



REBECCA HARGROVE
Tennessee Education Lottery

GOVERNMENT LOTTERIES RAISE THE BAR:

The Entrepreneurial,
Market-Disrupting Culture
that is Reshaping the Industry

FEATURE INTERVIEWS



JUHA KOPONEN
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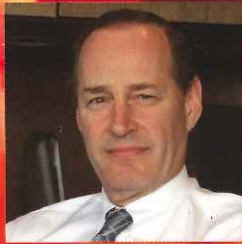


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LOTTERY INDUSTRY HALL OF FAME



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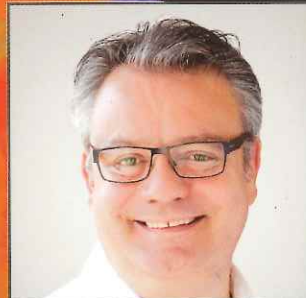
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Award



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Ioannis Katakis

Chief Executive Officer, MALTCO Lotteries, Ltd.

PGRI Introduction: *Mr. Katakis was appointed to lead MALTCO upon its establishment, in 2001, as the operator of the National Lottery of Malta. Its history since then is most exciting. Malta is home to a thriving internet-based gambling business. In spite of that, and with a total dedication to its land-based retailers, MALTCO has doubled its revenues over the last ten years. My discussion with Mr Katakis (at Industry Days in Lisbon) reveals a background that shapes his approach to business in a profound way.*

A current focus for large corporate enterprises is the challenge of integrating the different functional areas of the business (Sales, Marketing, Product Development, Operations, Distribution, etc.), breaking down the silos that make it so difficult to achieve a truly customer-facing end result. The corporate model of deploying to toil away in the silos of our separate disciplines, as invented by Alfred Sloan at General Motors more than 75 years ago, lives on. And for good reason. After all, we can't be experts at everything. But somehow, sometime, the deconstructed corporate enterprise needs to come back together to face the customer.

Apply this paradigm to the individual. Trained in the sciences (Ph.D In Biomedical Engineering; Bachelors and Master Degrees in Electronic Engineering), Mr. Katakis followed his academic career with 5 years as a medical scientist. He hired on as a technologist and engineer at INTRALOT (to implement its first online lottery and design and Implement the first Videolottery system). He then moved into operations and business development (responsible for acquiring many of INTRALOT's 'private management' contracts as General Commercial Director in Europe, Asia, Australia, New Zealand and S. Africa) and, since the renewal of the license in 2012, serves as executive CEO of MALTCO Lotteries. Mr. Katakis does not presume to be expert at everything. But he does continue to be involved in every aspect of the business. And he makes a strong case for why that is necessary in order to bridge the gap between technological development and the user experience.



Paul Jason, PGRI: *MALTCO Lotteries must be doing a lot of things right to achieve the highest per cap spend in both traditional Lottery products and in overall products including sports-betting. It is most interesting because that €170 a year per cap' in the traditional lottery games is in a jurisdiction where online gaming is very well established. The prize payout percentage in online gaming is much higher than in traditional lottery.*

Ioannis Katakis: It is all about the relationship we build with our retailers and our players. We do not sell online so we are totally committed to our retailers. Our mission is to reinvent the in-store consumer experience, to turn it into an emporium of entertainment that also sells lottery products.

We developed and installed the first online system in Malta in 2004. That set us on a course to redefine our relationship to our retailers. They embraced our ideas and grew the off-line based lottery business consisting of two lotto games and instant tickets with revenue of €42 million in 2004 to an advanced terminal-based lottery business operating ten games and generating €85 million in 2013. The games cover all the types: Lotto, KENO, BINGO, Instant, Paper Lottery, including Sports and Horse Betting.

Your share of the sports-betting market is between 10% and 15%, but it still adds up to €17 million a year which is a very high per cap' spend. How do you compete with the operators who offer a higher prize-payout percentage?

