



Gary Grief

Executive Director of the Texas Lottery

Gary Grief was appointed Executive Director of the Texas Lottery Commission in March 2010. As Executive Director, Mr. Grief oversees a \$3.7 billion enterprise whose mission is to generate revenue for public education and other good causes in the State of Texas.

design and implementation stage of the Lottery, and have since served in many different capacities, including Acting Director. How has the appointment to Executive Director changed how you manage the lottery? Does it enable you to conceive and implement longer term strategies and flesh out a more comprehensive business plan?

Gary Grief: There is a big difference between the roles of chief operating officer and CEO. As the deputy director, I functioned primarily as chief operating officer for many years and periodically assumed the responsibilities of the executive director, or chief executive officer. As chief operating officer, I have been fortunate to have had significant input into our long term strategies and business plans. So that's been a big help for me in making the transition to CEO. Our commission has now chosen to combine those functions into one position. I have found that the main difference between COO, or even Acting CEO, and CEO is that the external focus becomes mission-critical for the CEO. As deputy or chief operating officer, the focus really needs to be internal, working hard to lead the team to optimize performance and results. Of course, that also remains a top priority for the CEO. But in addition to that, the CEO is the face of the lottery to the legislature, to state leadership offices, the media, the lottery retailer, and the general public. Cultivating positive and mutually supportive relationships with members of the state legislature and the media is key. We must be extremely sensitive to a variety of constituents whose interests all need to be respected. Performance in our business is not just measured by total revenues, or even total funds delivered to good causes. It's ultimately measured by our ability to fulfill the expectations of the people of Texas.

My good fortune has been that I work with an experienced, top-notch management team, many of whom I've recruited over the years. I've worked with them all for a very long time and have tremendous confidence in their abilities.

They know my strengths and weaknesses better than I do. And our staff is second to none. I enjoy my job very much, and have the utmost respect for the people I work for and with.

Even though there is hardly anything you haven't done over the past 19 years at the Texas Lottery, it's still not the same as having ultimate responsibility.

G. Grief: That's true. I can tell you that, as second in charge, it was much easier to have strong opinions on everything. As executive director, you become more sensitive to the many different ways that things can go wrong. I know that might sound risk-averse, but a reality of our position is that the highest priority we have, from a business point of view, is to protect the brand and image of the lottery. Without that, nothing else will work out.

So the imperative to avoid mistakes is simply a lot more pressing than the challenge to achieve outsized results?

G. Grief: The answer to that, Paul, is that we must communicate with all of our constituents, especially our lottery commissioners, legislators, and the governor's office, to make sure that we are all always on the same page, clear on both the upside potential and downside risks.

In Texas, I'm fortunate in that many members of our legislature are astute business people, entrepreneurs who understand what it takes to market and sell a product. Our legislature is generally supportive of the lottery here in Texas and our mission to generate revenue for good causes. But that said, there will always be members who philosophically disagree with government being involved in the business of gaming. Those members typically stay true to their beliefs in their voting records and in their resistance to changing laws that might increase revenues for the lottery. And I am very respectful of those members who feel that way and of their position on the issues. My approach is to work closely with them whenever possible and provide them with as

As a 19-year lottery veteran, Mr. Grief has been an integral part of the success of the Texas Lottery Commission since its inception. Mr. Grief was appointed in 1991 by the Texas Comptroller of Public Accounts to the original eight-member Lottery Task Force assigned to research and launch the Texas Lottery. After the lottery start-up in 1992, Mr. Grief assumed the role of Statewide Manager of Claim Centers, overseeing 24 field offices statewide. After serving in that role until 1997, he accepted the position of Director of Lottery Operations. In 2002, Mr. Grief was appointed by the Commission to serve the first of what would be three separate terms as Acting Executive Director. He served in this capacity from September 2002 to February 2003, again from July 2005 to January 2006, and finally from October 2008 to February 2010. Between and after each stint as Acting Executive Director, Mr. Grief served as Deputy Executive Director until his official appointment as Executive Director in 2010.

Paul Jason, Public Gaming: *You've been acting director at various times over the 19 year history of the Lottery. You were even involved in the*

much information as we can just to help them make informed decisions. And then we'll follow the guidance those decisions ultimately produce.

