Jennifer Welshons

Vice President of Global marketing, Scientific Games International

My discussion with Jennifer Welshons revealed some of my assumptions about this industry to be slightly misguided. My notions about how the four "P"s apply to the lottery business, about how player groups are segmented, about how the internet fits into the broader scheme of the business, all needed updating. New products, new ways of reaching the customer, and an accelerated pace of innovation make this a most exciting time to be in the lottery business. But I have been cautioned to appreciate that many of the "old rules" of marketing are based on solid principles that will continue to apply for many years to come.

Paul Jason, Public Gaming: *I would think that we have a sort of bifurcated player profile. There's the traditional "core" player that drives billions of $ in sales and does not like dramatic change. They like the lottery products they have become familiar with and they like to buy them at the C-stores etc. Then there is the next generation which has been raised on incredibly stimulating and fun video-games and is likely to expect a different kind of playing experience. And they are more likely to be found on the Internet than in the C-store. Is that the case? Does it create a dilemma for marketers to fulfill the expectations of those conflicting demands?*

Jennifer Welshons: Here at Scientific Games, we don't view the player or consumer market as bifurcated. It's about delivering the product to the consumer and the consumer to the product. For simplicity here, let's use the common terminology of core players versus others; however, we believe it does a disservice to group all of those core players into a single group since there are so many nuances. But at a basic level, a core player is a core player because of the desire he or she has that is met through the product. Whether you're 45 or 25, raised on board games or Xbox, if you enjoy the fun and thrill that is delivered through the experience of a lottery game, the moment of excitement, you have the potential to be a core lottery player. How that desire is delivered and the level to which a consumer is willing to seek it out is more where the Internet comes into play.

There are definitely some consumers who do not go into C-stores and so we need to make the products more readily available to them where they routinely shop and in the future that may involve the Internet. But there are two reasons why the notion of two separate groups with conflicting play styles and preferences is not correct. First, it's not as if 'core' lottery players don't go on the internet. Most everyone's on the Internet. Internet promotions, or promotions that deliver a benefit in the form of a Second Chance Drawing and Points for Prizes that can be redeemed on the Internet, are appealing to the 'core' player as well as to the proverbial next gen' player. Second, the product attributes that make them fun and exciting for the next generation of player should also appeal to the core player. It's not as if the core player wants dull and boring. They like fun and exciting, too. The difference right now is that they are willing to seek out the current product in traditional venues and the next 'gen player has totally different shopping behaviors.

It is true that we need to avoid getting out of step with the core player, and that we need to continue to make products with attributes that the core player may like but may not appeal to the next generation gamer. And there might be some products or play styles that the players in their 20's may like more than the older players. But the overlap between these two segments is huge. In general, all players like fun and exciting and they're on the Internet. Which means we want to create fun, exciting products and make them available over a wide variety of channels and media. And we want to build innovative promotions that tie everything together. The retail channel is still the lottery face to the customer. When you look at the actual numbers as opposed to trend lines, you see that retail is where our customers are. Other large consumer packaged goods industries are finding this as well; that even though they have the ability to sell their products over the internet, consumers are still "shopping: brick and mortar and then "purchasing" online.

We also recognize that the impulse of the core player to go into a C-store may wane though. Our Internet promotions give that core player another reason to be motivated to continue to make the effort to go into the store and buy the ticket. Even though the core player is used to seeing our products displayed on a regular basis, we need to refresh the products and our image for the core players just as we do to attract new players. It's really a combination of offering consumers "what I want, when I want, where I want it."

You said that there has always been more of a focus on Product than on Place and Promotion. Why?

J. Welshons: Product is the easiest to affect. We invest significant resources to research and innovate in the product area because it's what we know how to do and we are good at it. But the interesting thing that we are finding is that the players, even the next generation players, already like the product- instant and online. The product is not the problem. Of course we need to evolve in the product space just like any business does. But the bigger opportunities to impact sales growth lie in the Place and Promotion spaces.

