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Convergence of lotteries and casinos:

Coordination, not competition

The relationship between lotteries and casinos can be defined by three C words

Co-existence: In most states, for most of their history, lotteries and casinos have co-existed peacefully, often taking little notice of each other, operating in silos. Indeed, in many of these states, such as New Jersey, casinos are among the biggest, most successful lottery retailers.

The second C-word is **competition**. They view each other, often wrongly, as competitors for the gambling dollar. That is why Nevada – a state more dependent on the gambling dollar than any other – has no lottery. It is why Connecticut, as one example, the lottery views the two tribal casinos there as competitors.

I say that such views are misguided because the lottery and the casino experience are decidedly and decisively different. Adults do not make a choice on a Saturday night to visit 7-11 or a casino.

But all that is about to change, thanks to the third C-word: **convergence**.

The inevitable movement by both lotteries and casinos – tribal and commercial – toward online gambling will make competition real, and will make co-existence difficult.

How does that future conflict get resolved? How do you turn that convergence from a crash into a coordinated approach?

In some states, it will be easier. Not necessarily easy, but easier. Those are the states that created casinos as VLT parlors. While many of them have since moved toward full-service gambling, with table games, the regulatory agency that oversees the process is the Lottery. It is easier to establish one regulatory policy when you have one regulatory agency. Still, many of those states will face new, largely unanticipated issues as well.



The key dilemma is that, in an online world, one can no longer claim that the lottery and the casino offer different experiences. For many, the concept of online gambling is either online poker or online sales of draw games.

As lotteries move forward on line, however, they will inevitably create a new reality that goes beyond simply buying a Powerball ticket on your iPad. An instant ticket online is a slot machine. I venture to say that many of the games that adults will be playing online five years from now have not yet been invented.

Last year, I had the privilege of testifying before the US Senate Indian Affairs Committee, and I made the same point then I will make to you here today: Internet gambling should be developed to the benefit of land-based casinos.

If you are in the business of promoting lotteries online, that may seem jarring. It may seem ill-conceived. It may seem as if it is favoring one competitor over another. It is none of the above.

First, let me emphasize that each state must develop its own online policy, taking into account its own politics, its own demographics, its own goals. One size does not fit all.

Still, we must note certain irrefutable facts regarding public policy and gambling.

- Different issues will arise from state to state, whether they have casinos, or whether those casinos are commercial or tribal.
- Internet gaming represents a significant revenue stream for government.

What is less readily apparent is that Internet gaming also represents a significant marketing opportunity for Indian and commercial casinos. Internet gaming offers the ability to reach customers easily at low cost, to identify customers' potential, to cultivate customers and reward them through the ability to earn visits at their brick-and-mortar casinos.

If Internet gaming is allowed to develop as simply a revenue stream, then I suggest we have squandered a once-in-a-century opportunity.

In Europe, for example, Internet gaming has developed largely as an independent revenue stream. The European model, however, has limited applicability in the United States, largely because Europe does not have anything close to the brick-and-mortar infrastructure that has developed throughout the United States.

Hundreds of billions of dollars have already been invested in casinos across the country, in part because authorizing governments sought to create more than tax revenues. They sought to create jobs, to invigorate downtowns, to spur tourism and advance other goals.

Those goals assume that gaming and non-gaming adults alike will generate real, not virtual, visits to casinos. That is how you generate employment, and how you generate sufficient returns on all that invested capital.





Whether a lottery offers Internet gaming, or casinos do, the goal should be the same: Encourage customers to sign on to loyalty programs to earn rewards, and to receive incentives, to visit casinos. Not only would you promote capital investment, but you would also encourage more online play. All else being equal, an online site that offers real-world rewards will outperform a site that doesn't.



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