



MARYLAND LOTTERY
AND GAMING

Gordon MEDENICA

Director, Maryland Lottery and Gaming Control Agency

PGRI Introduction: Maryland Lottery and Gaming operates a traditional lottery and oversees the state's casinos, which were launched in Maryland in 2010. With five casinos currently operating and a sixth due to open in late 2016, Maryland's casinos have become a driver of robust revenue. The casino business has now stabilized into steady and consistent growth. In Fiscal Year 2015, Maryland casinos generated \$1.038 billion in gross revenue and accounted for \$487 million in contributions to the state. Public Gaming spoke with Maryland Lottery and Gaming Director Gordon Medenica about the current state of traditional lottery, and the agency's ambitious plans to raise the performance in that category.

Medenica was appointed to lead Maryland Lottery and Gaming in May 2015. Prior to this appointment, Mr. Medenica served as CEO of Northstar New Jersey, Director of the New York Lottery from 2007 to 2012, and as the president of the North American Association of State and Provincial Lotteries (NASPL) from September 2011 to September 2012.

Dateline 2016: Position the Maryland Lottery for Growth in all Game Categories!

Paul Jason, PGRI: *Is there an over-arching strategy for maximizing sales in 2016?*

Gordon Medenica: We have four main priorities for 2016 and the first is to build our instant ticket sales. Last year about 30 percent of Maryland Lottery sales were in instant tickets. Given that the industry average in North America is 50 to 60 percent, we see significant headroom for growth in this area. Our second priority is to expand our network of retailers; given the population of the state, I believe there is room for perhaps 500 more retailers. We've made some recent organizational changes, which I believe will help us to focus more on this. Our third priority is the effective execution of our central system RFP, which will give us the latest technological advantages to support our initiatives. And, our fourth priority is the opening of MGM National Harbor in late 2016. The casino is currently under construction and we're engaged constantly with MGM's people to oversee that process. We expect the MGM casino to be our largest and most profitable.

That's a lot on your plate for one year. Ca-

sinos are a big contributor to your overall results. Does that occupy a focus that overshadows traditional lottery?

G. Medenica: It's fair to say that the rollout of Maryland's casino program required a disproportionate share of our time and attention. Implementing the program—and doing it well—was, after all, a huge undertaking. Now that our casino program is stable and performing well, we are able to refocus our energies on the traditional lottery side and work toward ensuring that all gaming categories are performing to peak potential. Maryland experienced two consecutive years of declining lottery revenue, in fiscal 2013 and 2014 and it wasn't until fiscal 2015 that the lottery returned to positive growth. That said, we're still not at the level that we were in fiscal 2012. We see tremendous opportunities for the lottery.

You see opportunity in instants because you are under-penetrated in that category. Is it correct to say that as important as the draw games are, there is more that you can do from a marketing and merchandising point of view to directly affect sales of instants?

G. Medenica: We look at our total game portfolio to find opportunities for growth. For example, Maryland has a very strong daily numbers business, built up over decades. In fiscal 2015, Pick 3 and Pick 4 accounted for 29 percent of our sales. We also have a high-performing monitor game category, with Keno and Racetrax, which constitutes about 24 percent of our total sales. These numbers are outstanding, but also indicate that further growth may be limited. In contrast, everybody in the industry is concerned about the trends in the big jackpot games, although we've seen a real revival with the new Powerball matrix. But growth in the draw game category is hard to find, as we all saw with the failure of Monopoly Millionaires' Club. Nevertheless, we launched Cash4Life in January to add a new multi-state draw game to our portfolio, and we are cautiously optimistic that the game will do well in Maryland.

Is there much crossover between the daily numbers player and the big jackpot games player?

G. Medenica: No. I believe the two are very different types of players. The daily numbers players represent our core players who know what they want and have specific numbers that they play multiple times each week. For the most part, these are consistent players who are set in their ways and less responsive to traditional marketing and advertising. The games are among our biggest, very mature, and also very stable and profitable, making them a key part of our portfolio.

