

Carole Hedinger

Executive Director of the New Jersey Lottery

PGRI Introduction: On July 1, the New Jersey Lottery live-streamed its winning number draws on Facebook. This first-ever combination of social media and live lottery draw coincides with the launch of New Jersey Lottery's new website, NJLottery.net. The new Web site is designed to give players a more engaging experience online with New Jersey Lottery and the thousands of other players and retailers who buy, sell, and play lottery games. "This is an exciting time for New Jersey Lottery players, retailers and staff," said New Jersey Lottery Executive Director Carole Hedinger. "Live streaming our draw online at NJLottery.net and Facebook will allow for players to interact with us and each other, making the draw a more dynamic experience. Advancements in technology and media now make it possible for us to capture and broadcast our live draws as part of a larger-scale initiative at minimal expense. There's a great deal more to be seen and heard from New Jersey Lottery than winning numbers – and soon!"

Paul Jason, Public Gaming: I am thinking that social gaming is not what we in Lottery are really after. Isn't it more about social networking?

Carole Hedinger: I think it's both, but that is an interesting distinction. Social online gaming like Farmville is an important phenomenon. But that is not what we are doing right now so much as social networking, leveraging the electronic social networks to increase exposure for all that is lottery. The amazing thing about the electronic media is its power to go viral, to recreate itself and roll out to an internetworked community that eventually can include everyone. And eventually can happen in just moments.

Young people are in a state of constant communication. Literally. But they don't actually talk to each other, right? They're texting, sending photos and links and practically living in this virtual world rich with new tools and ideas and ways to connect. Just think about the math. The average number of friends that each Facebook member has is 130. So an impression on just 1,000 Facebook members can have exposure to 130,000 people. If 10% of them respond in some positive way, perhaps by re-posting a message, that could then roll out to the friends of those 13,000 friends, which makes the one single viral connection potentially add up instantly to over 1.6 million people. And that is just the very beginning of a viral roll-out. I think it takes something like

eight iterations to reach a number that is larger than the entire population of the world.

Of course, that's just an illustration of the theoretical potential of socially networked marketing. The theoretical possibilities don't make it a reality. It's up to us to make ourselves relevant and worth texting about. We need to create a catalyst, give people a reason to take interest. We think of Live-streaming our numbers draws on Facebook as being a very good start.

It is indeed. It must be a little early to gauge the response – any early returns?

C. Hedinger: First, I can acknowledge that some players are not happy with the fact that we're not on television any more. I think there's a segment of the population that was used to turning on the TV and seeing the live draws on TV with a hostess in a traditional way. Some of these core players are not anxious to change their ways. We want to make sure we find ways to always connect with this group. Our research is indicating that the younger players are not scheduling their time around watching the Lottery do live draws on TV. They want their information instantly, or to retrieve it at their convenience. So they've taken to the conversion to the Internet very well. We need to accept that changes need to be made that will not necessarily meet with everyone's approval and you can't satisfy all the people all the time.

Our research indicates that while people



continue to watch TV, they do not schedule their time around the TV schedule to watch news or do things like watch live lottery draws. There is a Pew Research Center report that finds that 65 % of people under 30 cite the Internet as their primary news source. The real deal-closer, though, is the trend-line. That 65% figure has nearly doubled from 2007, when just 34% said the same thing. The percentage of people who get their news from the Internet does decrease as the age range goes up. The older the person, the more likely it is that they get their news from TV. But still, the percent of adults aged 30-49 who report the internet as their major source of news is 48%, aged 50-64 is 34%, and it goes down to 14% of those 65 and older. There is another relevant skew. The higher the income and educational level, the more likely you are to get your news from the Internet. It is this kind of data that caused us to explore the possibilities to move forward with our migration to the Internet to publicize our draws. That said, we do value our connection to all of our players and will do everything we can to engage their ongoing attention and loyalty.

The two things that actually drove the decision to live-stream the draws on the Internet are our research with our players, and the fact that we could not broadcast on TV anymore. This last is of course decisive – broadcasting on TV was no longer an option so we decided to completely change our approach.

