Ed Honour

President & Chief Technology Officer of MGT Lottery

MGT Lottery is a provider of innovative multi-player games that are implemented over the Internet. And yet, when I referred to lotteries' land-based retail network as a "powerful competitive advantage," Ed Honour described that as a gross understatement. Not only will the land-based retailer stay relevant in spite of the push in Internet gaming, the retailer will play a vital role in the integration of promotional campaigns, new products, new channels, new customer groups, and the exciting lottery products that consumers have been buying for decades. True innovation, the kind that resonates with a lasting impact, is happening because lottery operators are building the bridges, creating the mutually supportive relationships that drive sales and long-term growth. As Ed says, the lottery, the retailer, and the player form a partnership that is vital to short, medium, and long term success on the Internet.

Paul Jason, Public Gaming: *How will the retail channel evolve and coexist with the Internet?*

Ed Honour: Retail will continue to be the face of the lottery to the customer. That will not change in the foreseeable future. And we don't want it to change. The retailer is a valuable partner and always will be.

We think of the goal as being to integrate an Internet strategy with retail to create a mutually reinforcing relationship with the player. The Internet can be used to add value to the lottery's relationship with the player in a wide variety of ways. Internet "gaming" is one way but we really don't want to think of it that way in the early stage that we are presently in. The Internet is fundamentally a communications tool. So before we explore ways of selling and gaming, the first thing would be to just deliver the outcome of the lottery ticket on the Internet. The player purchases the lottery ticket at the retail location and goes home to find out if the ticket is a winner. That's a small but meaningful step towards forging an internet relationship with the player. The "reveal" can then be made to be fun and entertaining. You've done a couple interviews in which the operator talked about whacky fun ideas to jazz up the way the result of the tickets are revealed on the Internet to the player. We're still well within everyone's concept of legally permissible ways to interact with the player via the Internet. The next step is Second Chance Drawings. Still, the Internet is being used as strictly a communications tool. The outcome is predetermined and is simply being revealed. The purchase was made at the retailer, so no purchase is being made on the Internet. But the player has the option to enter the losing ticket number on the Internet for an additional opportunity to win. Not surprisingly, operators have found Second Chance Drawings to be quite successful. Who wouldn't want to enter their ticket number online for an additional chance to win? But still, no purchase or financial transaction is being processed online. The next step is to enable the player to play a game online, like poker. Still, it is a non-money game; no purchase is being transacted online. We're just enhancing the value of the retail purchase by providing a fun extended-play experience. The purchase and financial transaction is still 100% executed at the retailer.

And the next step would be to enable the player to conduct the entire relationship online, including the purchase of the ticket, right? Why exactly does the lottery want to drive traffic into the retailer to buy the tickets? Why not just sell directly to the player over the Internet?

E. Honour: It's wrong to think that is where we are headed or that is where we even want to go. One, the retailer will continue to be the face of the lottery to the customer for a very long time. Even when lottery products are sold directly via the Internet, the overwhelming majority of sales will always be driven at the retailer level. That would hold true even if we tried hard to drive sales through the Internet. The other thing that you may not be getting is that we don't want to cut out the retailer. That is totally not the goal. And the reason we do not want to dis-intermediate the retailer isn't because we do not want to compromise this important commercial partner and make them mad at us. Lotteries want the retailer to continue to be an important channel and relevant point of customer contact because no other gaming operator has that retailer network and would have a very difficult time, impossible really, trying to duplicate the network that lotteries have. Retailers add value to our products and our relationship to the player that is proprietary to lottery operators and we want to reinforce that.

Second Chance Drawings seem to be the perfect way to integrate the Internet into the lottery playing experience.

