



Jim Kennedy

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Jim Kennedy operates in a world where the thing that matters is performance and results. So any discussions about cutting edge consumer behavior theory, or how a new technology or consumer trend will change the world etc., are always combined with a firm grip on the way the real world actually operates. Testing these ideas against the fundamental rules that govern the way business works and the way markets and consumers behave is the key ingredient to success. Decades of experience in top marketing positions with Scientific Games is what informs Jim Kennedy's ability to do just that.

Public Gaming: You refer to convergence of gaming categories. In what ways are markets, product categories, and delivery technologies converging, and what implications does it have for operations?

Jim Kennedy: One definition of convergence is when technology or products evolve and combine to create a new offering, while still maintaining the advantages of each initial component, thereby heightening the advantages of the new product. To do this, we try to conceptualize the entire portfolio of products from the earliest stages of development through delivery and finally to the repeat purchases by the consumer. This creates a more integrated approach. This aspect of convergence can be simply understood when you stand in the shoes of the people who use our products. The retailer for example, he or she does not see the online category as one distinct product separate from the instant games. The terminal, the signage, the network, the lottery game, the person who answers the phone when they call, the sales rep that visits their store, it's all lottery to that retailer, and it should be all lottery to us on the management side of the business, both within the Lottery organizations and on the commercial supplier side. For example, over the last 18 months, we have focused along many areas that streamline the integration of lottery at retail with the launch of our full motion digital display advertising that promotes lottery—instant & online—at the point of purchase. On the back office systems side, our

business intelligence platform is designed to deliver retail performance metrics to help pinpoint trends and opportunities across all game and promotion types.

However, in addition to the technology that enables this type of content, convergence is also about how the games work together and how they are positioned together to effectively engage and retain the consumer. We see this type of convergence as both a marketing and technology issue—a way to seize gaming opportunities across a variety of mechanisms that have consumer involvement. Specifically how we maximize revenue from these gaming opportunities, not just how to enable new technology. We understand the consumer needs and the marketing programs that can make new technology and the convergence of games more productive. For example, a core area of interest is bringing games from retail with an expanded play experience on the Internet, tied back to player clubs that reward playership with points programs. We must remember that the core games and the core play styles that in the US alone generate over \$50 billion in sales per year. The temptation is to radically expand into new channels and markets, to jump to a new train. However, sometimes leveraging the core performance drivers can deliver improved results, and keep you on the right track.

You make it sound like there are core play styles and core performance drivers that are at least somewhat universal, that cut across cul-

tural boundaries. I'm suspecting, though, that operators and professionals whose job it is to focus on one market would perceive the differences to be greater than the similarities. As Senior V.P. Global Marketing, you operate all over the world, most recently focusing on China. How much variance is there in core play styles and performance drivers from one part of the world to another?

J. Kennedy: That's an interesting question because I can assure you that the similarities far outweigh the differences. It is human nature to focus on what differentiates us from one another. And so the Lottery Management whose focus is on a single market is naturally going to perceive the differences between that market and others as being greater than they actually are. Sometimes it can be hard to convince people to recognize or see the similarities.

We learned quickly in China that there are cultural differences to which we all needed to be sensitive. You need to know things like the number 4 means death in China just like the number 7 is lucky in the U.S. We all know the importance of these countless culturally specific attributes. But the basic structure of the games, the basic delivery of the frequency of win, the magnitude of win, the ability to understand the win is remarkably consistent across all cultures we've seen. When you digress from those fundamental principals, you will almost invariably fail.

None of us likes to think that we're all cut

from the same cloth. We all like to think that our problems are somehow different. And don't we all prefer to think that maybe, just maybe, we can break the mold and hit a home run?

J. Kennedy: Yes, and sometimes you'd be right. Sometimes it works. But for every success story, we have many more examples of attempts to depart from those core principals that resulted in failure. And the costs of those failures far, far outweigh the profits yielded from the rare success. We actually spend the majority of our time trying to convince people of the validity of these core principles and provide managers solid information that will encourage them to stick with the plan. The core performance drivers that reach large markets are remarkably consistent across all cultures all across the world.

We think of the business as a process that begins with the consumer moves back through the intermediate channels where they purchase their experience then back to the infrastructure that supports it. It starts with the end user or the consumer. So when we think about the consumer in China, in Italy, in Florida, we look for the similarities to what motivates them, to what they find repeatedly engaging. It's got to be repeatable and engaging. We can always get somebody to try something once. The secret to this business is to be able to create a product and an experience

that people want to repeat. To do that, we need to have the discipline to apply those core principles, to stay consistent with the methods and strategies that are predictably successful because they have evolved over decades of experience.

