

Steve Saferin

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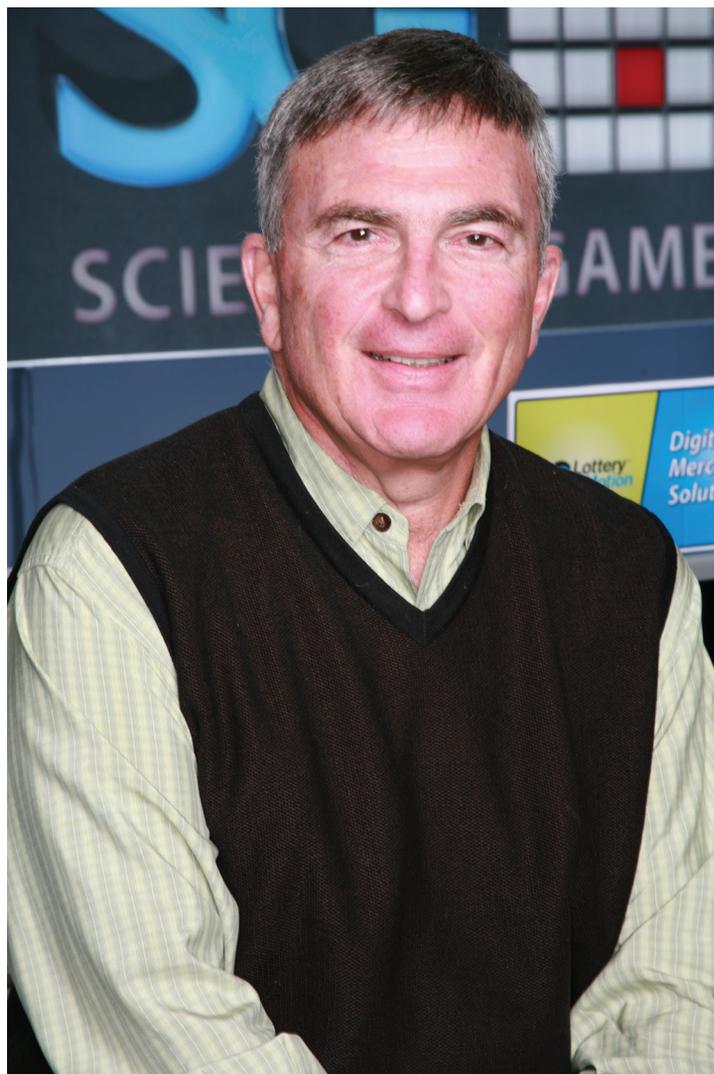
PGRI Introduction: It has sometimes seemed as if lotteries were playing catch-up with other sectors of the broader industry that include recreational gaming, wagering, and gambling. Not anymore. Much has changed over the past few years.

We could perhaps peg the start of the transformation with the launch of the first 2nd Chance internet website in 2001, accelerated with the launch of the Michigan Lottery Players Club in 2005. This was followed by other lotteries that built websites to engage their players in internet-based relationships. Some lotteries then began to sell tickets online. 2nd Chance interactive games exploded on the scene in 2008. MDI Entertainment and Scientific Games played a most formative role in the development of this multi-channel approach to building a more dynamic and engaged relationship with the consumer.

Assessed as isolated initiatives that contribute to the success of lotteries, these are impressive steps forward. Thinking about this sequence of innovations as all part of a bigger picture, the transformative impact of these innovations promises to put Team Lottery on the leading edge of the broader gaming and wagering industry. Team Lottery is transforming from a transaction-driven business, operating as a monopoly that sells a limited number of products through a massive network of land-based retailers, to a multi-faceted business that sells a broad portfolio of products through multiple channels and media. As players clubs, loyalty programs, and multi-state collaborative initiatives overlap to create more exciting ways to engage consumer interest, the potential impact of a fully-integrated approach would seem to be immense. In 2003, Steve Saferin was appointed President of Scientific Games Ventures. That position evolved to his current position as President, Properties Group and Chief Creative Officer for Scientific Games.

