

Behavioral Economics: Lessons for Lottery

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“Standard economics assumes that we are rational, but we are far from rational in our decision making. Our irrational behaviors are neither random nor senseless; they are systematic and predictable. We make the same mistakes over and over because of the wiring of our brains.”

—Dan Airely, author, Predictably Irrational: The Hidden Forces That Shape Our Decisions

In the traditional study of economics, consumers are assumed to be rational actors who carefully consider available information, calculate probabilities of events, and weigh potential costs and benefits in choosing the self-determined best course of action.

Uhhh, not so much.

Economists have always known that humans do not act rationally all the time, or even most of the time. It's just that for the purpose of economic modeling and predictive analyses, irrational behavior could be considered anomalous. Behaviorists take a different approach, putting irrationality at the center, recognizing that we often do not act in our own self-interests, or that the definitions of “self-interest” are subjective and vary such that there is no objective criteria to define them.

A new breed of theorists - behavioral economists—are finding that rational actors have very little place in discussions of how consumers make decisions. In fact, the generally irrational behavior of consumers—especially in a retail shopping environment—has significant implications for the lottery business and the many marketers, retailers, and game providers who are important partners in it.

Simply put, when it comes to buying stuff, our capricious hearts over-rule our supposedly rational heads. The basic wiring of our brains causes us to act against our own best interests.

In this article, we will provide an overview of the most important findings in behavioral economics, offer suggestions for how these principles might be applied to the lottery business, and conclude with a few thoughts about how behavioral economics might apply to the future gamification of lottery. Much of what is discussed is already being applied to the Lottery business, and to good effect. These phenomena will not surprise most of you. My thought, though, is that a discussion of the science behind the observable behavior may enhance our ability to put these principles to good use.

Why We Act Irrationally

Why do our supposedly rational minds fail us in our decision-making processes? There are numerous reasons, many of which we will explore, but the A#1, top-of-the-heap, most salient dynamic is this: We seek immediate gratification. We are what D.J. Neri of Ideas 42, an organi-

zation that uses behavioral economics to work on social problems, calls “present-biased.” We are more focused on the NOW than we are on the THEN, especially in matters of personal assuagement. We choose short-term pleasure even though it may result in long-term loss.

In many cases, we acquire things that we want, not things that we necessarily need from a utility standpoint. According to the authors of an article relating to impulse buying in the Journal of Marketing Theory & Practice, appeals to instant gratification (like “indulge yourself”) are more effective than appeals to strengthen consumers' longer-term goals which would appear to serve their “self-interest.”

Wrapped around this present-bias are several other behavioral principles. These unconscious compulsions are in operation at all times, driving our frequently irrational actions. Among these principles are:

Reactance: We often do things just because someone tells us not to. This customarily is regarded as childish, petulant, or immature, but most of us never fully grow out of it. Rebelliousness is, in many cases, a motivation for gambling. Someone in our lives may have told us not to gamble and that just piques our interest to want to indulge in whatever is discouraged by authority figures. So, for those of us who are more reactant than others, we stick out our tongues and do precisely that which was advised against.

How might Lottery craft marketing messages or otherwise leverage the principle of reactance? Like “Walk on the wild side. It's fun while being danger-free. Play Lottery.”

Possibility Effect: When highly unlikely outcomes (like winning the Powerball jackpot) are weighted disproportionately more than they deserve to be, we yield to the possibility effect. When we have a 1 in 292,000,000 chance of winning a lottery jackpot, the allure of the prize causes us to disproportionately weight our possibility of winning. The possibility effect is in subconscious operation whenever an individual decides to purchase a lottery product. This economic principle explains why marketing messages like “You can't win if you don't play” or “Would you take a shot at \$300 million? Your chance is as good as anyone's!” are effective. The in-

dustry may wish to consider other similar approaches predicated on this principle.

Anchoring Effect: The anchoring effect reflects our tendency to be influenced by irrelevant numbers, according to Daniel Kahneman, author of *Thinking Fast and Slow*. An example: One group of people was asked whether Gandhi was more than 114 years old when he died, while a separate group was given 35 years old as a referent point. The former group guessed Gandhi was much older than the latter group. (He was 78 at his death.) This dynamic is closely related to “framing,” the context in which choices are presented. People’s perceptions change dramatically if you say, “You have a 90% chance of survival” versus “You have a 10% mortality rate.” The outcome is the same, but the messaging is very different. The first framing increases people’s acceptance. People will place a greater value on “Your chances of winning have increased to 65%” than “Increase your odds of winning by 5%.” The industry should continue to look for ways to emphasize the positive odds of winning and explore different anchoring concepts. “Your odds of winning are X%, but your odds of having fun and contributing to good causes are 100%!”

