

Land of opportunity



Lottoland founder David von Rosen tells *EGR Intel* why his firm has a risk management model to rival any insurance company and how he plans to grab a hefty chunk of the £300bn global lottery industry

Words by | Brad Allen

In the first quarter of 2017, ride-hailing app Uber reported significant “progress” when it reported a loss of a mere £550m in the three month period – down from around £770m in the final quarter of 2016. It’s a measure of just how difficult it is for technology-focused start-ups to turn a profit in their early years, even as valuations skyrocket – to the tune of £60bn in Uber’s case.

This makes the figures currently generated by Lottoland all the more impressive. The bet-on-lotteries operator was set up in Gibraltar in May 2013 by German entrepreneur David von Rosen and started taking bets on Germany’s Euro Jackpot one Friday towards the end of that month. According to von Rosen, the firm had managed to raise very little start-up cash and was close to running out of money when it hit its first day of operations.

“But that first draw, that first day, we started making money,” says von Rosen. “Not a lot, but we knew straight away that we had something here and that we could pay ourselves a living wage.”

A little over three years later, von Rosen and his co-founders can afford to pay themselves a hair more than living wage. Today, Lottoland is active across four continents, has close to six million customers and accrued revenues of approximately €300m in 2016.

“We didn’t expect this growth rate,” von Rosen admits. “We always were ambitious but we didn’t expect it be like this.”

And while von Rosen rejects strict comparisons to the likes of Uber, Spotify and Netflix – “we have our own DNA and

want to be judged for who we are” – there are still clear parallels. All four firms have succeeded in disrupting established, arguably complacent industries by using technology to put the needs of the consumer first.

Resistance

It’s a path that doesn’t come without backlash. While Uber faced worker’s rights action and black cab protests, Lottoland has been attacked by newsagent trade associations, national lotteries and more recently, blamed for Camelot’s declining sales in the UK by offering bets on the EuroMillions draw.

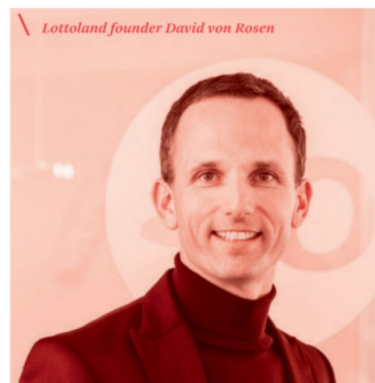
The Department for Digital, Culture, Media & Sport (DCMS) is currently considering whether those bets do indeed hurt national lottery sales and thus “draw money away from good causes in the UK that benefit as a result”, with the potential for banning those bets altogether.

To do so, von Rosen says, would be stymying innovation with “no evidence base whatsoever”.

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“We don’t want to be blamed for Camelot not doing their job properly,” von Rosen says. “We can’t be made responsible for that. Obviously they are afraid of us and there’s a reason we don’t have friends on the national lottery side in any countries. But it’s fair to say they wouldn’t be afraid of us if we didn’t have a good product. And we wouldn’t be growing so much if the customer didn’t want us. The consumer likes our product.”

The product on the surface is simple: the ability to bet on any lottery, anywhere in the world through a slick, mobile-first interface. But to do it well, and manage the risk that comes with offering billion dollar payouts is where Lottoland sets itself apart from the other firms that have sprung up with similar concepts.



“We have become more and more an insurance company,” von Rosen explains. “You don’t see from the outside but we have been spending incredible amounts of time and resources on building an insurance/risk-management company that is able to calculate, mitigate and carry risk on its shoulders, whether that’s taking that in-house or taking it to the reinsurance market.”

“That’s something which not everyone can do and which is far from the core of any gambling operator. And as we keep building scale, the more efficient we get in that insurance model. Lotteries are of course very volatile, but the more volume we put through, the more we can smooth out these peaks and the variance and the closer we get to the mathematical mean.”

