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PGRI Introduction: Collaboration is as much about finding common ground for agreement, overcoming differences, and creative negotiation as it is about marketing. My discussion with the Senior V.P. and General Counsel of the Georgia Lottery began with that topic, but ended up being much more about marketing anyway. We agreed that the main obstacle to collaboration is the vision to see the benefits, the reasons why Team Lottery should subject itself to the sometimes grueling process of working together to accomplish a common objective. We have no delusions to having the silver bullet solutions to anything. We do, though, have a shared passion for all that can be accomplished by Team Lottery with the will to collaborate on a national scale.

Paul Jason, Public Gaming: Before we get into the big picture of how and why collaboration between lotteries is really the new frontier that can reshape our industry, let's review some of the ben- nies to raising Powerball to \$2.

Kurt Freedlund: Collaboration has proven to be the most effective way, if not the only way, to generate the high jackpots in lotto. And raising the price to \$2 will definitely generate faster roll-ups. The thing to recognize, though, is that high jackpots have a super powerful residual impact on all the other products. High jackpots create excitement, attract media and consumer attention to the lottery, and result in higher sales in the non-jackpot games that the lotteries offer. That's not anecdotal observation, it is fact supported by the data that show a direct correlation of sales that go up in all product categories when the lotto jackpot gets high. The peaks, and the valleys too, go hand in hand. So the goal is to have high jackpots as frequently as possible because of that positive lift to all revenue streams. Unfortunately, now it takes about \$200 million to generate the excitement that not too many years ago we saw at \$50 million. But that too is being addressed by the "More, Bigger, Better" approach to the Powerball matrix. We hope and expect that the faster roll-ups will bring attention to the game above a threshold so that it never completely leaves the players' radar. Hopefully, the casual players will all be watching more closely on a continual basis instead of waiting for the media to announce a giant jackpot.

And hopefully the media will in turn get in step with their readers by giving ongoing coverage that will include the \$50 to \$75 million jackpots that will now be reached quickly and frequently.

Do some states benefit more from the Enriched \$2 PB?

K. Freedlund: I do not see why that would be. Really, we are all in this together, attached at the hip. Our objectives are aligned and we are in agreement on how to get there. In fact, it is important to each individual state that all the other states are maximizing sales. Maximizing sales in all markets everywhere is what will drive the jackpot roll-ups, increase consumer excitement, and, ultimately, increase sales. We're interdependent in that sense. That's why it is so important to collaborate on national advertising and promotion.

Think about the relationship that each individual lottery has to the national brands of Powerball and Mega Millions. It's really the same as an NFL franchise or a McDonalds, or any other franchisee of a national chain. Those national advertising campaigns need to be funded in some way, either by sharing among the franchisees or as part of the dues they pay to be a franchisee. The funding has got to come from somewhere. An NFL advertisement in L.A. is not doing anything for the Atlanta Falcons or Chicago Bears, but they still promote the brand nationally and they all share the costs. The McDonalds commercials appearing in New York don't do much

for the McDonalds in Texas. But that national branding and advertising is a vital component to the whole brand management strategy. They recognize that it is important to augment the local advertising with a nationally coordinated and consistent approach. Why is lottery any different than that? Why don't we look at it the same way? In short, lotteries have historically been concentrating on the direct sales advertising which is conducive to the local advertising approach, but now, with true national brands in Powerball and Mega Millions, lotteries need to include in their marketing portfolios the "national branding" approach as illustrated by the NFL and the McDonalds examples.

With the highest margins of any business in existence, it would certainly seem that funding should not be an obstacle. The ROI would be off-the-charts. Another obstacle, though, is that many lottery operators like to control all the messaging in their markets. And they seem to be skeptical that national advertising would accomplish anything different or better than what they could accomplish themselves.

K. Freedlund: Well then, just like anything else, we need to sell the benefits better. We need to articulate how doing a national campaign would contribute to their own individual in-state objectives; and why a national campaign does not need to conflict in any way with any and all in-state advertising and brand management agendas. Not only do we need to show how the in-state advertising is different from the

national branding campaigns but we also need to clearly demonstrate, however, how each is beneficial to every individual lottery. First, we do not need to make this into a theoretical discussion. We could start with just one good idea, one promotional concept that could be nationalized.

