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TEXAS LOTTERY CONTINUES TO RIDE THE INNOVATION TRAIN

PGRI INTRODUCTION: The Texas Lottery has been on an aggressive track of modernizing the in-store player-experience and retail support functions, expanding the retail POS footprint, and investing in innovation. Some things never change.

Paul Jason: What are some of the impacts of the pandemic on the state of Texas generally and on the lottery specifically, and how did you respond to that?

GARY GRIEF: Texas really took a double hit to its economy. We had the state and all of retail shut down except for what were deemed essential services. At the same time, the oil and gas industry completely collapsed. There was even the most extraordinary phenomenon where oil prices actually went to zero. Other than sales tax collections, oil and gas taxes are the biggest source of government revenue in the state of Texas.

Thankfully, all 20,000 plus of our lottery retailer locations around the state were deemed essential services by our Governor so they remained open throughout the pandemic. Over the last two weeks of March and the first two weeks of April, we initially saw sales drop by roughly 15%. But sales snapped back very quickly and started to really take off on the scratch ticket side of our business by the third week of April. This occurred with our daily draw games as well. Since that time, we have been exceeding last year's record setting sales pace for scratch tickets by more than 30% every single week, and scratch ticket sales never dropped below \$111 million a week during this time.

Just last year, we set an all-time record for total lottery sales of approximately \$6.25 billion. Our latest fiscal year just closed on August 31st and we concluded the year with sales slightly above 6.7 billion. That sales increase of more than \$450 million was achieved on the back of the scratch ticket product. The annual increase in scratch tickets was actually over \$710 million, allowing us to make up for the \$260 million decrease in jackpot draw game sales due to the decline in Mega Millions and Powerball. Scratch tickets now comprise 82% of our total sales. Thus, scratch tickets are obviously where we will continue allocating the bulk of our resources because that is where we see the growth coming from.

Our \$50 scratch tickets this year broke every record and were one of the strongest growth products we've ever had. We have already laid the groundwork to introduce a \$100 scratch game in the near future. We think there's a serious market for that price point and, of course, the value proposition for the player must be slightly higher. Our challenge is to continue to create unique prize structures and experiential prizes that make our games fun and attractive for our players at every price point.

Powerball and Mega Millions now each comprise about 2% of our total sales in

Texas. Consequently, that's the proportionate attention we can give those products as we continue to shift our focus to the products working best for us, and that's the scratch ticket product and the daily draw games.

The pandemic has resulted in lots of restrictions that maybe caused more people to turn to Lottery for fun and recreation? Maybe there is a potential to get even more creative and innovative to appeal to lock in the playership of these new consumer groups and appeal to an even broader variety of playstyles and motivations?

G. GRIEF: I agree. And I think we will retain a large portion of the player groups who may have first come to Lottery during the pandemic. They've recognized the ease of purchase, the ease of redemption, the entertainment value. YouTubers are certainly familiar with the YouTube personality known as Mr. Beast. Mr. Beast reached out to one of our retailers recently, HEB Grocery, and made a purchase of \$1 million of one of our \$50 scratch ticket products. Mr. Beast's team scratched those \$1 million worth of tickets "live" on YouTube, and created a compelling production of the scratching of those tickets. This video quickly shot to #1 on YouTube with millions of viewers, garnering the Texas Lottery a tremendous amount of exposure. This is just an example of the lottery's potential to connect with the next generation of consumers, people who just want a story to go with their playing experience. We need to connect our product with a compelling story – and connect all that with our audience via social media.

The Texas Lottery started years ago to shift a larger and larger portion of your ad spend into digital platforms. This in spite of the fact that you don't actually sell lottery tickets online. Have you been able to measure the ROI of that investment?

