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Innovating the Lottery Experience for Modern Consumers

PGRI Introduction:

It seems like yesterday that the games-of-chance industry was configured into separate and discrete product, distributional and marketplace silos. Lottery operators were not in the casino and sports-betting businesses and vice-versa. Online gaming was but a tiny blip on the screen. Now this is changing because the modern consumer demands convenience and easy access. Consumers don't want to go to multiple gaming operators to play games any more than they want to go to three different grocery stores to buy milk,

bread and eggs. In response to evolving consumer demand, top-performing operators are expanding the variety of games they offer. Product expansion offers incredible upside potential, but adds a layer of complexity.

We met with Michael Conforti at the ICE Totally Gaming show in London to discuss the macro-trend of expanding the portfolio of games and channels of distribution to align with a consumer marketplace that demands convenience, ease-of-access, and multiple gaming options.

Paul Jason: Scientific Games' investment in R & D is evident at your ICE exhibit as well as in the marketplace with new games and new technologies that make lottery games more entertaining and more convenient for today's players. How can operators differentiate themselves in an increasingly competitive gaming marketplace?

Michael Conforti: Portfolio management and optimization is an important priority for Scientific Games across each of our gaming categories. We believe the modern player is looking for quick and easy access to all games across all channels. The proprietary asset we bring to the client partnerships is our ability to make that happen—to integrate the different gaming categories, technologies and distributional channels on the back-end operational side of the business so that we can deliver a seamless player experience on the front-end, the

customer-facing side of the business. The top-performing operators are responsive to the needs of the consumer who wants an easy, intuitive, convenient pathway to engage in all game categories whenever, wherever and however they choose.

As an end-to-end gaming company, Scientific Games has executed on a strategy, and harnessed all of our cross-company resources to enable the operator to deliver that fully-integrated player experience that includes the best portfolio of games optimized for all media, distribution channels and social networks.

Is this the culmination of Scientific Games bringing together the lottery assets of the legacy company with the gaming assets from the acquisitions of Bally and WMS four or five years ago?

M. Conforti: Exactly. We anticipated the

convergence of gaming categories and channels of distribution in the marketplace, and we consolidated the resources and factors of production to optimize the player experience for the modern consumer who wants to migrate fluidly across game categories and media and distribution channels. Scientific Games' large economic scale and global footprint is integrated vertically from product conception to development, manufacturing and implementation. And it's integrated horizontally across all game categories. The data, resources, and direct experience with the retailers provide us with the business intelligence needed to optimize portfolio management and retail effectiveness. So now, the discussion is no longer about the optimal mix of draw games versus instant games. It's about draw games, instants, digital instants, new iLottery products, casino-style online games, and of course, sports betting. These games are now distributed through all available channels, such as clerk-operated terminals, self-service vending machines, VLTs and all digital media.

Offering a diversified portfolio of games across all channels provides a powerful competitive advantage for the lottery operator competing for the business of players that have ever-increasing options for their entertainment dollar. And just as consumers want the operator to offer a variety of gaming options, they also want those games to be available on the entire spectrum of media and distributional channels.

The percentage of revenues that come from instant games versus draw games is well over 60% in the U.S., well under 40% almost everywhere else in the world, and even less than 20% in some markets. Why

this crazy big difference in market penetration? Does the gaming culture in some markets just happen to favor draw games?

M. Conforti: The evidence is overwhelming that this is not the case. Consumer demand or the appeal of instants does not vary across different marketplaces—what varies is the application of best practices to develop the market for a product that has universal appeal. This is good news for lotteries with an under-developed instant product

category because it represents untapped consumer demand and a significant opportunity to increase sales in the market. It is important to note that the U.S. and European markets developed differently. Sports betting has been a big growth market in Europe over the last 45 years but it's only just developing in the U.S. During this same timeframe, instant games gained incredible traction in the U.S. To some degree, the appetite for 'new and different' was satisfied by sports betting in Europe and instants in the U.S. So where does that leave us now? Our view is that draw games and sports betting developed due to operational focus as opposed to a cultural preference. Scientific Games is fortunate to have contracts with 39 of the 43 largest lotteries in Europe, which provides us with a clear view of how and why the marketplace evolved the way it did over the last 45 years, and clearly suggests that the instant game category represents Europe's largest upside potential. We only need to look at the UK with Camelot, La Francaise des Jeux (FDJ) in France, and of course, the Lotterie National instant lottery in Italy to see how the application of global best practices can provide for explosive growth. These extremely large and mature markets continue to post instant game sales growth year after year.

