



we're game
virginia lottery

Paula Otto

Executive Director
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PGRI Introduction: Director Otto was a member of the original team of people who worked to launch the Virginia Lottery back in 1988. As the Lottery's first Director of Public Information, she was responsible for shaping and protecting the Lottery's public image during those formative years. In 1997, Director Otto left the Lottery to accept a faculty position at Virginia Commonwealth University, eventually rising to the position of Associate Director of the School of Mass Communications. Eleven years later, in February of 2008, she was tapped to lead the Lottery as Executive Director.

With the unique experience of having been there at the start, Director Otto has a special affinity for the people she serves in the Commonwealth of Virginia, and for the mission of the Lottery which straddles a line between government and business. But times have changed! Since assuming the role of Executive Director, she has applied the most progressive principles and methods to modernize the Virginia Lottery for the contemporary consumer.

Director Otto is also the lead director for the Mega Millions Group. The multi-state games have been in a state of transition over the past couple years, and the pace of change is quickening. The media attention and the consumer love of the multi-state jackpot games pose a huge potential for U.S. Lotteries. Now that the number of multi-state games is increasing, the goal is to evolve a portfolio approach to differentiate the games, to optimize the synergy of the games, and maximize overall sales of the entire category.

Paul Jason, Public Gaming: *Happy 25th birthday. That makes the Virginia Lottery itself a Gen Y millennial.*

Paula Otto: Yes, and it's time for us to act our age – think more like a millennial, produce games that appeal to millennials, and make the games accessible to the younger adults on the Internet and Mobile. Of course, those are the games and channels that also appeal to those of us who may not be 25 years old anymore. And we need to modernize our approach to land-based retail as well.

Your FY 2012 sales increased by 9% over 2011. That's a good thing, but raising the bar like that can make it hard to sustain growth in the following years. So congratulations for extending your winning streak.

P. Otto: Thank you. It is gratifying to

follow a great year with continued growth.

Lotteries must not only comply with the all the restrictions applied by legislatures, they also operate on a day-to-day basis as an extension of government. The culture of government can be quite different from the commercial world. And yet lotteries are fundamentally marketing organizations, responsible for selling \$67 billion in product in the U.S. alone in 2012. Hasn't there been a rather significant shift, over the past several years, towards thinking more entrepreneurially?

P. Otto: I think there has. It begins with the culture, how you think of yourself and your mission as an organization. We do need to comply with the forms and structures inherent with all government entities. But lotteries are also marketing orga-

nizations with responsibility to generate funding for good causes. 100% of the Virginia Lottery net funding goes to support public education. If we do not accomplish our sales and net funding objectives, public education in Virginia would suffer. So, while we are an extension of the government, our mission to generate funding for public education would not be served if we thought of ourselves as administrators of a government agency. Our mission requires us to think and act entrepreneurially. We think of ourselves as a consumer products organization. That is the lens we look through as we set our strategic planning and chart a course for action. Instead of thinking of our mission as being able to manage a government lottery, we think of our mission as understanding the consumer and creating products that appeal to consumers.

Does it seem like our political stakeholders are coming around to that way of thinking as well?

P. Otto: Yes. It was twenty five years ago, in my role as PR Director, that I referred to Lottery as a government agency in a business suit. This dichotomy, this role of being both a government agency and a market-driven consumer products enterprise, has always been there. Legislators are more recently thinking about how to make government more responsive to the citizens, how government operations can become more ‘user-friendly’ in general. That’s in all areas, not just Lottery. For instance, Virginia has remade its DMV (Department Motor vehicles) to function more like a service, to be more accessible and to deliver good customer service. We can now go online to conduct much of the DMV business, like buying our annual decals for license plates. State and federal taxes can now be filed electronically. There are lots of examples of how government is working hard to become less bureaucratic and more focused on providing convenience and service to the citizens who pay for the government with their taxes. And this trend has definitely accelerated over the last five years.

For our part, we think of our constituents as consumers. And our mission is to create lottery products that appeal to those consumers, turns them into lottery players, and generates sales and net funding for public education.

Does the proliferation of consumer options as relates to gaming and gambling contribute to this trend of increased government support for Lottery?

P. Otto: We do not think of Lottery as gambling, but rather as a consumer product. There is some overlap between the two and the widespread availability of gambling options for the consumer may be causing government stakeholders to be more open minded to the idea that lottery belongs to the people and so should be allowed to be on an equal footing with other forms of gaming, and that Lottery should be allowed to make a product, and market the product, to appeal to more consumers.