MDI Entertainment, LLC, the company Steve founded in 1986, is part of his portfolio and is now a wholly-owned subsidiary of Scientific Games. MDI is the leader in providing branded entertainment and promotions to the worldwide lottery industry. Steve's emphasis is on emerging growth and new business opportunities tied to the deployment of intellectual property.

Prior to founding MDI, Steve was Director of Program Acquisitions at ESPN, and active in cable television franchising as a Vice President with Viacom Communications and Warner Amex Cable. In addition, he was an Attorney-Advisor at the Cable Television Bureau of the Federal Communications Commission and a member of the law department of Viacom International, Inc.



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Paul Jason, Public Gaming: Let's first get some background on the history and current state of progress in each of these areas, starting with players clubs. They started with modest ambitions to simply give the consumer a way to learn more

about lottery and create a dialogue with the players. What do the most effective players clubs do now? And how does a players club differ from a loyalty rewards program?

Steve Saferin: The Lottery industry has come late to the players club world. Many companies have been offering some form of affinity program to their customers for many years. Actually, casino companies have been innovators in this area, using players clubs as a means to gather a variety of customer information and use it for marketing and player retention purposes.

You are correct that many lotteries have had some form of players clubs as distinguished from loyalty programs for several years and that their main purpose was to serve as information centers. There was no real two-way dialogue with their players or compelling reason for players to frequent the sites as the result of purchasing lottery tickets.

And that is the primary difference between a traditional players club and a loyalty rewards program. Typically, a players club features a player registration area, the ability to sign up for e-mail alerts, participate in surveys, and perhaps play “just for fun” games.

A loyalty rewards program includes all of the features of the players club but adds a system (which can include instant or online tickets or both) where players receive credits or points based on their ticket entries and a robust rewards catalog. This catalog should feature an array of exciting redemption options including merchandise, digital downloads and offers from local retail outlets. And the program, to achieve maximum effectiveness, must be available via a shopping experience rather than a sweepstakes- or drawing-based program.

All of our research and the expert advice of our loyalty consultants arrive at the same conclusion that while players will engage initially in a sweepstakes-based promotion, over time they lose interest and disengage. In Arkansas, over 90% of the points we have redeemed have been through catalog shopping by players, and only 10% through drawing entries. We believe that 90-10 mix is probably the ideal ratio. This combination of shopping and drawings also provides the lottery with a wealth of information from the player registration, purchasing habits, ticket entry data and drawing entries.

What separates a regular players club from a loyalty club is the rewards. Instead of a transactional relationship with the customer (players club), a loyalty club fosters an emotional relationship with the player. And that is a result of the rewards. Rewards allow the lottery to demonstrate to its players that it values their ongoing lottery play.

Loyalty programs: When did they start and how do they operate for the most advanced lotteries now? How is the Points for Prizes® program different from other loyalty rewards programs?

S. Saferin: MDI launched its first full loyalty program called Properties Plus®, which features a players club and rewards program, for the Arkansas Scholarship Lottery in 2009 at the lottery’s start-up. And by all measures, it has been a resounding success, both in terms of members (now more than 200,000) and lottery sales.

The Iowa Lottery launched the Properties Plus program in May 2010, first with a refreshed players club and then a full online store (Points for Prizes). We recently responded to two competitive RFPs for rewards programs and were named the successful bidder for both lotteries. More recently we signed a contract to provide Properties Plus to the Missouri Lottery. MDI will be building and launching rewards programs for these three lotteries during the next few months. We are anticipating adding several more during 2012.

While rewards programs themselves have been around for many years, our approach is unique. As you might expect, players earn points by purchasing lottery tickets. However, through our program, the specific number of points associated with each ticket purchased is variable by price point, and is determined as part of the game’s prize structure. The

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player never knows how many points will be awarded until after the ticket is purchased. As a result, a sub-game and a second win experience are created with each ticket. The impact of this has been very powerful.