You're cramping my style, Jim. What about creativity, innovation, thinking out of the box, and my artistic talents?

J. Kennedy: Highly over-rated! Just kidding. Of course we do need creativity. And we need to think outside the box and continually push for innovative solutions. And in brainstorming sessions, let's let it fly. But we are not playing jazz music here, in the end, decisions about how and where to invest capital and human resources have got to be consistent with the fundamental rules that apply everywhere in reaching broad consumer markets. Believe me there is still a lot of work to do inside the box. Our group at SG is studied not only in this industry but in the most current literature on behavioral economics. There is more and more concrete evidence showing that the experience that we deliver, which is this moment of excitement, is really a human experience. It's shared across cultures in a strikingly similar way. In the most important ways, the experience and motivations of the Chinese consumer is not much different from

the Italian consumer or the Florida consumer. Our experience in this industry is being confirmed by the academic research in behavioral economics into how humans make decisions and how that decision-making process is rooted in our biology.

Let's move in to the retailer space and an example of how the commonality of concerns and goals exists there as well. I was in the middle of Mainland China in a city called Chengdu, in Szechuan Province. A retailer stood up and in Chinese asked me three questions. He asked "why should I take valuable counter space to put these tickets up?" Then, "why should I dedicate my busy clerks to selling this." And lastly, "why should I do it for 5% commission?" I may as well have been standing in a retail forum in Indianapolis! You hear that exact same thing virtually everywhere you go. Like you said, we do all like to think we are different. But the most astonishing thing that is revealed as you go around the world is just how much we share with other people and cultures. And the rules of business and human motivations and behavior are in so many ways universal.

Again, every jurisdiction and market is different in some ways. It is vital that we discern those differences and integrate that knowledge

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into all aspects of the business. But we need to be aware that the outcomes of all our efforts will comply with the core principles and core performance drivers.

How have changes in consumer behavior changed the task of profiling and categorizing the consumer?

J. Kennedy: Convergence is also about how the games work together and how they are positioned together to effectively reach the consumer. We see this type of convergence again as both a marketing and technology issue—a way to seize gaming opportunities across a variety of mechanisms that have consumer involvement. In this respect, convergence of markets is driven by consumer demand in parallel with technologies and products blending to create a new delivery model. We need to be careful about how we apply profiling models to our consumer.

What do you mean by “convergence of markets is driven by consumer demand”?

J. Kennedy: Just that markets are driven by the consumer behavior and not only the theoretical models that also inform our approach to marketing. We need to break down the barriers that prevent us from seeing how our markets operate, how consumers truly think and behave. One of those barriers begins to be built in college when we channel our focus into separate disciplines. That can be a useful and practical way to organize large bodies of information. But it can also cause us to view the world as if those distinctions were reality. We like to think our knowledge and analytical processes are empirically driven, and yet our education and way of perceiving the world is compartmentalized in ways that reality is not. Real-world phenomena does not actually coalesce into discrete categories so that we can understand and model it more effectively. And we carry this over into the ways that corporations are organized. Of course, it is a practical necessity to organize a large enterprise this way; and in fact to organize our knowledge base this way as well. We just need to realize that the ways we model things and organize information is not an accurate reflection of the way the world really operates. Instead we need to focus squarely on the real-world behavior of the consumer.

For instance, in the conventional marketing world, if you're Coca Cola, you're trying to take market share from Pepsi. It's in the marketers' DNA to focus on competing against a similar product. The way we think of things, and organize ourselves internally, can impose a mentality that can inadvertently become an assumption in the lottery business, resulting in positioning one game against another; like positioning a \$20 raffle game against a \$20 instant game. Prefer-

able to that is to think in terms of optimizing the entire portfolio of products. Then you look for ways to harmonize the promotion, prize structures, win frequencies, and everything about the way the product is brought to market. That's the way to get your products and the delivery model to be in sync' with your consumer. That's what I mean by “convergence of markets is driven by consumer demand.”

Every single time we put out a new game, or even a marketing message, we are training our consumers and retailers how to think about our products. Our data-driven approach is complemented on the theoretical side by the conviction that the most important part of training your customers to think of you in a certain way is to make sure your strategies and products leverage the way they already think and behave. Our research clearly shows that how you bring the products collectively to market has a significant long-term effect on the consumer behavior. Some of our research is based on a patented system that currently tracks over \$300 billion in sales information over 20,000 games. So, when we talk about concepts like “convergence,” it's important to emphasize that our approach is steeped in concrete information and practical experience.

