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Editor's Letter

Social gambling has grabbed the attention of the gambling community and resulted in a string of high-profile social gaming acquisitions by large gambling suppliers. Now, the promise of social gambling has been kept and Gamesys' ground-breaking launch of real-money gambling on the UK Facebook platform marks the beginning of a new chapter in iGaming.

Facebook's timely foray into real-money gambling comes as almost every state's gaming regulator looks to expand its casinos, tracks and lotteries online. But Facebook won't be the only winner in the social gambling race. As a platform, Facebook will be the Internet's Las Vegas Boulevard, but it's the casinos that flank the strip that make Las Vegas - and so it will be online.

If you want to know more about Social Gambling, we are hosting the Social Gambling Conference (www.SocialGamblingConference.com) in London on November 16, 2012.

Michael Caselli,
Editor in Chief

EVERYBODY WINS…

To find out how the decision by the Georgia and Maryland lotteries to move online offers something for everyone, iGaming Business North America spoke to **Kurt Freedlund**, SVP and General Counsel at the Georgia Lottery and Maryland Lottery Director, **Stephen Martino**.

What impact did the Department of Justice's (DoJ) December letter have on your respective lotteries and your strategic plans?

Stephen Martino (SM): Well, it was certainly a game changer. It cleared the way for lotteries to enter the interactive space. Obviously, not all lotteries feel the same enthusiasm for the Internet but certainly there are many who felt that this is a significant opportunity.

Kurt Freedlund (KF): There was a great deal of willingness amongst several lotteries prior to the letter (Georgia being one), but the resistance from some of our suppliers had been strong unless and until there was clarification of this kind from the DoJ. Since the letter, the reversal of attitudes from our suppliers has been marked as their understandable concerns over the risk to their global licenses have now been mitigated.

Do you feel that the DC Lottery and Intralot were therefore taking a risk in seeking to go live in mid 2011 even before the letter was published?

KF: DC was a rather different story. They had the go-ahead from Congress and the enabling legislation and, as such, I think they would have been covered as long as they stuck to the terms of that enabling legislation.

So now that the legal path has been cleared, both Maryland and Georgia

Lotteries have expressed an interest in moving online. Can you explain your thinking?

SM: These days, there is nothing that you cannot buy on the Internet, so it just makes sense for a lottery to be in that space too. Our market research in Maryland says that two thirds of our players are 45 or older. If we are to reach out to a younger demographic then we need to be able to interact with them in the ways that they are used to – PCs, Macs, iPads, iPhones, etc.

Ultimately, if our mission is to make money for the State of Maryland, then the Internet has to be a part of our strategy.

KF: The Internet should just be seen as another channel to the lotteries' customers. It just doesn't make sense that the lottery should be the *only* thing that you can't buy online. There is an entire demographic now for whom buying a paper lottery ticket seems alien. When they go into a convenience store and they see the lottery scratchers being displayed, they simply don't notice them. They may as well be invisible. The only way

to bring this new demographic into the lottery's world is to serve them through the channel they know best – the Internet.

SM: There are reasons why younger players are not playing the lottery online. Take the pari-mutuel industry, which I used to be a part of. That business is declining as its demographic is ageing and new players are intimidated away from it as they see it as a complex product that is not relevant to them. Without the Internet as a channel, there is a serious risk that the lottery will also go down this route and be seen as irrelevant to the new players. This obviously has significant implications for the states and the good causes that these lotteries support.

The move of lotteries online has met with significant opposition from some groups such as the National Association of Convenience Stores. What are your thoughts on their fears that lotteries will cannibalize their members' businesses?

KF: Every country and jurisdiction's lottery that has started selling over the Internet has actually seen their retail sales increase. This is about branding. It is about introducing the lottery games as brands to a new demographic via the Internet. If these players enjoy playing these games online, then why

> *"The last thing any lottery wants to do is harm their bricks-and-mortar retailers. They have always been the backbone of the lottery industry and they will continue to be so. This is just a different way to sell and a different product."*

wouldn't they start buying them over the counter the next time they pay for their gas or pop into a convenience store?

The New York Lottery seems to have lost that argument though as its planned launch earlier this year was de-railed by a concerted campaign by the National Association of Convenience Stores.

KF: I can only speak about Georgia and from our side, we are fortunate enough to enjoy a positive relationship with our retailers and their trade association. We have always engaged with them and kept them fully informed and a part of our strategy formulation. There is a trust there that has been built up over time so that, even if they don't agree with everything we do, they know that the relationship is. We are launching our Internet channel this fall but holding back some of our key games as exclusive to the retailers and we have made the commitment to them that if, after one year, they feel that their business is suffering as a result, we will look to see what we can do to help them. The last thing any lottery wants to do is harm their bricks-and-mortar retailers. They have always been the backbone of the lottery industry and they will continue to be so. This is just a different way to sell and a different product.

SM: I totally agree. Keeping the concerns of the retailers in mind has very much been Maryland's approach as well. However, it is worth pointing out that, from our research, the opposition is absolutely not coming from the "mom and pop" locations. These independent owner-operators welcome any efforts to keep their lottery products relevant to a new demographic. For example, in Maryland we have proposed a 365 degree program to reward online players with coupons that they can print out and go and redeem at a retail location.

KF: Claims made about the sky falling on

"Without the Internet as a channel, there is a serious risk that the lottery will be seen as irrelevant to new players. This obviously has significant implications for the states and the good causes that these lotteries support."

the head of retail locations through the introduction of the Internet as a channel have absolutely not been borne out by events. As has been said previously, in Canada and the UK, the lottery's revenues increased post the introduction of an online offering. In the case of Illinois, their Internet launch happened in a blaze of publicity and was further fueled by a world record jackpot weekend, yet even despite that, the sales over the Internet were just two percent of the total.

The Canadian and UK lotteries also offer interactive gaming products as well as conventional lottery ones. Can you see that happening in your states?

SM: At the Maryland Special Session recently, there was some movement and discussions around Internet gaming, however, one thing that did come out of it was that the Agency that I am at will be rebranded as the "Maryland Gaming and Lottery Commission and Agency" from October 1. We already regulate the casinos in the state and have done over the last three years. Part of that mandate is to look at some of the issues around Internet gaming and what the possibilities are for the State of Maryland and its legislature. The success of the lottery's online launch and how it managed to deal with such sensitive issues as geolocation and age-verification will be important in evaluating the risk and rewards associated with leveraging iGaming to raise more revenues for the state.

KF: I think it is fair to say that you have to crawl before you can walk. Selling lottery tickets is hardly going to "push the needle" too much in terms of controversy – however, it is a necessary move in order to protect the core revenues that the lottery produces for its stakeholders.

Do you see other companies beyond GTECH, Intralot and Scientific Games participating in the lottery's move online?

SM: I would like to say yes, as the industry benefits from competition. However, procurement issues involve a lot of cost and effort for a would-be vendor and many new suppliers could be put off by that.

KF: We obviously have to rely heavily on our core suppliers such as GTECH, Intralot and Scientific Games who all have considerable experience of having operated online in Europe. The Internet as a channel may be new in the US industry but it is not elsewhere, and we will lean on them for that experience. However, we have specifically set up our systems with GTECH so that independent interactive game developers can directly sell to us. If they can offer us a game that we like and that satisfies GTECH's technical standards, then we can contract and pay them directly. The Internet is a channel that needs variety and freshness of thinking and, thus, we actively welcome approaches from new suppliers who think they can provide our players new and satisfying games to play.