The thing is, you've gone the extra step. You took what may have been a set-back and turned it into an opportunity to innovate and leap forward. The live-streaming would seem to have the potential to really capture the imagination of the socially connected crowd, which is almost everyone now.

C. Hedinger: It certainly includes parents and grandparents who want to keep up with the activities of the children and grandchildren. We may not be able to talk to them as much as we'd like, but we can follow everything in their lives on Facebook. Sometimes more than we'd like to know! I just read that the fastest growing age group of Facebook members is the over 55 crowd.

We needed an alternative to TV and the timing is right to make this change. People don't even schedule time around their favorite TV shows anymore. So we are very thankful to have been pushed to find an alternative to TV. The technology is there, the timing is right, and we are excited about its potential to be a platform for a wide variety of social networking initiatives.

Necessity being the mother of invention, the NJ Lottery is now blazing a trail in the next wave of marketing innovation.

C. Hedinger: I like to think so. Marketing is about building individual relationships and the tools we have to do that now are so much better than the mass market media that homogenize our customer into a one-size-fits-all profile. The Internet allows us to speak to our customers and interact with them on their terms and on a more individual basis. It's not longer just the wave of the future; it's the way things are right now.

And now we do have the tools. The notion of marketing to a mass market of one seemed hyperbole just a few years ago, but the internet is enabling us to tailor make our interaction on an individual basis.

C. Hedinger: That actually describes our objective. We want to enhance the interactions between us and our players through the internet, through the VIP club, through interactive engagements that we can put on our website, by streaming our draws to our website, by engaging the Facebook community in an active and dynamic conversation. Reaching out to a mass market of one; building a special relationship with each and every customer. The trick of social networking is that it empowers the customer to do that for us. We can't do it without their active support. They are the ones to build their own relationships with whomever they choose. All we need to do is figure out how to be one of the chosen, how to connect to the individual consumer who then connects us to their social network. We are really in the initial stages of this process right now. But we are learning and are confident that our product is rich with intrinsic value to leverage into an exciting story. And it is a story that can capture the imagination of the socially connected community if we get creative and keep trying new things. It will happen, and the cost of trying things on the Internet is far less than the risk we take every time we produce and pay for the broadcast of a new TV commercial.

Second-chance draws seem to be a great introduction to interactive gaming.

C. Hedinger: Yes. The player must first sign on as a member of our VIP Club in order to enter into the second chance draws. So these initiatives are all working together to create that more engaged one-on-one relationship that is so important. Our VIP Club membership increased over 10% in this past year. Our Facebook page has been increasing at a much faster rate, with a big jump as a direct result of the July 1 launch of the live-streaming draws. This all clearly indicates that our VIP members have migrated over to

Facebook to become fans, friends, to chat and to get the live-stream of the draws. We think the underlying level of engagement between our players and the Lottery has been vastly improved and are excited about how it will evolve. Before the live-streaming, our second chance drawing had been a place you could go and enter some number information about your ticket and then wait for a draw. Now there's a lot more dynamic interaction.

I think of this as a series of stages and we are just entering stage 1. This includes targeting the media where people are going for information, now that TV is being supplanted by Internet and mobile. And we're creating a more interactive playing experience within the basic confines of our current products and resources. We now need to integrate a suite of reward programs and customer loyalty programs. Next will be to look at the game design and structures themselves, to see how they can be updated, converted into a more interactive and longer-playing format. We'll want the games themselves to match up better with the game styles and preferences of the socially connected generation.

You refer to the "socially connected generation". That's an interesting change from "gen y" or "millennials", because the socially connected generation is really everyone. Social media has gone mainstream, the new media to reach the masses.

