Three Pathways to Growth in the Lottery Category

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The lottery industry is in need of innovation. Yes, overall sales are still increasing, but the first symptoms of a struggling industry can already be observed. Growing jackpot fatigue, point-of-sale product confusion, industry-wide challenges in recruiting a new generation of players, and stagnating transfers back to the state are all clear signs of shifting category dynamics and decelerating growth. The current evolution can't be sustained over time and some dramatic shifts must be made in the next two to five years in order to increase revenue transfers back to the state.

But changing or reacting to change, in any category, is easier said than done. How do you do it? How do you change to the mental paradigms required to induce change? How do you evolve the business practices needed to promote change? Change is never easy.

I believe, to quote the British philoso-pher Alan Watts, that "The only way to make sense out of change is to plunge into it, move with it, and join the dance." But I've also learned that the path to change requires one to ask different types of questions and change the way one looks at the category. Last but not least, having the right kind of data is crucial in answering these new types of questions and provides some guidance on the road to change.

Through our work with various state lottery agencies, we at First-The-Trousers have identified three options that may spark the change this category needs.

1. Focus on better meeting the motivations and drives of existing players, rather than creating new ones:

The interesting thing with change, especially technology-driven change (and what isn't influenced by technology nowadays), is that it doesn't typically create new consumer behaviors. Rather, it *amplifies and enables existing behaviors.*

People took cabs before Uber, kept in touch with friends and family before Facebook, took and shared pictures before iPhones and searched for information before Google. These technology titans did not create these consumer behaviors—they just found a better, more convenient or more effective way to deliver against them.

Therefore, a focus on why people play, the motivations behind their behaviors, and the needs they are trying to fulfill—rather than a focus on trying to create new needs—should serve as a catalyst for change in the lottery category. After all, product innovation is more likely to come from products that are able to better deliver against current needs and motivations than from products that try to create new needs and behaviors.

Case in point: A project we did for IGT in Indiana enabled us to conclude (based on a quantitative analysis) that 50% of the needs people try to fulfill by playing lottery games are not being satisfied by the current products. In other words, the category has

the potential to be twice as large in terms of sales—and in terms of amounts transferred back to the state—as it currently is, if the right products can be aligned to the corresponding player need states. We've seen this to be true across state lines and for both scratch-offs and draw games.

The point here is that people play lottery games (draw, scratch, and online) to satisfy a variety of needs, many of which are not being met by the current offerings in the category. Understanding and embracing

these unmet needs could drive the development of new products to satisfy them.

Can You Spot The New Games? Your Consumers Can't.

2. Radically change the product experience:

Uncovering untapped needs is one thing. Developing and designing new products that would satisfy them is another altogether, especially in a category that has seen products designed in a certain way for decades.

Our data suggests that adding a "Happy Birthday" headline to a scratch-off game doesn't necessarily make it a birthday card or present from the player's perspective. Instead, we believe that the actual experience with the product needs to be radically different.

For example, we've learned that if you have a game that provides a new and innovative feature (e.g. an online gaming component) but show it to players looking like a "typical" scratch game, they tend to ignore the new feature and assign the

Game Conventions Limit Differentiation Potential.

scratch-off game into the scratch-off game "bucket" together with the 40 to 100 other scratch games. So while the game may provide a new and added benefit, it is not perceived as such by players.

On the other hand, if you remove the context (the visual of a scratch-off game) and ask players about a game that provides the same online feature and benefit, they will attribute this product idea to a completely different and category-expanding need state and motivation. In other words, in order to be able to satisfy those untapped needs, the games must look and feel different from the existing games. So maybe a scratch-off game meant to be purchased as a gift should look more like a greeting card (with a scratch-off surface) than a scratch-off game.

While the industry is able to slice and dice their product portfolios into many different "segments" and types of products, consumers—especially non–core players—bucket all the games into the same "category." The sophisticated thinking that goes into the design and management of the product portfolio doesn't make it through to players. That's obviously a problem, especially when you already have more than 40 products to manage in your portfolio.
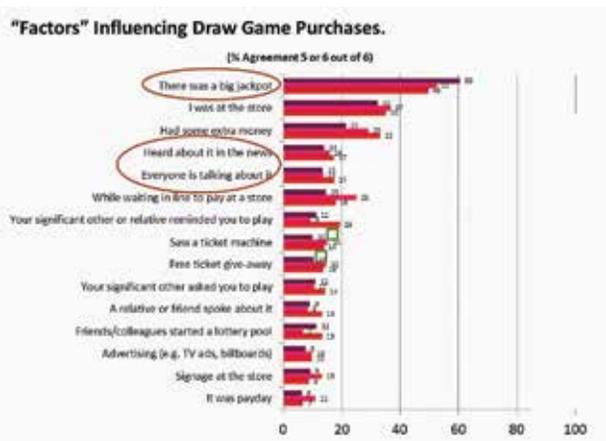
The opportunity, we believe, is therefore to develop products that deliver against existing needs and emotions (see point 1) but that look and feel different, products that not only add a new idea but also provide a new playing experience. Basically, products that break the current visual and experiential conventions

of the category and clearly tell consumers, "Hey, this is something new and very different—try me."

3. Make your marketing more social:

What drives trial and sales in the category? Word of mouth and buzz. In other words, people talking about the lottery, its products, and the size of the jackpots are the most effective catalysts for growth.

We recently completed research identifying which touchpoints were the most effective at triggering a purchase impulse. These findings were validated by a recent analysis by the media agency Optimedia, which showed that "recommendation from family and friends" is in the top three factors affecting sales. Advertising ranks 13th.

Traditional marketing and advertising also rank way lower than personal recommendations in terms of their impact on trial rates and on business in general. In other

"Factors" Influencing Draw Game Purchases.

words, the disciplines that require the highest level of financial investment are some of the least effective drivers of business growth.

This doesn't mean that lottery agencies should stop advertising. But for us, this leads to the obvious conclusion that the role and goals of advertising need to change and adjust to the new rules of marketing. The good news? These are some of the easiest changes a lottery agency can make. In fact, instead of focusing on game features (how the game works)—a pattern that is very obviously still a convention in lottery ∎