

The Path To Saving Powerball

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A rather dramatic headline and a bit of hyperbole. Powerball and Mega Millions combined generated more than \$8B in sales in FY14. The longevity of both games, is testament to their popularity and staying power. That said, sales were down more than 30% through the first half of FY15. To be clear, while downward trends are concerning

(alarming for some), Powerball and its sister game Mega Millions are not in danger of going away anytime soon. There is still revenue to be gained through deploying of traditional tactics, including jackpot awareness, brand messaging, retailer incentives and product modifications. But that won't be enough. The path that got the industry (and Powerball) to its place of dominance as a preferred entertainment choice, is not the same path that will deliver sustained, responsible and profitable growth into the future.

Given the importance of bloc lotto games to net income produc-

**I WANT WHAT I WANT
 WHEN I WANT IT.
 (AND I KNOW I CAN HAVE IT).**



tion and the fact that playership trends and sales rates have shown weakness for at least some lotteries for some time, it isn't surprising that the games have received a significant amount of industry attention and resources. While much of the work has yielded positive results, more recently some of the efforts are yielding disappointing results or delivering diminishing returns. Most critically, the stubborn downward participation/frequency/spend trends quickly return (or never leave) for many lotteries and jurisdictions. Given the rapidly changing customer landscape, the answer is not simply more of the same. Screaming louder won't do it. At least not on its own.

Driving sales at lower (or any) jackpot levels for games such as Powerball is less about awareness and more about convincing the right audience at the right time in the right place, that they want to play this game (or any lottery game) more than anything else competing for their entertainment dollar. And there is a lot of competition.

More of the same isn't the answer, so what has to change to get to the new?

Put the Customer At The Center

To consumers and to retailers, lottery products compete for the same discretionary dollars and have the same sets of expectations as other consumer goods. Granted, because lottery is gaming and because it is offered by the state, there are additional security, responsible gaming, performance and responsiveness expectations.

CHANGING STRATEGIES FOR GROWTH	
1980 - Now	Tomorrow ->
DISTRIBUTION	SOPHISTICATION
SCALE	OPTIMIZATION
REPETITION	CUSTOMIZATION
MORE. Dispensers, Price Points, Locations.	Fully leveraging of data & technology.
Big, wow games.	Segmentation, personalization.
Instants & jackpot runs.	Always new, increased value games, content, experiences.
Mass communications.	Powerful and meaningful, although niche, brands.
Independents.	Rich, valued connections.
Iterative innovation.	Retail collaboration.
	Transformative innovation.
	Continuous test & learn.

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The consumer, the lottery's customer, is in control. They have a never ending supply of choice and access and an overwhelming amount of communications, promotions and messages coming their way. They want and expect more value for their purchases and more from the companies with whom they do business. They are filtering, focusing and controlling their access and choosing to engage (or not) on their own terms. To break through the clutter and remain on the must have list means putting them in the center and creating communications, experiences and offerings inspired by and integrated around them. Less mass, broad reach messaging and strategies and more focused and uniquely relevant messaging and value.

It's Just Games, Available Anytime, Anywhere, Always New

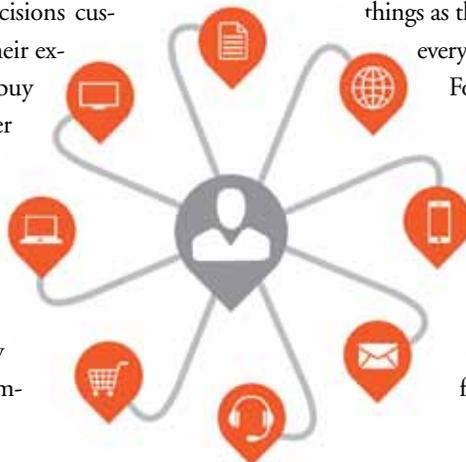


To the customer, it isn't draw games or instant games or social games or i-lottery games or video games or casino or super casual games. It's simply games they like to play. The games they like to play today may quickly change to different games they like to play tomorrow. Their games are kept fresh by content and feature updates

and periodic big releases. They play games where they might have chances to win real money or virtual coins or new characters or create a virtual space with their friends. Their games are increasingly being shopped for, played, paid for, redeemed and tracked on their phones or at retail or on their tablets or their desktops or anywhere they want. Many games can be played for free (with the option to spend more to get more). Powerball and all lottery games are now competing with the personalized and always new experiences of mobile apps/games, the cross platform big budget efforts of video games and the big brand, large communities of robust social games. Reengaging existing and appealing to new audiences requires competing within this new world of gaming.

