



Clint Harris

Executive Director of the Minnesota State Lottery

Jenny Canfield

Director of Operations
for the Minnesota State Lottery

The Minnesota State Lottery has taken a leadership role in supporting its beneficiaries with progressive business and marketing strategies. Their e-gaming initiative is attracting new players and creating enthusiasm on the part of the 'core' players. New players + Enthusiastic Core Players = increased sales. This is a new space for most U.S. lotteries and the success strategies are being invented as we move forward.

Paul Jason, Public Gaming: *Could you describe the initiative that gives your lottery players the opportunity to play games on the internet?*

Clint Harris: The Minnesota State Lottery has been reviewing a variety of options to position our selves to provide our players with what we believe is the next level within the Lottery business. Our strategies focus on entertainment and loyalty, which allows us to position the Lottery to be a fun, safe and entertaining website for our players.

Our player's club and second chance promotions allow us the opportunity to readily provide this. In reviewing the statistics of how many individual are in fact playing games for fun

as well as for money (illegally), it's staggering. To us, it validated our philosophy that we need to look at ways to provide this entertainment and to position the Minnesota State Lottery in a responsible manner on the internet.

Internal discussions during our planning meetings have expanded beyond the traditional Scratch and Lotto planning. It now also includes interactive planning. We have been providing our players with interactive games for the past few years. We offer some easy and fast interactive games for fun such as a find and fishing games. We also offer longer playing, more advanced games associated with our Scratch ticket product, including interactive hold'em, Monopoly, etc. where players use their non-winning tickets. The play and feedback from our players has been very positive.

Internet gaming has become important revenue generators for lotteries all around the world. It is so good to see U.S. lotteries like yours building ambitious e-gaming programs.

Jenny Canfield: State governments and our beneficiaries need more funding. Lottery operators are in the position to help with that objective and we are pleased to do everything we can to exceed our revenues each and every year. We strive to improve the value of our product and to make that product available wherever our consumers might be. The Internet is a medium and e-commerce a channel which this multi-billion dollar industry simply can't afford to ignore. We owe it to our states and our beneficiaries to explore and position ourselves to integrate e-gaming into our operations at the appropriate time which will vary by jurisdiction.

Don't political realities include the possibility that somebody is always going to be against whatever the lottery does? And there's always going to be a reporter who is more interested in creating a dramatic story at the expense of accuracy. Is that a concern?

J. Canfield: Of course that is always a concern. We communicate proactively with our key legislators and government officials. There is an extra degree of sensitivity about anything to do with the Internet. Key officials would expect us to know the territory and anticipate questions and concerns.

So we do need to be diligent, making sure that every aspect of an Internet initiative complies with the highest standards of responsible gaming. It is not enough to just be compliant with all state and federal laws, although that is imperative. It's our job to make sure we conduct every aspect of this business so that the general public and even those who do not support lottery at least respect the way we operate.

Would you say that at this point it's now firmly established that Second Chance Drawings are well within the bounds of federal gaming laws?

J. Canfield: Yes. There's lots of precedence at this point. Minnesota and other states have been implementing Second Chance Drawings so that we can all be quite confident in its legality. Too, we take caution to ensure that it is within the confines of our state law as well as other states and other countries. Safe guards have been built within our system to comply with these. We must also credit our commercial partners for doing their part to ensure that our initiatives are all consistent with the laws and also with political sensibilities. They put much time and effort to review this and ensure we are in compliance.

Would a next step in the evolution of Second Chance Draws be to increase the prize pools for the Second Chance portion? Perhaps even increase it a lot?

J. Canfield: That's possible. But I think you need to be very careful to not confuse the core player and not take away from the cash prizes within the games. The core player is the real driver of lottery revenue and we do not want to do anything to hurt our traditional sales base. We know that our players' primary objective is to win cash. There are some players that will be enticed to play or play more because of the second chance components but you need to find that balance not to compromise the actual game prize structure too greatly. And there's frankly no reason to do that. It can be a slow build. We're meeting the demand for products that appeal to a new generation of gamers in these channels and venues that they frequent. There's no reason why we can't do that without impairing our traditional sales base, or confusing the core player with value propositions that they do not relate to or perhaps have no interest in. Of course, it can and probably will eventually evolve in the way you're suggesting.

