

GAMBLING INSIDER

In-depth analysis for the gaming industry

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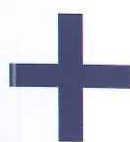
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THE CEO SPECIAL

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THE GAMING INDUSTRY'S FINEST



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UK REGULATION Operator options as an election approaches

LOTTERIES An expert lottery roundtable sponsored by Kambi





Drawing conclusions

Ed Hawkins gathers the thoughts of a high-level lottery panel to find out exactly where the sector is headed

THE PANEL

Shay Segev, COO, Playtech & CEO, Playtech Retail

Fotis Mavroudis, group director lotteries, Intralot

Delzar Khalaf, CEO, Lottotech

Ian Freeman, COO, Kambi

The lottery is the oldest, simplest mass market gamble in history. It dates back to the 1500s and its humble origins are still evident today in its more sparkly modern-day equivalent. But is this sector staid and too traditional? Does it need a revamp to keep up with technological advances? What of player behaviour and new

areas of opportunity? To discover more about this broad topic, *Gambling Insider* sat down with industry experts to work out what's next out of the hat.

Traditionally lottery has been an over-counter product with weekly draws and scratchcards. Does it need a revamp?

SS: As with other segments of the gaming industry, lottery works hard to keep itself relevant to its player base as well as stay alert to new sales development and growth opportunities that may present themselves or be created. There are good reasons why the lottery industry does things the way it does: close ties to governments mean that responsible gaming principles are an essential part of management thinking. The player base is generally the whole of the adult population, so skewing tactics to the whims of only selective segments is

likely to be damaging to the bigger sales picture. There are only so many ways one can 'dress up' a randomised draw outcome – but physical draws will always be players' preferred option because they can see it happening and therefore have confidence that the outcome is fair and uncompromised.

There are a huge range of lottery games – jackpot, numbers, fast-draw, instant and bingo-style to name the main types – proving that innovation is alive and kicking within the parameters that the industry has set itself through many years of experimentation and experience.

The industry has been slow to embrace online and mobile technology and has as yet been unable to deliver a truly multi-channel player experience. That said, a number of European lotteries are close. This is where the focus must lie in the coming years; however it is unlikely that this development

will look like a “revamp” – it will be more like taking the business to the next natural stage of its evolution.

FM: Demographics indicate that younger generations have grown up using and embracing technology in their everyday lives. They use mobile phones and tablets practically as the extension of their fingertips, they are part of various social communities that keep them always logged-in and they have learned that everything is just a click away. This generation can be approached only by those who use the same digital arsenal.

Simultaneously it is a fact that retail channels remain strong with loyal clientele. To this end one could claim that although society is changing to mobile, retail will stay with us for quite some years. It is to this end that ‘tradition’ will coexist with ‘revamp’, creating a new and ever-evolving balance that has to be honoured.

DK: We see an opportunity to attract traditional gamers by introducing live streaming online lotteries, for example, with draws every day.

Is the ‘safe and traditional’ method why lotteries have been accused of failing to embrace online technology?

DK: In my view, there might be an effect like in the music industry. People preferred to buy an album for the experience of looking at the cover, to actually be able to touch the product. Like in this case to fill in the ticket and socialise with the person behind the counter. But I believe, like in the music industry, the accessibility will prevail at the end. The new business models – insurance and messenger – and mobile penetration will serve as a catalyst for the process.

What are the big areas of opportunity for lottery?

FM: The areas of opportunity lay in enhanced content providing a personalised universal gaming experience across all channels. Everything points towards mobile. This trend is boosted even more due to the tremendous impact and penetration of mobile devices, especially in the younger generations. Most of us own two or more mobile devices that serve as the extension of our fingertips into the digital world. The more the capabilities of mobile devices evolve, the more our dependency on them increases. So, the answer is crystal clear. Yes, it is very important to develop and modernise mobile lottery, otherwise we are doomed to be left behind and miss great opportunities in this era of evolution.

Having said that though, one should not forget that retail is present and still brings in a huge amount of turnover. As stated already, the challenge remains in

honouring both digital and retail channels with compellingly attractive, entertaining, socialising content that will be available through almost all channels.

SS: In our view, lottery should be more than just buying a ticket. It should be a unified, multi-channel offering, a more exciting social and interactive experience that appeals to a

terms of age, gender, nationality, gaming habits and generally in their demographics and their psychological profiles. That is why it is of utmost importance for us to know our customer preferences, habits, mode of playing etc, now more than at any other time. Deepening our knowledge regarding the analysis of our players’ behaviour per target group is a constantly challenging process and

“It is very important to develop and modernise mobile lottery, otherwise we are doomed to be left behind and miss great opportunities in this era of evolution” – Fotis Mavroudis

younger generation whereby they can share their wins and comments, chat and meet with one another across various online and mobile channels, play as a group, create communities and produce viral engagement.

We have worked with various lotteries for many years, and are in ongoing discussions with others, to innovate and take the market into the digital age, introducing new innovative front and back-end website, platform and CRM capabilities, concepts and strategies. Our licensees view us as the natural technological bridge between their business and their customers.

What is the typical player behaviour for lottery?

