



PGRI Introduction: The Arizona Lottery closed out fiscal year 2012 with a record-breaking \$646.7 million in sales, a 10.8 percent increase over the previous fiscal year and the highest amount in the Arizona Lottery's 30-year history. Director Hatch-Miller credits much of this year's financial success to the introduction of \$2 Powerball, the world record-breaking \$656 million Mega Millions jackpot, a 9.7 percent increase in Scratchers ticket sales, and to the public's recognition of the "How the Money Helps" campaign which speaks to players and non-players alike.

Paul Jason, Public Gaming: *Congratulations for a great Fiscal 2012! Let's start with the two super-jackpot games. It would appear that the AZ Lottery has benefited hugely by the addition of Mega Millions and by the change in ticket price to \$2 Powerball.*

Jeff Hatch-Miller: The world record Mega Millions jackpot gave us a giant boost in sales. Mega sales increased 18.5% over the previous year, and we would have to attribute much of that to the March jackpot run. You know, we are a Powerball state, so we didn't even have Mega Millions until 2010. In Fiscal 2012 we sold \$56 million in Mega Millions tickets. It went from zero to 8.6% of our total sales in two years. Cross-sell has been a huge win for the Arizona



Jeff Hatch-Miller

Executive Director of the Arizona Lottery

Lottery and the people of Arizona.

And I see that Powerball increased by 17% in Fiscal 2012 over FY2011. So there does not appear to be cannibalization of the established brand.

J. Hatch-Miller: Exactly. It's been a big win on all fronts. We now have not one, but two successful super-jackpot multi-state games. Both are performing well, each has carved out a differentiated space in the market-place, and each is set to have its own positive growth trend-line. Increasing Powerball by 17% even with the addition of \$56 million in Mega Millions sales is very exciting indeed. There appears to be no slowdown, cross our fingers. Our average sales for the first 4 draws of a Powerball jackpot

run are approximately 23% above where they were before the ticket price change.

But it's even better than that. Virtually all your games went up in sales in FY2012.

J. Hatch-Miller: That is the beauty of this business. Good marketing people can manage it such that success begets success. The jackpot roll-ups of the national games increases awareness for all things lottery and has the residual impact of helping the sales of all lottery products. Our biggest product category, instant scratchers, comprises 63% of our total sales, Even it increased by over 9% in FY2012, to \$410 million.

What will you be doing differently, or additionally, to maintain this high growth rate

in the two Big Games, Mega and PB, over the next 18 months?

J. Hatch-Miller: We will press forward with strategies that have resulted in the double digit sales growth of the past 3 years. Huge drawing game sales most often are the result of huge advertised jackpots. As the jackpot reaches a certain threshold – about \$200 million – player interest heats up. That’s when the more ‘casual’ Mega and Powerball players join in, dreaming of winning, getting caught up in the “jackpot frenzy.” The Arizona Lottery initiates media pushes to create excitement by broadcasting “Jackpot Alerts” on billboards, television, radio, and Facebook.

In addition, we’ve developed creative ways to increase play at the lower jackpot levels. Currently we’re promoting “the Trio.” The Trio costs \$4 and includes one Powerball ticket, one Mega Millions ticket, and one The Pick ticket (Arizona’s own jackpot game). Using advertising, point of sale materials, and retailer promotions, we’ve been successful in motivating players to purchase additional tickets even when jackpots are at lower levels. “The Trio” has an added benefit of infusing renewed vigor in our in-state “The Pick” game, which had been in a slump ever since we began cross-selling.

We work hard to generate consumer interest in the early stages of the jackpot rolls, trying to capture consumer interest before the media jackpot triggers kick in. We feel that this promotes synergy between the games so that when the jackpots go higher, the consumer ends up playing all the different games. And in the mean-time, we leverage the brand value of Mega and Powerball to cross-sell the entire portfolio of lottery products.

The holy grail would be to allocate marketing and advertising budgets to maximize short-term sales but in ways that support a long-term sustainable growth strategy. That is what you seem to be doing.

J. Hatch-Miller: Keep in mind, too, that the jackpot roll-ups tend to happen asynchronously. One gets momentum and climbs fast and by the time it gets hit, the other has begun to climb and gains upward traction. So the consumer is already tuned into the notion that they want to play more than one game to optimize the value of their lottery dollar. Well, we’re just appealing to that game-style and encouraging them to consider an even wider variety of options, to look at all the games in our portfolio. It’s

the best way to play the games, it’s more fun and entertaining, and it delivers more value for the lottery expenditure.