I. Katakis: First, we convinced the local agents to stay open until midnight. Some of them stay open until the last game finishes,

MALTCO LOTTERIES, LTD.—BY THE NUMBERS

See the interview with Ioannis Katakis, CEO of MALTCO Lotteries, for insight into how MALTCO Lotteries came to have the highest per capita spend on traditional lottery products (€170) AND the highest per capita spend overall including sports-betting (€210)!

THE GAMES

- Two type of weekly lotto games
- KENO every five minutes
- Two types of BINGO games: one daily and one every 15 minutes
- Scratch tickets
- A weekly paper Lottery called Grand Lottery
- UBET sports : Fix odds betting covering about 1000 events weekly
- UBET Horse Races Pari-mutual: Races from Sweden (ATG), England and Ireland (GBI) and S. Africa and Asia (Phumelela)

MALTCO Lotteries broadcasts across eleven TV channels. The INTRALOT Horizon system is used to deliver those channels to more than 230 dedicated shops, by means of advanced data broadcasting methods. Each shop is connected to the company via an 8 Mbit line. The information being broadcasted by

HORIZON includes:

- Live draws of KENO (5minutes) and Bingo (15 minutes)
- Results, statistics and historical information about all the games including Jackpots and winning amounts immediately delivered after the draw to all the shops simultaneously
- Programs, Live odds, results and statistics with the relative information about UBET sports betting

Additionally, INTRALOT HORIZON is used for transmitting over the same 8 Mbit line, three TV channels dedicated to live broadcasting of the Horse Races, thus players can bet on the races as they watch them in real time, live, from:

GBI : England & Ireland; ATG: Sweden; Phumelela: S. Africa and Asia

REVENUES BY GAME CATEGORY

- Lottery Games: €55 million
- Fast Games: €12 million
- Scratch Tickets: €1,5 million
- UBET Betting : €17 million
- Total : €85.5 million

AVERAGE PRIZE-PAYOUTS

- Lottery Games: 50% to 55%
- Sports-betting: 75%

- Horse-racing: 80%.

The Lottery tax in Malta varies from 5% to 20% on the gross revenue depending on the game. Overall, MALTCO contributes to the Government approximately €18 million a year, which adds up to 21% of total revenue. That amount includes the annual portion of the initial license fee that MALTCO paid to the Government for the grant of the 10 year license. The current license began in 2012 and expires in 2022. In addition to those net funds paid to the Government, the company contributes €50,000 annually to the Responsible Gaming Foundation and approximately €400,000 which is the average annual amount of the unclaimed prizes which is also turned over to the Government's Good Causes fund. The population of Malta is 400,000. Also MALTCO supports local athletic events. During the last ten years MALTCO, sponsors the Maltese Football Cup, named UBET Trophy where prize money are given to all the participating teams and the amount given to each team is related on the final ranking of the team in the competition. In addition money was given to the top five athletes of Malta as an award for their achievement.

which is sometimes even later than midnight. This is very important since players have the option of live-betting during the half-time. We discovered during the last World Cup that since there were three Football matches during the day, the players want to receive their winnings immediately at the conclusion of each match. On the internet, the players do not receive their winnings immediately. So although there is a disadvan-

tage on the odds, players prefer to play with us because they get their money immediately in cash after the game and then can bet on the next one. And they can stay and play until the last match is over. So in one day they can bet the money three separate times without having to wait to get more money out of their pockets for the next bet.

Too, Horse-Race betting, and Sports-betting in general, has been established as a very

social activity in Malta. Players enjoy being in the company of other players in the shops. It creates a very festive atmosphere. They have fun, talk about lots of different things in a social environment, review our betting program (printed twice weekly and distributed to all Agents), exchange ideas with each other about the games and the players and who's going to win and the spreads and so on. And ... Continued on page 67

the world remains the same: hard work, learning from each other and intelligent application of the success strategies of our peers in other lotteries. And increasingly it's about effective collaboration. The development and launch of Monopoly Millionaires' Club is an achievement that will benefit each and every lottery in ways that could not be done individually. In fact, my friend and colleague Chuck Strutt and I learned many lessons during this process that we will bring to the the World Game discussions in an effort to move that ef-

fort along a path similar to what the U.S. lottery directors have accomplished with Monopoly Millionaires' Club.