The past and present chairmen of the state Lottery have been very astute business people. They either understand what it takes to run an enterprise like the Texas Lottery, or they quickly learn. They understand that the mission of the Lottery is different from any other state agency. They have supported an entrepreneurial approach, and have allowed for a certain degree of well-calculated business risk taking. For example, my current chairman, Mary Ann Williamson, has an oil and gas business background. Chairman Williamson is completely supportive of our efforts here in Texas to continually try new products and push the marketing envelope a little. That is combined with very clear expectations from her to execute on our business plan and communicate effectively in advance with all the interest groups involved including the legislature, the leadership offices, and the general public. It is critical to communicate clearly, get 'buy-in' from everyone, and then simply execute according to plan. There have been times over the years where we have pursued new and innovative games or processes, and we've encountered resistance from the public, the media, or from members of the legislature. We explain our position, why we recommend a certain course of action, and try to gain support to move forward. There are times that we needed to reexamine a course of action and a critical part of this job is to know when to do just that. A great team along with clear commission guidance, combined with my years of experience, helps me recognize those situations.

Your focus on transparency and proactive communication served you well in that unfortunate incident where a store clerk stole the winning ticket. (In the end, a large portion of the stolen funds was recovered and given to the victim, Mr. Willis.) The media seemed to recognize that the decision-making process of how to deal with a problem like that is complicated. You do not actually have the authority to disburse funds, even if it is to solve an unfortunate problem like this, do you?

G. Grief: Correct. This was a very unfortunate situation that occurred. However, the lottery is a creature of state law created to fund public purposes, specifically public education, and the policy regarding prize payments is set out in statute. Our statutes are clear in that a prize may not be paid more than once.

I noticed too that references to the importance of signing the ticket made their way into some of the

articles. Not that we need to have a bad thing happen for people to become aware of how it all works, but informing the media and the public at a time like that can be an educational experience as well.

G. Grief: Before this matter came to our attention, we already had a "sign the back of your ticket" message out to the playing public. This incident certainly highlighted and reinforced the importance of players signing the back of their tickets. We've continued to encourage players to do so. In response to media inquiries, that's the message we've conveyed and we appreciated this message being included in many of the articles written.

"Optimize performance" means more than maximize revenues and profits. Can you describe the relative priority of maximizing profits as compared with other objectives like responsible gaming, retailer security and consumer protection? What other agendas, objectives, and constraints drive your management decisions?

G. Grief: I liken it to driving a high powered race car, except as the driver I've got to have one foot on the accelerator and one foot on the brake at the same time. I've got twists and turns coming, and every once in a while I hit a big speed bump. The race car is the lottery itself. In our case, the Texas Lottery is a revenue producing machine that generates more than a billion dollars a year for good causes. That doesn't happen without "pedal to the metal" acceleration, and that is what we depend on from our vendors – GTECH, Scientific Games, Pollard, and our advertising agencies – to deliver. These vendors have incredible resources and capabilities and we definitely push them to the absolute limit in order to optimize revenue. Our lottery operator, GTECH, is contractually required to perform field marking services, instant ticket warehousing, distribution, and a wide variety of other lottery related tasks here, so we're constantly in communication with them regarding the needs of our retailers. Whether it's personal store visits, recruiting, equipment placement, ticket deliveries, etc., we expect our lottery operator to do an outstanding job in all these areas. And there's never any down time. Our lottery operator must understand that regardless of the day or time, our retailers and our players come first, and immediate response services are required in all aspects. It's no different with Scientific Games and Pollard. We issue about a hundred scratch-off games a year at every price point from \$1 to \$50. We use all the varieties of paper stocks, game styles, colors, prize structures, payout, etc. What this means for our ticket vendors is that

every week they are printing, packaging, and shipping tickets to our ticket warehouses. Any problems that interrupt this pipeline disrupt our revenue generation apparatus. That hits our bottom line, and in turn, the bottom line of our vendors due to our contract requirements. GTECH, Scientific Games and Pollard do great work for us. They move mountains on a regular basis to satisfy our 100+ instant games a year. My point in saying all that is to describe how our own in-house marketing and operational expertise work hand-in-glove with our commercial partners to push what I think of as the accelerator of our lottery machine.

