

The Path to Game Innovation

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Innovation can be defined in many ways, but simply stated, innovation is widely accepted as something “new.” The term has surfaced as one of the most important drivers of future business growth in just about every consumer industry and serves as an ongoing topic for lotteries today – primarily because the execution of how we innovate is often new, but not always different.

Since 1964, when the first official U.S. state lottery was established in New Hampshire, lotteries across the country have based their business model on carrying two dominant product lines through the retail sales channel – Instant Scratch-offs and Draw Games. Although technological advancements have helped propel our industry forward, we have been fortunate to maintain our profitability by producing many of the same games in new ways. According to a recent article in *Inc.* magazine, most companies should consider four primary objectives for new Research & Development (R&D) projects:

1. Maximize the long-term return on investment.
2. Make optimum use of the available human and physical resources.
3. Maintain a balanced R&D portfolio and control risk.
4. Foster a favorable climate for creativity and innovation.

Based on these four objectives, the lottery industry has been very successful. This success could leave many questioning if doing something different from the textbook style of growth even makes sense. While most could arguably agree that the lottery industry has masterfully accomplished three of these objectives, the fourth objective provides an open door of opportunity.

In recent years, the U.S. lottery industry has effectively changed the matrix of the most popular multi-state jackpot games, added multipliers and bonus features to draw-based games, improved prize structures, increased the appeal and modernized the print technology of instant tickets, introduced many fresh concepts, opened new sales channels, and tip-toed our way into the interactive world – all yielding profitable results. While these innovations serve as impressive milestones, the issues we face have not drastically changed. Lotteries are still experiencing stagnant portfolios, the lottery player base continues to age, the challenge of attracting new players increases, jackpots are unpredictable (and growing at a much slower pace), and the rate of innovation remains conservative. As consumer expectations, attitudes, and ultimately buying behaviors change, there is one thing for sure – the next generation consumer will likely define the future of how we do business, forcing the industry down a more unstable path of innovation.

Who and what defines Innovation?

The long and short answer to this question is simple – not us. Companies no longer control what new product innovations are successful in the marketplace. The foundation of most new growth strategies is designed around consumer desires and emotions versus needs, with a constant challenge of working to balance quality versus convenience. The most pioneering companies in the world continue to invest millions of dollars in R&D every year for new product development focused specifically on innovation and, on average, 25% of sales are coming from products that have been launched in the latest 36 months. Lottery barely reaches 5%. This focus has not only created a continuous pipeline of different products to market but also produced a greater demand and higher expectations from consumers for even more new products. IGT is committed to innovation and meeting consumers' expectations, spending more than \$300 million in R&D annually, more than any company in the gaming industry. "IGT is accelerating innovation. We are building a structured process to routinely ideate, evaluate, and test the right products and shorten the time to market. This is our commitment to the industry and a pillar of IGT's Strategic Plan for the next five years," said Marco Tasso, SVP, Product Marketing, Lottery.

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Today, in many industries innovation is also largely shaped by social media, which continues to define and rapidly change the consumer landscape. The social arena not only places the power of a lottery's brand at the fingertips of any customer, but it also gives one person the ability to influence hundreds or even thousands of people through "real-time," "all-the-time" opinions about products and services. The power of uncontrolled consumer feedback open to the world at large has directed companies to shift their primary focus on making the customer the foundation of their "service" platform. The social paradigm has also created a renewed commitment to innovation within the lottery industry. However, listening and responding to our customers, and designing products to meet their needs in the future, also means that we must be willing to take some calculated risks along the way.

The Challenge and Search for Value

As the industry continues to find its way into becoming a relevant part of the social conversation – and not just when record-level jackpots are achieved – finding our space in the new "on demand" and "visually-stimulated" era of consumer expectations will be critical in changing the regulatory landscape. In a world overcrowded with information in which new products continuously try to squeeze their way into the retail spotlight, sustaining long-term consumer interest in lottery as it exists today may be an even greater challenge.

Looking through the lens of the consumer could paint a much different picture of innovation for U.S. lotteries and ultimately change the way we develop, make, and execute product decisions. Finding ways to get valid information from consumers when we can't keep their attention, controlling the consumer experience with our products when they are sold through others, and placing lottery products in the hands of customers instead of relying on them to run to the store to buy them are crucial next steps in our journey for innovation.

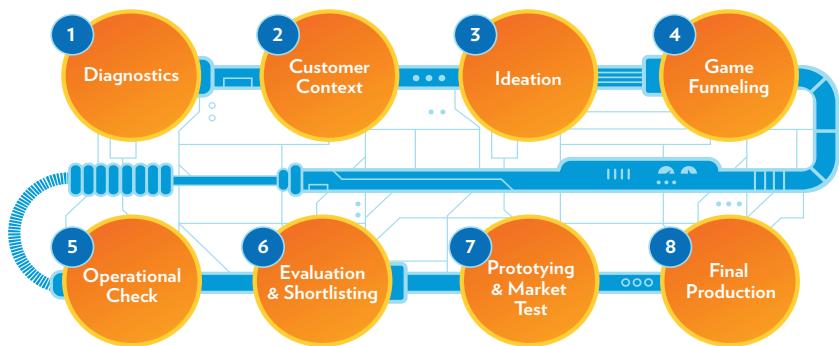
The average customer's search for value in retail today begins with the expectation of reward and, unfortunately, often comes with a much lesser exchange of loyalty. Why? Because it has become clear to consumers that they not only have more choices than ever before, but there are always other companies, brands, or people willing to give them a superior value proposition.

