-service Multi-Purpose Next Generation (MPNG) machines and are selling our TAPP IT™ interactive games at land-based retailers. We could enable players to play the same games online for fun and come into the store to play for money.

For the entertainment non-money games we can provide retailer promotions to drive players back into the stores. Another option is for players to get a ticket at the store that they then play at home, on their home computer or tablet or smart-phone. Another idea would be to enable players to "top up" their e-wallets at the store and then allow them to play on the Multi-Purpose machines at the store or anywhere that they can get online.

A problem is that retailers who are moving towards the Omni-Channel model are not including Lottery in their planning process. The first thing we could do is to identify retailers who are already thinking about how to evolve their businesses to appeal to and connect with the next generation of consumers—the early-adopters of technology and business process trend-lines. These are the ones who will understand the benefits of integrating lottery into their planning processes. Think about it: Lottery has a massive consumer connection, really unlike any other product in the world. Retailers know this; they know that Lottery drives store traffic. The retailer who is already thinking about the Omni-Channel as it applies to their business will quickly grasp the reach and impact of Lottery's website connection to the consumer, and how it could be leveraged to drive new consumer groups into the store.

As an industry, we have not always treated our retailers as a true partner. If we want them to treat us as partners, we need to treat them as partners. By fully engaging with our retailers on every level, we will become a part of the process that includes Lottery in an Omni-Channel approach. Instead of being an Omni-Channel strategy that just serves the interests of Lottery, it will be a joint effort that is mutually beneficial for both Lot-

...continued on page 68

# Australia to Germany—a JUMBO Size Step

Jumbo Interactive selling for all 16 German Lotteries to a population of 80 million people

## JUMBO INTERACTIVE THE RIGHT COMBINATION

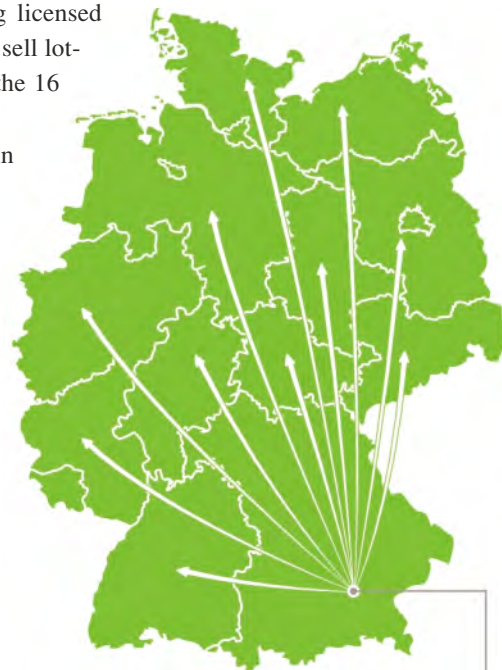
**PGRI Introduction:** As an aside, there are some striking similarities between Germany and the U.S. Germany is made up of sixteen states (referred to in Germany as *länder*) that collaborate on most games and on many marketing, advertising, operational, and distributional levels as well. Germany has a less open regulatory structure than other European countries, with strict controls over the kinds of games, advertising, and distribution channels that can be applied to the business of Lottery. Solutions that meet the needs of the German markets, comply with German regulatory constraints, and meet the operational needs of the sixteen German lotteries are likely to do the same for U.S. lotteries as well.

Jumbo has just completed a major milestone by going live on the internet with all 16 German states. With the population of each state on average around 5 million people (similar to most US states). The total population to 80 million people is almost 4 times the population in its native Australia.

Capitalizing on its experiences as an e-retailer to the Australian state lotteries, and on the experience and skill-sets gained as the operator of the flagship website [www.ozlotteries.com](http://www.ozlotteries.com), Jumbo embarked on a business plan to seek opportunities to provide services to the global membership of the World Lottery Association (WLA). The experience gained in the process of implementing i-lottery in Germany and Australia will be most applicable in highly regulated markets all around the world, particularly in the U.S. The Jumbo solution provides a pathway to i-lottery that is compliant with the regulations of almost all jurisdictions while meeting the needs of the retailer community.

In 2012, federal legislation changes in Germany opened the lottery market permitting licensed companies like Jumbo to sell lottery online on behalf of the 16 state lotteries.

From its head office in Brisbane, Australia to Germany, two continents or nearly 10,000 miles away, Jumbo began the process of applying for a license. The Company opened its offices in Munich in October 2012 and began prep-





arations for the launch. Jumbo's technical staff met the specific requirements of the state lotteries and built the Jumbolotto.de website. Developments specific to the legislation include age controls, geo-location verification, and responsible gaming measures, as well as specific game rules and regulations of the 16 lotteries.

Five months later, on December 20 2013, the Jumbolotto.de web-site was launched in the largest Lander, North Rhine-Westphalia, with the Jumbo site interfacing with the lottery's gaming system to record each lottery purchase in real-time. Another significant aspect of this implementation was that Jumbo launched a completely new systems platform. This next generation platform was developed in-house by Jumbo's development team to take advantage of the latest web-development and security technologies.

Progressively each of the 16 Lander lotteries was added to the network and on the final day, June 26 the last three lotteries were launched. The Jumbolotto.de site B2B interfaces with: twelve gaming systems supplied by Scientific Games, three gaming systems supplied by GTECH and one system supplied by Intralot.

Collectively the 16 lotteries form the Lotto Bloc, the first multi-jurisdiction group of lotteries. Formed in 1955 when Bavaria, Hamburg, Nordrhein-Westfalen and Schleswig-Holstein joined together to market and promote the Lotto 6/49 and eventually being joined by the other 12 lotteries. Today, the draw games portfolio includes several additional games including the Euro-Jackpot. As a whole the 16 Landers occupy a geographic area of approximately 140,000 square miles and a population of 80 million. An area and population that is roughly equivalent to all of the eastern seaboard states from New Hampshire to the Carolinas.

Under the German model companies like Jumbo are permitted to apply for licenses to operate as Lottery retailers in the digital channels. Just like the brick and mortar retailers create a diverse network of physical retailers, e-retailers represent multiple sales points on the web to reinforce lottery awareness and provide convenience to capture sales. Re-



Gerhard Sparrer

tailer expansion is a proven lottery best practice to increase sales; the German lotteries have simply taken this expansion to the digital world to promote and sell their draw games to a broader retail network that provides convenience and appeals to a new demographic of potential customers who live in a mobile digital world.

While in competition with other online retailers, including the lotteries themselves, Jumbo considers this a healthy business model for the lotteries as competition

breeds innovation. Armed with its years of experience and its extensive digital marketing tools and retailer partnership programs, Jumbo is confident that it will find new customers and re-engage customers with a new value proposition; a value proposition that will build a loyal customer base through its proven customer relationship management system.

Under the leadership of Gerhard Sparrer, the Jumbo team has, over the past six months, built the business infrastructure and launched the Jumbolotto.de site.

Now the Jumbo Germany marketing staff, supported by a marketing team from Brisbane, has launched a comprehensive marketing and promotions campaigns to help all 16 lotteries maximize sales through digital sales channels.

Armed with the momentum and experience gained from its German venture, Jumbo continues to pursue opportunities for its e-retailer i-lottery services and help lotteries worldwide maximize sales for the good causes they support. ♦





## A FEDERAL LAW RESTRICTING INTERNET GAMBLING COULD LEAD TO UNINTENDED AND DEVASTATING CONSEQUENCES FOR STATE LOTTERIES

By Mark Hichar  
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When Congress has acted to regulate gambling in the past, there often have been unintended consequences. Thus, for example, when Congress passed the Indian Gaming Regulatory Act (the “IGRA”),<sup>2</sup> it “meant to spur economic opportunity and growth on poverty-stricken and remote Indian reservations ... The aim of IGRA was Indian empowerment, ... [and] many members believed [their 1988 congressional vote] was authorizing bingo parlors on remote tribal lands.”<sup>3</sup> However, “[m]any of those who were meant to benefit from IGRA have not, ... [and] today, [the law] might as well be renamed the “Law of Unintended Consequences.”<sup>4</sup> Similarly, Congress likely did not anticipate that the Unlawful Internet Gambling Enforcement Act (the “UIGEA”)<sup>5</sup> would result in fantasy sports league operators using it as a blueprint for daily sports-based games.<sup>6</sup> Finally, when Congress passed the Wire Act in 1961,<sup>7</sup> the members likely did not expect that four-decades later it would be used to prohibit non-sports-related gambling involving wire transmissions, as it was until the Department of Justice (“DoJ”) issued its 2011 opinion that limited the Wire Act to sports-related gambling.<sup>8</sup> As stated by the DoJ in that opinion: “The Wire Act’s legislative history reveals that Congress’s overriding goal in the Act was to stop the use of wire communications for sports gambling in particular.”<sup>9</sup> “Congress’s decision to expressly regulate lottery-style games in addition to sports-related gambling in [the Interstate Transportation of Wagering Paraphernalia Act<sup>10</sup>], but not in the contemporaneous Wire Act, further suggests that Congress did not intend to reach non-sports wagering in the Wire Act.”<sup>11</sup>

In this publication and elsewhere, much has been written about the possible effects, intended and unintended, of the identical “Wire Act fix” bills introduced on March 26, 2014 by Senator Lindsey Graham (R-SC) and Representative Jason Chaffetz (R-UT).<sup>12</sup> While those bills (collectively, the “Bill”) purport to “restore” the Wire Act to the meaning given it prior to the DoJ Opinion, they in fact would result in the prohibition of many lottery activities that today are important to state lotteries’ revenue generating efforts.

If the Bill became law, the Wire Act would prohibit a gambling business from using any network involving a wire or like connection, including specifically the “internet,”<sup>13</sup> to transmit in “interstate or foreign commerce”:

1) 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 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/>

2) 25 U.S.C. 2701, et seq.

3) “Unintended Consequences,” National Review Online, September 29, 2004, at <http://www.nationalreview.com/articles/212361/unintended-consequences/gary-bauer>, last accessed August 11, 2014.

4) Id.

5) 31 U.S.C. 5361, et seq.

6) See, for example, FanDuel’s explanation of the lawfulness of its games, at: <https://www.fanduel.com/legal>, last accessed August 8, 2014.

7) 18 U.S.C. §§ 1081 and 1084.

8) Memorandum Opinion for the Assistant Attorney General, Criminal Division, “Whether Proposals by Illinois and New York to Use the Internet and Out-of-State Transaction Processors to Sell Lottery Tickets to In-State Adults Violate the Wire Act,” September 20, 2011 (issued December 23, 2011) (the “DoJ Opinion”).

9) Id., at page 8.

10) 18 U.S.C. § 1953.

11) DoJ Opinion, at page 11.

12) S. 2159 and H.R. 4301, respectively.

13) “Internet” is not defined in the Bill, nor is it defined in the Wire Act (which was enacted decades before the internet existed). Thus, courts looking for its meaning would likely refer to the Unlawful Internet Gambling Enforcement Act (the “UIGEA”) (31 U.S.C. § 5361 et seq.). There, “internet” is defined as the “international computer network of interoperable packet switched data networks.” (31 U.S.C. § 5362(5)).



- (A) any bet or wager, or
- (B) information assisting in the placing of any bet or wager,<sup>14</sup> or
- (C) a communication entitling the recipient to receive money or credit as a result of any bet or wager.

However, the Bill contains four exemptions, which would:

- (1) preserve the status quo as to internet betting on horse races;<sup>15</sup>
- (2) preserve the status quo as to internet betting on charitable games;<sup>16</sup>
- (3) not apply to pay-for-play online fantasy sports tournaments conducted in accordance with the UIGEA; and
- (4) not change or limit “the ability of a State licensed lottery retailer to make in-person, computer-generated retail lottery sales under applicable Federal and State laws in effect on the date of the enactment of [the Bill].” Thus, “in-person” lottery sales by licensed lottery retailers would remain lawful to the extent they were lawful before the Bill became law.

Of course, among the Bill’s intended consequences is a ban on sales of lottery games via PCs and/or mobile devices. However, if the Bill became law, there would be other, seemingly unintended consequences to state lotteries. For example, due to the wording of the Bill’s fourth exemption (the “Lottery Exemption”), the amended Wire Act would render unlawful the operation of a state lottery (including traditional online games) by any current non-lottery state that had not enacted lottery legislation by the date the Bill became law.

In addition, due to the ambiguity of the “in person” sales requirement in the Lottery Exemption, the exemption likely would not cover and thus it would be unlawful for a state lottery to (1) operate video lottery games where the video lottery terminals exchanged wagering information (even if not actual wagers) with a central system via the “internet” (i.e., a network of interoperable packet switched data networks), or (2) to sell lottery games via player-activated terminals (because such terminals exchange wagering information with a central system via the internet). This would be true even if the wager-related transmissions were between points in the same state, because the Bill clarifies that the phrase “uses a wire communication facility for the transmission in interstate or foreign commerce,” as used in the Wire Act, “includes any transmission over the Internet carried interstate or in foreign commerce, incidentally or otherwise.” (emphasis added) Thus, if the intermediate routing of the wager-related transmissions crossed state lines (or was considered to cross state lines), it would violate the Wire Act, when the Lottery Exemption did not apply.<sup>17</sup>

Advocates of the Bill have claimed that state lotteries’ concerns about video lottery gaming and player-activated terminals are unwarranted, and that the Lottery Exemption would exempt from prohibi-

tion such lottery activities.<sup>18</sup> However, the Lottery Exemption does not appear to “carve-out” such lottery gaming, and thus state lotteries’ concerns are indeed valid.

Specifically, courts and regulators have often distinguished between “in-person” sales and sales via vending machines. For example, in 1993 a California court was called upon to determine whether a California state law governing the sale of cigarettes preempted a local ordinance adopted by the City of Rancho Mirage.<sup>19</sup> Describing the state law, the court stated that it “identifies the person liable in the event the proscribed sale is accomplished through a vending machine rather than in person.”<sup>20</sup> The Court thus distinguished between sales via a vending machine and “in person” sales (the latter being over-the-counter sales by a sales clerk), making clear that they were different methods of sale. The Washington Supreme Court made a similar distinction, noting in a 2008 opinion, that in an earlier case, it “struck down an ordinance taxing vending machines but not-in person sales.”<sup>21</sup> Finally, Providence, Rhode Island is among the cities that distinguish between “in-person” sales of tobacco products and sales of such products via a “vending machine.”<sup>22</sup>

Thus, because courts and regulators in other contexts have distinguished between “in-person” sales and sales via a vending machine, concerns regarding the Bill’s application to video lottery and player-activated lottery sales terminals are valid. Looking to the above cases and regulations as guidance, a court could interpret the Lottery Exemption in the Bill as not applying to—and thus not preserving—the ability of state lotteries to (1) conduct video lottery gaming where the video lottery terminals exchange wagering information with a central system over a wide area network, or (2) sell lottery tickets via vending machines or by any method other than over-the-counter sales involving personal interaction between a sales clerk and a purchaser.

The above illustrates but two unintended consequences of the Bill—the elimination of player-operated lottery ticket vending machines and the prohibition of certain video lottery games. Others would no doubt become evident if the Bill were to become law. (One consequence of the Bill that seems entirely intentional, incredibly, would be its elimination of certain rights Indian tribes had prior to the DoJ’s 2011. Nothing in the Bill addresses Indian gaming, and the concerns of Indian tribes have simply been ignored.)<sup>23</sup>

In summary, as has been the case when Congress regulated gaming in the past, if the Bill became law, there would be unintended consequences, and those affecting state lotteries could be devastating in effect. For this reason, among others, the regulation of internet gaming should be left to the individual states—which historically have been allowed to regulate gaming occurring within their borders. States have historically performed this regulatory responsibility prudently and wisely, keeping in mind the sensibilities of their citizenry. ♦

14) However, there would be an exception for the transmission of information assisting in sports betting (but not actual bets) transmitted between states in which betting on such sports events was lawful.

15) It is generally accepted that internet betting on horse races is lawful under a 2000 amendment to the Interstate Horseracing Act (15 U.S.C. § 3001 et seq.).

16) Thus, to the extent internet betting on such games were lawful under state laws in effect on the date the Bill became law, it would remain lawful.

