



May Scheve Reardon

Executive Director, Missouri Lottery

Chair of the Multi-State Lottery

Association (MUSL) Finance Committee

PGRI Introduction: Appointed to lead the Missouri Lottery in December of 2009, May Scheve Reardon was, according to Commission Chair Kevin Roberts, charged with “moving the agency in a new direction.” After a career in private finance, and serving as head of the state Democratic Party, director of development at the Richard A. Gephardt Institute for Public Service at Washington University in St. Louis, adjunct professor of political science and communications at Webster University, and twelve years of service as a St. Louis County state representative, Executive Director Scheve Reardon has embraced the spirit of her current call-to-action with enthusiasm and focus.

The Missouri Lottery set sales and funds transfer records in fiscal 2011, generating over \$1 billion a year in sales (for the first time ever) and \$259 million in funding for the Missouri public education programs.

Paul Jason, Public gaming: *First, let's start out with a question about the recent memorandum from the U.S. Department of Justice. By clarifying that the Federal Wire Act applies only to sports betting, it would seem to open the door for states to implement a regulatory and taxation framework for internet gaming. It may be too early to know this, but do you have any thoughts on what this will mean to the state of Missouri and perhaps the Missouri Lottery?*

May Scheve Reardon: We feel the December 23 DoJ opinion clarifies a states' right to sell lottery products online within its borders. We are monitoring and researching the issue and how other lotteries are proceeding. If Missouri chooses to conduct online sales of its existing games, we will do so responsibly.

Congratulations for a great fiscal 2011. The Missouri Lottery generated over \$1 billion in sales resulting in over \$259 million in the funds transferred to education. What

are your sales and funds transfer targets for fiscal 2012? Do you have ambitious percentage increases?

M. Scheve Reardon: The legislature has asked that we return \$267 million to elementary, secondary, and higher education. The challenge is that we need to generate that increase when our advertising dollars have been cut by about \$2 million, from \$8.3 million down to 6.3 million. That's about 25% which really impacts our entire advertising program. So we are motivated to get creative, effectively use all the resources we do have at our disposal, and fulfill our commitment to Public Education.

How will you accomplish it?

M. Scheve Reardon: First we focus on basic execution with retailers. Make sure we are doing everything we can to optimize sales and productivity at the retail level. New games are launched with high-impact promotional blitzes. Sales rep's make sure there are never outages, the stores always stocked with the right products. Second, we are really working hard to add entertainment value to our all our games, and especially the Instants. Our holiday scratchers are nearly 30% over last year.

30% - That's insane.

M. Scheve Reardon: It's true. We're very excited about the possibilities. Necessity being the mother of invention, I think our team is really psyched to find creative new ways to grow the business. Get all our channel partners to work hard to achieve stretch goals. Create bold and entertaining new products that will excite our players. And along with the pressing need to increase sales, we are increasing our attention to Responsible Gaming. For instance, we embraced the multi-state media campaign to discourage giving scratchers as gifts to people under 18, making sure this RG campaign was implemented for maximum impact in the Missouri market. We always make sure our advertising and promotions are geared towards the adult audience, never doing anything that could be construed as appealing to anyone other than a mature consumer.

Does it seem that regardless of the level of success, and the adherence to high RG standards, that lotteries are always vulnerable to criticism?

M. Scheve Reardon: It's not about avoiding criticism. It's about sustainable expansion, building the market by increas-

ing the player base, promoting lottery as a fun and healthy way to pique the imagination, indulge in the dream. Responsible gaming really does not conflict with a strategy of sustainable growth. They go hand-in-hand.

What else are you doing to increase productivity in the retail channel?

M. Scheve Reardon: Same-store sales growth is one measure of productivity. The other source of sales growth is expansion of the network, adding retailers. We are adding traditional retailers but our primary focus for expansion has been to add keno retailers. The Arkansas Lottery come online and that impacted sales of our Instant in-state lotto games at our Arkansas border. So we ramped up our focus on game categories that are not offered in the Arkansas market, like Keno. We created a new mix of promotions, creating exciting elements that are constantly being refreshed. We shortened the draw times to four minutes. We dropped an alternate game, Lucky Dough, in order to focus on straight keno. We toured with a team, including myself, doing personalized hands-on publicity with radio, TV, and newspaper backup. This was all done in the smaller communities where it made a big impression, drawing huge crowds, making high-profile news, and bringing awareness to how fun, fast, and exciting a game keno is. This was a consumer-focused campaign and brought in lots of new players. But it also had a huge impact on our channel partners. We saw huge growth in both participating retailers and also in new customers. We also worked with the Department of Revenue to ease the process of licensing. Then we streamlined the entire process, creating an informational and sign-up packet that makes it fast and easy for the retailer to start selling lottery products. So, retailer recruitment was a big issue last year.

