



Tom Shaheen

Executive Director, North Carolina Education Lottery; President of the Multi-State Lottery Association (MUSL)

(This interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.)

Public Gaming: Congratulations to you and all of the US

Lottery directors for getting the cross-selling of the big multi-state jackpot games off to a fabulous start. When do you actually sell your first MegaMillions ticket?

Tom Shaheen: Our target date is January 31st. However, this isn't like implementing your own in-state game. The implementation of any multi-state game requires a consensus involving all the different participating lotteries. I would estimate that 36 of the 45 US lotteries are targeting January 31st as the launch date. Reaching consensus from this many organizations on a multitude of issues is no easy task.

What's involved logistically for implementing MegaMillions and Powerball in a whole new set of state lotteries?

T. Shaheen: There are several pieces that must be in place. First of all, each lottery has its own governing board and legislative procedures. So the approval processes will be different. Even if all states sign on, the timing and launch dates may not be the same for everyone. Some states are structured like a corporation, having a lottery board. Other states may be a state agency with a commission. In these cases, the approval process can usually be completed by that board or commission. Some states, however, may have to go through rule changes that are approved by bodies outside of the lottery. Some may even need legislative approval. A lottery that reports directly to the governor may need the governor's approval. As you can see, the primary logistical issue impacting timing to participate is each state's approval process. In the case of cross-selling MegaMillions and Powerball, that could delay the start date until June or even later for some states. But almost every state is in agreement that participating in both jackpot games should benefit their state.

Any changes in prize structures and game matrices?

T. Shaheen: Right now we're not planning on changing prize structures for either game. The prize structures currently in place should accommodate the additional population and volume of play for now. We may need to look at changing one or the other or both in the future. For the January 31st launch, Powerball and MegaMillions will remain exactly as they are today.

What is the legal mechanism or arrangement that enables Powerball states to sell MegaMillions and vice-versa?

T. Shaheen: The Powerball states will participate in MegaMillions as a licensee. Powerball states will be granted authority through a licensing agreement from the MegaMillions states to sell their game. Conversely, MegaMillions states will be granted authority from the Powerball states to sell Powerball.

Each group continues to control the games just as they do today. Each lottery selling the new jackpot game will in essence function almost like a retailer that is licensed to sell lottery games. Licensees in either group will not have voting rights with regard to the rules, policies, procedures, etc. of the other game. So each Group continues to operate much like they have always operated; only now they have a new set of licensees. Of course, this new set of licensees will have a dramatic impact on the business, so they will still have input.

Keeping that management structure the same would seem to be the best way to minimize decision-making bottlenecks.

T. Shaheen: Exactly. This is the easiest, quickest, and cleanest way to bring the lotteries together. The challenge will be in training retailers and players. The games are very similar but do have small differences. That's good because it will give us a great opportunity to interact with our retailers and players by providing an additional revenue stream, a new story to tell, and an avenue to explain the differences.

What are some of the differences?

T. Shaheen: The second prize is a different amount between the two games. The drawing times are the same, but the draw close times are different. Starting jackpot amounts are different. The annuity factor is different. MegaMillions is 26 years at a straight line of payments, and Powerball is 30 years at graduated payments. There are enough nuances there that it's going to be a learning curve for players. But we don't think it will be overwhelming. It's similar to training retailers and players for any other game that we introduce. They have to learn how to play the game, learn the rules, when the drawings are, and what the payouts are.

I would think the market is ready for something new and different and the customer ready to be introduced to more options and variety in the products.

T. Shaheen: I think you're exactly right. Why have a product available in some places and not in others? Of course, what's been happening is those who live on the borders will drive over and play that other game in other states when the jackpot is high. What this means is that people who don't live near the border don't have the opportunity to buy the other game because the travel time makes it less enticing. Now everybody will have easy accessibility and opportunity to play both games and that's the way it should be.

So there are enough differences between the two jackpot games that you don't feel a compelling need to differentiate them further right now. Is there a point of time in the future, maybe 12 to 18 months from now, that you will explore additional ways to differentiate the games?

