

PGRI Introduction: With sales of over \$567 million (representing a 6% increase over 2012), fiscal 2013 was a record-breaking year in every respect for the Washington State Lottery. Being a resident of Washington state myself, I had direct exposure to many of the changes that the WA Lottery implemented over the past couple years. Lottery products being sold in Tribal convenience stores. Creative Scratch game promotions like Cats vs. Dogs. Buses and billboards asking “What would you do?” Twitter campaigns with the hashtag #ifiwon. My discussion with Bill Hanson and his team at Lottery headquarters is broken down into three topics. First, collaborating with an odd industry bedfellow: Tribal Gaming. Second, how the WA Lottery Department of Imagination is driving creative new ways to bring in new consumer groups. Third, restoring the perception of value and top-of-mind awareness for lottery jackpots.



Bill Hanson

Executive Director, Washington Lottery

FORGING COLLABORATION WITH TRIBAL GAMING

Paul Jason, Public Gaming: *The Washington Lottery has developed a cooperative relationship with Tribal Gaming operators. How do you weigh the pros and cons of collaborating with an industry sector that some might view as a competitor to Lottery?*

Bill Hanson: We think there is only an upside and no downside for us to collaborate with the Tribes. There are twenty nine Tribes and thirty-two Tribal casinos in the state of Washington. They are a powerful force in the market, and they are a powerful political force. It makes sense for us to try to work together with the Tribes, to explore ways that we can grow lottery revenues by cooperating with the Tribes in the market-place.

At first, some of the Tribes viewed us as a competitor. We never looked at it that way and have succeeded at establishing a mutually supportive relationship with many of the Tribes. We sell lottery products in their convenience stores now, and

we are in discussions to develop cross-promotional strategies.

What is the position of the Tribes and the Lottery as regards to internet gaming?

B. Hanson: That's simply - our state statutes do not allow us to sell over the internet. So the entire question of internet gaming is not an issue with us. And frankly, it does not appear to me that lotteries that are currently selling over the internet are generating much in the way of sales anyway. And the Tribes are quite adamant about Lottery not being sold over the internet. So for the foreseeable future, I would have to project that collaboration with Tribes represents in the land-based channels represent a far greater sales opportunity than selling over the internet. And as our relationship with Tribes evolves, we are both learning to appreciate that there is complementarity between our two consumer groups. That is to say that Lottery players may play in a casino, and casino players may play the lottery, but it's not as if the consumer allocates funds to Lottery or casino in a zero-sum trade-off. The consumer wants options and so it is in the merchant's best interest to try to give the consumers what they want. Lottery and Tribes both realize that and so are very optimistic about the synergy we can create by working together to give the

consumers more options. For us, that means more retail outlets to buy lottery products.

Too, we are all recognizing that as the increase in gaming options creates more and more market fragmentation, it becomes strategically important to form alliances that will help us expand our footprint in the marketplace, and keep Lottery top-of-mind with the consumer. Tribes view the private card rooms as being more directly competitive with their casinos, so they turn to us as the more complementary product category to partner with. The Tribes benefit by aligning with Lottery to provide their customers with a broader variety of consumer options. We benefit by creating new points of consumer access to buy lottery products. Not only does the increased consumer convenience contribute to sales, but in this case it is giving us exposure to new consumer groups which may not have played lottery before.

It occurs to me that Tribal land is sovereign and so technically is not a part of your state, your jurisdiction. That isn't an obstacle?

B. Hanson: It is not a difficult obstacle to overcome. The legislature and the office of the governor told us what requirements we needed to meet and how to do it in ways that complied with all laws and regulations and such. The Tribes simply pass a resolu-

tion to allow us to do business together. It is all pretty straightforward, nothing complicated or gray area. I am proud of our WA Lottery team and our political constituents for working this all out to enable us to do business with the Tribes.

Our relationship with the Tribes has evolved quite nicely. For instance, the Tribes have an association for just those people who operate convenience stores on Tribal land, and the Lottery is very involved with that association. It's exciting.

How did you initiate this kind of cooperative relationship?

B. Hanson: It is a team effort, all of us reaching out in different ways through our own channels and contacts. I participate in what's called the "Centennial Accord" meeting which is where all the Tribes gather with the Governor and the directors of the state agencies. It lasts the entire day.

And you work the room.

B. Hanson: Exactly. I talk with the attendees, tell them about the deals we have struck with their peers in other Tribes and ask them if they would be interested in working with us to promote Lottery. I like dealing with the tribes. They have their business objectives just like our retailers do and just like the Lottery itself does. You just have to recognize that you are dealing with an independent nation. They happen to be located within the boundaries of the state of Washington, but jurisdictionally they are independent and that does have commercial and contract implications.

Are you collaborating in ways other than selling lottery products in the Tribal convenience stores?

