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Is “Jackpot Fatigue” the real problem?

When we take pain relief for a reoccurring headache but don't stop to figure out what triggered the headache, we feel better for a short period, but it is likely we'll soon be suffering again. The pain is temporarily suspended, but the underlying problem isn't addressed. We could continue in this cycle for a while, but eventually it is likely the pain relief will lose its effectiveness or stop working all together. That's because the headache isn't the problem. It's a symptom. Whether it's a headache or a business challenge, addressing the problem, and not just the symptom, is necessary for sustained improvement. When solutions only address the symptoms, fixes tend to be short-term. The result is that companies expend resources solving the same problem repeatedly but ultimately realize little forward progress. It's important to understand the total picture, bringing all the relevant points into view and differentiating between the symptoms and the underlying problems.

This is true for Bloc Lotto. Given the relative importance of Bloc Lotto to net income stabil-

ity for most lotteries, addressing the negative trends is understandably, a priority. For 33 lotteries, Bloc Lotto represents 30% or greater of draw revenue (and a greater percentage of net income). But before devising solutions, it is important to differentiate between symptoms and underlying problems. Because “jackpot fatigue” isn't the problem, efforts built around “fixing” it will likely continue to yield disappointing results. Instead, “jackpot fatigue” is and has been a symptom of a bigger problem.

PRESSURE ON BLOC LOTTO GAMES IS NOT A NEW TREND

For many lotteries, FY14's results were troubling and FY15 current YTD is alarming. But these results do not represent a new trend. When extraordinary events (Like the addition of Florida and California and cross-sell on the positive side, bad winter weather on the negative) are adjusted for, downward trends and signs of instability have been present for some time. For the Hoosier Lottery (where I served as

marketing director for close to 6 years), as is likely for many lotteries across the United States, the negative sales trends started a number of years ago. When we looked at the average revenue for the first ten draws, we saw a relatively consistent downward trend. Events could temporarily disrupt the trend, but it would always return. The trend was as troubling in 2012 as it is now. Although

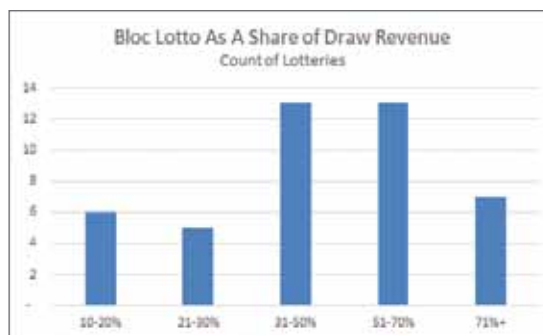


Figure 1.0 Lotteries Dependence on Bloc Lotto
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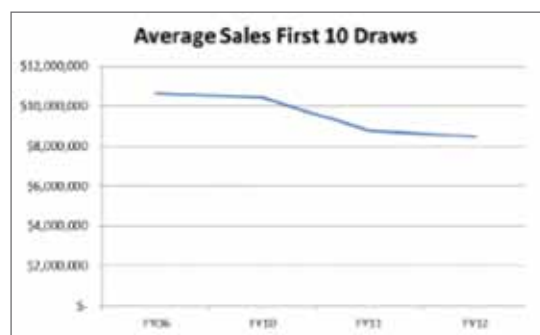


Figure 2.0 Hoosier Lottery's Historic
Powerball Trends
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Bloc Lotto revenue is by its nature unpredictable, we knew the revenue from the first ten draws reflected strength of the game as it was an indicator of playership, frequency and regular engagement.

Over the past few years, initiatives such as \$2.00 Powerball, Cross-sell, new prize structures as well as a few really big news jackpot runs allowed the industry to temporarily suspend the pain. But for those who looked closer at the data, the alarming signals remained present. To varying degrees, just a few weeks in the year (the occurrence of extraordinary jackpot activity) made significant differences in the net income many lotteries were able to achieve. But these extraordinary occurrences couldn't be counted on and replacing this revenue has proven difficult for most. While the cumulative good work of many across the industry yielded some short-term relief, it did not yield sustainable revenue increases. Many (if not most) lotteries soon found themselves back in a precarious revenue position and each time returning to the previous state more abruptly than the time before.

