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Regional Versus Nationwide Games and Optimizing the Long-Term Performance of Powerball

PGRI Introduction: Rebecca Paul Hargrove has served in leadership roles in the lottery industry for over 30 years, including as Chief Executive of four U.S. lotteries and as a consultant to lotteries across the globe. In three of those four states she led the start-up and remains one of the most respected, experienced leaders in the field.

The founding Board of Directors of the newly-created Tennessee Education Lottery Corporation recruited Rebecca to start a lottery here nearly 13 years ago, which she did three weeks ahead of schedule, netting an additional \$30 million for education than was anticipated. The Tennessee Lottery has seen growth every year since inception, thought to be a U.S. record.

Rebecca's resume includes a long list of lottery industry, business and civic accomplishments, honors and awards. She is the current Senior Vice President of the World Lottery Association, and has served as President of the North American Association of State and Provincial Lotteries, President of the Multi-State Lottery Association (MUSL), President of Powerball, and President of the international industry organization A.I.L.E. She was one of the first inductees to the Lottery Industry Hall of Fame, and was named one of The Tennessean newspaper's Tennesseans of the Year. Throughout her career, Rebecca has served on a variety of boards and continues to support many causes.

Rebecca holds a bachelor's degree and a master's degree in Education from Butler University and is a native of Indiana who now calls Tennessee home.

Paul Jason, PGRI: *I do not understand why you would not cap the Powerball jackpot. As soon as the jackpot exceeds the previous record, cap it and apply the revenues from the following rolls to fund lower-tier prizes, redistributing the prize money to create more winners, or to some other purpose that benefits the players. Granted, the big jackpot roll-ups are reduced to accomplish that, but wouldn't the player see that as a good trade-off?*

Rebecca Hargrove: It benefits everyone except the players who win the

big jackpot. This would seem to be a good trade-off. However, people who play Powerball are typically playing to win the big jackpot. That's why they play the game; to create the possibility of winning the big jackpot. They are not thinking about the odds of winning a lower-tier prize. So if you cap the jackpot and redistribute the revenues from the subsequent rolls to fund lower-tier prizes, the players who are playing to win the big jackpot might feel like you are taking their money. The calculus be-

hind that may not seem logical to players who want better odds to win a smaller jackpot, but there are many other lottery game options that deliver play-styles and value-propositions that accomplish that. If you are hoping to win the big jackpot, you don't want anyone to change your ability to win as much as you can.

To what extent will the \$1.58 billion jackpot raise the tipping point at which media and consumers get super excited and jackpot fever takes hold? That tipping point raises



a little bit with each jackpot run. The tipping point for the \$1.58 billion jackpot was around \$250 million. Will that increase and is that a problem?

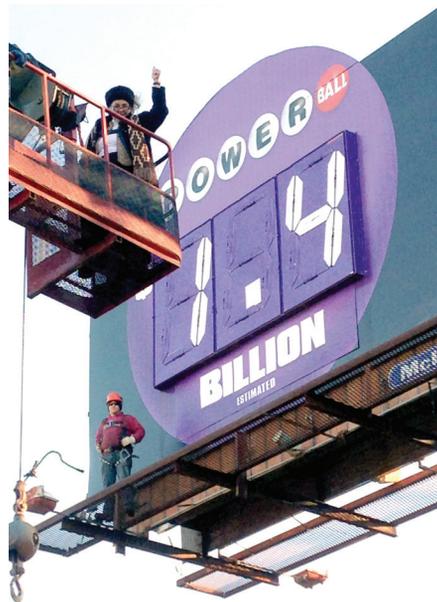
R. Hargrove: There are two thoughts on that. Powerball used to limit the amount that the jackpot would increase. Once a new record was set, the jackpot would be allowed to increase by \$25 million on each roll, with the balance of the revenues being rolled down to fund lower-tier prizes. The idea was to create a larger number of millionaires in addition to the winners of the big jackpot. The reality is that the million-dollar jackpot winners do not receive the kind of press that drives sales. The end result is that we lost some of the positive impact of continuously increasing jackpot sizes, without generating much impact or publicity from the creation of more millionaires.

