



Rebecca Hargrove

President and Chief Executive Officer
of the Tennessee Education Lottery Corp.

Member of the World Lottery Association (WLA)
Executive Committee

PGRI INTRODUCTION: The events of the past couple months are converging with trends in the government lottery business in most interesting and wonderful ways. The DC Lottery's entry into Internet gaming combined with the banishment of the illegal operators from the U.S. market will hopefully be the catalyst for legislators in other states to expand government-sponsored gaming. Consumer trends are driving other changes in play styles that pose new opportunities for lotteries to expand their businesses. Effective leadership is creating a collaborative spirit that promises to unlock the collective power of lotteries working together to achieve shared objectives. This more dynamic marketplace will require much more rapid adaptation for operators to keep up with their customers and the quickening pace of market and technological change.

I asked Rebecca Hargrove, CEO of the Tennessee Lottery (and renowned industry veteran who has successfully led the start-up of three different lotteries), whether the leadership of lotteries is prepared to adapt to a world in which lotteries are challenged to expand into new gaming spaces, new channels and media, and in some ways, entirely new ways of thinking about the business we are in. Adapting to rapidly changing regulatory and competitive gaming landscapes is just the beginning. Industry leaders don't just adapt. They lead. I was frankly surprised to find that this issue is front-and-center. Enter the "Emerging Leaders Program", an executive development program implemented first in the Tennessee Education Lottery. This program is described in an excellent article that appeared in NASPL Insights (see www.naspl.org). The following discussion with Rebecca attempts to drill down and explore in more detail some of the challenges of preparing the next generation of lottery leaders.

We also address the issue of how to grow the lotto brand games. Over the past decade or more, the growth in the traditional lottery games has all come from instant tickets. One reason for that is because Instants have a higher prize payout percentage than lotto. But that's the very reason why lotteries are trying to reinvigorate

growth in lotto. The higher margins delivered in the lotto category translate into more funds for Good Causes. So let's start with that.

Paul Jason, Public Gaming: *Lotto has been in a slow but steady decline for over ten years now. Does everyone agree that continuing on the same track is simply not an option?*

Rebecca Hargrove: I think everyone would agree that continuing the status quo is not an option. It is imperative that we change our approach. There is certainly lots of room for discussion about what that change needs to be. But I think that everyone would agree that change is necessary or lotto will continue to decline. I think everyone is quite aware that most lotteries have been trying for years and years to come up with an approach that would reverse the negative trend line. Generally, this effort has been unsuccessful thus far. Some promotions and games have worked better than others, but nothing has proven to be a sustainable solution to the current state of affairs. What we need is to reignite growth in the lotto category. And we're determined to get there, even if we haven't done so quite yet.

Players have been migrating away from the in-state lotto games over to the multi-state lotto games

like Powerball and Mega Millions. Why?

R. Hargrove: The lotto brand games thrive on jackpots. Big jackpots most especially. Only the very largest states can generate the sales to propel the game into those high jackpot ranges that create the huge consumer excitement that drives more and more sales that in turn create more excitement until the jackpot is finally won. But you don't get that positive feedback cycle until you have a large enough jackpot. A certain critical mass has historically been necessary. The first year of cross-sell has not had the jackpot run-ups that it is statistically destined to produce, so sales weren't as high as they could have been. But we can be confident that over time, the laws of probability will prove out and the jackpots will migrate to the norm as the number of draws increases.

Everyone agrees that the jackpot games need a lift, an innovation to reignite growth. I would think it should be much more than that. We should be pursuing a strategy that includes a more comprehensive approach towards collaboration on all fronts, a long-term strategic approach towards national brand management, and development of an even broader portfolio of multi-state games. I see the raising of the

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ticket price to \$2 as being the most elementary step within a much more ambitious long-term development strategy. I can't imagine that raising the ticket price of Powerball to \$2 could do anything other than result in a sales increase. The number of tickets sold may decline, but it's inconceivable that they would be cut in half. And the players who preferred the \$1 game can always play Mega Millions or an in-state \$1 game. Why would anyone not support the ticket price increase of PB to \$2?