For example, when we place traditional instant games in front of casual or non players, they actually like them. In that moment of single isolation, where they didn't have to seek out the product in a place they don't normally shop and experience a less than desirable purchase process, it appeals to them. The obstacle to selling the product to these possible consumers isn't necessarily that they don't like the product. It's that they are not really exposed to adequate opportunities to buy nor be exposed to the promotional hooks that would engage their interest. What's happened over the years is that we've always looked primarily at product and price to realize lottery sales growth. On the Instants side, most of the revenue growth has come from increasing price points. Obviously, there is a great opportunity to do a similar thing in the online game side, and it looks like that may happen with the expansion in the number and variety of multi-state super-jackpot games. The exciting thing is that the other two "P"s have even more potential to contribute to sales growth. That's Promotion and Place. Initiatives such as Second Chance Drawings and Points for Prizes programs are great examples of innovative promotion and place opportunities that the industry should build on. The Internet and Mobile provide great potential to make the product more readily available to a wider cross-section of consumer groups. And while the industry has been in the traditional brick and mortar retailers such as C-stores and Grocery forever, there is still more that can be done to optimize sales there.

We talk about the importance of the Internet, but the most important place at this very moment is still the retail store. We can put the best product ever out there, but nobody will buy it if it is displayed upside-down in the dispenser in the store, if the promotional signage isn't up, or the retail store staff doesn't understand the games.

How do you get thousands of retailers to do everything right?

J. Welshons: That's the challenge, of course. Lotteries around the globe are doing their very best to accomplish that and we are creating progressive programs to help them. But it is a challenge and one that is certainly not unique to our industry. We have our SalesMaker™ program that attempts to identify and replicate Best Practices in lottery product retailing. We are constantly developing the program offerings by working broadly with retail organizations and locally with individual retailers. This work has been invaluable and we're now beginning to streamline the SalesMaker™ program giving us the ability to roll out Best Practices to large numbers of retailers. C-stores have been especially receptive since they're really suffering these days.

As much as people like me try to make the whole story be about New Media and Internet, you're pointing out that the real story continues to be about retail and players.

J. Welshons: Absolutely. But also that retail and meeting the needs of the player complements and does not in any way conflict with strategies and promotions for New Media channels, games, and promotions. The retailer also benefits by an expansion of the market and more lottery sales. There is no doubt that expanding the reach of lottery products to new consumers is critical for the industry to experience growth. And that the Internet and New Media will play pivotal roles in that effort. But the idea that these are the only ways to do that is an incorrect assumption. There is still ample opportunity to reach new consumers through traditional methods, we just have to do a better job of understanding the realities of our category in meeting both retailer and consumer needs.

I would think that the store traffic driven by lottery sales would have a direct impact on sales of non-lottery products. Is there any data on that?

J. Welshons: My team at Scientific Games is working heavily on that right now. We know that lottery traffic lifts overall sales of other products for the retailer; hence they consider it a traffic driver. We need to be able to support that knowledge with facts and hard data. Unfortunately, our product isn't regularly tracked through the cash register like every other SKU-based product is tracked, so it's not simple to get access to market basket reports. Lots of logistical problems. But we need to do that, we're trying to do it, and we will have to do it for the big retail chain stores. This is a very important issue.

Lotteries are implementing various forms of "extended-play" games on the Internet, usually as a part of a second Chance drawing. In effect, the extended-play games allow longer playtime for less money. Electronic games can also be designed to deliver an extended-play format. Casino operators are concerned that it will reduce turnover and, ultimately, profitability. How does the extended-play format affect the basic business model of lotteries? Does it impinge on profitability the way it can in casino gaming?

J. Welshons: The rate at which the player is buying tickets, or putting money in a slot machine, can be viewed as the 'velocity of the product.' Insofar as casinos measure profitability by the velocity of the spend on the slot machine or table game, or perhaps turnover and profitability of floor space, then extended-play formats would appear to reduce profitability. There may be many reasons why it is still a good strategy for casinos to implement extended-play electronic games, but increasing velocity, turnover, profitability per square foot, etc., would not be among them. If the lottery players ended up buying fewer tickets because they can choose to go home and play the games on the Internet, then extended-play could be seen to have a similar impact of reducing velocity. Fortunately, the picture is a little more multi-dimensional for lotteries.

