



Alice Garland

Executive Director, North Carolina Education Lottery

PGRI Introduction: Alice Garland helped start the N.C. Education Lottery in 2006, served as its deputy executive director for legislative and corporate communications during the Lottery's first five years, and was appointed to its top executive position in January 2011. Director Garland is also a member of the Executive Committee of the North American Association of State and Provincial Lotteries, the professional association representing the lottery industry in the United States and Canada. She also serves on the Development Committee of the Multi-State Lottery Association (MUSL), a nonprofit organization which operates Powerball on behalf of its member lotteries.

The North Carolina Education Lottery recently announced results for fiscal 2013. The real attention-getter was rocketing up to \$1 billion dollars in instant ticket sales in less time than any other state except for Texas and California, and those are states with triple the population base of North Carolina. I thought we all might want to know: How does a lottery achieve that level of market penetration in such a short period of time?

Paul Jason, Public Gaming: *Is there anything in particular that you could point to as being a key component to producing the tremendous success you have had in the Instants category?*

Alice Garland: Two years ago we clarified our goals, we put together a detailed plan to reach that goal, and we stayed with that plan. All of the different parts to that plan were inter-related. We

THE NORTH CAROLINA EDUCATION LOTTERY SETS NEW MILESTONE WITH \$1 BILLION IN INSTANT TICKET SALES

The North Carolina Education Lottery instant ticket sales topped \$1 billion for the first time ever in fiscal 2013, and ended the year with a five percent overall increase in its instant sales, as compared to last year. The Education Lottery, which just completed its seventh full year, becomes the 12th lottery to achieve \$1 billion in instant sales in a year. Only two others, the Texas Lottery and the California Lottery, reached the \$1 billion milestone quicker.

Instant games are the most popular with North Carolina lottery players, accounting for about 60 percent of all sales. Director Alice Garland attributed the lottery's achievement to a plan created two years ago to improve instant sales. The plan set the \$1 billion goal as a measurement of its success. "We knew that if we could grow our core product of instant games, then we could improve the overall performance of our lottery," said Garland. "We've been focused on this goal, so we're pleased to see how popular our instant games have become with our players."

The plan took steps to improve the overall portfolio of instant games and their prizes, to create more effective sales practices, including how instant tickets are allocated and then sold in stores, and to strengthen the advertising and marketing programs supporting instant games.

"You can see the new strategy at work in many ways," said Garland. "We create family of games such as the Bucks family – Junior Big Ol' Bucks, Lady Bucks, Mega Bucks and Jumbo Bucks – and the Week for Life series as core sets of games that are always in stores. We launch suites of games, such as the \$1, \$2, \$5, and \$10 Monopoly tickets, backed with advertising and marketing programs that support all price points at the same time, creating awareness of lower priced tickets that otherwise would not have been advertised. We distribute and display tickets in new ways to ensure higher profiles in retail locations. Altogether, it adds up to a new winning formula for our instant games."

The N.C. Education Lottery increased sales and earnings for the seventh year in a row. Sales as of June 30, the end of the fiscal year which began in July 1, 2012, were \$1.69 billion, up 5.8 percent. Based on preliminary, unaudited results, earnings grew

an estimated 4 percent. N.C. Education Lottery net proceeds are used for pre-kindergarten programs for at-risk four-year-olds, teacher salaries in grades K-3 with goal of keeping class size as low as possible, school construction, need-based college scholarships and grants, and digital learning initiatives. ♦



committed to a disciplined approach and to stick with the core building blocks of the plan even when some part was not working as well as we had projected. Too, it was largely a “failure is not an option” attitude that drove us to make it all work.

Lastly, it took tremendous teamwork within this organization to reach that \$1 billion goal. Virtually every department was fully engaged in the process. The game design group, sales, marketing, advertising all worked hand-in-hand to make this happen. And we couldn't have succeeded without the planning and implementation support of our commercial partners GTECH and Scientific Games. They both played an instrumental role in helping us to reach \$1 billion in instant ticket sales.

The Instant ticket plan must have become the cornerstone of your overall strategy when you were appointed to the top executive position back in 2011?

A. Garland: I was acting director prior to being appointed director, so I really started in the summer of 2010. It wasn't just me alone who decided to focus on Instants. Most of our management team were of the same opinion that the instant product had great potential and really needed more focus. We had a lot of internal discussions that included our vendors and we all thought that \$1 billion was do-able and we just needed to figure out how to get there.

It is interesting the way you just described how you stuck with the plan. I would think it would be challenging to stick with a plan when circumstances can change so much. Don't we need to be flexible and allow for dynamic evolution and updating and be able to modify the plan as new information and market feedback comes in?