Sales always increase with every increase in jackpot size. I believe the tipping point where sales start to sky-rocket has more to do with the media coverage than some preconceived magic number in the consumers' minds.

There are many different ways that the jackpot run-up can be managed. The challenge is to do it in a way that appeals to the players. We know for instance, that players are very motivated by big jackpots. The bigger the better in many players' minds. As the jackpot rises, player-ship and sales rise exponentially. What we are trying to figure out is how to re-apportion the prize money in a way that appeals to players. We know consumers often say they would rather a prize pool of \$500 million be used to create 500 millionaires than for it all to be given to one or two jackpot winners. That's what they

say, but that's not how they play.

The \$1.58 billion jackpot was actually shared by three different people who held the winning ticket numbers. Even though they each received a third of the \$1.58 billion, the thing that sticks in everyone's mind is \$1.58 billion. And in the hours leading up to that record jackpot, the players were not ruminating over the possibility they might have to split the jackpot. They were playing to win the entire amount. In addition to the \$1.58 billion jackpot winners, there were also 73 people who won \$1 million each and another five who won \$2 million prizes. Those who did not win either the jackpot or one of the second-tier prizes would probably say they



wished the \$1.58 billion were split among 1,600 people to create 1,600 millionaires. But in the next roll of jackpot games, they won't be factoring in the odds to win the lower-tier prizes. They will see the big jackpot number on billboards, at POS in the store, and in media headlines. This excitement will cause them to jump into the game when it reaches the threshold that captures their imagination. That might be \$100 million for some; it might be \$250 million for others, or more for others.

We are sensitive to the issue of rising consumer and media expectations. To date, though, the benefits of rising jackpots continue to outweigh the benefits of capping the jackpot. You get far more promotional

impact and media coverage by having the jackpot go higher than you have by creating more millionaires. The players who prefer the large jackpots do not want them to be capped, while the players who prefer other value propositions have plenty of other lottery game options.

But if the game were capped at \$500 million, for example, wouldn't that amount still be in the sweet spot of super high "jackpot fever" media coverage and consumer engagement and sales?

R. Hargrove: We are grappling with these questions and don't know what the right answer is. Keep in mind that Powerball and Mega Millions are the only two national jackpot games. These are the only two games that offer the possibility of winning a gigantic jackpot, albeit at longer odds. There are hundreds of other games with all varieties of value propositions, all of which include better odds to win a smaller prize. There are many draw games and instant games that award a million-dollars and more in top prizes. There are many games that offer prizes of less than that, everything from multi-million dollar prizes down to \$1 and countless increments in between.

It's true; we do not want the tipping point of consumer and media excitement to continue to rise. But we are a consumer-centric business. We want to give the consumer options to play the games they want to play. If the consumer wants to play big jackpot games, if they are motivated to come out in larger and larger numbers as the jackpot continues to rise, should we necessarily deny them that option?

But still, wouldn't it be better to cap or manage the jackpot roll-up so that you in effect create more record jackpots?

R. Hargrove: Perhaps but not necessarily. Think of the record-setting jackpot, be it Powerball or Mega Millions, like an NFL Super Bowl game. The Super Bowl is the single biggest sports event in the U.S. Every year it generates huge over-the-top excitement for everyone, huge benefits for all its stakeholders, and huge income for the businesses attached to its production. The

Super Bowl is once a year. Since it is so successful, why don't they try to reconfigure the whole football schedule of competitions so that you have two or three Super Bowls a year? It could be done, but you can see why it wouldn't work. The whole media frenzy and consumer excitement that happens once a year could not be replicated that way. There are regular season football games the consumer loves and that generate income for the shareholders of the businesses that support the whole football industry. Likewise, Powerball and Mega Millions games produce the lottery "Super Bowls" when the jackpot runs up to a new record. And we have our big portfolio of games to complement our Super Bowl games of Powerball and Mega Millions. Capping the jackpot size may produce some positive benefits to the long-term health of the game, but we do not know that it would. We do know that the residual impacts would be both positive and negative and not entirely predictable.