R. Hargrove: First, not everyone buys into your grander ambitions for the industry. Still, that should not mean that they can't recognize and appreciate the logic of a very specific initiative that would, as you say, undoubtedly result in a sales increase.

Some states derive a higher percentage of their sales from Powerball, and so they can't afford to make a wrong decision on this. And are small states taking a bigger risk than big states?

R. Hargrove: States that have a higher percentage of their sales in Powerball will benefit the most from increasing the ticket price to two dollars. Lotto is a liquidity-driven game. Lots of players must participate to build those high jackpots that drive sales. And remember: lotto yields a higher margin for lotteries. That's the business model and it's critical to this analysis. An increase in lotto sales produces more funds for Good Causes than the same increase in the top line of instant tickets-- or the top line of any other gaming category currently in existence, for that matter. That's why we need to focus on growing this category. The logic of the industry, and the public purpose we serve, demands it. And what if such an approach kicked in the kind of result that so many of us think that it would? We think the outcome would likely produce as much as a 7% or 8% increase in sales. What an incredible boost for our beneficiaries that would be! This is a great industry and we're all dedicated to our mission of supporting Good Causes. But we must address the market place and respond to our growth needs. Only in this fashion can we serve our mission to its fullest. Of all the new games and promotions that lottery directors take a risk on every month, year after year, typically with mixed results, raising PB to \$2 is as low-risk as it gets. Sure, it's a big change, so it's right for directors to expect the highest level of due diligence. But the due diligence has been performed again and again. What we've found it that that there is no real risk in going with this proposed change.

It would seem that there is an element of risk with any kind of change, but the application of a

risk-assessment model that isn't completely broken would yield a resounding thumbs-up on the proposal to raise PB to \$2. Let's move onto another area ripe for collaborative progress. Nationalization of brand management, advertising, and public relations to support the growth of products that are sold nationally. That would seem necessary for the development of additional multi-state products.

R. Hargrove: And what products are those multi-state products? They're lotto brands, not instant tickets. Like most concepts, nationalizing brand management, advertising, distribution, etc. has some very specific applications and we should focus on those. Frankly, none of us want to nationalize and collaborate more than is necessary to optimize results. When it doesn't contribute in a meaningful way to our mission of increasing funds to Good Causes, I think I can go out on a limb here and say that we would all rather focus our time and resources on our own in-state market.

Because lotteries all operate in different markets, gaming cultures, etc.?

R. Hargrove: Yes, and the fact that collaborating is time-consuming and hard work and so we don't want to do it if it's not going to generate a really positive ROI! Instant tickets lend themselves to this kind of state-specific marketing because they can be implemented on a smaller scale, have much more flexibility in the design and promotion of the game itself, and the product itself is a great medium for targeting the themes, pop icons or events, that resonate best within the state-specific market. In fact, lotteries and their vendors have been innovating in the instant ticket space for many years and generating sales increases because of it. Other than Quick Draw Keno, for which many states do not have enabling legislation, there's not been innovation in the lotto space that has worked to a significant degree. I think it's clear that because of the nature of longer runs, lower prize payouts, and lack of price point differentiation, lotto will continue to decline. Honestly, between all of us, 40 + lotteries, I think we've tried just about everything! We have very compelling evidence to support the notion that a nationalized approach to building the lotto category will turn the trendline around. Multi-state collaboration really is the key to growing the lotto category. More products, more differentiation between those products, giving price-point options to the players, getting all states to standardize procedures to enable national chain store distribution, and creating a more national approach to

brand management and advertising and promotion – these are the goals we should pursue.

From one year to the next, we can always hope that lotto will not decline by an amount that we don't make up for in the other product categories. And there are countless ways to justify a reluctance to change. But we know, all of us can clearly see, that if we do not accelerate the rate of innovation in the lotto category, the games will continue to decline, and as more exciting gaming options enter the market, lotto will eventually die and our beneficiaries will bear the unfortunate burden of less revenue for Good Causes. We owe it to our stakeholders to see to it that this does not happen. The key to saving lotto is to deepen our collaboration on the jackpot-generating multi-state games. That includes regional lotto games too, like Hot Lotto and Decade of Dollars.