Do you have any measure on the impact of casinos on lottery? Did sales go flat for a couple years because lottery players diverted some of their spending over to casinos?

G. Medenica: We did a white paper for the legislature to study that, and while the paper doesn't make hard conclusions, we were able to draw some inferences based on what we found.

The Maryland Lottery had two years of declining sales during the rollout of the casino program, and a common perception in the state was that it was due primarily to the introduction of casinos. But as we looked at the reasons for that decline, the evidence also pointed to a significant reduction in our lottery advertising budget as a bigger factor than the implementation of casinos. That's not to say that there's no crossover, but with our advertising budget cut by 40 percent in 2010—dropping from \$20 million to less than \$12 million—I'm convinced that the reduction in advertising was a major reason why performance declined.

The impact of casinos is generally thought to hurt the traditional lottery in two areas—instant tickets and Keno. But sales of instant tickets are already so low here, the casinos didn't really impact them that much. Keno did take a hit, but again, I believe that the reduction in advertising had a much bigger effect. Last year Maryland casinos spent \$46 million in advertising compared to \$12 million that was spent on lottery advertising. It's a share-of-mind problem, especially with the casual or infrequent consumer. It's not so much that lottery players prefer casinos, but the promotion of gambling options in consumer media was focused on casinos. We simply aren't investing enough money in advertising and marketing to tell our story, and as a result we're getting lost in the tsunami of other voices out there. Daily Fantasy Sports, for instance, doesn't seem to be a direct competitor to lottery. But the massive advertising we've seen from that industry overwhelmed the market, and it's likely that all of those commercials raised public awareness of fantasy sports even if they take their market share from other sports betting and not from lottery and other gaming options. And look at Publisher's Clearing House and other marketers that use promotional techniques that increasingly look like lottery ads: Enter a sweepstakes that gives you a

chance to win \$1,000 a day for life. That sounds like a lottery ad! At the end of the day, consumers are being deluged with promotional advertising that competes for their attention. Without advertising, lottery gets lost in the mix of more and more gaming options.

So, I think it's simplistic and inaccurate to say that the opening of casinos causes lottery spending to shift over to casinos. The casino market is really much more competitive with itself than it is with other forms of gaming. We just need to make sure that lottery is out there in front of the consumer so they are as aware of us as they are of other gaming options. And that requires advertising.

Is it possible that Mega Millions and Powerball could be in the mature stage at which point it may be better business strategy to extract as much profit as possible but to put your resources and investment dollars into creating new markets for new products?

G. Medenica: I'm not there yet. My feeling is that the big jackpot games will continue to appeal to infrequent players, but we do need to find ways to promote the large jackpots. When we talk about this idea of "jackpot fatigue," I think it's more fitting to call it "media fatigue." We're no longer getting free publicity when the jackpot hits \$200 or \$300 million, which means the consumers won't know about it unless we advertise it. Unlike Pick 3 and Pick 4, I do think that advertising works for the big jackpot games. The fact that there was a \$1.6 billion jackpot in the past doesn't mean that the consumer is no longer interested in a \$300 million jackpot. But the media may not treat it with the same breathless enthusiasm as they once did. So I think we should keep the foot on the gas pedal and continue to ramp up the media spend even when the jackpot is at \$300 million.

Does expansion of retail depend on opening up big-box multi-state retailer chains?

G. Medenica: No. We would like to do that, but it's hard to say how and when that will happen in a big way. Our retailer recruitment effort is based on the very simple best practice of increasing the per capita ratio of retailers to consumers—perhaps by incorporating non-traditional points of sale. When you look at outstanding performers like the Massachusetts Lot-

that there is huge potential for making our products more accessible and visible in the land-based channel.

G. Medenica: I think we all feel like we do plenty of online shopping, but in reality, we still do most of our shopping in stores. Of all the shopping done by the consumer, Internet-based e-commerce sales represent less than 10 percent of total

practices should be.