These might not be the perfect ideas, but let's just run some up the flagpole. One objective would be for a partnership to essentially offload all the costs of promotion over to our partner. That actually should not be hard to do since we have lots of ways to add value to a partnership like this. For instance, there is a show called 'Extreme Makeover: Home'. I'm not even sure where the funds come from to do the home makeover other than TV advertising revenues. But they fund the makeover of a needy person's home, showing before and afters, showing the process, and filming the person's excitement at seeing their home all refurbished. The appeal to the audience is to see how a home can be fixed up and, often, remodeled to better fit the family's needs. Also, the audiences get to share in the lucky recipient's good fortune at having all that done for them. Why couldn't lottery enter into a collaborative arrangement with the producers of 'Extreme Makeover: Home', such that the lottery bought a set of 'Makeovers' for some amount of money, say fifty 'Makeovers' for \$10 million, and built a national game around winning an "Extreme Makeover"? In return, the show would promote lottery products or at least the lottery's sponsorship of the show and the 'Makeovers'. A lottery player would be one of the lucky recipients of the 'Makeover', and, we could create it so that each lottery state would have a winner. I would think we could negotiate a really great deal with the producers of Extreme Makeover because lottery would be paying for the 'Makeover', or a portion of the costs! I would think they would be anxious partners and quite willing to promote lottery in a big way. To me, this kind of thing would be a double win. First, a great new game concept, something new and different for Brand Lottery. Something like this kind of a feel-good story is consistent with what lottery is all about; in fact, it creates a more expansive story that people can really relate to. Second, and most important, it would give us the kind of national platform that is priceless, way more impactful than any kind of conventional advertising we could ever dream up.

Or find a way to integrate lottery into reality shows. Maybe as additional prizes, or consolation prizes. Or maybe develop a whole new reality show concept that could include winners of lotteries. Instead of 'Keeping up with the Kardashians', we could have Lottery Millionaires for Good Causes and have a initial set of ten lottery winners engage in a televised competition

of some kind to win \$1 million for their favorite charity like the "Apprentice". Or maybe another \$1 million for themselves. Just flip the channels and you see that reality shows can be based upon anything. From "Toddlers & Tiaras" to "Cupcake Wars" the viewing audience is watching these shows. Whatever, the point is to just start thinking of non-traditional ways to secure a national stage for brand Lottery.

Here's another idea, why not include a coupon for a Powerball or Mega Millions ticket in a box of detergent. Maybe Proctor and Gamble or other major consumer marketing companies would even include that extra value in their own advertising, or with a little lottery logo on the box. That would deliver an amazing promotional value to Lottery. And it would cost us nothing.

I'm sure there are much better ideas that would come with a concerted effort to think creatively and open-mindedly about the possibilities. The point is that there is huge untapped potential if we have the open-mindedness and ingenuity to think them up.

That seems brilliant to me. Create a great new game. And a revolutionary promotional concept that would completely reposition Brand Lottery on the national stage.

K. Freedlund: What lottery can bring to the table is a game and prize structure. What the TV show brings is the actual show and all the costs and audience that go along with producing a show like that. We both have a business model that would derive huge value from a collaboration like this. It's a way for lottery to get its name and brand out there on a national level at no cost other than the prize, which the partner would pay for.

We all know that the effectiveness of traditional mass-marketing is diminishing. We're all looking for more clever ways to create viral marketing in the social media; or coordinate a non-traditional multi-media/multi-channel/multi-event marketing campaigns. It is similar to all of our baseball MLB collaborations. Except with something like Extreme Makeover, there would be a potential to leverage into multiple cooperative arrangements. All the commercial supporters of the show, companies like Proctor and Gamble, Sears, Home Depot or Loews, could all become brand licensing partners or do their own promotions that feature lottery. Lotteries are trying to do this kind of thing right now with their MLB and sports franchises, trying to add the second tier of partners to co-promote with.

Why isn't somebody exploring these kinds of opportunities?

K. Freedlund: They are, but for the reasons we have discussed earlier, there is not a groundswell of support at this time. Currently, the

exploration is starting to come from a few advertising/marketing directors who want the industry to expand into this area. If you recall, the start-up of the cross-selling initiative was in the end of January, 2010. Prior to launch, Gordon Medenica, a strong supporter of national branding, put out a request to all lotteries asking which lotteries wanted to contribute to a national Powerball/Mega Millions ad to be air during the Super Bowl which was to be played in the beginning of February. In all, four state lotteries signed up. Not enough participation to purchase national time during the game but enough to air it locally during the game. Gordon's attempt was a beginning, but it's just that there is so much more that can be done. Perhaps people assume that consumer brands do not want to affiliate with lottery, or assume that we can't get agreement between the different lotteries to work on this together. There may be some validity to those concerns, but that should not stop us from pursuing these opportunities. That's what entrepreneurialism is all about. Moreover, in the current economy, we are starting to witness more consumer brands reaching out to lotteries in an attempt to start to form partnerships. In Georgia, we are currently partnering with Waffle House in connection with the Atlanta Falcons instant ticket. Among the many contributions provided to us by Waffle House in this promotional partnership, Waffle House is offering a free waffle (a \$2.75 value) to anyone presenting a non-winning Falcons ticket. Also, it should be noted that we are providing no direct compensation or payments to Waffle House, only promotional consideration.