What are some benefits to the individual lottery of forging a national approach to advertising of lotto?

R. Hargrove: The benefit that each individual lottery wants to achieve is increased funding for its Good Causes. That happens when you increase sales, increase operating efficiencies, and/or reduce costs. All three of those happen with a more collaborative approach to brand management and advertising. The cost reduction and increased efficiency is the most obvious benefit. We have forty-four lotteries spending tens of millions of dollars to produce commercials that have at least some commonalities. There are those that protest that our markets are different, etc. There may be differences, but there are also similarities, especially when it comes to the marketing of lotto. There are huge overlaps of commonalities and I can't imagine anyone contending otherwise. For instance, Gordon Medenica produced a fabulous ad' for cross-selling. The New York Lottery paid for this production. He made it available to all of us, the other lotteries. It cost me \$40,000 to retrofit it for the Tennessee market. I had the benefit of a world-class production that cost much more than my budget would allow, and it cost the Tennessee lottery just \$40,000. Why couldn't we systematize that process, creating production templates at a world class level and share the cost between forty-four lotteries? Seems compelling to me.

Because the lottery is constrained to using a local ad' agency?

R. Hargrove: In many cases, yes, but it shouldn't be the case at the expense of the

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Good Causes. We need to be creative. For example, there are also efficiencies to be gained by pooling our resources to support a far more sophisticated approach to brand management, advertising, and promotion. The result would not be just about cost savings, though of course savings could be quite significant. It would also produce a far more effective end result. As was pointed out at your last SMART-TECH conference, the amount that is spent on the advertising and promotion of PB and Mega Millions is far less than the amount spent to advertise consumer brands with comparable revenue streams (and far smaller profit margins). Collaboration would enable all lotteries big and small to have the benefit of world-class production values the likes of which might only be afforded by a New York or California. It's just smart business.

And more effective advertising should result in more sales.

R. Hargrove: Of course. But along with collaborating to produce ad's and promotions, we can also coordinate a more coherent approach towards building brand equity. Nationalizing the approach to these challenges would yield far superior results in terms of brand management. That will become increasingly important as we go forward with product differentiation and possibly the introduction of new multi-state products. And yes, each and every state benefits by participating in this kind of collaborative approach to our business. We do each sell within the borders of our own state, but that should not stop us from working together to create the brand equity, the world-class advertising, and the distributional efficiencies that will improve the performance and the funds generated by each individual lottery. I think of all of this as simply leveraging up the tremendous progress we have already made in collaborating on the multi-state games.

I've heard it said that what's theoretically good for the industry is not necessarily good for each individual lottery. What might be good for forty states may not be good for the other four.

R. Hargrove: That may be true for some things. But it's not true for the initiatives we are talking about to save lotto. In the long run, these initiatives should be good for both the industry and for each individual state. Raising PB to \$2, building a more nationalized approach to advertising and brand management, these will produce positive results for each individual lottery. The jurisdiction that had the biggest challenge with cross-sell was the District of Columbia. Buddy Roogow rec-

ognizes, however, that even for his jurisdiction, progress and innovation are necessary steps towards a healthy and sustainable future. He has been in the industry a long enough time to see the trend lines, to interpret the implications of short-term fluctuations in jackpot-driven games, and the importance of acting now to position our brands and market situation for long-term success.

Why does it take so long to standardize the production details like bar-coding to enable the national chain stores to carry your products? The timeline for implementation of so many things seems to be so long.

R. Hargrove: We've been working on some of those issues for twenty years. These things cost money, lotteries need to get approval to spend the money, the cycle to do that can take longer than the lottery director has to get it off the ground, so the process hits the reset button and starts over. It's unfortunate because if we do not accelerate the rate at which we take advantage of the opportunities we have right in front of us, we will go the way of Blockbuster Video and other obsolete business models. By the time we're ready to launch, technology and the markets will have changed and we'll never catch up.