When I talk about the brakes, I'm referring to the judgment that I have to use every day to ensure that the Texas Lottery is meeting our commitments to the legislature, our retailers and the citizens of Texas. We need to always operate our lottery with integrity and security and be responsible in the marketing of our products. Sometimes we need to hold back on the revenue-generating initiatives in order to stay compliant with these other objectives. For instance, like many states, we have a statute that directs us to avoid advertising or promotions that might unduly influence a person to play. Now, that's a broad statute to interpret. We choose to interpret it in a conservative manner. A former commissioner put it this way: about 1/3 of Texans support the lottery. Another 1/3 don't care one way or the other. And the final 1/3 didn't vote for it, don't like it, don't play it, and wish it would go away. Similar percentages probably hold true for our legislature as well. It's my job to pay attention and be respectful of all these groups, and be willing to apply the brakes even when others want to go full steam ahead.

Do you have an example of applying the brakes?

G. Grief: Our advertising agencies are very creative, always coming out with great ideas for instant tickets. It ultimately falls to me to be the one to recognize when an idea, a theme or play style crosses the line by being too enticing or perhaps offensive to someone. It helps to have a split personality for this job. On the one hand, we are continually pushing our vendors and staff to increase sales and generate more funds for good causes. Then, on the other hand, we advise them to be careful, be cautious, be conservative, be respectful. Don't market the product too aggressively. It's a fine line that we walk. And it's one that the director must be willing to walk alone. You certainly don't want your creative staff or your sales staff to be stymied by those types of issues. You have to thoughtfully lay out

the parameters for them to operate in and then let them go do their job. And do it enthusiastically, with a clear focus on revenue generation.

Let's say there was an advertising campaign or a game that just clicked with the players and outperformed in a way that totally exceeded everyone's expectations. Would there be an aspect in which people who do not support the lottery would say that by definition you unduly influenced people to play, as evidenced by the fact that it way outperformed expectations? Or are you okay as long as you can look at the advertising, the game, and everything else and conclude that while the game is hugely fun, there's nothing that conflicts with any of the limiting parameters? Producing a hot game is not in itself a violation of the directive to not "unduly influence"?

G. Grief: So much would depend on how well we did our job up front in informing our interest groups ahead of time. Any type of new game requires about a three month time period to get through our rule making process. During that time we typically have a public hearing where members of the public are able to come forward and offer testimony for or against the game, etc. We also use this time period to reach out to the legislature and state leadership. If the game is ultimately approved by the Commission, it is important that everything about the game was properly disclosed during this rule making process. If we were clear about how the game is operated, how it's played and marketed and advertised, then it is unlikely that anyone will have a problem if the game performs really well. The answer to your question is that the simple fact of a game being super successful is not in itself cause for critics to contend that we are not consistent with the statutes. That has not occurred. What has happened is that critics will claim that they weren't told the whole story. So we try very hard to give more information than necessary, as much as we possibly can, just to be sure we err on the side of caution and defuse that potential situation.

It occurs to me that one of the most important responsibilities of your staff would be to deliver bad news as quickly as they become aware of it. The sooner you get a heads-up, the sooner you can communicate with the commissioners and other constituents in a way that will minimize negative impact.

G. Grief: You are right on point, Paul. A critical aspect of staff's and vendors' performance is to bring these types of issues to the forefront so we can discuss them in advance. I have these types of discussions with my colleagues across the country. All lotteries are un-

der a microscope with intense media scrutiny, Texas even more so than many states. Lotteries are all held to the highest standards. Sometimes the criticism may seem unfair, but we need to appreciate that the lottery belongs to all the people, including its critics. So we welcome the opportunity to communicate with all of our constituents, including our critics. I find that our respect for the opinions of our critics, along with open and proactive communication with them, engenders respect for our integrity and that goes a long way towards overcoming any problems that may come up.

I'm sure it's too soon for projections of the impact of the addition of Powerball, but could you talk about how the introduction of Powerball has gone? Specifically, has it changed the way you manage the overall portfolio of the products, including your in-state lotto? And how you have minimized cannibalization.