Subconscious Nudges or Priming: This principle is about taking cues from context. Here is an example from Ken Hughes, a noted shopping behaviorist:

The people responsible for cleaning a men’s restroom in an international airport were frustrated by the failure of signs and other efforts to promote cleanliness among users. Men were not very accurate at the urinal. Finally, someone hit upon a successful “nudge,” an effective “priming” mechanism: let’s place facsimiles of flies in the urinals. The flies will provide fun and engaging targets for men off-loading their coffee, tea, and ale. It worked perfectly! Men took careful aim, dominated the faux flies, and improved the cleanliness of the restroom a hundredfold.

What is the lottery equivalent of a faux fly? How can lottery, through environmental cues, incentivize certain purchase behavior? Perhaps by emphasizing the products/games lottery would most like to sell by making their signage larger, “in lights,” a different color, or at the center of physical and virtual displays.

Let’s examine another example from Ken Hughes. There is a technique known as decoy selling or decoy positioning. With this in mind, marketers offer a series of products (usually three) that feature two attractive options and a third, clearly unattractive option. This “ugly option” makes the others look better by comparison. For example: a magazine was offered as a web-only option for \$60 a year, as a print-only option for \$125 a year, and as a web-and-print option for \$125 a year. The print-only option was clearly an inferior alternative, so the marketers drove the customer to select one of the other two options, both of which benefitted the marketer (most users selected the web-and-print option, which, on its face, promised the highest value).

Can lottery products be bundled—or, conversely, de-coupled—to make them markedly more or less attractive than singly sold products? Can a sales option be made to appear more compelling because the associated offerings are clearly inferior alternatives? Decoys can enhance sales and drive players toward more profitable choices.

Zero Price Effect: There is a critical difference in consumer perceptions when the word FREE enters the equation, according to Dan Airely, whose quotation provided the context for this article. Consumers impart more intrinsic value to free things. For example, a free piece of candy is disproportionately more attractive relative to a 14-cent piece than a 1-cent piece is compared to a 15-cent piece. Once again, our supposedly rational minds are going off the grid, and the word “free” tripped the haywire. Marketers know that “Two for the price of one” is not nearly as attractive as “Buy one, get one free.” In fact, BOGO (buy one, get one) is so powerful, it has spawned its own vernacular.

Stories > Statistics: Kahneman says that people generally make accurate inferences when given purely statistical data. However, when given statistics and a story that explains a situation, most people resonate more with the story than the numbers. Lottery is an inherently numbers-heavy business. It must continue to emphasize the human interest stories that arise from winning players and from people who have directly benefitted from the good causes that lottery supports.

We see Lotteries apply this principle all the time. Images or advertising that stimulate the imagination and cause us to dream about how our life would change if we won the Lottery are leveraging the story behind the numbers. A story hook is always preferable to sterile statistics.

Symbols: In his book *Drunk Tank Pink*, Adam Alter discusses the power of symbols to influence decision making, ignite fear or hatred, evince feelings of charity, and altogether overwhelm our thinking. Symbols operate at a much higher velocity than verbal language. In microseconds, people are able to recognize a symbol and process its pre-determined meaning. Skull & crossbones and guns instantaneously communicate negative attributes—fear, violence, divisiveness. Butterflies and sunbursts shout “happy times,” “unity,” and “peacefulness.”

There are many implications for Lottery POS and signage. Hearts, clover, bills and coins, the infinity symbol, and the peace symbol all could incent consumers to purchase a lucky lottery ticket. Interestingly, so might symbols that have been demonstrated to elicit feelings of charity toward others, including pretty fish swimming in a school, the yin-yang symbol, and two clasped hands. Symbols that indirectly and subconsciously promote good causes might stimulate the sale of lottery products even better than the more traditional crossed fingers, smiling stars, and pots of gold.

Many state lottery logos depict rainbows, confetti, or suggestions of their native locations (shape of the state, indigenous plants like cactus or wheat, or fauna). Many do not literally depict money, perhaps out of a desire not to appear avaricious. Behavioral economists would suggest that forthright representations of money and/or implicit images of good causes (charitable feelings) both are preferable to state birds, dancing letter “Ls,” or abstract shapes.

Hedonic Treadmill: This behavioral principle—also known as hedonic adaptation—is the tendency of humans to return to stable levels of happiness despite major positive or negative life events (like winning a large cash prize). For example, as a person makes more money, her/his expectations and desires increase as well, resulting in no net gain in happiness. It is a straightforward calculus: Have more = want more. This dynamic could influence how Lottery sells the dream of winning. Rather

than emphasizing the winning player's individual happiness, it might be better to promote the happiness that Good Causes create for others.

Certain behavioral principles directly influence retail shopping habits and may, if applied creatively, assist Lottery in the development of compelling player journey experiences.