A. Garland: That's true. You do need to be flexible, and the plan needs to enable updating and tweaking as new pathways to optimization are revealed along the way. But we committed to staying true to the core building blocks, to be sure that any changes did not compromise those core values and building blocks, and to even pass on opportunities to exploit short-term potential that did not integrate perfectly with our long-term plan.

The portfolio of Instants includes over fifty games. The goal is to optimize overall performance. It would seem that overall performance could be measured as the sum total of each of the games. In that sense, you could assess the performance of each indi-

vidual game, and allocate more resources towards those that perform well and less towards those that don't.

A. Garland: You could do that, but that's not what we did. One of the core building blocks of the plan was to avoid falling into the trap of looking at the individual games in isolation from each other. We think of the entire category as a Family of Games, managing the games as a product category. While the performance of everything in this business is measured from a variety of angles, the assessment of how each game contributes to our goals is never done in isolation from everything else. The focus is on the entire category as a whole, and how the games complement each other, mutually reinforce each other, and work synergistically to produce an overall result that is greater than the sum of the individual parts.

An example of synergy and optimization would be the \$5 crossword game we implemented to move into the extended-play market. We knew that a \$5 crossword was not going to be one of our better performing \$5 games. But we thought that it provided a great way to add variety to the portfolio of games and gave an option to the players who were playing the \$3 game. And we hoped that providing a \$5 option would create more appeal for the group of crossword games. So even though the \$5 game was not a top performer itself, we felt that the addition of the \$5 game contributed to the overall result of a 29% increase in average weekly sales for our crossword category. That is a good example of why our plan was to focus more on the product line as opposed to being worried about how well an individual game was going to do.

Our promotional campaigns were also organized around the Family of Games concept. What that meant is that we probably sacrificed a little bit in terms of individual game performance by not boosting the exposure of the hottest current game. But it meant that we were able to use advertisements to promote the entire Family instead of just one game. That's important because our advertising budget is limited.

So the \$5 crossword would not have made the cut if it were not part of a bigger plan to evolve and grow the whole category?

A. Garland: Correct. Too, a part of the general plan was to introduce the players to new price points, give the \$3 player the option to buy a \$5 ticket, and the \$5 player to buy a \$10 ticket, and so on. But it's important to provide a low entry-level price point

option for the new player.

What are some of the basic executional aspects that can make a big difference to the sales results?

A. Garland: We refined how we did our initial allocation games to the retailers, taking a much more customized approach to the initial allocation. That helped us accomplish two things. First, it kept the retailer from running out of stock on any of the new games in the first two weeks of a launch. Second, we avoided over-stocking the retailer with too many packs that would end up as stale inventory in their stores. Customizing that initial allocation has really gotten to a science where stores are getting just the right amount of initial inventory.

We also began to provide what we call 'dispenser inserts' which are the cards that capture the face of the ticket, but it's the size that fits the front of the dispenser. These dispenser inserts make it much, much easier for a player to walk in, look at the dispensers, and see exactly what games are being offered. And then finally we really have gotten better about developing a planogram for each dispenser unit size. Some are 12, some are 20, some are 26, et cetera. We revise that planogram each time we're having a game launch. That enables our players to walk into any store and quickly and easily find the games they want.

Our partners on the commercial side of the business always emphasize how a focus on basic execution can make a much bigger difference to sales results than trying to create the next blockbuster game. The notion that retail stores would not always have the right inventory would seem to me to be a low-hanging fruit problem to solve.

A. Garland: Absolutely. That is especially true with the core games, which now constitute 35% of our sales. The players need to be able walk into a store, look at the dispenser case, and see within a second where their favorite game is. And a ticket from their favorite game needs to be there.

It sounds like you're trying to increase the percentage of core games as opposed to non-core games.

A. Garland: Core games are what keep the players coming back. Let's say we have a new game that indexes at 150, which is obviously extremely good. The gut reaction might be to run the game again. But there's no guarantee that the reprint is going to continue to index at 150. The main thing is to maintain continuity to the core

games. There are many moving parts to the maintenance of a solid core game strategy and we need to stick to the plan. Despite the fact that some players look for the cool new bright and shiny game, it is important to stay focused on the plan, be happy with the results of the new game, and hope that your next non-core new game does as well.

Were there changes in prize structure?

A. Garland: We're always refining our prize structures. We want to make certain that we're providing the options and experience that meets the expectations of all the consumers. At this point we're just making small corrections. And any changes are done with the entire Instants category in mind, making sure that the prize payouts for each of our price points is positioned appropriately against one another.