But you are also saying that one of those drivers is to create an integrated approach to marketing the entire portfolio of games and products, right?

J. Kennedy: Yes. We don't view it as online versus instant versus video versus anything. It is a range of products that's what we bring to the consumer market. I'll give you another example of that. Right now there's this raging debate about the Internet. The question seems to be how will it impact the retail channel, how will it impact the entire business. And when thought about as an isolated phenomenon, or distribution channel, it is perplexing. But when we think about it as simply another point of contact with our consumer and how to integrate it into the complex of channels and games and business partners, we will be more successful at optimizing the impact across the whole portfolio of products. We need to move beyond concepts like “channel conflict” or products “cannibalizing” each other. Our products, channels, and business partners don't have to compete with each other. They can work harmoniously to produce an optimal result.

For example, a player identifies on the Internet where their local retailer is, prints out a coupon that can be used at that retailer and then goes to that local retailer to purchase three or four lottery products that they've identified on their website, and then go back to the website and play promotional second chance drawing games? Several of these functions are examples of what we're doing with some cus-

tomers now. What we're doing is reinforcing this whole proposition that the lottery drives traffic to the retailers, and the retailers benefit from that traffic, and the consumer benefits from an enhanced experience using the Internet. It's not one versus the other. Once new products are available they are not substitutes, they are additions to an existing ecosystem.

What other ways can back-office technology be integrated to support an increased variety of game types? Aren't there significant efficiencies and cost savings to be gained by

J. Kennedy: Each implementation of our gaming system is followed by cross functional reviews purposefully planned to assess opportunities for advancement. Our gaming system platform—AEGIS-EF—has evolved with each implementation, taking advancements from the last implementation and moving the system forward to the next implementation. There are significant efficiencies and cost savings with delivery of integrated systems with expanded functionalities, as there is with consolidated systems data management and operations. The challenge is bringing about change in a way that is least disruptive to the Lottery and its business operations. We need to keep the baseline of reporting and data management but at the same time be ready to move forward and embrace the next levels of possibility.

Are there benefits to creating a comprehensive and integrated approach to marketing a broad portfolio of games from completely different categories—like sports betting, VLT's, Instant scratch-offs, Lotto, etc.? This as opposed to having separate “silos” of game development and marketing/advertising the different games types.

J. Kennedy: There are distinct benefits for integrated marketing and advertising within the portfolio of games, however, game development is a specialty within each category. Collaboration in this area is mutually beneficial in the advancement of concepts and idea generation, but our experience has shown execution of game design is best managed within the product specialties.

You've added sports betting to other gaming categories that SG supports for the Delaware Lottery. Are there synergies between sports betting and the central server and other technologies that support those other games?

J. Kennedy: Absolutely, our sports lottery program for Delaware was a culmination of expertise within our lottery operations group, our online technology group, our video lottery group, and our racing group. Offerings from these groups were blended or converged to

bring about a tailor-fit sports package for the Delaware Lottery at its racino locations.

Of course the size and scope of the product is in the hands of the policy makers but our implementation project plan to launch in early September is being managed following the same best practices employed during our recent Pennsylvania lottery online systems conversion, so there is crossover there in sharing of methodologies and planning. Our online operations group will have operational management responsibility for the sports program, so again there we are seeing synergies in resource skill sets and professional services. The marketing program for sports is a culmination of our best practices developed from our global gaming experience. The basic principles of marketing apply however, regardless of the game type. Promotions and capturing the attention of the player in a meaningful way are key. We hope to have fun contests, using the betting terminals and digital signage as communications avenues to promote games to the players. There may be opportunities for cross-promotions, sports to video to traditional lottery to racing. The racinos in Delaware are full destination gaming venues, ideal for expanding playership across the multiple product lines.

The technologies will certainly integrate in Delaware where relevant as they are based on the same basic design architecture and software types. In this era of systems implementations, products can support each other and work harmoniously. As mentioned above, we see great convergence in implementation and operations methodologies.

It used to be that the players were segmented into classifications that did not overlap much. I'm curious about the notion that lottery players don't play slot machines and slot players don't play lottery and wondering if that notion isn't based on presumptions that no longer apply.

