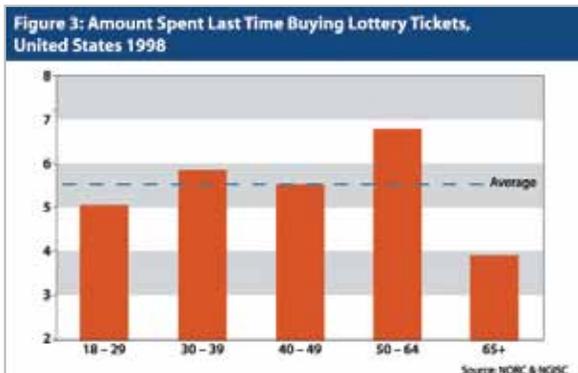
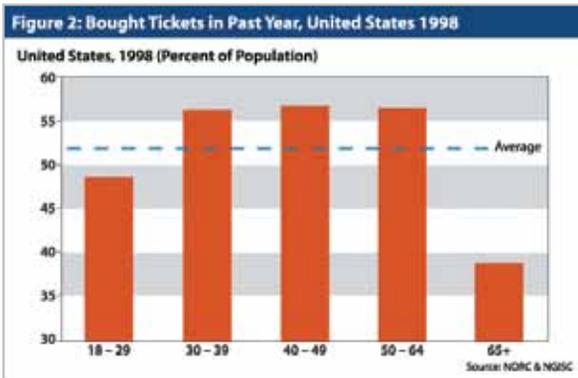
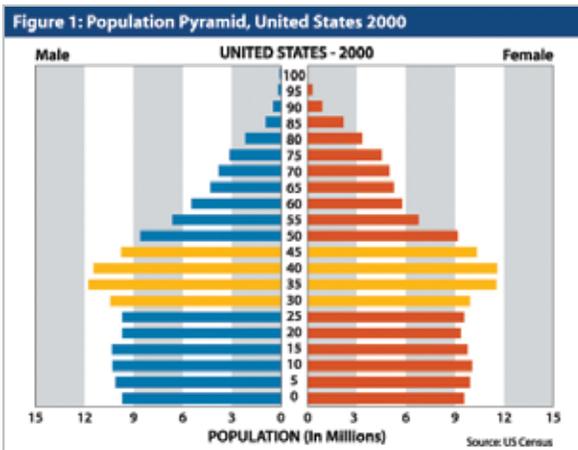
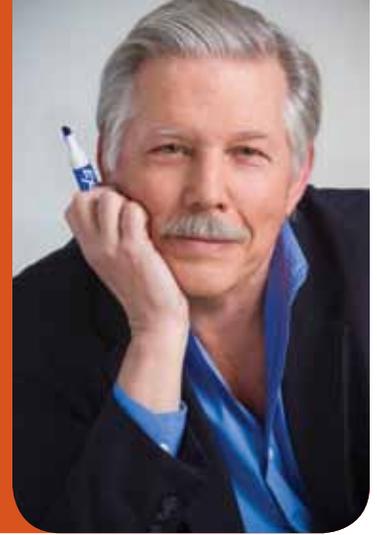


The Once and Future Players

Meeting the Challenge of Lottery Player Base Development

By Matt Mansfield, GTECH Professional Services



A topic of lively, if not anxious, discussion in many lotteries today centers on how to attract new players. After years of growth through increasing prize payouts and retail expansion, lottery sales—and possibly the player bases—are maturing.

It is a source of legitimate concern.

THE INEVITABLE DIRECTION OF DEMOGRAPHIC DYNAMICS

About 10 years ago, the 2000 U.S. Census indicated that the largest population groups were 30-49 years old, the “Baby Boomers.” (Figure 1)

Coincidentally, the National Opinion Research Center (NORC) and the National Gambling Impact Study Commission (NGISC) determined that the primary lottery playing age groups were 30-64 years old, with a big participation drop off after people reached 65+. (Figure 2) These findings should not be very surprising since many lottery player-tracking studies since then likely indicate similar results.