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Even more telling are the marketplaces where the focus on instant games ramped up only recently. For example, Belgium, Hungary, Poland and Spain are all very mature markets that have focused on the instant games and experienced impres-

sive year-over-year growth in the product category. Portugal is also a tremendous success story with instants. Bulgaria has operated as a young, entrepreneurial business to drive significant growth in instants since its start-up only a few years ago—another great example of what can be achieved. The evidence is resoundingly clear: Instants represents the highest potential for growth. The best practices for achieving that potential are well established and repeatable. A focus on instants

represents the most effective and predictable pathway towards driving significant incremental growth on behalf of the good causes that Lottery supports.

Instant games have been the growth driver in the U.S. for three decades now. Will player tastes and preferences migrate to something new and different at some point?

M. Conforti: Player tastes and preferences are always changing, and it's always been that way. Players migrate to the new and different, and their tastes have evolved greatly over the last 30 years, as they will continue to evolve over the next 30 years. It is clear that instant games have evolved right along with consumer tastes and will continue to do so. That's the beauty of instants—the game is flexible enough to change with consumer tastes yet maintains

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the core attribute that its players enjoy most—the ability to win instantly. And as we know, today's consumers are not accustomed to waiting for anything. Therefore, it comes as no surprise that instants are offered increasingly in the digital space. New game styles, new pop culture license

affiliations, new media and distribution channels allow the industry to continuously innovate and refresh the entire instant products category.

Is there data that show the impact that a focus on instant games has on draw games? Is there cannibalization?

M. Conforti: We have gathered all the available data, and it demonstrates conclusively across all jurisdictions that a focus on the instant game does not negatively impact playship or revenue growth of draw games. Draw games continue to grow even where growth is disproportionate in the instants category. The reason for this is simple, instants offer a unique play style, appeal to different player motivations, and attract new consumer groups to lottery. The games are an impulse buy displayed right at the retail checkout counter, and they compete with products like Snickers bars and Coca-Cola in the Fast Moving Consumer Goods category. Prominent display of the product utilizing best practices, including offering a variety of options is the best way to attract that impulse purchase at the point-of-sale.

It is also clear that any shifting of revenue from draw games to instant games far outweighs by the increase in revenues brought in by new players who were attracted by instants, and in turn end up playing draw games as well. This is a very typical dynamic in the marketplace of consumer products. A thoughtful increase in the number of products and options that appeal to a larger variety of tastes and preferences ends up expanding the market and positively impacting even the established brands, as long as those brands have solid consumer appeal, which draw games most definitely have.

How should traditional lottery games be managed to optimize overall growth of the entire portfolio of games.

M. Conforti: Players tend to play again with their winnings, and instant games deliver

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more frequent winning experiences. More rewarding player experiences stimulate curiosity and a desire to play a wider variety of games. However, this doesn't happen without the deliberate, thoughtful and strategic application of best practices. We've collected data over decades of processing billions of transactions. In addition to the research and analytics, we have the game creation teams, the operational skill sets, and the real-world experience to help any lottery achieve maximum financial performance. We have created and refined the pathways to building sustainable growth across the entire portfolio of games. Increasing playership and expansion of the customer base can be achieved in any marketplace, anywhere in the world.

What are some strategies for tapping into those unpenetrated markets for instant games?

M. Conforti: We are quite clear on the fact that markets, gaming cultures and play styles vary throughout the world. But we do learn from our best practices on how to drive superior results. For example, we know that above all there must be an attractive prize payout to the player. The appeal of the instant game is based on a frequent winning experience and players quickly lose interest if that experience is not there. Our research tells us that the minimum threshold to move the player from disinterest to interest and willingness to engage is 62% to 65%. As we have seen time and again, a prize-payout percentage lower than 60% will simply fail to engage the consumer. Further, we know that the ROI for increasing the prize-payout percentage is extremely high. Increasing the prize-payout percentage to 70% and higher yields an increase in play such that the net profit increase to the state far exceeds the impact of the increase in prize-payout to the player.

