

The (N)EVER Changing Conversation

"If early results are any indication, 1984 will be remembered as a year in which a new market - a young adult market - started playing the state lotteries."

The Lottery Journal, Volume 1 Number 1, 1984



Jennifer Welshons –
Vice President,
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The day that Bill Behm, a Scientific Games founder and active consultant, walked into my office and handed me the inaugural issue of *The Lottery Journal*, I had two thoughts. One – I was flattered Bill was bestowing a piece of his nostalgic paraphernalia upon me. Two – that 29 years later we were all still having the same conversations about lottery players.

How do we develop games that attract new players? How do we offer products for Millennials (or Gen Xers, as we called the younger generation back in 1984)? How do we stay relevant for generations to come? These are headlines that circulate endlessly throughout industry discussions, events, articles and strategy sessions.

If this conversation continues, in 2020 we will substitute Gen Z (the current name for the cohort following Millennial), and we could be sitting in the same place... or worse. We've found successful global companies have learned that generational-based product development and marketing is limiting and typically results in designs for everyone and no one at the same time. Success more often comes from products that are developed based on consumers' motivations and needs, regardless of the intended user's age.

With the global convergence of lottery, gaming, retail, mobile and many other aspects of daily life, a consumer's world is almost seamlessly integrated. It's no surprise then that our industry is mirroring life and blending knowledge, products and assets. But the *act* of merging alone will not make a difference to our customers' bottom lines. It's the *action* we take that will deliver results. Because of this, Scientific Games invested in a solid innovation foundation for one consumer across one wallet.



ONE CONSUMER | ONE WALLET | ENDLESS OPPORTUNITIES

At Scientific Games, we know that our mandate is to deliver bottom line profits to our customers through innovation and partnership. We know that this mission means we must be leaders in changing the conversation. We also know that change will happen as we approach the market as groups of consumers, who desire different experiences from the products we develop. So where do we start?

FULL MARKET SEGMENTATION

Research methodologies are a *means* to an end, not the end itself; for Scientific Games, that end is commercial insight, which can only be reached by using a technique that is tried and true, valid and reliable, and then applying the results in novel ways. To meet this goal, we engaged in a full-market segmentation study. Segmentation research is not new or revolutionary, nor is it one methodology or approach. The term covers a broad range of tools for defining meaningful customer

differences that affect how they buy, what they buy, how much they spend, and what they purchase. At its heart, segmentation is about identifying groups of people who respond differently to products and marketing so efforts can be focused on your most profitable prospects.

The concept of segmenting markets erupted in the 1970s as a response to mass brands giving way to 'niche' markets and brand extensions. The question became, "Why treat everyone the same?" It wasn't long before everyone was doing 'segmentation research'. The key difference between segmenting by motivation versus other criteria such as demographics is that motivations are not likely to dramatically change. In fact, this type of segmentation work only needs refreshing every five to seven years to accommodate any major shifts in the market.

After vetting several globally renowned research firms for our segmentation project, we enthusiastically selected Boston-based CMB, a top 50 market research and consulting firm. CMB's prior experience in gaming helped us decide on the appropriate design for our needs (Max-Diff) and enabled them to quickly understand our criteria for project success:

- 1. Simple** – The entire approach and findings needed to be easy to explain.
- 2. Actionable** – When the final results were in, and we were working with the data, it had to be delivered in a manner that was actionable for our customers.
- 3. Differentiator** – As mentioned earlier, our goal is commercial insight across Scientific Games' customer portfolio. We wanted to ensure we established an instrument that could deliver.

We also incorporated a number of strategic goals pertaining to scope and usability. We required a global roadmap to support our customers worldwide, so we started with the U.S. and Europe and will add more to our research over time. We included all aspects of a consumer's wallet – general entertainment, gaming and lottery – so that the findings could be applied to our product development efforts across our lottery, gaming and interactive business. And we needed our study sample to be representative of the entire market population. We often see "player" segmentation that is acceptable when trying to assess a core market (i.e. active players). But if a

goal is to understand the potential of new players, then including only existing players defeats the purpose.

After weeks of design across business groups, weeks of interviewing and days pouring over models, we finally reached our goals for the study. We now have deeper clarity into motivation-based segments and massive data to use across the Scientific Games organization.