E. Honour: Yes. Think of it as a digital delivery of the outcome of the game. There is no purchase over the Internet, there is nothing that anyone would consider to be "Internet Gaming." This is simply a communiqué. The next step is to allocate an increasingly large portion of the prize pool to the second chance drawing. You'll want to do this because having an Internet "reveal" component to the game is much more appealing to the young adult. The purchase is made at the retailer regardless of how high the percentage that is set aside for the Second Chance Drawing. The main thing is to have a progressive strategy for integrating the Internet into a dynamic re-

lationship between the retailer and the lottery. Second Chance play provides a platform that is almost infinitely flexible.

And it ties the retailer into the distribution network. How challenging will it be for lotteries to create a gaming experience that competes with the kinds of video-games the next generation of gamers is being raised on?

E. Honour: We do not want to even try to compete head-on with video gaming. Lottery games will not ever be as technologically sophisticated as video-games. But that's okay because lotteries have other assets. First, there is the built-in relationship with millions of repeat customers and the brand recognition that goes along with that. Second, you have the wagering component, the possibility that the small amount of money invested in a lottery ticket could change your life. Along with the massive retail network, these assets provide a decisive competitive advantage. The integration of these assets is what will consolidate the dominant position that lotteries will hold in this industry. Lotteries do not need to think that they need to compete with video games, or attempt to meet that high standard of game development and technology. That's not what lottery is about and it's not what we need to do. There's huge potential to engage the lottery player in extended-play options with the Second Chance Drawing platform.

Explain "extended-play."

E. Honour: The basic Second Chance Drawing enables the player to enter the losing ticket number for a "second chance" to win. The outcome is then revealed, right? How is it revealed and what exactly is the reward? Even though the outcome is predetermined, the way it is revealed and the nature of the reward are not. In other words, the possibilities are endless. MGT Lottery, for instance, provides the lottery operator with a variety of non-money extended-play games. One of those, for instance, is poker. Along with a money prize that can be awarded just like the conventional "Second Chance Draw" program does, you can provide the non-winning ticket holder with chips to play in a poker game. Again, there is no purchase being made on the Internet. The ticket was purchased at the retailer. But the Second Chance Draw revealed an outcome that includes a place at a poker game. Now the opportunities to turn that into a whole world of new experiences are endless. You can have chat and other social gaming features. You can integrate with other social gaming sites like Facebook. That provides an especially powerful inroad to viral marketing campaigns. The player

wins or places in a poker match and that gets posted on the Facebook pages of the player along with all of her "friends." The post can include a link back to the lottery website that pitches all of these amazing new lottery applications. The potential to use the Internet as a tool to deliver massively enhanced entertainment value is limited only by your imagination. The purchase of the ticket at the retail store is the catalyst that drives everything. It's just that now the player receives so much more value for her purchase. This will resonate especially well with the next generation of young adult players.

Why couldn't a portion of the prize pool be allocated towards prizes for the poker game, so that the winner of the poker game wins a prize? Even then, no sale is being made over the Internet.

E. Honour: Of course. That is very much a part of the scalable program that MGT Lottery offers. That's the next step and does dramatically enhance the appeal to the poker player. But the most important thing for all lottery operators to appreciate is that it is scalable and that there is no imperative to progress at a rate that is faster than you, and your state legislators, feel good about. Implementing non-money games that extends the play and creates a social networking context to the play is legally and should be politically acceptable everywhere. It adds huge value for the player, engages that elusive twenty-something demographic, and positions the operator to move forward as the industry and regulatory climate evolves.

The concept of using the Internet to deliver extended-play games to the lottery player causes me to wonder how many other creative ideas could leverage the extended-play experience into higher sales. Like perhaps even a learning or knowledge competition. "Second Chance" could be a tool to promote whatever the lottery wanted to promote, including education, which is the recipient of much of the lottery funding.

E. Honour: Absolutely. It doesn't have to focus on new and innovative, though. Second Chance Drawings are an effective way to promote any lottery initiative. This costs practically no money to do and always has the potential for a blockbuster impact in the form of a viral marketing response. Much more effective, I would think, than a big billboard. Being a new concept, it may take longer to ramp up, but once we pass the proverbial tipping point, games that deliver this much value will take off.