Before we finish, I would really like to recognize and salute the chairs of the different committees that shepherded this project through to its launch. Scott Bowen (Commissioner, Michigan Lottery), Arch Gleason (CEO, Kentucky Lottery), Carole Hedinger (Executive Director, New Jersey Lottery), Paula Otto (Executive Director, Virginia Lottery), Cindy O'Connell (Secretary, Florida Lottery),

Buddy Roogow (Executive Director, D.C. Lottery), Gardner Gurney (Acting Director, Division of the Lottery at New York State Gaming Executive Director), and Terry Rich (CEO, Iowa Lottery) led the way. Scientific Games and GTECH collaborated on the marketing and the training and countless details of implementation. The joint efforts of everyone, of all the lottery directors and vendors, has been essential to the remarkable development, implementation and launch of Monopoly Millionaires' Club. ■

Ioannis Katakis Interview ... continued from page 45

our INTRALOT Horizon system simultaneously broadcasts the betting information, how the odds are changing in real time, betting tips, and how to play instructions directly into the stores. The main Football and all the horse racing (from Sweden, UK, Ireland, S. Africa and Asia) events are broadcast on TV monitors so the players can watch the event live while they are tracking the progress of the bets and the odds on the Horizon system TV screens. It is the whole in-shop playing experience that is the biggest asset enabling us to compete against online gaming.

I realize that playing the lottery is completely different from sports-betting. But still, couldn't the same strategy of creating a fun and social in-store environment enhance the playing experience for lottery players?

I. Katakis: That is our number one priority: first, to further improve the service level in our shops since they are dedicated to us. Our service and the agents' dedication to us are already excellent. But we want to always improve. Second, our strategy is to make our shops places of entertainment, fun and social interaction. Responsible Gaming is also a top priority, and that goal is served by creating an environment that is as much about fun and social as it is about betting. MALTCO in 2014 was awarded the Responsible Gaming Certificates from both EL and WLA, confirming our com-

mitment to playing responsibly.

The concepts of fun and social interaction do apply to Lottery play just as they do to Sports-betting. Our shops are set up to promote that same kind of social environment for the Lottery players. They offer coffee and tea for free, and they have vending machines for sandwiches. So people can come to our shops and play the lottery and enjoy all the amenities that they get in a coffee shop or a bar. They can sit down, meet their friends, talk about whatever they care about.

Our shops are much different than what you might see in some other countries where the dedicated shops are for specific type of betting and for more serious gamblers. The punters in the UK for instance come in to bet and then they leave. Our shops promote a social atmosphere. The players in our shops can select from a wide range of games, from Lotto and Instant tickets, to KENO and Sports Betting. Playing the Lottery, and even Sports-betting, is not about maximizing turnover and GGR, but about promoting a healthy form of recreational gaming. The shops are fun for the patrons for lots of different reasons. Mostly it's to socialize and then they do play our games to just have fun. And you will find our shops to be much more accommodating to women than the typical betting shops around the world. People who are more interested in the social aspects

than serious betting enjoy our shops. The end result is a much more sustainable business model because people are not betting more than they should. So it is better from a Corporate Social Responsibility and Responsible Gaming point of view. I think it is also a better business model for the long-term. We may not be maximizing the short-term GGR with our players. But I believe we are actually maximizing the long-term value of the customer. Better for the player and better for us from a business point of view too.

I should point out that I consider MALTCO as a boutique style Lottery and the Points of Sale as "our shops" because I consider our Agents as our partners. These are actually all independent agents who sell MALTCO products. MALTCO does not have any equity ownership of the shops. There's a procedure in how we select the location and give the approval to a new shop-owner to sell MALTCO products. And we provide ongoing training. The shops are required to invest in TVs and meet our standards relating to layout and design of the stores.

It would seem to me that this is a vision that benefits the retailers, provides them a business model that not only vends lottery products, but provides a retailing model that drives store traffic and positions the retailer to sell other products as well.