17) Note, in this regard, that the U.S. courts of appeal in the 1st, 3rd and 5th federal circuits have held that transmissions via the internet are considered to be in interstate commerce, regardless of the actual routing. “[B]ecause of the very interstate nature of the Internet, once a user submits a connection request to a website server...data has traveled in interstate commerce.” U.S. v. MacEwan, 445 F.3d 237, 244 (3rd Cir. 2006); “Transmission...by means of the Internet is tantamount to moving [data] across state lines.” U.S. v. Carroll, 105 F.3d 740, 742 (1st Cir. 1997), followed by U.S. v. Runyan, 290 F.3d 223 (5th Cir. 2002) and by U.S. v. Yong Wang, 2013 U.S. Dist. LEXIS 16153 (S.D.N.Y. 2013).

18) See, for example, “Lotteries, Retailers Clash Over ‘Unintended Consequences’ of Wire Act Fix,” Gambling Compliance, May 14, 2014, by Tony Batt, in which NACS attorney Douglas Kantor is quoted referring to such claims as “misleading” and “fantasy land.”

19) *Bravo Vending v. City of Rancho Mirage*, 20 Cal. Rptr. 2d 164 (Cal. Ct. App., 4th App. Dist. 1993).

20) *Id.*, at 174 (emphasis added).

21) *Ventenbergs v. City of Seattle*, 178 P.3d 960, 975 (Wa. 2008), referring to *City of Seattle v. Dencker*, 108 P. 1086 (1910). 22) Providence, Rhode Island Code of Ordinances, Article XV, sec. 14-303 (2013).

23) This is in contrast to the UIGEA and other federal bills that sought to regulate internet gaming. For example, although deeply flawed, the UIGEA at least expressly provides that the term “unlawful Internet gambling” does not include sending or receiving bets or wagers within the Indian lands of a single Indian tribe or between the Indian lands of two or more Indian tribes (to the extent that intertribal gaming is authorized by the Indian Gaming Regulatory Act (25 U.S.C. § 2701 et seq.) and meets certain other conditions in the UIGEA, 31 U.S.C. § 5362(10)(C)). Similarly, the “Internet Gambling Prohibition, Poker Consumer Protection, and Strengthening UIGEA Act of 2010, drafted by Senator Harry Reid’s office in late 2010 but never introduced (the “Reid Bill”), expressly “carved out” such wagering within tribal lands. Reid Bill discussion draft, Title I, Section 102(2)(B)(iv) on page 12.

# STANDING STILL IS NOT AN OPTION

## GROWING RETAIL SALES IN A MATURE LOTTERY

Growing sales, especially same-store sales, in a mature, high-performing lottery can be a challenge. GTECH's expansive suite of capabilities in this area has evolved based on experiences and lessons learned with three lottery management contracts in the U.S. GTECH has developed a comprehensive retail optimization program to boost the sales and revenue of even high-performing lotteries, leveraging more consumer, retailer, and player insights.

In New Jersey, fifth in the nation in total per capita sales at \$6.10, the New Jersey Lottery and Northstar New Jersey Lottery Group (Northstar NJ) have been working together over the past year to build a player-centric plan to grow the Lottery from a nearly \$3 billion brand to a nearly \$4 billion brand by FY 2018. The plan, which is being implemented with the full support and commitment of the entire Lottery staff, includes enhancing brand equity, evolving the instant category with exciting new game families and revamped prize structures, and energizing the draw game portfolio with the addition of new multistate games (CASH4LIFE and MONOPOLY MILLIONAIRES' CLUB™, for example) and enhancements to existing games.

Hand in hand with these major sales drivers, lifting sales in high-performing lotteries requires a retail optimization program focused on the player and executed with relentless precision and an eye to detail in every retail location.



### FOCUS ON THE PLAYER

To grow sales in New Jersey, Northstar NJ (whose responsibilities include sales, marketing, product development, retail optimization/recruitment, retailer relations and communications, and player education functions of the Lottery) has implemented a retail optimization program focused on five major areas.

#### 1. Quality Expansion of the Retailer Network

Expanding the Lottery's reach by adding quality retailers to the network is a priority in New Jersey as it is in most jurisdictions. With more retailers, the Lottery can realize sales across a larger demographic, increase the engagement of lapsed and light players, and improve Lottery acceptance and awareness. In New Jersey, the goal is to add enough quality retailers to reduce the number of people per retailer from 1:1,360 to 1:1,239 by FY 2015.



New Jersey Lottery Recruitment Tools

Armed with a complement of newly created recruitment tools and retailer-facing materials, Northstar NJ's team of Business Development Associates (BDAs) hit the streets to sign up independent retailers across the state. After 10 months, the retailer network has grown by more than 430 retailers.

Simultaneous efforts to recruit one of New Jersey's most profitable and visible chains, Wawa, required creating



a customized solution to meet the retailer's very specific requirements, and concluded successfully in November 2013, with all 235 Wawa locations selling lottery products by early 2014 (see the August issue of PGRI). Wawa stores have generated nearly \$23 million in New Jersey Lottery sales since the initial rollout of stores in October 2014.

## 2. Sales Call Optimization

One way to increase same store sales is to optimize sales representatives' effectiveness in the field. In New Jersey, the retailer-to-representative



Retailer Communication and Training Tools

ratio on average is less than 1:125, and LSRs and BDAs undergo GTECH's intensive, two-week Sales Certification Program training upon hiring. The certification program covers Lottery history, products, sales and marketing strategies and includes a complete set of sales and recruitment tools, a measurement component, and practical field experience such as "clerking for a day."

The entire organization has a singular laser focus, with LSRs and retailers being kept informed and up-to-date through consistent and timely communications driven by a monthly newsletter and a publication that answers retailer questions ("We're Listening to You").

### Sales Call Stratification

Another important element of sales call optimization in New Jersey was to stratify the sales call cycle. The objective of this sales call stratification is to:

- › Find retailers that have higher sales growth potential using predictive sales modeling.
- › Ensure Customer First service with a quality, effective sales call to every retailer in the network focused on actionable sales data.

Using a statistical analysis of data variables – actual sales data as well as population size and growth rates, housing characteristics, presence of other lottery retailers, propensity to play lottery products, etc. – combined with LSR input, all established retailers (those selling for 26 weeks or longer) were prioritized by their sales potential. Sales call frequency was established for each category:

**Top Performers:** Retailers that account for the top 20% of sales; visited bi-weekly.

**High Potential:** Retailers whose predicted sales are higher than actual sales and higher than regional thresholds; visited weekly.

**Maintain:** Retailers whose sales match their predicted sales and are doing fine as is; visited bi-weekly.

**Bottom Performers:** Retailers in the bottom 10% of sales with little potential for improvement; visited monthly but called bi-weekly by instant ticket specialists.

Retailer classifications and call cycles will be reviewed at least annually.

## 3. Draw Game Optimization

A consistent calendar of player promotions and retailer and clerk incentives helps to revitalize sales of established draw games and introduce new games and game enhancements. In New Jersey, in addition to player favorites like Red Ball and Green Ball, new player promotions are being piloted to measure sales impact. These include enhanced payout structures and "buy one get one" promotions such as Free Ticket Fridays and "Nth" transaction free plays.



Draw Game Player Promotions

### High Jackpot Strategy

Although New Jersey is #1 in the U.S. in total multistate game sales per capita (\$0.94), GTECH and Northstar NJ saw an opportunity to increase these game sales during high jackpots. A high jackpot trigger strategy has been executed that includes:

- › Terminal messages
- › Streamlined digital (ESMM) jackpot awareness show
- › TV and radio advertising
- › Digital banners
- › Billboards
- › Promotions team and mascots at promotional events



Jackpot Awareness in Action

- › Social media
- › Public relations
- › Game shirts/stickers
- › Trial-driving buy one, get one coupons
- › Leveraging corporate in-store announcements and social media push messages
- › Unwavering execution of basics at retail, including jackpots posted around the store, cross-promotion with other games, winner awareness, and always-filled instant ticket bins.

#### 4. Instant Ticket Optimization

With 48% of Lottery retailers carrying 33 or more facings (21% have 48+), growing instant ticket sales in New Jersey is not simply a question of adding more games. Instead, Northstar New Jersey's instant game sales retail optimization program focuses on:

##### Product visibility optimization:

- › Replacing "black box" dispensers with clear plastic dispensers and towers.
- › Piloting strategies to optimize effectiveness of in-counter displays, including menu boards and menu mats.
- › Focusing on achieving new game penetration within the first five days after launch.

**Product mix optimization:** Instituting a monthly plan-o-gram to make sure stores carry all the top

sellers, especially in locations that sell instants only via vending machines.

**Inventory management:** Allowing partial pack returns to:

- › Make bins available for more saleable tickets.
- › Overcome retailer resistance to carrying and activating new games.
- › Avoid diminishing brand relevance through outdated, low-selling product.

These initiatives have contributed to the realization of record-breaking instant sales: six of the top 10 settlement weeks in New Jersey Lottery history (including #1) have been achieved in FY 2014.

#### 5. Performance-Based Retailer & Clerk Incentive Programs

Rewarding retailers and their staff for following revenue-generating marketing best practices can be an effective motivator and sales driver. To drive growth of both instant and draw games, Northstar NJ offers retailers the opportunity to earn incentive dollars if they achieve specific sales goals customized by location. Other retailer incentives, such as rewards for activating, settling, and properly displaying specific instant games, have also been effective.

### JUNE 2014: Plan-o-gram 24 Instant Ticket Display

**Easy Reference Guide:**  
Post inside your dispensing machine\*  
for the month of June.

\*Where available.  
Must be 18 or older to buy a lottery ticket. Please play responsibly.  
If you or someone you know has a gambling problem, call 1-800-GAMBLER.

**New Jersey Lottery**  
Give Your Dreams A Chance

#### Retailer Incentive Sell-in Sheets

Sales associates play a critical role in promoting a lottery's product lines and communicating information about games to the retailers' customers. Realizing that motivating and engaging retail staff can directly affect lottery sales, Northstar NJ has implemented a variety of clerk incentive promotions in New Jersey, including ask for the sale; sell, sign and win boards; and "Nth" voucher initiatives, where every "Nth" ticket of the draw game sold statewide produces a voucher for the selling clerk.

#### Relentless Execution

By developing, implementing, and believing in their retail optimization plan, and through relentless execution of the basics at retail, Northstar NJ and the New Jersey Lottery continue to build a foundation for same store sales growth in the coming years.





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# Pulse of the Industry

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## **U.S. LOTTERIES PRODUCE RECORD SALES AND PROFITS FOR FISCAL 2014**

### **The Arizona Lottery Generates Record \$724 Million in Sales for Fiscal Year 2014**

The record figure, which is a 4.5 percent increase over the previous fiscal year, has been attributed to the surge in scratch ticket sales, which totaled more than \$483.9 million this year, according to Jeff Hatch-Miller, executive director of the Arizona Lottery.

### **Arkansas Scholarship Lottery Nears Half-Billion-Dollar Mark in Scholarships Since 2009**

### **California Lottery Sales Set New Re- cord; Sends More Money to Schools**

More than \$4.9 billion in lottery tickets have been sold during the fiscal year that ends June 30, 2014. That’s not only a record, but also a significant increase from the \$4.4 billion worth of tickets sold the previous fiscal year. Acting Lottery Director Paula LaBrie said: “It’s been a record year for the California Lottery, and we’re proud of what we’ve been able to achieve for California schools. However, we have tremendous opportunities for continued growth in the new fiscal year, and we’re determined to make this another great year for the Lottery and for public education.”

Lottery officials said sales of “Scratchers” made up most of the revenue, with

more than \$3 billion in tickets sold. As a result of ticket sales, California schools will get more than \$1 billion from the lottery this year—the 14th year in a row more than \$1 billion has been distributed to the school system.

### **Delaware Lottery Sets New Sales Record**

Lottery Director Vernon Kirk said record sales for Instant Games and the “exceptional performance” of Mega Millions contributed to this fiscal year’s milestone. Additionally, the number of retailers selling traditional game products jumped from 535 stores in 2011 to the current total of 655. “The success we achieved in Fiscal Year 2014 is the outcome of the ground-work laid over the past few years,” Kirk said. “We will continue to look for new ways to offer products and winning experiences that our players want in an effort to build a better gaming future in Delaware.”

### **Florida Lottery Announces \$27 BILLION in Transfers to Education Since 1988**

In fiscal year 2014, the Lottery had record-breaking sales of more than \$5.36 billion resulting in the transfer of \$1.49 billion—more than \$100 million a month to education. Governor Rick Scott said, “This has been an outstanding year for the Florida Lottery, and for Florida’s students and schools. Providing our children with a quality education will equip them with the

*necessary skills to succeed in life. We are working to ensure our children are ready to compete in the new global economy. Over the past 26 years, the Lottery has proven its commitment to education funding at every level, and this investment will benefit our children.”*

For the twelfth consecutive year the Lottery has transferred more than \$1 billion to education, and has continued to lead the 10 largest-selling lotteries in the nation in sales growth and growth in contributions to beneficiaries.

“I want to thank Governor Scott for his commitment to education. Floridians can always count on the Lottery to remain focused on our mission to maximize revenues for the educational programs we fund,” said Secretary Cynthia O’Connell. “In the coming year, we will continue to explore new product offerings that will help generate enthusiasm among our players and grow revenues for education in our state.”

### **Georgia Lottery Transfers Record \$945M for Education**

Fiscal year 2014 transfers to the State Treasury’s Lottery for Education Account will amount to \$945,097,000, surpassing last year’s record transfer by more than \$17.6 million.

### **Hoosier Lottery Transfers Over \$250 Million to the State of Indiana**

The record surplus revenue was made possible in fiscal year 2014 because of

an outsourcing agreement between the State Lottery Commission of Indiana and GTECH Indiana, LLC, a wholly-owned subsidiary of Rhode Island based GTECH Corp. In October 2012, the Lottery finalized an integrated services agreement with GTECH Corp. for services in the areas of marketing, sales and distribution. The \$250 million in surplus revenue for fiscal year 2014 is a 12 percent increase from \$224 million in fiscal year 2013. Although final audited figures will not be available until later this year, preliminary totals show sales were \$1.018 billion for fiscal year 2014. *"We are pleased with the financial results achieved in the first full fiscal year of the Hoosier Lottery's contract with GTECH Indiana,"* said Sarah Taylor, Hoosier Lottery Executive Director. *"We are pleased with our first year of operation in Indiana,"* said Colin Hadden, GTECH Indiana COO and General Manager. *"We look forward to continuing our collaboration with the Hoosier Lottery."*

#### **Iowa Lottery Sales Top \$300 Million for Third Straight Year**

#### **Kentucky Lottery Breaks Sales and Dividend Records in FY 2014**

#### **Kansas Lottery Sales of \$246,409,087 Set New Record in FY 2014**

#### **Maryland's Lottery and Four Casinos Made \$849.2 Million for the State in the Last Fiscal Year, a 2.4 Percent Increase Over the Previous Fiscal Year**

#### **Maryland County OKs MGM Casino at National Harbor**

#### **Massachusetts Lottery Sales Set Another Record in Last Fiscal Year**

The estimated \$971 million in profits for the fiscal year that ended June 30 exceeded expectations by \$34 million. The lottery racked up its third consecutive year of

record sales at \$4.86 billion.

#### **Missouri Lottery Generates Millions for Public Education Fund**

The amount sent to education during the fiscal year of 2014 to \$267.3 million. Since Missouri Lottery sales started in 1986 the lottery has generated more than \$4.8 billion for the state and public education.

#### **New Mexico Lottery Beats Sales, Revenue Goals**

Money raised for college students came to \$40.9 million, beating a projection by \$1.5 million. It represents a return of 30.1 percent. Ticket sales were \$136 million, beating a target by \$4.6 million. *"We took many new approaches this year to win our players' business, and players liked what they saw,"* said Dan Salzwedel, chairman of the lottery's board of directors. *"Our partnership with players, retailers and the legislative community continues to make it possible for our children to focus on their studies rather than on finding money to pay for tuition."*

#### **Ohio Lottery Completes Fiscal Year with Record Sales, Profits**

Ohio Lottery traditional sales combined with video lottery net win reached a record \$3.2 billion in Fiscal Year 2014, up \$314 million from Fiscal Year 2013. Growing popularity of the Lottery's KENO and EZPLAY® Games and the opening of three new VLT facilities contributed to the record sales. Profits generated \$904.3 million for the Lottery Profits Education Fund in Fiscal Year 2014, an all-time record.