Just this morning we had a discussion about the ways that consumers are now paying for things. Pay Pal, which traditionally served the community of online vendors, has recast its service to support other channels of distribution, like bricks and mortar retail. And I learned about other new payment processing options

that are becoming available to consumers. Have you ever even heard of Popmoney, Chirpify, and the whole raft of new payment-processing services? I hadn’t, but we need to be aware of these kinds of trends that are changing the ways that consumers interact with merchants. This is just one example of where we can look for ways to modernize our operations to deliver more consumer-friendly services and options. We are aggressively monitoring the landscape to understand where the consumer products industry is going, how others are improving their service to the consumer, and how we might sharpen our efforts to become more consumer-centric. As a highly regulated government entity, we will never be as flexible or as nimble as the best consumer products companies. We will always operate within some constraints. Even so, there is much that we can do to reshape ourselves into the consumer-focused operation that will serve the mission of generating more funds for good causes. And it begins with simply making it our business to understand these forward-looking consumer marketing trends, understand consumer behavior, and think about what that means for the business of selling lottery products.

As part of the UIGEA laws against illegal online gambling, credit card companies are restricted from processing gambling-related charges. Unfortunately, there seems to be a lack of clarity as regards the definition of gambling and the status of lottery.

P. Otto: And, like many states, Virginia lottery products cannot be purchased with credit cards (at least at the present time) because of a statutory restriction. As an industry, I think we need to clarify how these alternative payment-processing options work, what forms of payment do they accept, how age-verification works, etc. We do accept debit cards, which are branded with VISA and MasterCard, so it is curious just what the credit cards are allowed to do and exactly how they code transactions. These are the kinds of conversations we need to be having as an industry, in addition to talking about what kind of scratch card to launch next.

A big theme at the European conference in June was the need to look outside of our industry for ideas and inspiration for ways to change and grow the lottery business. Your recasting the self-image of lottery as a consumer products enterprise would seem to be a big step towards bringing in fresh

new approaches to the business.

P. Otto: Let’s first point out that Virginia is not the only lottery that’s taking these steps and trying to become more market-driven and consumer-centric. We are sharing our thoughts and research with others and they are sharing theirs with us, and we are all learning more every day.

Here in Virginia, we decided several years ago to chart a course towards the goal of becoming a consumer-focused marketing organization. Our first decision was to create a solid foundation for understanding the consumer as a consumer, not just as a lottery player. That may sound like a semantical or minor distinction, but it’s not. Our research and development efforts had always endeavored to understand the behavior of the lottery player. Questions might have been framed like: Why do the consumers like one product more than another? What product attributes appeal to the consumers? What promotional campaigns do the consumers respond to and why? But there are two things going on with that kind of framework. First, the word “consumer” is being used, but insofar as you are referring to the consumers who are playing the lottery, you are actually talking about only a portion of consumers, i.e. those who buy lottery products. Second, the structural flaw of that framework is that it ties the focus back to the product, which makes it an essentially product-centric methodology. We decided that we needed to make it our business to understand the thoughts, the feelings, the lifestyles and motivations of all consumers and that the way to do that is to initially remove lottery from the research framework. We looked at Virginians, really got to know them as consumers first and to understand how they are shopping, how they make decisions, what’s important in their lives, how they consume media, how they use their mobile phones. This is the kind of research and intelligence that all commercial consumer products companies rely on.

The goal is still to sell more lottery tickets. But our way of getting there is to step back from the traditional focus on product and players, and try to understand the innate behavior of consumers. That does impose an extra layer of research, but the benefit is two-fold. First, it reveals the underlying motivations of the player in ways that the product/player-centric focus may miss. Second, it helps us to understand the underlying behaviors of consumers who are not playing the lottery and hopefully reveal opportunities for us to appeal to

those consumers in fresh new ways.

The most sophisticated consumer products companies are investing in the ability to capture and organize data that provides this kind of insight and enables them to quantify, measure, and track consumer habits, what they buy and when they buy it and all manner of peripheral detail about their interactions with merchants. Casino operators like Caesars Entertainment are among the most advanced in their methods of leveraging customer data to drive loyalty and repeat business. Consumer products companies absolutely need to do this to even be competitive. Lotteries may feel like it has a monopoly and so there is less pressure or immediacy for us to allocate resources in these ways. But the proliferation of gaming and entertainment options is putting us into a similarly competitive environment.

I would think that getting consumers to register online and creating loyalty programs that loop in land-based retail transactions would be key to accomplishing that.

