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PGRI INTRODUCTION: There was much discussion at the European Lottery Conference about how Internet gaming remains a relatively small percentage of sales and an even smaller percentage of profits. The silver lining is that creative Internet initiatives are driving sales in the revenue streams of the traditional games. I asked Doug Pollard to help me sort out the implications of this. Further, even though there is no simple formula for Lottery success, I pressed Mr. Pollard to try to step up with some concrete ideas about what lotteries and their commercial partners can do to really connect with the modern, socially connected consumer.

Paul Jason, Public Gaming: *We were just talking about how ‘social gaming’ is a misnomer. As regards to the traditional lottery games, maybe we should be thinking more about how lottery can fit into the phenomenon of social networking.*

Doug Pollard: When you look at the popularity of Facebook and Zynga games and Twitter, it’s really about sharing experiences and information with friends. There are those little like/dislike icons, the countless comments about good experiences and bad, requests for guidance on buying decisions, relating the events of your day, participating in shared experiences like building virtual farms and such. It’s become like a town hall meeting, broadcast e-mail list, family get-together, and local bar scene, all wrapped into one and put on steroids. When we think of the goal as being to fit traditional lottery into this socially networked world, instead of transforming it into a community-based peer-to-peer competitive game, the pathway becomes much clearer.

Just one example. Our research shows that most Instant players are playing to win. They’re not thinking about a huge jackpot, they just want to win something and are excited to win \$50 or \$100 and that’s what keeps them playing. Now, think about the kinds of banal information people share on Facebook and Twitter. Awards and accomplishments, no matter how insignificant, like expanding your virtual farm, are announced with great joy and fanfare. Winning the lottery, even if it’s not the big jackpot but just \$100, is

far more interesting and exciting than most of the stuff we presently deem worthy of “sharing” on Facebook and Twitter. And of course, lottery players win smaller prizes like that all the time. They’re excited about it and we know they love to share their excitement with their friends – that’s why we all call them “chatter” prizes. They want their friends to join them, having fun with the same recreational activities that they enjoy. If we could make it easy and fun to share the good news of winning the lottery, to enable the players to broadcast the good news via social networking media, that alone would bring more people into the lottery world. And it would be the demographic profile we’re trying to reach: the socially-connected community that isn’t defined by age but by their affiliation with forward-leaning trends, cultural ideas, and the media that connects them. Social networks provide the way for us to turn our players into lottery ambassadors, reaching out and inviting their friends to join in the fun of playing and winning the lottery. In a similar way, we can make better use of social networks to broadcast all the good things that lotteries do in their communities in a much more tangible and meaningful way for the playing public.

That would seem like yet another opportunity for lotteries to collaborate on a program to create a new nationwide socially networked community of lottery players. A current industry concern is that Internet gaming is not producing the results that were expected. It is still a relatively small por-

tion of the revenue for almost all lotteries.

D. Pollard: The dialogue seems to be revisiting some original assumptions about the very role that the Internet can play in this industry. Is it a channel, a game, a ‘medium’, what is it exactly? It’s actually a uniquely powerful combination of all these things plus the key to unlocking the power of social networks and also the ability to truly ‘gamify’ (enhance the gaming entertainment value) traditional lottery games. As strictly a gaming destination, the role of the Internet is not only marginalized, it probably falls below minimum ROI expectations for the lottery operator. While you will pick up some new players by just making the product available on the Internet and Mobile, most non-players are not likely to change their behavior if it’s just the same game offered on a different channel. And most of the traditional players would have bought the product at the store anyway. It’s not enough to just “be where the consumer is”. In the end, it’s really about much more than the Internet. It’s about extended-play gaming, player-to-player interaction, and other enhancements of game content. It’s about social networking and sharing and reinventing the gaming experience, appealing to a consumer that wants to enjoy a genuine game playing experience as well as the possibility of winning a prize. The Internet isn’t some kind of Holy Grail answer to accomplishing all those things or to reaching the ‘younger demographic’. It can be, though, a vital catalyst to re-imagining

our businesses; to rethinking how all these things can work together to create entirely new gaming experiences.

The industry recognizes this and has begun the process of modernizing, or gamifying, traditional lottery. There are Second-chance draws, player clubs, extended-play games and clever ways of displaying the outcome of a lottery game with animated displays of characters engaged in humorous or competitive narratives. These are great concepts that point the way towards an exciting future of progressive game development and creative use of the different channels and media to mutually reinforce each other. We just need to accelerate the process. A lot.

You're talking about using new media to sell more of the traditional products.

D. Pollard: Internet gaming is in itself not the thing to focus on. The margins for casino-style games and poker are much lower than traditional lottery margins, due to the higher prize payouts. And, the competition for those lower margins will be very high if lotteries have to compete with casino operators from Nevada and elsewhere. Look at how the Internet gaming world has evolved in Europe. The margins are inevitably driven down in all the non-lottery categories. Instead the lottery business should focus on driving higher growth in the traditional products, the billion-dollar revenue streams with high margins. And in fact, even though they have been around in their present form for decades and do need to be refreshed, they are still going strong. What we need to do is leverage all the tools at our disposal to tap into the powerful new consumer trends like social networking, the impulse to want to share and the implications that has for marketers, and the "experience economy" phenomenon in which entertainment value is being built into everything.

