EXECUTIVE SUMMARY OF PANEL DISCUSSION
FROM PGRI LOTTERY EXPO 2022 NYC CONFERENCE

Creating Alignment of Mission, Purpose, and Action

The effective collaboration between Lottery Operator and its commercial/technology partners is essential to successful long-term growth and service to good causes. How can Lottery Operator and technology partners forge the kind of relationship that drives short-term focus and results but is also flexible to support ongoing investment in innovation and integration of new technologies, and positions the Lottery for long-term success? What are progressive lotteries and their commercial/technology partners doing on an ongoing basis to promote alignment of purpose, maximize the productivity and effectiveness of their collaboration, and facilitate the integration of third-party suppliers?

Moderator: **Rebecca Paul,** President and Chief Executive Officer, Tennessee Education Lottery Corporation; President of the World Lottery Association (WLA)

Panelists:

Jay Gendron, Chief Operating Officer Global Lottery, IGT

John Schulz, President, Americas and Global Instant Products, Scientific Games

Matt Strawn, President and Chief Executive Officer, Iowa Lottery

Lorne Weil, Executive Chairman, Inspired Entertainment

Jennifer Westbury, Executive Vice President, Sales & Customer Development, Pollard Banknote

Rebecca Paul: I am a big believer in building a mutually supportive partnership with the people I do business with because that is the more productive and effective way to optimize performance and results. I stretch to forge win-win solutions because that is the best long-term strategy to maximize the funds we transfer to good causes. We think of vendors as true partners in the mission to accomplish ambitious goals for the benefit of all lottery stakeholders. When Paul first talked to me about doing this panel, he thought the discussion should be about RFP's, and how RFP's might be constructed to drive the most collaborative partnership. I explained that my experience is that partnerships are driven by the right attitude, not by what is stipulated in the contract. The spirit of trust and ongoing communication needed for effective partnership can't be effectively dictated by an RFP. Without the right attitude, you will never ever have a productive partnership regardless of what the RFP says. Those are a few of my thoughts. Let's ask our panelists what they think. Since John and I started in the same year, 1985, and John was mentored by one of my mentors, Dave Bausch, and he happens to be sitting next to me here, let's start with John. You launched Scientific Games' first Cooperative Services Partnership in New York in 1985. Take us back to the brainstorming sessions of the time. How did you come up with that plan?

John Schulz: Wow. A lot has happened since then. Back in 1985 it was called Shared Risk before the name changed to Cooperative Services. And that name aptly described the program. As extraordinary as it may sound now, the New York Lottery was going to end their instant game program. Sales were about $57 million a year. They said that draw-based games drove a majority of the sales and paper tickets had low sales and were very time intensive to administer So they called Scientific Games and advised us that they want to cancel their orders and not sell any more scratch games. Our CEOs at the time, Dan Bower and John Koza knew we had to come up with a solution quickly. The solution was to create a shared-risk arrangement that would essentially enable the New York Lottery to offload some of the cost of managing certain components of the instant game program. At the time, pay out was 40%, and they had 19 different distributors that got paid a commission for every book of tickets that they sold. Tickets were Cash On Delivery and took about three or four weeks to get to retailers. We hired mathematicians, who are called data scientists today, logistics experts and others to help us re-assess business practices and processes, pricing and product management strategy, order fulfilment and retail support methods. We looked at this as an opportunity to redesign our whole approach to partnership.

At the same time, we terminated the contracts with 19 local distributors and installed a nationwide courier service. We built an inside sales operation, which was a staff comprised of small teams dedicated to handling almost all aspects of the product from design and promotion to fulfillment to retailer recruitment and support functions. And that was the first Shared Risk program. During the first stage of this program, the New York Lottery's instant game sales grew from $57 million to almost $500 million in an eight-year period. The instants category was producing about $225 million of profit for the New York Lottery. I look at this successful collaboration between the New York Lottery and Scientific Games as formative for us, shaping our instant game management approach in the Scientific Games Enhanced Partnership and our culture in ways that continue today.