You took lemons and made lemonade. Isn't it the case that a little adversity can be the catalyst to doing everything a little better, and perhaps doing a lot of things that might not otherwise have been done? It would seem that the things you did to attract new retailers probably motivated your current retailers too, improving same-store performance.

M. Scheve Reardon: Absolutely. Making the retailers feel like we are true partners, like we appreciate their reason for being is to run a good business and make money. One of the retailers from the Arkansas border called

to say they had lost \$60,000 in sales in just one weekend. He said, "doesn't anybody in Jefferson City care". I called him back right away. Of course, it was fun because he was quite surprised to have a real person actually call him back, and for it to be the executive director of the Lottery made it even more fun. We turned it into a PR opportunity, engaging the sales rep's, a team from our corporate office, and the local GTECH rep's. One thing led to another, and we put on a tour, garnering local news coverage for the store tour. We sold product in the store, we spun the wheel, I did live radio and we all had a great time and know that our retail partners also had a really great time. We are working hard to really connect with our retail partners, engage them in a healthier relationship so that they know we are a part of their profit picture and want to do everything we can to help them accomplish their goals. And honestly, it's working.

Are there ways in which your response to a specific challenge or competitive threat actually resulted in the discovery of new and better ways to operate that can be applied across other geographical regions or product categories?

M. Scheve Reardon: Yes, but we don't just replicate the promotional campaign from one place to another. We create new approaches that are tailor-made for each situation. For instance, we calculated the ROI of the Border Tour, that's what we called that campaign, to be more than 13 to 1. Hugely successful. So we thought, wouldn't it be great if we could just replicate that everywhere? Of course, it's not that easy. Circumstances vary from place to place and from one point in time to another etc. Right after that we launched our 'anniversary cruise promo'. It was the 25th anniversary of the Missouri Lottery so we teamed up with our mall stores to sell tickets inside the mall, just to do something fresh and new and to create an interactive experience for the consumers. We gave away prizes, did drawings, and tried to reach out to new consumer groups. We did that at four different malls and measured the return on investment to be 18 to 1. After that we did a Route 66 tour. Just trying to mix it up and create a more dynamic sense of fun. Learn from each experience, but look for ways to improve and customize each promotion.

Wouldn't successful campaigns like that produce a much bigger residual ROI that can't be measured? Increased brand aware-

ness, positive image for the lottery, exposure to new consumer groups, would all contribute to future sales, wouldn't it?

M. Scheve Reardon: First, I would agree that any kind of success does contribute to the overall positive image of the lottery and that hopefully translates into even more sales in the future. Right now, though, we are focused on a highly specific initiative that is tremendously important to the Lottery. And the results will be measured on a daily basis. That is the launch of "More, Bigger, Better" Powerball. We hope the success we have had with our guerilla-marking-style promotions over the past year has brought us some increased awareness that will support this launch. And we are taking what we learned and building on it this next year. For instance, we are doing a Highway 70 Tour the week of our \$2 Powerball launch. That will include many of the same promotional methods that were used to great effect in 2011, things like creating media events at malls and at retailers to sell tickets and create publicity for the Lottery. We will really get out in front with the kind of campaign that we know from experience works well. We need to stretch our advertising dollar, so we are doing everything we can to leverage PR channels to get exposure for lottery. Creating newsworthy events that are fun for the general public, giving away some prizes, and just doing things that enable us to call the media to cover us on radio and TV. I'd like to have our \$2 million in ad' money back, but the cutback does seem to inspire a new level of ingenuity and resourcefulness!

It seems that like all good leaders, you are using events like an ad' budget cutback, and the excitement and pressure of new product launch, to inspire a pressing sense of urgency and purpose in your organization.

M. Scheve Reardon: I think of it as more about inspiring a sense of community with our customers and our retailers. That's where the real payoff comes from. The retailers are just so shocked and amazed when they see how responsive the consumer is to lottery promotions that are well executed. We actually have to consider the logistics of traffic control because we have inadvertently created crazy congestion by some of our promotional stops. That's happened a couple times when we have live-radio promotions and prize give-aways. It doesn't really take much in the way of prizes to generate a huge amount of publicity, especially in smaller markets where

everything we do is newsworthy.

Getting the customers to come out to see us builds incredible good will with our retailers. Now the retailers want to know when we are coming so they can pitch in with their own promotional campaigns and join in the fun. We're creating the buzz around our products so that's good for us. But we're also creating buzz around the retailers' location and that is great for them. In fact, none of them have ever seen anything like it. Now they are all eager to make sure that our POS's are up and running. Of course, our sales rep's know that won't last without their constant attention. We won't necessarily maintain the high that happened at the time of promotion, but we do feel that there is a permanent increase in the level of commitment and attention that lottery enjoys at the retail level.

