



Jim  
Kennedy

Chairman, Lottery at Scientific Games



# The Next Big Thing: Instant Scratch-off Games

## PGRI Introduction:

*We all feel it – a confidence that traditional lottery games are actually consolidating their continued leadership position in the games-of-chance industry and are poised to move even further ahead. What’s driving the momentum? There is no lottery game that captures the imagination of pop culture like Fortnite and other big online video games in years past. The vision*

*shared by Jim Kennedy in our discussion at the World Lottery Summit in Buenos Aires is one not swayed by pop culture, but is instead focused on sound lottery business practices. That’s the source and basis for the break-through innovations that are transforming the \$300 billion global lottery industry.*

*Kennedy was elevated to Chairman, Lottery at Scientific Games in January of this year. With more than*

*34 years in the industry, he has worked closely with lotteries around the world to create and execute successful programs for responsible, sustainable growth. In his newly elevated role, he will continue to provide leadership for Scientific Games Lottery business strategy and key lottery customer relationships. Jim Kennedy has quite a lot of knowledge to share.*

**It’s almost as if the ‘next big thing’ in the games-of-chance industry is traditional lottery.**

**Jim Kennedy:** Most everyone in our industry has always been keenly aware of the margins generated by traditional games, and that the margins generated in all other games-of-chance categories are much lower. We see that the performance of traditional lottery games is incredibly resilient, growing year after year, decade after decade. And all that without much innovation to the fundamental lottery playing experience.

And yet the alarm bells are constantly being rung to alert us to the disruptive impact that a new game, the ‘next big thing’, will supposedly have on the marketplace. We become concerned that the phenomenal success of Angry Birds, Candy Crush, Pokémon GO, and now Fortnite might represent a major shift in the play-style and preferences of the next generation of

players. But then we watched as the incredibly bright light of popular success dims within 18 months or two years. Remember Farmville? These games come and go.

And now the advent of regulated sports-betting in the U.S. certainly has our attention. Thankfully, it seems like we have things in a more balanced perspective and realize we aren’t going to experience a big migration of lottery players over to sports betting. We can and should be expected to improve the player experience of lottery games and evolve our games to align with popular tastes. But we should also realize that people actually love traditional lottery games precisely for what they are. They are easy to play, fun, and a wonderful invitation to dream about what we would do differently if we won the jackpot. Our players want a lottery playing experience.

We should always endeavor to understand how new games and innovations are

affecting the broader games-of-chance industry, how they might reflect underlying shifts in player tastes and preferences, and how they might affect lottery. But we should be confident in our results and significant on-going research that the popularity of the traditional lottery games will continue in spite of the introduction of new games that burst on the scene with so much hype and short-term popularity.

**Is innovation about creating the next big break-out game phenomenon?**

**J. Kennedy:** We have a break-out phenomenon. It’s our core business. So it’s more about breakthrough advances that help lottery retail partners, improve the overall lottery ecosystem, and manage the games as a product category instead of isolated profit centers.

It is human nature to think the grass is greener on the other side of the fence. But there is a saying “you grow where you are

planted.” More and more, we are realizing that Lottery is standing on incredibly fertile ground. We just passed the \$50 billion run-rate of annual instant sales in the U.S. Major multi-state national retailers like Target, Kroger and Walmart now see lottery as a growth vehicle worthy of support and aggressive promotion. Of course, we have been trying to get them to understand this for years. But now they

games grew by \$4.6 billion. Instants can continue to be the growth engine for the industry.

**It is amazing to think that just replicating the practices proven to be effective would produce such a huge increase of funds that go to good causes. What is the role of SCiQ® in the journey to unlock this potential?**

**J. Kennedy:** SCiQ is one of those fun-

changed is that methodologies to reduce risk and increase ROI predictability have improved dramatically in recent years. Understanding the consumer is key to predicting the ROI on an investment that depends on success in the market-place. Effective business intelligence starts with capturing the data. The most direct reflection of what the consumer likes and doesn't like is captured by the self-service and retail terminals that process their purchases. These devices transmit the transaction data that becomes the basis for analyzing consumer behavior.

