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*Also including Executive Summaries of panel discussions and keynote presentations from
the World Lottery Summit Vancouver and PGRI Lottery Expo NYC*

Rebecca Paul leads the WLA Vancouver Platinum Contributors Panel Discussion

Rebecca Paul, President & CEO of the Tennessee Lottery, President of the World Lottery Association

Fabio Cairoli, Chief Executive Officer, Global Lottery, IGT

Pat McHugh, Chief Executive Officer, Scientific Games

Doug Pollard, Co-Chief Executive Officer, Pollard Banknote and NeoPollard

Competing with Sports Betting and Casinos

In years past, Lottery has not really thought of itself as being in head-to-head competition with other games-of-chance categories like casinos and sports betting. And it might be arguable how much the player migrates from one gaming opportunity to another. What is not arguable any more is the actions of operators in these other categories. Commercial casino and sports betting operators recognize the large number of people who play the lottery as a market with dollars to spend (more than \$100 billion in the U.S. alone) on games of chance. As they see themselves in competition with lottery, they are now targeting lottery players to convince them to move to

casinos, online sports betting and eGames and legislators for their power to shape a regulatory environment that is favorable to commercial casino and sports betting (and unfavorable to lottery).

Sports betting and casino operators are lobbying not just for expansion of their sectors. As they have come to see lottery as a threat, they are expending resources and effort to promote anti-lottery legislation or constraints. This new world order represents a threat to lottery revenue growth. It is time we think more about how that affects our own approach to marketing, promotion, and brand positioning of lottery. We need to think more about defending lottery's market share and keeping lottery players from migrating to other gaming categories.

Globally, lottery generates more than \$100 billion for good causes that benefit everyone. Unlike commercial operators, our mission is to serve society. It sometimes seems as though legislators who shape public and regulatory policy do not appreciate that. We need to find ways to advocate for the stakeholders of lottery as well as drive new strategies to retain player-ship. We need to explore new ways to fight back against those who are lobbying to constrain the growth of lottery. We

need new ways to connect with the public, the general media, and legislators to promote the benefits of lottery, and to make sure they too embrace the mission of lottery as the public service that is owned by the people. Maybe it is just a PR initiative to ensure our message is getting out there. Or maybe it could be something more than that. In any event, this is a team-effort that involves all of us who care about the government lottery industry.

It took years of legislative debates for most states to finally end up with their own state lottery. Conversely, look at how quickly sports-betting is getting approved throughout the country. These are the same legislatures who continue to prohibit iLottery. As an industry, we need to find a way to harness the power of our collective voices to convince the general media and general public to be more proactively supportive of lottery. Think about it – sports betting and casino operators compete with each other and yet they saw it as in their interests to collaborate on the shared goal of getting legislation passed that was favorable to their sector and disadvantaged lottery. Team Lottery needs to forge a pathway towards more effective political action or at least advocacy.

On creating a healthy, dynamic, and productive lottery ecosystem

Inflation rates have driven up the costs of producing almost all products and services. Insurance and labor costs have also risen more than usual. And the shortage of paper has made the costs of producing instant tickets rise even more. The winners of the lottery bids are obligated to sign long-term contracts based on the lower costs prevailing. This disrupts the whole business model of the technology partners. They have to pay more, sometimes much more, to produce products but are not able to increase prices to cover those increased costs. This is a problem for the whole industry, not just the vendors stuck with costs that exceed revenues. We want suppliers to bid the lowest prices (based on lower costs) and deliver the best product. If the commercial technology partners must factor in the possibility of an increase in costs, that will result in higher bid prices which is not good for the government lottery operators. A solution to this problem is to incorporate into the RFP and resulting contracts provisions that allow for adjustments based on the Consumer Price Index. Some cost factors may be hard to measure. But the data on others, like paper, is readily available and would be easier to apply. This is a very do-able proposition as it is already being implemented in a short list of lottery operators.

We are all in this together, dedicated to increasing revenues for government lotteries and funding for good causes. A healthy lottery ecosystem depends on a financially healthy base of commercial technology partners to support growth and innovation. To that end, let's be open to solutions that help all of the component parts of that ecosystem function optimally. That is what will produce the best long-term results for the benefit of the good causes supported by government lotteries.