T. Shaheen: Our goal right now is to offer both games in as many states as possible. Then, as we continue to work together and learn about each other's rules, policies and procedures, we'll develop a best practices approach to smooth out the implementation of two multi-state jackpot games in all, or at least most, of the lottery

states throughout the country. We'll integrate what hopefully will be a sophisticated best practices approach to optimize performance of both games. The next step is the National Game. Of course, we are working on all these initiatives simultaneously. As we move forward toward a national game, we need to focus on the priorities and the importance of execution. It is vital that we execute well each step of the way.

The addition of the second jackpot game has the potential to impact sales in a dramatic way. Obviously, we do not want to raise expectations unrealistically. But we do want to execute in ways that truly deliver the full benefits of what this initiative has to offer. We need to take this time to study and learn as much as we can about the dynamics of selling two big multi-state jackpot games. We will be learning a great deal in the next six months and fine-tuning our approach continually to improve and implement the best practices. It's an exciting opportunity but the end result will be determined by how well we execute.

Everyone anticipates achieving sales increases. The true measure of success, though, will be whether we leverage the maximum potential that this initiative has to offer. For instance, 7% net overall sales increase would seem to be an impressive result. But what if we could have achieved 20% or even higher? Implementation of these two games presents us with a tremendous opportunity. But along with that we have a massive responsibility to work diligently to ensure that we achieve the best possible results.

National Game?

T. Shaheen:The things we learn over the next several months while implementing both games in all the different states will make us that much more prepared and effective when it comes to implementing the National Game. We believe the greater opportunity ultimately lies with a National Game. The strategy is that we will have gained excellent experience executing our two big jackpot games, we will have learned how to maintain harmony within a large contingency and, finally, we will have gained experience in how to deal with each other's policies, procedures and rules. We will have built a set of Best Practices that can be applied to additional initiatives like a National Game. So the development and implementation of the National Game should actually be a more seamless process.

Will the National Game be a third big multi-

state jackpot game, or will you re-brand one of the two multi-state games?

T. Shaheen:That's the beauty of the whole plan, Paul. We don't need to decide that right now. Instead, we can take this opportunity to closely analyze what works best during the implementation of cross-selling Powerball and MegaMillions. We can apply the Best Practices approach towards the development of the National Game, leveraging our experience with the cross-selling initiatives that we do this year, analyzing all the elements that produce the best results. We'll take advantage of the mistakes we make along the way to learn what not to do and what areas need the most attention. To answer your question, the National Game could be a third large jackpot game, or it is also possible that the National Game could eliminate either Powerball, MegaMillions or both. We really don't know right now. The National Game will likely be similar in playstyle to Powerball and MegaMillions, but there may added features that incorporate secondary plays, T.V. shows, etc. The game will most likely be at a higher price point, such as \$2, or \$5. The jackpots could possibly grow to nearly a half billion dollars or more. Having different jackpot sizes, price points, and features will appeal to a broader range of player preferences. There may be some players who look only at jackpot size, others may look at the odds of winning, and others may want to spread their play around to enjoy a variety and higher frequency of draws and winning opportunities. Mainly this gives us the ability to create a game that has appeal to a broad base of players.

So often we are confronting choices in which the wrong choice has severe downside consequences. Sometimes we even choose between the lesser of two bad choices. In this case, it seems like the challenge is that everything is so good that you need to press hard to not settle for merely good when, with the extra effort, you can produce great.

T. Shaheen:I think that is correct. This will open doors for new opportunities for all lotteries in the U.S. to build their business. And most importantly, raise more money for beneficiaries while creating more options for the players.

You are currently president of MUSL, the Multi-State Lottery Association. Could you explain the mission and purpose of MUSL, and how it works to achieve those?

T. Shaheen:MUSL serves a management,

administrative, operational function for all the games under the Multi-State Lottery Association umbrella. The product most people are familiar with and talk about is Powerball. But there's also Cashola, 2 by 2, Hot Lotto, and Wild Card 2. MUSL's responsibility is to manage the administrative, financial, and operational functions of all of these games.

MegaMillions has a less formal structure than that, doesn't it? What role did MUSL perform in the cross-selling of MegaMillions and Powerball?