#### **PA Lottery Closes Fiscal Year with \$3.8 Billion in Sales, Nets More than \$1 Billion, Increases in both Total Sales and Net Funds to Benefit Senior Citizens**

#### **South Carolina Lottery Sets New Record in Ticket Sales, Net Fund Deposits**

Transfers to the lottery account grew by \$23 million last year to more than \$323 million, officials said. Overall lottery revenue resulted in more than \$1.26 billion in ticket sales, permit fees and other items.

This year's ticket sales outgrew last year's sales by \$66 million, officials reported.

#### **Tennessee Lottery Marks 10th Consecutive Record Year**

The Lottery reported \$1.417 Billion in total sales for Fiscal Year 2014, an increase of \$49 Million over last year's previous sales record of \$1.368 Billion. This year's sales resulted in a contribution of \$337.2 Million for the education programs funded by the Lottery. A robust growth in instant ticket sales substantially contributed to this year's sales growth. *"From top to bottom, we've stayed focused on the corporation's mission to serve Tennessee students and their families by responsibly maximizing proceeds for the education programs funded by the Lottery,"* said Rebecca Hargrove, President and CEO of the Tennessee Education Lottery Corporation.

*"We work continually to refine our business model, to introduce innovative and entertaining games for our players, to promote efficiencies and best business practices across the organization, and to provide top-notch support for the retailers that sell the Lottery's products. In this manner, the Tennessee Lottery succeeds for all of our stakeholders—from the player who enjoys our games, to the retailer who earns the commission, to the student who works hard for and relies upon the scholarship."*

#### **Wisconsin Lottery Breaks Sales Record for Third Straight Year**

#### **OTHER INDUSTRY NEWS**

#### **The Wyoming Ready to Go Live with Ticket Sales on Aug. 24. Mega Millions and Powerball are the Two Lottery Games to be Sold in Wyoming.**

#### **GTECH to Acquire IGT Creating Global Leader in Gaming Technology and Equipment**

Commenting on the transaction, Marco Sala, GTECH S.p.A. CEO said, *"This transaction is transformational for our business. With limited overlap in products and customers, the combined company will enjoy leading positions across all*



segments of the gaming landscape. It will increase our global scale and with a full suite of offerings and robust customer relationships across the client spectrum, the new company will be uniquely positioned to take advantage of the ongoing convergence across global gaming market segments. Our expertise across these segments and greater ability to invest in R&D will improve player experiences and benefit our government and business clients. The transaction will significantly enhance our cash flow and financial strength, and provide clear and achievable cost and revenue synergies."

"We are extremely pleased to reach a definitive merger agreement with GTECH as a result of our exploration of strategic alternatives to increase shareholder value. This outstanding combination of two global leaders redefines the future of the gaming industry. Together we are uniquely positioned to provide the industry's broadest and most innovative portfolio of best-in-class products, solutions and services," said Patti Hart, IGT CEO. "This strategic agreement positions us to further transform the industry while providing meaningful benefit and value to our customers, our employees and our shareholders."

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#### **Scientific Games to Acquire Bally Technologies In Transaction Valued at \$5.1 Billion**

"The acquisition of Bally provides us with a unique opportunity to combine two exceptional companies with long track records of creating leading-edge games and gaming technology products for players and delivering innovative solutions to our customers," said Gavin Isaacs, Scientific Games' President and Chief Executive Officer. "With leading gaming, lottery, and interactive content, world-class systems capabilities and table game offerings, we believe that the combined company will be uniquely positioned as a strategic partner for gaming and lottery operators, offering a highly diversified suite of value-enhancing products and services across multiple worldwide distribution channels and platforms."

"Having worked side-by-side with the talented teams at Bally and more recently Scientific Games, I am confident

this combination brings together best-of-breed cultures and is occurring at a truly opportune time as both companies are committed to bringing the highest value products and services to customers," continued Mr. Isaacs.

"The combined company will feature world-class research and development capabilities, an expanded base of recurring revenues and greater worldwide penetration in key geographies, including the AustralAsia region. In addition to the strategic value of the transaction to our customers, we expect to create significant shareholder value as the transaction is expected to deliver immediate earnings and cash flow accretion and will allow us to meaningfully reduce our leverage over the next three to four years. Reflecting both organizations' recent post-merger integration successes, we have identified and expect to realize \$220 million in annual cost synergies and \$25 million of annual capital expenditure savings by the end of the second year following the closing of the transaction."

The transaction would expand Scientific Games' portfolio of products and solutions to include leading casino management systems and table products, including automatic shufflers, proprietary table games and electronic table systems. It would also expand the range of Scientific Games' social and real-money iGaming and iLottery products and services. This expanded portfolio is expected to position Scientific Games to better cross-utilize content and technology across the lottery, gaming and interactive sectors to propel future growth.

The combined company is expected to have world-class global sourcing, production, engineering and product development capabilities, as well as a large installed global base of diverse recurring revenue products and services. Scientific Games and Bally generated combined revenue of approximately \$3.0 billion in the 12-month period ended March 31, 2014.

Upon closing of the transaction, Mr. Isaacs will continue as President and Chief Executive Officer of Scientific Games, and it is anticipated that Mr. Haddrill and David Robbins, Chairman of the Board of Directors of Bally, will join the board of directors of Scientific Games, with Mr. Haddrill anticipated to serve as Vice Chairman.

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#### **Pollard Banknote has been Named the New Primary Instant Lottery Ticket Supplier for Loto-Québec**

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#### **Scientific Games Awarded Two-Year Instant Game Contract Extension with Minnesota Lottery**

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#### **Scientific Games Expands Asia-Pacific Presence with Lottery Instant Game Contract for Taiwan Lottery**

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#### **Bally Technologies Launches First Interstate Progressive Slot**

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#### **NOVOMATIC is Now a Member of the WLA, the EL and the CIBELAE**

The European Lotteries, an umbrella organization for national lotteries, has also recognized these efforts and rewarded NOVOMATIC with a status as Associate Member. The CIBELAE, an association of lotteries in Latin America, has accepted NOVOMATIC as a STAR Provider. "In acquiring NOVOMATIC as a Gold Contributor, the WLA has gained a partner that is one of the largest integrated gaming companies in the world. NOVOMATIC's November 2013 acquisition of Betware, the former WLA Gold Contributor and long-time leader in online gaming solutions for the lottery market, emphasizes NOVOMATIC's eagerness to work with the world lottery community in its effort to gain revenue for good causes. We are proud to welcome NOVOMATIC as a WLA member, and to count them among our Gold Contributors," says WLA President Jean-Luc Monet-Banet.

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#### **INTRALOT Group is Pleased to Announce an Amendment that Extends Its Contract with the District of Columbia**

Mr. Buddy Roogow, the Lottery's Executive Director, commented: "INTRALOT has been an extremely valuable partner with the DCLB. Their creative expertise and technical capabilities have allowed us to continue a leadership role in the industry by expanding our product line with new, exciting, innovative games and distribution channels, including interactive instant games played on player-activated

terminals. With these new channels and games, we have increased our sales and player base without cannibalizing sales of other products. We very much look forward to continuing our mutually beneficial partnership with INTRALOT through 2020.”

“We are extremely proud to have been part of the Lottery’s success and we are very excited to continue our partnership with the Lottery for an additional five years. We are equally proud of invaluable contributions of our local partner, DC09\*, LLC, its President and CEO, Emmanuel S. Bailey, and his team. Together we will continue to introduce new sales channels and innovative products and services to the District of Columbia to benefit those who live and work in the city as well as those who visit,” said Mr. Tom Little, President and CEO of INTRALOT Inc.

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### **The Czech Fortuna Entertainment Group (FEG) has Completed the Acquisition of Intralot Czech, the Betting and Lottery**

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### **GTECH Awarded 7-Year Lottery Gaming and Services Contract with the Tennessee Education Lottery**

“Working in collaboration with GTECH as a partner has been an important component of our years of record-setting success, a period that has produced more than \$3 billion for education-related programs to benefit students and their families in Tennessee,” said Tennessee Education Lottery Corporation President and CEO Rebecca Hargrove. “They have delivered expertise and reliability to the benefit of all our stakeholders at the Tennessee Lottery. Now, on the strength of their impressive submission, we are pleased to partner once again with GTECH as we head into our next decade of successful operations.”

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### **Manitoba Liquor & Lotteries has Earned the Highest Level of Certification from the World Lottery Association (WLA)**

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Manitoba Liquor & Lotteries has earned the highest level of certification from the World Lottery Association (WLA) for achieving a best practices approach for the development and continuous improvement of responsible gaming strategies and programs in Manitoba.

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### **UK Gambling Act To Shake Up Global iGambling Market**

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The UK’s Gambling Act completes its ‘point of consumption’ regulatory framework requiring all online gambling companies wishing to offer their websites in the UK to first obtain a remote gambling licence from the country’s Gambling Commission. In the past, major gambling operators have obtained licences from such regulatory jurisdiction as the Isle of Man, Alderney, Gibraltar or Malta, but now the UK Gambling Commission is set to become an important global iGaming regulator. The move is also likely to shake up many offshore regulatory jurisdictions, as many major UK gambling operators, such as William Hill, Ladbrokes, Victor Chandler, Bwin.Party, and BetFair, are based in locations such as Gibraltar. Now, a requirement for qualify for a remote gambling licence, the online gambling operator must ensure that not more than 3% of its revenues are derived from grey markets, whilst also providing legal rationale for their presence in such markets in the first place. This could potentially represent a game changer for the global iGaming market, as many major gambling firms will now have to exit grey markets if they are to be granted access to the UK. Furthermore, The Gambling Act could act as a potential model for other European online gambling markets.

**PGRI Note:** This has hugely important

implications for the entire EU online gambling regulatory structure.

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### **EU Online Gambling Growth Called ‘Explosive’**

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Last week, EU officials pointed to data that showed members of the European Union accounted for some 45 percent of the world’s online gaming market. Boosting those numbers, they said, were companies operating out of Britain and Malta.

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### **French Regulatory Authority, ARJEL, has Approved Amaya Gaming’s Submission to Take Ownership of the French Subsidiary of PokerStars**

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Amaya Gaming, the pretty little duckling that turned into a magnificent swan, almost overnight, is now the official owner of the French subsidiary of PokerStars. Amaya acquired the Rational Group for \$4.9bn.

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### **Dutch Regulatory Structure Moves Forward**

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The implementation date for the Dutch new regulatory structure is tentatively set for January 1, 2015. The new gaming laws for the Netherlands lay out the details of a regulatory regime for operators, taxes, and state responsibilities. All online gaming operators must be located in an EU-approved location. The effective taxation rate has been set at 22 % on gross revenue. The current 29 percent gross revenue tax for land-based casinos will remain the same. However, the Dutch government has decided to sell all of the 14 casinos operated by Holland Casino.

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### **NY Looks to Enter Monopoly Millionaires’ Club, the New \$5 a Ticket Multi-State Lottery**

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New York officials expect about half of the 43 states that participate in Powerball and Mega Millions will be joining the



game this fall (set to launch nationwide on Oct. 19) and other states will be added in 2015.

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### **Atlantic Lottery Wants Talk About Allowing Online Gaming**

Under the heading of “The Competitive Reality” in the annual report, the lottery corporation notes the gaming landscape has changed: *“In recent years, we’ve seen an explosion in gaming technology and accessibility. Along with it came the introduction of more than 2,500 unregulated online gaming providers from places like Malta and Gibraltar. Atlantic Canadians are spending millions of dollars annually on these gambling sites that operate outside of any regulations established by our governments. Unlike Atlantic Lottery, those sites’ profits don’t stay in the region to support our communities.”*

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### **According to an Industry Survey, Only 30% of Mobile Gambling Revenue is New/Additional Revenue for Operators**

**PGRI Note:** This is an odd article. First, the implication is that 30% of the revenue being from new consumers who otherwise would not have played is low, as if it constitutes an under-performance because it’s not a higher percentage. Nowhere does it discuss what percentage would be considered a high enough percentage. Second, it is not at all clear how reliable this assessment is. For some reason, it seems to want to impugn the business prospects of mobile gambling.

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### **Maryland Lottery and Casinos Contribute More Than \$849.2 Million to the State in Fiscal Year 2014, and Increase of 2.4% from the Previous Fiscal Year**

Traditional lottery sales dipped slightly from FY2013. *“Lottery sales certainly have been impacted by the growth of Maryland’s casino industry,”* MLGCA Director Stephen Martino said. *“But we continue to innovate and modernize our traditional lottery brand so we can better compete for the public’s entertainment dollars. A reduction in traditional lottery revenue occurred last fiscal year, but that money combined with Education Trust Fund proceeds from casinos produced an overall increase in gaming*

*revenue to the state.”*

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### **Gov. Christie Vetoes Sports Betting Bill in New Jersey**

Read letter from Christie to the NJ Senate in full. It includes passages: *“After a spirited legal effort, the Third Circuit’s opinion that PASPA prevents the implementation of New Jersey’s sports wagering law represents the binding and final judicial interpretation of federal law. While I do not agree with the Circuit Court’s conclusion, I do believe that the rule of law is sacrosanct, binding on all Americans. That duty adheres with special solemnity to those elected officials privileged to swear an oath to uphold the laws of our Nation ...*

*“While I support the intentions of the Legislature to continue our shared commitment to enhancing the economic viability of our gaming industry, I cannot sign this bill, which was introduced on the same day the Supreme Court declined to hear our appeal, and then was rushed to final passage just three days later. Ignoring federal law, rather than working to reform federal standards, is counter to our democratic traditions and inconsistent with the Constitutional values I have sworn to defend and protect.”*

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### **European Commission Publishes Recommendation on Online Gambling**

The European Commission has adopted its Recommendation on common principles for the protection of consumers and players of online gambling services and for the prevention of minors from gambling online. The European Lotteries Association recalls that Member States remain the best placed to set gambling regulation and protect consumers and points to the importance and the primary competence of Member States to regulate gambling on their territory in a manner that guarantees a high level of consumer protection.

EL supports the goal of protecting consumers and players and in particular minors and stresses that a high level of consumer protection in the gambling sector is reached notably by taking into account the national specificities and cultural features, as ruled on several occasions by the European Court of Justice and confirmed

by the European Parliament. Gambling services and advertising for gambling services should only be allowed for operators who are legal i.e. who hold a specific authorisation in the Member State of the consumer. Accordingly, EL calls on the Commission to take a clear position on this matter.

EL President Friedrich Stickler: *“The purpose of the Recommendation—protecting consumers and minors—is laudable. We recall that in the specific economic activity that is gambling, Member States hold the primary competence to decide how to regulate it on their territory in order to best protect consumers. The Recommendation may never prevent Member States from maintaining more stringent measures or from adopting, if necessary, new measures.”* In that context, EL points to the importance of Member States taking effective enforcement measures at the national level and the importance of co-operation between Member States, rightly addressed in the 2010 Council Conclusions on a legal framework for gambling and betting in the EU Member States. These Conclusions also called for the recognition of the specific contribution of lotteries to society in any discussion on gambling at the European level.

EL provided input to the follow-up of the European Commission’s Action Plan through contributing its ‘EL ambitious model for the best protection of consumers’ in April 2013 wherein the association provided its thoughts on the relevant points the European Commission Recommendation should take into account. EL stresses the importance of fully respecting the jurisprudence of the European Court of Justice and the confirmation of the primary competence of Member States to regulate the gambling sector. Also the European Parliament has considered in its 2013 Resolution on online gambling that a European sectoral legislative act on gambling would not be appropriate.

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### **Along with Seven Other i-Gambling Operators, Betclic, Bwin and Ladbrokes Blacklisted by the Hungarian Gambling Supervision Department**

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### **Santa Ysabel Launching Real Money Online Poker for California Players**

According to a report by Marco Valerio, the Iipay Nation of Santa Ysabel have launched PrivateTable.com and will be offering real money gaming to anyone located in the state of California. PGRI Note: If this report is accurate, it sounds like i-poker is being offered to residents outside of the sovereign territory, and without approval and licensing from the state of California.

