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Modernizing the field of Research and Development

PGRI Introduction:

It wasn't too many years ago when the field of R & D was straightforward. You determine how and why the consumer behaves the way they do, their likes and dislikes, and try to build products and marketing strategies that appeal to your audience. The cost of failure was extremely high. Extensive testing and research was conducted to ensure that the massive costs of producing TV and other traditional media campaigns was effective. The time it took to launch a new game with this traditional marketing fanfare, and then measure market response, made it imperative that everything be done to ensure the game itself was optimized before launch.

Digital hasn't changed the need for deliberate and thoughtful planning to minimize unprofitable allocation of resources. But it has blown up the old model and replaced it with new tools that transform the connection that Lottery has with its customers. The following interview is a follow-up to a fabulous presentation made by Sarah Taylor to an audience of lottery professionals at the EL/WLA Marketing Seminar in London.

How has the business of Research and Development changed over the last three years?

Sarah Taylor: While we continue to use traditional research methods to gain insights into the business, we are also evolving our methods to better connect with players and potential players. Online is the most effective platform to reach large numbers of consumers. It's not expensive for us, and it's easy for the players to respond online. And it is invaluable to us because we get incredible feedback on a wide range of topics that help guide the direction of the lottery. An example of how these new tools enable new methods for research is our online panel of engaged players, "Hoosier Lottery Insiders." We reach out to this group once every 4-6 weeks with questions related to our business, from product development to responsible gaming to marketing ideas. I think this is the tip of the iceberg as to the potential for this kind of online engagement of players to impact the whole field of R & D. Digital channels are opening up entirely new vistas for interacting with players.

I am especially excited about the potential for developing highly interactive relationships with our players. Not just questions that elicit feedback that helps guide

our business, which in itself is valuable. I envision an interactive dialogue that transforms the relationship between Lottery and consumer. Instead of buyers and sellers of products, we become a highly dynamic and inter-networked family that shares ideas and aspirations, disagrees about things and talks about it and maybe even "hugs it out" in the virtual world ... we function like a family or a team or social network which establishes shared interests and goals and are constantly working together to achieve those goals. Of course, one of those goals will always include optimizing the entertainment value and accessibility of the Hoosier Lottery's games. The highly structured way we go about trying to understand our players' likes and dislikes will evolve to be more fluid and flexible and be redefined to unlock new dialogue threads and open-ended avenues for communication and will deepen the bond of our relationship with the player. This will be key to building the sustainable business of the future.

Are off-line surveys and focus groups still used?

Sarah Taylor: We still use traditional off-line focus groups about once every 18 months to pulse-check upcoming product ideas. In person focus groups can be tricky; you don't want a strong personality to lead to "group think" and so we're really careful to use these groups as directional support for our ideas. But they do provide us the opportunity to capture emotional nuances, reactions and key drivers that can get lost in an online survey. Most recently, we used focus groups to help us clarify opportunities to turn

around the performance of our $1 and $2 games. Like most lotteries, we are seeing declines in these price points. These players helped shape some of our game designs for our upcoming business plan. Players were even asked to design their own Scratch-off game based on what was most important to them. And overwhelmingly, they told us that having multiple play areas or chances to win were key drivers, even at these price points.

But digital technology has expanded the range of options for how surveys and focus groups are conducted. The Hoosier Lottery's online panel of currently engaged players is leveraged for quick insights into a wide range of topics from game concept testing to responsible gaming awareness. The potential for online interaction to transform R & D is almost unlimited.

In addition to finding new ways to reach our players, we have made it easier for them to provide us that feedback by moving to device agnostic online survey tools that can be taken via mobile or on a computer.

How is the Hoosier Lottery applying some of the methods of Big Data to discern consumer/player trends and sharpen your messaging, product development, portfolio management, and marketing strategies?