Maybe Good Causes would benefit by having this industry turned over to commercial managers who are more aggressive at opening the doors to new and creative ideas. I prefer to think that states can depend on their own lottery operators to do it instead. But we need to do it or step aside and let the people who will do it take over.

It's not just about co-promoting with TV shows or the big consumer brands. It's about raising our sights to deliver a better product to our customers, a better business model for our stakeholders, and more funding for Good Causes. Sometimes it seems like the idea that "we serve at the pleasure of our governor" is used as an excuse to abide bureaucratic stasis. We need to start being creative and trying to capitalize on the value of those brands.

Gamification is a concept that has gone mainstream with marketers. They all want to add an element of fun and games to the experience of buying their products. How does one 'gamify' the experience of buying a box of detergent? Well, you gamify it by putting a lottery ticket in there. That is such an interesting idea. It could result in advertising that could also be co-branded, as in "I went in to just buy a box

of Tide and won \$1,000 at the state lottery!"

K. Freedlund: Exactly. Marketers want to gamify because it engages the consumer. There are even business books out that talk about the "experience economy". It's not enough to have the best product. Consumer marketers need to create an engaging experience for the consumer at every level of interaction. The iconic example of how this works is Apple Computer. Apple is now the most valuable company in the world right. More valuable, at least at this time, than Exxon-Mobile, General Electric, Microsoft, than anyone. And they did it by creating a unique consumer experience not just with the way the products work or even the design of the products. It's about the whole experience, the packaging, the retail stores, the advertising that creates a feeling of being a part of a club, a community of the hippest, smartest people. Consumer marketers all want to re-create that kind of experience for their customers. And lottery can help them do it by gamifying the transaction. At the same time, lottery can also reach to recreate their image to be a community of the coolest, hippest, and smartest people, just like Apple did. There is nothing intrinsically exciting about the raw material that Steve Jobs had to work with. Our product is certainly as exciting as computers and phones. Likewise, with some imagination and ingenuity, we can strive to create a similar brand image and consumer experience for lottery. Also, let's never forget the one demographic that is more about gamification than any other; that portion of the population that every lottery is currently trying to tap; Gen Y.

Tangential to that is the consumer demand for player-to-player competition.

K. Freedlund: We think of it as player-to-player competition as it manifests itself in our gaming industry. So we are trying to create game concepts and platforms that create at least the feeling of player-to-player competition or social gaming. But this too has its counterpart in consumer products. Think about all the reality shows. What are they all about? Would we want to watch people go through the mundane tasks that we see on shows like the Apprentice or Survivor if it weren't for the competition? Or even shows like the dating and dancing shows - they would not be fun if it weren't a competition that created winners and the emotional engagement of people striving to win.

The idea is that all of us, all consumer marketing companies are trying to create a more engaging consumer experience. This has two broad implications for lottery. First, we want to stretch to create a more engaging consumer experience for our players. Second, we have a product that can help other consumer marketers enhance

the playing experience for their own customers. It's this second idea that I am focusing on. We could collaborate with these TV shows like the 'Apprentice' and 'Extreme Makeover', to further gamify their product, get national exposure for Brand Lottery, and reshape our own image as being in the exclusive club of the hippest, coolest consumer products.

I know it's all easier said than done. But so is everything worth doing. Nobody handed the highest market cap in the world to Steve Jobs on a platter. In fact, I don't know if anyone remembers back in 1996 when he was brought back and named CEO of Apple. Everyone thought it was hopeless, that Apple had tried everything and failed. If some of these ideas seem unrealistic or hard to figure out how we can make them happen, well, that's what all successful companies have had to face and they overcame the obstacles and made it happen. The ways and means of lotteries working together to create a national campaign to partner with TV shows and major consumer marketing companies is actually a pretty simple roadmap compared to what most companies have to do to reinvent themselves. Lottery does not have to do any reinventing. All we need to do is to join forces and expand our advertising, marketing and promotion ideas beyond our borders. We need to take advantage of the opportunities that are right in front of our noses. Sure it's outside of the box of what lottery has traditionally done. And it requires lotteries to all work together to accomplish a common goal. But these are easy things to accomplish compared to what our counterparts in the commercial community have to do.

This is quite an interesting vision. I am always struck by the oddity that funding is a challenge when the industry has such rich margins.