### **Jumbo Interactive Limited Grows Markets in Germany and Australia**

In Germany, Jumbo Interactive has successfully completed the establishment phase ahead of schedule. Connections have now been established to all 16 German state lotteries giving the Company's website, [www.jumbolotto.de](http://www.jumbolotto.de), access to the maximum number of potential customers from the entire German population of 80 million people. Efforts have now shifted to the customer acquisition phase with a goal of signing up enough customers to generate sufficient sales to cover fixed costs excluding marketing. This will be followed by the next goal of generating sufficient sales to cover all costs including marketing at which point the business will be cash flow positive. With the final state only recently connected, it is too early to release marketing results at this time.

*"Jumbo is now the only company in Germany with its own in-house developed software platform connected to all 16 states in Germany. This is an important milestone and allows the marketing team to compete aggressively with other operators in the Germany online lottery market,"* said Mr Mike Veverka, CEO of Jumbo Interactive Limited.

In Australia, whilst Group Total Transaction Value ('TTV') is expected to be close to FY13 levels, the Company's website, [www.ozlotteries.com](http://www.ozlotteries.com), continued its unbroken run of sales growth since relaunch in 2005 with 4% growth in FY14 over FY13. This growth rate is lower than in previous years due to the higher base from extraordinary jackpots in FY13 that did not occur in FY14. *"FY13 was a remarkable year in*

*terms of record jackpots which drove annual growth to an enormous 38% over the previous year. It was always going to be a struggle for FY14 to beat that year without the same record jackpots, however the continued growth in customer accounts has helped us to maintain our unbroken run of continued growth in [www.ozlotteries.com](http://www.ozlotteries.com),"* said Mr Mike Veverka.

### **Bwin.party Digital Entertainment Issues Q2 Revenue Result**

Bwin.party's solid sports betting performance was offset by a soft performance in the company's poker and casino verticals, while bingo was fairly flat compared to the previous year. Focusing on poker, results were affected by a cyclical summer season decline exacerbated by a month-long World Cup distraction. The relaunch of PartyPoker in the USA also failed to stem the brand's decline, while CEO Teufelberger highlighted the fact New Jersey's regulated igaming market has thus far remained well *"below industry expectations. While the decline in the dotcom poker market in the period also affected our casino business, the impact was mitigated by an uplift in player activity in sports betting in nationally regulated and/or taxed markets, largely driven by the FIFA World Cup."*

### **Nevada Gaming Control Board Approves New Regulations to Link Online Poker Websites with Delaware to Create a Larger Player Pool.**

### **Netherlands: Council of Ministers has Approved the Plan of Teeven Secretary of Security and Justice to Update the Gaming Policy**

Online gambling will be regulated by 2015, so that players can play safely and responsibly supervised providers is possible. Holland Casino will be privatized by 2017. And the lottery operators will be given space to innovate more.

### **Indian Gambling Opponents Criticize Proposed Change to Federal Tribe Recognition**

Stand Up for California is a group that opposes the expansion of Tribal Gaming casinos onto what are currently state lands.

The proposed federal rule would simplify the recognition of American Indian Tribes, facilitating the taking of state land into Indian Trust land. At stake is a potential surge of new casinos in the state, which critics of the federal changes argue would damage local communities. The Stand Up for California report estimated that the proposed rule change could lead to the rapid recognition of 34 more Indian tribes in California, resulting in another 22 casinos. Those newly recognized tribal governments would also be able to assert ownership over state lands, it added, removing them from land-use rules and local laws.

### **Pollard Banknote Produces \$15 Multi-Jurisdictional Instant Game. This is Its First Instant Game Produced for Tatts Lotteries, which Operates Regulated Lotteries in Australia**

*"Pollard Banknote is excited about this newly formed partnership with Tatts Lotteries. Pollard Banknote is excited about this newly formed partnership with Tatts Lotteries,"* said Jennifer Westbury, Executive Vice President, Sales & Customer Development, Pollard Banknote. *"This is an opportunity to demonstrate our dedication to developing instant games of the highest quality and security and to showcase our premium and proprietary innovations in the Australian marketplace."*

*"This year we began working closely with Pollard Banknote, and we are leveraging both their unique proprietary products and their expertise in multi-jurisdictional games to boost retail sales and broaden the player base for Golden Casket and NSW Lotteries,"* stated Bill Thorburn, Chief Operating Officer of Tatts Lotteries. He added, *"Our first game with Pollard Banknote, One Million Prestige, featuring Scratch FX®, launched successfully and promoted just in time for our key Mother's Day gifting period and since then has continued its popularity in these markets. We are also excited about our first Spectrum Scratch FX® game which launched on June 23. We will follow this with several more Scratch FX® games in the coming months."*



### California Gov. Jerry Brown Renegotiates Tribal Gaming Agreement

Declining gaming revenue was cited as the reason for the new deal with the Viejas Band of Kumeyaay Indians, a major tribe in San Diego County. The prior 2004 agreement required an annual payment to the state of \$17.4m. The new payments will be around \$3 to \$5 million, a loss to the state of over \$12 million a year. Gov. Brown is noted to be a supporter of the tribes, more so than his predecessor Arnold Schwarzenegger. Viejas has made about \$711,000 in contributions since January 2013 to state candidates and campaign committees, but none directly to Brown.

### Hong Kong Stocks Decline Along with Casino Sector

Casino shares declined as Hong Kong stocks fell to their lowest level in two weeks. Macau casino firm Galaxy Entertainment Corp. HK:0027 -6.38% went down 6.4%. Sands China HK:1928 -5.76% declined 5.8%. Both companies are index components and have recently confronted labor unrest. The gaming sector has had weak numbers recently. Other gaming companies whose stocks have declined include Wynn Macau HK:1128 -7.56%, with a decline of 7.6%, MGM China Holdings HK:2282 -6.34%, down 6.3%, Melco Crown Entertainment HK:6883 -4.78%, retreating 4.8%, and SJM Holdings HK:0880 -3.37%, at 3.4%.

### Russia Legalizes Gaming in Crimea and Sochi

Russian President Vladimir Putin has signed a law legalizing new gaming enterprises in Sochi, site of the most recent Winter Olympics, and in the recently annexed Crimea. Sochi locations that were used to house the 2014 Winter Olympics will be used for gaming sites. The Sochi initiative was spearheaded by the Sberbank president German Gref. Russia based Sberbank is the country's largest credi-

tor. Sochi will also be a site for the 2018 World Cup, which Russia is hosting. The Crimean resort town of Yalta will likely become a key gaming destination. Crimean gaming could generate \$750 million to the regional budget annually, but is likely to be controversial given the international community's lack of recognition of the annexation. Russia currently allows gaming in West Siberia, the Krasnodar Territory, Primorye Territory, and Kaliningrad.

### Zynga Introduces Sharknado Tie-In to Hit It Rich: Casino Slots

In a tie-in with Shark Week on the Discovery Channel and the film Sharknado 2: The Second One, airing on cable channel Syfy, Zynga has introduced a Sharknado slot machine to its Hit It Rich! Casino Slots. Players help the hero stop storm-borne sharks that have flopped into Los Angeles. *"This themed game joins many other themed properties in Hit It Rich!, including Ted, The Terminator, The Wizard of Oz and more. Hit it Rich! is available to download for free on iOS, Google Play and the Amazon App Store. The game is also available to play for free on Facebook."*

### Macau Casinos Lose to Lottery Competition During World Cup

A lottery in China that utilized World Cup betting is attributed to reduced revenue at Macau casinos. An economic slowdown in the Mainland, recent limitations on visas for Chinese bettors, and restrictions on the use of China UnionPay Co.'s debit card have also affected revenues. *"There were enough incidents in the past months that could create that one-off discrepancy,"* said Louise Cheung, an analyst at Nomura Holdings Inc. *"Keeping an eye on lottery sales is important because it is a convenient gaming option with more platforms. The constraint is it depends on the events that people can bet on."* The Chinese government began running lotteries in the 1980s.

### Chinese Lottery Sales Reach Euro 21bn in First Half

Chinese lottery sales went up by 19 % to

RMB178.4bn ( Euro 21.5bn) for the first half of 2014. The greatest increase was in the Welfare Lottery and the Sports Lottery. Welfare Lottery sales were up by 16 per cent to RMB98.5bn, a 55% of total lottery sales in China.

### Paddy Power Data Breach: How Did Contact Info for 649,055 of the Bookmaker's Customers End Up For Sale?

**PGRI Note:** The interesting thing about this story is the lack of legal clarity about the sale of stolen data. The guy who tried to sell it is not being charged with any crime.

A Toronto area gaming entrepreneur purchased the data from an unknown source based in Malta. 40-year old Jason Ferguson saw the contact info as ideal marketing material. Among other gaming related jobs, Ferguson works as an "affiliate," referring potential clients to gaming firms. *"I bought lots of data for marketing but I did not hack anything,"* he says. He acquired the data in December 2013 via a Malta-based contact he met on an online message board. The contact's profile was simply called "Gambling." Paddy Power apparently lost the data in a cyber-attack in late 2010. The company said it detected an attempt to hack its computers, but did not reveal this to its customers or the general public at the time.

Ferguson's stash of data was discovered via the investigations of Joe Saumarez Smith. Saumarez Smith runs a U.K. consulting firm that helps online gaming companies investigate hacking. He encountered Ferguson when he was looking into the loss of another company's data. After examining a sample that Ferguson gave him, Saumarez Smith contacted Paddy Power's commercial director, who was a personal acquaintance.

Ferguson has not been charged. *"Many countries have anti-hacking or data privacy laws that criminalize the theft of personal data, but there is no harmonized position on buying and selling data that has been stolen,"* said Richard Jones, director of data privacy at Clifford Chance LLP in London. *"Even in a strict*

...continued on page 72

# CONNIE LAVERTY O'CONNOR

Senior Vice President & Chief Customer Officer of GTECH S.p.A.

## Recipient of the Rebecca Hargrove Award for Mentorship

The word “mentor” originates from ancient Greece. Mentor was a trusted friend of Odysseus, the legendary Greek king and hero of Homer’s *Odyssey*. He was charged with the responsibility of advising, counseling, and tutoring Odysseus’ son, Telemachus. From that beginning, “mentorship” has come to mean the informal transmission of knowledge, social capital, information, guidance, and wisdom for the purpose of helping recipients in their careers and professional development.

The Rebecca Hargrove Award for Mentorship was conceived to put the spotlight on the importance of developing the next generation of lottery industry leaders. Last year, the inaugural award was given to Ms. Rebecca Hargrove herself, the CEO of the Tennessee Education Lottery Corporation and Senior Vice President of the World Lottery Association, in whose name the award was launched and who has long been known for her devotion to developing new leaders to serve and sustain the lottery industry.

Now, in that very spirit, it is our privilege to honor the tremendous contributions of Connie Laverty O’Connor, Senior Vice President and Chief Customer Officer of GTECH S.p.A., and a figure viewed with great esteem across the industry. Few other individuals have had a more positive impact on the U.S. lottery industry, and Connie, having served in a variety of influential roles, is always pushing us to be the very best we can be, driving for innovation and most of all, results that benefit good causes.

“Connie Laverty O’Connor is a whirlwind, a dynamo. She brings an unrivaled passion and energy to all she undertakes,” said Rebecca Hargrove about this year’s honoree. “And with her signature style, she has incalculably benefited our industry in so many ways. Still, her most long-lasting influence will likely be the way in which she has inspired and mentored a legion of followers to serve and grow lotteries everywhere. It has long been my honor to call Connie and [her husband] Patrick friends, and I know she is the perfect recipient of this award. All of us are thankful for her contributions to the lottery industry and the legacy she will leave behind.”

This is a very special award because it recognizes the generous spirit and tremendous efforts of people who genuinely care about others and invest their own time in helping them succeed. A commitment to mentoring is an effort that too often goes unrewarded, yet it makes such a meaningful difference to the success of talented young people, the industry in which they work and the many good causes that benefit from government lotteries.

A native of Kanturk (Co. Cork), Ireland, Connie Laverty O’Connor immigrated to the U.S. as a young woman to earn her college degree and seek employment. She began her career as a Grade 3 Clerk at the New York Lottery. From that humble beginning, she worked her way up through various departments, until she found her true niche in sales and product marketing. It is a testament to her intelligence, unflagging energy, and determination that her final 14 years with the Lottery were in the role of Director of Marketing & Sales. Under her leadership, from 1990 to 2004, overall traditional (non-VLT) lottery sales tripled, from \$2.058 billion to more than \$6 billion, and instant ticket sales increased from \$200 million to more than \$3 billion. That was a period of dynamic change in the lottery industry, and the largest lottery in the U.S. evolved its retailer relations, portfolio management,



and game design in major ways.

Connie moved on to serve a two-year term as Chief Operating Officer of the Georgia Lottery Corporation, and in 2006, she brought her extensive experience and passion for the industry to GTECH Corporation. During her initial role as Chief Marketing Officer, she collaborated closely with U.S. lotteries and the vendor community to establish the cross-selling of Powerball and Mega Millions tickets in lottery jurisdictions across the United States. The cross-selling of Mega Millions and Powerball proceeded to usher in a new era for multi-jurisdictional games, innovation, progress, and sales for U.S. lotteries.

Connie next spent 20 months as the transitional CEO of Northstar Lottery Group, the private manager of the Illinois Lottery. During that time, Connie led the teams responsible for 15 months of record-breaking sales and profits. After a brief pause to catch her breath, Connie then headed off to the Hoosier State to spend 18 months as the transitional CEO of GTECH Indiana, leading the organization in the successful delivery of Integrated Services to the Hoosier Lottery.

Connie currently serves as SVP, Chief Customer Officer, leading strategic customer initiatives for GTECH. In addition to acting as a key channel of communication for GTECH’s customers, Connie is also responsible for overseeing multi-jurisdictional initiatives, and retail expansion and optimization strategies designed to increase revenue growth for GTECH customers.

“Connie’s enthusiasm for the possibilities within the world of lottery is contagious. Her generosity of time, wisdom, and spirit in developing the next generation of leaders is invaluable not only to GTECH, but to the industry as a whole,” said Jaymin Patel, President & CEO, GTECH Americas.

In September 2010, Connie was inducted into the PGRI Lottery Industry Hall of Fame. The Lottery Industry Hall of Fame was founded by the Public Gaming Research Institute in 2005 as a means of honoring those who have done the most to make the lottery industry the great success that it is today. Former inductees nominate and vote on the final recipients, and membership is reserved for lottery professionals who have promoted excellence and integrity throughout their careers.

The ceremony to present the Rebecca Hargrove Mentorship Award to Connie Laverty O’Connor will be held at 1:30 p.m. on Wednesday, September 10, at the PGRI Lottery Expo Conference in Miami, and will be attended by over 200 industry leaders. ♦





# Government Gaming Enters an Era of Innovation and Growth

Tom Jurkovich, Vice President for Corporate Affairs, Tennessee Education Lottery



This is a heady time for the lottery industry. U.S. sales last year exceeded a staggering \$72 billion, with more than \$20 billion in proceeds going to all manner of good causes, most notably including education programs and post-secondary scholarships, aftercare initiatives, conservation efforts, and services for senior citizens, among

dozens of others. With the recent addition of Wyoming, the number of state lotteries has now reached 44, and when you add the District of Columbia and the Virgin Islands, it's clear that the overwhelming percentage of Americans welcome and embrace the Lottery as a form of inexpensive entertainment and a vital source of needed public sector funding.

Sure, plenty of major challenges loom just over the horizon—ominous regulatory threats and emerging demographic changes being the most obvious and concerning—but there is little question that the animating forces within the industry are producing innovations and technological changes designed to meet those challenges, giving rise to a spirit of optimism and excitement about what lies ahead.

Within the industry, this keen sense of anticipation about the future direction of Lotteries is almost palpable and borders on the exuberant at times (even as we sometimes bemoan “jackpot fatigue” or other temporary trends that get our collective teeth gnashing.) You can feel it at our industry conferences, where panels of industry experts, vendors, and gaming officials crackle with new ideas, as well as in the quiet private meetings and social gatherings where industry stalwarts and newcomers alike strategize on how best to prevail in the new gaming millennia. And we see it on the glossy pages of our trade journals, each filled with rhapsodic testimonies to the newest equipment, the increasingly sophisticated software, and the creative digital

platforms that will, unquestionably, take our industry to new levels.