Everything Influences the Purchase

According to McKinsey & Company's 2014 Digitizing the Consumer Decision Journey, two-thirds of all decisions customers make are informed by the quality of their experiences along their journey. The decision to buy a Powerball ticket isn't made at the reminder of a jackpot amount. Instead it's made by the collection of all the experiences the customer has had with the lottery. That path is often filled with experiences at retail, in advertising, with friends, on the web site, on social, with customer service and more. TV, long a lottery staple for awareness building, while still an im-



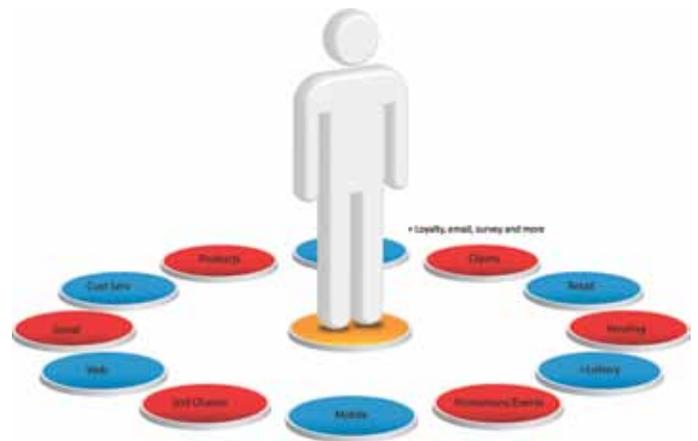
portant part of a media plan can no longer be counted on, at least on its own. With an ever expanding amount of clutter and competitive offerings, it's more important than ever to map the customer journey and identify the opportunities to make it easier, more valuable and more enjoyable to buy, play and redeem lottery games.

Omnichannel, Around the Customer

To integrate around the customer means striving towards an omnichannel offering across offline and online touchpoints.

While each lottery may have unique omnichannel opportunities (and challenges) depending upon what products and services are being offered and the technologies and resources in place.

To deliver on expectations, marketing and sales plans (as well as departments) will need to change their approach to customer planning and deliver integrated plans that are less about pushing campaigns and more about creating connections. That may look different across lotteries, but what will look the same is that digital will be the foundation of any customer centered strategy.



Digital is Far More than Transactions or Communications

In fact, sales and marketing plans will increasingly be built around leveraging digital as the space to connect, engage and more. Forrester estimated that by 2018, digital will influence 60% of all sales, up from 54% today (source: Forrester Research Web-Influenced Retail Sales Forecast 2013—2018). Up until now, digital has primarily meant such

things as the Loyalty or Subscription offering which had an everyday reach of maybe 10% of the customer base. For others, digital was merely one of many communications channel through which messaging is to be pushed. For most, there hasn't been a clear understanding of the value. In truth, digital is all of these things and more. It's a force that is reshaping how customers search, find and engage with each other and with the companies with whom they choose to do business. While formulas for value may still be in the process of



being created and refined, the reality is this is where the customer is, every day, for nearly everything they do.

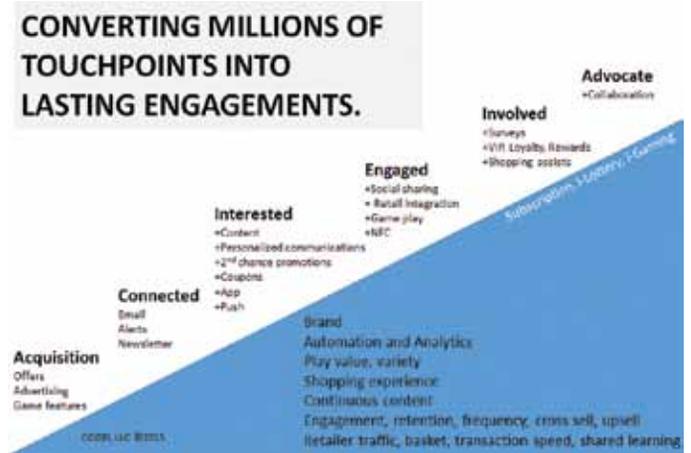
But it isn't where most lottery customers connect with their lotteries.. Digital engagement with lottery, reflected in such things as web visits, app downloads and loyalty sign-ups, has thus far been relatively small percentage of the total customer base.

Success with i-Lottery (or Loyalty or Apps or ...) Starts Long Before Deployment

The truth is, a successful loyalty or app or i-Lottery deployment starts long before the program is launched. It starts with digital acquisition and engagement strategies from the very first web hit, email sign-up or app download. Fully leveraging digital to enhance the play and shopping experience of lottery games, means first building as big of a community as possible. And then with the right tools and technologies, converting the engaged community to loyalty members, downloaded apps, subscription enrollments and more.

What's Your App Strategy?