The interesting observation came when these two groups showed that the above average amount for the last lottery purchase was highest among the 50-64 year olds, about average for the 30-49 year olds, below average for the 18-29 year olds and way below average for the 65+ group. (Figure 3)

Clearly, the amount spent per visit has grown over the past decade—the GTECH 2008 World Player Survey suggests that in the U.S., the amount spent per visit for “any game” just under \$12 has almost doubled, if compared to the NORC/NGISC study levels. However, looking at the 2010 U.S. Census population, the inevitable demographic progression of the larger population toward 40-59 year olds raises concern for sustained sales growth—now. In the meantime, the smaller population of “Echo Boomers” at 20-29 years old is just reaching playing age. (Figure 4)

BEYOND DEMOGRAPHICS—WHAT PLAYERS FEEL

One approach to increasing sales has been to encourage “casual” or lapsed players to play more and become frequent or “core” players. While mixing certain games or promotions, especially with an “event” element, with staple games appealing to “core” players can work periodically to attract “casual” players, there are certain psychographic factors possibly affecting the pace of transition.

The 2010 WMS Active Gambler Profile Internet survey of more than 2,800 Americans and 600 Canadians who had visited any casino venue at least once during the past 12 months looked at player demographics in broader social groupings (Figure 5). Some of the differences among the groups have interesting implications:

- Millennials (ages 18-31) and Xers (ages 32-45) prefer one big win while Matures (ages 65+) prefer small wins.
- Millennials and Xers are comfortable with technology and more likely to bank, shop, and watch TV online. Boomers (ages 46-64) are likely to experiment with technologies while Matures may be intimidated by new technology.
- Millennials and Xers are more likely to take advice from others while Boomers and Matures are more likely to rely on instinct.

Figure 4: Population Pyramid, United States 2010

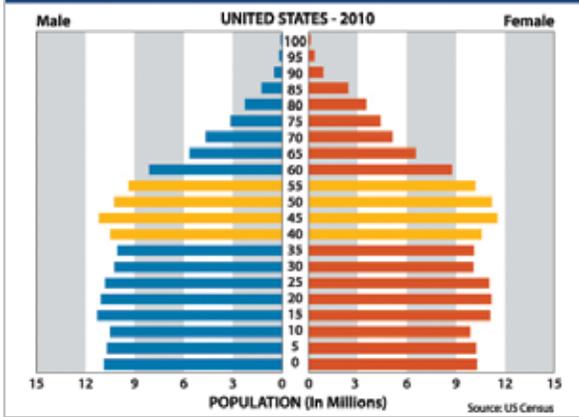
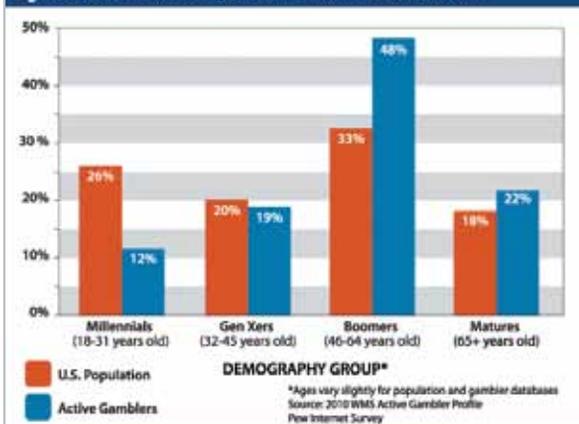


Figure 5: North American 2010 WMS Active Gambler Profile



This last observation correlates with the more “active” players are, the more apt they are to rely on instinct—more than 85% of frequent players in the survey. This observation is also seen by the GTECH Gaming Solutions staff for video lottery patrons. The GTECH World Player Survey also found that 66% of world lottery players and 69% of U.S. lottery players purchased tickets alone with another 6% either alone or with others.