B. Hanson: We are exploring lots of different ideas. For instance, a couple of years back we did a poker ticket with one of the Tribes that brought the player to the Lottery for a second chance drawing. The second chance drawing gave the player the chance to get into a big poker tournament. We are currently working with a specific Tribe to develop a Scratch ticket that will provide a second chance opportunity, entrance into a slot tournament. And again, the second-chance draw gives the player a shot at a big slot tournament.

It must be nice for your legislature and governor to see how their Lottery and the Tribes can play so well together. The state

of Washington has very strict laws that constrain your ability to grow the Lottery, so you really need to be resourceful when it comes to driving sales growth.

B. Hanson: Our State Constitution includes some very clear language spelling out very specific constraints as to how public funds can be used. For instance, the Hoosier Lottery just did an interesting promotion in which they gave away some Mega Millions tickets. That seemed like a powerful way to get media attention and consumer interest. It turns out we are not allowed to give away tickets like that. Even though it would in no way impact the general budget, or anyone's budget including our own, we are restricted from doing that.

And legislators object to advertising that they deem to be too promotional. All states have their restrictions, but the state of WA seems to have even more finicky oversight than most.

B. Hanson: I don't think I would put it that way. But we do have restrictions and do need to comply not just with the letter of the law but also stay consistent with the political will of the legislature and governor, which is always going to be responsive to the will of the general public.

And the will of the general media, which can be hostile in an arbitrary and capricious way not necessarily consistent with the will of the public.

B. Hanson: That's the nature of this business and it's our job to serve the interests of the state in the best way possible. The Lottery serves at the direction of the legislature and the governor. That's who we work for. We are very proud and honored to serve and thankful for their guidance.

Thinking Differently about Lottery: The WA Lottery Department of Imagination

Your "Department of Imagination" has been spinning out lots of great ideas! What exactly is the mission or charter of the Department of Imagination?

B. Hanson: We decided to separate the consumer profile into three categories. There are those that will never play. There is no reason to try to appeal to that group because you won't succeed at getting them to play, and that's fine. Then there are the core payers. We continue to serve them, allowing them to stay in their comfort zone with the products they know and love. Then

there is the large group of what we have dubbed "Neutrals." This is the large mass of consumers who have little or no opinion of lottery one way or another, neither positive or negative. But Lottery is just not on their radar and so they don't play, or do not play very much. This is the group that we wanted to connect with. Creating that connection was and is the mission of the Department of Imagination.

The trick of it being how to engage the Neutrals. Your Twitter campaign of "#ifiwon" has garnered lots of fabulous press attention. The Twitter and Google-spheres are bursting with all kinds of enthusiastic response from consumers who have great ideas for what they would do if they won the lottery.

B. Hanson: It's one example of what we are trying to do. The mission of the Department of Imagination is to broaden the appeal of lottery, to tap into a wider variety of consumer buying motives. The core players have the "In it to win it" motive. Of course, there is nothing wrong with that and that in itself is rich with potential to appeal to all the ways in which lottery can change your life, or change your day, enable you to help your family, or free us from obligations or constraints, and otherwise appeal to all those things that money can buy. Nothing wrong with that and the bulk of our advertising and marketing resources continue to address those kinds of motivations.

It's just that we need to broaden our appeal. The Department of Imagination is premised on the idea that the Neutrals are motivated by things other than money and what money can buy. Of course, even Neutrals harbor the hope and dream of a life-changing event that Lottery makes possible. That appeals to everyone. But we need to access other buying motives in addition to the 'hope and dream' in order to capture their attention and inspire them to actually play the lottery. #ifiwon refers to the dream of winning the lottery too. It's just that the cornerstone to this campaign is the aspect in which people can use lottery as a tool to enable them to share their hopes and dreams with others. Look at how we use Facebook. There is a tremendous human drive to share our thoughts, feelings, and aspirations. Talking about what you would do if you won the lottery is a wonderful pretext for sharing your hopes and dreams and aspirations, for sharing who you are and what you care about with your friends.

Your Cats vs. Dogs Scratch game is brilliant. (See walottery.com/catsdogs.)

B. Hanson: It too is part of the mission to engage new consumer groups with its appeal to the massive social networking trend and impulse to share. This is a promotion that allowed Washington state pet lovers to submit photos of their own furry friends to appear on a new Scratch ticket. The “Cats vs. Dogs” Scratch contest launched in July, and the winning photos – six were chosen by popular vote – will now be printed on \$2 Scratch games in December.

That is the Holy Grail for Lottery. Bring in new consumer groups. And the way to do that is to connect in new ways, tap into new play-styles and buyer motives.