U.S. & EUROPEAN GAMING SEGMENTS



Because of the many nuances in player preferences with instant games and our market position with these products, we drilled down beyond total gaming to the instant player level to best serve our game development.

U.S. INSTANT SEGMENTS



EUROPEAN INSTANT SEGMENTS



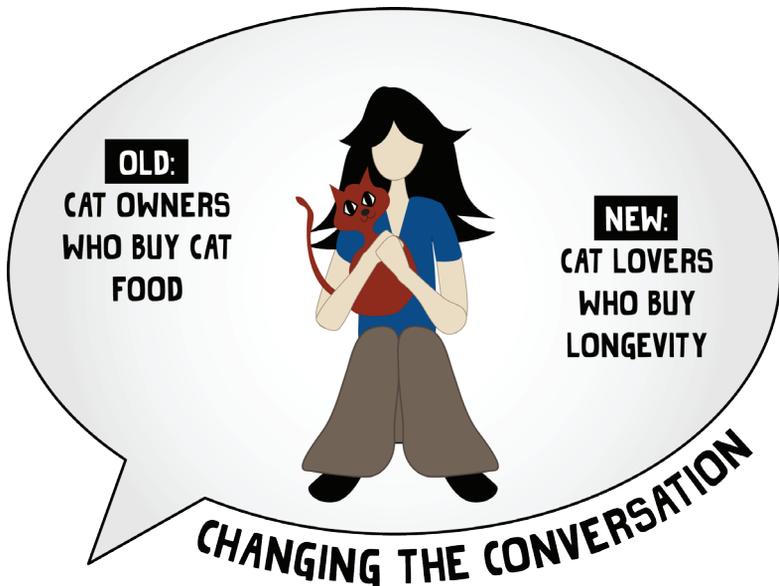
With our framework in place, the real work begins. Applying the findings to create tangible solutions for our customers is where we begin to discover commercial insights.

PRODUCT DEVELOPMENT

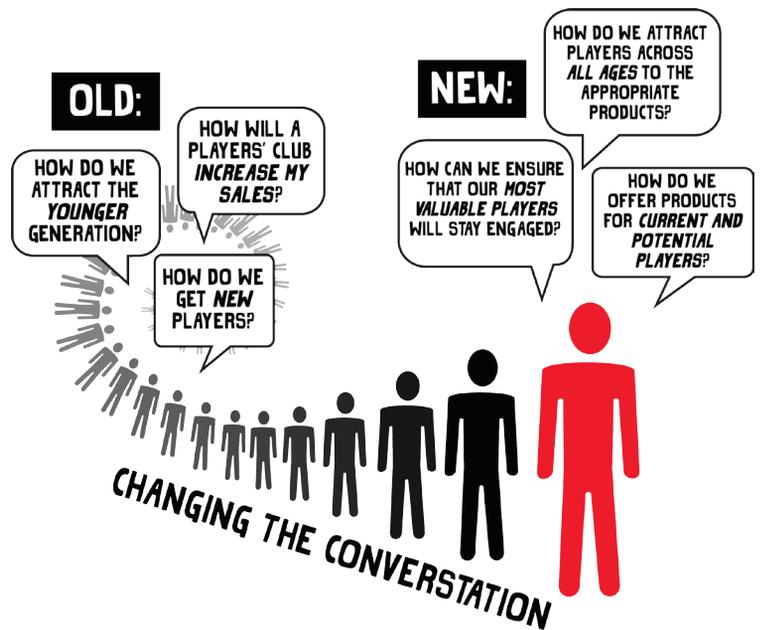
When you think about the core product we deliver, it's not surprising that the desired experiences span all ages. There is a player segment that wants to win lots of money; a segment more interested in winning a little money; a segment more interested in having some fun... the list goes on.

Maturity on the product life cycle curve helps us determine growth steps for our lottery customers. When you have clients who are performing at some of the highest per capita and per retailer sales in the world, you have to be prepared for the next phase of growth. Getting to that next phase requires much more analysis and insight. Hence, the segmentation work we've done is playing a critical role in our near-term product development. Like many large consumer product companies, we are actively integrating it across all areas of our business to fuel innovation. By way of example, HJ Heinz revolutionized the pet industry by doing the same¹.