The results reflect that it is working. Would you say that the volume of sales in the early stages of the jackpot game are higher with \$2 Powerball than they were with \$1 tickets?

J. Hatch-Miller: Yes, absolutely. The price-point change to \$2 has created a little confusion for the players as to what the jackpot levels are and when they can expect the big ones to be reached. So let’s take advantage of this short window of time to shape consumer opinions and expectations. Consumer attitudes are more malleable now and that’s not a bad thing, it’s a good thing. For one thing, the jackpots of Powerball now start at \$40 million. That is a giant amount of money for anyone! So let’s try to promote the concept that the Powerball jackpot is always high, you can always play that game and know that if you win, you will be rich beyond your wildest dreams. Because it’s true, isn’t it?! And while we are promoting early-stage Powerball play, let’s promote all the other games in the portfolio. We know that all the attention will go to the jackpot games when they reach the triple digits; especially at \$200 million and up. So let’s be sure to have a more integrated approach towards building a sustainable business with a broad portfolio of gaming experiences when we can. The point is that yes, early stage sales volume is definitely better with the new Powerball ticket price, but that may be partly due to our promotional focus to produce that outcome.

The future: What more can be done, either by your individual lottery or by MUSL or the Mega group, to improve the performance of the two big games (PB and Mega)?

That’s easy – all you have to do is create more world-record jackpots (as we saw with Mega Millions earlier this year) and record-breaking cash jackpots (as we saw with Powerball in early August).

Seriously, players are looking for the opportunity to win more prizes, more frequently. There are some exciting opportunities currently being discussed, including a second chance drawing add-on feature that has the potential to generate excitement, reach new players, and enhance sales. In Arizona, we’re employing a number of sales performance measurements to track, in real time, the impact of various promotions at

a variety of jackpot levels. In the process, we gather valuable insights that help better guide all our marketing decisions.

Some consideration should be given to re-evaluating matrix options now that we have a sales history with the \$2 Powerball price-point. Re-evaluating the matrix is especially important if we were to add significantly to the population of players, like adding California does.

What do you envision as the next frontier for multi-jurisdictional collaboration? National premium game, perhaps more and better collaboration in the ways that PB and Mega are promoted nationally?

J. Hatch-Miller: There are some exciting new game concepts incorporating features not typically seen in “numbers” based jackpot games. These prototypes provide opportunities for multiple wins, experiential prizes, and enhanced player awareness of what other players are experiencing. Too, completely apart from its use as a channel of distribution, the internet can play a powerful role in helping to gather player information, creating an interactive dialogue with the player, and creating a platform for social networking among players themselves. These are some of the new directions we are exploring for the next iteration of multi-state games.

These new concepts and features also create a more expansive platform to create additional multi-jurisdictional games. Nationwide, and even continent-wide and world-wide marketing opportunities are likely to emerge. I’m very encouraged by the spirit of cooperation and excitement that exists in the Lottery industry. I believe that excitement will propel us into some very exciting new game offerings in the short and medium-term future.

Instant tickets also increased by 9.73%. Was there anything in particular that drove that increase? What will you be doing to sustain that momentum into the future?

J. Hatch-Miller: Arizona has been successful in strategically balancing our game mix within each of the price points to appeal to a broad player base. Knowing that a major growth potential was the \$5 price point, we conducted research helping us identify what motivates players at higher levels. In FY12, the \$5 and \$10 tickets are now our top revenue generators.

Arizona Lottery has formed talented, cross-departmental teams that identify new

product offerings. The ability to consider design, programming, marketing and sales simultaneously has improved our products and our sales results.

We are continuing with games that offer a 2nd chance drawing. For example, this past year, in honor of our 30th anniversary, we offered three anniversary games each featuring opportunities for players to enter their non-winning tickets to win additional cash prizes. We also offered the Wheel of Fortune® linked game with MDI which included three trips to Hollywood. Both 2nd chance drawing initiatives were very popular with players. We are very excited about taking the success of the “black series” games to another level. This coming January we will offer a “black series” of games at the \$1, \$2, \$5, \$10 and \$20 price points, each containing a 2nd chance draw element. The 2nd chance drawings will offer prizes ranging from \$100 to \$500,000 – our highest 2nd chance prize ever!