C. Hedinger: Yes, it is. Think about the true meaning of network. It is inter-connected not just one with another, but everyone connected with everyone. So it's not just between Lottery operator and players and vice-versa; it's players with each other. That's where the power really lies, with the potential for player-to-player interaction to elevate Lottery to a position of relevance in this socially networked community. Players are chatting with each other, posting comments about their playing experience, how close they came to winning and congratulating each other for winning, etc. With traditional media you do not get to witness or be a participant in the conversation. The message goes out via TV or print ad' and is hopefully received and acted upon. But we have no insight into how people are thinking and feeling. Now we can actually read their thoughts in real time, responding to some and learning from all of them. It's an amazing thing to be a part of their real-time reactions. And it should come as no surprise that the chat is not always positive and supportive of Lottery. But it's real and it's out there and for that reason it is such an exciting privilege to be a part of it, to share our players' experience.

The unscripted events can become somewhat revelatory. A couple weeks ago, one of our retailers started posting his page on our

page, a business to business post. He started featuring winning tickets and information about lottery prizes from his particular store. He became part of the chat, people talking about him and his posts. Store traffic and lottery sales increased. We incorporated some of the promotional ideas he was using right into our own content, posting pictures of winning tickets, talking about prizes or whatever. That experience also spurred us to include our retailers as a member of the community, and helping them to connect with lottery fans who are also their customers.

The future has never actually been scripted. So an approach that embraces the unscripted feedback of the consumer and converts that into new products and better service would seem to be logical.

C. Hedinger: I visited a retailer who is part of a nine store group. He described their efforts in social media, we connected our two social media experts, and are now working on some very interesting B2B collaborations. And of course, the things we figure out with him that prove out to be good can be rolled out to the rest of our retailer network. It is interesting to be a part of this unscripted and untested environment; figuring it out as we go along, and continually discovering new opportunities, new and better ways to deliver value to our customers. Not everything will work, but the cost of trying new things is so much lower in the digital world, the feedback is fast and much more information-rich, and it all becomes part of an authentic dialogue as opposed to a staged, unauthentic market-test. And we all know that 'Authenticity' is a big theme these days so I'm glad I could wiggle that buzzword into the manuscript!

Aren't the intrinsic product attributes of lottery much more exciting than most other products? And couldn't the retailer leverage that for promotional purposes and to drive store traffic? Commodity products and Big Gulps are just not as much fun as Lottery.

C. Hedinger: It's true. There really is hardly anything more exciting for a customer or the retailer who sells the winning ticket than winning the Lottery. So let's capture that in the form of pictures and videos and post that on the web. Let's help our winners share the good news with their friends and let everyone in on all the fun. It's not just about the big jackpots. Winning even \$100 is a big thrill for everyone and it's that much more fun when you can share it with friends. People love to see pictures of the winning ticket. And we have lots of those winner stories to tell on a daily basis.

Where did the money come from to fund it?

Had you built this into the 2010/2011 budget?

C. Hedinger: The costs were very low. We built our production studio from unused office space using all of our own personnel that we trained. Total cost of \$150,000. That's a far cry from televised draws. We took two offices. One is the studio that has the drawing machines and balls in it. It's very secure and very nicely laid out. The set design is beautiful. We have the cameras in there and that's where the draws are observed by the accountant. All the drawing machines are secured in that room. In the adjoining room that has a glass partition is the control room. That's where the operator sits to run the equipment that streams the draw. We have a TV monitor and a computer and whatever is needed. We can watch the live-stream on a TV monitor while we're doing it to make sure that it's all working okay. It's relatively simple. You might imagine it would be a very complicated thing to do, but it was actually relatively simple. From an electronic and technological point of view, what used to be very complicated is now very simple. The equipment is all easy to operate, nothing requiring extensive operator training or anything like that. We have a service-provider that streams the live interactive broadcasts directly onto the web. Sort of like a live YouTube. Facebook was excited about all this. They consider us trendsetters and have been a pleasure to work with. The draws are archived and can be viewed on demand. The possibilities are limited only by our imagination.

Where is your imagination taking you next? Anything reach the Beta stage yet?