In essence, the “core” player is likely to be more independent and less social about gaming than the “casual” player, which is a tendency that increases as players get older. In addition to lottery and casino players, this observation has also been noted for European internet gamers by the GTECH G2 digital gaming and sports betting managers. Consequently, it may be a question of time and mindset before a “casual” player shifts to being a “core player,” if at all.

Another approach discussed for growing sales has been increasing participation among younger players, especially those in the 18-24 age group, typically under-represented for share of lottery sales relative to share of population. However, this below average level may be driven by certain preconceived attitudes and experience priorities that have to evolve before lottery play increases.

As part of its player services program development during 2008, GTECH conducted qualitative research among Massachusetts and Rhode Island college students in separate age groups of 18-24 year-old undergraduates and 25-35 year-old postgraduates to explore attitudes toward lottery play. The research produced the following results:

- **18-24 Year Olds:** Lack of awareness of lottery games (jackpot games only); lack of reasons to play due to other spending priorities such as music, socializing with friends on Facebook, readily available free games; perception that no one their age wins, skepticism about where the money goes; and lack of identification with lottery players who are seen as older and not current.
- **25-35 Year Olds:** Broad awareness of lottery games (jackpot and daily draw games, scratch-off games); some playership up to once or twice a week and participation through pools; more comfortable with taking chances although the winnings may not be worth the risk; still skepticism about where the money goes; lottery players perceived as more likely men but definitely adults, e.g., lottery as “an arcade for grown-ups.”

These findings suggest that younger people simply may not be ready to be lottery players, “casual” or “core,” until their attitudes have changed due to maturing expectations with age and work place experiences as well as finding products where they shop such as big box stores or chains. The research also provides some basis for explaining participation patterns of NORC/NGISC and WMS studies.

DEVELOPING THE LOTTERY PLAYER BASE: FOUR STRATEGIES

Given these challenges and the evolutionary nature of playership, it appears that lottery player-base development has to work along two parallel directions:

- *Maximizing immediate opportunities for current player participation.*
- *Preparing future players for participation.*

A brief discussion of some strategies to pursue these two paths follows:

1. Expanding the Game Portfolio

Within the current portfolio of online, instant (scratch-off), and monitor games one of the major directions is the creation of a “national premium lottery game” now that Powerball and MegaMillions are being sold across 41 lottery jurisdictions. The key drivers for this concept are:

- More jackpot game sales opportunities to attract “core” and “casual” players, especially as jackpot games have broad demographic appeal (almost 90% of U.S. and world players have played a multi-state/jurisdiction game at one time and 52% within the past four weeks according to the GTECH World Player Survey).
- Ability to attract more “casual” player participation as jackpots roll.
- Potential cost efficiencies through national marketing to an increasingly national player base with its own communication network.

Consortium lotteries and the vendor community are collaborating on various game concepts with possibly new media and social-style components at different price points. Player research is planned to assess the best offering and validate positioning within the overall game portfolio in order to execute this plan in the near future.

Beyond optimizing and growing the current game portfolio, video lottery has been tried for several jurisdictions though many have had to restrict distribution for legislative compliance so that the game category is more reflective of its trade class such as “social environments” than traditional retail lottery outlets. The result is player-base expansion that is modest at best for now.



BEIJING



MARYLAND



SPAIN



DENMARK

The other portfolio area being explored is variations of Internet lottery ranging from playing games for fun (in anticipation of offering games for money) to purchasing current games to actually playing games for money.

Clearly, the Internet offers many advantages for attracting new and “casual” players, subject to age and jurisdiction verification, so that sales growth is promising. It is a case of whether the demand for increased state revenues will be sufficient to counter potential DOJ challenges by either passing new Federal legislation or finding another acceptable in-state solution that complies with current legislation.

2. Increasing Game Accessibility

Another strategy has been to extend the traditional lottery strength of convenience into more forms of accessibility for players and prospects so that regular and impulse purchases can be more easily realized.