R. Paul: Lorne, when you took the reins at Scientific Games in 2002, Shared-Risk had evolved into Cooperative Services and became a big part of the portfolio. How did you make it better? What would you do differently? **L.Weil:** At that point, it was evolving incrementally. The foundation had been laid. The method of working hand-in-glove with the lottery was running smoothly. I encouraged the teams to continue to evolve it, to enhance the effectiveness and productivity of what was being done, and to find new and better ways to nurture collaboration. Jim Kennedy always had his five-most-important-things we needed to do or improve upon. It was a matter of identifying those things and executing the plans to make them happen. One top-of-mind initiative, for instance, was to steadily increase the price-points of the games. Of course, objectives like this need to be developed in collaboration with the lottery. And what may seem to be obvious to us years later, like that increasing price-points is a predictable way to increase revenues and profits, is rarely so obvious in the beginning. We may propose strategies and initiatives, but it is up to the lottery to decide how, or even whether, we proceed. As you point out, Rebecca, the relationship depends on trust and mutual support. The technology partner needs to earn the trust of the client, the lottery. The lottery does expect us to provide the data and evidence to support our recommendations; and then to test new ideas before investing resources. Over time, we learn to pool our brain-trusts and work together to produce the outcomes that are best for all lottery stakeholders.

R. Paul: And you bought MDI a couple years later, in 2005?

L. Weil: We wanted ways to add value to the product to justify the increase in price. Licensed properties became a very effective tool to do that. Branding lottery products with their favorite sports team, or cartoon character, or popular consumer brand, added that value, attracting players to pay a little more to play the games that captured their imagination. While what we did was not revolutionary, I would say it could not have been done without the mutual respect and trust we constantly worked hard to earn from the lottery leadership of Georgia, where Rebecca was CEO, and progressive lotteries like Florida, Pennsylvania and others to lead the way.

R. Paul: Over to you, Jay. We have been discussing some of the growth-drivers for the instants products category. What can we do to increase the growth of the draw-based games category?

Jay Gendron: Enabling both Mega Millions and Powerball to be sold in all states was a big step. Increasing the price of the Powerball ticket to $2 was another big boost to the sales of draw-based games. The next step may be to continue the price-point evolution just as was done in the instants product space. For example, we know that the Mega Millions group has been exploring the option of increasing the price to $5. Based on historical precedent and market research, we believe that gaining consensus and approval on a $5 game would further increase sales and revenue in the draw game category. It would have the added benefit of further differentiating the two big national games. I do think it benefits all of us if we have Powerball and Mega Millions complement each other. But this is another case where lotteries have to work with each other and work with vendors in a spirit of trust to implement strategies where the outcome is not certain. We can trot out the data, the facts, and evidence to support a proposition that increasing the price will increase sales and transfers to lottery beneficiaries. But in the end, we need to trust that we are all pulling in the same direction and have each other's interests at heart. Keno and CashPop have also been very successful in the jurisdictions where they are implemented. So there is a lot of potential for more product expansion, differentiation, and optimization to drive incremental increases in sales and, ultimately, revenue for lottery beneficiaries.

R. Paul: Jennifer, what do you think makes a good partnership?

Jennifer Westbury: At Pollard Banknote, we take an expansive view towards partnerships and how they can be nurtured and developed to drive performance and results. Each lottery has its own unique sets of sales and marketing agendas, political and regulatory environments, organizational structures and cultures, and overall business objectives. We think creatively when designing an approach that optimizes the ability of all the component parts of the relationship to work together effectively. We have lots of different kinds of partnerships, and in the end, each one is special in its own way. Sitting next to me is Matt Strawn. Our partnership with the Iowa Lottery goes back to when we first started printing instant games in Iowa. Two major production facilities in the state of Iowa create significant employment for Iowans.

Our partnership with the Iowa Lottery is considerably different from the partnership we have with the Texas Lottery where Gary (Grief) and Ryan (Mindell) have long espoused a philosophy of working with multiple vendors. Their latest RFP is a great example of how lotteries are thinking out-of-the-box and challenging their partners to create new kinds of solutions and partnership models.

