



Stephen Martino

Director, Maryland Lottery

PGRI Introduction: The Maryland Lottery has one of the most diversified product portfolios in the United States including both national jackpot games, two robust monitor games, in-state draw games, two twice-daily numbers games, instant tickets, and now casinos. The decisions about new games and channels need to be vetted for their ability to complement the existing games and contribute to overall performance. And yet, they are still challenged by the goal of increasing the appeal of lottery to the population of young adults.

The opening of three casinos has been the big story in Maryland for the past couple years. Regulating the casino operations always will be a top priority. But, with the development phase nearing completion, Director Martino turns his sights on Internet lottery sales, attracting new consumer groups to lottery, professionalizing the merchandising at retail, and optimizing the performance of the entire portfolio of products.

Paul Jason, Public Gaming: *Congratulations for a great year.*

Stephen Martino: We are pleased with our performance highlighted by our fifteenth consecutive year of sales growth with an \$80.5 million, or 4.7%, increase this past fiscal year. Powerball increased by 48%, or \$25.2 million. Mega was also up 7% or \$7 million. However, it should be pointed out that we were on track for a record year even before the Mega Millions jackpot in March.

That is an amazing increase in Powerball. The change to \$2 price-point worked well for you.

S. Martino: Yes, it did. We are a legacy Mega Millions state, but I was supportive of the change to the \$2 price point, and it ended up performing as we hoped that it would. I can't claim, however, to have projected a nearly 50% increase. I think the change in ticket price enabled us to differentiate Powerball clearly from the \$1 Mega Millions ticket and that the impact of that product differentiation may have been even more profound for us as a Mega Millions state. Our players tend to default to play Mega Millions. But I think that is slowly changing. It is certainly our hope that Powerball will sustain longer

jackpot runs at higher levels and allow us time to market it when it is more than \$100 million. It is at \$158 million today, for example. So we increase our advertising, television and radio, and electronic billboards to promote the game. Our advertising is budget dependent, but we start to ramp up when the jackpot gets to \$100 million and are all-in when it gets to \$150 million.

Are you supportive of the concept of a national premium game? More specifically, do you think lottery directors should work hard to overcome differences and try to create a third national multistate game?

S. Martino: Yes to both. I am supportive and do feel that we should power through whatever challenges exist to give strong consideration to a third national game. Though I am not on it now, I served on the premium game committee for awhile. It is a big leap from agreeing conceptually on the game and then working through all the details to make it happen. Even conceptually, we need to think carefully about what kind of game it should be and how we should position it along side of the other two games. The third game should be substantively different from the other two. All the lotteries have a portfolio of products and to add another national game to the menu

will take some thought. In Maryland, we are doing new things on the instant product side and also launching a new draw game with a jackpot component later this year. A new national game does need to fit into our agenda for new product launches, and I suspect other lotteries have the same concern. But I am interested to see what is developed. We're discussing ways in which it can integrate a social media element and become a platform to attract younger players. Of course, it's not just about young adults. There is a growing demographic group that would like us to enhance the entertainment value of lottery games, perhaps with social gaming or extended-play features. So the answer is that yes, we are very supportive of innovation and progress in the multi-state game space.

It sounds like you have set an ambitious agenda for yourselves to come up with something quite new and different for the next national game.

S. Martino: I don't think any of us is interested in talking about another jackpot game. We need to do something fresh and different.

Maryland is fortunate to be a diversified lottery. The combination of all of our jackpot games - Powerball, Mega Millions, and Megaplier, Power Play, and two instant jack-

pot games, Multi Match and Bonus Match 5 – add up to just over 10% of our total sales. We get no more than 30% of our sales from any one category. So we're 30% from Pick 3 and Pick 4, our numbers game. We're 30% from our monitor games, and we have two thriving monitor games in Keno and Race-trax, which is a horse racing style game. And we get 30% from instant tickets. So managing this diversified portfolio for optimal performance is the critical requirement for us. Any new game concept not only needs to have high potential for success on its own, but it needs to complement the performance of all our other games. We give a lot of attention to keeping a balanced portfolio with the games all working in concert.

We research extensively the demographic segment that any new game is going to attract. A game that would have the potential to appeal to young adults or the social networking crowd is more likely to be considered. We're only getting about 50% playership from eligible Marylanders, those 18 and older. We believe that is extremely low, especially for a mature Northeast lottery. And about 2/3 of all of our players are 45 and older. So if we're going to continue to increase sales and grow revenue for the state we need to have much greater market penetration in the young adult demographic.

At 9% of sales, you have a relatively small portion of revenue coming from the two national games now.

S. Martino: We are pleased with our diversified portfolio. It makes us less vulnerable to lingering low jackpots and less dependent on any one game to outperform to make our numbers. We have an extremely successful Keno and monitor game operation. We've got strong numbers play. Our instant product category as a percentage of overall sales is low. But our instants space probably just represents an opportunity for revenue gains without cannibalizing other products.