In the early days of segmentation research, HJ Heinz commissioned a study to understand cat food buyers. At the time, cat owners had only two choices – 'wet' (canned) cat food or 'dry' cat food. The study revealed that the buyers of these two products were very different, especially in how they related to their cats! There was a segment of wet food users that were so passionate about their cats; they literally threw half of every can away because it wasn't 'fresh' enough to provide a second meal for their beloved kitty. The result? The introduction of three-ounce cans of wet cat food and the birth of an entirely new higher price per unit product. The Cat Lover segment was willing to spend pennies more to ensure their cat had only fresh meals. It was a win for both the company and the buyer segment.



Much like HJ Heinz used segmentation to change the cat food business, Scientific Games has been changing the lottery world. And we will continue to do so with refreshed vigor. One example of this has been our new *Pop n' Pak*—an instant product that tested highly with the Fan and Friend segments, which make up 88 percent of total instant game spending. *Pop n' Pak* also tested well as a gift product that any segment might purchase. Because of these results, we are confident that we have launched a new product into the market that appeals to segments more inclined to come into the category occasionally, while also not alienating those who are committed to the category. Our hope is to abandon the old questions about new players and Millennials and change the conversation to reflect more actionable approaches:



MARKETING

We would be remiss if we did not make a distinction between product development and marketing as it pertains to generations. When you start developing products aimed at particular demographic segments, you are much more likely to miss the mark than if you develop with motivations and needs in mind. Take, for example, the recent mishap experienced by Whole Foods, an American supermarket chain specializing in organic food². The company received backlash after an announcement that they would develop streamlined, tech-savvy stores with organized and reduced organic selections at lower prices, specifically for Millennial shoppers. This implied that Gen X and Baby Boomers

were fine with older, more cluttered Whole Foods stores offering a confusing array of products at higher prices. Relying too heavily on demographics to define a consumer base is fundamentally flawed.

The same is true within lottery and gaming. There are segments of people that span demographics (age, ethnicity, income, etc.) yet want the same product experience. However once a product is developed, communicating it to those interested may require customized marketing messages and communications channels. To better illustrate, let's go back to our example of Pop n' Pak and consider that the product developed meets the experience criteria desired by the Friend segment and the criteria for gift giving occasions among less engaged segments, such as Acquaintances. With the product solidly developed on consumer motivations, how do we let these types of people know it is available in the market? This is where demographics may play a part. When we consider some dominant characteristics of these segments and we acknowledge that there are in fact generational skews with media consumption, we can explore a number of ways to market the product. One example is the following:

CONCLUSION

There will always be those who doubt the motivational segmentation approach—people who are not sold on the idea that a 24-year-old Millennial could be seeking the same product experience as a 42-year-old mother of three. But circular conversations are no place to live and so as a growth organization, Scientific Games uses consumer motivations as our foundation. There will always be randomness in the population. We would rather accept what we can control and focus on moving the movable and doing the doable as a one-stop-shop for one consumer and his/her one wallet.

“2020 is the year that the industry optimized play across [insert segment name here] and thus returned billions more to good causes.”

My hope is that in 2020, a quote in a *PGR* article will read, “2020 is the year that the industry optimized play across [insert segment name here] and thus returned billions more to good causes.” That is when we will know the conversation has changed.

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Sources:
¹<http://brandamplitude.com/segmentation-made-simple>
²Bolton, Robyn. “Whole Foods’ Misguided Play for Millennials.” *Harvard Business Review*. May 14, 2015
 SG proprietary ONE Segmentation Study, 2015

PRODUCT DEVELOPED ON MOTIVATIONS

Key Characteristics to Consider for Marketing



FRIEND

- 21% Decides game purchase prior to entering store
- 59% Female
- 50% 50-69 Years Old
- 96% Active on Facebook
- 43% Engage with YouTube
- 8% Use Twitter

- 16% Decides game purchase prior to entering store
- 13% Hispanic
- 15% 18-29 Years Old
- 96% Active on Facebook
- 83% Engage with YouTube
- 44% Use Twitter



ACQUAINTANCE

Marketing Considerations:

Traditional media and Facebook campaign, placement skewed female, call to action to head to store with purchase in mind.

Marketing Considerations:

YouTube commercial(s) using humor in English and Spanish, Game alter Tweet through proximity marketing upon entering store, point-of-sale in English and Spanish to disrupt shopping and convert to purchase.