One of your products is your Live Texas Hold'Em Poker Second Chance Game. You're launching that with the Minnesota Lottery right

about now, aren't you? How does it work?

E. Honour: When you buy the Minnesota State Lottery Scratch Hold'em ticket, there's a (validation) code on it. Non-winning tickets are eligible for an entry into the Minnesota Lottery's Second Chance Sit-and-Go Poker Tournament. You have the opportunity to win up to five Second Chance entries by playing poker against other Minnesota residents or virtual players. The Lottery is providing a game that people want to play. Poker is huge, and it's actually really huge in Minnesota. The Lottery is simply reaching out to the segment of gamers which enjoys poker; making that connection with the Minnesota State Lottery Hold'em ticket. Integrating a multi-player extended-play game with the purchase of a lottery ticket repositions the way that people can think of playing the lottery. And that's being done while avoiding the controversy of Internet gaming or Internet poker since nothing is being wagered online. The lottery ticket was purchased at the store.

A really cool feature that has very interesting marketing potential is the way it is integrated with Facebook. When you win, there's a button at the end of the game that you push that allows you to share your results with your friends on Facebook. It posts the result to your Facebook wall. This post also provides a link that enables the viewer to click and be connected to a page that explains the game and how to participate.

So there is no financial transaction, no winning and losing of money in the interactive poker game itself.

E. Honour: Correct. You can win more entries into the Second Chance Drawing, but not money or prizes. But even if all that is done is to provide your players with a fun extended-game experience, engaging them in a social networking environment based on fellow lottery players who also enjoy poker, well, that is a perfectly great value added component itself. The important thing is for lotteries to begin to implement a wider variety of creative Second Chance extended-play applications. It's what the players want; it's easy to implement and not prohibitively expensive; and it is also easy to stay well within the boundaries of what is politically acceptable.

This is all about making a lottery ticket more popular; creating a connection with people who normally wouldn't necessarily go into the store to buy a ticket. As a poker player, you might be filling up at the convenience store and decide to go in and buy a few tickets so you can participate with your lottery poker playing friends on the Internet at home that night. Integrating the Internet into the relationship between the Lottery, the retailer,

and the player is such a vital objective and this is a great way to do that. You'll get some people to try the lottery who have not played before. And you'll reach an entirely new set of customers from the social networking dimension that Facebook provides. It's really about using technology and new games to expand your market.

Will the business of product development be different in this world of increased expectations for new and different and constantly changing?

E. Honour: The days of long life span for games is over. You're just not going to have a game like Monopoly that lasts for decades. So as an operator, you can't expect a big payback based on a long product life-cycle. Instead, you need to build a framework that supports a constantly changing portfolio of games and game updates. You need a smart, flexible framework that gives you control over the content. That framework needs to include the actual delivery of the game, the social media aspects enabling the players to share the outcome with their friends and neighbors. And it needs to have the tools to integrate the retailer into the objective of driving more lottery ticket sales. The quality of your infrastructure and framework is what will increase sales over the long term.

Since games will be changing quickly, maintaining profitability and positive ROI would depend on reducing the cost and time it takes to produce game content.

E. Honour: Game developers already have that figured out, and are producing content at a rate that is increasing and a cost that is coming down. It's all about having the application programming interface, or framework, that enables the lottery to implement the games and meet all the lottery specific needs for player tracking, responsible gaming, linking to both internal and external applications, the security features, and basically everything except the game itself.

It seems to me that our lives are much less compartmentalized than they once were. We check our blackberry or iPhone for business messages when out on social events and otherwise on "personal" time. We text our kids and take care of personal affairs when working. Some people might say this causes us to be on the clock 24/7, working all the time. Another way to look at it, though, is that we can build enjoyment and perhaps fun into all aspects of living, into everything we do. I am thinking that this has tremendous implications for gaming. People want their "service-providers" in all walks of life to build in an entertainment component, to deliver an

"experience." That experience can be enhanced with games. Games are entertaining and perhaps could be that extra value component that all businesses could build into their offer.