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I. Katakis: It's true. When we started in 2004, there was a very aggressive union that wanted to control everything. They did not trust us, and were not confident that our strategies would result in a successful and profitable retail business. It was not easy to enlist their cooperation and get them to sign off on contracts that were different from what they had prior to MALTCO. As soon as it became apparent that the shops made more money than they were making before, we received lots of applications to become MALTCO agents. Now, most of the agents do not rely on the union to discuss business with us. We encourage them to come to talk to us directly or we organize regular meetings so we can exchange ideas face to face. Thus we gained their confidence. They see that we invest in the business to help them be more successful. They see that our business strategies work and make them more profitable. We invest in a set of equipment for each store: Terminals, printers, ticket checkers, TV's, etc. The most active shops have up to three or four sets of such equipment. We also provide support that helps them be better merchants, better retailers. We work with them to upgrade their communications and IT infrastructure. These are things that many of them do not have the know-how to do and so they appreciate our guidance.

Bernadette Lobjois, the secretary general of the European Association, visited some of our shops and was so impressed with our operations that it was agreed to hold a seminar in Malta, in May of 2015, focused on Retailing and a session will be held in our shops. You should come!

You have extensive experience in all different aspects of the business. How does your knowledge in each mutually reinforce the other areas?

I. Katakis: It took us a year to fully implement the Horizon system that delivers real-time data on live sporting events to all of our stores. The process of fine-tuning

the technology involved every aspect of the business. We spent a lot of time in the stores with the customers to learn precisely what information was needed, how the information was processed by the customers, how to improve even the smallest detail to make the transmission and display of the information be as user-friendly as possible. That understanding is then converted into technical specifications, some of which appeared to the technologists to be more do-able than others. It becomes a matter then of revisiting the customer experience, reimagining the ways to produce the desired results, revisiting the technological pathways to meeting the customer needs, and reimagining the technological solutions to producing the desired results. And repeating that process until we get it right. This is exactly the role of INTRALOT, to bridge the gap between technology and user-experience.

That's what you do. You have a Phd in Bio-engineering. You started with INTRALOT in 1998. And you were on the team that developed their first online systems.

I. Katakis: My responsibilities are now in managing operations and developing the business. My time, though, is spent bridging the gap between technology and user-experience. I do not think that sales, marketing, and business development can be effectively done without a deep understanding of technology and operations. It's partly a matter of motivation. Technologists and operations are focused on delivering a technological and operational result. Their training and world-view is not so much on user-experience. The development of new products and services always involves technology and services but in the end it is all customer-facing and so that is the world-view that must drive the process. For instance, the game design of our new draw-based game was based on an existing brand in Malta called Grand Lottery. This brand was referring to a game that was not successful before 2004, but the Government

imposed the obligation on MALTCO as the new license operator to reinstate the brand based on a similar style game. It took a lot of research into all aspects of design and operations to redevelop it so that it would produce a different result. It is a unique game because it combines a few different ways to win. And it is only with a deep understanding of all the factors of production that enabled us to redesign the game so that it appealed to the consumer. I get deeply involved with every aspect of the operation. But most important is to spend time with the customers, visiting the shops to watch and experience the service offered to the players as well as the way the games are played. I visit the shops at least once a week. Sometime I play the games in order to experience the whole cycle of the game and talk to the customers and see for myself how it feels to interact with our products and services.

To what extent did this focus on bridging the gap between technology, operations, and user experience begin back in your post-academic career as a medical scientist?

I. Katakis: That is what shaped my view that there is a disconnect between scientific understanding and its real-world application. I'm an engineer in my profession but then my Ph.D is in Biomedical Engineering because I wanted to apply my professional training to the business of helping people directly; to make that connection where scientific understanding meets practical real world application. The real world includes real people whose wants and needs do not always align with what science and data analyses predict. I wanted to work at the nexus where computing and research and technology deliver material results to real people. I do tend to apply the scientist's methodologies to solving problems, but always with the awareness that human behavior does not always comport with the blueprint derived in the laboratory, or the projections driven by even the most

advanced data-analytics driven modeling. Intellectual rigor and discipline is useful in the process of deconstructing a complex problem, but the reconstruction into practical solutions is a real-world facing process. Or, if you will, a customer-facing process. That has been my focus for the last thirty-five years.