K. Freedlund: Why couldn't the lotteries just allocate a portion of their top marketing executive's time to serve on a committee that includes representatives from all lotteries? That would be a team of 44 marketing exec's from each of the state lotteries.

It's mind-boggling to imagine what amassing a team like that could accomplish.

K. Freedlund: And I'm sure there are a thousand reasons why it can't be done. And maybe it wouldn't include everyone in the beginning. But let's stop finding reasons why these things can't be done, and just begin somewhere at finding a basis for moving forward. Look at the way the commercial community collaborates with each other, and those companies are intensely competitive with each other. Apple, Microsoft, Cisco, IBM, Dell, HP, are all competing with each other, often even litigating against each other, but also, they recognize the value and strength

in collaborating with each other. Las Vegas casinos are cross-promoting with Atlantic City casinos. Major operators like Caesars Entertainment and MGM are co-branding with other hotel and hospitality groups. Commercial gaming interests are collaborating with Indian Tribal gaming to implement Internet gaming. And here we are, with interests that are aligned for the same public service mission, we have monopolies in each of our jurisdictions so we don't even compete, and we can't figure out how to take advantage of the huge potential for national campaigns that could completely reshape our industry. The first step might be to just convene an A-team of lottery marketing pros to create a short list of ideas. Maybe take it a step further to discuss the possibilities with the TV show producers and other major consumer brand marketers. Then pitch it to the lottery directors.

Have you discussed this with James Hutchinson (Georgia Lottery Marketing V.P.).

K. Freedlund: He's ready. Now, I can't speak for whether he agrees with the specific ideas we have been talking about here. But we have talked a lot. I do know that he agrees that we are missing huge opportunities and would like to work with his colleagues around the country to explore the possibilities. The recreational gaming world, and the entertainment industry in general, is changing all around us. We may have a monopoly as you point out. But what good will it do if the channels of distribution, the business model we operate on, and the products themselves become obsolete? Our competition sees this reality and are taking action to re-position themselves accordingly. Cross-sell and differentiating the games with Enriched Powerball are two important steps for the lottery industry. But for all the challenge involved in making those things happen, they are very modest beginnings. There is so much more that we can do and need to do. Our stakeholders and Good Causes depend on it.

The Internet too is all about collaboration, isn't it?

K. Freedlund: There's still a lot of people who think that internet sales is about selling Cash-3 tickets, or Mega or PB tickets, or personal scratch instant tickets. That's not what it's about. When you talk to someone like Buddy Roogow, you get to understand that it's about a whole new style of gaming that has as its focus not the 'hope and dream' of winning the lottery, but the impulse to share and compete and visit with other people online. Games like Farmville and Angry Birds have become Mobile and Internet phenomena because of the shared experience. You're winning prizes, points, and bragging rights instead of money. Viral marketing is really just a shared experience multiplied,

right? Two people sharing with four, and on and on. But this too is all about scale. And, like having the participation that builds big jackpots, building scale requires collaboration. Please do not misunderstand what I am saying. There will always be a player base for the traditional games focusing on “hope and dreams”, but the days of year-over-year double-digit increase in sales are over. There is so much more gaming competition today, and with a maturing player base the industry must broaden its offerings to attract the younger, and the hippest oldsters, to move the needle on growth.

In closing, I do want to acknowledge the tremendous pressure on lottery directors to avoid making mistakes of any kind. This is a risk-averse industry, and with respect to the

integrity and security our games, drawings and validations, it has to be that way. Lottery directors are rightly anxious to avoid doing anything that might possibly tarnish the brand, or upset the business model. But we are not talking about anything that would compromise that integrity and security of the gaming processes, we are talking about strengthening our brand on a national level. Can you imagine the security processes in place to safeguard the formula for Coke, or the regulations and procedures in the manufacturing process? Coca Cola wants to ensure that every time a consumer opens a can of soda, the product will have a consistent taste. Similarly, lotteries strive to ensure that players always know that they have a fair and random chance of winning a prize on an instant ticket,

or that a Cash 3 drawing is fair and random. The difference is, however, Coca Cola does not allow this security aspect of its company to bleed over into the advertising and marketing of its product. I notice that you’ve talked with others about a publicist whose job it would be to push out positive stories about lottery. I don’t know what the solution is, but it is definitely the case that the media always picks up negative stories about lottery and we do not see much positive press. Maybe it’s not the media’s fault for printing what’s given to them by people who do not support lottery. Maybe they just aren’t being given the other side of the story, the story of Lottery and the grand mission of a game that is fun, rewarding to the players, and benefits society and Good Causes. ♦