What was the genesis of 2nd Chance draws – when were the first truly successful ones implemented and how have they evolved since?

S. Saferin: MDI has been offering 2nd Chance drawings since 1997. We launched our first online 2nd Chance entry site in 2001. Prior to that, all entries were received via U.S. mail. But one day we said, “Why make people pay 34 cents to mail in their \$2 ticket entries? That’s a 17% surcharge.”

Since then, the idea of entering drawings online has flourished to the point where

today, almost all lotteries who utilize 2nd Chance drawings are executing them online, sometimes exclusively. Using our patent-pending Easy Entry system for these drawings, lotteries no longer have to require players to keep their tickets. They simply enter the tickets online and the system registers that ticket as their unique entry. That has probably been the single biggest advancement in 2nd Chance internet drawings.

Players clubs and loyalty programs would seem to go hand in hand, and be driven by some form of 2nd Chance draws as the key to getting the player to register. Could you connect these dots for us?

S. Saferin: In the case of Properties Plus, 2nd Chance drawings are another way to drive new members to the program. The 2nd Chance draw can be associated with a particular game as a promotion or be an ongoing feature such as our Play it Again™ program, where the last top prize of every instant ticket is held for a drawing at the end of the game. Players who register to enter their tickets for these drawings are automatically enrolled in the Points for Prizes program, so the two programs really work hand in hand.

It would seem that people are not at all reluctant to register and let go of the proverbial “veil of anonymity” if they are just given an incentive of some kind to do so. That incentive can be in the form of

free plays or an extra ticket, costing the lottery relatively little compared to what other industry loyalty programs must pay to acquire a new member. What are some of the concepts/premises underlying member acquisition strategies for lotteries?

S. Saferin: The idea that players want anonymity had not been confined to the lottery industry, as it previously existed in the casino gaming industry as well. For many years casino operators were suspicious of player clubs because they expected their players to be resistant to sign up. It turned out that the case was the exact opposite.

A very significant percentage of players are happy to join casino loyalty clubs and identify themselves in the process as long as the rewards are meaningful. The case appears to be similar

in the lottery space, and the majority of players who register opt-in to receive communications from the lottery. The key ingredient is an incentive program that justifies this action. Our Properties Plus program provides a lottery with the foundation for exactly that.

I have framed those innovations as being transformative to Team Lottery's entire business. To my mind, we are evolving from a transaction-driven business, selling the "hope and dream" at the retail store level, into a relationship-driven business that engages the consumer through multiple channels, in extended-play game formats, and in an interactive format that promotes dialogue between operator and player, but also between player and player. What do you think of this "transaction-driven" versus "relationship-driven" theme?

S. Saferin: You've hit upon our central objective. In our view relationship marketing is about moving your customer from a transactional relationship to an emotional relationship. It works to make lotteries relevant in today's customer-centric retail environment.

Ever since we entered the industry, MDI has helped lotteries begin this transition by associating well-known brands with lottery games. We've always targeted brands that we know players already have an established emotional connection with, and we've piggy-backed on top of that. The result was one of the primary catalysts for the growth in the instant game segment over the past ten years.

Now we are focused on helping our clients build loyalty programs and providing them the tools to foster deep emotional relationships with their players on a completely direct, one-to-one basis. In Arkansas, where we have the longest experience, the impact has been dramatic. Player perception of the lottery brand is exceptionally strong when compared to other lotteries, and the Arkansas Lottery has a direct channel to its player base that is unparalleled in the industry.

Mmulti-jurisdictional initiatives can be of great value to lotteries. Please describe some of your multi-jurisdictional initiatives and what you have in the pipeline for future multi-state programs.

