

TRYING TO SEE THE TREES IN A FOREST OF MARKET RESEARCH

Read any good market research lately? You probably have, since the lottery industry produces a ton of it from a variety of sources (from in-house to advertising agencies to vendors), done by any number of experienced market research firms. We see general tracking studies, game concept development studies, attitude and usage studies, and focus group research. We see specialized studies on narrow topics such as Internet opportunities, pricing models, prize payout maximization, graphic design, and policy questions such as responsible gaming. The challenge for lottery professionals is to wade through this wealth of information and translate it into actionable steps that grow lottery profits.

What research does do for us is to keep us close to the customer – the retailer, the player, and the non-player. It makes us aware of the changes in the marketplace – technological, lifestyle, cultural, and competitive aspects that affect our business. The essence of effective strategic planning is recognizing the “points of inflection” in the marketplace where fundamental changes impact consumer behavior. At times these changes are hidden. Some, such as self-service, begin slowly but accelerate over time and others, such as mobile location technology and location-based services, have a rapid impact on the marketplace from the time of their initial introduction.

GTECH, along with the independent research firm KS&R, recently conducted another in its series of World Player Attitude and Usage studies with 8,000 players across 10 countries. While some of the insights from the study may make us feel good, others are potentially troubling. Rather than recite research findings, we thought it would be interesting to pick some lottery themes and use facts from different sections of the research to provide insights. Here are some issues facing lotteries today, with some being at “points of inflection” and what the research suggests we do:

SAME-STORE SALES

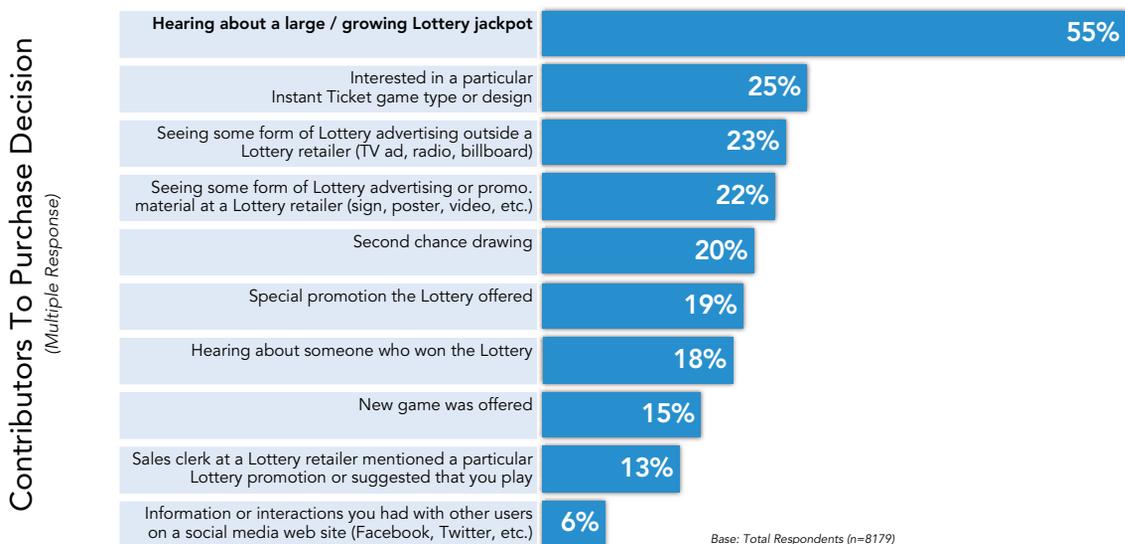
Several points in the study reinforce the importance of focusing on same-store sales, the basic bricks-and-mortar building block of our business. First of all, there appears to be headroom in the U.S. for higher player participation levels. Median U.S. lottery participation is half the level of Germany, Ireland, and Denmark, and less than 40% of the participation in China. By comparison, U.S. non-lottery participation on gaming is close to the highest in the world.

GAME PORTFOLIOS

Jackpots are still “king.” This may be a blessing and a curse as Lotteries attempt to expand their brands outside the jackpot game image. Players all over the world still enjoy the big traditional games that have fueled lottery growth for decades. Multi-jurisdiction games, big jackpot games, daily numbers games, instant games, and even original Lotto remain the predominant and preferred games. There is no discernible trend toward radically different play styles or new kinds of games. In fact, big jackpots have the greatest potential for increasing lottery participation. 33% of players rated it first whereas introduction of new lottery games, not currently available, was rated first by only 4% of players.