J. Kennedy: When thinking about the segmentation of consumers, we think of it in terms of their core motivations for engaging in gaming activities and not so much about their demographics. In general, lottery players have a higher propensity than the general population for participating in all forms of gaming; casino visitation, horseracing, playing cards and so on. As long as the value proposition is there in a gaming product, people who enjoy the thrill of playing will seek it out. This is especially true for the core player as their motivation is winning. The more casual player obviously enjoys winning as well, but the primary goal is about having fun and enjoying the experience, whether it be an instant scratch game or a slot machine.

People who enjoy the thrill of gambling will wager on whatever products deliver that thrill.

The best example of this is the phenomenal growth of effective higher price point instant games over the past five or so years. The value proposition is what true gamblers want and the product is flexible. You don't have to be in Vegas or Atlantic City to satisfy that desire. The situation we need to consider now is that we have created a product that meets the needs of core gamers within the current environment. However when competition with higher value propositions enter a market, such as casinos, VLT, slots or sports wagering, we need to reevaluate the product mix. Core gamers will still play lottery because of its accessibility, but they will also shift some of their spend to these new, higher return products. So we have to make sure we offer a marketing mix that supports the more casual player who will still seek fun and entertainment.

How can you integrate to optimize the business in a converging industry if there are different companies involved in each category, not integrating and perhaps even working at cross-purposes? Are there ways for different companies (which most likely compete with each other) to collaborate to produce a superior result?

J. Kennedy: Certainly it can be viewed that competition at the contract level or category level is at the front-end of the bifurcation at the product level, but it doesn't have to be. With more than 25 years working within this industry, I am excited to see collaboration taking place at the supplier level and that now evolving into the standard approach to business. More and more, we sit at the table with the other suppliers, working in a collaborative fashion to solve challenges, bring recommendations, and advance the success of the lottery organizations. Our linked games such as Wheel of Fortune are certainly evident of this progression, as are some of the recent efforts in our web services category.

SG is evolving in interesting ways. You recently declined to bid on the Arkansas online lotto contract because, your press release said, you have different strategic priorities. Could you explain what your longer-term strategy is for the online lotto market? How about elaborating on your long-term strategies in other areas? China and developing countries?

J. Kennedy: Our submission of a no bid in Arkansas was really in the best interests of the Arkansas lottery. We reviewed the timeline and assessed that project against already committed project endeavors around the world. We decided to not submit the online bid but were pleased to submit a proposal for the launch of the instant games, along with warehousing and distribution services, and glad to have won that contract.

We seem to get asked the question, "are you

staying in the online space?" The resounding answer is quite simply, yes! We view online lottery as a gaming system, and advance our gaming system business in tandem through implementations of online lottery, video lottery services, instant ticket management distribution systems, server-based gaming systems; it's all technology, and we remain very much in the gaming technology space. We pride ourselves on our integration efforts, of taking diverse technology platforms and integrating platforms to create new and exciting gaming experiences. Our start-up of the instant program for the China Sports Lottery last year was largely driven not only by our skills in the instant game business, but also our ability to rapidly launch large validation systems, communications networks, and deploy hand-held sales terminals. The best potential for us to add value as a commercial partner exists where we're allowed to fully leverage those technologies, products, and competencies. An RFP that over-emphasizes start-up costs and cost of terminals impinges on our ability to do that. It is our conviction that the goal of optimizing the profitability of the lottery is better served with a long-term focus on real performance drivers than those short-term start-up costs differences.

We make contract business decisions on a case-by-case basis around the globe as a part of our business development activities. The criteria we use to make those decisions includes maximizing ROI on our investment and building a business based on serving the interests of our shareholders, our employees, our customers and our other stakeholders. Frankly, that is best accomplished by focusing our investment of time and resources where we can add the most value and leverage our capabilities to really drive superior performance. We find that focusing on those kinds of contracts and building those kinds of partnerships is also the best way to serve the long-term interests of our shareholders and other stakeholders. I suppose that's another example of convergence.

I should add that once we're past the procurement part, we're working hand-in-hand with whoever is awarded the other contracts. So as an example, we're working closely with Intralot right now to get Arkansas up and running. Their folks are working with our folks to put communications into the warehouse and get the warehousing set up and the communication infrastructure set up. And we're working with them to identify the games that they can deploy to the retailers. Even though we may have competed for one part of the business, once the procurement's done, then our interests are aligned. One of the great things about this business is that we tend to fight very vigorously on the get, but then we collaborate very well on the grow. ♦