



## De-Constructing and Re-Building the Lottery Model

By Marc Frederix  
Director Marketing,  
Sponsoring & External  
Communication,  
Belgium National Lottery

For decades now lotteries worldwide have been organized following the same business model:

- Sell the dream, the hope for big money, through a large land-based distribution network
- Sell instant or draw games with a weekly, bi-weekly, or daily draw
- Distribute roughly 50% to 60% of the turnover to the players and roughly 25% to 30% percent to good causes
- Operate with extreme cost-efficiency, with marketing and distribution costs of 2% to 3% and overall operation costs between 6% and 8%

Thanks to monopolistic jurisdictional protection, this business model proofed solid for years, creating easy revenue for governments and good causes, and creating small and big millionaires amongst the players, week after week.

This classic lottery model has come into the mature stage of its life-cycle, addressing it's classical, jackpot-driven product offering through a classic distribution network. Even lotteries performing very well through digital distribution (like Scandinavian lotteries) still get a minimum of 70% of their turnover from their brick and mortar distribution network. Lottery continues to appeal to the same consumer group, the baby boomers of the 50+ age groups, attracting players with classical advertising and selling the hope and dream to become a millionaire. We are lucky that people are living longer and stay active at this age! But how much longer will this business model be viable? Take a look at a yearly survey of the Belgian lottery measuring the consumer spend in paid gaming (lotteries, betting and casinos, both on and off line, pub-based bingo's, other paid games like lunaparks, TV games etc.) and defining market share using the formula penetration x frequency (yearly), an x spending (per game played). The National Lottery still shows a leadership position in 2011, with a 67% market share. But this market share dropped from 80% in just five years. A closer analysis of the age group breakdown shows a more dire situation: 82 % market share is in the 55+ target group and only 50% is in the under 35 year old group. And I would bet that these figures are similar amongst lotteries worldwide.

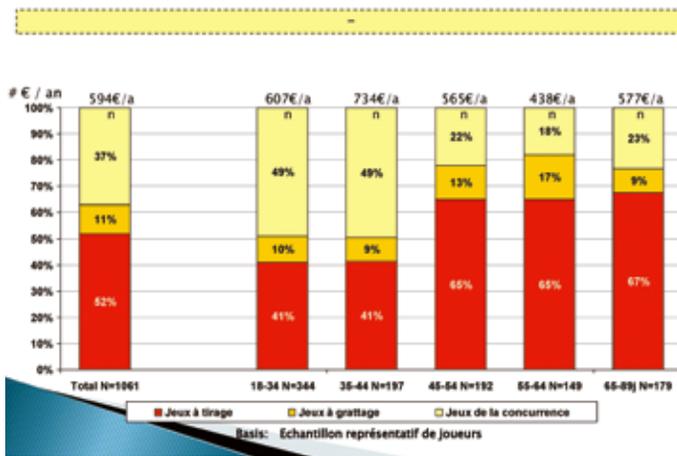
But, some might ask, aren't we all reacting to this decline in attractiveness, trying to capture the attention and interest of the younger target groups by using the internet and other digital distribution channels? Let's take a closer look at another survey analysing the players needs and motivations on the websites of lotteries compared with websites of competitive gaming operators. The evidence suggests these new media like the internet and mobile are not drawing in the new consumer groups as intended. Lotteries attract through their digital gaming systems mainly the "escape" and "innocent habit" players (73%), which is the same target group as in the traditional retail distribution network. Conversely, our competitors attract mainly the "fun/kick" player and "smart" player (77%).

We need to analyze the meaning of this. We recognize that the traditional distribution channels are under pressure, but we also know that brick and mortar will absolutely stay relevant. The way out of this land-based versus digital channel conundrum is to recognize that Digital is not only an alternative distribution channel, it is a completely different interactive and social experience an that connectivity with our consumers is key. This is as true for lotteries as it is for all big brands and fmcg (packaged goods) companies. But the attributes that appeal to new consumers are different the attributes that appeal to existing players. We need a new 'game plan' to become relevant for these new consumers, the so-called Millenials. And the re-fresh that we do to appeal to them will also keep us relevant for the socially-connected Baby-boomers who are the foundation for lotteries today's income.