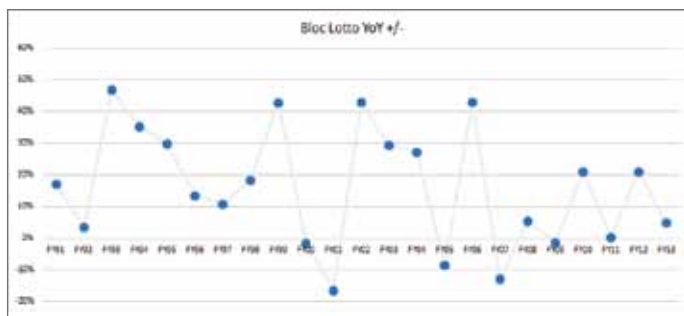


Figure 3.0 Industry Bloc Lotto YoY% ©2015 Property of Codei, LLC

IF JACKPOT FATIGUE ISN'T THE PROBLEM, WHAT IS?

It isn't unrealized store optimization and it isn't needing new jackpot signs at retail and it isn't too few jackpot alerts on TV, nor is it lack of branding, nor any number of the numerous other tactics many in the industry have deployed. While some of these have proven to drive revenue growth, only a few have proven to do so with a positive ROI. In Indiana we tried most of the traditional tactics that many list when talking about Bloc Lotto best practices. We found digital jackpot signs did deliver double digit net incremental gains. But given the costs of the signs and sign maintenance, those gains could only yield a desired ROI in retailers with a large enough sales base. We also found that with a considered media strategy, jackpot alerts on the radio delivered an ROI, but TV did not (there was a lift, but the lift was never big enough to pay for the buy). There were a number of other efforts including terminal promotions, digital couponing, branding at sponsorship events, and more. As has likely occurred at many lotteries, some of these

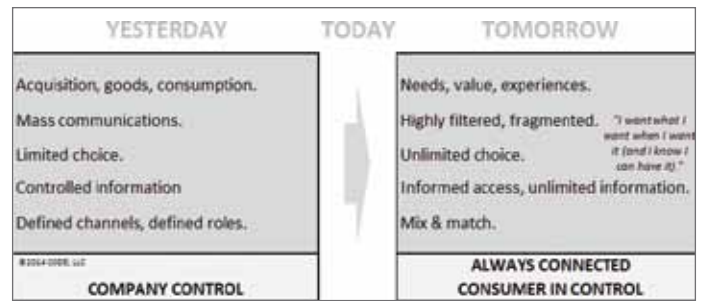


Figure 4.0 The Changing Consumer ©2015 Property of Codei, LLC

initiatives delivered incremental lifts and ROI and some did not. Ultimately, though, all of these were able to only have iterative vs. transformative impact and could not reverse the downward trends. One of the oldest maxims in marketing remains truer today than ever. No matter how good the rest of the "Ps" are, they ultimately cannot overcome a Product problem. The problem isn't "jackpot fatigue," but it is "product fatigue."

The significant efforts to keep the Bloc Lotto games fresh are to be commended, but at the end of the day, they remain aging brands. They are aging brands in a world that expects fresh, new and different. It is now a world where "gaming" means any number of things. Games are the biggest category in the App store and games on mobile phones are refreshed monthly (if not more). Consumers have an unending amount of ways to spend their discretionary dollars and just about everything they need is simply "one swipe away." It is within this environment that Bloc Lotto, with a play experience that has remained virtually unchanged, is trying to compete. It's more though than simply Bloc Lotto product fatigue.

Lottery is competing in a world where consumer expectations are changing (figure 3) and digital has now surpassed TV for screen time. Many lotteries are seeing negative playership trends across most game categories and age groups as well as apathy regarding lottery in general. It isn't that many (or most) consumers dislike lottery, it's simply that for them, lottery is losing its relevance. And it is within this world that lotteries must gain/regain relevance in new ways, engage players with different types of experiences and bring value to their players and their retailers in fresh new ways. In lottery products, that means content, communications and distribution. Strategies and traditional tactics that delivered growth for Lotteries over the past twenty years can't be counted on to do so for the next twenty years. Many traditional tactics and best practices will continue to be a part of the solution, but new strategies and tactics will be needed to keep lottery as a preferred entertainment choice.