And Gregg Edgar in Arizona has a different view of what he wants the partnership with Pollard Banknote to accomplish. We not only provide instant tickets, Pollard Banknote provides the Arizona Lottery's Players Club player engagement solution. We implemented warehousing and distribution three years ago and managed the process with performance improvements through the disruptions of COVID. And of course, in addition to the longstanding instant ticket work and the manufacturing facility we operate in Michigan, we partnered with the Michigan Lottery on their journey in digital, beginning with some Space Between products like their Crossword apps, through to the launch of iLottery. What started as a partnership based on technology, products, and marketing evolved into assisting with governmental and regulatory affairs.

Pollard Banknote then participated with the New Hampshire Lottery in challenging the U.S. Department of Justice to clarify its position on iLottery. The US DoJ proceeded to overturn their unfavorable ruling to acknowledge that authority to decide regulatory policy relating to online gambling and iLottery resides with the states, just as it always had with traditional casino gambling and lottery. So, we think of ourselves not just as technology partners. Pollard Banknote is dedicated to using our skill-sets and resources in whatever ways can serve the interests of our clients, the industry in general, and the mission to generate funds for good causes.

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R. Paul: Matt, as a customer what do you see as a partnership?

Matt Strawn: Like most state lotteries, we have healthy partnerships with all three instant ticket manufacturers – IGT, Scientific Games, and Pollard Banknote. Schafer Systems produces, right in western Iowa, some of our merchandising solutions. Our pull-tabs are also printed in Iowa – by Pollard Banknote's American Games. John and his team (Scientific Games) have not only been a longstanding provider of our instant products but a longtime provider of our central gaming system. And a shout-out to Merv Huber as the Iowa Lottery is next in the queue to integrate the Optimove CRM platform that Scientific Games uses.

The philosophy of the lottery when I came in was one of working closely with our vendor partners; and I have continued to encourage that spirit of collaboration and partnership. Our relatively new leadership team is continuing an evolution from merely utilizing suppliers' products and services to better leveraging their expertise to the benefit of our State and lottery beneficiaries. Our vendor partners share responsibility for outcomes, and we appreciate that. I believe we can move even further along the path toward integrating vendor input into our business planning decisions, and not limiting it to portfolio management analytics. We have seen how much the vendor community can help in external advocacy efforts, messaging to policy-makers, and helping stakeholders recognize the value lottery brings to our state. I think we all recognize the value that forging productive, collaborative working relationships represents for all lottery stakeholders.

R. Paul: It is great to hear that we are all in agreement. So where, then, are the disconnects, the bumps in the road to perfect harmony between technology partner and lottery? Lorne?

L. Weil: I have been on both sides of the vendor ecosystem. As CEO of Scientific Games, we were responsible for central systems as well as being a primary supplier of instant tickets. At Inspired Entertainment, we are a third-party vendor who must integrate with the primary suppliers for our product to be a part of the lottery's portfolio of products. So I do appreciate the challenges that Jay and John face. You run a large, complex enterprise with multiple initiatives vying for focus and resources. Executing third-party integrations consume resources, can be technically complicated, and take time to implement. Your well-planned roadmap gets interrupted by third-party vendors who want you to integrate a new product or service, and to get it done right away please. You understandably ask – which of my other customers in the queue should I bump in order to prioritize your implementation?

But it is in all of our interests to overcome the obstacles that impede the ability to integrate solutions and products that unlock new revenue-generating possibilities for the benefit of lotteries and the good causes funded by lottery revenues. Part of the answer is for the industry to come together – primary suppliers, third-party vendors, and lotteries – and agree on a set of standard interfaces that facilitate the integrations. It's vital, really, to enable a faster, more efficient, more cost-effective process to implement new products, and new solutions and services. The industry is being held back by technical issues that are solvable.

R. Paul: NASPL has been working on an API which would make it easier for us to plug and play, to integrate new products and solutions.

