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Optimizing Instants in the Digital Age

PGRI Introduction:

In his 35-year career in the lottery and gaming industry, Kevin Anderson has covered a great deal of ground both professionally and geographically. As vice president of sales and business development internationally for Scientific Games, he now oversees instant game sales for Europe, Africa, Asia Pacific and Latin America. Kevin has also served as global head of sports betting for the company. Fluent in five languages, he has managed lotteries in Latin America, spent six years in Greece running sports betting for OPAP, and led Scientific Games' joint venture with Française des Jeux in France.

With European Lotteries Industry Days 2018 in Prague approaching, we caught up with Kevin in his travels to talk about the untapped potential for instant games to drive growth in Europe and other markets around the world – as well as the cross-channel relationship between land-based retail and digital.

What are some interesting and/or important trend lines for instant 'scratch-off' games?

Kevin Anderson: New instant games and marketing strategies generally originate in the U.S., so the European instant games market tends to mirror the U.S. Initial game ideation, market analyses, and strategic planning templates also emanate from the U.S. Europe enjoys the benefit of observing how new products and strategies incubate in the U.S., learning from the experience, avoiding miss-steps, and capitalizing on successes. Of course, every market is unique. There are more



commonalities to markets and consumer behavior than there are differences, but it is vital that we identify the attributes of each individual market that make it special. At Scientific Games, a large part of our R&D goes towards deconstructing and analyzing the component parts that add up to a successful product or strategy, clarifying which attributes are transferable to other markets, and modifying any attributes that need to be customized for optimal success in an individual market.

Scientific Games is often the driver of game development in Europe just as we are in the U.S. Our 360-degree view of how games and strategies perform everywhere in the world informs our entire approach. But all markets are local, and it is the analytical tools we apply to integrate local game cultures and the attributes unique to the individual market and to the political and regulatory climate that drive successful product launches, marketing campaigns and business operations. Those customers that apply these proven methodologies are driving growth in their instants category.

What are some of the specific trends or methods of operation that have traction in all markets?

K. Anderson: The performance of individual games is less relevant than driving results for the entire category. We deploy a family of products that appeals to the broadest range of consumer tastes, and we apply creative strategies that would not work as well if each product were evaluated in isolation. For instance, we invented what we call 'spike games' to serve a highly specific purpose. These games are not expected to have enduring appeal and wouldn't necessarily index as high as others. They are novelty games that get shoppers' attention, spike demand for a short period of time, and draw attention to the whole product category.

The U.S. experience has also shown everyone the power of higher price points. There is an art and science to the way games

are priced and the judicious application of higher prize payouts. We believe that while optimizing short-term net revenue is a vital goal, optimizing long-term sustainability is just as important.

Another trend borrowed from the U.S. is the big, end-of-year push for holiday-themed games. Holiday instants provide a tremendous built-in promotional opportunity to leverage spike game strategy because there is a limited selling period, and lotteries want a number of novelty games to appeal to different consumer groups. The holidays are always a great opportunity to engage casual infrequent players and try to turn them into more active players.

We are seeing much more focus on prize structure and more complex game programming that give players more ways to win. More attractive product presentation and cross-fertilization between gaming channels is taking place. Scientific Games is building multi-channel engagement into the play experience – for example, bonus plays that require the player to go online, if the game is purchased at retail, or to go to the retail store if the game is purchased online.

European lotteries have always focused more on draw games than instant scratcher games. Does this represent a largely untapped potential for instant products in Europe?

K. Anderson: Yes, and our customers are moving quickly to develop their product portfolios. Games with an instant reveal are appealing to the consumer's entertainment experience. This is evident in all game categories as well as the incredible growth of instants scratchers in the U.S. over the past two decades. And consumer demand for instants is very responsive to marketing and promotion. Unlike draw games, the creative canvass is rich with potential for new ideas and innovation to enhance the instant game itself as well as the whole player experience. Draw games are not performing as well as they once did, and one reason is the lack of instant reveal – the player must wait to see the outcome.