All of this enthusiasm is well-founded. The excitement about where we are heading as an industry—and how we will get there—is entirely understandable. This is a transformative time, and its fun to be in the vanguard charting the course. We'll likely look back years from now and see this current period as a transitional one, a phase that culminates with the industry moving into a vastly more technologically dominant and sophisticated era, one defined by a ubiquitous internet, endless variety of mobile apps, seamless player interactivity, and elegant software solutions for virtually all our transactions and data crunching needs, just to hit the highlights.

At the Tennessee Lottery we recently went through a major procurement process where we were treated to a dizzying display of the technology now available in the industry, including previews of the next iterations of hardware and gaming systems that will drive future lottery operations and enhance the enjoyment of the playing public. These developments—both current and next generation—are impressive to the point of mind-boggling: Exciting advances in terminals, video monitors, vending machines, ticket checkers, telecommunications systems, predictive ordering, warehouse sorting, security protections, gaming systems, software applications of every sort. And it goes on and on. All of which will make lottery operations more efficient, more secure, considerably faster and more reliable.

Much like these infrastructure advancements, there is enormous creativity on the game side, too. With easy access to an array of information resources and cutting-edge graphics, we have the means to develop clever and attractive new instant tickets each month, with many more on the drawing board. An unprecedented world game is in the works, not quite ready but moving towards completion and acceptability one day. And, at last, we now have a soon-to-be-launched, premium, national drawing-style game with a powerful brand, an advertising-marketing punch, and an innovative design structure that will surely find approval among our consumers while providing an impactful presence on our accounting ledgers.

Not to evangelize unrealistically, but with all this it's hard not to be excited about the ascendant path that new technologies open up for the lottery industry. 21st Century here we come.

Unless, that is, in the process we lose sight of our core values.

With all the promise the future holds, what the coming era will not do is alter our essential product. Without an understanding of and devotion to our essential product, no technology revolution, however useful to our operations, will sustain the Lottery industry. And by “product” I don't mean flashy instant games or finely calibrated drawing-style play or even the emerging web-based games that will surely find a place in our future. Rather, as my boss and Lottery mentor Rebecca Paul Hargrove puts it, the one fundamental product of the Lottery is—integrity. “It is absolutely crucial to our business,” as the Hargrove creed holds, “that every player have the same chance of winning as every other player. Otherwise, why would one play at all?”

Integrity is foundational for any successful business, but it is profoundly necessary in the Lottery business where we are essentially selling a process, one that provides hope, a prospect of winning, a chance for a reward. If the player knows that the process

...continued on page 67

# CORPORATE PROFILES 2014

## SMART-TECH-PLATINUM SPONSORS

### PGRI LOTTERY EXPO CONFERENCE SPONSORS

*It's the collaboration between operators and their commercial partners which makes this industry work. It's that relationship that drives innovation and progress. PGRI endeavors to support and nurture that relationship, confident that together we can all build successful businesses that meet the needs of our stakeholders and customers. The leaders of the commercial community play a vital role in our industry and we are thankful for their invaluable contributions to the exchange of ideas that happens at PGRI conferences, and all industry events and conferences. Their products and services are the result of a tremendous investment in R & D, and their insights and capabilities are informed by a deep experience in all aspects of the lottery business. Following is their story. Please also visit the conference website ([www.PGRItalks.com](http://www.PGRItalks.com)) to see their presentations from PGRI conferences.*



### HUDSON ALLEY

[www.hudsonalley.com](http://www.hudsonalley.com)

Today, Hudson Alley (formerly OrderPad) is launching **InTouch**, a new retailer communications platform to help lotteries boost sales by improving education and merchandizing at retail. InTouch is available on the web, mobile web, and through iOS (iPhone and iPad) and Android apps; it rewards retailers with points and badges for watching training videos, reading lottery news, and viewing information on their inventory and sales. InTouch contains powerful **Dynamic Planograms™** which ensure that the right product is on display at the right time, maximizing valuable retail space and increasing sales.

Since entering the U.S. lottery market in 2004, Hudson Alley Software, Inc. has remained the undisputed innovator and market leader in lottery sales force automation. Today, Hudson Alley has agreements with 19 U.S. lotteries to provide lottery sales force automation solutions. In mid 2012, Hudson Alley introduced OnePlace, its next-generation iPad and web-based sales force automation solution. In the first 18 months following its launch, Hudson Alley has added 9 U.S. Lottery **OnePlace** customers, making OnePlace the most rapidly adopted sales force automation solution in the history of the lottery industry.

Learn more about our company and our solutions at [www.hudsonalley.com](http://www.hudsonalley.com), [info@hudsonalley.com](mailto:info@hudsonalley.com), or by calling us at 212-625-6500. ♦



### GTECH S.p.A.

[www.gtech.com](http://www.gtech.com)

GTECH S.p.A. (GTECH) is a leading commercial operator and provider of products, services and technology in the regulated worldwide gaming markets. The Company delivers best-in-class products, superior service, and creative content with a commitment to the highest levels of integrity, responsibility, and shareholder value creation.

GTECH is the industry's leading private lottery manager with the most extensive and proven operator capabilities. The Company operates the world's largest lottery in Italy and manages other operator contracts in the United States and Latin America.

As one of the largest lottery and gaming companies in the world, GTECH is comprised of Lottery, Betting, Interactive, and the SPIELO Gaming business segments. GTECH is listed on the Milan Stock Exchange under the trading symbol "GTK" and is majority owned by De Agostini S.p.A. In 2013, GTECH had approximately €3.1 billion in revenues and 8,600 employees offering products and services in approximately 100 countries.

**Lottery**—designs, assembles, installs, operates, and maintains draw-based lottery systems, terminals and communications networks for governments and licensed operators worldwide. Additionally, GTECH provides printed products and related services, self-service lottery product vending machines, game design/content, marketing services/best practices, field service for retailers, responsible gaming, and promotional and interactive lottery capabilities.

**Betting**—offers solutions for the development of real-time operations and computerized systems for the sports betting market. GTECH offers trading services, fully managed partnerships, or "software only" technical solutions, to create a complete one-stop solution or to integrate new functionality to existing operations. GTECH provides secure retail betting solutions, point-of-sale display systems, call center facilities, internet betting technology, and fixed odds or pool betting options.

**Interactive**—offers comprehensive solutions for the interactive market, providing a full suite of award winning products and services for Internet gaming. GTECH designs, manufactures, and distributes Internet poker, bingo, table games, slots, and Gaming Management Systems (GMSs). Additionally, GTECH provides player services including marketing, portal, player acquisition, CRM, VIP, player support, payment solutions, fraud and collusion, responsible gaming, game management, migration, and trading services.

**SPIELO Gaming**—designs, manufactures, and distributes top-performing games, gaming machines, central systems, and associated software to legalized gaming markets around the world. GTECH's SPIELO brand offers a complete range of end-to-end gaming products for diverse gaming segments, including distributed government-sponsored markets, commercial casino markets and Amusement With Prize (AWP) markets.

GTECH S.p.A. [www.gtech.com](http://www.gtech.com)

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## INTRALOT

[www.intralot.com](http://www.intralot.com)

INTRALOT (INTRALOT, Inc., INTRALOT, S.A. and other subsidiaries) is the preeminent supplier of integrated gaming and transaction processing systems, innovative game content, sports betting management and interactive gaming services to state-licensed gaming organizations worldwide. Leveraging its advanced know-how in the development of cutting-edge products and capitalizing on its significant experience in gaming operations management, INTRALOT offers customized and fully integrated solutions that are highly efficient and absolutely secure. The company was established in 1992 and has been publicly listed on the Athens Stock Exchange since 1999.

INTRALOT has become an influential leader in the lottery sector, with more than 5,500 employees and a presence in more than 57 jurisdictions on 6 continents. INTRALOT USA has 14 contracts in the United States and has done the last 2 start-ups in the US (Arkansas and Wyoming). Despite the company's international expansion and predominance over its competitors, the company's philosophy is still focused on clients' total satisfaction.

INTRALOT is the first international vendor in the gaming sector that has been certified according to the World Lottery Association (WLA) Security Control Standard in 2008. Moreover, the Company has been certified with the ISO 27001:2013 for its Information Security Management System (ISMS), originally certified in 2007.

INTRALOT is also the first international vendor in the gaming sector to achieve ISO 20000 certification on Information Technology Service Management and the first international vendor to receive the Gaming Standards Association (GSA) Point to Point SOAP/HTTPS Transport and Security Specification as well as one of the two companies that have been certified internationally according to the GSA Game to System (G2S) Message Protocol standard, both of them for its VLT Monitoring system, iGEM.

All INTRALOT certifications are being governed by the COBIT 5 framework that the company introduced in order to ensure a holistic approach that covers its business processes end-to-end and in alignment with its business strategy. INTRALOT has also been certified according to ISO 9001 since 2002.

INTRALOT's games library includes more than 500 types of games and variations, such as numerical lotteries, online games, instant lotteries, monitor games, interactive games, video lottery, TV lottery games, sports lotteries, fixed-odds betting and pari-mutuel. INTRALOT's customers take advantage of the most robust, efficient and versatile Unified Gaming Platform in the industry that seamlessly combines retail, mobile and home users, connecting innovative gaming verticals and offering an unparalleled business support to the organization for optimal customer experience.

The company is a member of all major international gaming associations, including the North American Association of State & Provincial Lotteries (NASPL), the World Lottery Association (WLA), the Gaming Standards Association (GSA) and Association of Gaming Equipment Manufacturers (AGEM) in the USA, the European Lotteries & Toto Association (EL), the CIBELAE (the Hispanic association that covers South America and the Iberian peninsula), as well as the Asia Pacific Lottery Association (APLA), playing an active role in the international gaming community and contributing decisively to the future development of the industry.

[www.intralot.com](http://www.intralot.com)

email: [info@intralot.com](mailto:info@intralot.com) ♦



## LINQ3

[www.linq3.com](http://www.linq3.com)

Linq3's secure payments platform transforms existing unmanned POS devices into highly interactive access points for sale of lottery products. By leveraging existing hardware, securing transactional data and communications, lotteries have a unique opportunity to think outside the traditional sales terminals. The Linq3 solution works in partnership with existing lottery networks, allowing lotteries to efficiently reach a greater market, intersecting and interacting with players in a new way.

In collaboration with state lotteries, their operators, and the nations leading fuel pump and payment kiosk manufacturers, ATM providers, and the payment card industry, Linq3 has developed the secure protocol for lottery transactions on fuel pumps, ATM's, taxis and other innovative unmanned points of sale. Linq3 enables lotteries to achieve massive sales growth at a low cost through new sales channels that not only reach new players but also reach occasional players. The Linq3 solution promotes a new level of interactivity for the player and lottery. A dedicated web interface, 24/7 call center support, auto redemption of low tier prizes, and detailed state reporting and security compliance and responsible play features are just some of the benefits to the Linq3 platform. Optimized performance is achieved through state of the art processing and data security. It's secure, it's scalable, and it's ready to change the distributional landscape for lottery products.

Linq3 enables the sale of lottery at fuel pumps, ATM's, taxis, cabs, and other unmanned POS devices. This new avenue for lottery distribution represents an extremely cost effective tool for lotteries to reach new customers.

Linq3 recognizes that security and integrity is of utmost importance to lotteries. We are committed to securing customer information at the highest levels as well as maintaining the integrity of lottery transactions. To achieve this, Linq3 utilizes a state of the art multi-tiered security protocol that ensures transaction data is not compromised. Included in the system is a check and balance that employs internal and external (third party) redundancy and verification.

Linq3's technology has been designed and built with three fundamental features security, reliability and availability, and performance and scalability. Linq3's data centers are housed in SSAE 16/SOC 1-compliant facilities, which provide a high level of physical security, including onsite guards, multiple forms of verification for access, and visual monitoring. Furthermore, all data center equipment is secured within locked cabinets under recorded video surveillance. Connectivity is provided over multiple carriers to ensure availability if one carrier should have an outage. This includes both Linq3's external and private connections. All Linq3 equipment and data is under Linq3 control. No systems are hosted by another entity and no data or transactions reside in "the cloud."

The primary requirement for processing credit and debit transactions is PCI compliance. Linq3's PCI DSS (Payment Card Industry Data Security Standard) Tier 1 Status is the highest level attainable in the Payment Industry. This standard requires auditing, access control, system design and other system maintenance that is higher than lower levels of compliance. As Linq3 processes the transaction, it maintains PCI DSS Tier 1 certification. Linq3 combines the key goals of the PCI Data Security Standard and its own internal standards to establishing physical security, network security, and system software security ensuring end-to-end integrity of lottery transactions. ♦

# LOTTOVATE

## LOTTOVATE

[www.lottovate.com](http://www.lottovate.com)

### Next Generation Lottery Services

At Lottovate, we are passionate about digital. Digital is what we do. We believe that every lottery deserves a strongly performing interactive business, to meet the increasingly demanding needs of both new and existing players today and into tomorrow.

The Internet and mobile lottery opportunity is yet to be fully enjoyed by many. Our philosophy is about working together to deliver new and sustainable revenue streams for our lottery partners.

Lottovate understands that success in multi-channel lottery requires dedication, analysis, constant improvement and attention to detail. With a complete focus on driving excellent player experience and delivering bottom line results—we do so both responsibly and efficiently.

Lottovate now offers a range of interactive services that can help you reach your digital potential:

**The Digital Retailer**—let Lottovate become your sales partner in the interactive channels. If you are looking to launch an interactive service, or replace an existing platform, we can do the hard work for you with end to end channel management. Our full service proposition covers everything you would expect, and more—from lottery game content and host platform integration to player account management and customer service; responsible gaming to content management, customer lifecycle and relationship management.

**The Marketing Partner**—if you already have an interactive channel, let Lottovate help you to optimise its performance. Our expertise in player acquisition, conversion, retention and customer relationship management can be yours. We will work with you to analyse site performance, KPIs and player data to create and execute detailed interactive marketing plans for enhanced results.

**The Multi-Channel Consultant**—our obsession with multi-channel, digital lottery means that we have developed unique insight and information about the sector over time. You can use our knowledge to help you develop market projections, multi-channel strategies and business cases.

We are more than happy to share the details of our success in providing i-lottery services in Spain and Germany, and would love to talk to you about your specific requirements and challenges.

**Lottovate**—Turn our experience to your advantage ... Contact us: [info@lottovate.com](mailto:info@lottovate.com)

[www.lottovate.com](http://www.lottovate.com) ♦



## SCIENTIFIC GAMES

[www.scientificgames.com](http://www.scientificgames.com)

At Scientific Games, we create some of the world's most compelling gaming experiences, keeping players entertained, connected and engaged.

As a global leader in the gaming industry, our mission is to offer our customers complete and customized gaming solutions. Our games, systems, content, services, gaming machines and interactive products are designed to reach players wherever they are, whenever they want to play and in any channel they choose: retail, casino or digital.

For more than 40 years, Scientific Games has delivered what customers and players value most: trusted security, creative content and innovative technology. Beginning with our development of the breakthrough technology that launched the world's very first secure instant lottery game in 1974, we have been a driving force behind the success of customers in 50 countries on six continents.

Headquartered in New York City, with over 5,000 employees worldwide, we serve our customers from manufacturing and operational facilities in North America, South America, Europe, Asia, Africa and Australia. Scientific Games offers customers a fully integrated portfolio of technology, platforms, content and services, including:

- Instant, Interactive and Draw-Based Lottery Games
- Lottery Systems and Retail Technology
- Casino/Electronic Gaming Machines and Game Content
- Server-Based Lottery and Gaming Systems
- Social and Mobile Gaming Content and Services
- iGaming Content and Distribution Solutions
- Sports Betting Technology
- Licensed Properties and Promotions
- Loyalty and Rewards Programs
- Lottery Game Product Management and Logistics Services
- Marketing Research and Analytics

Success is a reflection of talent, and Scientific Games' history of success has been driven by our highly experienced professionals. Our instant and draw games, interactive products, gaming machines and content have been developed by some of the top game designers, mathematicians, marketing research analysts and product managers in the world. We have been an industry leader in developing and using market research and analytics to gain a deep understanding of player demand and preferences. As a result, we continue to generate new ideas and innovative gaming solutions that provide players with exciting choices and experiences. We are also committed to working closely with our customers, governments, regulators and industry associations to support player protection and responsible gaming.