Lotteries need to do much more in-depth analysis on the new consumers' needs and motivations, why they play our games an buy our products, why they choose our brands, and what their emotions are in relation to gaming and in relation to winning? Even if marketed with today's technology, why should

## Market Share – Paid Games Belgium

Market share in value of paid games / age 2011



we think that yesterday's products will attract and seduce tomorrow's players? How long can we sell old wine in new bottles? How sustainable is our model if our dream is not their dream?

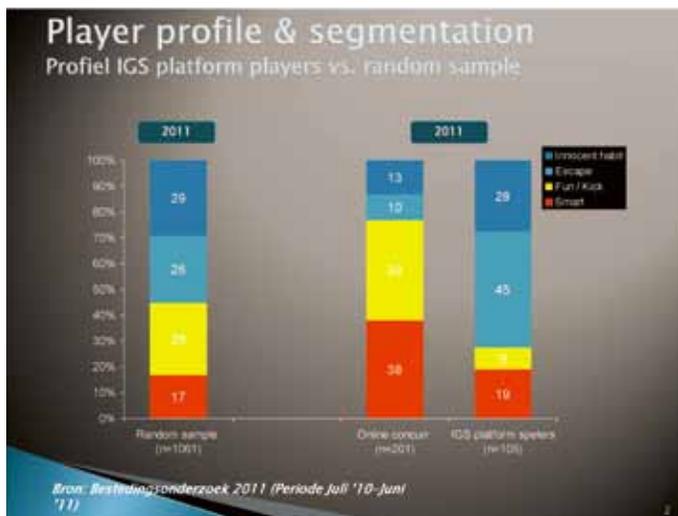
We need to re-build our current lottery model to fit for tomorrow's consumers. Product, distribution, marketing, communication, the dream we sell to our players and the core value proposition we stand for as an industry must remain attractive and relevant for both existing and new players. That's the challenge. Being relevant in the shopping/buying experience, in the playing experience, and in the winning experience, means that we will have to connect with our potential players in an interactive way, with relevant content, telling stories that are in line with their dreams, emotions and aspirations.

Future trends can guide us to find out what works and how to appeal to the aspirational impulse of tomorrow's players. Our research shows that there are nine important consumer trends.

**EXPERIENCE:** People are seeking intense and unique experiences that create life-style momentum

**PLANNED SPONTANEITY:** Sounds like an oxymoron, but people want to plan the unexpected in order to escape from daily routine

**TEMPORARY CHOICES:** What people like and choose to do changes from day to day, making consumer profiling less predictable and reliable than ever



**CLOSE CONNECTION:** People are seeking warm feelings of togetherness and shared experiences, of doing simple activities together, off line and on line

**BEING YOUR BEST SELF:** A by-product of this sharing generation is the desire to be transparent, to show your good side and your bad side and create consistency between our real self and our "best" self

**BACK TO THE PAST:** The design, quality, and functionality of products of the past are re-used in a smart and creative way for today's needs

**GREEN AS A FEEL-GOOD:** Support green without giving up comfort and budget. Green must have a solid added-value in peoples' live

**ON LINE = OFF LINE:** There are no barriers between on-line and off-line experiences, just a need for 'downtime' in chosen moments of non-connectivity

**A LITTLE BIT OF HAPPINESS:** Life is too complex and too serious. Everyone needs a little bit for her/himself now and then, less over-exposure and more small moments of real enjoyment and pleasure.

Out of these nine trends, "A little bit of Happiness" and "Close connection" have the most potential to be aspirational to attract lottery players.

To be relevant to the new players, lotteries must understand millennials, how they act and react, and that mobile connectivity plays a crucial role in their lives. Lotteries will have to enable interactive participation, empowerment, and engagement from their players, and do all this in a dynamic environment where emergence of new ideas and consumer preferences is the constant. The mass-broadcast model contrasts sharply with the individualized, un-mass, granular model, with engagement in multiple layers of experience in a dynamic situation that demands new programming, content, and experience strategies. The challenge with this is that the current business model is based on a revenue stream that is driven by the mass-markets. That critical mass of players must be maintained whilst developing the new one-on-one mode of connecting with the millennial.