Despite the incredible diversity of the European market – and markets throughout the world for that matter – there are fundamental dynamics in the instants marketplace that are apparent everywhere. That's why many markets in Europe, like France, Italy, Portugal, Hungary, Slovakia, Czech Republic, the Baltic and the Balkan

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states, Spain, and Ukraine, are applying best-practices in a highly sophisticated way to drive the same high growth that made instants the most dominant games in the U.S. Scientific Games services more than 45 instant product customers in Europe. They are all very different, and each receives the highest level of attention to develop the product and promotional strategies that will optimize their unique market.

How do European Lottery operators differ from U.S. state lottery operators?

K. Anderson: Comparison between the U.S. and Europe can either be misleading or over-simplified. The U.S. is much more homogenous, while European lotteries face a more diverse set of challenges and opportunities. Regulatory regimes vary greatly from jurisdiction to jurisdiction. And EU regulatory requirements seem to evolve in ways that drive adjustments on the part of each member state. So there is a much higher degree of regulatory flux and volatility. This can translate into instability and present fertile ground for disruptors like Lottoland and “society lotteries”, as well as online operators which may be legal in one EU state but not compliant with the laws in other EU jurisdictions where they operate. The European marketplace is inhabited by far more operators offering gaming options to the consumer. So the competitive landscape is significantly more intense than in the U.S.

oversee land-based casinos, like they do in Canada. This is why Scientific Games' recent acquisition of NYX, which expanded our digital lottery and sports capabilities, is so important.

We are integrating a diverse portfolio of products to create a holistic player experience across multiple channels and user-interfaces. We are delivering the single view of the player which the operator needs and the integrated user-interface that the player needs. And we expect all markets and operating strategies, including the U.S., to evolve like this because it benefits the consumer and positions the operator to deliver more value.

Scientific Games has incredible game content and R&D that has always advanced the industry. Is the real success driver now more about portfolio management than in creating the “Next Big Thing”? Is it more about business process, complex game programming and cross-pollination between channels? Or is “content still king”?
K. Anderson: It's all the above. I would still say that content is king, though. Good games are what sell. No amount of business process or portfolio or channel management can overcome the lack of great game content. Excelling at all of these operational functions is a prerequisite for success in any business. But it's the game content that sets you apart. Content is where you can really differentiate yourself from all others. And

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On the other hand, most European lotteries have had an omni-channel capability for the last 15 or even 20 years. In addition to selling online and through a wide variety of channels, most European lotteries have added more and more product verticals to their portfolio. They are still called “lotteries”, but they typically offer sports betting, online casino-style games, online bingo, slots and fast-draw keno games, as well as traditional draw and instant scratch-off games. Some even operate or

that is where Scientific Games is dedicated to being the best.

Understanding content, how to abstract and reconstruct the countless attributes that go into the development of successful games, how to modify and customize games for each market – this is the art and science that makes Scientific Games who we are. Forty-five years of amassing marketing data from around the world, combined with the experience of creating

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and launching thousands of games, informs our R&D and game development process. We are uniquely equipped to produce the best game content in the industry.

Can we expect these more stringent standards to be applied in the U.S.?

K. Anderson: I think so. The European market-place is more mature than the U.S., and Europe does tend to be a forerunner in some areas of consumer protection and protection of consumer data is one of those areas. Europe is much more aggressive than the U.S. when it comes to reining in the power of companies like Facebook, Google, Amazon and Apple – and holding them to a higher standard of accountability in all matters relating to consumer protection. The U.S. may not want to replicate all the actions of the EU, but will likely watch and learn, and likely adopt those actions that produce the desirable outcomes.

How transformational will the impact of Scientific Games’ SCiQ™ technology be on the retail point-of-sale ecosystem?