This would seem to address another objective - That is to increase sales by broadening the base of players as opposed to increasing the amount that the core player plays.

D. Pollard: Of course, everyone wants to broaden the player base. I find that in the more mature markets like those in Europe, that's become a critical part of their strategic focus not just because they want to increase sales. They see broadening of the player base as being a vital part of their responsible gaming agenda. Connecting with the media savvy, socially networked community is really so critical for everyone for all the above reasons. And the commercial community is stepping

up with new products and game designs that will support those goals.

Do the game plans to push Lottery into Internet-based social networks conflict with the business model of selling billions of dollars of product in the traditional way through land-based stores.

D. Pollard: Not at all. They complement each other. It all works together. The last thing anyone wants is to shift sales from the land-based channel over to the Internet. Next to the brands themselves, the retail network is probably the most valuable asset that lotteries have. And those thousands of consumer touch-points are proprietary to lottery. No other gaming operators have that ubiquitous connection to hundreds of millions of consumers on a daily basis like Lottery has. Internet, Mobile, new media in general, are all mutually reinforcing with the land-based channel. In fact there are ways to use the power of interactive technologies to drive the bricks and mortar business – bringing new players, new promotional tactics, new gaming experiences that marry both options. And integrating social networks into the marketing mix does not impair our ability to create great games that appeal to new players or the traditional core players. There are no trade-offs; all these things work together and in fact reinforce each other.

Second-chance draws would seem to be a good example of how an effective use of the Internet really benefits everyone - player, retailer, and operator. But what's the next step?

D. Pollard: The next step would be to recognize that it's no longer just about reaching the "younger player". The things we need to do to entice the younger player are the same things we need to do to attract the non-player and in truth those are all the same things we need to do to continue to appeal to our core player. Everyone is on the Internet, everyone responds to a more enjoyable gaming experience, and everyone wants to have a second chance to win. We simply need to think abstractly about what it is that appeals to the consumer so that we can build on that and expand the portfolio of game concepts and promotional strategies.

For instance, word-of-mouth has actually been one of the most important drivers of growth in the Instant category over the past two decades. Consider how prize structures influence buying decisions. It's not necessarily shocking that better prize structures always sell more. Except when

you consider two things. First, the difference between a prize structure that is consistent with best practices versus one that is less favorable actually seems very small, when the payout percentage is held constant. Second, it is not the case that the typical player carefully analyzes the prize structures before they play. That's really not what happens and it's not how the player decides which games to buy. They make their buying decisions based on what the clerks and their friends tell them are the best games, or when they see someone winning ten bucks on a particular game, or when the clerk sees someone win on a game and proceeds to tell other customers. Now, we want to transfer this basic dynamic over to the Internet, creating a super-charged social network that taps into existing players, lapsed players and even non-players who are sharing their experiences online in ways that go viral, impacting their whole social network instead of just the handful of people we each cross paths with on a daily basis in our journey through the terrestrial environment. Traditional "word-of-mouth" does not really capture the potential for information to explode into everyone's mind-space in an instant like it can on Facebook and Twitter. Slight digression - Look up "Arab Spring" in Wikipedia. Right in the very first paragraph of the explanation of these events is a reference to the vital role that Facebook and Twitter played in inspiring and then organizing these huge social uprisings that are changing the world. I know we're not in the social uprisings business, but this is a reflection of where the media power has shifted to. Social media has become the mass media with the power to move entire populations. And they're free to anyone clever enough to figure out how to make their concept relevant, how to engage their customers' interest and make it easy and fun to share that interest with their friends. And when it comes to Facebook, when we say "friends", we mean an average of 130 people for each Facebook member! They must all be very popular. Think about that. 750 million people spending over 700 billion minutes a month on one social media site. We want to design the games and the tools to connect with that, really integrate lottery into the fabric of the community of socially networked consumers.

Another step is to maintain the instant win essence of our games, but to offer an extension that uses interactive strategies to enhance the game play. When second-

chance draws were introduced, they were just a simple second chance draw to win. They had less than a 2% redemption rate. When we created an interactive element to it, like Asteroids and Bingo in Michigan, poker in Minnesota, the Double Bubble game in Maryland, the redemption rates skyrocketed well into the double digits. And people were playing online for 15 or 20 minutes instead of one minute just for fun – in fact we’ve anecdotal evidence that some players were buying tickets just because the second chance interactive games were so fun to play!. So the next step is to get people to play online, engage them in

longer play experience, and integrate player-to-player chat and interaction into the whole online gaming experience.

I bet there is a last step that ties it all together?

There is! I call it “Gamification”. We’re a couple steps removed from it right now but it’s good to have a vision to pull us forward. The ultimate transition is totally within our grasp and we have the power to make it happen now. It’s basically just combining those first two steps. We need to build on the incredible success of our core products – instant win games with strong brands and a great retail presence. We need to see our

current online extensions to these games as a modest beginning, tip-of-the-iceberg first generation betas, but the perfect platform from which to create a truly engaging, “gamified” playing experience. Then we need to combine it with breakthrough social networking strategies that will connect the newly gamified lottery playing experience to everyone on a daily basis. To some extent, this is what every consumer marketer in the world is trying to do. Our Ace-in-the-hole is that we have the greatest product in the world to work with combined with an established and loyal customer base of millions. ♦