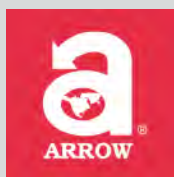
At Scientific Games, we have a demonstrated track record of helping our customers grow their lottery and gaming revenue. We work with our customers to understand their business needs and to customize advanced products and technologies that deliver results. We understand that our customers rely on our products and services to drive growth, and we're always looking for ways to deliver compelling entertainment and gaming experiences.

Learn more about Scientific Games at: [www.scientificgames.com](http://www.scientificgames.com) ♦



# CORPORATE PROFILES 2014

## SMART-TECH SILVER SPONSORS



### **ARROW INTERNATIONAL, INC.** www.arrowinternational.com

At Arrow International, we think differently by challenging the status quo in every new thing we do. Arrow continually achieves new heights in its breath of beautifully designed, user-friendly products that embrace cutting edge technology. Arrow is the world's largest, full-line manufacturer of bingo, Popp-Opens® pull tabs lottery style tickets, and related gaming products and equipment. The business of Arrow is to manufacture and supply products of entertainment to both casual gaming establishments and charitable causes.

With over 47 years of industry experience and facilities in North America and Europe, Arrow provides the highest quality gaming products and most reliable service in the industry. We continue to expand our product

lines daily to provide the largest selection of creative and custom pull tabs tickets and gaming solutions that excite players and keep them coming back for more.

Headquartered in Cleveland, Ohio, USA, our success has been made possible over the years by our dedication and commitment to providing innovative products, detailed attention to quality, and unmatched customer service and support. This unique blend of company focus and customer exchange with the added creativity of over 1,000 skilled employees on two continents has enabled us to help our customers grow their business in the industry to new heights.

Come try and experience the Arrow Popp-Opens® pull tabs lottery style tickets.

Arrow International Inc.  
Innovating Today for Lifestyles of Tomorrow.



### **CAMELOT GLOBAL SERVICES LTD**

www.camelotgroup.co.uk  
www.camelotglobal.com

Camelot Global is a leading advisor and lottery solution provider to lotteries around the world. We are owned by the Ontario Teachers' Pension Plan, the shareholder of Camelot operator of the UK National Lottery (established 1994) and the majority shareholder of Premier Lotteries Ireland the operator of the Irish National Lottery (established 1986). Our mission is to help lotteries achieve responsible long term growth.

Camelot Global's proven strategies are founded on UK National Lottery expertise and international experience that spans 20 years of operation, management and consulting globally.

Camelot Global applies consumer goods best practice to help lotteries realize their revenue potential to beneficiaries. Whether in iLottery outsourcing, sales and marketing consulting or provision of IT and Opera-

tions, Camelot uses its practical experience to support the lottery industry.

Our primary products and services are:

- Interactive and new channel management (mobile and PC, consulting and outsourced via iLottery Channel Management, in-lane lottery sales)
- Business strategy, planning and organization transformation (consulting and management)
- Sales and marketing planning and execution (consulting and outsourced)
- Game development and portfolio planning (consulting and management)
- Technology strategy, systems consolidation and integration, infrastructure provision and execution, and lottery system conversions (consulting and management)
- Operations management (consulting and outsourcing)
- Corporate Responsibility, responsible gaming and player protection (consulting)

Phone (00) 44 1923 425 000 // Media relations: (00) 44 20 7632 5711  
email:CGSenquiries@camelotglobal.com



### **CARMANAH SIGNS** www.carmanahsigns.com

Carmanah Signs helps lotteries engage their players by designing and supplying digital sign networks, digital media experiences and value-added LED signs.

Carmanah's products and services include wireless jackpot signs, digital sign networks, interactive digital signage, video walls, and EvenLit™ LED light panels, all of which engage players and help increase Lottery sales.

Carmanah is the world leader in the development and production of wirelessly-updated lottery jackpot signs, which increase jackpot awareness, sales and ultimately revenues for Good Causes. Carmanah has provided over 100,000 wireless jackpot signs for lottery retailers in 41 lottery jurisdictions worldwide. The signs are updated via

on-line lottery terminals, the retailer's IP network, or via a cellular network.

Carmanah is a division of Stratacache, a leading global provider of digital sign software, hardware and network services. Carmanah and Stratacache's digital technologies improve in-store shopper marketing, promote retail conversion and assist with mobile consumer activation.

Please contact Max Goldstein, Vice President, Sales, or Daniel Miller, Director of Sales, Europe, at Carmanah Signs for further information regarding digital sign networks, digital media experiences and value-added LED signage.

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+1.416.322.2860  
dmiller@carmanahsigns.com  
+31.62.638.8128



### **DIAMOND GAME** www.diamondgame.com

The LT-3 ITVM: There's so much more to earn!

Diamond Game's mission is to provide innovative solutions to lotteries seeking retailer and revenue growth. To deliver on that mission, the patented LT-3 suite of ITVMs was created with lottery needs at the forefront. The LT-3 allows lotteries to expand their retailer base into less traditional and age-regulated venues, such as bars, taverns, bingo halls, and social clubs. It is the only ITVM designed to cater to venues that encourage longer play sessions and higher sales volumes.

The LT-3 is a ticket dispenser that dispenses pre-printed instant tickets on each play and displays the result on a video monitor in an entertaining manner. The footprint of the machine is significantly smaller than a standard dispenser, thus allowing one or more to fit easily in even the smallest of venues. Additional features include secure ticket validation and fraud prevention and a sophisticated accounting and sales tracking system.

The LT-3 is customizable and can be deployed in a variety of configurations based on unique lottery needs, helping generate significant new instant ticket revenue.

Contact the Diamond Game sales team at Lottery@DiamondGame.com for additional information.



## INCOMM

[www.incomm.com](http://www.incomm.com)

Leveraging deep integrations into retailers' point-of-sale systems, InComm

provides connectivity to a variety of service providers that allow consumers to conduct everyday business at more than 450,000 points of retail distribution. Whether those consumers are activating prepaid products, paying bills, enjoying real-time discounts through a membership card, purchasing digital goods in-store or adding funds to an online account, InComm is there to provide unique gift-gifting opportunities, cater to on-

the-go shoppers, deliver added value through loyalty programs and serve cash-based consumers. With 123 global patents, InComm is headquartered in Atlanta with a global presence in over 30 countries in North and South America, Europe and the Asia-Pacific region.

Learn more at [www.incomm.com](http://www.incomm.com).

Connect with us on:

[www.twitter.com/incomm](http://www.twitter.com/incomm)

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[www.incomm.com/blog](http://www.incomm.com/blog)



## JUMBO INTERACTIVE LTD

[www.jumbointeractive.com](http://www.jumbointeractive.com)

Jumbo Interactive sells traditional lottery tickets through new online channels. Customers in many countries are using the internet as a convenient path to purchase lottery tickets.

Technology is revolutionising the world. Traditional lotteries can gain exposure to new customers by selling their tickets online. Jumbo operates under a partnership model, forming official agreements with lottery organisations to create secure transactional websites. Customers can purchase tickets through a Jumbo website and this information is linked back to the lottery's database. The results of the lottery draw and prize payments are passed on to customers through electronic communication with the lottery. It is a zero cost model for lotteries that generates incremental revenue. There are many advantages in digital ticket delivery

to the connected customer. Automated repeat ticket purchases lodge customers' tickets automatically each week. New communication tools such as email, SMS and push notifications remind customers to play.

Jumbo is an authorised internet lottery e-retailer through our application and attainment of licences from official lottery organisations and currently operates as an e-retailer for state lotteries throughout Australia and Germany. After becoming a qualified e-retailer, Jumbo adheres to government regulations to operate and sell lottery products. This 'free market' model encourages competitiveness and delivers better services for customers. Lottery organisations enjoy new online representation of their products for changing customers.

Jumbo Interactive Ltd has been a publicly listed company on the Australian Stock Exchange (ASX:JIN) since 1999. The company has been selling lottery tickets online for over ten years.

More Information, contact the Jumbo Interactive North America President, Brian J Roberts: [brianr@jumbointeractive.com](mailto:brianr@jumbointeractive.com)



## PRO-LITE INC.

[www.pro-litelottery.com](http://www.pro-litelottery.com)

Pro-Lite Inc. of Costa Mesa, California introduced LED technology to the U.S. in 1981. The firm now supplies Walmart, Costco and other top

names, delivering to more than 1,000,000 customers and end-users worldwide. Pro-Lite has also supplied the United States Air Force, Navy and United States Postal Service.

Since 2000, over 100,000 LED signs have been made for more than 30 North American, Caribbean and Central American lotteries. Pro-Lite introduced updatable jackpot signage to U.S. lotteries and has the distinction of having supplied the largest jackpot sign program in the United States. New York Lottery was provided 42,500 signs from 2009-2012, which included wirelessly updated dual jackpot signs, lottery logo signs and game logo signs.

Over the last two years, Pro-Lite manufactured LED signs for the following US, Canadian and Central American lotteries: Connecticut, Delaware, Florida, Hoosier, Kansas, Kentucky, Massachusetts, Minnesota, Missouri, North Carolina, Ohio, North Dakota, South Dakota, Washington, British Columbia, Ontario, LOTELHSA and Honduras

The Pro-Lite product line includes a variety of configurations for window, countertop and floor applications. In 2013, modular (Modulex™), van top and floor mat jackpot signs were introduced along with two innovative features: Day of Drawing, to indicate the specific day on which games are drawn, and the Billion feature which accurately conveys jackpots in excess of a billion dollars.

To learn more about Pro-Lite:

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## Jaymin Patel Interview... continued from page 37

*in the U.S. GTECH has been a leader and innovator in the realm of Retail Optimization. How will that be affected by the merger?*

**J. Patel:** We have more in the pipeline now than ever. We have embarked on a major project to structurally evaluate how to meet the needs, on a practical and actionable level, of multi-store chains, both large chains and medium-size chains.

We are confident that the U.S. lottery industry can more than double over a five year period if we focus on growth. Our analyses

tell us that one-third of that growth should come from retail expansion. It's not going to come exclusively from expanding the small independent convenience stores, because that channel is too fragmented. It must come from the chains as well.

I think that lotteries and their vendors already do a good job with the independents and small chain operations. We are now looking at ways to make our reporting, auditing, inventory management, and overall operational systems work for the large chains, and

for new land-based channels as well. The business model that you need to drive sales in chains is different from the business model for convenience stores, and we simply must adapt to that. We are investing significant resources toward the goal of helping lotteries make that adaptation. We are here to share our ideas and innovations with our customers.

Combining our resources with the lottery operator's understanding of their own marketplace is what will drive performance and position our customers for long-term success. ♦

from the experience of building Monopoly Millionaires' Club that will cause us to do something different for the next National Premium Game. The amount of thought and research and world-class creative that has gone into this new NPG causes us to hope that we thought of everything! But I suspect we will see some opportunities to do some things differently for the next NPG too.

*You're combining some deep insight into the unique nature of the lottery industry, but also applying some of the 'best practices' of the successful consumer marketing brands.*

**M. Scheve Reardon:** McDonalds could have researched and figured out which color would be the best color for each state and gear their marketing in every other way to appeal to the uniqueness of each state market. For that matter, McDonalds does extensive research and does tailor its menu to include some food items to appeal to local markets. We should do the same, with part of our portfolio geared towards the sensibilities of local markets, and part geared towards national consumer markets. It's not an either/or conundrum. It's a both/and solution.

Lotteries should look at the methods of these giant consumer brands and follow best practices for branding. By using a consistent logo, tagline, and color scheme, we optimize the impact of our communications with players and retailers.

*Advertising firms probably prefer that you allow them control all the advertising. I would suspect that they always pitch the idea that everything should be local.*

**M. Scheve Reardon:** Let me share a story. Our ad firm is based out of Kansas City.

They do a great job. But some of our national-brand advertising is sourced elsewhere. For instance, we advertise Powerball in Royal Stadium. The focus is Missouri Lottery, with our logo and our messaging. One of the principals from the advertising firm went to a Cardinal game and commented, "Wow, you guys don't have a lot of advertising at your stadium." We couldn't understand why he did not see the advertising which is all over the place. Ginormous logos and 'POW' for Powerball. You couldn't miss it. Then he said, "Well, that's not your advertising." He explained that from his point of view, the fact that it was national meant that it was not building our Missouri Lottery brand and that therefore it wasn't really our advertising. Now isn't that the oddest thing you've ever heard?

He honestly felt that if it does not include our colors and the other Missouri-focused brand-messaging elements, then it does not count as advertising for us even though it is promoting our biggest-selling brand.

*To be truly national, lotteries need to overcome the obstacles to getting into the big-box channel. I know you have worked hard on this issue. Any progress towards the elusive goal of standardizing accounting and sales report formatting to meet the needs of cross-jurisdictional retailers?*

**M. Scheve Reardon:** There is. NASPL is once again working with interested lotteries, including Missouri and some of the biggest lotteries on a pilot to develop a more uniform approach for the multi-state retailers. It is absolutely essential that our industry listen to our retail partners and take immediate steps to standardize our procedures and reporting

formats. Or at least standardize as much as we possibly can. This is something that will be necessary if lotteries are serious about making our products available in the big-box national chain stores. 7-Eleven has communicated to us that this is imperative for them. It is not likely that we will be able to ever settle on a single uniform approach, but there are ways to make it easier for the multi-state retailers to do business with us, at least meet them half-way. We have to do that because the big-box chains will not carry our products if we don't. It's as simple as that. Lotteries all value their independence, but our customers will not abide the inefficiencies of forty-five different lottery models with forty-five different report formats, business processes, and accounting procedures.

We must also be more strategic in our approach to retail. Lottery has the ability to help drive retail traffic. Understandably, we always focus on our goal of selling more tickets. But if we were to be more open-minded about helping our retailers accomplish their goals of increased operating efficiencies and driving store traffic, we could build a more collaborative and strategic partnership that would engage their support and focus on selling more lottery products. Retailers want to collaborate with Lottery on developing cross-promotions that utilize lottery products to help increase in-store sales of their proprietary food and drink products. Retailers want to be a part of Lottery's website connection to millions of consumers. Lottery has tremendous power to help the retailers in ways that would not cost much money, would engage retailers to focus more on Lottery, and would definitely drive sales of lottery products. ♦

## Government Gaming Enters an Era of Innovation and Growth... continued from page 61

is fair, the transaction between lottery and consumer is entered into on equal and understandable terms. Integrity insures fairness, fairness inspires trust, and trust sustains the transaction between player and the lottery. Should the consumer's trust ever be lost, there is no technology imaginable that will resuscitate the required good will and salvage the prospect of a successful Lottery.

But integrity must be made manifest for all to see. And we demonstrate our integrity and maintain player trust through multiple mechanisms. These vary somewhat among jurisdictions, but include open records acts, financial and operational audits, winner awareness efforts, strong player services operations, robust securi-

ty measures, open meeting requirements, legislative oversight, and board or commission review. To neglect this aspect of lottery life is to jeopardize the business itself and, more important, imperil the funding of the good causes we serve.

As critical as emerging technologies are to the future prosperity of our lotteries, our continued commitment to maintaining the public's trust is even more fundamental to sustaining our industry as we go forward into this brave new world of bits and data packs, optic lines and mobile connectivity. Both are necessary and neither alone is sufficient. Together, however, the future is ours. ♦



brand, in order to do that.

*Now that Mega Millions and Powerball are both sold in all lottery states, why is it still necessary to have two separate management groups for those two games? Why not reconstitute as one single management group?*

**P. Otto:** The MUSL model is quite different than the Mega Millions model. There are Mega Millions directors who feel strongly that the volunteer system and limited budget that we operate under works well and there may not be a reason to change it. MUSL is an organization with three times as many members as Mega Millions and MUSL

serves its members well. There are material differences between the two different decision-making models. I would not say that one is better than the other. But I would say that it may be difficult to reconcile those differences to the satisfaction of all forty-five lotteries. I think it's time to look toward a new "third" model of governance.