You've got room to grow instants, but you don't feel pressure to jack up the prize-payouts to make it happen. Does product diversification help to keep the margins higher?

S. Martino: It does. The increases we have been getting in instants tend to be in the higher price-point tickets that have lower margins. So sales go up but revenues don't go up the same percentage. In the end, I would say that our diversified portfolio affords us the flexibility to be choosy about where we allocate our resources. We don't

sweat the jackpot numbers, and we aren't forced to increase prize-payouts and hope big sales increases offset the lower margins. But we're simply not dependent on any one category or product to carry the load.

You've been so good at public relations. Don't you think that somebody like NASPL or MUSL or some consortium between MUSL and Mega Million could employ a public relations person that would have more of a push approach to getting national media, to give more attention to lottery on a regular basis so that it's not treated as something that isn't talked about until the jackpot exceeds \$100 million?

S. Martino: It's not something I've given a lot of thought to, but it is probably something that bears further discussion. I think that the media gets jackpot fatigue just like players do. And for the same reasons that it's hard to get players interested in jackpots lower than \$100 million, it's hard to get the general media to give attention to it too. I worry that the long-term effect of the \$656 million jackpot is that the minimum threshold of attention by players and the media may have been raised to something much higher.

I understand the logic of the consumer mentality. But I would still like to think there may be something we could do to change that. I mean, after a Super Bowl Sunday or the London Olympics, does everyone say, gosh, that was so fabulous that I won't be interested again until there is something equally exciting so there's no reason for us to ever watch an athletic competition again till next Olympics, or we don't need to watch football again until till next February for the Super Bowl. And for sure we can skip the whole baseball season till October!

S. Martino: Your point is well taken. I know the MUSL public relations committee is involved and working on figuring out how to increase national PR. And the NASPL communications workgroups are great vehicles that get people to address these issues. Like most lotteries, our own resources are focused on our state-specific goals. It likely would need to be some kind of third party firm or PR specialist managed by a MUSL or NASPL.

Are there things that you're thinking about doing that are focusing on that objective of increasing player-ship in the young adult demographic?

S. Martino: One will be to launch an Internet lottery sales platform. Making the

products available through the desktop and also through mobile smart-phones is a vital step toward reaching the young adult consumer. And we are confident that it will have a positive impact on our traditional retailers. We have 4,200 retailers to serve a population of 5.8 million. Most consumers have easy access to these stores, but half are not buying. There are a variety of reasons for that. But making the products available on the Internet would make it more convenient and accessible for the consumer who is already conditioned to buying products on the Internet instead of stores. One of the problems may be that people are intimidated by our games or do not know how to play them. The Internet could be a means to engage those people and make it easier for them to try new games.

We're moving forward in the development phase, having internal meetings and meetings with third parties to understand the options, the costs and the different approaches. We do not expect it to have a significant impact on sales or revenues any time soon, but we are moving forward. The governor booked \$2.2 million in revenue, which means around \$6.6 million in sales, for the fiscal year ending in June 2013. So it will happen and hopefully sooner rather than later because it will take time to ramp up even to that modest revenue objective. We expect to launch in 2013.

The Internet can be a tool to support lottery objectives that are not easily translated into measurable sales results.

S. Martino: It is a tremendous tool for increasing consumer awareness, enhancing their perception of lottery, educating them on how to play the games, and communicating jackpot levels. For instance, we've got an initiative this summer to increase the number of "likes" on our Facebook page. We're at more than 30,000 now. We've got 2,500 people who follow us on Twitter. We've got 20,000 mobile numbers that we text the winning numbers to. We've got an e-mail list of more than 75,000 from people who sign up for second-chance prizes through our website. So we're already doing these things. These are interesting initiatives that increase awareness and that should contribute to sales. On the other hand, we do need to recognize that sales in fiscal 2012 were \$1.8 billion, and the projection for Internet sales in the current fiscal year is \$6.6 million. As a percentage of sales, it is microscopic. The point isn't that the Internet is not a key component to reach-

ing the next generation of consumers just that brick-and-mortar retailers will continue to drive our revenues for the foreseeable future.

Maryland's implementation of casino gambling is gaining momentum and capturing at least some of the revenues of casino players that were going to neighboring states to gamble. How did it affect lottery sales?