Consider launch cycles: Florida and Massachusetts do about nine launches a year. Texas does 26. To my mind, there is lots of room to grow the instants market simply because we're still figuring out the best ways to market them. As an industry, we're studying these huge differences in marketing strategies. As the evidence points us in the right direction, I would expect the best practices to be revealed, then be applied across the board and lead to further growth in instants. So while there is ample opportunity, there is also plenty of work that needs to be done to coordinate all these variables into a coherent strategy.

Currently, there is a focus on understanding and segmenting the different styles of play that we offer within the instants category. There's the extended-play person, who likes the crossword and bingo-style games, and that type of player is very different from someone who likes to quickly scratch off the barcode to see if she won. There are many options and opportunities for refining the design and promotion of instants to appeal to the different play styles.

You have managed government relations and public relations especially well, with a minimum of controversy over the rapid implementation of casinos. What do you do to preserve positive relations with the general media such that they don't stir up controversy like they do in other jurisdictions?

G. Medenica: Actually, there was controversy and debate throughout the process. Much of it may not have made national news. But the local media did report on the vigorous public debate over the decisions to legalize and regulate casino gambling in Maryland.

But in other states, the debate and wrangling among various interest groups often continues to plague the process even after the legislature approves a plan to build casinos. The

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tery, the one common denominator is that they simply have a denser ratio of retailers to consumers. Massachusetts is about one retailer for every 900 consumers. We have one retailer for every 1,300 consumers. It's the difference between never having to think about where to buy a lottery ticket because they're sold everywhere, and having to search for a lottery retailer.

Lottery gift cards, play-at-the pump options and other innovations could also serve to make the lottery more visible and accessible to the consumer.

As an industry, don't we need to determine who pays the 1 percent or 2 percent fees for cashless payments and some of the new trade-styles?

G. Medenica: We sure do. We could think of it as a form of advertising. One way or another, we need to provide the consumer with these options. What does having lottery gift cards on a rack at a Target mean to us, and could we justify the fee as an effective form of advertising and promotion?

Most U.S. lotteries are prohibited from selling on the Internet. But you're pointing out

retail sales. That percentage is increasing, but slowly. Land-based retail will continue to be our connection to the consumer, and there is huge potential for lotteries to improve retail strategies and methods. This is good news. Retail is what matters, and we have lots of opportunities to drive increased sales at retail.

What will you do to increase the sales of instants?

G. Medenica: The industry has benefited greatly from studies done by the community of commercial partners. Polard Banknote, Scientific Games and IGT continuously analyze the instants marketplace, and the strategies and approaches we employ are truly based on science. The long list of variables, like price points, prize structures, themes, branding, launch cycles and inventory management, are interacting with each other in ways that produce a dynamic and complex ecosystem. It is essential that these variables are coordinated and timed properly. They should be considered together, as pieces of a whole, and analyzed for the outcomes produced by the countless combinations of those variables. Even after all these years, there is still plenty of debate as to what the best

process in Maryland seems to have unfolded in a relatively orderly fashion, didn't it?

G. Medenica: We work hard to maintain complete transparency with all stakeholders, including the media and all interest groups, as well as the legislature. I think we can also commend the media for its reasoned and balanced approach to public policy issues. They listen to our story, they listen to the stories of others, and they work hard to report in a way that serves the public's right to understand the issues. There are things we do to engender trust and open communication with the media. But I also think that, in part, we're just fortunate to have local media that is serious about its responsibility to report the news in ways that genuinely inform as opposed to stirring up salacious controversy. Our Communications team, led by Director of Communications Carole Everett, has done a wonderful job of managing relationships with key people at outlets like the Baltimore Sun and local broadcast media. They are accessible to all the media, respond to their requests as promptly as possible, and never dodge difficult issues. In fact, the more difficult the issue, the more important it is to be accessible so that others don't shape the story. We always get them the information they need in order to facilitate the most accurate reporting.

You are very proactive at anticipating the needs of the media and stakeholders for full disclosure. Your monthly reports on the financial performance of casinos, for instance, are amazingly detailed. You even flag the pros and cons of the results, pointing out the facts without making excuses.