G. Grief: I can't imagine any lottery director being happier about the introduction of Powerball than I am here in Texas. It's benefitted our players, retailers and public education funding in Texas. The cross-sell initiative is a concept I've been interested in for many years. Even though we have only had Mega Millions in Texas, the Powerball brand is very strong. Powerball has almost become the generic name for large jackpot lotto games. We have players in Texas who refer to both Mega Millions and Lotto Texas as Powerball. The excitement of Powerball has just been overwhelming. In my opinion, this cross-selling initiative is the "next big thing" that our industry has been waiting for. We're enjoying additional revenue, but much bigger in my mind is the synergy that's being created among the two multi-state game groups. That synergy will free us up to accomplish even more in the future. The incentive for state lotteries to overcome our differences and leverage our commonalities is overwhelming. With so many issues on the horizon; internet gaming, perhaps a "world game," the proliferation of "smart phones," coupled with the continued need to fund good causes around the country, I just believe it's critical that the US Lottery industry be unified and work together. The best thing about this cross-sell initiative is that it lays the foundation for individual lotteries to work together, building a future that will bring more success and funding to good causes.

It is exciting. We all know that each individual lottery has to comply with its own unique set of rules and statutes. But that still leaves lots of opportunity to work together. As states explore the different ways to increase revenues from lotteries,

they will likely consider expanding the variety of games and distribution channels. In some of the emerging spaces, like internet-based initiatives, there will be huge advantages to collaboration. In fact, if state lotteries do not collaborate, they will be vulnerable to competitors who are ready to pounce.

G. Grief: Of course you're right. Unfortunately, there are some barriers that make collaboration between state lotteries very challenging. However, they're not impossible to overcome, as we can see with the cross-sell initiative. States have varying degrees of latitude in their authority to make the kinds of decisions required for effective collaboration. You've got to realize that agreement in principle is the easy part. We can all agree, for instance, that it would be great to build a national branding component to our next premium multi-state jackpot game. I don't think anyone would disagree with that, but the devil is in the details. Every state has rules addressing even the smallest of details. But everyone's rules must be respected, no matter how minor they may seem. Everything from procurement processes, advertising and messaging, prize payouts, and the list goes on and on. Integral with any kind of multi-state agenda must be an abiding respect for the challenges that each lottery director or CEO must deal with on a daily basis to keep these multi-billion dollar enterprises moving forward. You know the directors, Paul. You know how hard each and every one of them works to deliver the very best results for their states and the good causes. So while we do want to challenge ourselves to stretch and perhaps step out of our comfort zones, we don't want to challenge the rights of our colleagues to make their own decisions.

That said, I certainly do agree with your premise, that the potential rewards in overcoming such obstacles far outweigh any of the issues that have to be worked out in order to get us where we want to be. And that means working together harmoniously on a national scale.

California, Illinois, and others are exploring creative new ways to optimize performance. Are there ways for a state procurement, an RFP/RFQ process, to build incentives into a contract that drive a higher level of innovation and creativity on the part of your commercial partners?

G. Grief: I believe there are. Speaking for the state of Texas, the way we compensate our lottery operator, for example, is on a percentage of sales. And that's very straightforward. But at the same time, we have numerous requirements for our vendors to provide marketing services and retailer sales support. I

can tell you from personal experience that our lottery operator and instant ticket printers are very motivated to come up with new ideas. And that goes back to a comment I made earlier. I would much rather be turning away nine to ten ideas a week and get one good one every month than have them not provide any input and just take the risk-averse approach. Again, the specific approaches vary by state.

So your lottery operator has the potential to make more money if they help you to increase sales?

G. Grief: Correct. Our philosophy is that we're not private industry. We're the State of Texas. Vendors certainly know how to incentivize their staff to generate revenue. We want to see your ideas. We want to hear your thinking. We want to understand it. We reserve the right to decision making in all areas, but we very much want our vendors to be incentivized for the success that they help create for the Texas Lottery.

Any thoughts on the Illinois private management initiative?

G. Grief: I try to keep abreast of what's taking place in other jurisdictions. And not just on their revenue, products, and advertising, but also the types of oversight structures that are being implemented or discussed. I have read the Illinois RFP carefully. I also read the DOJ opinion and my reading of it is that it is unlawful for a state lottery to be privately operated. My reading and understanding of the proposed Illinois private management plan is that there won't be any ownership or transfer of authority from the state of Illinois. The state retains the rights to make whatever management decisions they choose to make. They avail themselves of the drive and creativity of the commercial management partner, but still have their foot on the brakes ready to assert their authority in the event that the interests of the public are not being served well. I would tell you that just strikes me as being somewhat similar to the outsourcing that we're already doing here in Texas.