As its popularity increases and critical mass is achieved with different types of Second Chance Drawings, we can create new products that appeal to new and different play styles and prize structures.

C. Harris: Yes, the next step would include increasing the variety of interactive games we offer, both for free play which is tied to non-winning tickets. We are also working on adding internet-based subscription purchases. Players will be able to purchase most Lotto products online for a period of six weeks to one year and will have an option for group play as well. Later phases include other options which allow us to expand on our game offering and purchase period once we feel we are ready to move in that direction.

Another important component to moving forward is to analyze as much information and data as you can. We need to further define different segments for interactive and social networking features. We know that what we have implemented so far has worked. We know that offering a variety of games works well. But we really need to get a deeper understanding of the medium, of phenomena like social networking, of the ways in which cultural and lifestyle changes impact player behavior, and how we can produce games and make them available in ways that meet the needs of this changing marketplace. We are increasing the research that will help us to make more informed decisions about our interactive and social networking offerings.

Second Chance Drawings and extended-play/interactive games provide a fun additional element to the game, but it's not your objective to push the players onto the Internet. It's just your goal to make the overall game a little more fun, and to provide a product to those people who may not be buying the product in the traditional retail channel.

J. Canfield: You're correct, Paul. We have challenges to find more and better ways to keep the players engaged and excited, and Second Chance Draws and interactive features give us additional tools to work with. We know, for instance, that our players are interested in interactive games, and games that facilitate social interaction. The statistics show a trend-line that is astonishing. More and more players want, and expect, more for their entertainment dollar. They want more from their games. It's not just about payout percentage, although that is the most critical. We need to think about the value proposition

in a broader way that can include interactive games or other experiences. Social interaction adds a dimension that is clearly important to an increasing percentage of players. Not all of our core players may be interested in that yet, but there is a growing segment that is and we want to provide that component of fun and entertainment that they are looking for. We expect that as people become more aware of the entertainment and enhanced games, the interactive features, social features and Second Chance Draws, the positive trend-line will accelerate even more.

C. Harris: But we do take a conservative approach to the number of games we launch. MDI has a large portfolio of games and can implement them at a fast rate. We are selective, maintaining a steady timetable that we can be confident will work well for everyone, meeting the needs of our players but also being acceptable to all of our constituents.

J. Canfield: We think of this as both a long-term strategic plan and a short-term driver of lottery sales. We have spent a lot of time laying out longer-term strategies and using shorter-term initiatives to move us in that direction. We want to position ourselves so we can readily react to upcoming trends and growth opportunities. As a long-term plan, we do not need to move quickly, we do not need to put everything out there on a compressed timetable. We are being strategic with our digital plan in an effort to build a strong foundation in a responsible manner. We are utilizing resources and research to discern what our customers want. We want to be where our customers are, and that includes being on the Internet. And not "being on the Internet" just because marketing consultants say that's what everyone needs to do. We are committed to delivering really great products that appeal to the discerning Internet customer who wants more value in the form of interactive and social games. We want to position ourselves to be there for the next generation player who expects us to grow and evolve with them. Our long-term strategic plan is definitely to be a leader in the interactive and e-gaming space; but also to be keen on the difference between leading edge and 'bleeding edge'. We do expect our Players Club to position us to go to the next level, to position us for accelerated growth. But for right now, we're just providing a fun interactive social place for our players. And doing that in a way that drives short-term sales.

Could you talk a little bit about the interactive features? How exactly do they work?

J. Canfield: We provide a variety of games. Free games are simple, easy play games such as a reveal a game that does not affect the predetermined outcome but invites the player to play a game as a prelude to having the outcome be revealed. And then there are games that are a little more involved and have more of an interactive component and are longer playing games. It creates the feeling that skill is involved and that the skill of the player affects the outcome, but it doesn't because the outcome is predetermined. Like interactive Hold 'Em' and Monopoly, they will use a non-winning ticket to play these games and may receive points for merchandise redemption and/or second chance drawings. If the player enjoys that experience, they might feel better about buying a ticket knowing that even a non-winning ticket gives them the opportunity to play these games and put in for a Second Chance Draw. The objective of these e-gaming initiatives is, after all, to increase sales.