Player Journey: The developers and players of video games understand the visceral magnetism of navigating through a richly imagined virtual world, many of which are battle-scarred, bleak, and scary (see *World of Warcraft*), others of which are languid, exotic, and dreamy (see *Ni No Kuni: The Wrath of the White Witch*). These imagined-world experiences place the game players inside an environment, which engages multiple senses and one's daring, creativity, or intelligence. In order to progress or advance through the imagined world, players must solve problems, prove resourceful, and exhibit perseverance. Taken together, this is known as Player Journey, albeit a different definition than is currently being used by lottery marketers. This original use of the term, though, evokes the powerful interactive and engagement concept all marketers could learn from. How might these concepts be realized in lottery products? By progressive play... by creating a game that features a vivid environment, with multiple challenges to be overcome, and an unfolding narrative or storyline.

Let's say we invented a lottery game titled "Treasure of the Titanic." In this game, we would create a beautiful underwater world, with sharp images of the Titanic wreck site on the North Atlantic Ocean floor. Players, piloting individual mini-submarines, could search for treasure at the Titanic site, buying equipment (lottery tickets, so to speak) that give them a better chance to discover hidden fortunes (sonar equipment, robotic diggers, etc.) Payouts occur as players find certain treasures. All the while, players can communicate with each other, offering tips, warning competitors off promising dig sites, and crowing about discoveries. The game would engage players for days, weeks, or months and would yield a stream of revenue as gamers purchased the resources needed to succeed. And it would still comply with the parameters of random outcomes required of lottery games.

In today's sophisticated video games, players progress through stages of proficiency, beginning as novices, and then advancing to expert and ultimately master levels. Perhaps lottery players might be categorized similarly. There are the occasional players, who purchase one or two lottery products on a whim, rarely win, and never fully engage with the experience. They are novices.

There are those lottery players who play frequently, consistently, routinely, buying many lottery products at a time and over time, winning often enough to sustain their enthusiasm. These players develop "strategies," or superstitions or habits that feel like they support those strategies (such as always purchasing tickets in the same location or always playing the same numbers). These are expert lottery players.

Are there lottery "masters," players who maximize "strategies" to win consistently? Players who demand a continuous flow of new lottery products and experiences? Players who would respond well to products developed exclusively for them?

There are all three types of lottery players walking into retail stores and playing on electronic devices every day. Why not use the best methods available both in-store and on-line to market directly to each segment?

For novices, applications (apps) for smart devices and in-store computerized signing and/or kiosks could emphasize the FUN and EASY attributes of playing the lottery. Think of on-boarding these players as you would a new employee at work or a new student at school. How-to-play instructions and simple strategy tips could be made available on point-of-sale touch-screens and on device apps. Novices need encouragement, so messages about the low cost of entry to play, ease of use, and the odds of winning all would be relevant messages.

For experts, fresh, new, ever-changing content is the key. Consider developing mobile apps that "push" new games, new strategies and playing hints, and the opportunity for the experts to interact with new players—other people playing at their advanced proficiency level. Experts may purchase lottery products in stores, but they will insist on being able to carry their playing experience with them on mobile devices that educate them and stimulate new playing options through frequently updated content.

For masters, think exclusivity. These highest-level players want stuff no one else has access to. Super high-stakes and sophisticated gaming products will attract their attention. They wish to occupy a revered plane: perhaps masters can only become masters (and gain access to exclusive product) based on previous winnings. Masters deserve attention and rewards for serving as your industry's flagship players. They can be your brand's biggest advocates or your worst critics. Give them only the very, very good stuff.

Right Turning Retail: By design or by default, retail stores have a predominant right hand bias. Researchers have compiled thousands of hours of videotapes showing shoppers turning right once they enter the front door of a store. Accordingly, retailers fill the right side of their stores with their highest-margin products, hoping you'll buy them before your shopping basket begins to fill and you may become conscious of how much you're spending.

The merchandising of lottery products has numerous security concerns, so it may be problematic to exploit the right-turning tendency in some locations. However, kiosks and other "mobile" lottery product merchandisers should be positioned to leverage the right-turning dynamic whenever possible.

Golden Moment: The golden moment occurs when a customer decides whether to buy your product or not. Ken Hughes describes its ultimate importance: "Triggering interest and a purchase in-store is more important than any other marketing activity – it is what will ultimately pay your wages." The golden moment is reinforced by immediate validation of a customer's decision. Women who work in clothing stores understand the golden moment. When a customer tries on a skirt, a blouse, or a dress, a sales associate is quick to say: "You look wonderful in that." What is the golden moment for Lottery? How can the industry reinforce players' decisions to buy? "You'll look great living on your private island!"

Lottery may be the ultimate immediate gratification business. By understanding and applying these behavioral principles, Lottery might help more players become happy. After all, if we feel happy, we are happy, whether it's rational or not! ■