T. Shaheen:MUSL staff have been participating in the meetings and handling documentation of the processes that both parties are agreeing upon. Member representatives from both organizations are involved with all aspects of decision-making such as building the licensing agreements. As you might imagine, there are many details that need to be worked out and that require involvement from members of both organizations. Each lottery has its own set of issues, especially legal and compliance issues, which need to be addressed. So while MUSL may perform some administrative and support functions, these multi-state initiatives require the active involvement of all parties to the agreements. MUSL staff does not have any decision-making authority. That is the domain of the lottery leadership and the representatives appointed by the Powerball and MegaMillions Groups. The lottery directors serve as a Board of Directors.

Why couldn't MUSL be used to do other things? For instance, when you develop a national game, won't there be a need for management of a national brand and advertising campaigns and all the things that go with promoting a product nationwide? Won't there be a need to operate differently on the national stage than is done presently with each state operating in its own independent orbit? And couldn't MUSL be a useful tool that is already in place to coordinate something like that?

T. Shaheen:MUSL does have a marketing division that performs research and make proposals to its members. For instance MUSL staff may have an idea or may have been contacted by an outside organization about a multi-state scale promotion such as a Superbowl package. MUSL staff can contribute to the development of a big picture plan for this type of multi-state initiative. They can do research, vet the pros and cons, make presentations to the directors and/or invite third party researchers to make presentations to the directors. But at the end of the day, everything comes down to a vote of the

directors. Take your specific idea - developing a national marketing and advertising campaign for a national game. MUSL is a great resource for conducting the research, proposing some campaigns, and then possibly, subject to the approval of the directors, even be involved in aspects of coordination and implementation. But everything that MUSL does is contingent upon the approval of the lottery directors that comprise the membership of MUSL.

Let's say you're sitting in a room having a general meeting of MUSL member directors. Someone proposes that you build a truly national brand for a national game and that you build a national advertising and marketing campaign to promote that national brand. Let's suppose that as a group you decide in principle to explore this possibility. You've already said that MUSL does research and works up proposals so let's go to the next step and suppose that MUSL did all that and now you've decided to pull the trigger and create a truly national brand with campaigns that span all lottery states. How would you implement that?

T. Shaheen:The members of the association would operate much like a lottery would in that we would outline the details of implementation and the roadmap for implementing them. And yes, MUSL could very well be the resource we rely on to implement it. Let's say the directors decide and vote on the need to retain a public relations firm. The directors could vote on a proposal to give MUSL the task of drafting an RFP seeking services, then evaluate the proposals submitted, and make recommendations or perhaps come up with a short list of public relations firms that could then make presentations directly to the directors. Likewise with advertising firms. MUSL definitely has the ability to do all those things and more.

You were the inaugural winner of the Sharp award for Good Causes. This award was named in honor of Sharon Sharp, industry veteran and friend to everyone who passed away last year. You increased the amount that the lottery contributed to its beneficiary by an astounding 19%. What were the primary drivers of that increase?

T. Shaheen:There were two major drivers to that increase. We raised the Instant Ticket prize payouts from the previous year. And we received approval from our legislature to increase the prize payout percentage to the players. That change in the value proposition to the players was instrumental. We also introduced a second daily drawing for our Pick 3 game. As a result, we sustained a 42% increase

in Pick 3 sales for the year. It was phenomenal. We never would have expected it. The industry average is 5-9% for a second drawing in the same day. It's still holding strong at 42%, and so you're close to doubling your Pick 3 sales as a result. By increasing our instant prize payouts, we were able to introduced two large order \$10 games last year that sold out in seven and eight months respectively. Multiply the increased number of games by a higher price point and you get the big surge in revenue. And those were primarily the drivers for the increase in sales. Interestingly enough, though, the increase to our beneficiary nearly matched the increase in sales. Our sales went up 20%, and our return to our beneficiary went up about 18.9%. Usually, sales increase by a much larger percentage than net.

It seems like there are two takeaways. The obvious takeaway being that increasing the prize payout in an intelligent and prudent way improves the value proposition to the player and drives sales. The other thing, though, is that if the directors and their organizations were given the latitude to operate more entrepreneurially, you are able to produce the results. Lottery organizations have a wealth of talent and creativity in-house that can drive superior results for their beneficiaries, if they are given the freedom to do so.