C. Hedinger: Integrating retailers into the program is top priority. The ROI on engaging their support is very high, our ability to deliver benefits to them is high so our relationship is mutually beneficial, and there are some relatively easy ways to tie them into our whole social networking agenda. We also envision using our social media fan-base to collaborate with sports teams and hopefully with other consumer brands. The potential for mutually beneficial partnerships is huge and I think will connect us to untapped consumer categories in fresh new ways. We are expanding into more interactive activities. We'll be putting Tetris and Bejeweled on there to bring in gamers who may not have been interested in lottery. I think of it as building a digital destination resort where people can come and play games, get information, watch our draws, monitor their rewards and sweepstakes programs, and maybe even buy a lottery product. We are building that foundation that will enable us to expand into all kinds of new directions.

Facebook is the ideal medium for event-based marketing, isn't it? Would there be events other than sporting events that could be tied in with Lottery?

C. Hedinger: Of course. And you are right, partnerships are what it's all about, that's what we have to look at because the medium is ideal for adding value by sharing. Co-promoting enables us to connect with entire new market segments and does not cost hardly anything. And as we build our own social network of Lottery fans, what we bring to the table will be really valuable to other consumer marketers. Insofar as we can deliver access to millions of lottery fans and consumers, then what we will be able to negotiate in return will also be valuable.

I should not say there are no costs because there are. But the costs are so minimal compared to what we are used to in traditional media. For instance, the New Jersey Devils is our state's professional hockey team. They have what they call a control room. It's a bank of computer monitors with four people who do nothing all day long but are dedicated to dealing with and interacting with their fans on Facebook. That's huge. So there is a cost to employing those four people. But what those four people are accomplishing in terms of customer engagement is way more than any multi-million dollar TV campaign could even come close to. They are building an entirely new framework for dynamic interaction that will form the basis for launching all manner of new products and promotional initiatives. They're not reinventing the entire business, but they are reinventing our entire relationship with our customers.

We all relate to what it's like to be a fan of a sports team. Well, Lottery has fans too, players that are loyal to their games. There are Pick 3 players, Pick 6 players, Crossword Instant players, whatever, who feel a sense of loyalty to their games and enjoy talking about it just like sports fans love to talk about their favorite teams. Facebook and other social media vehicles give us the tools to support the impulse to share your enthusiasm for your favorite lottery games just like you do with your favorite sports teams. This would seem to have a much richer entertainment value than building virtual farms or fighting with Angry Birds.

Is there anything you would suggest to a person who wanted to replicate your Live-streaming Facebook/Social media initiative?

C. Hedinger: Try to map out the entire strategy, or as much of it as possible, before you begin. For instance, we now need to add audio to our program and that would have been much easier had we done it in the beginning instead

of adding it in after everything else is completed. And we have decided that adding a voice will definitely enhance the whole experience.

I would have to say that the entire project is really neither expensive nor technologically difficult. Plan on getting negative feedback but be confident that what you're doing is the right thing to do. And far more people do like what you're doing than don't. So I would say don't be faint of heart because probably fear is the biggest obstacle for people venturing into this world. Too, as already mentioned, this is a world where everyone is used to and expects to see lots of fresh ideas, many of which will not be keepers. No big deal. Doesn't cost much to test new ideas, the harm is minimal, and it's the only way to get at the good ideas that will carry us forward.

Was security of the draws an issue?

C. Hedinger: Security is always an issue. But we are no less secure with this than we were doing televised drawings. If anything we may be more secure because we're now in-house, we're not offsite in a studio. Unlike before, we are now in total control of our equipment. We haven't scrimped on any of those parts of the draw that would make it less secure. Everything is the same as it was before, with two differences. We don't have hostesses telling you what they're seeing, and we're distributing it in a different way. Before, it was distributed over a TV channel, now it's distributed by USTREAM to a Facebook page. But other than that, the draws and the procedures are exactly the same as they were.

Did the decision to do this require a special sign off from Lottery Commission?

C. Hedinger: No, it didn't require any special permission or sign off from the lottery commissioner. I kept them fully informed of this just as I do with anything of importance. But they were on board and required no special meetings or sign-offs.

Did you encounter any friction with the Facebook organization?