P. Otto: I don't know if there is one simple answer to this. But I agree that it is unfortunate that our entire business at retail is based on anonymous transactions. Creating a context for interaction between Lottery and Player would seem to be a necessary component to building that foundation of customer data that may well be the decisive competitive advantage of the future. It is challenging though, not just because of the regulatory constraints that apply to the Internet and the use of credit cards, but also because government agencies will be held to an even higher standard when it comes to respect for privacy and confidentiality of consumer information. The obstacles are formidable, but we do need to find ways to connect better with the consumer. And we need a solution that captures consumer transaction data that takes place at land-based retail.

What are some of the results of your consumer research?

P. Otto: Our research led us to segment Virginia consumers into six groups. The research led us to determine that two of those groups will not likely ever engage with lottery, so that leaves us with four consumer groups to concentrate on. We identify one of those groups as "iDrenz." These are digital natives, the twenty-somethings that is a particularly important segment to crack. We call another segment the "Alphas." This group has a lot in com-

mon with the iDrenz but are older. Alphas are the forty and fifty year-olds who are successful, well-educated, tech-savvy and share many of the behavior patterns of the iDrenz. An important discovery is that the products and promos we design for the iDrenz appeal just as much to the Alphas. Completely different demographic profile based on age, but having enough commonalities to comprise a huge homogeneous segment from a marketing perspective. Segmenting by age under-estimates the potential for products and promos targeting twenty-somethings. The application of criteria other than age and gender enables us to identify commonalities between iDrenz and Alphas that warrants a bigger allocation of product development and marketing resources. It's that kind of insight that focusing on the consumer as consumer instead of lottery player that we find most helpful.

I am at the older end of the Alpha group and am less interested in scratch tickets even though the odds are better, am attracted to the "Hope and Dream" sell of lotto, and would not stand in a line for a chance to win a big jackpot.

P. Otto: The iDrenz and Alphas are much less likely to buy a piece of cardboard so they can scratch it off with a coin. That's not in their profile. We are designing longer-play games that loop in different media platforms like Facebook to engage these groups. We probably would not be doing that if we did not perceive the potential to be the combined power of both the Digital Natives and Alphas. We launched a game called JeepSeeker that could only be played online. There was no cost to enter. Every day there was a new clue on Facebook for where to look for Jeep®. After 40 days, there was a drawing and one of the players won a Jeep®. We had a goal of 5,000 players and 1,000 new registrations. We ended up with more than 30,000 players and 12,000 new registrations. We expected to engage the iDrenz and we did. But the group that played JeepSeeker the most was the Alphas. Almost half the players were Alphas. 8% were the iDrenz which are the youngest adult category, early twenties. That may not sound like much, but it is. That is an extremely hard group to attract: it is a high priority to engage this group, and 8% is a big win for us.

These are strategies to bring in new consumer groups. Is there any conflict or competition for resources between that agenda

and the need to design games and promotions for the core players?

P. Otto: It's true that we are trying to cover more ground, appeal to a wider variety of consumer preferences and that would seem to leave fewer ad and promotional resources for the traditional areas of focus. But we do not think of it as a competition for resources. We think of it as an opportunity to work harder to make sure our advertising, promotion, and marketing dollars are effectively targeted and that every dollar spent is generating a positive ROI. In the short-term, the ad spend to bring in iDrenz may have a lower ROI than traditional advertising to the core groups. While the short-term pay-off is not large, it's well worth it, and it's fundamental to building sustainability into the business model. As I said, one of our primary strategic objectives is to bring in more consumers to our games, get more Virginians to spend a smaller amount of money rather than trying to get our core players to keep spending more.

We know that about 33% of adult Virginia consumers play regularly (consumers who play monthly), and they contribute the most revenue. This is a number we are trying to move, based on the belief that it is more responsible to grow revenues by growing the number of regular players. We absolutely continue to design games and promotions and market to that core group of loyal customers. That is one Path of what we call our Dual Path marketing efforts. The other path is to design games and promos to attract new consumer groups. We do need to be careful to avoid campaigns that might appeal to the iDrenz but be too edgy or otherwise alienate our loyal customers. We have been pleasantly surprised to find that the traditional player may not participate in some of the new games, but they do not seem to be bothered by them either. So we're going to continue to have this Dual Path of reaching out through the different channels and media and trying new game and promotional concepts, but always having traditional games marketed in more traditional ways for our core players.

That would seem to be basic to any sensible consumer products marketing playbook.