S. Taylor: We monitor data constantly with a much higher level of precision and granularity. As a result, we know more about our players, the market reaction to new game concepts or promotions or messaging or POS merchandising ideas, game performance and effectiveness, retailer level performance, media performance, and so on.

As I shared at EL/WLA, our approach to data utilization is focused on first identifying barriers, gaps, and opportunities, and then determining the best way to gather insights and trends. And we recommend this as a starting block for anyone contemplating how to get on the big data bus.

This approach has allowed us to be focused, yet nimble, and to efficiently and effectively respond to the needs of the business. For example, through our media monitoring, we constantly adjust digital buys in-flight based on performance allowing us greater efficiency of our spend while reaching players who respond to our messages.

When there has been player or retailer confusion related to a product, we have quickly addressed it to ensure our

marketing and communication efforts helped overcome educational barriers.

This ability to adjust course so quickly is quite a quantum leap from how product and marketing launches used to be done. The model used to be that the cost of launching a new product was so high, and the ability to change course so restricted, that you did whatever amount of testing, incurred whatever amount of R & D costs, to minimize the risk of failure. And you had to work really far ahead. In the digital world, we have two things going on that completely change that picture. One, we have instant feedback that enables us to know how to adjust course. Two, the cost of modifying the messaging and even the product is manageable. In the old world, consumers would be surveyed to measure the impact of a TV or radio or billboard campaign long before a campaign launched. We are now able to be much more nimble with our product plan; we can more quickly make changes to our launch plans and messaging in response to market demand.

What are some of the trends in play-styles and general consumer behavior that are shaping your product and market planning going forward?

S. Taylor: The Hoosier Lottery is facing a juxtaposition of being a brick and mortar reliant business in a world where players are increasingly dependent on digital technology. For us, this means continuing to layer our marketing efforts with a strong retail foundation – and an equally strong digital base.

Consumers expect brands to communicate to them with personalized content. So we will continue to evolve by tailoring communication to players based on their preferences and behaviors identified across multiple channels – including our myLOTTERY loyalty database, website, and paid digital buys. These paid digital buys include an increase in spend on Mobile.
In terms of product development, we were the first in the world to launch the Now & Later category with the game Black Pearl. This new category brings together Scratch-off and Draw game experiences, on one ticket. Players are looking for added value and this game was a response to the

opportunity to create more value for our players. Now and Later gives players the chance to experience both sides of our portfolio, with an instant portion on one side that feels like a traditional Scratch-off experience and a Draw portion on the other side of the ticket. Players scratch to reveal their draw numbers and can choose when they would like to enter our nightly Black Pearl Draw, based on their Draw numbers. (Sarah: could I bother you to add a couple more sentences about Black Pearl and how it works. To my mind, combining the player experience of Scratch-offs and draw games is a powerful concept and I want our readers to understand it. Is it an "instant-reveal" of a draw? How does that work? Had the draw already taken place?)

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What are some of the most promising games or initiatives that you are launching over the next 12 months?
S. Taylor: We are in the final stages of our fiscal year planning. But I can say that I am excited about partnering with the property "The Voice" in the fall. Attracting light/lapsed and new players is always on our minds given our mature brand. I'm excited to bring this property forward and offer players a great Scratch-off game with a really fun 2nd Chance opportunity – a chance to see the finale of The Voice. Connecting with contemporary Pop culture is key to being relevant to the modern consumer. It always has been, of course, but it will be even more true for the next generation of consumers!

We have also had a lot of success optimizing our Scratch-off portfolio with the introduction of exciting prize structures that offer many cashable at retail winning experiences for our players. I expect that we'll continue to launch additional games like these across multiple price points. Examples include our Cash Blowout and Winfall games which have quickly become core games within our portfolio. These games offer strong mid-tier prize structures with winning experiences that players can bring back to their retailers to cash. This gets our retailers buzzing about these games with players and sales of these games have remained consistent. So much so that we've launched them across multiple price points, most recently as a $30 game.