This quest for superior value has both lotteries and vendors working around the clock for the "feel good" factor that sets them apart from the competition. But the real ticket to innovation for many will be a favorable regulatory environment that often determines their fate. In many jurisdictions this could be the very issue that stands between the desires of consumers' and the industry's need for sustained profits to good causes.

Fortunately, much of the value in our industry stands on the proposition of selling a chance at a lifelong dream and actually giving hundreds of thousands of consumers the chance to live it. While our industry has been largely successful with few failures, this has created an environment that makes creativity and innovation difficult because there is no margin for error. Put very simply – we are not allowed to make mistakes.

IGT's Roadmap to Innovation

Lotteries are under increasing pressure to innovate and their vendor partners should help enable the roadmap to the next big idea. IGT has refined its commitment to and focus on innovation through the implementation of a new game development system, FutureGame™. Most vendors know exactly "what" the industry needs in the future, but defining a path to determine "how" we get there is just as important. FutureGame provides a disciplined eight-step process, beginning with diagnostics, to understand the real consumer needs of the future. From brainstorming to testing, we refined the process to bring the best ideas to the customer.



"With FutureGame, we have totally transformed the innovation process. IGT's ultimate goal is to deliver a superior value proposition for our customers' specific markets around the world, wherever they operate," said Francesco Parola, VP Global Lottery Product Development at IGT.

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The process is divided into three logical cornerstones (diagnostics, ideation, and verification) and begins with a thorough assessment of existing games and portfolios in combination with ethnographic insights of customer behavior at retail. This enables IGT to better understand the perspective of the consumer using a "behind-the-counter" experience. This information is then used in conjunction with third-party consumer retail trends to get a deeper knowledge of the value consumers expect from any product or service.

In terms of ideation, any top-rated brainstorming technique is encouraged to facilitate a freewheeling way to be creative. On the other hand, the effort is to combine imagination with viability and handle the creativity with feasibility. Finally, players are primarily consumers, not just lottery players. Any alternate form of entertainment they might choose instead of a lottery ticket should be benchmarked against any idea.

One of the most innovative steps of FutureGame includes an exploration of 32 essential attributes of a game from four important viewpoints – the Game Designer, the Marketer, the Retailer, and the Player – to facilitate the verification through an index system and shortlist the best ideas. Once new game concepts are constructed, these attributes are used to evaluate game concepts during consumer beta testing, mirroring lab results and securing accuracy, precision, and credibility. This rigorous evaluation helps verify both market sustainability and performance expectations



prior to research and before products go to market. Lab results are sometimes surprisingly close to market expectations. Other times they are not, and we rely on the beta consumers to provide the right insight to finalize a better product.

Putting New Products to the Test

The proof is in the pudding. Will the research provide outcomes that ensure games are profitable, easy-to-market, fast-to-sell, and can be easily purchased through a more emotional connection with the consumer?

"Ideally, after multiple rounds of favorable qualitative and quantitative consumer research and testing, it would seem reasonable that a product may be ready for the marketplace," said Gerard Caro, Senior Director, Market Research. "Unfortunately, as we have all learned on our path to innovation, research doesn't always tell us the full story of how a game will perform when it goes to market."

Game prototypes are created before the final steps of development in the FutureGame process to test previous consumer research. Testing these prototypes provides the opportunity for consumers to actually "experience" the product, as well as for us to better understand the emotional drivers of consumer behavior. People can and will change their minds, an outcome that research alone cannot determine. FutureGame also includes a new "Extended Play" research methodology, putting the most successful concepts from consumer testing through yet another market "reality" test.

Extended Play research gives consumers a chance to provide insight based on their actual experience with the product over time. The results of this final test more closely mimic how a product will perform in the market by giving players a true gaming experience – including winning and losing.

The bottom line is that the roadmap to innovation is a constant journey that is not always perfect. A large portion of new ideas do not reach the expected results.

Shortening the time-to-market of new games is a must. FutureGame is a six-month ongoing process that focuses on results. "Our goal is to create relevant products on a regular basis. Of course, customers come first. We are very flexible and happy to comply with the specific timelines of our lottery partners. We welcome our customers into the process, working together from the very first step," Parola said.

"It's time for the lottery industry to step up in the way it innovates and risk more!" said Parola. With the FutureGame process, IGT works together with its lottery partners to invent new gaming concepts that are relevant to specific markets and thoroughly vetted to ensure go-to market success. FutureGame creates a win-win situation. Consumers have a new and more engaging connection to lottery products, and lotteries around the country achieve their number one priority – increasing profits to the good causes they serve.