S. Martino: Given that we have increased traditional lottery sales every year since the casinos opened, there has been no discernible impact. We sell lottery products in the casinos and use the forum in a minimal way to cross promote lottery to casino customers. We have ITVMs and Keno in the casinos. I had doubted that lottery sales would be significantly impacted by the casinos opening. Maryland residents had been going out of state to gamble for some time. They were exporting their dollars to Delaware, Pennsylvania and West Virginia. To the extent that there was any cannibalization of lottery sales and revenue, it likely happened years ago when the out-of-state casinos opened. Maryland casinos have been effective at redirecting the gaming dollar back into the state. Economists call this import substitution where the gambling money that residents were spending out of state is brought back into their home state. This is, obviously, a positive event because we want this state to benefit from them paying a voluntary tax. Specifically in Maryland, the state's share of casino tax revenues goes to support K-12 public education.

Our third casino, Maryland Live, opened in June. With 4,750 slot machines, it is going to be one of the largest casinos in the United States. With a facility like this, we hope to pull in some revenues from neighboring states just like they have been getting some revenues from Maryland residents.

How have monitor games come to be so important for your lottery? And am I wrong in thinking that they could be a key to increasing player-ship especially with the 45 and younger crowd?

S. Martino: I can't claim to have a full understanding of why monitor games are so successful in Maryland. I think that when Keno was launched, the lottery was aggressive about finding retailers to offer it. At the time, monitor games also posed some of the same controversy that i-lottery poses today for retailers. They are popular because they do facilitate a social gaming atmosphere, but the facility needs to have space for the games to be played. Retailers that did not

have the space were concerned that they would lose business to the bars, restaurants and taverns that did have the space to accommodate the game.

Monitor games became part of the entertainment culture in the state. It is interesting to observe the ways in which some locales really gravitate towards monitor games. The Eastern Shore of Maryland is extremely strong in monitor games. No one can say exactly why that is other than that it seems to have taken hold as an enjoyable way for people to get together and socialize. The success of Keno prompted the launch of a second monitor game concept with a horse racing theme called Racetrax. This, too, was implemented before I arrived. Racetrax totaled \$134.3 million in revenue last year, more than Powerball. Monitor sales increased by over 5% in fiscal 2012. Our sales staff has focused on increasing the installations of both monitor games in convenience stores and restaurants that only had one of the games. Now, many retailers have two monitors up, one that has Keno and another that has Racetrax.

A larger variety of games are being made available through an increasing variety of channels. Casinos, lottery, retail stores, Internet, mobile, etc. Won't this increased accessibility lead to the consumer trying different gaming options? Won't the lottery player who never once considered going to Las Vegas or Atlantic City be likely to visit Maryland Live if she lives just down the street from the casino? Won't the casino player be responsive to the appeal of the hope and dream if she is short on time and money this weekend?

S. Martino: The nature of casino gambling is different than playing the lottery. Lottery is a small wager against very long odds to win an extremely large prize. The Mega Millions jackpot of this past spring highlighted that point as clearly as any recent example. Compare that to the blackjack tables in a casino where the table minimums are often \$10 a hand and the play is rapid-fire. The buyer motivations and the play styles of these two activities do not overlap significantly. That doesn't mean that people can't enjoy doing both. They do. Our lottery sales at casinos are strong, but no one is going to the casino primarily to buy a lottery ticket. Most people are predisposed to one play style or the other but also enjoy a variety of activities, and I think that applies to gaming, too.

The tax rate that is charged to casino operators is 67%. That is higher than almost anywhere. Does that make it harder to de-

liver a good value proposition to the consumer and attract players?

S. Martino: The tax rate coupled with the downturn in the economy certainly created some challenges in the development of casinos in Maryland. But it's being done in a high quality manner. The Maryland Live casino is first class. They offer a good experience. Maryland casinos are or will be located in lucrative metropolitan markets and should be successful.

What do you see as the most important consumer trend lines in lottery and/or in gaming generally? And what do you see as the most important issues facing the Maryland Lottery?

S. Martino: The most important consumer trend-line facing the Maryland Lottery is this: We need to increase the appeal of lottery to the younger and socially networked adult population. In fact, we are starting with the more modest objective of just increasing awareness among this vital demographic group. We want to heighten their awareness of the lottery, what the lottery does to support good causes throughout the state, and change their perception to think of lottery as a game they would want to tell their friends about and as a compelling form of entertainment for their discretionary dollars.

Like many others, the Maryland Lottery has been focused on best practices and applying them to our own operations. We are now trying to bring it to bear for our retail partners, helping them to improve their lottery-selling efforts for their own benefit as well as the benefit of the lottery and the state. A specific initiative to accomplish that is the SalesMaker program that we're doing in coordination with Scientific Games. This is a program to first educate retailers on the impact that effective merchandising has on consumer awareness and sales. Second, we apply the merchandising principles to lottery, doing a makeover that demonstrates how the games can be displayed to create sales.

And lastly, we had an agency reorganization to better align the operating units. This reorganization gives all of us a much clearer sense of direction, purpose and a focus on producing the results that the state expects of us. ♦