K. Anderson: Our entire industry is aware of the need to modernize the current service, support and business-process relationship with retail partners. Mark Hagan, lottery category manager for 7-Eleven®, has been telling the lottery industry for years that it needs to modernize. Lottery’s traditional methods of inventory management, shift accounting, security, merchandising, auditing and reporting are inefficient and impair 7-Eleven’s ability to optimize its lottery product sales. SCiQ is a major breakthrough. Our SCiQ pilots with major retailers are already delivering significant improvements. If you view the presentation that Mark made at PGRI’s recent conference in Miami (available on PGRItalks.com), he shared that one of the reasons for 7-Eleven’s exponential growth is its focus on efficiency – which reduces costs, and increases speed and convenience for the shopper. He explained why SCiQ is transformational technology that turns an inefficient manual POS process into an instant game category business solution that goes a long way toward meeting the needs of the sophisticated, uber-efficient, multi-jurisdictional retailer.

One of the great features of SCiQ is that it’s mobile-enabled. The shopper can select the items for purchase on their mobile

device by passing the information from the mobile to the POS system, making the whole selection and transaction process fast and easy. SCiQ gives lotteries and retailers access to real-time shopping basket data that tracks the purchasing behavior and allows us to overcome some of the knowledge barriers that we previously had because of the traditional retail player anonymity. And SCiQ gives us real insight into session management and the full transaction journey that helps measure and manage the shopper’s interaction with lottery products. This also allows the retailer and lottery to communicate customized offers to the shopper, as well as messaging to help players play responsibly.

Is SCiQ creating an interactive relationship for land-based retail players?

K. Anderson: Exactly. And this opens up a whole new world of possibilities. SCiQ repositions instant games with a clean modern look for the consumer – it’s much more than a highly efficient operational tool. It also delivers entirely new player experiences, with progressive jackpots and games tailored for player subgroups and game concepts that weren’t possible before. We keep the retailers on board with modernized operations, and we keep the players on board with fast, easy, convenient shopping and exciting new game entertainment experiences.

How do you create a mutually reinforcing cross-channel relationship between digital instants and your land-based retailers?

K. Anderson: It is perhaps not recognized in the U.S. that some European retailers once had all the same concerns about online sales as some U.S. retailers have now. There was opposition to iLottery in the beginning, but it was defused by honest communication with the retailers and the retail trade unions and associations which represent very strong lobbying power, just as they do in the U.S. Now, after decades of proof, retailers can see that iLottery has actually increased consumer engagement which expands the market. The omni-channel model brings in new consumer groups, and increases sales to current players. A lottery with deep and broad omni-channel presence in the marketplace drives retailer traffic. And retailers know the residual

value of the lottery player far exceeds the face-value of their lottery purchases.

The first step towards creating that mutually reinforcing cross-channel dynamic is to secure buy-in from all channel partners. Then we go about building collaborative promotions that drive cross-channel consumer traffic, such as digital games that are redeemed at retail. Or second-chance draws that require online registration and action. It’s all about inviting the player to interact with lottery both at retail and online. Scientific Games is innovating to drive cross-channel activity. Everyone benefits, including the consumer – but especially the retailer.

The misconception that players will migrate to online and leave retailers behind is based on a fundamental misunderstanding about the cost of acquisition for online players. Lotteries need retailers and they will always need retailers to help drive online player acquisition. Another way to think of it is that the cost of player acquisition online far exceeds the cost of commission paid to retailers. It is the network of relationships between consumer, retailer, lottery and online channel that maximizes value for everyone. Promoting this network of mutual benefits is what will drive industry growth and drive value for all stakeholders.

As the number of gaming options explodes, how does lottery avoid attrition of players and losing out to more aggressive competitors?

K. Anderson: There is no evidence of players abandoning a certain game category like lottery because another category offers higher prize payouts. Our research has shown quite conclusively that certain segments hold up best to competition, and lottery is in that category. We might be witnessing a general flat line of draw-based games, but I don’t think competition is causing players to migrate to other games. It could be part aging player base, part squeeze on disposable income, and part lack of instant-reveal. But it’s not that the consumer is being pulled away by more attractive offers.

Globally, lottery has grown to a \$304 billion dollar industry that generates over \$91 billion a year in net funding for good causes. Our first order of action is to preserve the asset value of a business like that. It’s not Scientific Games’ goal to disrupt the industry. It is our goal to deliver value to our clients, enhance the player experience, and build a solid foundation for sustainable growth and prosperity for the benefit of good causes. ■