G. Medenica: When you know that a question will be asked, it's better to address it up front than to wait for it to be asked. That forthright approach establishes a foundation of confidence and trust that demonstrates to the media, our commitment to giving them the full story. We report to our Commission every

month, and everything that gets reported to the Commission is public record. This includes details like the number of petty crimes committed at the casinos, the number of underage people found in a casino, the number of public drunkenness and disorderly conduct offenses—just about everything that stakeholders might want to know. It's all a matter of public record so we're proactive about making it easy for the media to access those facts. They still ask questions, but at least it's in a context that shows we're not trying to hide anything. The media is confident in our genuine desire for them to have the full story and all the facts. Reporters have now come to expect it of us, so we make ourselves fully accountable and meet those expectations.

Adversaries to lottery are constantly pushing their agendas onto the media that result in stories that are not favorable to Lottery. The public deserves to have the whole story reported in a fair and balanced way. How can we be even more proactive at getting our story out there so that everyone understands the valuable role that government gaming performs for the public service.

G. Medenica: I think the Maryland Lottery's success in this area can be attributed to the legacy of Buddy Roogow. Buddy was such a larger-than-life personality in this state. He had so many connections, not just in the lottery world, but also the political world and the community at large. Buddy was a warm, genuine, affable person that treated everyone like a friend and as a result, everyone thought of themselves in that light. I think we're still benefiting from that legacy, that memory of Buddy as a showman and character who was beloved by everyone. He became the face of the Maryland Lottery, and his personality became part of the brand that connects, not just with the players but with everyone, including the media.

You are also proactive at engaging the sup-



Mr. Medenica promoting Lottery with Maryland Public Television's Jeff Salkin

port of important stakeholders like retailers.

G. Medenica: We do try to avoid controversy as much as possible. For instance, I have publicly stated our position that we are not pushing for the right to sell lottery products online. I do believe that Internet sales would not harm our retailers—that it would actually help the lottery and retailers connect with the consumer in ways that would benefit everyone. But our retailers don't believe that. In fact, they are dead-set against us making the products available on the Internet. So, we have decided to align our strategies with the will of our retailers. Preserving a positive relationship with our retailers is simply a higher priority and so that's where our commitment lies.

Further to your mission of positioning the lottery as aligned with the interests of the people, the Maryland Lottery and Gaming has also become a leader in responsible gaming.

G. Medenica: Credit for that really belongs to my immediate predecessor, Stephen Martino. I inherited an excellent organization from Buddy and Stephen. Regardless of when the initiatives originated, there is now a very strong funding mechanism in Maryland for responsible gaming. Last year that funding was almost \$4 million. Because the funding mechanism is tied to the numbers of slot machines and table games in the state, funding will increase by nearly \$1.5 million a year when our sixth casino opens.

In 2010, the agency established the Maryland Alliance for Responsible Gam-

bling, which gives us a forum for collaboration between our staff and the problem gambling treatment community and other stakeholders. Last year we joined the World Lottery Association and are now participating in their four-step process to become certified at higher levels of responsible gaming. I think all of those factors have contributed to the responsible gaming community viewing the Maryland Lottery as their friend. And that feeling is mutual.

Your Internet and digital initiatives are not

transaction-enabled. But you do have a digital strategy that connects you to your online player in non-transaction-based ways.

G. Medenica: We have three mobile apps and numerous second-chance drawings that we run through My Lottery Rewards, which is our customer loyalty website. Last September we launched a new app which allows players to scan their tickets to find out prize amounts and to enter those tickets into their My Lottery Rewards accounts. Also, we are about to

launch an e-playslip capability for one of our apps. Players will be able to create a playslip on their phones, and then flash those phones in front of the scanners at retail locations to generate a ticket.

In order to evolve with the marketplace and today's consumer, we're embracing social media and digital media. While we've made it a priority to integrate these more contemporary methods of communication into our relationship with players, the retailer still serves as the distribution partner for all things lottery. ■