

An Integrated Strategy for Increasing Lottery Sales

Lotteries can broaden their appeal by focusing on content, channel and delivery.

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As lotteries search for new strategies to increase sales, it is no longer enough to just run a promotion or release a new game. That just creates a short-term bump in revenue that would sustain only minimal growth. Instead, lotteries should consider creating an integrated strategy designed to boost revenue from traditional customers while simultaneously broadening the appeal to a younger demographic. An integrated strategy is one that blends game content, sales channels, and delivery mechanisms.

Current Industry Fact

Lotteries are struggling to attract the highly-coveted 18 to 34 year-old demographic. Their traditional customer base is drawn to the more established matrix games, such as Lotto and Bingo, and numbers games, such as Pick 3 and Pick 4. Lotteries are very successful with these types of games, but, predictably, they don't draw new players until the jackpot rolls to an exceedingly large amount.

Conventional wisdom says that the younger demographic, conditioned by flashy graphics, instant gratification, and the anytime/anywhere access of the Internet, mobile phones, and PDAs, will only be drawn to the lottery by exciting, dynamic, interactive games. That is partly true; however, it is a mistake to think that rich content and cutting-edge games are the only keys to success. Hot new interactive content can increase revenue, but only if provided on the right channel and via the most appropriate delivery mechanism.

Certainly, focusing on attracting new customers from a younger demographic is smart marketing. But lottery marketers should not ignore traditional lottery players in their attempt to broaden their portfolio without cannibalizing their successful revenue-generators. With this customer segment, too, the same "golden rule" applies: lotteries must continue to optimize their game mix, sales channels, and delivery mechanisms to increase revenues.

Making It Easier to Purchase

Here's an example of what we mean by the value of delivery mechanisms as part of an integrated strategy for increasing sales. In both retail outlets and social spaces, self-service terminals have become a widely accepted delivery mechanism for reaching new customers. In fact, all industries have embraced the self-service trend and many successful case studies demonstrate this fact. Self-service terminals, like GTECH's GamePoint®, which offers players a choice of either instant or online tickets, are reaching a new demographic. These terminals offer a convenience that younger lottery players appreciate. At GTECH, we are seeing

the sales from our GamePoint solution steadily grow as players increasingly recognize the benefits of self-service and as lotteries are better able to determine the best retail locations (and placement strategies) for the device.

Let's take a look at three examples of more recent trends that illustrate the value of the golden rule.

Attracting New Players

Lotteries don't require a hard sell to understand the value of social-space gaming. Played outside of the traditional retail channel, social-space games are more appealing to younger demographics and they don't cannibalize existing sales. The revenue statistics are impressive. Since 1991, Keno has delivered more than \$7.6 billion in revenue to 12 jurisdictions in the U.S., including jurisdictions like Michigan, which only began offering Keno in 2003.

Michigan is a good example of how a sales channel can help grow sales. Six months after the Michigan Lottery launched Club Keno®, total sales from the game were more than \$33.2 million! Less than three years after the launch, Club Keno's total sales were more than \$1.1 billion and revenues were more than \$340 million – proof that a lottery can succeed in a new channel with the right content.

Restaurants, taverns, and bars clamor to participate in entertaining games like Club Keno, because they keep customers in the establishments for a longer period of time. In Michigan, the number of licensed social spaces doubled from 700 to 1,400 five months after the launch. Currently, more than 2,170 Michigan restaurants, bars, and other social spaces offer Club Keno.

The Michigan story proves the value of an integrated strategy, where the right content and the right sales channel, together, re-energize interest in the lottery and increase revenues.

Club Keno is also successful in Rhode Island. However, the Rhode Island Lottery provides another option for customers who want a more dynamic social-playing experience: Rhody Poker®. Launched in September 2006, it complements the existing products in the social space. Rhody Poker is a lottery version of the very popular card game Texas Hold'Em; it is played on traditional Keno monitors.

