

The 5th “P” of Lottery Marketing: Improving Performance

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Traditional business theory holds that a successful marketing mix is a continual balancing of four elements known as the “4Ps” – product, pricing, place or placement and promotion – within internal and external constraints to achieve optimal sales results.

There is no doubt that this approach applied to modern lottery start ups and still holds true for many facets of lottery business development today. However, the expansion, or inflation, of this early universe has accelerated into multiple markets requiring more sophisticated technology and tools to support and measure its growth.

At the center of this expansion is the “Target Audience” or, for the lotteries, the players and prospects.

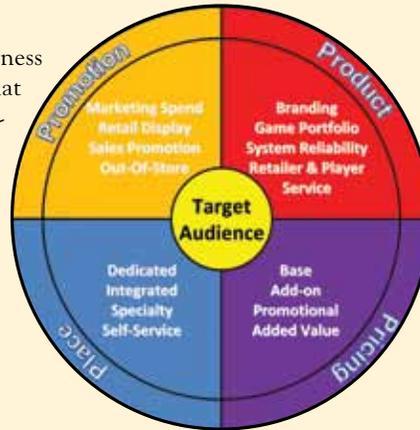
As they have gained experience with lottery, other forms of gaming and other technology over the past thirty years, players have settled into fairly consistent groups across different game formats. Some of this may be due to the need for lottery managers to establish classifications but anecdotal field reports appear to confirm these “clusters”:

- **CORE:** a group of people playing with higher frequency, possibly multiple times weekly, accounting for a large volume of sales (relative to the size of the player base), comfortable with risk-taking and spending on a variety of games, including ones with higher prices or add-on pricing
- **CASUAL:** a larger group of people playing in a range of low to medium frequency on a monthly basis, accounting for average, at best, but more likely below average sales, spending on low to mid priced games, generally impulse buyers or jackpot chasers
- **CURIOUS:** other than those opposed to gaming, everybody else who try lottery games once in a while but need a great deal of motivation to play and still are not committed after trying and represent marginal sales

As a result of this evolution, lottery portfolios have diversified, though recent development seems to be focusing on the more predictable income from niche games appealing to Core players to offset the high potential return but random nature of broad-based games for all players.

As portfolios have increased in diversity and complexity from traditional retail to browser-based game offerings, lottery “Product” development has required more creative resources and in-depth research efforts. In response, GTECH has initiated an internal global game development team pooling its design experience with online, printed products, video, sports betting, promotional and internet games with self-funded research support such as the recent World Player Survey.

To support the new portfolio mixes, parallel changes in central system simplicity, open standards, compatibility, reliability and security as well as speed of service have been needed to improve operations. Recent worldwide Blackberry crashes have been dramatic examples of what happens when the back end does not match the front end of a system. In addition, player protection with better ticket checking and age verification has been necessarily upgraded to maintain public trust in the reliability of the lottery.



Current Lottery Marketing Mix

While base “Pricing” is needed for Casual and Curious players, Core players spend more with add-ons such as Joker and Plus for online games, Multiplier or Bull’s Eye for Keno-style games, video lottery progressives or sports betting with intricate mix options.

Added value has also altered pricing, especially with the growth of player registration. Player cards extend the convenience of accessing lottery games and promotions as well as managing their accounts. GTECH Design Concept research suggests that player cards will appeal to Core players and can lead to new compelling “market-within-the-market” content and tie-ins to lottery websites.

An area of major transition is “Place” which has been and continues to be primarily a dedicated clerk-activated “family of terminals,” potentially adaptable to low and high volume outlets for which a shared operating system with a common platform and applications is essential to lower total cost of ownership.

With the growth of lottery distribution and retail management demands the need for a portfolio of flexible retail solutions has expanded beyond clerk-activated terminals.

For example, GTECH has been working with several global and national retailers to integrate online game sales into retailer front-end and accounting systems with its Lottery Inside and quick pick cards using end-to-end encryption for transaction security while simultaneously delivering sales tracking.

The new GTECH Gemini series of vending machines, including the Slimline for Europe, redefines the one-touch ease and simplicity of self-service for printed product and online games. Whether standalone or on-counter, self-service offers more than player convenience but player traffic management for retailers and increased game visibility for lotteries as well.

Of course, the ultimate self-service is internet game delivery through player PCs and PDAs, the new channels of distribution for gaming and sports wagering anywhere, anytime. G2 with its Finsoft, St Minver and Boss Media groups have been creating solutions for European lotteries and are now starting to work with progressive lotteries in the Americas.

Finally, “Promotion” has been under pressure to innovate in view of static or declining marketing budgets. The spending impact has been to focus marketing communications efforts at the point-of-sale – retail, destination or internet locations – in the form of more competitive branding efforts and state-of-the-art display technology with digital screens quickly rotating a menu of messages.

To offset display development by non-lottery marketers, GTECH has launched its Enterprise Series MultiMedia digital screen program with several lotteries yielding impressive sales results for promoted products. With year-long testing of digital signage during 2009, Wal-Mart has seen new and seasonal product sales increase by 23% — 25%.