The purchase of lottery tickets at a C-store does not mirror the play of a slot machine. While core players will stay in the store and make repeated purchases, the more casual player's repeat purchase happens when the player returns to the store. If the lottery player enjoys the internet games they get to play as a result of holding a non-winning ticket, they will hopefully be inspired to return to buy more tickets so they can play more of the extended-play games, and the relationship with lottery products deepens. I have a harder time envisioning exactly how a casino recoups the lost turnover from an extended-play game. Whatever time the casino player spends playing the game without wagering is lost turnover for the casino. But the time that a lottery player spends playing games on the Internet at the lottery website is not necessarily taking time away from buying tickets at the store. But we do need to understand all the implications of creating these types of extended-play games. Adding value to the product and increasing the appeal to the player does not automatically result in increased sales. We need to truly understand the core motivation for purchase and play in each consumer segment so that we ensure we're satisfying their need. Different segments most definitely play for different reasons and, in terms of expanding the player base to reach those not currently engaging on a regular basis, this is critical.

It sounds like we still have a lot to learn about player behavior when it comes to Internet gaming.

J. Welshons: We do. These are new games and the Internet is a relatively new channel for lotteries, so actionable data has not been available until recently. We are now receiving the kinds of data that will help us to analyze and understand player behavior. The Internet connection to our customer is different than the retail connection. The nature of the platform enables us to gather huge volumes

 ...continued from page 14

of data about the profile and motivations of the players. They can be asked general questions, the answers to which are electronically posted and can be processed and analyzed to provide an entirely new level of insight and understanding. This, combined with essential qualitative and ethnographic findings, will inform and impact our product design and overall marketing and promotional strategies.

With that in mind, why wouldn't you want to integrate the Internet into the channel mix for literally all the games?

J. Welshons: It might not happen right away, but there are quite compelling reasons to do just that. In addition to all of the other benefits of integrating the Internet into the channel mix, you're building a conduit for communication and dialogue with the player that did not exist before. That gives us tremendously valuable insight into what the player wants, enabling us to further evolve the products and marketing. We are doing extensive research into segmenting the current and potential customer base to determine what the specific needs are for the different segments, and produce and deliver the products they want in the manner in which they want to buy them. Additionally, we're spending a great deal of time understanding the role the internet is playing in other consumer product industries. We are trying to learn from their mistakes and successes in social media, mobile applications and so on and see what is applicable to our industry. It's an exciting process!

It seems bizarrely inefficient for 40+ ad agencies to be producing campaigns for each individual lottery. The amount of money spent with ad' agencies must be huge. I would think they would get a far superior ROI by having you do the entire "soup-to-nuts" marketing and advertising program. Why couldn't Scientific Games leverage its deep understanding of all aspects of this industry into the area of advertising and promotion? You would clearly be able to produce a higher quality at a far lower cost to the lottery. And you understand how to integrate marketing, promotion, distribution, new media, into the entire portfolio of lottery products in ways that ad' agencies have no idea.

J. Welshons: I agree that there are certainly efficiencies to be gained with this approach, and we do provide ad-agency style services under a number of our global contracts. We have a program called Agency Services™. It is a comprehensive program that integrates game product design with all other aspects of marketing, promotion and distribution of the product. Our internal resources have decades of experience in these areas, many having come from the agency side working directly with lotteries. Given that we're so closely tied with the product development process and the intended end-consumer, and have a resource depth of creative design and services, we can deliver comprehensive and integrated marketing programs in a way that can reduce costs for lotteries.

Is there anything that an ad' agency does that Scientific Games couldn't do better at a much lower cost?

J. Welshons: I don't believe so. Obviously, local agencies offer value in that they're just that – local – and there is something to be said for intimately knowing a market. But in the grand scheme, it's about understanding the consumers you are trying to reach and doing so through scale. The magnitude of data points and strategic product development in the lottery space that takes place within the walls of Scientific Games is unmatched by any ad agency. This is a complex industry and the role we play gives us a much better perspective than an ad' agency could ever hope to have. We can quite easily integrate the most creative advertising capabilities into our portfolio of services and capabilities. And we do. The best example of this is with our Linked Games where we have had success using scale to produce effective, cost-efficient advertising to support these initiatives. We're looking forward to expanding this success. ◆