G. GRIEF: We have a very deep respect for the state in which we conduct business. We operate in a conservative state; in fact, an anti-gambling state. If allowing a lottery in Texas were considered today, I'm not sure the votes would be there in the Texas Legislature. My view is that the Legislature tolerates the lottery but certainly does not embrace it, and there are probably mixed feelings about the notion of actually promoting it. As a result, Texas has one of the lowest per cap ad spends in the country for lottery. I wonder from time to time what we could accomplish with just an average advertising budget. When our budget was dramatically cut several years ago, we quickly realized could no longer afford the cost of statewide traditional TV or radio campaigns. So we looked instead at digital media such as Spotify, Pandora, and YouTube, and how we might create spots efficiently and rapidly to hit timely topics and coincide with top-of-mind memes. And we lowered costs by producing some of the spots in-house with our own talent at the lottery. That has also unleashed some of the creativity of our team by collaborating with our advertising agency to forge new approaches. That collaboration parlayed Austin's status as the music capital of the world to loop lottery in with socially-distant virtual concerts. These have had tremendous viewership via social media. So we are finding more cost-effective ways of attracting attention and eyes on our products and our mission to support good causes. The lack of an adequate advertising budget has forced us to become more resourceful and the direction that has taken us in just happens to appeal to a younger generation, an additional benefit for our long-term sustainability.

How you are utilizing the courier model in Texas?

G. GRIEF: First, one must understand that the Texas Lottery has no relationship with the lottery couriers in our state and, in fact, has no purview over their business operations. What courier companies do is comparable to "Uber Eats" in the restaurant business. They simply make

the product available to players who are not playing at retail. That fills a void in our state, especially during the pandemic. The brick-and-mortar retailers that have partnered with couriers in our state are far and away the top sellers of lottery draw games, and some are moving now to provide the scratch ticket product via courier as well. These retailers and their courier partners have done a remarkable job in acquiring and marketing to their players, distributing the product and redeeming prizes without issues. A side benefit to the good causes the Texas Lottery supports is the investment the couriers have made in promoting the Texas Lottery brand. From what I have seen, they invest heavily in digital and print advertising in our state. Again, couriers are not affiliated with or even licensed by the Texas Lottery. They have simply partnered with traditional brick-and-mortar retailers.

Of course, we are aware of how they operate and do our best to ensure that the appropriate interest groups in Texas state government are informed about the activities of couriers.

I'm asked from time to time about the likelihood of the Texas Lottery ever being allowed to sell lottery tickets over mobile devices. I don't foresee that in the near future due to the conservative nature of our state, but even if the Texas Lottery were allowed to enter this market, one concern is the fact that state agencies like the Texas Lottery are subject to open records laws. That means our player base would become subject to open record requests and this would likely have a chilling effect on players being willing to provide their information. The courier model makes the products available to the consumer without putting the Texas Lottery in the uncomfortable position of being compelled to disclose the names of the online players as that information is not under our purview.

You are a leader when it comes to innovation and modernization at retail. How has retail modernization transpired in general but also how has it been impacted by the challenges of the last few months?

G. GRIEF: Innovation has been formally instilled as a core value for our organization for many years and every decision we make includes an analysis of how that decision will impact the amount of

revenue we can generate for good causes. Dollar General, who previously did not carry lottery products, now carries both Powerball and Mega Millions through our in-lane Quick Ticket product. Family Dollar, another new lottery retailer, along with Kroger, who has been selling traditional lottery for years, will both soon be adding the Quick Ticket product in the same manner. HEB, on the other hand, a preeminent Texas-based grocery store chain that has been supportive of lottery for many years, wanted to take a different path to providing lottery products in-lane. Working with the NASPL API initiative, HEB has implemented the first Receipt Ticket lottery product in the US for Powerball and Mega Millions in all of their stores, meaning that the customer's lottery ticket is actually printed on their grocery store receipt. Initially the Receipt Ticket product was made available in the business centers at all HEB locations, but recently they have begun rolling out the implementation in actual checkout lanes. Both the Quick Ticket and Receipt Ticket had to undergo rigorous scrutiny by MUSL and meet all the requirements for valid and secure wagers.

All of these initiatives— these are just precursors and part of our long game to ultimately getting the scratch ticket product in-lane at all of these locations. I've already challenged our three scratch ticket print vendors, Scientific Games, Pollard, and IGT, to come up with an economical, efficient methodology to have the scratch ticket offered in-lane so that it can be seamlessly integrated right into the checkout process, and some of the preliminary ideas I've heard are very exciting. That's the end game for us – making it super easy for the shopper to play the lottery in a seamless manner during the check-out process in these large chain stores. This will ultimately lead to ubiquitous access to lottery for all consumer groups, a key component of our long-term growth strategy.

That expansive view towards positioning for the future and reimagining the way we measure outcomes must involve a form of rethinking KPI's. If it's not sales, what are the key performances indicators?

G. GRIEF: It is a number of things. It certainly includes sales, just not a myopic view of short-term sales. The focus is instead on long-term sales and sustainability.