Scientific Games' business intelligence platform, Infuse™, is a proprietary technology that processes billions of transactions per year and uses this data to tell a story not only about what games are being played, but also describes patterns and correlations that help us understand the underlying desires and motives that drive player behavior. The attributes of the game, the various combinations of messages and promotions and retail point-of-sale environment that go with those game attributes – all these permutations and combinations are deconstructed and re-constructed to tell a story about why people behave the way they do. The deep insights yielded by Infuse guide us in our quest to configure the ecosystem to give players more of what they want and less of what they don't want.

## “Major multi-state national retailers like Target, Kroger and Walmart now see lottery as a growth vehicle worthy of support and aggressive promotion.”

get it and are working with us to integrate lottery into the growth category of their product mix. Traditional lottery games represent an \$80 billion category in the U.S. alone. These major retailers recognize the enormous importance of this, and the potential to drive store traffic as well as generate profits from lottery retail sales.

Think about this data-point that illustrates the market-potential: If you take just the average per capita sales of the top 10 instant game lotteries and apply that average to the remaining U.S. lotteries, annual sales of instants in the U.S. would increase by \$27 billion. That's a 50% increase of instants, and a 34% increase of overall lottery sales including both instant and draw games. And if you apply this same metric in Europe, the upside potential is even bigger. If the instant game retail sales of the top 10 European markets were applied to the rest of the European markets, retail sales would increase by €31 billion Euro. These are market potential estimates that should intrigue policy makers who are looking for additional revenues.

As I mentioned, for the first time in U.S. lottery history, the industry achieved \$50 billion in instant “scratch” game retail sales. The Florida Lottery is perennially one of the top performers in the U.S. for instant game sales. Everyone is aware of the phenomenal growth of the Florida Lottery, but what everyone may not realize, though, is that this growth has been driven by the growth of instant scratch-off games. Instant game retail sales in Florida have experienced approximately \$9 billion USD in cumulative growth in recent years, while draw game sales grew \$870 million. The same is happening in the entire U.S. lottery industry, which saw \$18.2 billion in growth in instant game retail sales over the last 10 years, while draw-based

damental innovations that elevates the instant product from no-growth novelty to essential profit-driver. Instant games have been a formidable commercial product for a long time. In spite of that, it has always been merchandized as a low-profit novelty. That's ending. Lotteries and their technology partners and service-providers are bringing innovation into a marketplace that is more receptive than ever. SCiQ brings lottery into the modern world of smart barcodes and automated inventory management. The truth is, our retail partners have been begging us for years to improve operational efficiencies at retail. Lotteries are taking a much more progressive approach towards opportunities to

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invest in growth. The ROI has always been there, and now many industry stakeholders are working together to make prudent but visionary investments in responsible and sustainable growth.

**The lottery industry is understandably averse to risk. Is that changing?**

**J. Kennedy:** I don't think lotteries' tolerance for risk has changed. The funds that lotteries have available to invest in innovation continue to be significant but their allocation decisions are often historical, so it is only logical that there be a reluctance to change and risk making mistakes and misguided investment decisions. What's

**Scientific Games launched the most commercially successful iLottery program in the U.S. to date last year. What are some of the defining characteristics of the iLottery implementation in Pennsylvania?**

**J. Kennedy:** A mission-critical consideration was and is that the Pennsylvania Lottery is one of the top performers in instant games – fourth highest per capita sales in the country. That means we had to be very mindful of the fact that our goal was to enhance the existing business. We had to engage the retailers to

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be productive and supportive partners, and we had to put content on the site that sells but also augments the incredible job that the retailers are already doing. So we created an incentive-based ecosystem that drove all the moving parts to work effectively together. The level of sophistication that produced this incredible synergy is a credit to the leadership of the Pennsylvania Lottery. Scientific Games is proud to be their partner and proud to contribute to this execution that minimizes channel conflict and maximizes iLottery sales at the same time.

### **How do you launch so many new game initiatives – Keno, virtual sports, iLottery – all within just several months?**

**J. Kennedy:** The success in Pennsylvania hinged on our ability to quickly identify and integrate the very best products and solutions from multiple suppliers. For instance, we use Inspired Entertainment content for virtual sports. And when there is a technological solution that is mission-critical to our client relationships, we make strategic acquisitions. NYX Gaming was the clear leader in iLottery and sports betting, and Scientific Games acquired NYX in 2018. So we now have a robust iLottery and sports betting platform that is leading the industry with its depth and breadth of experience. Our win of the iLottery contract and subsequent launch of iLottery in Pennsylvania was directly related to our acquisition of NYX, and the Lottery's trust in Scientific Games' technology innovation and implementations over the decades as their systems provider.