Specific examples are programs invested in and developed by GTECH that provide primarily current players:

- More in-lane purchase opportunities such as Lottery Inside integrating online game Quick Pick sales into third-party Point-Of-Sale (POS) equipment.
- More self-service such as the Gemini™ Family of Self-Service Terminals selling instant and online games with push-button ease in the industry’s narrowest footprint.
- More retail locations, especially in big box stores with DASH Store Services offering an independent lottery store-within-a-store for both retailer and player convenience.

During 2009 GTECH-funded quantitative research among U.S. players indicated that debit card concepts may offer a fresh approach to personal convenience with multiple benefits appealing to current players and spurring even moderate interest among light and non-players.

3. Enhancing Game Entertainment

As the casino industry quickly learned, adding non-gaming entertainment generated more revenue streams and brought in more non-players for exposure to playing, even if just “casual.” Recently, vendors have been exploring enhancements to the physical playing environment to appeal to younger players such as more elaborate sound systems and chairs that vibrate in concert with visual screen action such as driving down streets.

While lotteries do not seemingly have the same control over the environments within which games are sold as casinos, certain lottery retailers around the world have realized the potential of creating a “social atmosphere” for attracting and keeping players.

An examination of four different retail locations—one in Asia, two in Europe and one in the U.S. (see photos at left)—reveals that each location has designed its environment to encourage players to stay through the use of monitors, tables and chairs, other amenities and immediate service for placing wagers. It is apparent that as these players come in, they meet or bring friends with them so that, like a casino, they expand the pool of prospects.

A consideration for lotteries might be to capitalize on this concept by working with a select number of retailers in different areas of the jurisdiction to create “showcase” or ideal locations optimizing the lottery playing experience and image as well as driving positive word-of-mouth to light and even non-players.

4. Branding the Lottery Experience

While the first three strategies primarily address maximizing current player participation, a strategy for preparing future players for participation (they are either not playing or just beginning to play now) has to consider additional factors and evaluate how they can work for or against preconceptions about lotteries and their current players.

The role and dynamics of social networks are particularly worth examining, since younger and “casual” players are more likely to seek the advice of others compared to “core” players and destination gaming locations are leveraging their social atmospheres to increase traffic.

In their 2009 book, “Connected: The Surprising Power of Social Networks and How They Shape Our Lives,” Nicholas A. Christakis and James H. Fowler go beyond Stanley Milgram’s experiments in Nebraska in the 1960s that showed nearly everyone is connected by “Six Degrees of Separation” to establish the “Three Degrees of Influence” rule. This rule states that everything we say or do tends to ripple through our immediate network of friends and acquaintances to our friends’ friends, and even their friends before the effect runs down. In fact, we shape and are shaped by these networks and the networks themselves have their own lives. Facebook, Twitter, and other applications simply enhance the communication but are not the true networks.

This pattern applies to a broad range of attitudes, feelings, and behaviors as diverse as political views, weight gain, and happiness. Both positive and negative impacts can move through the networks. Needless to say, it has significant implication for lotteries and their images.

Lotteries are challenged by multiple reports of long odds, limited winner news, older player and game perceptions, and skepticism about where the money goes being exchanged across various social networks—every day.

The challenge is how to create positive attitudes toward lotteries to travel through the same networks. This is where branding the “lottery experience” plays a very important role, for not only current players, but also future players while they are receptive.

While the excitement of playing and winning money are obvious messages, there is another element, much more emotional, that can resonate within the social networks: *We all share the opportunity to feel lucky and dream of winning, what we could do if we won, and how we would see ourselves as winners.* That’s the lottery experience aspect that people enjoy talking about with each other.

There appear to be at least four ways to capture this branding concept, all involving sustained mass communication efforts to achieve lasting impact:

- Advertising that can be linked to a broadly appealing game and shows

a winner doing something that many people can either identify with or admire. The New York Lottery had achieved this branding with themes such as “All You Need is A Dollar and A Dream”, “Hey, You Never Know,” and “If I Had A Million Dollars”—and an ongoing brand investment making the lottery very much part of the popular culture.