For instance, this past year we increased the prize payouts on our \$1 games. We think that this small change contributed to a 9% increase in our \$1 games, which is bucking the trend of declining sales of the low price-point games in the industry. And we do not think the change kept players from moving up to the higher priced games. The NC Lottery started out with a mandated 35% return. That mandate was modified to give us more flexibility. But we have moved very slowly, very cautiously, and very methodically to ensure that we balance the prize payout with our net return to education. You know you can increase sales by improving the prize payout. That's easy. But that's not the goal. The most important thing is net return, and to manage it in a way that the net goes up at the same rate, or close to the same rate, as the sales are going up. And manage consumer expectations so that we preserve a sustainable long-term growth plan. That's what our mission really is.

What did you do differently as regards to advertising, game design, and promotion?

A. Garland: We have moved away from an advertising philosophy that focuses on specific hot buttons like high-price point tickets or licensed properties. Instead, we formulate campaigns that encompass the entire category and range of price-points, and create a series that has continuity. We also introduced a branding strategy unique to the instant products that we call Feeling Lucky. We changed our media purchase to give greater weight to those markets that we felt were under-performing. And for the first time, we introduced a licensed property as a Family of games with the Monopoly

games. We had a \$1, a \$2, a \$5, and a \$10 Monopoly ticket. That Family has done extremely well for us. We then reinforced that campaign by having what we call a Monopoly super-entry promotion. Players could go to our online players' club, the Lucke-Zone, and enter a ticket into the Lucke-Rewards program at each of the different price points, which earned them a super-entry into a drawing for \$1 million. This multi-prong promotion reinforces the Family category and hopefully inspires some of those \$1 and \$2 players to buy \$5 or \$10 tickets. And throughout the year we added promotional value to specific instant games by conducting second-chance drawings that were related to just that game. We did that with each of our four Monopoly tickets, with a \$20 holiday game, and with a Star Trek game. So not only was there a lot of different kinds of advertising and promotional initiatives, they were all inter-related and mutually reinforcing. It's that integrated approach that we feel enabled us to reach our goal of \$1 billion in annual sales.

You just started your rewards program, Lucke-Rewards, last year. How has it performed for you?

A. Garland: The rewards program allows players to enter non-winning instant tickets and all draw tickets to receive points to use in weekly and monthly drawings. Lucke-Rewards launched in October 2012 and we already have over 260,000 active accounts. The number of entries for a weekly drawing averages 130,000; for the monthly draw, it's 113,000. These results greatly exceed our projections so we are excited about the future of the players' club to create added-value for our players.

How important do you feel vending machines are to bringing in new consumer groups?

A. Garland: We have ITVM's and we also have vending machines that sell draw games as well as Instants. And in the last two years we've deployed another 158 machines for a total of 1,128 vending machines. I definitely believe that the vending machines brought in new players. But I also think the success of a vending machine depends totally on how well it is supported by the staff in the store. If the vending machine is not close to a counter where there's a staff person who can answer questions, it's not likely to be as successful. So we work hard to get optimal positioning for each of our vending machines.

Since Instants are growing faster than draw games for you, do you think the percentage of the portfolio comprised by Instants will continue to increase?

A. Garland: We really want to maintain that 60/40 split between the instant and draw games. It's important to maintain that balance for the health of the lottery, but it's really important to maintain the net return to our beneficiary – education. The draw games are important because they carry a higher margin than Instants, so we want them to comprise at least 40% of our total revenue. Too, we only have three in-state games and feel there is a lot of room to grow in the draw games category.

Your in-state draw game, Carolina Pick 3, is very successful, selling more than Powerball, which is quite unusual. Does it matter to you how the growth is divided between your in-state draw games and the multi-state draw games?

A. Garland: No. We'll take the growth and net funding to education wherever we can get it. But we did give extra attention to our in-state jackpot game, Carolina Cash 5. We put a multi-faceted plan together which included rebranding of the Cash 5 game, allocating more advertising to Cash 5, doing a cross-sale promotion with the Instants, and conducting promotional drawings for additional cash prizes. Cash 5 sales increased by 10% in FY13. We were very pleased with that since the trend line is for the in-state games to have trouble competing with the big jackpots of the multi-state games.

It sounds like you would like to have more multi-state games?

A. Garland: Yes, but only insofar as they can be differentiated. We need to broaden the base of consumers who play lottery. That is the way to grow responsibly. The way to bring in new players is to have a lot of diversity in the games. The core players may like to play the same games again and again. But non-players need something fresh and new to interest them in becoming players. Different price-points are important. But we need more than that to capture the attention of the less-frequent players and to get them to play for something other than the big jackpot. Better odds to win a smaller prize works well for our in-state games. I don't have the answer for those people who only play for the superjackpots. But the multi-state games still have tremendous potential and I am sure we will all enjoy continued growth in that space. ♦