Further to this analogy ... is there a point at which the excitement over the Super Bowl gets to be so high that consumer expectations recalibrate such that it might be hard to replicate the following year? Perhaps. But, would you think you should manage expectations or cap the level of enthusiasm for the Super Bowl? The big Powerball and Mega Millions jackpots are like the Super Bowl. They are special events with a life and character all their own. The whole dynamic of how rising jackpots affect the marketplace involve complex issues with a multitude of interacting parts. We just want to be cautious in how we manage that.

The media coverage also brought in new consumer groups.

R. Hargrove: Once this record run hit the stratosphere of \$528 million, then \$948 million, then \$1.58 billion, we began to see a whole new level of consumer impact. As media coverage reached new heights, the impact on non-players also reached new heights. It is estimated that the record jackpot run attracted 10 million new players to the lottery. That is absolutely amazing. Think about it. That's

10 million consumers who have never really paid attention to the lottery before, who paid attention for the first time because of the massive media coverage, and now they will notice those billboards and commercials and in-store POS like they never did before.

I am not saying we shouldn't be concerned about rising consumer expectations. I am just pointing out that the positive residual impact of jackpot fever is huge, and it is complex and multifaceted. That is why we need to be very thoughtful about trying to "manage" it.

How does all the attention given to Powerball during a jackpot fever run impact sales of the other lottery products?

R. Hargrove: One of the things that happened with this jackpot run, at least in Tennessee and I know in many other states as well, is that people who had never bought a ticket before got excited about the lottery. They went into the stores and saw how easy it is to buy a ticket. And while they were there, some of them bought an instant ticket and discovered how fun that was, as well. Many lotteries posted record sales across the entire portfolio of lottery products. Tennessee's highest instant ticket sales in history were in January, the same month as the record Powerball jackpot. Our second highest instant ticket sales in history were in March; our third highest were in February. So we saw a spike in all of our games because we had new players in the game. Now that may not be the case everywhere, or in a state where the lottery has been there for 40 years. In Tennessee and many other states, the record jackpot created a level of excitement and engagement that is having a powerful residual impact on our entire business.

The question of how much is too much comes up almost every time there is a record jackpot.

R. Hargrove: It came up 25 years ago when Florida's in-state game reached \$100 million for the first time in the U.S. I was the director and there were some legislators who protested that the jackpot should be capped, that no single player

needed to win a \$100 million. I pointed out that no one is forced to play that particular game. There are lots of lottery games with better odds to win a smaller jackpot. There are games to appeal to practically every price-point, every play style, and every value proposition. Why not let the consumer decide?

The community of lottery directors has been exploring the possibility of launching a new national premium game. There are lots of regional games, games that are played across multiple jurisdictions. The benefits of a regional game model is that it does not require the consensus of all 44 lotteries and it can scale up as it proves to be successful. Plus the cost of terminating it if it is not successful is contained. Which leaves the question: What are the benefits of a national game over regional games?

R. Hargrove: The more general issue is the way in which the community of lottery directors should explore and think about the best ways to evolve the portfolio of multi-state games. Regional games are an important part of the portfolio. Before cross-sell started in 2010, Powerball and Mega Millions were regional games. There will always be room for regional games. Regional games are terrific. In fact, if a game works well on a regional basis, that's how it should be done.

However, there are some specific objectives that can be best achieved only with large-scale national games. For instance, the liquidity delivered with the maximum population base is what drives those large jackpots of Powerball and Mega Millions. The benefit of a new national premium game is the possibility for new price-points and a wider variety of value propositions to be applied to draw-based games. The growth of instant games over the past 20 years is largely attributed to the simple process of expanding the portfolio of games and price-points. Some states now have \$50 instant tickets. The instant ticket category has an incredibly wide variety of play-styles and price-points to appeal to all types of players.

The draw-based games have not been growing nearly as much as instant ticket sales over the past 20 years. We believe

that one reason for that is simply the lack of variety, lack of price-point and value-proposition options for the consumer. Mega Millions and Powerball provide a player experience that is quite similar and they offer just two price points - \$1 and \$2 tickets. We would like to create a platform for expanding the portfolio of draw-based games, and give the consumer the option to buy higher-priced tickets, perhaps with different value propositions. We feel there is a market for those options and would like to give the consumer those choices. To do that, we need the scale and liquidity of a nationwide population base.