L. Weil: On the face of it, I think an Application Programming Interface (API) solution would be the keys to the kingdom. It would free up all of this time and energy that's getting ground up trying to fit a square peg into a round hole. Then we would be able to focus our energy and resources on developing the best products and best player experience. To move forward, though, we all need to embrace an ecosystem that supports everyone's agenda. A mind-set that supports that approach is for all of us to appreciate that the way to get what we want is to help others get what they want.

J. Gendron: Lorne is right. One thing I've learned through the years is there's almost no such thing as a seamless integration. But certainly having a common, standard API would go a long way toward enabling third-party integrations to more efficiently connect into the traditional Facilities Management infrastructure.

I would like to take this opportunity to switch over the discussion to the RFP structure, because I do think it's extremely important. Over the past several years, the duration of contracts in the United States is moving into the 15 to 20-year range. Lotteries want vendors to invest in Research and Development. The vendors want to win states' business at attractive returns and comply with the rules put forth by the states. But when the RFP stipulates a 60/40 technical to price ratio, the value of being technically differentiated is rendered less relevant, and it becomes a price bid. The lottery historically has wanted the vendor community to invest in R&D, innovation, and in continuous improvement of technology. We too want to invest in growth, innovation, and technology, and we welcome bids that put more of an emphasis and award value in these areas. Unfortunately, the RFP focus on bottom-line price is effectively discouraging investment. It just does not make sense for the vendor to invest in a technically superior proposal if the award is based on price. That, to answer your original question, Rebecca, is in my opinion the disconnect. And that is unfortunate, because it is more important than ever that your technology partners invest in the future, particularly when the terms of the contract are growing longer. Since costs are such a small percentage of revenues and net funds transferred, your vendor partners should be incentivized to invest in growth. A way to do that is to change that technology/cost ratio from 60/40 to 90/10. That formula still ensures we deliver superior value along with investing in the future of lottery.

All of us in the vendor community want to invest in the technology, products, and services that drive growth. And we can do that within a construct that manages costs and maximizes value to the lottery. Doing that – shifting the focus from minimizing costs over to optimizing results – will be a huge win for state lotteries.

Having said that, I do recognize that some states have procurement procedures that are highly restrictive and require that disproportionate focus on price to the detriment of other considerations like technology, service, investment in R&D and such. I would only observe that is unfortunate because government lotteries generate significant revenues that benefit good causes in their respective jurisdictions, and so it is very much an oversight to focus on costs more than on opportunity and outcomes. Further, I should mention that IGT is privileged to have 25 facilities management contracts in the United States, and each one receives the same level of service and corporate resources from IGT. And they all have access to me. We have the same-store sales group led by Stefano Monterosso, who works with every one of our customers in the U.S. Wendy Montgomery and her team work with NASPL, Mega Millions, MUSL, PGRI, and all the various industry organizations. Scott Gunn has an extensive government relations infrastructure in the United States, and he makes that available to our customers.

The general nature of a facilities management contract is typically structured such that we can work together to advance our collective interests. Going forward, lotteries should consider whether there is an opportunity to shift more of the focus of the RFP on technology and results that will drive investment and peak performance.

J. Westbury: Our belief at Pollard Banknote is that you should expect us to deliver our best products and performance every day regardless of how much work we do with you. I think that when lotteries go to RFP, they should not be thinking about the percentage of work that they're going to award but about the value of the partnership that they're going to get. And so, what does that really mean?

We believe that every game should do really well for you and that we should be measured on the performance of the games or the solutions that we produce for you. I understand and appreciate the lineage of the shared services model and getting paid on a percentage of sales. But that percentage of sales model has some interesting complexities to it. For instance, the printer of the ticket on a percentage of sales model makes more money if there's a big advertising campaign behind it. They also make more money if the ticket is smaller and doesn't have special print features on it. There are different ramifications, pros and cons to different approaches.

We try to work with lotteries on whatever basis they think is best for them. We just recommend exploring the benefits of other models, like paying on a price-per-thousand basis. We believe that each game should stand on its own performance, and we appreciate the opportunity to prove to lotteries that Pollard Banknote is a great partner.

