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THE HOCKEY STICK EFFECT: ATLANTIC LOTTERY'S TURNAROUND OF SCRATCH'N WIN

PGRI Introduction: The consumer is now being exposed to easier access to a wider variety of games than ever. By far. This increasingly crowded market makes it more challenging for lotteries to grow market share for the traditional games. Increasing the price points can work for awhile, but does not really solve the long-term problem of how to truly capture the imagination of the consumer. We need a product development approach and distributional strategies that produce sustainable growth.

Noticing that Atlantic Lottery produced some outsized results in the Scratch'N Win category, I asked Jean-Marc Landry if he would address some of these questions as well as the specific success story for Atlantic Lottery's surge in Instants sales.

Paul Jason, Public Gaming: *What has been the recent sales trend line for the Scratch'N Win category?*

Jean Marc Landry: Over the last 3 years, we have achieved amazing results in Scratch'N Win. We have been able to reverse what was a steep sales decline and have seen our sales grow from a low-point of \$160.5 Million in 2008-09 to record-breaking performance of over \$187.3 Million in 2011-12. Over this period, our sales have increased by 16.7%, and we're still seeing them grow today.

What caused you to think you could reverse that trend line? Why focus resources on that category instead of others?

J.M. Landry: About 5 years ago, a compelling rejuvenation strategy was set forth by our current Managing Director of Sales & Marketing. Working with our Scratch'N Win vendor, as well as our lead advertising agency, the strategy looked at all aspects of the Scratch category, from product to prize payout, as well as price point and communications approach. The most important component of the strategy was the carrot it dangled for internal stakeholders. This carrot was a bold stretch target of \$200 Million in sales over 5 years. The strategy's name? Fittingly: TarGet.200.

What did some of your initial analyses tell you about why the category had

been in decline and what you might do to reverse that decline?

J.M. Landry: As is surely the case with many lotteries, our analyses suggested that an increase in prize payouts, married with a better variety of games & price points could deliver strong returns. This insight was developed with our Scratch'N Win vendor who brought forward a formulaic approach to predicting revenues based on the implementation of the strategy. But this was only part of the learning. The other major component was in uncovering the reasons why players were leaving the category. We commissioned a "lapsed player research" study which suggested that players were becoming disenfranchised with the category due to their perception of lack of winning, either personally or by others. Both of these studies acted as key pillars in setting forth the rejuvenation plan.

What specifically did you do to reimagine sales growth of the Instants products?



J.M. Landry: I can tell you that this project was a true team effort – championed by all involved parties. Here are the top 6 drivers of the rejuvenation, all brought to you by the letter P:

1. Payout: In 2008-09, we raised the blended payouts from approximately 60% to 63.5%. The payout adjustment began in April and was fully rolled out in September 2008.

2. Price Point: In 2009-10, we began our price point expansion program. We laid out a 3-year plan that would see our average price grow from \$2.48 to over \$3.

The major components included in this roll-out were (1) setting all Extended Play games at a \$3 base price, except our #1 SKU which is \$2 Crossword, (2) rapidly developing the \$5 Quick Play category, and (3) finding strong product entries at the \$10 and \$20 price points, mostly done through national tickets, Core Game extensions (\$10 Crossword) and special Holiday Packs.

3. Product: In adjusting our pricing strategy, we re-calibrated the entire value proposition of our category – with the mantra “you pay more, you get more.” We re-aligned our payouts, odds, ticket sizes and printing features to deliver our strongest value at the \$4 and higher price points, while maintaining good value at \$1, \$2, and \$3.

We conducted primary research on instant ticket design elements, to better understand which ticket elements would be best suited for which audiences.

We implemented a series of best practice metrics for the category, and enhanced our internal processes in terms of calendar planning, game briefing, process tracking and post-launch evaluations. These key changes were instrumental in raising the bar in terms of applying proper rigor and discipline to the development of Scratch’N Win tickets.

4. Promotion: A key ingredient to our strategy has been the rollout of the popular 2nd Chance program, which gives players chances at entering non-winning tickets for a second chance at winning a prize. Currently in its 3rd year, this program was designed to solidify our player base, which was in state of decline over the previous few years. The 2nd Chance program has attracted over 100,000 unique members and receives over \$10 Million worth of ticket entries a year. This program has not only driven positive perceptions of Scratch’N Win and Atlantic Lottery, but it has also helped to arrest our player base erosion issue. Since its implementation, player base has stabilized.

Another successful tactic has been the roll-out of our “Top Prizes Remaining” campaign for Set for Life, which treats the available top prizes remaining in market very similarly to our Jackpot Alert program on Big Lotto. This tactic has been extremely successful in generating sales boosts (and positive ROI) in periods when ticket sales needed a boost. We have since rolled this approach out to all “Jackpot Style” tickets in Scratch’N Win, sharing a 52-week media buy with our Big Lotto category.

5. Partnership with Sales: Building off the impulse-nature of the category, a key ingredient to our success has been a revitalized partnership with our Sales counterparts. As a “one-team” entity, we have delivered consistent focus from paid media to point of purchase, every single month since the rejuvenation strategy has been implemented.

Marketing programs are supported with in-store promotion and key account programs. Weekly meetings focus on ticket performance, priorities and launch calendars. The best part is that success is shared among all. The sales team implemented a series of programs to reinforce Scratch at Point of Purchase. These included a special focus on top-tier accounts, a retailer incentive, incremental merchandising units as well as store-based and chain-wide promotions.

One of the best activation programs happens during key gifting seasons during the year, including Mother’s Day and the Christmas Holidays. During these occasions, the sales team bundles \$10/\$20/\$25 worth of tickets in themed mugs. These allow us to not only provide value for higher priced purchases, but it also enables us to sell through both popular and slower moving tickets.