That syndrome alone would seem to recommend an outsource-to-private-management type model. One way or another, the industry needs to find ways to align with its long-term interests instead of over-responding to short-term pressure. Easy for me to say since it is not my neck on the line, but true nonetheless.

Moving onto your tremendous Emerging Leaders Program (ELP). What makes this special and different from other executive development programs?

R. Hargrove: There are two main objectives to the Emerging Leaders Program. First, there are aspects of this business that are unlike other businesses and there is no MBA for lottery. We try to impart an understanding of how our business operates as a market-driven business with a public service mission. Our marketing agendas need to align with public policy, regulatory and legislative objectives.

Second, the emerging leaders' perception of the industry is shaped by the organization and leaders they are working for. In our case, we want them to know there's another world other than the world according to Rebecca. They all bring to bear their intelligence, talent, educational background and skill sets in their individual discipline, but we want to augment that with a diversity of perspectives. So I have

brought leaders in from WLA, from NASPL, from Camelot, from MUSL, from the vendor community. One of the first speakers I had was Tom Shaheen, who is now a top executive at Ling3. Tom came to work for me as a sales rep' in Florida in 1987, moved up to senior level positions, then joined me in Georgia, then went on to be the director of the New Mexico Lottery, then started up the North Carolina Lottery, was president of NASPL, and now works in the commercial sector. He's able to share with our emerging leaders the rich diversity of career paths that this industry has to offer. He's also able to explain exactly how and why we need to engage in an ongoing process of continual education, to acquire an understanding of all the different parts of this business and keep abreast of the changes in technology, market conditions, product development, etc.

I wanted them to understand that, while you may be a mid-level manager right now, there is a career path in the industry such that if you work hard and learn and do all the things you need to do, opportunities to grow and progress will open up you. A part of executive development that may not have been included a couple years ago is understanding the wider range of enabling legislation that ultimately determines the shape and direction of our businesses. We now have models like Camelot and NorthStar Lottery. Some lotteries offer a complete range of products, from VLT's to internet gaming. We also enable them to understand the importance of our industry organizations like NASPL, WLA, MUSL.

There seems to be a trend in the corporate world towards integrating functional areas, to break down the silo effect of everyone working within their disciplines and being isolated from other departments.

R. Hargrove: A great example of that: Our senior software developer has always been very responsive to requests from other departments for different kinds of reporting functionality. Sales would ask him for an addition to the kinds of data they get and he would make it happen, etc. In the very first ELP session we had, this senior software developer engaged with sales about how they were using the information, and between them they discovered additional ways that software development could assist the sales staff. Four things happened. One, our software developer, who is very good at the job, now enjoys what he is doing more since he better understands the purpose. Two, his in-house clients are getting more and better IT support.

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be clear, compelling and effective so as to sufficiently inform, excite and retain the average spend – and frequency of play – of our EuroMillions players. The same clear and comprehensive communications process also needed to be followed with our 28,800 National Lottery retail partners. As well as communicating the game mechanics and rules, we needed to help them understand how the game worked and how to make the most of the fantastic sales opportunities it presented. On top of this, we had to build interest, anticipation and excitement in the game prior to launch – and then maintain it post-launch.

The introduction of UK Millionaire Raffle has had a hugely beneficial impact on EuroMillions sales in the UK, with average underlying sales (i.e. excluding Rollover uplifts) in the first six weeks after launch 51.2% higher than the original game. For the full 2009/10 fiscal period, the new-look game helped to drive a 42% year-on-year increase for EuroMillions. The sales uplifts have also allowed us to hold periodical UK Millionaire Super Raffle events.

The first of these took place in November 2010 and created 10 guaranteed UK millionaires in one night, while the second, which took place a month later on Christmas Eve, created 25 guaranteed millionaires throughout the UK – breaking the previous world record for the largest number of lottery millionaires created in a single evening. Since launch, UK Millionaire Raffle alone has created over 110 new UK lottery millionaires. Now that EuroMillions featuring UK Millionaire Raffle has been in market for 18 months, average underlying sales have established themselves at 35.4% above the original game – making it one of the UK National Lottery's most successful innovations.