IN LOTTERY, A LARGE / GROWING JACKPOT IS STILL KING

About one in four also cite lottery advertising and/or promotions as a driver of lottery purchases.



SOCIAL PLAY

Lottery play is not considered a very social activity, but rather something that is done individually (60%) versus discussing and sharing with family and friends (27%), or discussing with other players, pooling bets, etc. (13%). The troubling aspect of this finding is that it may suggest the merging of social media and lottery play could be

even more challenging than anticipated. Among lottery purchase drivers, social media was ranked last (6% vs. jackpots at 55%). Related to this finding was a relatively low interest in a lottery-centric social site (58% not interested), and large differences of interest in a lottery VIP Club by country (5% in Denmark vs. 57% in China with the US splitting the difference with 25% interest).

THE INTERNET

Buying lottery products over the Internet is a nice supplemental distribution method that can generate incremental revenue, but the world's playing habits are not shifting in such a rapid way that will it dramatically alter the distribution landscape. Only 7% of U.S.

players indicated an interest in playing lottery games exclusively on the Internet, while 54% would continue to play in-person only, and another 39% would play both in-person and on the Internet. These results should reassure anxious retailers that Internet lottery play will not damage their current lottery business.

US (TOTAL) LIKELIHOOD OF PURCHASING LOTTERY TICKETS ONLINE VS. IN-PERSON

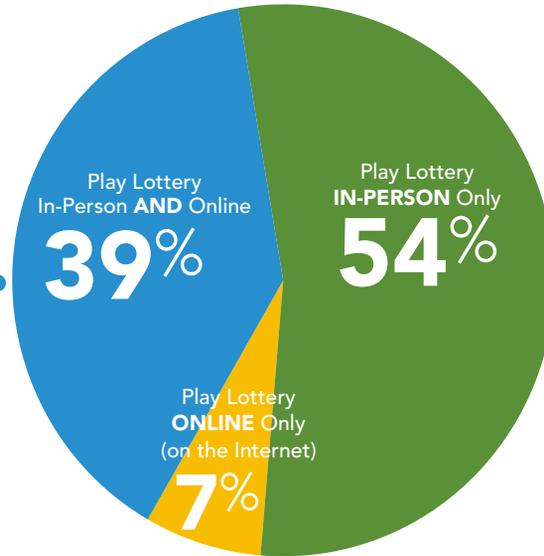
Total: World-Wide

In person only	43%
Online only	14%
Both in-person AND online	43%

US (18-34)

In person only	54%
Online only	10%
Both in-person AND online	36%

Percentage Of Lottery Tickets Would Purchase Online vs. In-Person (n=330)	
(Mean %)	
Online	42%
In-Person	58%



Base: Total Respondents (n=8179); Total US Respondents (n=844); US Respondents 18-34 (n=242)

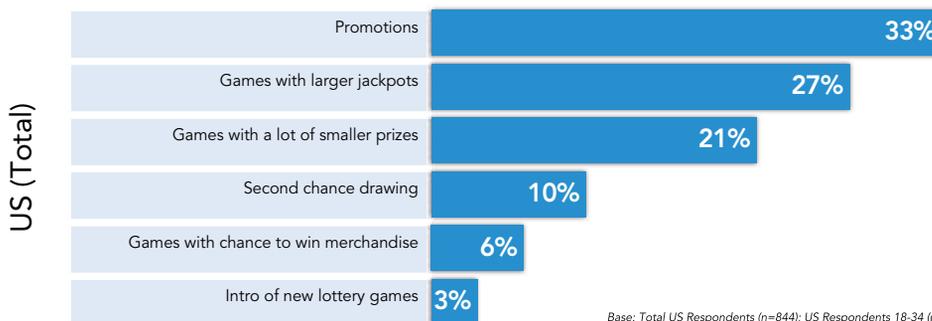
MOBILE DEVICES

A quite surprising finding was the relative lack of interest in playing lottery games through mobile devices. Only 28% of mobile-device users expressed any interest in doing so while 60% were specifically not interested. One of the primary reasons was that people still enjoy the sense of security and integrity of a paper ticket. Even with a mobile purchase, 67% still prefer a paper ticket.

CONTROL DRIVERS

Motivation to buy lottery tickets is driven by several factors, some of which are random, such as jackpot size, but the research found encouraging strength in the ability of controllable factors to drive lottery purchase motivation. In fact, the top motivators in the US are lottery promotions (33%), followed by jackpots (27%), and second-chance drawings (10%). Curiously, since only 37% of lottery purchases are impulse buys, we have the ability to drive the two-thirds of planned-in-advance purchasing behavior through advertising, promotion, and marketing.