Illinois, as I understand, is putting their on-line operation, their instant ticket printing, and their advertising all into one RFP and it is expected to be awarded to one management firm. That's different from what we do because we have separate contracts for the different business categories of on-line, instants, and advertising. But other than the fact that we choose to let multiple contracts to cover the different business categories instead of bundling them into one contract, I believe that what we do is quite similar. In both situations, we're outsourcing as much as we reasonably can. We think this is the best way to man-

age a profit-generating enterprise like the lottery. We outsource and then demand the very best in technology, marketing, printing, advertising and every other aspect of performance from our commercial partners. However, – and this is important – it remains our job as the state lottery to either accept, modify, or reject those ideas. In other words, our job is to oversee the work of our vendors. It really is a win-win for the state. Further, it mitigates our revenue stream risk. It gives us more flexibility to respond to our market. It allows us to completely bypass the need for capital investments in staffing, facilities, equipment, communication networks, all manner of business functions and infrastructure. Those assets have value but the Texas Lottery would rather be asset-lean and let our commercial partners handle the job of capital and asset management. Our vendors have more flexibility to pursue a financially incentivized pay structure than does a state government office. We get real-time access to the industry best practices because our vendors have a world-wide presence and brain trust informed by that experience. That knowledge and expertise would cost us a fortune to try to replicate in-house, if it were even possible. All states outsource many of the operational duties. We just do it more than most states, including, for instance, the field sales force.

My point is that our experience with outsourcing more operational functions than most leads me to believe that extensive outsourcing is a very effective model. It gives us the benefit of all that a vendor has to offer while preserving control and oversight for the state to exercise as it sees fit.

Is private enterprise more entrepreneurial, innovative, and efficient than state agencies?

G. Grief: Private companies are, by definition, market and profit-driven. They live by the rules of free market capitalism. Their culture and pay structures reflect that focus. State government lives by a different set of rules, with different objectives and a culture that reflects the focus on public service. Might an overtly profit-focused culture that has financial incentives to drive innovation produce a different result than a state government agency? Of course. A lottery lives in both worlds, though. That's why we outsource much of the operational aspects of the business to private enterprise and retain oversight and strategic control in the public domain. But let's not forget two things. First, as Jodie Winnett of Illinois points out, the employees of state lotteries are a most dedicated and talented team whose role and contributions are no less effective or important as those performed by

employees of corporations. Second, I think the question of who is more efficient or innovative between state agencies and private corporations is misguided. It is the synergy between state government and private enterprise that produces a successful and optimized state lottery. We both have our roles to play and they are equally important. All state lotteries are implementing what they feel is the best structure for them, and they are striking their own preferred balance between outsourcing and government control.

My recent interviews with Joan Borucki, Jodie Winnett, and Bill Thorburn, and now with you, all contribute to a clearer understanding of how owner – management structures can take many different forms. The controversy over "privatization" has really been a false dichotomy, framing the issue as one of government versus private enterprise.

G. Grief: I agree. My experience with our lottery vendors is that they genuinely embrace a broader set of objectives than simply profit and maximizing shareholder value. They strive to perform in ways that we can all be proud of and feel good about. They recognize that the gaming industry is under intense media and public scrutiny and so there is a critical need to make sure we perform to the very highest standards of integrity. Our lottery vendors have embraced that aspect of this business and helped us to maintain that high standard of performance, transparency, and integrity. Of course, we all recognize that it ultimately is just smart business, and best for their shareholders, to perform with integrity and an idealistic sense of mission and purpose. That is what makes government lotteries such a uniquely special enterprise, operating in a rough and tumble commercial environment but for the purpose of serving the public and good causes.

You must have a wonderful network of friends after nineteen years in the industry.

G. Grief: It's true. In my role as deputy director and now executive director, I have had the privilege to work with many of the other lottery directors and their top staff from all around the country. It is an honor to be counted among this group. It's not just the caliber of talent, the dedication and energy they all pour into their missions. It's about taking ownership and responsibility to lead in these times of change, challenge and great opportunity. It is very uplifting and motivational to be a part of the community of lottery leadership and I very much look forward to ongoing collaborations with my colleagues in the future. ♦