C. Hedinger: Not at all. Signing up for a Facebook business page is easy and anybody can do it by simply going to Facebook.com and registering. There is a back end administration dashboard that allows us to update and modify our page so we can post, insert photos and other basic components that we want to put up there. It's simple. Live-streaming the draw was a little bit more of a challenge, but there again we used the third party vendor USTREAM. They are an interactive broadcasting company that has an agreement with Facebook. So that was the key to being able to do that. Everything is really quite established to facilitate this kind of

social media-marketing. USTREAM has an agreement with Facebook, Facebook makes it easy to develop the business page, so everything is pretty simple. So simple that even our small retailers have been inspired to create their own pages to be a part of our network.

You are a CPA and in fact president of the and clearly an inspired marketer. Any other alter-egos we should know about?

C. Hedinger: Thank you but I do not consider myself a marketer. I think of my job as being an enabler. We have a great team here that not only implemented the program, but created the ideas in the first place. I don't pretend to be the creator of all this. I just get them what they need to do their jobs. I'm not afraid to make decisions, and I'm not afraid to walk down a new path when it makes sense to do that. I secure the votes and support from our constituents on the Commission, but then it's up to our talented team to make it all happen.

Nothing happens without the guts and fortitude of a lottery director willing to try new things. We know that there are consequences when something does not go right. But how about something goes really well and generates a 15% + jump in sales? Would there be a mixed reaction to good results too?

C. Hedinger: There are people that are anti-lottery, and those people are our constituency too. Fortunately, there are a great many more people in government that favor the lottery, and the revenue that it produces. I think that support would greatly outweigh whatever pushback there might be if sales went up by a lot.

Does a private management agreement like Northstar in Illinois free the operator up to have more flexibility to innovate and do more to increase sales and transfers to Good Causes?

C. Hedinger: I think the honest answer to that is yes. Decisions can be made faster, and the commercial operator would likely have more flexibility to invest more in promotions and product development as needed. I also think that no matter what management structure you have, the operator must stay aligned in purpose and in action with the best interests of the public. And the mechanisms that cause that to happen are fundamentally political. In the end, there is no getting around that aspect of lottery management. It is a fact of life, it's necessary, and Northstar or any operator will need to comply with it. Along with that, whoever is operating and managing the lottery will be subjected to the same media scrutiny and ultimately the same legislative oversight that we all work under. We are all charged with optimizing the business within a framework that includes a complex mix of interests and con-

siderations. That's the nature of the business and frankly, that's what makes it so fascinating.

I would point out that lotteries have been very innovative and forward looking over their entire history. Lotteries do need to exercise a higher degree of due diligence that may cause a conservative bias. But that's not a bad thing. It just causes us to do everything we can to get it right before we go rushing into anything. The New Jersey Lottery has been in business for 40 years. It's been a leader in the business, very progressive, and has always delivered great results. So my answer to your original question is that I firmly believe that lotteries and legislatures can all choose to work productively together and accomplish their objectives, and that is true whether it is done under a PMA or as a government entity. I know we have that kind of relationship with our legislature and I think most lotteries do. And all lottery directors that I know work very hard to nurture a mutually supportive relationship with their legislatures.

Enriched Powerball. Do you agree that differentiating the games with the new price-point is a good and necessary move?

C. Hedinger: Of course. I'm looking forward to the \$2 price-point. The differentiation is a necessary step and I am confident that it will be good for Powerball and good for the whole portfolio of games.

From a portfolio management point of view, does it matter if your in-state games lose sales to the big jackpot games?

C. Hedinger: Cannibalization is not good if you just go sideways in sales. But I do not see a problem with changing consumer tastes that cause the migration from one product to another. There are typically loyal player bases for each game and so that does not happen as much as one would think. But if times change and one game becomes more popular as another game declines in popularity, I do not see any reason to fight the consumer trend-lines, even if it is from an in-state game over to a multi-state game. It's all about increasing revenues for Good Causes, not protecting any sacred cows from the impact of progress and changing consumer tastes. ♦