Getting the broad consensus for doing a nationwide game is challenging. If a game can be done on a regional basis, it should be done on a regional basis because it is easier for three or four or five or even ten state lotteries to agree on a game's parameters than it is for forty four lotteries to agree on everything. Regional games provide a fabulous platform for games that are hard to implement by an individual state lottery. Likewise, there are games that will perform much better if we can get an even larger number of lotteries to collaborate and implement them.

Does the national premium game have to be a draw-based game?

R. Hargrove: It doesn't necessarily have to be a draw-based game but it has to be a value proposition that the player is willing to pay a higher ticket price for. The first thing I say at every national premium game meeting is there's no point in doing it together if we can do it alone. And there's no point in doing it with forty four states if it can be done with six states. Instant games do not require the high population base that draw-games depend on. And it is important that we figure out how to drive growth in the draw-based games because they deliver higher profit margins than instant tickets.

Why not just scale up the regional games and expand, adding states and building liquidity along the way?

R. Hargrove: Regional games can scale up as you suggest. For example, a number of state lotteries now offer the Lucky for

Life game, which has a 60% prize payout. New York can't do a 60% payout. It wanted to do the same kind of a game, but with a 55% payout. So New York and New Jersey created Cash4Life, which pays out 55%. Those states that like the game and can pay out 60% joined the Lucky for Life regional game. And those states that want a 55% game joined Cash4Life. Both are great games. But neither could scale up to national scale because some states prefer a 60% payout while others want a 55% payout. And since they both work well on a regional basis, why not run both games and just allow each state to choose which one works best for them and their state regulations?

It is not an either/or question. Regional games are great. We just want to explore all possibilities for expanding the portfolio of multi-state games. And there are some game concepts that work better with maximum liquidity and participation of the largest number of state lotteries.

The World Lottery Association (WLA) plays such an important role on the global stage of government lotteries. Why should U.S. lotteries become more involved in the WLA?

R. Hargrove: I think it's important for all lotteries to be part of the global community because there's so much we can learn from each other. That is particularly true for U.S. lotteries, which are less mature than many other lotteries around the world. And the responsible gaming platforms that have been developed by WLA are more important than ever now that lotteries are moving into internet wagering.

U.S. lotteries learn from each other and from the analyses of game performance in different states. By the same token, we could benefit immensely by studying the experiences of lotteries in Europe, Australia, South America, and other markets around the world. That would expose us to a much bigger variety of new games than we see in the U.S. That is also true for multi-jurisdictional games where regions are making them work across completely different gaming cultures, monetary systems, and languages. Some of these lotteries have been operating for over 200 years. And South and Latin America are advancing in Mobile and Social gaming in

ways that everyone can learn from. There is practically no issue that we face in the U.S. that has not been dealt with by other lotteries around the world.

Many parts of the Asian-Pacific region, China and Korea, are in the early stages of developing their own lotteries and regulatory models. As the games-of-chance industry becomes global, it is important the U.S. join with other lotteries to shape the global industry in ways that will serve the interests of governments and good causes.

Sports betting has been on the global stage for many years. And now Daily Fantasy Sports has put it on the radar of everyone in the U.S. games-of-chance industry. The WLA Global Lottery Monitoring System (GLMS) is tracking the issue of preserving integrity in sports betting from the only angle that works—engaging the entire international community of regulators and operators. It's a fabulous program put together by WLA president Jean-Luc Moner-Banet and others, and I certainly applaud their efforts.

The WLA recently held an iLottery seminar in New York that was very well attended and everyone thought it was fabulous. The presenters were from lotteries that have been selling lottery products online for many years. There is a lot we can learn from them. WLA seminars are conducted all over the world and always receive rave reviews from the participants.

So, yes, let's engage with our colleagues in the global community of government-lottery operators. The WLA is the perfect vehicle to connect us to our colleagues all around the world! ■