S. Saferin: Our multi-jurisdictional initiatives provide comprehensive packages that include experiential prizes and powerful marketing. We introduced the Linked Game concept in 2007, in which multiple lotteries launch the same branded lottery game. Through our work and relationships with top entertainment and sports entities including NBC Universal, Endemol, Fremantle Media North America and Sony, we have the capabilities to provide entertainment experiences that go beyond traditional game prizing.

In the past, we've created Linked Games for

the Deal or No Deal and The Price Is Right® brands, which sent lottery winners to Hollywood and Las Vegas for chances to participate in the actual game shows. We're now offering a Wheel of Fortune® Linked Game that will send winners to Hollywood, and among those winners, several will be randomly selected to play a non-broadcast version of Wheel of Fortune with Pat Sajak and Vanna White. In addition to this "trip of a lifetime" experience, all trip winners will have the chance to win up to one million dollars, so it's a really exciting game for players. This prize package and the multi-million dollar promotional program we offer with the Linked Games present a tremendous value to lotteries, and past Linked Game sales have shown that they can be a very strong revenue driver.

Most recently, we presented the idea of a National Game Show to the industry. We've worked diligently over the last 4 years to build a comprehensive entertainment platform with a National Lottery Game Show as the center piece of the program. Given the current efforts of the National Game Committee to create new ideas for a multi-state lottery game, we believe the timing is right to introduce a Lottery Game Show that will complement the launch of a new product.

It has taken several years of focused work to develop an extensive distribution plan, delivering a television show to effectively cover the entire U.S. market. It required partnering with a powerhouse company in television show distribution and sales and we have secured such a partnership with NBC Universal. With their extensive experience in gaining wide distribution of shows such as "30 Rock," "Access Hollywood," "Law and Order" and "Deal or No Deal," and through their partnerships with Tribune, WGN America, Sinclair and other group owners and individual stations, we can now establish a comprehensive distribution program for a prime-time National Lottery Game show. For the first time, lotteries will have the opportunity to sell a product tied to a one-hour prime time game show with network production values. The promotional value of this to lotteries is priceless.

We also sought out a strong production partner that had been successful in creating exciting television formats that reached a wide audience of consumers. After meeting with the largest non-scripted production companies in the country and evaluating their show ideas, we selected Endemol. They have launched hugely popular shows including "Extreme Makeover Home Edition," "Big Brother," "Wipeout," "Fear Factor" and "Deal or No Deal".

With NBCU and Endemol, we plan to deliver a television show that will be the first to

offer a Billion dollar prize to the market. Our concept, called 10 Steps to a Billion is extremely exciting, with heart-stopping elements providing a powerful viewer experience. In addition, it's complemented by a unique social media strategy and social game, an exciting mobile game tie-in, and web-based play-at-home elements, which serve to deliver a new gaming experience for lottery consumers.

But the most important component is that each week, lotteries around the country will have a unique tool to drive lottery game sales at retail. The distribution, the show and the interactive elements, all supported by a strong advertising package, will enable new revenues and profit growth for lotteries across the country.

Crystal-ball time: Imagine a world in which Team Lottery were to take full advantage of all the opportunities to optimize players clubs, loyalty programs, and multi-state collaborations to create a foundation for ongoing growth. What are the possibilities, how would that world look, how will Team Lottery stack up against what others in the broader gaming/wagering industry are likely to be doing?

S. Saferin: Looking to the future I'm particularly excited by the ecommerce opportunity for lotteries. Here in the U.S. there is a lot of debate about things like internet poker. However, internet poker, despite all of the hype, is really just a niche product when compared to participation in softer forms of gaming such as lottery gaming. Selling lottery products online is all about broadening the lottery's reach into new player segments. Based on what we are observing around the world, lotteries can expect to generate total sales growth in the range of 12 – 18%, or more, as their internet selling initiatives and products achieve maturity. This growth comes from a combination of sales over the Internet channel and increased sales at traditional retail outlets. As commercial gaming operators stir up the debate surrounding internet poker, there is a door opened for lotteries to pursue the authority to sell traditional and new soft lottery products via the internet channel. ♦