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them to work towards making the smoke-free aspect part of their permanent amenities list. Operational shifts like this can affect the design of a gaming floor as well in a huge way.

tion of natural air filtration through greenery and the concept of bringing the outside in, and vice versa, can be considered as taking over those once unpleasant spaces in a casino. Weaving this natural environ-

these queues normally would remain hidden within the restaurant or behind screens into a nightclub. But with the increased spacing even before entering the venues, these lines now stretch into the gaming floor itself. Is there an opportunity there to take advantage of the time in the queue? Rather than lining the perimeter, blocking other venue entries and exposure, we can utilize design to dictate where these lines form and eventually connect to. The concept arising of connecting destination points on the gaming floor through gaming neighborhoods created by these lines is an intriguing study that might bring to light other ways of looking at an open field of slot machines and table games. Designing within the field.

“Millennials value varied options at an integrated resort and the personalization of their experience. This concept exists with or without COVID-19, but the pandemic forces us to look at these environments with a more critical eye and perhaps allow us the opportunity to make more daring design moves.”

Other gaming properties throughout the country have had smoke-free environments prior to the pandemic, and even Las Vegas has its first, major smoke-free casino-resort, Park MGM. However, the need to analyze how these spaces once catering to the smoker—with ash trays, heavily utilized air-filtration systems, odor and burn resistant fabric and finishes, to name a few—has to go beyond the marketing of being ‘smoke-free’. Looking at the integra-

mental thread through the gaming floor would also contribute to the increased slot machine spacing and table game layouts that would most likely continue moving forward. Designing within the void.

Another opportunity not to overlook is queuing for venues. With the limited capacity of restaurants, retail, and soon entertainment spaces, lines have been a constant and usual sight—wrapping around buildings and perimeters. Within a casino,

Creative order and timing need to be recognized during these times because we have no choice but to move forward. While many in the industry think that ‘normal’ was how things were before the pandemic, I am pushing for an approach where nothing was normal, only part of the order and timing of that moment. The gaming industry, especially in Las Vegas, always had its finger on the pulse of what people will enjoy and value. Instead of waiting for things to ‘get back to normal’, let’s take what is right in front of us and continue to change the game. ■

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But even that is not the key metric. The top of the pyramid of KPI’s includes net funds to good causes, preservation of integrity and reputation of the Texas Lottery brand, protection of the consumer and responsible gaming. There is nothing new or innovative about our decision-making and planning process. We are just applying the longer view towards realizing the ROI on investment. That “we” includes our technology partners and our retailers. Investment in modernization can be thought of as a short-term “loss leader” that positions us for maximization of long-term ROI. It is a gateway to get to an end result of dramatically increasing the number of lottery touch points in the public domain, and moving the scratch ticket product into the in-lane channel will yield large returns for the Texas Lottery, which has already delivered over \$31 billion to good causes in Texas since our inception twenty-eight years ago. Our fiscal year just concluded on August 31st

was the ninth straight year of record lottery revenue with over \$1.6 billion generated for public education and veterans’ services. That long-term record of growth in the face of a variety of challenges and economic conditions doesn’t happen by accident.

We are excited about how innovation and new initiatives will shape our future in a positive way, serving the interests of the next generation of Lottery stakeholders. I must say I am very grateful to our vendor community. We do business with IGT Printing, Pollard and Scientific Games equally for the production of our scratch ticket products, and IGT Texas is our lottery operator. Each of these vendor partners understands our desire to drive sales and revenue for the good causes in our states. In that sense, we are perfectly aligned with them in getting this done.

It’s almost as if the pandemic proved the adage “necessity is the mother of invention.”

G. GRIEF: I can’t disagree, and I have to tell you I have an outstanding team at the Texas Lottery, not just in the marketing and product areas but in the operations, administrative, financial and legal areas as well. To be an effective lottery organization or any kind of organization, every department must be focused on the same goal and have the same values. Likewise, our business partners at IGT Texas, led by Joe Lapinski, are in sync with our business goals. IGT Texas and the Texas Lottery work together every single day and we are jointly focused on the exact same thing - growing net proceeds for public education and veterans’ services. Once that goal is clearly delineated, and you know exactly where you need to go, you can figure out how to get there if you have enough smart people in the room. Texas is extremely fortunate - we’ve got plenty of those people here. ■