FM: There is no such thing as a typical behaviour in lottery players. There is not just one correct answer as players differ in

operators must be in the position to have a clear mind so as to acknowledge all changes and adapt accordingly. Currently, a substantial portfolio of tools and methods exist to achieve this analysis so as to allow lotteries to plan and progress. The lotteries that do not acknowledge such need will have difficulty in successfully exploiting current opportunities.

SS: We have recently developed and deployed innovative business intelligence technology that, based on player behaviour analytics, offers lotteries automated and advanced personalisation and segmentation capabilities that enhance and increase player experience, lifetime value and operator revenues.

DK: Players in lottery are mostly not gamblers. There is essentially no game; you are buying a lottery ticket. It is very close ▶



Mobile is set to play a big part in the future of the lottery sector



Photo: Jan Underwood

to e-commerce. We strongly believe that soft gaming has a huge future in online. In my view, the more sustainable business model is to have many customers that pay small amounts rather than few customers that pay a lot. It is a great example of where casual and core gamblers meet. In our platform we are going to introduce a lottery betting system where players can bet on the outcome of the lottery – over and under, odd or even, and so on. We are yet to see how this will be perceived by the industry at large.

Why are some operators who love sports betting, casino and poker cautious to use lottery products to engage with new customers?

IF: Of course, lottery products are pooled and mostly the driver for the players is the chance of winning big and living the dream. That's in us all! The model has historically differed from that which is associated with private gaming operators. In addition there are regionalised licensing constraints for

operators who may wish to enter the lottery segment, which restricts the marketing opportunity, not to mention the challenge of competing in liquidity terms.

Many operators do offer a pool product that is focused on sport. The traditional sports-betting pool offers the customer the opportunity to win big for a very low stake. Again though, in liquidity terms, pool betting does not really compete for the same consumer segment, and it could be argued that there is more of an element of skill rather than simply chance in selecting potential outcomes for a football coupon. In Kambi's experience, its product is very much consumed by the casual sports-focused enthusiast.

That said, the overlap between the experience that consumers expect and want online is evolving over time to the extent that there is a divergent trend on both sides of the spectrum. Consumers are attracted by more relevant and timely games of chance that have excellent playability through multiple channels – mobile, web

etc. The expectation of the gameplay in the lottery segment online is not dissimilar to in-play sports betting. It is therefore not unreasonable to expect that operators may look to develop and use lottery products in the future to develop untapped consumer segments. Conversely, the same applies to lotteries and sports betting, which now represents a very good opportunity for them to start to expand their share of wallet through a broader portfolio offering.

FM: The issue is not whether or not such operators love lottery products but, given the usual monopoly status of lotteries and a number of their games, whether they are allowed to operate them. In other words, the issue is not caution but a licence to operate.

Do you think lotteries can dominate an online sportsbook market in the same way that large private operators do?

IF: Absolutely. In our view, lotteries have one of the biggest opportunities in sports betting. Most lotteries have a competitive advantage based on their recognised and trusted brand name, loyal customer base and distribution network. However, that is not enough to reach a sustainable and dominant position in an online sports-betting market. Increased competition for share of wallet dictates that lotteries must match the user experience with the same or better quality than its competition (in most cases large private operators) or it is unlikely that they will succeed.

FM: Rest assured lotteries have the potential to compete equally in the online market. For this to happen, companies should first of all offer innovative content that is relevant to the players' interests while developing the appropriate mechanisms to protect the players, offer access to lottery games through various channels that are familiar to each player and always be aligned with the existing regulations.

DK: I think anything is possible. With lotteries it depends on how big the jackpots are and how accessible they are.

Should lotteries maintain focus on their core specialist areas and outsource sportsbook and other specialist product verticals?

IF: All of today's leading sportsbook operators have several hundred traders, large IT development organisations as well as IT systems built and refined over many years. Even if a lottery can overcome the technical and competitive debt that may have accrued, the biggest hurdle is the knowledge gap. The most successful online sportsbook operators – those with a proven track record in regulated or re-regulated markets – have



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Shay Segev

literally hundreds of years of sports-betting experience in their core management teams. This is impossible to reasonably replicate.

Even for a lottery with large financial muscles it would be a huge, risky and time consuming task to take on the challenge of trying to build something similar. It makes much more sense for a lottery to outsource the skills and expertise, and focus its own resources on acquisition and retention of players.

FM: Outsourcing applies to all industries. Lotteries should concentrate in the direction of setting relations with their customers through all channels, providing charities to communities in need, protecting their

players and assisting the regulators to put certain limits in all markets, and allow the other features of their activities – for example technology, research, logistics etc – to be handled by relevant experts, since this will maximise results and return to society.

Is the European lottery market under-developed compared to the US?

FM: Both the US and the European market offer a variety of examples of development and underdevelopment. For instance, some lottery games are a huge success in the US market whereas at the same time the European players do not consider them as attractive. To this end, one should return to the initial statement that each region has

its particularities and it is a task of every lottery to address them in the best possible way by offering the best content possible in the specific environment. Blindly imitating other jurisdictions’ success stories is not the best way to move forward.

SS: European Lotteries are years ahead of their US counterparts in using online technology (it is still illegal to sell lottery games online in most US states), and Europe has a larger share of the world lottery revenues than the US by a considerable margin. Europe’s total sales were almost twice as much compared to the US and it dwarfed other worldwide sales too, including Asia and the Middle East. ◀



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