



Product Development vs. Operational Execution —Which Way to Growth?

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The recent collapse of the Monopoly Millionaires Club game has caused great soul-searching in the lottery industry, as lottery executives sift through the implications of game design, ancillary products and marketing, industry collaboration and ultimately, the lack of consumer acceptance. Lottery professionals have been searching for the “next best thing” in lottery play for several years, looking for a unique concept in a game design that would drive the next cycle of lottery revenue growth.

We’ve heard all the business jargon clichés: “content is king;” “think outside the box;” “be more like Apple or Google or Amazon;” “embrace change;” and “re-invent our product line.” We’ve become so obsessed with not becoming “our father’s Oldsmobile” that we have misinterpreted market research and have failed to focus on the totality of our customers’ experience.

First, a little background: when the industry came together a few years ago to cross-sell Powerball and Mega Millions, it was actually the first phase of a three-phase strategy for future growth. The second phase was to take one or both of the games to a \$2 price point, which was also successfully implemented a couple years ago when Powerball became a \$2 game. These first two phases of the strategy, laid out years before, produced a very nice run of revenue growth in the big jackpot games for a lottery industry still recovering from the 2008 economic crisis.

Phase three of that original strategy would prove to be much tougher; the development of another national game, hopefully at a \$5 price point. (One of the driving concepts was to create revenue growth in the draw game category by pushing the price point of games, much like the success seen in the instant game category for many years.) An intensive game development effort was launched, initially led by Margaret Defrancisco, and a wide cross section of the industry,

including lottery directors, the vendor community, market researchers and outside consultants, conducted countless meetings, focus groups, research studies, brainstorming sessions and concept testing. After almost two years of this intense effort, no compelling product idea had emerged. Frustration ensued; where was our breakthrough game concept?

This moment was probably the first significant misreading of our consumer. After all the work that had been put in, perhaps what we should have realized was that there simply was no breakthrough \$5 game opportunity. Maybe the research was telling us our strategy was flawed. But instead, we decided we needed a different game development process. So a decision was made to conduct a competition among the vendor community, select the most promising game and launch with tremendous national support and marketing. Unfortunately, much to our chagrin, that effort failed as well.

However, at the same time as the industry was feeling frustrated over the lack of a definitive game concept coming out of the national game development effort, six states in New England quietly launched a regional game called Lucky for Life, similar to instant games that offered top prizes that paid out over a winner’s lifetime. Maybe this was the model for future national game development. Rather than the top-down, all-in, herd-the-cats, simultaneous big launch, perhaps we should allow for a more organic approach to product development, seeing which ideas captured the imagination of our players, with what was essentially market research via a real-world, small-scale test.

Two other examples come to mind. A few years back, the New York Lottery created and launched an instant ticket called New York Lottery Black, which was intentionally designed as a real-world market test, on the theory that a lottery that launches 40 or 50

different instant tickets a year can afford to use one or two as real-world guinea pigs. Of course, the Black Ticket has gone on to become one of the most successful instant tickets of all time in countless other lotteries. And because lotteries don't compete directly with each other, we happily encouraged its use by any and all fellow lotteries.

The second example of real-world market test was less successful. Again in New York, we had the notion, culled from countless focus groups, that players would enjoy a draw game where, instead of a big top jackpot prize, multiple winners would each win \$1 million. The game, called Sweet Million, was launched with a clever ad campaign, but unfortunately, failed to resonate with players. In fact, sales peaked shortly after launch and slowly declined thereafter; the game was closed last year. But what we learned was a lesson in interpreting market research; just because people say they may like something, their actions can be drastically different. It reinforces the value of small-scale, real-world market testing.

The positive experience of Lucky for Life led New York and New Jersey to launch Cash 4 Life, a similar game which has also seen good results. Several more states are now joining these two consortiums, and we now may be seeing the evolution of the next generation of national games, much like the original development of Powerball and Mega Millions, which also began small and grew as players embraced them. These are excellent examples of how successful lottery national game development has worked in the past; starting small, adding states, finding the sweet spot of consumer appeal and growing revenue.

In fact, the win-for-life concept seems to be becoming a real alternative for consumers who may be suffering from jackpot fatigue in other games. The concept has even taken hold in the Publishers Clearinghouse Sweepstakes, which has been promoting and advertising a very lottery-like prize of not just one lifetime, but a second lifetime winner of the player's choice! Imitation is the sincerest form of flattery.

Meanwhile, lottery directors still need to drive growth and raise revenue for their good causes. Since relying on a "silver bullet" new game is problematical at best, focus should return to the totality of the customer experience, especially at retail, where much work remains to be done. Please excuse the comparison, but can you compare the typical experience of a person buying a lottery ticket with the experience of walking into an Apple store? Nevertheless, this is an area we control and can improve every day.

Playing the lottery is fun, and we can reinforce the notion of fun at many stages of the lottery purchase experience: clean, sharp ticket displays; relevant and timely point-of-sales materials; attractive player stations; well-stocked vending machines; simple how-to-play brochures; seasonal store-level promotions, grass-roots event marketing; knowledgeable, well-trained

clerks—all the basic blocking-and-tackling of the lottery business have tremendous influence on revenue growth.

Another example of enhancing the player experience is how we treat our winners. Many lotteries still have "claim" centers; even the word "claim" implies skepticism and a heavy-handed government agency; better to call them customer service centers. Do your customer service centers make players feel like they are at the DMV or a police station? Or, are they cheerful, welcoming places happy to give lucky winners a check on the spot? Think about removing all the negative government agency symbolism, heavy-handed posters, framed pictures of agency heads, regulatory requirements, even flags. Clean up your signage, avoid clutter, put your friendliest employees out front. Look to the retail banking industry as a good example of how to make customers feel welcome, even if employees are behind bullet-proof glass!

All of these seemingly simple tasks can add up to measurable revenue. Consider for a moment the wide range of performance of various lotteries. What distinguishes the high-performance lotteries from the average? It's not game design—everyone has basically the same games. It's the excellence of day-to-day operational execution, with a calm persistence on sweating the small stuff, every day. It may not be as sexy as blue-sky brainstorming, but these factors are much more fundamental to the growth and success of lotteries, by making players feel good about playing the lottery.

Even an issue as controversial as internet game sales is basically a customer-service issue. As imperative as lotteries being able to sell on the internet may be, the benefit is in enhanced customer convenience and service, since the direct revenue potential of internet sales is modest at best. And even as ridiculously paranoid as our retail partners are about the internet, ultimately it will serve to improve the image of lottery play and lottery players, in turn enhancing their businesses. But first, we need to demonstrate through actions that the retail experience is our top priority. That requires superb, reliable technology from our partners, a retail-friendly regulatory attitude (why is licensing so burdensome in some jurisdictions?), simple standardized accounting rules, sophisticated inventory management and a meaningfully helpful, well-trained, informed and motivated sales staff.

The lottery industry may be coming out of a harsh winter right now, but the opportunity exists to get back to basics and focus on things we can control. The randomness of jackpots will ebb and flow and inevitably, they will come back to record levels. We cannot rely on future new game development to solve our very real day-to-day operating challenges. That will require consistent application of best practices, learned from our colleague lotteries and our vendor partners. Good lottery management requires good people doing good work. We don't need to wait for the next great thing to make our numbers; we can do that right now with the tools we have. ■