

Nancy Todd Tyner  
March 2001  
Casino Journal

## ***British Lottery: More Of The Same***

Camelot Group gets a second helping of the U.K. National Lottery

If variety is the spice of life, don't expect much new flavor for Britain's National Lottery any time soon.

When the U.K.'s National Lottery Commission awarded a new seven-year license for the lottery in December, it passed up a dynamic new business model for the comfort of the status quo – casting doubts on whether the process was as competitive as it was purported to be.

When the privatized National Lottery launched in 1994, one of the tenets that made it unique was that qualified parties would compete on even ground for operating rights every seven years.

The Lottery's founders believed that this open contest would result in the maximum revenue yield for "Good Causes," and inject fresh ideas and interest to the games on a regular basis.

But instead of choosing a new recipe for the 2001-2008 term, the NLC has ordered a second helping of the 1994-2000 fare.

On December 19, the NLC announced that the next seven-year license would go to the same company that landed the first license – Camelot Group plc. In a 4-1 vote, the Commission rejected the bid of Virgin Group CEO Richard Branson, who had promised to inject new life and technology into the Lottery and send more money to charities in the process.

The contest was actually a rematch between the Camelot consortium and Branson's group, The People's Lottery. Branson, an entrepreneur famous for investing in nearly every product and service under the sun, was Camelot's main competition back in 1994.

The primary mandate in 2000 was to select the candidate that could provide the most revenue to "Good Causes," (charities, arts, sports and heritage projects), while running the Lottery with propriety and concern for participants' interests.

The contest had a rocky start, with both candidates being declared unfit midway through the process. Camelot was tossed out of the running in August because of difficulties with its software supplier, U.S.-based GTech Corp. and allegations of breach of license. That decision was overturned by the High Court, which said the Lottery Commission had been unfair.

The main concern regarding The People's Lottery was that it might not be able to bank enough reserve cash to provide refunds to players if a draw was voided. To allay those fears, The People's Lottery proposed a trust fund to ensure that all outstanding prizes could be paid.

By late September, the NLC decided that both groups had made suitable changes to qualify for the bid, and spent the next two months deciding which could do a better job.

Both Camelot and The People's Lottery pledged to significantly increase sales from the current average of 5 billion pounds a year to 7.3 and 7.4 billion respectively. (The Commission felt that both parties were overly ambitious in that respect.)

The major difference between the two was that The People's Lottery offered a non-profit structure that would donate all proceeds to good causes. Branson has often stated publicly that he believes all lottery revenue should be returned to those who purchase the tickets, particularly since poorer populations tend to play more often.

Camelot, meanwhile, has kept around 5% of the Lottery's sales during the past seven years, resulting in around 251 million pounds in post-tax profit. In fact, over the course of its license Camelot has been publicly criticized for its executives' exorbitant salaries and bonuses. It seemed that a non-profit operator would be a popular alternative with the British public.

Even if The People's Lottery had merely matched Camelot's revenues, there would have been more money for charities. And Branson believed that The People's Lottery would not only meet Camelot's revenues, but beat them by bringing new excitement to the games. His plan would have changed the format of the Lottery draw, significantly increasing the odds of a big payout and also introducing several new types of games. He said this would have stimulated flagging interest in the lottery, and staved off boredom with Camelot's same-old.

Branson even recruited the support of Microsoft CEO Bill Gates in February 2000. Microsoft was to be the technology partner of The People's Lottery, serving the game on the Internet, mobile phones and WebTV.

The People's Lottery was also backed by U.S. lottery operator AWI, Compaq, Cisco Systems, Kellogg Co. and advertising group J. Walter Thompson.

Camelot's owners include the U.K. Post Office, Cadbury Schweppes and Nokia. As part of its agreement with the Commission it will buy out the technology supplied by GTech during the first license.

Branson's bid (which reportedly cost him 40 million pounds) looked tempting – but not secure enough to compete with the believed comfort of Camelot.

Although the National Lottery Commission stated that Camelot's status-quo advantage was not "insuperable," Camelot's seven years of operation seemed to be the main factor in the decision.

In its statement of reasons, the Commission said that although The People's Lottery would deliver a larger percentage of revenue to good causes than Camelot, it was not convinced that TPL could beat Camelot's sales potential. Further, it said that the start-up costs and risks associated with a change of operator were "uncomfortably high."

The Commission found Camelot's structure satisfactory in terms of technology, format and projected revenue – but acknowledged that Branson's plan offered more modern technology, newer formats and a larger revenue share. Still, it decided it The People's Lottery couldn't guarantee that its new formats would be successful or that sales would beat Camelot.

In other words, the aggressive and adventurous plan put forth by Branson could not compete with the security of Camelot's proven competence.

The Commission also faulted The People's Lottery for its plan to give all revenues to charity, arguing that there would be no cash cushion in case of bad sales or unforeseen costs.

The sole dissenting Commission member, Hillary Blume, handed in her resignation after the vote. In a separate statement, she said that in her view, Branson's non-profit plan and fresh ideas were a risk worth taking.

Indeed, there is an inherent risk in any transition of ownership. But if stimulative competition was the idea behind Britain's licensing process, then it doesn't make much sense to discount new contenders because of that risk.

In its statement, the Commission countered that the mere act of bidding for the license increased the potential for ticket sales and forced Camelot to re-examine its strategies. That might have been true in this round of competition, but in 2008 it might be tough to find up a contender willing to face Camelot's fourteen years of experience. If the NLC's goal is to establish a monopoly, it's on the right path.

This is not to say that Branson's group should have been handed the license; simply that The People's Lottery should not have been penalized in round two because it lost round one.

Britain's lottery is famously successful, and recognized as one of the best in the world. In 1999 it was ranked 3<sup>rd</sup> largest in the world by sales, and 2<sup>nd</sup> largest in government and charity returns. Camelot has not failed in any respect. The next seven years will tell whether the company can continue to succeed, and defeat Branson's prediction of boredom and slumping sales.

Change may be risky, but so is standing still.

***Nancy Todd Tyner is an international political consultant specializing in the gaming industry. Her firm, Nancy Todd, Inc., is located in Naples, Florida. She can be reached at 941-592-9130 or at [www.NancyTodd.com](http://www.NancyTodd.com)***