As we just discussed, the challenges of getting forty-five lotteries, the vendors, and the stakeholders to all agree on every single point of action is difficult. Those challenges will continue to exist, though, regardless of the governance structure. I think the U.S. lot-

tery directors have done quite well at shepherding this industry along, and working together to build the national games into the \$8 billion dollar revenue stream it is now and the foundation for even more growth in the future that it represents. We will continue to discuss ways to enhance the process of game management and innovation. And that will include discussions about governance. In the meantime, we will collaborate and work together as we have always done, and continue to innovate and bring new games and promotional strategies to market that will drive sales and net profits for Lottery beneficiaries. ♦

## Tom Little Interview ... continued from page 45

tery and Retailer. By working with retailers on their terms, by including retailers in the lotteries' strategic planning process so retailers have more advance notice of new game launches and promotional campaigns, by melding the ideas and objectives of retailers and lotteries, we can create the alignment and synergies that will produce an outcome that is beneficial for everyone, including the players. As an industry, lottery operators and their suppliers could also help retailers implement new technologies such as NFC (near field communication) or mobile applications that can tell players about specials that are being run in a store where they are near. The concept of leveraging technology and innovation to connect with the consumer wherever and whenever the consumer wants is something that will help retailers build their entire business. Helping retailers accomplish their broader, even non-lottery objectives, will put us into the true partnership role that will secure the inside track for Lottery as retailers think about their strategic priorities. Lottery is in the great position to help retailers understand how and why the Omni-Channel model will help their entire business, and then to help them implement it.

*How can we defuse some of the systemic distrust and skepticism on the part of retailers—how can we break through the discord to forge a more cooperative, mutually supportive relationship with retailers?*

**T. Little:** Instead of thinking about how to convince retailers to do more things to help Lottery, we could engage as true partners and focus on helping retailers accomplish objec-

tives that are important to them. Lottery is just a part of their business. Fortunately, the Omni-Channel model and connecting with the consumer on all levels and through all media and channels are objectives that apply to their entire business. Let's help our retailers figure that out.

Of course we want the end result to be an increase in lottery sales. But the technological tools and strategic insights that apply to our lottery-specific goals also apply to the retailers' broader goals of positioning their business for long-term sustainable growth. Let's leverage that to the advantage of both Lottery and Retailers and help each other accomplish mutually beneficial objectives. This could even open the door to new forms of collaboration in which the retailer literally invests more for the privilege of applying Lottery's technological know-how to their big-picture goals of connecting with the consumer who buys all varieties of product from their stores. That "investment" could take the form of just more focus and consideration for Lottery when it comes to POS's and promotional profiles. It could take the form of better engagement on cross-promotions that will drive lottery sales. The point is, we need to think out-of-the-box and see how a broader perspective on our part will yield huge benefits when it comes to engaging retailers and optimizing sales of lottery products.

*The big chain stores seem to want self-service vending machines. But many lottery marketing exec's are concerned that the lottery player wants the personal-touch of a retail clerk. What do you think about*

*the future of self-service vending machines?*

**T. Little:** The personal touch of good retailers sets retailers apart from other channels and the impact of that can't be overstated. However that approach does not fit in the business model of the big-box store, and other types of retail outlets. Self-service is the obvious solution. Self-service vending is becoming an art. We are developing technology that makes the self-service experience very exciting. We think our ITVM, DREAMTOUCH™, is an example for how self-serve can be used as a promotional tool, a vehicle to excite and engage the consumer. The personal touch of the retailer will always be the most powerful selling method. But we need to develop additional solutions like DREAMTOUCH™, that both appeal to the consumer and fit into the strategic objectives of our retailers.

More importantly, we need to reframe these questions from being an either-or proposition to being a both-and solution. That is our focus at INTRALOT. We have developed, and will continue to develop, an entire spectrum of solutions that fit an entire spectrum of needs and markets and distributional venues and media. It's not about self-serve or personal selling, or internet versus land-based ... it's about the Omni-Channel model which gives the consumers the option to interact with the merchant on whatever channel or medium or venue they choose. The beauty of this fact is that it's not just for the benefit of Lottery; it is clearly the direction that retailers need to go to fulfill their own mission and build their own businesses to succeed with the next generation of consumers. ♦

# PIONEERING A NEW LOTTERY SPACE: Shoutz's Progress to Mobile



Being a pioneer isn't easy, but the biggest risks often bring the biggest rewards. It was that encouraging notion that prompted Jim Mueller and Shoutz to take what they learned in the world of short-form social video sharing and apply it to a new industry.

Now every day at Shoutz is spent engaging lottery players with great content, and helping to generate revenue for Shoutz partners - the MUSL member states—and the great causes they support. In just two years, Shoutz has gone from an experiment to a benchmark for others' attempts to enter the mobile space in the lottery industry. "We understand and appreciate our emerging leadership role in the industry," said Shoutz CEO Jim Mueller. "We take this very seriously and we demand the highest integrity of our people and products."

Along with filling a vacuum in the mobile space for the industry, Mueller also says that strict self-regulation had a great deal to do with the success of LotteryHUB, Shoutz mobile engagement platform for lotteries and lottery players. "Right from the start, we created internal policies so we'd operate in a fishbowl, just as our lottery partners do," Mueller said.

Making the move from social sharing to the lottery industry required a careful but enthusiastic approach. Mueller and his partners recruited people who had spent more than 100 years combined in and around the lottery industry, people who had a track record of revolutionary thinking and some who even had a hand in the start of the US lottery industry. Insistent on building a team of the 'best-of-the-best' in the lottery business while also complying with the very same regulations under which state lotteries operate, Mueller says Shoutz "demands that all full-time employees be vetted with an FBI background check."

Once the team assembled, that commitment to excellence through strict self-regulation was carried on, as much a point of pride as a testament to quality. Mueller said that all Shoutz products and systems are certified by Gaming Laboratories International, and each one is subjected to rigorous testing and security audits.

"There's no point in creating something that only a handful of lotteries will feel confident using. If it's not compliant with the strictest regulations, or it doesn't meet industry security expectations, then it's no good—we make products to make lotteries more convenient, engaging and rewarding so they can deliver more revenue to good causes; excellence is our minimum requirement."

With the strength and security of Shoutz products secured, Mueller and his team also wanted their products to be versatile, adaptable. Armed in advance with an intimate understanding of public gaming—and its often sensitive nature—the Shoutz team was able to create a product infinitely applicable within the lottery industry. "One of our top priorities was making LotteryHUB a no-cost solution for lotteries," Mueller said. But a platform like LotteryHUB doesn't come cheap—the Shoutz team knew they'd have to look to third-party advertisers

not only to generate additional revenue for lotteries, but also to recoup considerable investments in the LotteryHUB platform.

"We know that every state has different political realities surrounding their lottery, and we're in business for the players and for the lotteries," Mueller said. "So up front we created a 'blacklist' of products—alcohol and tobacco are good examples—that we wouldn't consider advertising. We are believers and followers of the marketing law: 'always protect your brand,'" Mueller said. "We serve one of the world's largest brands—Powerball and Mega Millions—so we're also responsible for protecting those brands and the brands of each of the member-state lotteries."

Compliance with the highest industry and internal standards, along with a commitment to versatility in Shoutz products, has allowed them to make LotteryHUB a turn-key marketing solution that nurtures real-world retail. Engaging and rewarding lottery players on a convenient mobile platform adds to the entertainment value of dollars spent on lottery games. That helps drive foot traffic for lotteries and their retail partners, in turn generating more revenue for good causes around the country.

And that's what it's all about. Mueller and Shoutz entered the lottery industry at a tumultuous time, when modern lotteries are trying to marry old-world regulation and new-world technology, not to mention new-world expectations from players. With Shoutz, Mueller and his partners had an opportunity not only to revolutionize an industry, but to tap that industry's potential to support good causes in a whole new way; to make a powerful addition to the lottery's arsenal of fundraising tools. "We've created a central hub where lotteries can engage and learn about their players," Mueller said.

"LotteryHUB is convenient, engaging and rewarding for the players," Mueller said. "But it's also a no-cost or low-cost solution, giving lotteries the opportunity to use this mobile platform not only to promote games, winner awareness and new offerings, but also to drive revenue from third-party advertisers." Now that LotteryHUB is an official app of Powerball and Mega Millions, the benefits of that strict self-regulation that continues to drive Shoutz are plain to see.

LotteryHUB serves a massive audience of highly engaged lottery players, and in no state does the app run afoul of regulations. Shoutz has also staked their claim as a mobile leader for the lottery industry. Theirs was the first app to capture the valuable attention of the mobile demographic, and they've been able to make inroads with a younger demographic.

That connection to a new, younger lottery player opens plenty of doors for the lottery industry. "This is the first opportunity for lotteries to monetize their players in a unique way," Mueller said. And, because of the strict standards to which Mueller and his team have held themselves over the past two years, every lottery has the same opportunity available: connect and engage with more players, add more value to every transaction and, most importantly, generate more revenue for good causes. ♦



# PLAYBOOK FOR LAUNCHING AN i-LOTTERY WEBSITE

Third Article in 5-part series

Pall Palsson, Executive Product Manager, Betware  
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In the last two installment of this series we covered the Player Account, the Wallet and the importance and function of Single Sign On (SSO). The Player Account is the foundation and the heart of your iLottery solution, the Wallet lets players buy wagers and SSO lets the Lottery seamlessly tie together offerings from multiple providers so that players may enjoy the very best games available. In this final installment of this article series we will cover the Back Office, regulatory compliance, marketing, games and a few other considerations that are important to keep in mind when setting up a great iLottery site.

# Betware

NOVOMATIC GROUP

**BACK OFFICE:** Whatever you actually call it, and there are many names in circulation, this is the piece of software that lets you monitor and manage your iLottery site. Your call center will also use the back office to assist players with issues that come up. The functions of the Back Office are too numerous to list here but you can think of it as the administrative and reporting portal of your site. If you are offering content from multiple suppliers you will most likely have more than one Back Office system. Some suppliers even have separate back office systems for different game zones so even if you have one supplier for poker, bingo and casino you may end up with three separate Back Office systems. While this can be a pain to get used to it's not really a hindrance to the smooth operation of your site once you get used to it; It's however not a bad idea to have SSO in place here too so that your employees will not need to log into different systems all

the time. For bonus credits this SSO can be done through something like Lightweight Directory Access Protocol (LDAP) which means your employees only need to log into their own machines to access all the different back office systems without a username and password.

**MARKETING:** Included here are promotions (including bonuses), affiliate solutions, e-mail marketing solutions, campaign management systems and other marketing related functionality. Essentially as a first step you want to ensure that you have a way to complete all of these functions as the Marketing features are essential for your ability to attract more players and your ability to attract more revenues from your current and future player base. You may even double up on some of this functionality between your Player Account and game zone providers. There is an argument for example that promotions including bonuses should be handled across the board by the Player Account and not individual game zones as the Player Account contains the wallet but many game zones today offer game zone specific bonuses already. The thing to remember is that there are always bonuses that only the Player Account can handle. As an example you may have a promotional bonus that offers players a 200% bonus on first deposit. This bonus would have to be handled by your Player Account while all your Bingo bonuses may be handled by your



casino game provider or your Player Account.

**REGULATORY VAULT:** This component has many names and is sometimes provided by the gaming commission and sometimes it is a requirement that the operators must have a solution for themselves. In simplistic terms it's essentially a black box that you must send your ecommerce transactions and player data to so that the gaming commission has a copy of your records that cannot be altered. There is very little leeway in how this is implemented if you need it to comply with regulation so simply ensure your supplier is willing to commit that his solution will fulfill the requirements set forth in the regulation that governs your license.

## OTHER CONSIDERATIONS:

**THE "BUILD QUALITY" OF THE SOFTWARE:** This applies to all of the above and is near impossible to figure out from marketing material and sales pitches but it is still important so before you commit to a buying a product have someone who's technical expertise you trust grill the supplier on the way the solution is put together and how it connects to other solutions. You don't want to buy the software equivalent of something that is held together with blue tack and duct tape or only works perfectly in total isolation.

**SUPPORTED CHANNELS:** Although this is rapidly changing there are still many content providers out there that do not support any channel other than the (t)rusty old PC. Your demand as a modern Lottery should be for solutions that will work across the whole spectrum of Internet connected devices from the small, cheap and cheerful Android smartphones, through the high end smartphones; 5", 7", 9" tablets; small to high resolution PCs and the list goes on... the range of screen sizes and device types is in practical terms infinite but this is what you should demand that your content suppliers support. Read up on responsive web design, as a concept it's easy for non-technical people to comprehend and it is quite possibly the way out of this mess for everyone.

**INITIAL DEPLOYMENT:** Launching your first iLottery site in a regulated market is far from easy and if the legislation in the market you are launching in is still being developed, you and your partners (games, Player Account etc.) are in for one hell of a ride! Before you pick your partners make sure they are willing to commit to a launch schedule you are happy with. Working penalties into the contract is not a bad idea if you can swing it. A lot of companies have been burnt by picking partners that promise a day 1 launch and then fail to deliver. Often this is because the "partner" makes a strategy decision to allocate his resources elsewhere instead of getting your site live.

**SOFTWARE UPDATES:** Internet technologies are rushing ahead at a breathtaking speed with no sign of slowing down in the foreseeable future. The Lottery industry has had the luxury

of Adobe Flash as a common development platform for a good few years but Flash is rapidly becoming a footnote in the annals of technologies past. This will mean experimentation with newer technologies/standards like HTML5 and many updates to iLottery software as browsers change to accommodate HTML5 and new functionality becomes available, and if the past is any indication, stuff that "used to work" turns into stuff that "won't work at all". Ask your partners what their software update plan is. Does the operator have to pay for updates? How often is the software updated? How quickly is a critical issue fixed? Etc. Most content providers will make updates available without charge, or by just charging for the cost of deployment vs. the whole cost of development. This is a potential pitfall for Lotteries new to having an iLottery site so it's worth getting the details clear.

**ANALYTICS:** This could be an article in and of itself so let's keep it brief: 1) Your data is invaluable as it helps you tune your site and increase your revenue. 2) You may not be able to insert a tracking module into all the 3rd party content you offer on your site so ask your content providers about the analytical capabilities of their software. As with so many other things the best way to start with analytics is to "start using analytics." Even a basic implementation of Google Analytics will tell you a lot and you can tune what you track and how you track it as you go along. Just don't go live with your site with no analytics as you try to figure out the PERFECT analytical solution on paper.

## IN CLOSING

Let's talk about what games you should offer through your new iLottery site. What games to offer depends entirely on the license you have. In general the best practice is to have all games available through all channels so that means anything you currently sell through any channel, including retail, should be available through your iLottery site as well. In practice there are certain games that only work in certain channels. A classic example of this is multiplayer poker which would be a very strange game to play through a traditional lottery terminal. Most Lotteries do not have the license to offer multiplayer poker but the example gets the point across nicely. Having a healthy mix of different types of products is desirable and cross selling between these products can be very successful.

If you have read all three of the articles in this series you should have a pretty good working understanding of what it takes to setup a successful iLottery site and what you need to watch out for when selecting partners for the different aspects of the site. If the task seems a bit daunting remember that iLottery revenue is the driving force between the growth of many lotteries around the world today and some receive over 50% of their revenue from the interactive (internet) channel already. ♦

...continued from page 59

regime it may not be possible to prosecute someone who didn't know, or claims not to have known, that the data they were buying was stolen." The stolen data didn't include financial information or customer passwords, Paddy Power said in court filings. In a statement posted on its website in July, the company revealed the data theft, and started contacting the customers who were affected.

### **Delaware Lottery Hopes Football Betting Will Boost Sales**

More than 80 retailers will offer football betting this week, in addition to the state's three casinos. Sports betting is a segment of the gaming industry that has grown in recent years. Delaware is the only state east of the Mississippi that has legalized sports betting, and hopes that sports betting will bring growth to the state. Delaware Lottery Director Vernon Kirk says "we've seen amazing growth in the number of players, and winners, over the past few years ... there were 81,388 winners in 2013 versus 55,841 winners in 2012." Delaware casinos have been ailing. "In June, state lawmakers approved a plan to split the vendor fee for slots, reducing the amount the casinos pay the state by nearly \$10 million."