Texas Hold'Em clearly has a grip on American culture. The game is featured in weekly television shows, in special star-studded celebrity games that seem to happen once a month, and now in one-hour dramas. Casinos from Atlantic City to Sin

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PJ: *Would it be fair to say that an important objective of Svenska Spel is to take market share off of other, offshore, providers?*

JB: Their purpose is to take as much as possible. To take as many players as possible from the free market but once the players come in to Svenska Spel, their goal is actually to get the player to spend less on gaming. Their role in society is to decrease the gambling, to reduce the gambling, and the way they do that is by channelizing the interest and have the players in a controlled environment to promote responsible gaming. They're actually quite successful in

poker because the majority of the players play on very low stake tables and even people that used to play on high stake tables must now play on low tables. Now, they have 7,000 players at peak everyday. So they take a significant market share from the free operators but they are providing a safe, secure and controlled environment. And the purpose is actually to decrease gaming.

PJ: *I read somewhere that the percentage is something like 53 percent; it's over 50 percent of internet poker marketed in Sweden that a little less than 50 percent of the Swedes were playing offshore? ♦*

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City offer special rooms just for the game, where hundreds of players at dozens of tables compete until only one person is left wearing the coveted bracelet. Introducing this type of game in a lottery's social-space channel has proven immensely popular because of its appeal to traditional lottery players as well as well as younger players.

The Kansas Lottery also launched a poker-themed game – Kansas Hold'Em – in September of 2006, to enhance its social-space offering. However, two years earlier, the lottery had done something even more innovative. It took a huge step forward for the whole industry in terms of exploring new delivery channels. It introduced a new channel that offered a high level of visual appeal and entertainment – games through the Internet. And it became the first lottery in the nation to offer an interactive, Internet-based lottery game. The game, eScratch™, expands the player's lottery experience to the Internet and blends the traditional retailer-based lottery experience with Internet play – a completely new concept in our industry. The player buys an eScratch ticket at a lottery outlet, creates an account or “e-Wallet” on the lottery's Website, and then uses the account number printed on the ticket to access a variety of games and track winnings on the Internet. The player must return to a retailer to collect any winnings. eScratch is part of an evolutionary category of games being offered through a new channel.

Restructuring Familiar Games

One way to expand sales among current customers is to fine-tune existing games in traditional channels, giving players more value for their dollar(s). The result can be either an increase in the number of tickets sold or an increase in the base price of a ticket. This strategy has been successfully implemented in a number of lotteries.

For example, the Illinois Lottery changed the parameters of its cash game, including increasing the overall odds of winning a prize. Changing the structure from a roll-down format to a roll-over format improved the association between players and the game by allowing them to track the jackpot. Such improvements

allow players to see more value in their investment. For the same money, they're playing a game that's easier to win and has a more valuable top prize. After changing the structure of the cash game and increasing the odds of winning, the Illinois Lottery increased its cash game revenue by \$17.6 million in the first 12 months after the change.

The Illinois Lottery also introduced Pick 'n Play™ in March 2006. Pick 'n Play is an example of new content; it targets a player who enjoys an extended-play game experience in an instant win format. Since July of 2006, Pick 'n Play has sold more than \$32 million.

In February 2004, the Minnesota Lottery introduced an “Instant Online” game called G3®. To date, G3 games account for 13 percent of total online sales excluding Powerball (or 6 percent if Powerball is included); revenue to the Minnesota Lottery from G3 games is \$6.6 million.

Lotteries can receive a tremendous revenue boost from fine-tuning their online game mix. The industry has a very good track record of introducing new instant content – last year, more than 2,300 new instant games were introduced in the U.S. alone. Lotteries need online content that is similarly robust and flexible, with new game formats that provide the opportunity to reach a broader range of customers through different channels.

Conclusion

The golden rule is that rich, dynamic gaming content should continue to be an important part of a lottery's strategy to increase sales, but not at the exclusion of sales channels and delivery devices. These three things are of equal value, and an approach that integrates all three of them is the foundation for successful growth – and the mark of a lottery that's leading the industry. ♦

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