We increased our Scratchers facings in some locations from eight facings to 16 in the St. Louis and Kansas City area. We had one chain go from eight facings to 16 facing on both sides of the state which increased sales for that chain by \$3.2 million or 21% from the same four quarters the previous year.

You're doing this in spite of, or perhaps because of, a 25% reduction in advertising costs.

M. Scheve Reardon: We knew we could not sit in our offices and just orchestrate advertising and sales promotions to get the results we need. Not just because our ad' budget was cut, but because we have to get out from behind our desks and get out and sell tickets. This isn't a forty hour a week job. It is a calling, really, an exciting privilege to get out there and engage the public to remind the folks about all the good that the Missouri Lottery has done for 25 years for elementary, secondary, and higher education. And how much fun it is to play games that create millionaires. It reenergizes our customers, it reenergizes our staff, it stimulates those lapsed players and it brings in an amazing amount of new players as well.

The legislature gave us our number, \$267 million, in the beginning of May. At the time, we were just trying to reach the finish line of fiscal 2011, working like crazy to hit our number of \$259 million. To have our number increased and our budget cut at the same time could have been a morale buster. But our team rallied around our new mission, we put our heads together and decided that this will be done and now it's just a matter of doing it. We were energized, we enjoyed some

early small successes which inspired us to share our confidence and excitement with our players and retailers. And now I feel like we are all a mutual reinforcement society. To date, we are 8% over last year sales, 6% above our YTD target, positioned extremely well to take full advantage of the 'More, Bigger, Better' \$2 Powerball launch, and have a good pipeline of exciting products and crazy promotions to carry us to the finish line.

Your legislature explored the possibility of privatizing the lottery, or executing a form of private management agreement (PMA). Whatever became of those discussions?

M. Scheve Reardon: Many states are challenged by fiscal crises and are exploring ways to extract more value from the assets under their control. The Missouri legislature looked into the possibility of restructuring a long list of state-owned assets. The Lottery was just one of many on that list, and just one topic in a series of hearings. It was a brief conversation. We provided information as asked, as did one of our vendors. Nothing has been pursued. I can't say what will happen in the future, only that no other hearings have been held and no action has taken place.

Were you invited to express an opinion when the MO legislature was exploring management structure options, or the possibility of outsourcing a larger portion of the management of the lottery?

M. Scheve Reardon: Part of my job description as executive director is to research and explore trends that are happening throughout the nation and see how they affect or could affect the Missouri Lottery. Understanding the issues and how they affect an important asset that belongs to the state of Missouri is part of my job description. It is my responsibility to share whatever knowledge and insight may have been gleaned by my experience as executive director of the Lottery, and the study that I do to understand the gaming and lottery industry, and to be without political or personal agenda as to the recommendations I render. I did testify, though the hearing was brief. Of course, my primary duty as a public servant is to optimize the performance of the state's Lottery.

Do you think that the twelve years you served in the state legislature has influenced and perhaps informed the way you approach the job of leading the state lottery?

M. Scheve Reardon: Yes, definitely. I feel that I can relate to their concerns better for having served in that position. It can be hard to fully appreciate the kinds of pressure, and irreconcilable differences, and all varieties of challenges that legislators must deal with on a daily basis. As a result of my service in the legislature, I appreciate and respect what they do, I try to anticipate how our actions will affect them so that I can manage the Lottery in ways that are consistent with our legislative agenda, and ways that avoid undermining that agenda. And I try to translate the concerns of our legislature into terms that are understood by our team here at the Lottery.

As in helping your team to not be frustrated by the demands of the legislature, to not misinterpret those demands as being obstructionist.

M. Scheve Reardon: Right. Just remember that their job is to answer to a myriad of different constituents. So give them the information they need, the tools they need, to garner the support of those constituents, or in perhaps defuse the opposition of some interest groups. I hope that my years in the legislature help me to know how to frame the issues and answers in ways that help the legislators communicate effectively with their constituents.

On the other hand, I find it interesting that you have a rather aggressive entrepreneurial approach towards managing this business.

M. Scheve Reardon: Of course. It's never that legislators don't want results. They just don't want problems. So it is our job to give them results, and to do that without creating any problems.

Simple as that.

M. Scheve Reardon: The state lottery is a business. It operates in the same arena as other giant consumer products companies, and competes with those companies for a share of the discretionary dollar. We need to approach our business with the same level of bold aggressiveness as they do. We can make a list of 20 excuses as to why we can't do what private commercial companies do and why we can't accomplish our goals. Or we can take away those excuses, try to think outside of the box, try to think about how those for-profit entities position their product, how they market their product, how they

service and build relationships with their channel partners, how they deal with budget cutbacks. Do you think Jack Welch, or whatever corporate CEO you think of as a hard-driver, would have said “since we’re cutting your ad’ budget, we don’t think it would be fair to ask you to increase your sales”? We all have our challenges. The Missouri Lottery operates within a political system, but our legislature wants us to operate like a business to achieve our goals. And so we do.