P. Otto: Recently, I was asked by a policymaker why we wouldn't just eliminate the \$1 ticket. The casinos eliminated the \$1 and \$2 blackjack tables and made sure there are limited \$5 tables so players would go to the \$20 tables. If we don't

offer the \$1 ticket, wouldn't that cause everyone to just buy the higher-priced tickets? The answer is that there is no reason why we would limit consumer choice in that way. There will always be a demand for a low entry price and we want to meet that demand because new players may start out buying a \$1 ticket will grow into the Alpha who moves into the higher priced tickets.

As regards the multi-state games: Decisions to change anything must be a case of high drama because they are such a profoundly important part of every lottery portfolio. And it is prudent to minimizing risk. Research mitigates that risk, but no amount of research can eliminate the uncertainty of the future. As a group, don't directors need to be willing to move forward in spite of a lack of total and perfect information?

P. Otto: Definitely. But you need to appreciate two things. First, preservation of integrity is paramount and not subject to risk assessment modeling other than zero or near zero tolerance. The asset value of the brand is fundamentally tied to integrity so it would be irresponsible to jeopardize that in any way. Two, some states derive a very high percentage of their sales from the multi-state games and cannot afford to make a mistake that would jeopardize that revenue stream. To your point, though, it is not at all prudent to wait too long to take action. There is the lost revenue for having postponed a positive initiative, and there is perhaps the missed window of opportunity when the change would have optimal impact.

The matrix change of Mega Millions will be implemented in October. There must be a lot of uncertainties when it comes to figuring out the jackpot games.

P. Otto: Both of the jackpots are driven by a couple of factors; some of which we can control and some of which we can't. We can't control interest rates which affect our cash position and also affects how quickly the jackpot grows. Another thing we can't control is luck and when the jackpot gets hit. The jackpots are also controlled by the matrix and the odds and those are things we can control. After extensive national testing and market analyses, the Mega Consortium determined that keeping the price at \$1 and changing the matrix is the best course to help the jackpots grow more quickly.

Powerball jackpots have been growing faster than the Mega jackpots, and that

creates a cycle of increased sales which in turn drives the jackpots higher. When Mega Millions gets on a roll, the players pile into it and Powerball slows down. The beauty of cross-sell is that we now have two games to drive the sales. The consumer has two price-differentiated options with jackpots that are likely to have asynchronous roll cycles. The result for everyone is that the aggregate revenue of both games combined is significantly higher than it was before cross-sell. And now all the lottery states sell both games, so we are all in the same business of maximizing the aggregate revenue of the two games in combination. Mega sales over the past year have been lower than Powerball sales. But the increase in Powerball sales more than made up for the decrease in Mega sales.

But we do need Mega Millions to remain a viable brand, don't we?

P. Otto: We need to evolve the portfolio of multi-state games to give the consumer options and bring in more consumer groups. The multi-state games are extremely popular and have been a growth driver for all the state lotteries. We want to nurture that growth and fully optimize the potential of that category of games. Mega Millions provides a price-point alternative to Powerball and a second game to drive big jackpots. It will remain viable and be a vital part of a growing portfolio of multi-state games.

There are lots of ways to grow the portfolio of multi-state games. As a group, the directors of lotteries are exploring many options. And we definitely want to preserve Mega Millions because it is a great brand, a great game, and has tremendous consumer appeal.

This business can be very cyclical, especially as it relates to the big jackpot games. We need more time to assess the performance before drawing conclusions. The challenge is that state lotteries must deliver results within a 12 month fiscal year. We are, though, moving in the right direction. We're building a portfolio of games that complement each other, work synergistically, and can be managed for long-term sustainable growth.

Technically, the legacy Mega states license the right to sell Powerball from MUSL, and the legacy Powerball states license the rights to sell Mega Millions. Insofar as the multi-state games should be managed as a single portfolio of games to maximize the aggregate results, and

insofar as all the lottery states now sell both games and so everyone has a similar and shared interest, doesn't there need to be even more cooperation between the MUSL/Powerball Group and the Mega Consortium?

P. Otto: There's tremendous cooperation between the Mega and Powerball groups. While the final decisions on each game continue to reside with the two groups separately and independently from one another, there is an increasing amount of cooperation and discussion. New ideas are initially discussed within one group without the input from the other group. But as soon as the idea gains traction, the other group is brought in. For instance, MUSL is working on some very interesting promotional initiatives for this fall. Even though the Mega Millions Consortium does not vote on these initiatives, we were brought into the early stages of discussion because it does affect all of us. The Powerball Group wants our input and vice versa. The two groups work together and I appreciate the collegial nature of the working relationships that have developed. And committees are being formed, consisting of members from both groups to explore new game and promotional concepts. So the future looks bright indeed for more and more multi-state cooperation. ♦