LOTTERY MOTIVATORS



Base: Total US Respondents (n=844); US Respondents 18-34 (n=242)

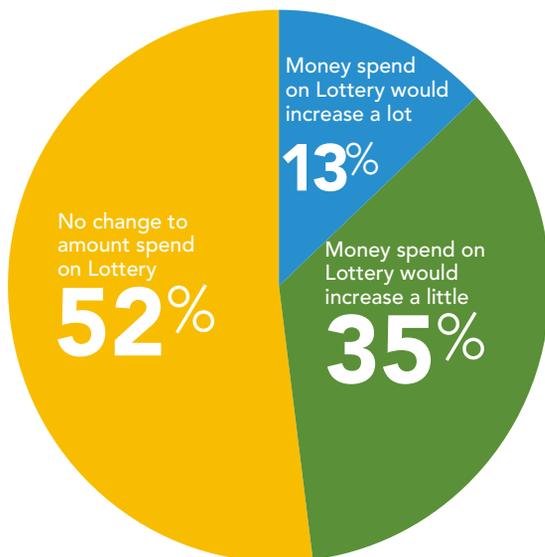
RESPONSIBLE GAMING

Some surprising findings here as well, with higher income males (U.S. \$100k+) tending to play more frequently in most countries, including the U.S., especially with multi-jurisdiction, daily, and lotto games. The same group also plays non-lottery games (e.g., sports betting) more frequently. Also, high-income (\$100k+) players spend two and a half times more than lower income (<\$50k) players, while high-income non-lottery spending is only double low-income. This is useful news for those fighting old perceptions of who play lottery games and how much they participate.

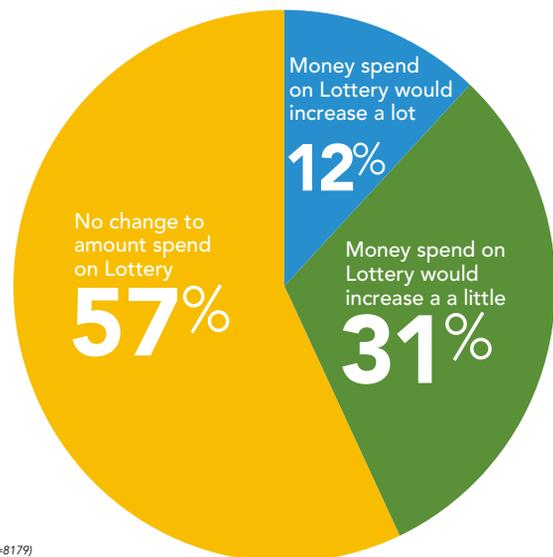
EASE OF PURCHASE = INCREASED SAME STORE SALES

Lotteries sometimes fear self-service purchase options. Although on-counter lottery sales are often higher than vending machine-only, we risk alienating the younger consumer who wants a less time-consuming purchase experience, such as grocery store in-lane checkout (48% would increase spending) and self-service machines (43% would increase spending). Such an option would also give lotteries a better tool for getting into the big-box stores that increasingly dominate retail activity. And with 37% of lottery purchases being impulse based, availability at the point of sale is a critical convenience factor. Self-service options won't replace the strength of on-counter sales, but can add incremental same store sales and drive acceptance in new retail outlets.

Impact On Lottery Spend If Available To Purchase At
CHECKOUT OF A MULTI-LANE



Impact On Lottery Spend If Available To Purchase At
A SELF-SERVICE VENDING MACHINE



Base: Total Respondents (n=8179)

YOUNG PLAYERS

The recurring problem of attracting younger players to lotteries doesn't get any easier. We all assume that young players will become our customers when and if we create an Internet/mobile social experience for them, but the research revealed several cautionary, and sometimes contradictory, aspects of young player behavior. As mentioned earlier, there was reluctance to embrace mobile devices as transaction hubs, and less interest in

the social side of lottery play. Young players spend less, play less frequently, prefer self-service purchases, and are more likely to make impulse purchases. However, their spending on entertainment is growing and they spent more on Lottery than during the previous 12 months. Possibly the signal here is that their image of the Lottery Brand must first change.

With all of this data and insight, some global and some local, lottery professionals still need to listen most closely to their own customers and filter these observations through their unique local perspectives. There is no "silver bullet" to winning in the lottery business – just good old-fashioned optimization and execution of every detail and aspect of lottery management. Strategic studies such as the GTECH World Player Study offer hard market-based data to include in the decision mix as we work to assist our Lottery customers to improve their Lottery Business Plans, maintain relevance with consumers, and continue to increase lottery profits generated for good causes.