On driving investment in innovation

We know that continual improvement of products, operations, business process, and distribution is key to long-term success. Lottery depends on its commercial technology partners to invest in the research that is needed to drive this innovation and progress.

The pressure to optimize short-term results can impinge on the need to invest in the kinds of initiatives and innovation that

require a longer ROI timeline. Commercial enterprises are flexible to apply a variety of risk/return models to justify the allocation of funds to invest in innovation today even though the payoff time-line may be longer than this quarter, this year, or even longer. But there does need to be a payoff, an incentive to invest because the industry needs the entrepreneurial energy, the creative ingenuity, and the financial resources of the commercial sector to support innovation and growth.

RFP's (Request for Proposal) include a system of weighting the various parts of a value proposition. Of course, pricing is a major factor, as it should be. But it is not the only factor. The lowest price for a substandard product and service is not what anyone wants (well, maybe except for some state procurement departments). So, the bidder is invited to describe the technologies and services that will produce the desired outcomes and explain what differentiates their offer from their competitors. What makes them special, or proprietary, or deserving of a higher price? How or why can we expect the superior quality of the technology to produce revenues and net profit that exceed the difference in price, or otherwise deliver more value?

Since cost as measured by the amount paid to commercial technology partners is a tiny fraction of the revenues produced by lotteries, the evaluation process should elevate the importance of technical abilities, investment in R&D, in innovation, in producing better products and services. The return on investment to lotteries is off-the-charts which means the likelihood that a thoughtful increase in price will produce a much larger increase in revenues is very high. And yet, RFP's continue to be stuck in a cost-centric mold instead of the outcome-centric mold that would drive better performance and financial results.

Solution: Increase the weight applied to technology and the ability to produce results and decrease the weight applied to price. When you start with a fundamental dynamic of costs being such a small percentage of revenues, the highest ROI of any industry anywhere in the world, it just makes sense to construct the RFP and subsequent contracts in ways that drive more investment in growth. Technology partners are willing to assume the risk, make that investment in growth and innovation, and to factor in a longer ROI time-line. As an industry, let's find ways to incentivize them to invest in our future!

A way to update RFP's to be more effective is to include the technology partner input

earlier in the process. It is understood that the process is strictly controlled by the lottery and state procurement policy and procedures. Nobody wants to impinge on that. We would just respectfully submit that more information and better, and vendor input in the earlier stages of building the RFP would result in an RFP and vendor contract that drives better alignment between vendor and operator, increased investment in innovation, and optimal revenues and funds for good causes. Input from vendors should at least be known because the perspectives of the supply-side of the equation are different from the buy-side, and some of those insights would undoubtedly contribute to the objectives of the lottery and state procurement and the bid process.

Digitization = Responsible Gaming

Sustainable growth depends on evolving the platforms that support an effective approach towards Responsible Gaming. And those platforms depend on migrating from an anonymous retail playing experience to a connected digitized relationship with the player. Digitization provides the data and insights needed to help the players manage their play to avoid problems, and it enables the two-way communication to share those insights with the players. Exhorting consumers to not give lottery tickets to under-age people at Christmas is one way to show dedication to Responsible Gaming, but the effective Responsible Gaming platform of the future will be more than that. And it all starts with establishing the interactive relationship with the players enabled by digitization of both the retail and online iLottery playing experience. The vendor community has integrated a host of Responsible Gaming tools into the digital platforms that are being implemented right now.

Responsible Gaming is truly a foundational component to lottery play. It is what separates us from other gaming options, like sports betting and casinos. Let's make sure we leverage this strength and turn it into the competitive advantage that further differentiates the lottery sector from its competitors in the gaming industry.

Lastly, Rebecca pointed out that it has been four years since this industry has had any kind of trade show. That is a lifetime of progress in the technology industry and the evidence of that can be seen on the trade show floor at this World Lottery Summit Vancouver. It has been so great to see everyone again! ■

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130
lottery customers in
50 COUNTRIES

5
INSTANT
GAME
production facilities on
4 CONTINENTS

3,000+
employees

40+
locations
worldwide

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The Science Inside *the Scratch*



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analytics for
portfolio planning

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LARGEST
licensed property
library with
100+ BRANDS

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unique games
designed annually

PAYOUT
optimization tools

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