International experience shows that the only way to maintain and

grow long-term lottery sales growth is by diversifying the portfolio of games – with different games offering different winning experiences. Our strategy for long-term, responsible growth is no different – we aim to strengthen the UK National Lottery brand by offering players a constantly-refreshed range of games to better satisfy their needs, and by coming up with innovative and convenient new ways to play to best suit their lifestyles. Our introduction, and subsequent enrichment, of EuroMillions has played a significant role in the success of this strategy and has further strengthened the already-wide range of games that we offer our players. We now offer a portfolio of differently-themed games from 25p to £5 to suit all tastes, pockets and prize preferences. With the addition of EuroMillions with UK Millionaire Raffle to our portfolio, we are, in effect, offering something that no other UK lottery game does – the chance to win huge prizes in the main draw while guaranteeing lots of UK winners, something our EuroMillions players told us they wanted.

With around 70% of UK adults playing National Lottery games nowadays, the success of new game launches, such as EuroMillions with UK Millionaire Raffle, proves that diversification and product differentiation works. This is borne out by the figures – Camelot has grown sales by 17.9% since the start of the second UK National Lottery licence in 2002 and seen the number of players rise by over 5% in the last five years alone.

All of this means that we have been able to raise even more money for the Good Causes, which is what the UK National Lottery is all about. To date, our players have raised over £25 billion for the Good Causes, with more than 350,000 individual awards made across the UK, making a difference to millions of lives. ♦

Three, the change actually resulted in lessening the burden for IT because they discovered things that had always been done but don't need to be done so they discontinued those legacy reports and procedures. And four, sales is now in the loop, getting educated on how to translate their needs to software engineering. Win-win and it speaks to the need to engender a more collaborative relationship between the different functional areas of the business. When the team learns to trust one another's skill-sets and understand why they do what they do, everyone becomes even more of an advocate for each other and better engaged in the mission of our business. If you interview any of the 12 people in the program, they'll tell you it's one of the best experiences of their lives.

You refer to a market-driven business working within a rather unique set of government structures. How do you teach that?

R. Hargrove: I think one of the most eye-opening days this class had was sitting in on a legislative committee hearing. I wonder how many finance, sales, product development people are informed about that side of this busi-

ness? And when you think about it, how much more effective they are for appreciating that this business includes that level of accountability. Sales people and product development staff appreciate better why they need to comply with rules and closely adhere to procedures, Finance people communicate better with legal, etc. They came back from the Capitol literally saying "Oh, now I get it!"

The world is changing so rapidly. To what extent does that obsolete the knowledge gained in any kind of educational forum?

R. Hargrove: It's true that the pace of change has accelerated. But change has always been the one constant in our business. I ran the Illinois Lottery back in the 80's when we sold four instant games a year and we sold them one at a time and they weren't bar coded. The change that has happened over the past 25 years has been enormous. Anyone who was in the business then and is still in the business now has had to re-educate themselves constantly along the way.

And there remain many skills that do not become obsolete even in the rush of internet

time. The art of managing and adapting to change being one of them. Developing teamwork and a spirit of collaboration among employees being another. Fundamental principles that guide the process of analyzing problems, framing the issues, asking questions, these are skills that won't be obsolete in this or any other successful business.

In fact, the solution to many of the challenges we face, challenges that often seem to be without precedent, can be found in developing the skill sets that are foundational to all our tasks. Forging collaborative relationships with our colleagues in other lotteries is not so very different than building trust relationships within your own organization. The ability to adapt to change, to contribute to progress in uncharted waters, really just goes back to having the interdisciplinary skills to effectively analyze the options, communicate with your colleagues, and stay on a path of open-mindedness and continual learning. In that fashion the industry will do more than just survive, it will prosper and thrive, all to the benefit of those we serve. ♦