6. Profit: On top of all these efforts to rejuvenate demand for the category, we also proactively sought out opportunities to enhance profit margins.

During the process of re-aligning our value equation, we realized significant cost savings in print costs for our \$2 tickets, which were shortened from 7.33” high to 6”, and in which we removed all varnish coatings from the printing process.

We also sought out opportunities to reduce our costs in other areas supporting the strategy. One key change was an increase in pack sizes for \$2 Crossword (50 to 100), all \$3 games (30 to 50) and in select other games at higher price points – where we knew that retailer demand could support the increased pack size.

In order to manage our destruction costs, we right-sized our print quantities based on

optimal in-market timing by price point, which yielded significant savings in ticket destruction.

We are now working on a cross-divisional project to minimize ticket returns, in part through better ticket allocations, and in part through smarter planning on returns themselves.

What will you be doing to sustain the growth?

J.M. Landry: This is the golden question. I firmly believe that the market for Instant lotteries will remain strong for years to come. How the games are specifically delivered to players, however, will need to evolve.

In the Retail space, we are seeing a rapid transition of the independent C-Store model to corporate chains and big box stores. While consumers are converging their shopping needs in fewer trips to the store, and leveraging new technologies to process transactions for other needs such as gas (pay at pump), they are being exposed less-and-less to our category. This means we need to remain relevant in how we deliver in this new context. To this end, we are evaluating opportunities to distribute our product at new and different chains. Such an effort has allowed Atlantic Lottery to sell its products at Wal-Mart locations in Atlantic Canada. We are also evaluating the potential of deploying Self-Serve machines to select groups of retailers.

Bigger picture though, our efforts in consumer research and player segmentation suggest that the digital world is very much a real proposition to our players. From unregulated offering of Instant & Casino games to the sharp rise of Casual games and even Social Media, Digital Entertainment has landed on our player’s radar and is capturing valuable ‘share of time’ in the lives of our players. I firmly believe that competing in a relevant way in this space is our real future opportunity. By having Instant Scratch Cards available online, delivered in a manner that respects player’s expectations for that medium, we can follow consumer preferences in the transition from paper to digital. And the best part is that these transactions could occur in a system that offers strong RG control services to our player.

Do you feel that there is still lots of room for game design in the traditional games to keep the consumer engaged and excited?

J.M. Landry: Without a doubt, yes! Being in a very competitive category from a vendor’s standpoint, we as lotteries can benefit from a number of product innovations that are brought forward by these vendors, but also from each other’s efforts. Through our ILC partnership with other Canadian lotteries, we host round-table meetings each

year where each lottery openly share. This forum acts as an amazing source of ideas and opportunities that each lottery brings back to their region to maximize consumer interest. We also look at our US and world-wide peers for best-in-class ideas such as the recent trend in Spotlight games. Overall, we like to believe that we share as many of our ideas as much as we borrow others, but the ultimate measure is how the ideas we choose to bring to market result in revenue growth.

How will implementation of new distributional channels impact sales? More bluntly, can some measure of sales growth be achieved with increased consumer access alone, or is creative game design a necessity?

J.M. Landry: Personally, I believe that future incremental growth will be driven by relevant access expansion, which is ultimately a combination of access and game design. While this may require capital investment to support new distribution tools, the cost of not competing and participating in this space far outweighs the opportunity cost of not doing it, or waiting to do it. By “relevant,” I mean that some access expansion may be done most relevantly at retail, through different store types

and different vending devices. Other expansion may be completely different, as is the case with what is offered in the Digital space.

As an example, I personally believe that the mobile phone will eventually become the player-preferred device through which Instant games are delivered in the future. When you think of it, the smart-phone offers many similar characteristics to the paper based scratch card: it’s portable, it’s tactile, the user experience is ‘finger tip optimized’, and the games can be played in a short duration. To me, it’s not a matter of “if” smart-phones are the way to go, it’s a matter of “how fast” can we be available in this space. And the trick, in this case, is that copying the scratch ticket experience perfectly on a smart-phone will not be enough. Proper execution in this area will require games to respect user experience elements offered by smart-phones, at minimum using sound and animation to deliver a relevant gaming experience.

It seems like some games end up with more clever promotional campaigns than others. Or does the game design itself drive the promotional campaign?

J.M. Landry: The Scratch’N Win category lends itself very well to fun & engaging promotional campaigns that can spark the imagination of our prospective players. So by that angle, I certainly believe that there’s tons of opportunity to engage prospective players through insightful campaigns linked to fun tickets.

That being said, the current world of business requires that we act with fiscal responsibility over and above all. What this means is that we must constantly be on the prowl for advertising strategies that deliver business value while respecting our social responsibility values. The advertising landscape is an absolute mess and we have to make sense of it all. We have to be strategic in our selection of media and test-measure-repeat as much as we can. As an association of peer lotteries, this means we need to continue sharing success stories and best practices so that our sister lotteries can implement them in their regions to responsibly maximize their shareholder returns. Game design, advertising and promotion, distribution ... we need to be firing on all cylinders equally, innovating on all fronts, to keep the consumer engaged and the business growing. ♦

Play Station Kiosks

Lightweight

Sturdy

Environmentally Friendly; Recyclable

Durable Extruded Aluminum Frame

ADA Compliant

Versatile!

- Double or Single-Sided
- Silver or Color Frames
- Custom Storage Options
- Add Shelves, Dimensional Signs, Headers, Snap Frames, Literature Holders, Pencil or Scratcher Cups, Trash Receptacles... Configure to Suit Your Needs!



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