

EVOLUTION

PGRI INTRODUCTION: The New Hampshire Lottery was established in 1964, making it the first U.S. lottery in the modern era. Now, almost sixty years later, the NH Lottery continues to be a leader in digital transformation, modernization, and diversification of the game portfolio. When I asked Director McIntyre to put this amazing trajectory into historical context, I did not expect the context to be so thoughtful and expansive. Thank you, Charlie!

Charles McIntyre, Executive Director, New Hampshire Lottery

Ever there were words that captured the essence of what is needed in running a business, a government agency – or in our case, the amalgam of both of those things – it would be the insight of Charles Darwin. The famed naturalist who traveled the globe in search of the origins of growth and change, and discovered the phenomenon of biological evolution and natural selection, the fact that organisms change in order to adapt and survive. Type in the words ‘Darwin’ and ‘quote’ and dozens of memes pop up with art and images of a grandfatherly and wise Darwin looking upon us and urging the change and growth necessary to reach our full potential. The problem is...he never actually said that, not even close.

The quote is either attributed to the *Origin of the Species* or the *Voyage of the Beagle*, both long and dense reads for people who are not scientists. In reality, the quote was from a Louisiana State University Management Professor, who was paraphrasing what Darwin actually wrote and distilled it for ease of use. Herein lies the rub - ease

of use. The path towards our understanding of evolution was not easy. The path towards understanding and adaptation is long, fraught with peril and fails as often as it succeeds. For every eagle there’s a dodo bird that evolved itself straight into oblivion and a tasty morsel.

The New Hampshire Lottery faced a similar issue, a predictable one. Before I arrived in 2010, the lottery had endured its sixth straight year of declining sales. New Hampshire Governor John Lynch and the members of the Lottery Commission were unhappy. Well, unhappy doesn’t begin to do it justice as they were 37 steps past unhappy – downright cranky would be more accurate. Governor Lynch has a Harvard MBA and had enjoyed a successful business career and his patience had been worn thin. When I was introduced to him during my interview in

June of 2010, what I thought would be a five-minute quick ‘hello’ turned into a 45 minute discussion about product mix, price escalation and the retail footprint for optimized merchandising. I knew then we were in trouble.

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“It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change.”

Charles Darwin

RE-ORG/RE-TOOL/RE-DEPLOY

This was the three part strategy for turning around the Lottery’s moribund sales. We sat in the Lottery office and tried to think about ways to make the product better, more accessible and bring the retailers into the fold. I was a lawyer and so hilariously inexperienced at sales it was pitiful. But away we went ...and nothing worked for a while. Sales were still plummeting, all were impatient, and I was asking if I could get my job back at the Massachusetts Lottery. But then the changes we made to the tickets, and to the prize structures and to the shipping schedules worked. A new bonus program, whereby stores got higher levels of commission for increased sales, worked. We conducted copious amounts of research and listened to the results. Then structure surrounding market segments, player attitudes and message-testing took shape, and we changed how we looked, how we communicated with our players and then how we were perceived by the

players. The New Hampshire Lottery had really never done that before. We looked inward to understand how we might adapt and grow.

So this was my first lesson learned: evolution starts from within. Too often we look to technology, or new gimmicks, to cure a slide. First thing is to identify what you do really well. Second, clarify what we are allowed to do, and brainstorm about what we would like to do differently. Thankfully I had paid attention at the Mass Lottery, and made changes consistent with insights gained by my Massachusetts experience and what I knew would work in New Hampshire. Our profitability went up 19% in two years, with no new products or channels, just organic growth. Compare it to a golfer that thinks he has to buy the latest driver every year. He would be better off spending the money on lessons and range balls to improve his game. A poor craftsman blames his tools.

During the same period, we really made an effort to create lasting dialogues across the disciplines. Gone were the silos that had stunted communication between department heads. Success has a thousand parents, and failure is an orphan – so everyone was bathed in the credit that we enjoyed. That’s when we noticed we all thirsted for more.

Fast forward a few years and next came the move towards legalization of Daily Fantasy Sports. The nascent industry was in a gray legal area in NH and the industry wanted to ensure a clear path towards fantasy sports legalization. We had always looked upon that industry as de facto sports betting. So rather than oppose it, we welcomed the draft laws, and made sure they were regulated by the NH Lottery. I was not sure, but I thought the law forbidding sports betting might be overturned in the near future. Regardless, the law was passed and the fantasy operators had to become licensed through our agency. A small thing, but important in our evolution.

WALKING UPRIGHT

After 2010, the NH Lottery had met its



Over \$2 Billion and Counting for our Schools



revenue goal every year, never off by more than 1%, rolling into 2017. Performing well creates a lasting impression with the stakeholders that builds a well of capital, which can prove useful. But just as important, we had never been a problem. We hadn’t pushed for gaming expansion, we stayed in our lane and did the job. So when the prospect of regulating Keno and iLottery came about, the Legislature, through all their deliberations, never opposed it on competency grounds.

The growth of Keno required folks at the lottery to think differently because it was only going to be sold in bars, and we had virtually zero bars as traditional lottery retailers. We had to recalibrate licensing and sales staff to work with owners that work hours well off of a traditional 9-5 job. We also had to adjust games and promos to align better with the bar patron crowd. Changes like this require a constant sense of re-evaluation that hopefully translates into allowing the process to be streamlined and the results to be maximized. So that was Keno, or as we brand it, Keno603. That initiative allowed us to dramatically increase our footprint, so that our retail network grew from 1200 to 1400. Not only did our terminals sell Keno603, they also sold Powerball, Mega Millions and

more, and that retail expansion helped the overall sales number. It seems that the spine connecting our back to our head was moving slightly forward and our gaze had improved and elevated to see towards the horizon.