E. Honour: Look at Facebook. It is a service business with a fundamentally utilitarian purpose. It is a super-efficient way to communicate with your entire circle of friends and relatives, right? Keep them updated on your life, check in on theirs, announce a party, ask a question or for help making a decision, etc. In that sense, it serves a very practical purpose, and became very popular for that reason. But games like Farmville have increased its popularity exponentially. Facebook was not designed or originally intended to be a platform for gaming. But when you have millions of people communicating and forming new affiliations based on overlapping interests, then whole new opportunities for fun and entertainment emerge. People just naturally gravitate towards games. Now, you may not get a big charge out of Farmville, or other Facebook games however, I would suggest that the incredible success of these games is a powerful testament to the appetite that people everywhere have for more fun and entertainment. Games can even be the catalyst for that most fundamental of human needs, the need to socialize with other people. The tremendous success of Farmville reflects an unmet demand and that spells opportunity for lottery operators. We need to think about how we can collaborate with other brands the way that Facebook collaborates with Farmville. Facebook actually also collaborates with commodity products in the C-stores in ways that Lottery should do much more of. Lottery has a tremendous capacity to add fun and entertainment to otherwise unexciting products and services found in stores. And of course, the consumers of these other products represent new customers for the lottery.

Young people look for and expect enjoyment to be built into every element of life. As you point out, the separation between work and personal time is becoming fuzzier. One pundit coined the term "experience economy," meaning that there is a macro-shift from a "service" economy to one in which service is just the baseline of what is expected. Superior service itself has become commoditized and is no longer the competitive differentiator any more than other basic product attributes, like having a product that works properly, or food that tastes good, or transpiration that gets you from here to there. People now want to be truly entertained. Since that is what we do for a living, this is very good news for those of us in the lottery and gaming business!

We need to revamp the way we frame and analyze the business. We tend to think of media, entertainment, games, education, retailing, as being separate and compartmentalized. The future breakout successes will happen to those who find creative ways to merge these different categories; to design experiences that complement the new ways that our customers think and live their lives. What is it about the iPhone that makes it so successful? Certainly not the actual telephony part of it! It's the thousands of applications that enable people to merge and blend all aspects of their lives into this amazing little device. The iPad will extend that impact, merging personal entertainment with conventional computing. Facebook merges social communications with games. Cable news programs merge education and news with entertainment by trying to capture dynamic discourse between different points of view. Southwest Airlines tries hard to make air travel a little less boring by entertaining the passengers. Restaurants are staging wine tasting events. This isn't exactly a new concept. It was decades ago that Sesame Street and mini-series like 'Roots' merged T.V. and entertainment with education.

So how can the lottery operator do that?

E. Honour: First, let's point out that our goal is to sell lottery tickets. It's not about becoming social philosophers.

It's about fully leveraging assets. We've talked about the tremendous network of retailers that lotteries have to distribute their products. So right off, we know we want to integrate the retailer into our promotions. We ultimately want to merge retailing with entertainment, media, and lottery games. That means integrating C-Stores, Internet, extended-play games, and lottery.

Lotteries are blessed with a product that has more marketing appeal and promotional potential than most of its potential collaborators. In the future especially, there will be so much competition for the Internet gaming player that its retailer channel will become a powerful competitive advantage for lottery operators. That's convenient, since retailers would prefer to partner with lotteries than to lose business to the Internet. Likewise the vendors of the products themselves that are sold in the stores all want to sell more and a partnership with lottery should help them accomplish that. Retailers and vendors of commodity products need lotteries to provide entertainment value. In fact, they need lotteries more than vice-versa and that's why they'll help us sell lottery tickets. ◆