Millennials are "digital and mobile", but what does this mean? Professor Alexander Manu, a respected speaker at WLA congresses and senior partner at Innospa international, points us in the right direction. Today's marketers and sales people must understand that digital is not simply another distribution channel. Mediums are not channels. Mediums are modes of individual action that end up modifying existing media. And today's mobile media are anywhere, anytime, and are connecting with a constant audience. A lottery with a mobile portal is in the media business. Selling existing products through mobile as if it is just an alternative distribution channel does not produce the kind of experience that new players are looking for. Mobile devices are transforming our relationships with people, with events, with places, with products, vendors and games. In a digital and mobile world, everyone is empowered to produce and share entertainment and experiences. A lottery with a mobile portal will have to act, interact, and programme as a medium, and this will be the only way to get and stay connected with tomorrow's consumers. Tomorrow's lotteries will have to understand who its real competi-

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side and Zynga, Electronic Arts, and an explosion of other software companies on the game content side. Listen to what they are saying. First, Facebook et. al. are saying that they are global companies and therefore it is not practical to expect them to comply with the rules of individual countries. It is frightening because Facebook, with over a billion subscribers now, is bigger than the combined populations of United States, Canada, and all of Western Europe. Next, as a matter of legal strategy and political posturing, they will

defend the rights of the consumer to decide for themselves how they want to spend their money and their time. And of course they are staunch defenders of free speech, so regulations will be represented as censorship. It is not too soon to get out in front on these issues and do what we can to inform the shapers of public policy of the need to address the need for regulation of social gaming.

*Stanleybet is an operator that does not want to comply with the rules in Italy. Or*

*pay taxes. Same thing with Bwin which is refusing to comply with Belgian laws and regulatory policies. I don't understand how that works. I mean, how can these operators state outright that they have no intention of complying with the law and refuse to pay taxes?*

**P. Vlaeminck:** The situations of Bwin and Stanleybet are not completely the same. Bwin is the driving force of the European

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tors are. These competitors include not only the established gaming and gambling companies of this world, but new media approaches to engaging the consumer in gaming experiences.

Are we, as operators of lottery, up to the challenge of competing in this new media-driven environment? Legacy creates inertia, change requires momentum, and the two are rarely compatible. Government owned monopolistic companies often show a lack of agility and fear in-depth innovation. How can lotteries combine their obsession for quality assurance and 100% control and predictability with experimental innovation and continuous change? Lotteries will have to unlearn many of their legacy precepts of what is meant by value, gaming definitions, players, their monopoly, gaming interfaces and distribution. What has to be learned is the contemporary meaning for our players of pleasure, convenience, location, social media, social purpose, engagement, participation, accountability and reputation. We need more insights and precise understanding into why the consumer plays games. We know that gaming is a value-positive experience with the presence of hope. Games are a form of media themselves, and we must make sure that our product offerings are aligned to leverage the role of media in the games we offer and to appeal to the consumer motivations for social interaction, sharing, and communicating. We need to think of the gaming experience in the most expansive way, in the context of our lives which consist of intellectual, physical, spiritual, social, emotional, and occupational experience. We must enliven the lottery experience with something much more than the outcome of random numbers.

To be relevant for tomorrows consumers, lotteries must understand players emotional needs and motivations and offer a value proposition in line with these. It could be about location-based gaming and marketing – about networked connectivity and interactivity with real time communities. The gaming challenge and experience will operate at different and ever-changing levels. To go for engagement and participation of the millennials, lotteries will have to share their concerns and dreams. Social challenge and experience is key in this. The millennials do affiliate with and relate to “good causes,” but they want to choose themselves to whom the funding is going. Joint social gaming is another opportunity for lottery innovation. But it's not enough to offer games that facilitate social interaction. Lotteries need to find ways to become holistic parts of the community. And lastly, lotteries and

their political constituents need to appreciate that the political nation-state is not as relevant as their social community which is bound not by political boundaries but by culture and life-style. The social affiliations of the current consumer are global and local at the same time, with little regard for jurisdictional and provincial perspectives.

Will lotteries and their partners/suppliers be able to develop the new Farmville, Angry Birds or Pinterest? To maintain a sustainable lottery model, we will have to invent and shape our own future, or others will shape it for us as we fade away. We will have to redesign and enhance our value proposition with fresh content, information and insights; and similarly transform the role of media in our delivery systems. Our ability to expand the value proposition through new layers of engagement, redefine the value we deliver to our core players and the next generation of consumers, tomorrow's players, depends on it. Lottery needs to de-construct our model and operations right down to the DNA level, and rebuild it in a process guided by these principles and consumer trend-lines.

The good news is that the brand value and mass-appeal that lottery has accrued is the envy of the entire industry. We just need to update it for the benefit of the modern consumer. ♦