J. Schulz: I hope we might follow up on Jay's point about RFP's. The goal is to create an effective commercial alignment, right? Some of the RFP structures have not been updated – they're the same as we saw 25 years ago. A lot has changed since then. For one thing, digital technology has changed the whole complexion of the industry, and the impacts will be even more exciting going forward. So we proposed that lotteries develop an approach to RFPs that enable flexibility for your commercial partners to help you adapt to changing technology and business processes.

Digital is transforming the way every aspect of how the lottery business is conducted. The first panel of this conference talked about the power of Customer Relationship Management which is being unlocked by data analytics and tools that did not exist even a few years ago. RFPs should be designed to support a future that includes technological tools and solutions that may not even be available now. Invite your vendors to propose solutions and tools that will help lotteries meet the needs of a consumer marketplace that is changing as we speak. That is the pathway to sustainable growth, increased revenues, and net funds transferred to good causes.

Instant games are a $105 billion business globally. Collectively, lotteries pay their vendors around $1 billion. Where else in the world does a consumer product yield $105 billion in top-line sales for a cost of $1 billion? Think about that. Look at the top 10 per-capita-sales lotteries – all 10 have a primary vendor relationship. They're not all with Scientific Games, but it is the strong collaboration of the primary relationship that has proven to make more money for good causes. I share this as a challenge and to spur more discussion.

J. Westbury: Inflation has not been a big factor for most of the last few decades. That appears to be changing. Inclusion of a clause that allows prices to adjust based on changes in Consumer Price Index (CPI) and the Producer Price Index (PPI) would enable vendors to bid based on current prices as opposed to factoring in an allowance for the possibility of cost increases. Basing the bid prices on current prices and allowing for increases in the event of changes to PPI would keep bid prices down. This consideration is being done in many jurisdictions outside the U.S. and we hope it may be applied here as well.

M. Strawn: I agree with Lorne on the need for a common API to be built into everyone's central gaming system. A frustration on the part of some of my colleagues, though, is the lack of consistency of pricing for third-party integrations. Especially with the long runways we see in these ten, fifteen, and twenty year contracts – we need to leave room for innovation that comes from third-party providers, and logical pricing that enables lotteries to explore the benefits of all varieties of options and solutions available from multiple suppliers.

Speaking for myself, I would welcome ideas for how lottery and vendor might find more flexible ways to invest in new tools and solutions. The contracts we have spell out terms, conditions, timelines, etc. for everything that is done. But what if we want something that is not explicitly addressed in the contract? I would be open to suggestions for how we might grow the business in ways that require some capital outlays in exchange for growth opportunities that promise to deliver an exponential ROI for my State.

R. Paul: What else could we do in an RFP to build the kind of partnership that I think we'd all like to see?

J. Westbury: RFPs are hard for lotteries to execute and there may be no easy answer to some of the issues we have been discussing. But in our view, one of the best ways to try and build an RFP that works is to try and engage with all of the vendors equally in advance, allowing us to see the draft RFP document and comment on it. To ask us to submit questions to a purchasing department which then forwards it to a person they think may be able to speak to it is just a clunky process. The back-and-forth can go on for weeks without ever getting clarity on the issue in question. Even in those lotteries which do not have purchasing departments, it would still be helpful to clarify the issues ahead of time. Just inviting feedback from vendors might inform the way lotteries construct the RFP, and articulate what they are trying to accomplish. Or perhaps have an open discussion with the bidders ahead of putting out the final RFP.

Once the RFP is let, some lotteries invite us in to ask questions about it. We then leave the room while they discuss it; and then return and they give us the answers. There are probably lots of different ways to do this. And I don't presume to say what the best way is, or even if there is a best way. I am just proposing that the process be a little more interactive to enable the vendors thoughts to be heard, and for vendor questions to be addressed in an efficient way.

R. Paul: This conversation started with me commenting that I believed it is all based on attitude; that you can write anything into RFP's and contracts, but without the right attitude you'll never have a partnership. I hope this conversation today sets a good tone, a good attitude, for all of us to continue the dialogue that leads to the kind of collaborative partnership that maximizes proceeds for good causes and positive outcomes for all lottery stakeholders. ■