While in-store online promotional offers reach Core players, lottery

central systems can also handle direct mail coupons bringing in outside Casual and Curious players. These efforts add to the “news” of game launches, special buying opportunities, media-driven promotions such as the London Daily Mail EuroMillions Sweepstakes developed with assistance from IGI Europrint, part of GTECH Printing Corporation, to create marketing “events” on which to focus precious advertising investment for maximum sales return.

With over thirty years of expansion and increased productivity through technology “Performance” of the lottery marketing mix has grown to be the all-important fifth “P,” especially as modern lotteries mature. Fine-tuning growth strategies is now essential to sustain sales and revenue since the low hanging fruit of retail expansion and game development through prize payout increases may not be as easy to find.



Lottery Marketing Mix with the 5th “P”

independent reviews to benchmark their performances. This also means learning from global Best Practices, accessing credible databases and deriving useful interpretations.

To assist lotteries with these efforts, GTECH has put together an independent group of long-standing lottery professionals, GTECH Professional Services, to conduct a comprehensive review of game portfolios and sales performances in a four-step process:

- 1 Analysis of sales by major game portfolio segment with comparative performance benchmarks using both industry and exclusive GTECH databases
- 2 Retail and other site visits to player-facing locations for a qualitative review of in-field and organizational execution of lottery business programs
- 3 Synthesis of the quantitative and qualitative data into a situation analysis and considerations for future sales, marketing and management development
- 4 Reconciliation of considerations with lottery planned programs and working with lottery staff to implement business strategies for growth, including full implementation plans and benchmarked sales forecasts

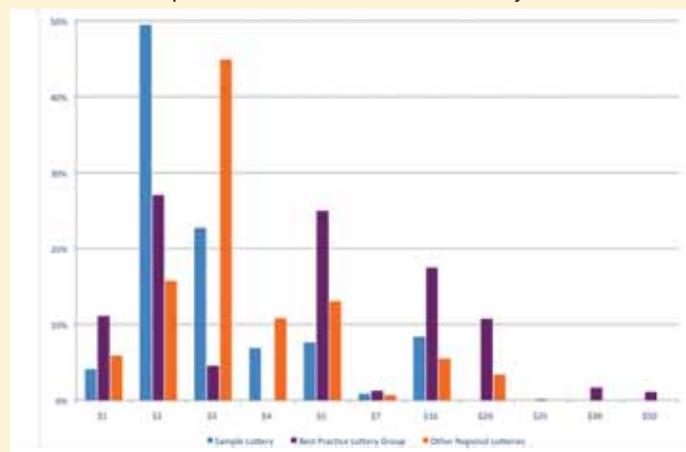
For example, an analysis of a “Sample Lottery” Instant Ticket business might start with a comparison of Total and Instant Games per capita sales indicating that Total Portfolio Sales are fine but the Instant Game portion is performing below average.

2009 Comparative Total and Instant Game Sales per Capita



Additional data drill down indicates that the entry-level price and, in particular, the \$5 games are under-developed – a condition being reinforced by a distortion in the games launched by price point. Parallel to this finding will be the need to compare sales and profitability performances by price point to determine if gains through higher prize payout at higher price points justify the absolute dollar return.

2009 Comparative Instant Game Sales by Price Point

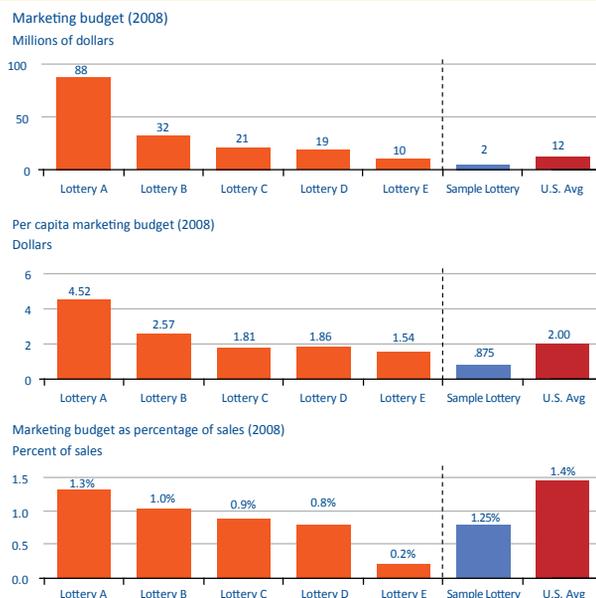


2009 Comparative Instant Game Launches by Price Point

	# of games FY09	\$1	\$2	\$3	\$4	\$5	\$7	\$10	\$15	\$20+
Sample Lottery	64	9	29	17	0	5	0	4	0	0
Avg Best Practices Lottery Group	60	13	14	4	0	16	1	6	0	2
Avg Other Regional Lotteries	76	14	20	21	3	12	1	3	0	2

While the review will discover other factors causing the sales performance differences, the overall marketing spend is also looked at to determine its impact on reaching players with Out-Of-Store communication. In this case it is evident there is room for expanding the budget, which can be used to support the development of \$5 Instant Games.

Comparison of Peer and Best Practice Market Spending



In the lotteries of today the fifth “P” is the ultimate benchmark by which the dynamics of the original “4 Ps” are measured. Quantitative tools such as correlation and regression analyses combined with direct observations of the “real life” situations and thoughtful interpretation are essential. With this perspective the influence of other gaming galaxies can be measured and lottery game portfolio performances improved. ♦