Going forward we will continue to sustain our core games and look for new opportunities to expand game offerings.

What product innovations do you expect to have the most impact over the next 18 months?

J. Hatch-Miller: Just a few weeks ago, on September 23rd, our new Weekly Winnings game was introduced in Arizona. Weekly Winnings has a prize structure unlike other drawing games we currently offer in that it offers a top prize of \$1,000 per week (taxes paid) for the entire year. The ticket costs \$2. We are already seeing strong sales; we expect it to be a significant contributor to our in-state drawing game portfolio.

What do you see as the most important player/consumer trends in lottery and gaming in general? What is the Arizona Lottery doing to turn those consumer trends into increased lottery sales?

The Arizona Lottery sees a huge opportunity for reaching its target market by participating in popular social media platforms, including Facebook, Twitter and YouTube. In FY12, we grew our presence on these social media sites, significantly increasing our fans and followers. In FY13, we plan to expand our social media reach by continuing to post fresh and relevant content that engages fans and increases interaction. We are more convinced than ever that at some point in the very near future we must meet the player on his or her mobile device. We

are working with our IT developers to find out how best to integrate the new digital technologies that are such a big part of everyone’s life into the media and channel mix of the Lottery.

I realize there are lots of obstacles to nationalizing a brand and advertising campaign. But wouldn't there be profound benefits to doing at least some things, however modest in scale, on a national basis? Isn't there any way to overcome the obstacles to doing even one national advertising and/or promotional campaign?

J. Hatch-Miller: Of course there are ways to cooperate and promote nationally. We’ve already proven that by the strong market presence and high level of cooperation in the sales of Powerball and Mega Millions. Within North America there is a great deal of diversity, yet there is even greater common experience. So I believe that we will leverage that common ground to develop national brand awareness and, hopefully, advertising campaigns to support the games.

All the lottery directors deserve credit for working hard to find that common ground. A number of them have stepped forward and are working hard to bring us together. I believe their efforts will benefit all of us.

What are the Arizona Lottery's plans for Players Club?

J. Hatch-Miller: A Players Club is something Arizona is exploring with great interest. We have been gathering data from other states and vendors, learning what works best and identifying obstacles to avoid. We are committed to more fully engaging current players and in attracting new players. We are confident that a loyalty club is part of the ‘winning ticket’ to reach those two objectives.

You were one of the early adopters of 2nd Chance Draws.

J. Hatch-Miller: Arizona started offering 2nd chance draws at the very beginning of the Lottery in the early 80’s. Back then, the process was too labor intensive due to the fact that the entries were mailed in stamped envelopes and the volume overwhelmed us. Long-Term staff members have described our entire conference rooms filled to overflow with entries. Our present ability to conduct entries and drawings via the Lottery’s website has made the process much easier.

Our first venture into website-only entries was in FY 2011 with the World Series of Poker game. Last year we offered two (2)

series of games, Wheel of Fortune, and the 30th Anniversary games with 2nd chance draws. The number of entries is continuing to grow with each new game series and the response from players has been phenomenal.

On July 3, we launched our new \$5 Bejeweled® ScratchersSM ticket with a top prize of \$50,000. It also features a sensational new prize for the second chance drawings. For the first time ever, we are offering the opportunity to win one of four (4) Caribbean cruise packages. In about two months, we have received over 65,000 entries.

When do you project that the Arizona Lottery will be able to sell traditional products over the internet?

J. Hatch-Miller: This is not a strategic priority for the Arizona Lottery. We will continue to monitor what other Lotteries are doing and learn from their successes and mistakes.

Even though transaction-based i-lottery is not being considered right now, isn't social media a strategic priority, and so won't the internet play an important role as a communications medium?

J. Hatch-Miller: Absolutely, that is correct. The internet is key to enabling the many social media initiatives that are strategically imperative. The internet enables real-time personal interaction with the consumer. We can respond to their questions in real-time and in the medium of their choosing. We hold discussions with the players, sometimes in chat rooms with multiple players. We can provide information with a level of detail that could not be done with other media, such as print or broadcast. The opportunities to innovate are endless.