### **Mobile Gaming Revenue Estimated to Grow 36%**

Micropayments and smartphones will abet the development of mobile gaming through 2017. Gabelli analyst Camillo Schmidt-Chiari is covering six online gaming stocks on the LSE and draws his estimates from this research. He actually expects online gaming CAGR (compound annual growth rate) to slow to 5.7% through 2017 (down from 25% between 2000 and 2013), but this average does not reflect growth in mobile. Mobile gamblers are expected to be less likely to shop around for the best odds and mobile firms get better margins and higher average revenue per user (ARPU). Schmidt-Chiari

sees casual gaming (eg. Candy Crush, Angry Birds) as a gateway to mobile gaming. Schmidt-Chiari expects 36% CAGR in mobile gaming from 2013. Schmidt-Chiari covers Betfair Group Ltd, Bwin.party Digital Entertainment Plc, William Hill plc, Playtech PLC, Rank Group PLC, and Sportech plc.

### **Amaya Acquires Pokerstars and Full Tilt Poker**

Amaya Gaming Group Inc. (TSX: AYA) announced today the completion of its previously announced acquisition of 100% of the issued and outstanding shares of privately held Oldford Group Limited, the parent company of Isle of Man-headquartered Rational Group Ltd, the owner and operator of the PokerStars and Full Tilt Poker brands, in an all-cash transaction for an aggregate purchase price of \$4.9 billion, including certain deferred payments and subject to customary purchase price adjustments.

### **A Third of the US Is Within 25 Miles of a Casino**

The statistics consulting firm Flowing Data has determined that a third of the US land area is within 25 miles of a casino. This is even true of Utah, where gaming is illegal, because of the proximity of a poker party store. Google classifies such outlets as "casinos" (the firm used Google Places API as their source for this study). "There are 39 states with some form of legalized gambling, according to the American Gaming Association. Of those states, 28 have Indian casinos, 23 have commercial casinos, and 14 have racetrack casinos."

### **Betclic, Bwin and Ladbrokes Included in Hungary iGaming Blacklist**

### **Turkey Blocks Over 100 Gambling Websites**

### **Malta Asks the European Court to Over-Rule the Council of Europe's Draft Convention on Sports Competitions**

Malta claims that the definition of illegal betting in the draft convention "hinders the free movement of services within the EU.

*If ratified, this would mean that licensed gaming operators in Malta would be hindered from extending their operations abroad unless they abide by the laws of the other members states."*

**PGRI Note:** Malta wants the Council of Europe, or the Court, to over-rule the rights of member states to decide regulatory and taxation policy for all forms of gambling, including betting on sports competitions. Maltese operators essentially want to export gambling without complying to the laws of the "consumption" markets, i.e. the laws of the member state where the better actually is placing the bet.

### **Brazil Drafting Law on Gaming Regulation, Rejecting Prohibition**

A bill introduced to the Brazilian Senate earlier this week may regulate the gaming market. Goal: a state-controlled gaming market that utilizes licensing. This market is "more than 8.6 million people, 2 million of which regularly play online poker ... The current anti-gaming legislation did not stop gambling in Brazil, and today's clandestine market moves more than R\$ 18bn. (approximately \$8bn.) every year," bill proponent Sen. Ciro Nogueira explained. "According to some studies, if regulated, the gambling market could bring to the State new revenues for at least R\$ 15bn. (approximately \$6.8bn.) a year."

**PGRI Note:** It does not seem like there is any downside for futurists to toss out overly optimistic projections.

### **Paypal Re-Entry in Gaming Sector Could Change iGaming**

PayPal is planning to re-enter the gaming market in the US. This is a welcome move because the market has had a hard time finding other reliable money processing formats. Paypal was one of the first ewallets in online gaming, but it ceased operations in 2002 when it was being acquired by Ebay. Paypal and Ebay reached a settlement of \$10 million with the U.S. Attorney's Office in the Southern District of New York to resolve past issues over processing offshore online gaming payments. PayPal is a much trusted eWallet, and has the potential to expand the sector greatly. ♦

## Is it Time for Lotteries to Face the Zero Moment of Truth?

Previously, Consumer Packaged Goods (CPG) marketers believed the single most important moment in a purchasing decision came at the “First Moment of Truth,” those first few seconds when a customer walked in the store, viewed an array of products, and then made their selection.

Now, digital marketers are all singing a Google-inspired mantra: the “Zero Moment of Truth” (ZMOT).

ZMOT describes how, in this new age of digital marketing, so much of what used to happen at the store level is now occurring online.

While online, consumers are comparing prices, scanning reviews, absorbing digital advertising and, in some cases, making actual purchases. For those who still visit a store, their purchasing decisions—even many of the ‘impulse’ buys that lotteries have relied on for so long—have been made before they walk in the front doors.

Jim Lecinski, Google’s managing director of US Sales, believes that many CPG organizations are simply “not keeping pace” with the current digital marketing strategies.

“The way we shop is changing,” Lecinski wrote in *Winning the Zero Moment of Truth*. “Whether we’re shopping for corn flakes, concert tickets or a honeymoon in Paris, the Internet has changed how we decide what to buy.”

What implications does the ZMOT have for lotteries?

NeoPollard Interactive, a strategic alliance between Pollard Banknote, a world leader in instant lottery products, and NeoGames, a global purveyor of Internet lottery and gaming platforms, believes lotteries must compete at that ZMOT to broaden playership and optimize revenues for good causes.

At NeoPollard Interactive, we often talk about the influences that “prime the purchase,” the consumer cues that determine decision-making in the bricks and mortar retail environment.

Lotteries have relied on traditional advertising and marketing strategies such as billboards, TV, radio, and print ads to get people thinking about lottery products well before arriving at a retailer.

However, with so much of the retail experience moving online, it’s essential for lotteries to establish a digital marketing presence.

Forward-thinking lotteries are deploying a suite of interactive solutions to engage their customers across a broad array of sales channels, including digital streams. This is the new lottery “ecosystem”—a network that extends from traditional bricks and mortar retail, to interactive applications where money is not exchanging hands, to a full online gaming platform.

Competing at the ZMOT can be intimidating, particularly if digital marketing has not played a significant role in a lottery’s sales strategies. Many lotteries are concerned an evolved and evolving digital solution will be costly, time consuming and disruptive to the existing, traditional sales networks.

Fortunately, great strides have been made in helping lotteries compete at the ZMOT.

“There was a time when talking about digital marketing would have meant hiring your own team of programmers and developing an Internet version of a game or an app or other significant digital asset from

scratch,” said Moti Malul, Executive Vice President, Business Development at NeoPollard Interactive.

“The reality is that we’ve been tackling this challenge for years now. It’s not necessary for lotteries to build from scratch. You can make the move to digital in small, predictable and stable steps forward.”

Doug Pollard, Co-Chief Executive Officer at NeoPollard Interactive, said an increasing number of lotteries have discovered that the path to a digital presence is through innovative ‘Space Between’ products that exist between bricks and mortar retail and the purchase of lottery products over the Internet.

With its lottery partners, NeoPollard Interactive has developed a wide range of options: online “Second Chance” drawings; highly popular “Players Clubs;” Social Instants™, an instant game that leverages social media channels; and WebPlay™ games and informational apps, among others.

One of the best examples of the ‘Space Between’ concept at work is the suite of highly popular WebPlay™ games, which allow players to access additional play online via QR or other codes for fun or to acquire Players Club points, coupons or other prizes. By registering for online play, lotteries can track and leverage a player database to build loyalty. This allows lotteries for the first time to build loyalty through a true one-to-one relationship with their customers.

The Michigan Lottery is a prime example of how a ‘Space Between’ approach can create a broad player database, foster ongoing engagement and set the stage for a full move to online games.

The Michigan Lottery’s loyalty program was introduced in 2005 and rebranded in 2010 as the Players Club. In 2011, it did a major online relaunch of its second-chance program as “Play It Again,” where players could enter non-winning ticket codes for points that could be used for entries for a contest to win \$1 million.

In 2012, the Players Club was used to support the launch of “Cashword WebPlay,” an app that allows players to use a QR code or visit a website to play for Players Club points or lottery coupons, with no additional purchase. A play for fun option with no ticket purchase necessary was also available.

These online options boosted total Cashword weekly sales by nearly 40 percent in the two months after launch. More importantly, the player database revealed that nearly two-thirds of all online players were between 18 and 34 years old, a key demographic in the continuing quest to broaden playership.

While the Michigan Lottery has been accelerating sales support efforts on all fronts, digital is contributing to some impressive results. For example, sales of Michigan Lottery instant game tickets were up 7.2 percent in FY 2013 over FY 2012, which is much higher than the average instant game ticket growth rate for U.S. lotteries over the same period.

The Michigan Lottery has become an industry leader in the digital space, delivering a steady stream of newer and more innovative ‘Space Between’ options. The establishing companies of NeoPollard Interactive won a contract to provide online game services to the Michigan Lottery and the formal launch of online games is scheduled for the fourth quarter of this year.

The Michigan Lottery’s success has sparked broad industry interest in ‘Space Between’ products. Three other NASPL lotteries have launched Cashword WebPlay™ apps with their crossword-themed instant tickets, with several others ready to follow suit in the coming months.

Clearly, an increasing number of lotteries are already competing at the ZMOT, to remain relevant and engage the widest base of players possible.

That may still seem like a daunting task, especially for lotteries that may have experienced challenges with the first wave of digital marketing. But as the Michigan Lottery and other lotteries are demonstrating, the payoff for winning that ZMOT can be enormous. ♦





# MAKING MORE AND MORE MILLIONAIRES

Players have often said they'd like to see the winnings spread out among more winners rather than seeing one or several persons win a giant jackpot. *MONOPOLY Millionaires' Club™* is designed for them—the Top Prize is smaller than the huge jackpots in Powerball® or Mega Millions®, but instead a large number of \$1 million prizes is up for grabs. *MONOPOLY Millionaires' Club™* offers players three ways to become a millionaire: through a weekly drawing on Friday night for a \$15 million-\$25 million Top Prize, in a special MILLIONAIRES' CLUB drawing that will occur only when the game's Top Prize is won in the lottery drawing, and on a nationally televised game show. By capping the Top Prize, *MONOPOLY Millionaires' Club™* will create multiple winners of \$1 million while still having a winner of a larger amount of up to \$25 million. The prizes will begin with a \$15 million Top Prize and ten \$1 million Club Prizes. If the Top Prize is not won, it will continue to increase in value for each subsequent draw up to \$25 million. Then, if no one wins the Top Prize, all additional prize money will create additional \$1 million Club Prizes until someone wins the Top Prize.

But wait, there's more ... *MONOPOLY Millionaires' Club™* will involve a rich variety of game-playing elements never before integrated into a draw-based game. And the multi-media approach to marketing and promoting the game will have a unique appeal to the modern "omni-channel" consumer. By introducing a lottery playing experience that connects with new consumer groups which want something fresh and new, *MONOPOLY Millionaires' Club™* delivers a gaming experience to be enjoyed on a whole wide spectrum of different levels.

*MONOPOLY Millionaires' Club™* is expected to generate more simultaneous millionaires than any other game in lottery history. With three different ways to win, *MONOPOLY Millionaires' Club™* is the first game to combine the high-stakes and rich rewards of multi-state lottery gaming with the fun and entertainment of a national television game show featuring players selected from among the ticket holders who have registered their tickets online or via a smartphone app.

*MONOPOLY Millionaires' Club™* is the first \$5 multi-state draw game. The consumer wants to play different games and for the games to be available for purchase at different price points. Mega Millions is \$1 a ticket, Powerball is \$2. Different games, different playing experience, different price points—this consumer-driven strategy has driven the growth of instant-scratch tickets and now it is being applied to the draw-games.

With the familiarity provided by the MONOPOLY® brand, the many ways to become a millionaire by playing the game, the opportunity to appear on a nationally televised game show, and the many ways to interact via mobile and social media, *MONOPOLY Millionaires' Club™*

is expected to appeal equally to core lottery players and to newer, likely younger adult lottery players.

Those are some of the attributes that differentiate *MONOPOLY Millionaires' Club™* from Powerball and Mega Millions. Diversification of product offerings to give the consumer new play options is key to the development of any product category, and that certainly applies to the national draw games.

Each time the game's Top Prize is won in one of its weekly lottery drawings, it will trigger a separate event: a drawing for at least ten prizes of \$1 million in cash each. Known as the MILLIONAIRES' CLUB drawing, it will be conducted the same evening after the game's Top Prize is won. Each *MONOPOLY Millionaires' Club™* ticket purchased will include a unique "MILLIONAIRES' CLUB Number". That number is an entry in the MILLIONAIRES' CLUB Drawing. If, in a week that the Top Prize is won, a player's MILLIONAIRES' CLUB number is selected, that player wins one of the 10 (or more) \$1 million prizes being awarded that week. Winning MILLIONAIRES' CLUB numbers will be published online.

## THE NATIONAL TV GAME SHOW

Through a second-chance drawing based on a state-by-state basis, between 125-250 winners plus guests will be chosen to be the audience on the television game show. A minimum of three winners from each participating state lottery will be represented in the audience of each show. Taping of the show will start in January, and the one-hour, primetime game show will make its TV debut in February.

Contestants on the show will play a series of games with a MONOPOLY theme. The show's mini games will offer prizes from \$10,000 up to \$100,000 and a bonus round will offer a chance at \$1 million. The audience section from which the bonus round contestant was chosen also has the opportunity to win a shared prize of \$1 million. There also will be an interactive play-at-home component available on desktop, tablet and mobile devices. The game show will be produced in Las Vegas, so those selected to attend its tapings will win a five-day, four-night trip for two that will include all amenities and spending money. Players selected to attend the game show's tapings will be notified and assistance will be provided to them in making travel arrangements to Las Vegas.

## BRING ON THE SHOWER OF MILLIONAIRES

The *MONOPOLY Millionaires' Club™* draw game will launch on October 19, 2014. The lottery draw will take place on Friday evenings at 11:15 p.m. Eastern, making it possible for literally hundreds of players across the country to wake up Saturday morning a millionaire. The population of lottery jurisdictions selling the game by the first week of November 2014 will be approximately 175 million. By the first week of February 2015, that population will be approximately 245 million. Several lotteries are still in the process of securing the required regulatory approval to sell the game. Nobody will want to be left out of the biggest game to hit the U.S. market in, like, ever! ♦

# Lottery HUB

An Official Mobile App of  
**Powerball** and **Mega Millions**



Available on the  
App Store



ANDROID APP ON  
Google play



**Shoutz is dedicated to making lotteries more convenient, engaging and rewarding.** Shoutz is mobilizing the multi-billion dollar lottery industry with its state-of-the-art mobile engagement and monetization platform, including the award-winning mobile app, LotteryHUB. LotteryHUB is an official mobile app of Powerball® and Mega Millions® which provides players the freedom to pursue their dreams and engage with Powerball and Mega Millions from just about anywhere. Players can easily follow the jackpots, check and track numbers, watch live drawings and get the latest news and tips — all while earning rewards and benefits.

The Shoutz platform not only provides Powerball and Mega Millions a means of engaging and monetizing their large, national player bases but it also provides them a means of communicating with and distributing news and information to their players. Shoutz will continue to provide the latest features and benefits to lottery players via LotteryHUB while also providing lotteries with an advertising driven revenue model as well as analytics regarding player behavior, trends and demographics.

Lotteries and advertisers can contact Shoutz via email at [info@shoutz.com](mailto:info@shoutz.com) or visit [www.shoutz.com](http://www.shoutz.com) to learn more about LotteryHUB and the benefits of the Shoutz mobile engagement and monetization platform.



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# INNOVATING SINCE DAY ONE

1973

World's First Secure  
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Now

Growing Global Production  
for Instant Games



Now

First Fully Integrated Instant  
Game with HTML5 Mobile  
2<sup>nd</sup> Chance Game



Now

Live with First Comprehensive iGaming Offered  
by a State Lottery in the U.S. Featuring Poker,  
Casino Slots and Table Games



Now

Our Technology and Content Leads the  
Lottery Industry to Digital Engagement



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