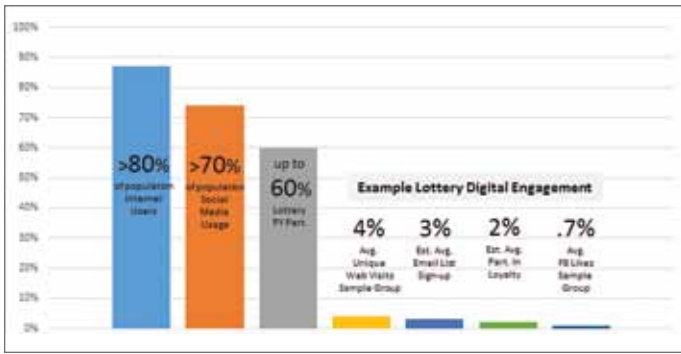


Figure 5.0 Lottery Digital Engagement
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DIGITAL CHANGES EVERYTHING, INCLUDING EXPECTATIONS

Nearly everyone, Millennials, Generation Xers and Boomers, is engaged with digital, yet many lotteries have yet to be able to successfully engage the majority of their player base in the digital space. Even with recent playership declines, the numbers of people who played a lottery game in the past year remains substantial. It varies by jurisdiction, but upwards of 60% of Americans have played lottery in some form in the past year. That is the good news and it is an amazing testament to the enduring appeal of lottery. Unfortunately, only a fraction of those are engaged with lotteries online. It is the digital space that consumers turn to for just about everything including fun, entertainment, games, social connection, communication, solutions, shopping and shopping assists. Well just about everything, except lottery.

When thinking about digital, it is important to recognize that online is not a channel in which communications are to be pushed. Nor is it merely a transaction channel. Online is a new way to engage with the audience and is resetting the experience expectations for all goods and services. Experiences, lottery or otherwise, are now being measured by the leaders in retail, consumer goods, social brands and gaming (mobile, social and otherwise). Perceptions and expectations for “gaming” are changing and lines across all devices and types of games are blurring. Both consumers and retailers expect the companies with whom they do business to leverage data and technology to make everything easier, more relevant, better, and more valuable. Whether played or purchased in-store or online or both, digital is a key part of the search, find, value and experience. Consumers are looking for an omni-channel experience and retailers are looking for help in delivering one. Traditional channels and tactics are not going away tomorrow, but how they fit into the overall mix and how

much they can be counted on to drive revenue growth is changing. In a big way.

FIXING THE PROBLEM STARTS WITH THE CONSUMER

While increased spending, game changes, store optimization initiatives and interesting new communication efforts may help to slow the decline of Bloc Lotto (or any of the existing games), these tactics will not ultimately provide sustainable improvement. Or at least not on their own. To remain among consideration for the hotly contested entertainment and gaming dollars, lottery, like every industry, must adapt to the new needs and expectations. That is, building and delivering a data-driven, customer centric organization with operations, content and value built around the customers and their needs. Also like every industry, this change



Figure 6.0 Attributes of Success
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isn't simply a few new positions or a few new tactics. The systems, software, infrastructure, processes and approaches that supported lottery growth up until now are not those that will drive sustainable growth into the future. More specifically, the “system” built to support repetition, scale, distribution and stability will need to make way for a “system” designed to support sophistication, integration, agility and specialized solutions for specialized markets. There is much work to do by lotteries, their suppliers, their partners and their retailers to imagine and effect the multi-faceted change that is necessary. This type of change is daunting for any organization or industry, but may be especially so for most lotteries given their tight business models and lean staffing. But it can be done and securing revenue growth into the future demands that it be done. It won't happen overnight and it won't all happen with easy success. But it is doable with the right focus, support and commitment, by all lotteries regardless of their structure and their current set of resources. And maybe then, “jackpot fatigue” will become a thing of the past. ■