T. Shaheen:Yes. One of the keys is to stay genuinely open to all ideas. We welcome any and all kinds of new ideas in North Carolina. I can't guarantee that we'll do all of them, but we keep an open mind to all the ideas that are out there.

What are you trying to do this coming year to try to get close to what you achieved in '09?

T. Shaheen:We opened this summer with a Mustang ticket. We followed that up with our Ric Flair wrestling ticket, then our first \$20 instant game, which is selling very, very well. Right after the beginning of the calendar year 2010, we will introduce another \$10 game in January. Then on January 31st we will have MegaMillions going on sale. Then we'll have instant games tied to Valentine's Day and St. Patrick's Day. And then the Powerball with the 10X multiplier promotion before the end of the fiscal year, and that should about wrap it up for us. Most lotteries do similar games and campaigns. The timing of when you introduce the new games is always very critical to their success. You look historically at what's happened and then you try to time it accordingly. Right now we're running over 17% ahead of last year,

but we're still a little cautious because of the economy and so are projecting a year-over-year increase of 7% to 10%.

Must be nice to have a 7% increase be on the conservative side. Don't you expect the economy to come back in 2010? Perhaps not gangbusters, but at least an improvement over 2009.

T. Shaheen:Hopefully. But we do not want to raise expectations since nobody really knows what will happen next with the economy.

Whenever I see the videos of TV commercials competing for advertising awards at the NASPL and WLA conferences, I am always astounded at the creativity and quality of the work. It would seem that there is tremendous commonality between the four marketing "P"s across all US state lotteries. The product and the reason people buy them is similar everywhere, isn't it? Why couldn't MUSL be used as a resource to coordinate and implement advertising campaigns for all its member lotteries? Why do we have 40+ lotteries spending hundreds of millions of dollars to produce a similar end result? Why not use a mechanism like MUSL to create some templates and tools that could be used to defray the cost of all this advertising? Is something like this a possibility, or is it ultimately a non-starter?

T. Shaheen:It certainly is a possibility. MUSL is capable of doing that if the members decided to entertain such an idea. The problem with universal advertising is that different states have different issues with advertising. Take our state of North Carolina. We have an enormous amount of restrictions here. In fact, we probably could not participate in any national campaign because sooner or later there is going to be something in the campaign that we are not permitted to do in North Carolina. There have been efforts at times to do joint advertising. MUSL conducted a campaign several years ago utilizing Ray Charles. The series of commercials utilizing Ray were tailored for each state with their name and other local information on them. That campaign was very successful. In fact, state lotteries had Ray Charles promoting Powerball, utilizing the same spot in every state, and the only thing that changed was the name of the lottery. So those types of things have been done before.

But you're saying that while it can be done, when you start to analyze all of the differences, even if they're minor differences, the bottom line is they're important nonetheless and end up costing more than it's worth to work around them.

T. Shaheen: And that's especially true with TV. The bulk of the costs are in your media buys and you can't share those because they're different states with different media pitching to different markets. So basically what you're sharing is the production. Let's say that it cost \$300,000 to produce the Ray Charles TV spot (that is a totally made-up cost). That may be a cost that most lotteries could not afford. If thirty lotteries shared the cost of that TV spot, however, it would cost each lottery only \$10,000. So, \$10,000 apiece and you can have a Ray Charles commercial. That's a pretty good deal. I do see where you're going with this, Paul. But it's

hard to put those campaigns together because you need to get something generic enough that doesn't conflict with any one lottery's restrictions or overall agendas.

Slightly different tack: How can MUSL be involved in the efforts to coordinate and break into the big national retail chains?

T. Shaheen: That's not really a function of MUSL. That's more of a NASPL function. MUSL focuses more on the implementation of the games that fall under the umbrella of the Multi-State Lottery Association. NASPL currently has a committee headed by Margaret De-

Francisco that focuses on efforts to sell through the national chain stores.

Our main MUSL focus this year is to implement the cross-selling of the jackpot games. That has taken every ounce of energy that we have. Then, there's not going to be any slow-down because we will want to roll right into the National Game. Along with successfully executing on the cross-selling, my goal as MUSL president this year is keep the national game on target to come out possibly in another twelve to eighteen months. ♦