The Atlantic recently noted that the App economy, after just seven years, is already bigger than Hollywood. There are more than 1M apps in iOS as well as in Google Play. The Mobile gaming (including social) market, on a fast growth track, is expected to be worth \$100B by '17 (Source: The Transformation of Casino Gaming In The UK, App Annie). Revenue models and market response for apps is changing how companies assign value. Freemium strategy is overwhelmingly favored in games and per App Annie, casino games monetize better than other categories, even when no real money gaming is involved. However the category gets defined or how big



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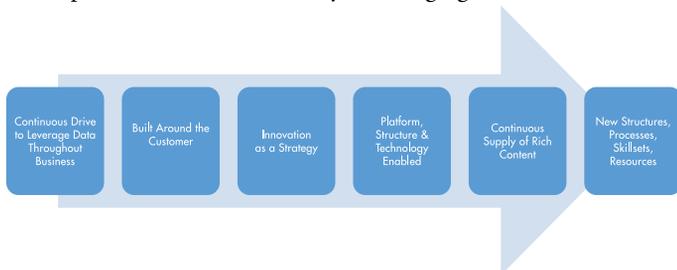
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the forecasts are, it is clear that in addition to providing new ways for companies and their customers to communicate, apps are reshaping what games mean and how consumers expect to (and are willing to) pay for much of their entertainment. With a cluttered market and already high app abandonment rates, it isn't enough to build an app or two and hope the market will find them. Success means acquisition, retention and engagement strategies, user inspired design and function, a continuous supply of new content, segmentation and ongoing test and learn. Entertainment, whether it's the website, app, loyalty or other, digital is the most important component to delivering an integrated, customer-centric solution. How digital is planned for, resourced and valued requires moving digital out of a communication channel and into its own newly defined space.

Gaining Retail Support is Beginning to Look a Lot Different

Not only is digital the new foundation to customer-centered solutions, it is also influencing what the retailer wants from lottery. Whether for mobile communications and promotions or digital tools to improve the shopper experience or any number of ways digital can be leveraged, retailers are looking for ways this technology can yield value for their business. While there is still same store sales growth to be gained through traditional tactics such as distribution optimization, digital jackpot signs, retail incentive programs, and corporate account collaboration, retailers want more. More attention, more value, more digital innovation, more analytics, more efficiency and more customization. They too are faced with increasing competition and the same shifting market preferences and are expecting their vendors to help them better accomplish their objectives. That is, create and deliver solutions unique to their needs that help retailers drive traffic into their stores, sell bigger baskets, improve their shopper experience, integrate offline and online activities, drive consistency across the chain and streamline operations. Ensuring lotteries remain a preferred and sought after retail partner, means expanding resources and capabilities to create new ways of bringing the retail value.



Insights, Built on Data

Data, or the insights derived from it, is now a key part of every facet of business. Data demonstrates to retailers the value of lottery products, lottery customers and lottery programs. Data is the source for inspiration and personalization of lottery customer experiences and the products and services being offered to them. Data is the way lotteries track their market and stay ahead of shifts in demand. Data



helps to support responsible practices including keeping efforts efficiently focused on casual and lapsed players. And data is the path to optimizing lottery planning, operations, products and sales/marketing. With more sales and marketing tactics available than ever before, data is a must to identify what lotteries should start doing, what they should stop doing and what they need to do better.

Data-driven decision-making drives value. According to McKinsey, \$200B in marketing expenditures could be better spent and data is the path to identifying how. Also according to McKinsey, organizations using data-driven decision-making perform eight points better than those that do not. The amount of data available to lottery is stunning and the potential for impact is significant. That said, with legacy systems, disparate and rapidly growing data sets, tight staffing, growing demands on privacy and security and an array of possible technology solutions, the challenges are many. Far more than more reports and a new BI solution, getting the most out of data requires change. Creating new ways to work, building new skills and competencies across the organization and nurturing a culture around data is an ongoing journey. A journey that is required as lotteries move into the future.

New Ways of Doing Business

The path to Saving Powerball isn't about saving Powerball at all. Instead it is about recognizing the larger shifts happening in every industry and what those mean to business strategies, marketing and sales tactics and organizational capabilities. While the traditional paths and traditional tactics for driving responsible net income growth have served the lottery industry well for more than thirty years, market preferences and value expectations have changed. Lotteries and the companies that supply them must change in response.

How specifically? For each lottery it will look different. New ways of working together will need to be created, with each other and with the vendors with whom they do business. As the industry works together to envision how lottery responsibly moves into the future, new technologies, new capabilities and new resources will likely be in order. Some lotteries are well on their way, others might be just getting started.

While there isn't any one path, in upcoming publications, we will review some of the how for navigating along the journey to "Saving Powerball" and a future that looks quite different than today. ■