Like other lotteries, the Missouri Lottery has sponsorship agreements with numerous different sports franchises. But it seems like the Missouri Lottery does more with their sponsorship relationships.

M. Scheve Reardon: That’s a really good question. I’m born and raised in Missouri, and a passionate sports junkie. Perhaps that is why I have enjoyed rolling my sleeves up and getting more involved in the process of working with our sports franchises to create new ways to add value to the collaboration. We had these sponsorship agreements when I joined the Lottery two years ago. But I have enjoyed digging into the whole business to see how we can take everything to another level. For instance, it costs nothing, and benefits both the Lottery and the sports franchise, and creates a newsworthy promo event, to recognize people in the community whose service or actions deserve to be honored. Our beneficiary is Education. So we now have a program to recognize a teacher, a hero in the classroom, every month. We create media events that loop in great teams like the Royals and the Cardinals, leverage the passion that sports fans have to bring attention to Education, and tie that in to the fun and excitement of our games. In college sports, the Missouri Valley Conference is a huge event. That’s all about a great four day weekend in March of basketball play-offs. The tournament is called Arch Madness after the St. Louis Arch. People come from all different states. We make sure the Lottery is a big part of the celebration and the whole PR machinery. The Lottery supports Education and so these teams and the institutions are happy to work with us, to help us promote the Lottery. And the Lottery is fun and exciting so it actually helps to promote them, our sponsors and their events, as much as it helps us. There is so much that can be done to integrate lottery into the fabric of popular culture and people

love it when we make the effort to do that. The main thing is that the Lottery has huge intrinsic value as a promotional tool. Our product is all about fun and excitement and so it is a welcome addition to anyone’s PR and marketing strategies. We think of retailers, sports franchises, our customers, our beneficiaries, and every citizen in the state of Missouri as our partners. Lottery can be the catalyst that brings us all together. The ways in which we can all help each other are limited only by our imagination.

And the excitement would be in overdrive for the World Series Champions St Louis Cardinals.

M. Scheve Reardon: Of course. The state of Missouri is one big full of Cardinal fans. Cardinals fan club. So we’ll use that affiliation to engage everyone in the Lottery, to bring everyone together, the retailer, the sports fan, the lottery player, the lottery sales rep’, the education community, to celebrate the Lottery mission and its service to the community and the great games we have for everyone to enjoy.

Extracting every ounce of value out of every asset seems to be your path towards making your numbers.

M. Scheve Reardon: Another example of stretching the advertising dollar is to use every consumer touch-point to promote the product. We wrapped vans with lottery promotional banners to create moving billboards. Though that is tricky because people follow us or come up to us when we park to get free samples. We advertise the lottery on all in-store terminals which costs us little to do yet promotes the lottery at the most critical time, the point of purchase. They’re great visuals, colorful and with our logo and current themes. And ITVM’s don’t just provide another POS. They too do double-duty as giant in-store displays.

The mission of lottery is to support Good Causes. In the case of the MO Lottery, that is Public Education. There seems to be a little confusion over how, or even whether, to integrate the public service mission into the marketing message. You seem to do it organically, like it is a part of all your messaging but only as a supporting actor to the main message of great products and community and other things.

M. Scheve Reardon: I come from a very strong fundraising background. It may sound

corny, but you and everyone in the organization has to be 100% committed to the cause, to really believe in it with all your heart. It makes all the difference. The business of lottery is to sell tickets and so in a way our business might seem to be one step removed from the mission of fund-raising. But why would we ignore the incredibly exciting mission that our business supports? Again, it is a tool to bring everyone together and so it would be a terrible waste to not use it. You are alluding to the fact that lottery players don’t buy tickets because the profits go to support Good Causes. So the media message of “buy lottery products because the profits go to support Education or Good Causes” is not effective. But our public service mission is a key component to a broader media and promotional message that focuses on fun and exciting products, coming together as a community, rallying around our common interests like sports, celebrating all of that and celebrating the fact that it’s all for a Good Cause. Of course it’s not the dominant buying motive for the lottery player. But like icing on a cake, it should be a part of all media messaging because it does make a really big difference to the overall relationship that lottery has with the community, the sports franchises, the lottery staff and sales rep’s, the retailers, and everyone involved in making it all resonate for the player. There is nothing more inspiring, there is no better sales pitch, than a genuine heart-felt belief in what you are doing. That’s why belief in the mission of Lottery is such an integral part of everything we do at the Missouri lottery. Plus, it just makes everything more fun! ♦