The hunt for more volume is one of the main reasons the operator launched its B2B Solutions division back in 2016, recently going live via several Kindred sites and William Hill Australia, with several more big names soon to be announced. “B2B will make up a significant part of our revenue going forward,” von Rosen predicts.

Growing up

The diversification is also symptomatic of a maturing business that is less frenetic and headstrong than it once was, when it would fire itself into new markets seemingly at will, with little thought to its impact.

Upon launching in Ireland for example, Lottoland staged a fake Donald Trump press conference outside the

Lottoland in numbers

€275m

Total lottery game prizes handed out since inception in 2013



350

Staff from more than 30 countries



11

Offices across four continents, including Gibraltar, London, Berlin, Hamburg, Malaga, Porto, Bratislava, Sydney and Kuala Lumpur



250,000

Australian players signed up in a 48-hour window soon after launch, primarily to participate in a \$1.6bn US jackpot



6m

Total signed up players to date

Irish parliamentary building, instantly drawing the ire of the national lottery provider (Premier Lotteries) and certain politicians. Likewise in Australia, the firm had an advert banned after viewers complained it encouraged gamblers to hide their addictions, while newsagents issued a ten-point checklist on how to fight back against Lottoland.

"In the early years we may have overstepped and we learnt our lesson," von Rosen admits. "But you can't afford to be too conservative as a newcomer, or you'll never get anywhere, so we seized our opportunities and now it's a matter of finding a balance."

Von Rosen insists Lottoland has no plans to slow its rapid geographic expansion, with the opportunities presented by a £300bn global lottery market with less than 5% internet penetration simply too appetising to ignore.

He adds: "With the professionalism and infrastructure we have now, we are better prepared for market entries than we were in the early days."

Product-first

But geographic expansion is far from the only priority at Lottoland; also top of the agenda is continuing to stay ahead of traditional lottery operators through yet more innovation. "There's room for growth in product," says von Rosen.

"The lottery industry has been around for 60 years and we've got stuck with this definition of it where it's seen as a machine spitting out six balls. That's wrong. To us, lottery is something where you can dream and you can win life-changing sum of money. There is scope for so much more than is currently being offered in terms of draw mechanics, gameplay and so on. We have so many ideas we want to try in the coming months but we don't want to disclose those right now."

When pressed, von Rosen says a specific focus will be on trying to develop products that give a higher RTP and a higher chance of success. "We need to cater for the full bandwidth of that customer spectrum. I'm a jackpot player. I want to dream about waking up a millionaire but we need to think about the customers that are frustrated about their success rate, about only winning a

prize every 30 attempts," he says.

"We can construct products – and I'm not talking about casino products – that will give you some sort of prize every second or third time. That's what is missing at the minute. This whole discussion should be about the customer more than anyone else," von Rosen adds. "They are the ones spending their money with us and with the national lotteries but they've never been given a choice. They've never been asked what they want. We want to change that."

Blue sky thinking

These high RTP products aren't the type that got von Rosen into the lottery industry in the first place – as a young man he used to drive across the German border into Austria to buy tickets to big jackpot draws – but it's reflective of a company perhaps being prepared for a more corporate future.

Analysts have suggested an IPO could be around the corner and it's an option von Rosen refuses to rule out even if he says it's not imminent. "If an opportunity comes up, IPO or otherwise, we'll think about it because we are businessmen, but we are growing very quickly right now and have lots to do in the next couple of years and we don't need financing," he explains.

Those short-term focuses include piling up the volume going through the firm's risk management models with B2B partnerships at the forefront, continuing to launch in new countries, and adding new products to cater to the full spectrum of gamblers and lottery players.

And while several rival firms have sprung up to fill the same space as Lottoland, the Gibraltar-based firm has a massive head-start and has learnt the lessons from its wilder early years, turning into a fundamentally sound company that melds the best of the gambling and insurance sectors. The opportunity to disrupt a £300bn global industry is perhaps unique in the gambling sector and von Rosen has no plans to throw away what he thinks is a winning ticket. And at the rate the firm is going, the founder no longer needs to buy himself a lottery ticket to dream about future riches. ■