The movement to an online marketplace is quite simple technologically. It’s being done around the world by organizations large and small. To put in an online store is quite simple. Yet it may very well be that other internet-enabled agendas set up are even more valuable than e-commerce. The value and excitement of the internet really comes from its capacity to serve as a platform connecting your lottery directly with your players. You can educate players about products, instruct them on how to play different games, increase awareness of jackpots and winners, provide players a forum for sharing likes and dislikes, allowing them to share their winning experiences with friends. We have been especially encouraged by player’s responses, their posting

how they feel about their winning experiences and other dialogue about their lottery play. Social media has become a whole new source for user-generated content.

It's true what you point out that the internet is much more than just another POS. Think about how we use Amazon as a source of information and consumer-generated content, not just e-commerce POS's. Think about how Amazon has leveraged that consumer service, which does not directly generate income, into dominance in the e-commerce space. This is where the action is on the internet and where we are focusing our current efforts.

Do you have an opinion on the attention being given to the Private Management Agreement model for operating a state lottery?

J. Hatch-Miller: I have a wonderful governor to work with, and a great legislature. And that's important. A big benefit of the traditional government lottery is that it ensures alignment between the lottery and broader public policy objectives as defined by the representatives elected by the public. The long-term strategic decisions for lottery are driven politically as well as by business considerations. I would submit that the best of both worlds is for the big-picture, long-term objectives to be defined by those elected to represent the voters. The day-to-day implementation of the business plan should be the work of the lottery leadership and staff. I appreciate the Arizona governor and our Lottery Commissioners for their attention to lottery. They know the importance of balancing the goal of maximizing sales and net funds with other public policy considerations. In our case, the Arizona Lottery has been given clear guidance as to the public policy agendas, along with the flexibility and the support to achieve ambitious business results.

It works good for us and for all the lottery stakeholders, like the Arizona state government, and the people of Arizona.

Your "How the money helps" campaign received lots of residual PR traction in Arizona. Does that contribute to sales as well as your public image?

J. Hatch-Miller: We can't claim to have a way to measure the impact on sales. That campaign highlights specific individuals throughout the state who have directly benefited from Arizona Lottery funds. Like all lotteries, we've always reported the large sums of money generated by Lottery. With this campaign, we wanted to convey the impact at the human level. In documentary style, portraying real people and their stories, we show how Lottery revenue actually helps actual individuals, families and neighborhoods. It's a message that has captured the interest of the general public in Arizona. Just this morning I was sitting in the rotunda of our main office where we have a claims area. I watched a lady and her family cashing in her winning ticket. She was standing in the middle of the lobby looking at the photos of the individuals featured in the "How The Money Helps" campaign. It was very exciting for me to stand beside her and tell her the story of Sidney, an Arizona State Parks Junior Ranger, of the Matthews family, who overcame homelessness, of Victor, who learned the skills of a nurse, and of other people whose personal stories illustrate how Lottery funding adds a great value to the lives of real people right here in Arizona.

An object of study these days is the manner in which the act of playing the lottery aligns, or not as the case may be, with the self-image of the consumer. Insofar as the consumer does not perceive playing the lottery as something that reinforces their posi-

tive self-image, doesn't reflect their values, they are less likely to play, even if they would like to play for the conventional motivation of creating a chance to win. We do hope that "How The Money Helps" appeals to these players, allowing them to play the lottery because it's a form of gaming that benefits society, helps people in need, in such a profound way. The campaign is directed primarily to the general public and non-players to create awareness for all the good that Lottery does and so engender public support for the Lottery. We believe that a residual benefit is more people feel good about supporting Lottery's beneficiaries by actually playing the lottery.

What is the highest priority initiative or objective of the Arizona Lottery for fiscal 2013?

J. Hatch-Miller: Our highest priority is to create a fabulous experience for players. Toward this goal we will be enhancing existing games with the target of increased player satisfaction. We believe that if we maintain and expand our player base, growth in sales and revenues will be the natural consequence.

Of course, the end goal is increasing the level of funding for our beneficiaries. Since 1981, the Arizona Lottery has generated over \$2.8 billion in net profit for state programs and beneficiaries. We have a diverse array of beneficiaries from education, to health & public welfare, to economic & business development, even environmental issues. All Arizona residents benefit from the programs and services Lottery funds support.

We've been very successful over the past five years. I am very proud of the accomplishments of the Arizona Lottery and the great team here that makes it all work! ♦