An example of a different approach is the launch of the Atlantic Lottery's player account management (PAM) systems. This involved the integration of over 20 different peripheral systems and game verticals – products and solutions from 10 different companies – into the Lottery's central system. We did something very similar for Danske Spil in Denmark just a few months ago where Scientific Games is integrating a diverse portfolio of third-party solutions. Maryland has one of the best performing monitor racing game markets in the world. It is a Tabcorp product that is supported by a Scientific Games central system. Third-party integrations require a genuine commitment to serve the customer. They also require experience and fundamental capabilities to forge partnerships between commercial companies with diverse cultures and methods of operation, and to provide this kind of integration at an infrastructure level. That's what Scientific Games does well.

### **Are lotteries constrained in how they allocate the limited resources they have? Is there a pathway for lotteries to take advantage of the positive ROI that comes from investing in growth?**

**J. Kennedy:** Procurement and resource management for lotteries have always been cost-centric in ways that make it challenging to invest in positive ROI opportunities. Now, lotteries are far more open to exploring opportunities to invest in growth. Scientific Games Enhanced Partnership services engage Scientific Games in the process, unlocking opportunities to invest in solutions that generate increased funds for good causes. We are pleased that the Kentucky Lottery selected our Scientific Games Enhanced Partnership program in the beginning of 2018, and we launched in August. Tom Delacenserie, Kentucky Lottery President and CEO, straight off his job as Florida Lottery Secretary, saw the potential of this business partnership and brought it from Florida to Kentucky. We have found that a collaborative approach unlocks the talent, drive and entrepreneurial spirit of both the lottery's team and Scientific Games teams. Working together brings to bear the broadest perspective on the challenge of creating new solutions and pathways to growth. Lotteries are forging a genuine alignment of focus with us and the result has been a phenomenal burst of creative energy and a remarkable increase in impact and output. This represents a sea-change within the industry that will be the foundation for long-term sustainable success.

### **The lottery industry has never been exactly a technology leader.**

“ **Scientific Games' business intelligence platform, Infuse™, is a proprietary technology that processes billions of transactions per year.** ”

### **But neither have retailers. That seems to be changing in a big way.**

**J. Kennedy:** Retailers realize they have a significant stake in the success of lottery, and they see the tremendous upside to partnering with lottery to modernize the retail player's experience. You're right. We are now getting major retailers to come to the table in ways that have never happened before. Sophisticated national and even global retailers want to explore ways to optimize and modernize their lottery relationships. This activity has exploded in just the last 12 to 24 months. I believe we have reached the tipping point where all the pieces are starting to fall into place. We now have the technology in

SCiQ and our retail/mobile systems to support this next step of growth.

### **Is there a trade-off for lotteries between a best-of-breed approach that involves integration of multiple technology partners, and going with one full-service partner to produce a fully-integrated turn-key solution that includes the central server, technological and operational platforms, and customer-facing solutions?**

**J. Kennedy:** That is a very practical question which ultimately comes down to a decision as to whether the lottery wants to assume more or less of the responsibility to manage the implementation and day-to-day coordination of the process. What is the management bandwidth and how do you want to allocate it? Lotteries are typically under tremendous pressure to operate with a very lean staff. In that case, they would want to be careful to make sure they are not over-extended when it comes to managing multiple supplier relationships and the integration issues that usually ensue from the best-of-breed approach. That is why most of our clients rely on Scientific Games to manage the integrations.

I would add that Scientific Games was one of the leaders in the industry to embrace the goal of smoothing a path for integrating third-party solutions and remains committed to serving the customer and supporting whatever third-party integrations the lottery decides it needs. Continually improving the openness of the architecture and infrastructure to reduce the cost, reduce time-to-market, and increase efficiency and effectiveness of third-party technologies and solutions is something we

have always focused on. It has always been part of our culture to want the best for our clients regardless of where it is sourced. Frankly, we are confident that it is just smart business to know that the long-game is won by those who help their lottery customers optimize performance and results, so we embrace and lead with this culture. It is important for the lottery operator to have trust in the systems partner to manage the process responsibly, because it is far more efficient for the operator to manage a single primary partner relationship than to juggle multiple supplier relationships.™

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