- Another key has been showing winners in advertising as down-to-earth, likeable people such as the New York Lottery’s tollbooth collector who with humor and charm gives away part of his winnings to pay other people’s tolls as they pass through his station. All of these are dreams that players, prospects, and the public can aspire to and share.
- Meaningful explanation of how lottery revenues are used that people understand and appreciate. This is a different approach to sharing the dream of winning but can be just as powerful for social networks. It’s why people buy raffle tickets for local causes even though they do not expect to win. The Georgia Lottery Corporation’s Hope Scholarship Program is among the best examples of this branding.

This approach may not be strong enough to achieve sustained playing but it may help people with ambivalent feelings about playing to give the lottery a shot and also reinforces public trust in the lottery.

- On a tactical level, re-energizing the specific lottery brand with a new, refreshed retail identity followed immediately by a series of new games and promotions demonstrating that the lottery is up-to-date and competitive with other marketers as well as specific reasons for players and prospect to try the lottery portfolio. The Irish National Lottery “Wishing Star” campaign has just successfully executed this branding change. All approaches can work together and will help reinforce positive associations wherever players and prospect see lottery retail displays. It is the long-term investment that helps current players feel good about playing the lottery, win or lose, and provides positive reinforcement through the social networks to future players. ♦

Martin Kon and Tim Matusch Interview ...continued from page 37

to the Private Manager, the greater the returns to the public causes that the Lottery supports; it’s a win-win situation. But social responsibility is of special significance in the lottery industry, and the notion of responsible gaming has been at the heart of all aspects of the process. Firstly, bidders have had to demonstrate a deep practical understanding and experience in managing the tension between profit growth and responsible gaming, showcasing specific programs that address identity/age-compliance and problem gaming, among other things. The State needs to be completely confident that the chosen Private Manager respects these constraints and abides by them. Secondly, it’s critical to remember that, although the Private Manager will be the day-to-day operator of the Lottery, the State will always retain actual control over operations, and can countermand any decision proposed by the Private Manager should that be deemed necessary. So there will always be a ‘dual responsibility’ of sorts when it comes to protecting the public to ensure that responsible gaming is paramount.

A state lottery is a more complex enterprise than, say, a state toll-road or waste collection system. How

difficult will it be to anticipate all the various contingencies and address those in a contract? For instance, one basic conundrum of this business is that we do not want to be so successful at the business of creating exciting games and promoting those highly stimulating games that we exacerbate problem gaming. How do you measure “success” and performance when you have that kind of highly subjective criteria? And if performance expectations can’t be measured or otherwise clarified in a specific and concrete way, how can they be contractually defined and agreed to?

M. Kon: There are a number of tensions that we’ve had to address in this transaction, all of which have a bearing on ‘success’ in the business. We’ve already discussed the tension between profit growth and responsible gaming, for example. Fundamentally, however, this is about growing income to the State, which means growing the profitability of the Lottery. So in hard terms, success is defined along those lines, and the Private Manager will be incentivized to keep its closest eye on the bottom line of the business. Flexibility and adaptability—the ability to react to a dynamic marketplace—are an important part of driving optimal bottom-

line performance, and as you say, the contract needs to anticipate all the contingencies and unknowns over the coming years in order for this to be possible. The PMA lays out not simply how the Private Manager will operate today, but also the process as to how the PMA will adapt to the changing market tomorrow. If, for example, the scope of products and services that the Private Manager can offer changes, then the governance and incentivization will change accordingly. That all said, growth in profitability is only acceptable if it is accompanied by strict compliance with Federal and State legislation, as well as by respect for all other social and ethical considerations. Insofar as these can be articulated unambiguously, they will be defined clearly in the Private Manager Agreement. At the same time, some elements will always require judgment, and this is where the governance structure which dictates the relationship between State and Private Manager comes into play. These are all examples of how complex this assignment is, and why it is important to secure the right level of support to anticipate issues, structure the transaction, and manage the process! ♦