USING FIRE

Along with the approval of Keno came the approval of the sale of lottery tickets over the internet. I thought we were set up do handle it. I was wrong. We made more mistakes in our growth and no doubt we burned our hands a couple of times. One lesson that is worth noting: If the first payer impression of iLottery is unfavorable, glitchy, or boring, it will be twice as hard to get the customer to come back. Whatever it takes, try and do it right the first time. As it happens, we forgot something – I won’t say what, but it was a big thing. There I was, with our Chief of Sales and Product (Kelley-Jaye Cleland), begging

the State Commissioner of Information Technology (Denis Goulet), for a favor – a big one – actually groveling would be more accurate. God bless Denis, he was a former private sector guy that cut through more red tape than you can imagine and September 4, 2018, we launched, the first Tuesday after Labor Day. We didn’t tell anyone, it was a soft launch for fear of things unseen. Fear of the unknown is powerful, but it didn’t stop us from putting one foot in front of the other, and the launch went smoothly.

A quote I often use (and this one, the guy, Louis Pasteur, actually said) is, “Chance favors the prepared mind.” Since so much of our business relies on luck, we got lucky – crazy lucky. We had a \$1 Billion jackpot run one month after we launched. In six weeks we had gone from rubbing two sticks together to wielding a full-fledged flame thrower. But along the way we learned about stuff like customer acquisition costs, lifetime player value (differentiated between draw games and instant players) – the different ways to measure the path of a customer who reaches our website and deposits funds. We now live by search engine optimization and tracking in real time dollars spent in advertising and dollars

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I. Hughes: Most of the basic cornerstones to success in this industry are not changing. For instance, the determination of who operates the games and how they are regulated has always had a critical bearing on the success of the operator's business model. In the realm of things we can't necessarily control but need to understand are regulatory issues that can make or break huge swaths of the gaming market-place for the operator. GLI's core competency has always been to assist regulators and manufacturers in their efforts to ensure compliance and deliver a gaming experience aligned with public policy objectives as defined by legislative and regulatory statutes. To that end, we make it our business to understand the legislative process, the values and priorities of shapers of public policy, and the ways those are being translated into new laws that define our industry.

Security and integrity have always been mission-critical. Without that, you have no players. The new inflexion point in this

space is that digital connectivity creates additional layers of vulnerability and the methods of cyber-crime are constantly changing. That makes preservation of security and integrity a dynamic and never-ending initiative.

Fundamental to success has always been and continues to be to create the best player experience. Content is king but the new inflexion point that operators are thinking about is how the overall player experience functions as an ecosystem that includes more than the game itself. The whole experience from when you first enter the ecosystem, maybe by seeing an ad somewhere or a link on social media, to logging on and accessing the games to checking your account, to the responsible gaming and marcomm' messages you receive ... if everything is fun, easy, convenient, intuitive, then you will want to come back and play again. And that brings us to another forward-leaning challenge: brand loyalty is much more fleeting than ever. Even when the consumer loves your

brand and your games, they are still going to try other brands. The willingness and ability of the consumer to experiment with other brands will make the cost of new player acquisition go down. But it will also make it more challenging than ever to retain repeat player-ship.

Amplifying that challenge will be the further fragmentation of the recreational gaming market. There used to be a handful of network TV stations. Now there are hundreds of channels the average consumer can tune into. Likewise, there used to be a handful of recreational gaming options – mainly lottery and casinos. Now there are new games and channels of distribution and devices that deliver access to new game categories popping up every day. The key success-driver going forward will be continuous ongoing improvement to retain player-ship. Delivering the best games within the most positive overall player experience will be more mission-critical than ever. ■

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taken in as a result. No longer do we just run ads and hope. Now there is monthly analysis and review to ensure our tactics stay aligned with our goals. Evolving from our naiveté, we now have a fully built-out digital lottery group, staffed by people steeped in the digital experience, led by a tech guru with an MBA who has forgotten more about digital commerce than I will ever know. But the adoption of internet requires us to think in more analytical way than we had previously.

WAY MORE FIRE

We were approached during the 2019/2020 Legislative session to draft a sports betting bill... under the Lottery's auspices. So we wrote the bill, and included everything you possibly can in a sports betting bill, assuming that they would remove certain

provisions, add new ones, and alter others. We also thought that various special interests would weigh in on certain aspects, perhaps object to terms and conditions that we deemed relevant, and that would have a significant impact. Much to our surprise and abject terror, the Legislature approved the bill almost untouched. Really wasn't expecting that. Throughout the process, pundits kept suggesting that outside forces were driving the enactment of the bill and its language. “Company X must have done this?” “Had to be Y company?” Truth was much simpler – our Chief Compliance Officer John Conforti sat in his office, studied the various bills from around the US, and wrote what he thought was the best piece of law. I may have made a few changes, and we submitted it, just the two of us.

The law had assumed it would take a year

to realize revenues. The Governor wanted it earlier – much earlier. He really wanted to be able to take the first bet on the Super Bowl, on the new platform. He was able to place the first bet much ahead of our schedule, and ahead of the NFL Playoffs. We executed a contract with DraftKings on November 25th and launched mobile and internet December 30th, more than six months earlier than predicted. I'm not certain if it was the fastest contract execution to launch, but it sure felt like it. Governor Sununu placed the first bet, live on television and the program has been tremendously successful, building out both a first class mobile/internet experience and two top-notch retail facilities that are entertainment destinations.

THE VIEW BACK

I love to tell the folks I work with to stand back and look at the mountain we climbed; from the oldest lottery in the US that in many ways acted like it, to a fully digital lottery that now offers a range of experiences, both physical and virtual. We still do everything we did twenty years ago. We just try to keep up to date with advances that happened twenty minutes ago. Like what Mr. Darwin didn't say, adaptation has been key to our evolution. ■