So how does retail optimization come into play?

M. Conforti: No matter how attractive the prize structure or the quality of the product, if the lottery doesn't have an optimized retail infrastructure it is going to underperform. In many parts of the world, the traditional lottery retailer market is contracting so it is imperative that we find new channels that appeal to both the traditional lottery player and the younger generation that we seek to attract. This requires both a focus on the digital channel, and a push into bid-box retailers, grocery stores and other non-traditional points-of-sale that may require us to provide differentiated and tailored lottery retail experiences.

One of the benefits of being such a large company is that we have the ability to invest heavily in innovation. This allows us to identify and build upon the foundational elements that constitute global best practices, while building into our model the flexibility to tailor solutions to fit the unique needs of each individual jurisdiction.

Which brings us to SCiQ®...

M. Conforti: SCiQ is an intelligent retail ecosystem that modernizes how lottery games are sold, and it's transformational. It is a great example of Scientific Games innovation built on strong customer input. Modernizing lottery products through automating in-store inventory management and accounting completely transforms both the player and the retailer's experience. SCiQ also transforms the lottery's day-to-day management of instant games at retail by delivering real-time data with every transaction providing the lottery with big data for a better understanding of what happens at retail. We have already completed a SCiQ launch with 7-Eleven, and launches are underway with other major retail chains in 10 states. We are now able to quantify the significant in-store incremental sales generated from this product, as well as the giant leap forward in retailer accounting efficiency. We are deploying our SCiQ technology as fast as we can produce it.

What would you say to lotteries who are concerned about the costs of modernization and the risk associated with investing in anything?

M. Conforti: Fundamentally, the lottery industry was created to support good causes and important government priorities, so we should do everything in our power to maximize the economic benefit to those beneficiaries. However, it is not always feasible for a lottery to acquire the type of technology or invest in the type of initiatives that are required for growth. That is exactly why we have focused much attention on developing business models that transfer risk to us. For example, Scientific Games Enhanced Partnership (SGEP) instant game management program and pay-for-performance models enable us Games to carry the risk of investing in the business in return for a small portion of the upside profit. These solutions optimize sales and lottery profit without requiring the lottery to incur significant upfront costs. This is a classic win-win for everyone—lottery operator and lottery stakeholder alike. ■

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and distinctive branded colors. An app tracks the vehicle's time on the road, their location, hours of the day, etc. and calculates payouts for the drivers. Consumers see eye-catching rolling billboards that are more arresting than traditional bus signage.

Another company, Firefly, installs LED signs on tops of cars. The signs can cycle through different targeted ads, and the company has a cool social support component: it donates 10% of its message capacity for local public service announcements. In December of 2018, Firefly raised \$21 million in seed funding based on the strength of the company's reports of 150 million consumer impressions generated each month across 40,000 square miles of coverage and 650,000 hours of content played.

Grabb-It is working to perfect a laser-projection technology that transforms a car's side rear window into a full-color display, showing location-aware ads to anyone who might be walking along the sidewalk. As the vehicle traverses the town, GPS-powered ads can automatically switch to feature businesses nearby. Play Octopus is a digital tablet-based platform that combines games and marketing messages. Ride-share passengers can play games for free on the tablet, but they are shown ads as they progress through the game, hitting different competition plateaus or unlocking new play levels. Octopus' current audience is two million unique passengers a month, the average age of whom is 32. More than half of that audience holds a bachelor's degree or higher.

Play Octopus is active in Boston, Baltimore, New York, and other east-coast cities and has plans to expand to 20 more cities in 2019.

Cargo is a different kind of ride-sharing entity in that it does not sell advertising, but, rather, products (snacks, beverages, gum, pain relief tablets, device ear-buds, and sundries). Using a display container of merchandise in a ride-share vehicle, passengers can order products through a mobile app tied to the box number in that car. The driver receives a message and can fulfill the passenger's order on the spot (and earn a small sales commission). Cargo seamlessly manages the inventory for the driver so stock outages do not occur. In many instances, drivers can give passengers free samples of promotional products (which nearly always triggers sales). Cargo