You are talking about games that have predetermined outcomes. The play has no influence on the outcome and no money is won as a result. But aren't you launching some interactive games that result in a prize?

J. Canfield: The interactive games result in a chance to win a prize. We have already done this with interactive games such as Hold'em and Monopoly. Our next phase will include more of a social element which is a very popular trend. We will have an interactive Hold 'Em game where players will compete against other players. This game is not predetermined. It's still chance because you never know what cards you're going to get. And since it is a Second Chance format, the player is not wagering anything on the game. And they're not even playing for money. They're playing for entries into a Second Chance Drawing.

The way it's played is really quite simple. The player buys a scratch Hold 'Em ticket. They take their non-winning ticket and enter it at the MN Lottery player website. They then have their choice to play against virtual or live players. The number of entries to the second chance drawing is determined by how they place; first, second, or third. I do believe however that we will eventually get to a point where interactive games will

be available on the internet for actual prizes, cash or otherwise. My belief is that it's not 'if', but rather 'when'.

Just like regular off-line poker, there is an element of both skill and luck. The actions of the player do influence the outcome, but the element of luck makes this fundamentally a game of chance. Too, there is actually no wager, no ante or bet. Entrée into the game is a free bonus for holding a non-winning ticket. It's more about appealing to the social networking motivation, isn't it?

J. Canfield: Exactly. Bragging rights, recognition, chat, all the social networking benefits. There will be a feature added that enable players to share their game results on Facebook. We are not creating the Facebook page or implementing a push strategy. We are just creating the tools and mechanisms that make it easy for the player to link to his or her own Facebook page. Supporting the social networking aspect of the interactive game formats is key. It all goes hand-in-hand. It will also provide the platform for viral marketing to attract new players'

Part of the evolution of extended-play/interactive games will be to segment the market into different player profiles and preferences, won't it?

J. Canfield: We know our online lotto and our scratch-off players really well. We have different games to appeal to all different player preferences and a robust brain trust for evolving those products to meet their needs. But in my opinion, we still have a lot to learn about the Internet player. We're focusing on that by doing more research. The more we learn, though, the more questions we have. That's to be expected and it is a positive thing because there is a lot of potential to grow and improve our approach to e-gaming, interactive features, and the social media components. Increasing sales is certainly our primary objective. To maximize on that, understanding the players, their play styles and motivations is also an important part of building an effective responsible gaming strategy and achieving our sales goals.

Can tickets purchased by subscription include a Second Chance Drawing feature?

J. Canfield: We're positioned to have that at a later stage if and when we decide to implement it. We need to be sensitive to the interests of our retailers who may think of that as competition. Retailers will be the primary sales driver and distribution channel for

many, many years. The way Second Chance Drawings work now is that the tickets must be bought at the retailer so the retailer benefits by this Internet initiative. Again, there is no reason to move too quickly and agitate one or more of our constituency. It is a slow but steady progression.

C. Harris: There is a segment of the population that wants to play the lottery but does not go into retail stores. We do want to enable them to buy our products. That segment will grow but the percentage of customers who buys from the retailer will continue to dwarf the percentage that only buys online. As long as we are sensitive to the interests of our retailers, and create products like Second Chance Drawings that increase sales for our retailers, we'll also be able to meet the needs of that segment which only buys online. Managed properly, we do not need to incur any disruptive channel conflict.

It seems like by definition you need to create a critical mass of players that are interacting with each other before an interactive game becomes truly dynamic and engaging. In fact, a slow start could even cripple your ability to attract players in your follow-up implementations.

J. Canfield: That is a key point, Paul. We all realize how important it is for a scratch plan to have a strategy that includes new games being rolled out in continuous fashion to keep things alive and fresh; as well as different types of scratch games to appeal to different player preferences. If you leave a void, you risk losing that player and can have an uphill climb to get them back. We believe that it is also important to keep things fresh and new in e-gaming. For one thing, the typical e-gaming player expects a more stimulating and dynamic gaming environment. For another, this segment is a little less accessible to traditional media and promotional campaigns. So we can't afford to lose them once we get them. That's why it is vital to have a well-conceived plan to keep everything fresh and exciting. The product launch schedule needs to be in place and also needs to be flexible to adjust to new information. Not really different than what is needed for lotto and scratch-offs. Having a digital strategy in place is a key element. ♦