But the last couple decades your time has been on the side of business development and managing operations.

I. Katakis: I don't separate business development, operations and bridging the gap between technology and the user-experience. They are all one and the same. They are all done together, integrated into the same business process.

INTRALOT started as a technology company and now covers the whole spectrum of gaming with vast experience in lottery operational. The products we produce are by materialising our technological expertise based on our operational experience. They have to be. The Horizon is a technologically sophisticated system. But we are also operators. As CEO of the company which operates the lottery in Malta, I am responsible for delivering a product and service that appeals to consumers. So, we are also a customer-facing company.

We need to understand not only what the market wants, but how to fulfill the expectations of all different constituents. The lottery business is a very complicated market. It involves every member and interest group in society. A lottery game is not just a matter of design and mathematics. It's not just a matter of creating something that appeals to the consumer. How the game is sold, how it is advertised and promoted is actually part of the product itself. Then there are the channel partners, our retail shops, and our government constituents. And paramount is our commitment to Responsible Gaming and Corporate Social Responsibility. All these elements must

be considered together. Just like the tasks of business development, operations, and technological development must be integrated with a customer-facing end result.

This is the philosophy we have applied in MALTCO, aiming to ensure that all the procedures, policies and controls being established for servicing the players are according to the highest international standards. The ISO/IEC 27001:2013 Certification awarded to MALTCO in the summer of 2014 by both TUV and WLA, confirmed to the players and the overall society of Malta, that the games and services offered by MALTCO are trusted and of the highest quality.

Your monthly newsletter: What a great concept to keep your constituents fully informed about the activities, the plans, the accomplishments but also the issues, that MALTCO Lotteries is dealing with. The business may be complex, but you do an amazing job of helping everyone understand it.

I. Katakis: MALTCO edits a monthly newsletter. It is not just for the Ministers of Malta who oversee our operations. It is for all of our retail agents and the players as well. And non-players too if they are interested - It's really for everyone. That is the reason it is distributed both in printed and electronic form. We want to keep everyone informed in a way that they are confident in what we do, are confident in the transparency of our operations and our intentions, and can give us feedback as to what they think we should focus on, do more of, do less of, or change in any way. It creates an open door for two-way communication with the broadest possible base of constituents. Our operating principle is to serve the gaming needs of the society responsibly by offering entertainment and excitement to the players.

Does Malta allow i-gaming operators from outside of Malta to operate within Malta?

I. Katakis: There is no mechanism in Malta to stop internet companies based

outside of Malta to offer their services to Maltese citizens. This is because the LGA Government in Malta supports the principle that Gaming is part of the concept of Services and as such any companies based within the European Union should be allowed to offer the services across Europe like any other service, that is, without any restriction. Currently, Malta is the only country in the European Union that still supports this principle. For this reason Malta recently refused to sign the Convention on the Manipulation of Sports Competitions already signed by 15 European States. Malta questions the legality of match fixing convention in the light of free movement of services and asked the Court of Justice (CJEU) for an opinion. The on line companies that operate under a license from Malta pay 0.5% tax on gross revenue (GGR) with an upper cap of €466,000 annually.

How is the product mix evolving – which products are increasing in sales the most and which are not growing so fast?

I. Katakis: Although the two lotto games have been on the market for more than twenty years, they are still popular. We have applied a number of modifications to the games to keep them interesting to the players and assisted by the advanced information environment they continue to grow. The new paper lottery, Grand Lottery, was introduced last year. It is picking up slowly and I believe it will improve significantly in the near future.

However the product that is growing the fastest is betting on sports and horses. That is mainly due to the way these games are offered in the shops. The Horizon system allows the player to live the game, experience it in real-time. Horse racing in particular is very exciting for the players since we are the only lottery offering in its dedicated shops such a wide range of horse racing from so many different countries, and on daily bases all the races are transmitted live to all the shops. ■