B. Hanson: We feel that cracking the code of the Neutrals does represent the best opportunity to increase sales. Lottery already generates some \$70 billion in sales every year in the U.S. That is pretty massive consumer appeal, and represents a high level of engagement with a large cross-section of the population. Now we just want to move the needle on those Neutrals, inspire them to play a little more. Connecting with this huge population of Neutrals could be transformational.

You have also targeted the goal of optimizing that “zero moment of truth” at the POS, those few moments when the consumer is in the retail store and is deciding whether or not to buy a lottery ticket.

B. Hanson: One of the things that we discovered relates directly to the behavior of this “Neutral” profile. By definition, this group is much less likely to budget for lottery purchases like the core player may do. If they intended to buy a ticket and they walked into the store and forgot, or if for whatever reason they neglect to buy, that is a lost sale never to be made up again. They are not coming back, and they are not going to spend more on their next purchase to make up for it. That is why it is so vital to convert that impulse to buy into a sale right then and there.

Enter your Jackpot Awareness program, especially as it applies to POS materials and signage.

B. Hanson: Cross-sell has given us the opportunity to constantly promote huge jackpots. Between Mega Millions and Powerball, we now have fabulous jackpots to promote all the time. The thing is, though, it takes more promotion to impact consumer behavior. With

jackpots now routinely over \$100 million, and even exceeding half a billion dollars, it has become more challenging to leverage the big jackpots into big sales. To be sure, we can’t promote the big jackpot as if it is an unusual opportunity that the player must take advantage of right now because it may not come around again for a long time. That’s simply no longer true and does not get the rise out of the consumer like it may have a few years ago. The consumer knows full well that if they miss this draw for the \$200 million Powerball, that’s alright because there’ll be an equally great opportunity to buy Mega Millions next week. We feel that we need to take a different approach, and acknowledge that big jackpots are not the unique event they may have once been.

The good news is that winning a \$100 million jackpot is in fact no less life-changing now than it was ten years ago, right? The consumer perceptions of the jackpot games have changed. The frequency and size of the jackpots has caused the consumer to, in effect, devalue the jackpot. But the reality is that the capacity for \$100 million to transform your life has not changed. So we want to recast our marketing approach to a more temperate “top-of-mind” objective as opposed to constantly trying to create an unrealistic level of excitement over the high jackpots. Our messaging focuses now on maintaining consumer awareness.

That theme drives all aspects of our marketing and messaging. But the place where it had most impact is at the point of purchase. That’s where the awareness could be instantly turned into a sale. We installed new signage in 30% of our stores. Those stores posted an average of 8% lift in sales. We attribute that sales increase directly to the jackpot awareness campaign and more specifically to the signage that delivered the message. We calculate the payback time on the investment in that signage to be less than 12 months.

So are you installing signage in the other 70%?

B. Hanson: Retail stores are not all created equal. Some have more foot traffic than others and that has a big impact on the ROI of an investment in signage. There are other factors impacting decisions of how and where to invest. But yes, we are upgrading the signage in most of the stores. Some may have smaller versions to be more cost-effective where foot traffic may be lighter or sales potential otherwise limited.

The tremendous impact that the signage ini-

tiative had in the high-potential stores prompted us to expand on that and implement what we call the “Edge Program.” This is what we call our effort to identify additional things we can do to hit super-ambitious goals in the area of Retail Optimization. That is, getting our good retail stores to be extraordinary performers. We’re putting the stores on steroids when it comes to the lottery – expanding and upgrading the amount of POS, getting the retailer engaged in lottery and selling our products. It is a combined effort with the store owner/managers. We are projecting to see a 20% increase in sales in these stores once we get everything implemented. We just started this last month, so it is too early to report concrete results.

The Washington Lottery also has one of the highest penetrations of vending machines in the country.

B. Hanson: It’s all about Retail Optimization. That is what makes or breaks this business. Retail is our face to the consumer, it is the point at which our biggest impression is made, where our most impactful messaging takes place, where the consumer sees the product, and where the consumer buys the product. For us, investing in Retail Optimization is the most predictable way to get the best ROI. And we are constantly amazed at how much room there is for improvement and innovation, and at the impact that we can have on sales by just focusing on optimizing performance at retail.

Vending machines are very important for key strategic accounts like the Safeways, the Fred Meyers, the QFC’s of the world. We have found that dual placement of vending machines in these high-volume stores produces a big lift even when the machines are side-by-side. I should emphasize, though, that we always push for over-the-counter service. Vending machines do not replace the level effectiveness that clerk-assisted sales produce. But vending machines are a very cost-effective way to increase consumer access to Lottery, to give the consumer more options on how, when, and where to interact with Lottery and buy lottery products.

Collaborating with Tribal gaming and chain retailer stores, creating socially-networked promotions for traditional lottery, and expanding the retail footprint for lottery products – it sounds like 2014 will be an even bigger break-out year for the Washington Lottery! ♦