

The Key to "Instant" Success – Lottomatica Grows Instant Ticket Business by 3,500 Percent

Marco Sala, Managing Director of Italian Operations for Lottomatica SpA.

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Marco Sala

The great nation that brought the world Leonardo DaVinci, Christopher Columbus, and Pavarotti – among countless other inventions and cultural achievements – is also setting a new pace for lottery performance. Well aware of global best practices around the world, Lottomatica is achieving astonishing results with instant ticket sales – an area that has not traditionally been as successful in Europe as in the U.S. (except for La Française des Jeux in France).

LOTTOMATICA

The story of Lottomatica's success is even more remarkable when you consider that as recently as 2002 the operator of the Italian national lottery offered

just one game – Lotto – to its players in a country slightly larger than the state of Arizona in the United States. Diversification was the key growth driver for Lottomatica. Today, Lottomatica offers a fully diversified portfolio, including sports betting, gaming machines, Internet, and the fastest growing element of that portfolio: instant ticket games.

Instant tickets – known in Italy as "scratch and win" tickets – were first introduced by the Italian government in 1994 and yielded in 2003 (their last year of direct management) just over €220 million in sales. Lottomatica began operating the exclusive concession to sell instant tickets in June 2004. In just three short years, Lottomat-

ica transformed the Italian instant ticket business into a €7.9 billion business achieving, by far, the number one ranking in the world. The answer to how they achieved that success lies in a systematic approach that serves as a best practice model from which all lotteries can benefit.

"When we took over instant tickets in Italy there was not a fairly simple recipe for success. In fact, we were taking over a business that had been decreasing for the last seven years," says Marco Sala, Managing Director, Italian Operations for Lottomatica. "Our approach is based on global best practices analyzed and adapted for the Italian market, and a thorough analysis of the key components of the instant business: price points, payouts, market research, POS display, advertising, promotion, and a significant expansion of the distribution network. Taken individually they may not seem important, but collectively they are powerful agents for growth."

The thorough review, infused with knowledge gained from visits to four U.S. lotteries and two European counterparts to see how they operated their instant offering, set the stage for a comprehensive re-launch of Gratta e Vinci as a brand platform for their instant ticket offering.

How did Lottomatica achieve nearly a nearly 3,500 percent increase in sales in just three years?

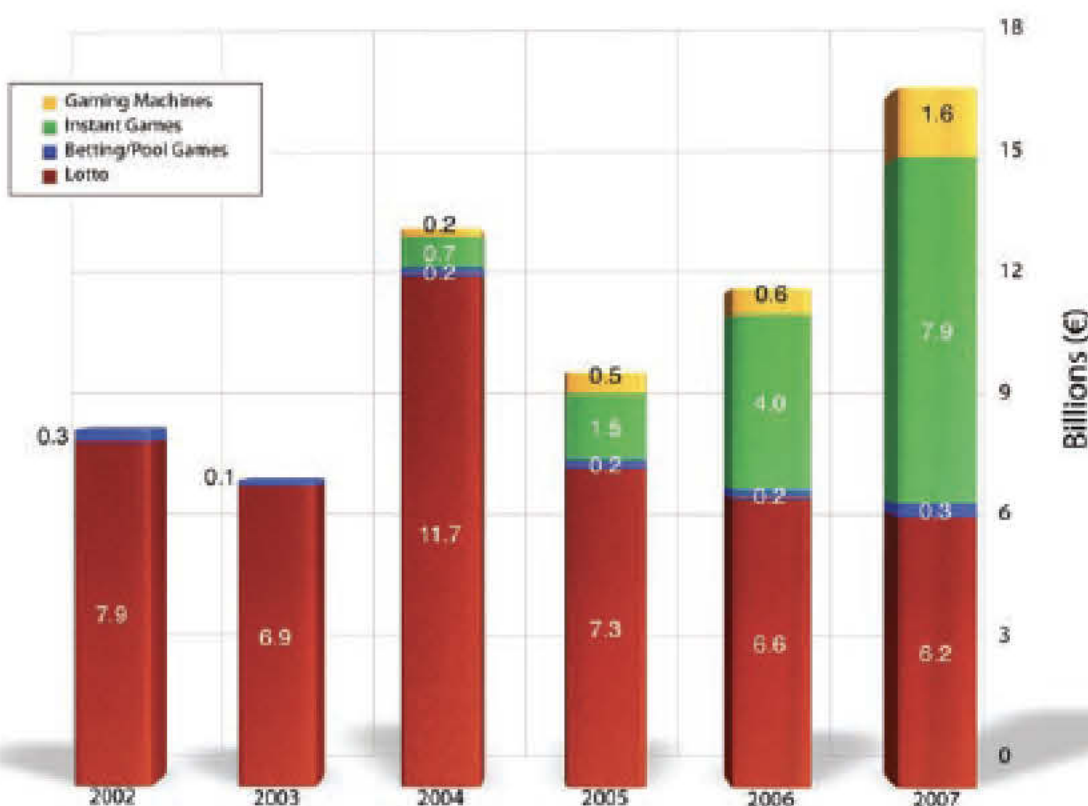
A Global Viewpoint

The basis for success was predicated on a look far beyond Italy's borders to find out what other lotteries were doing to be successful.

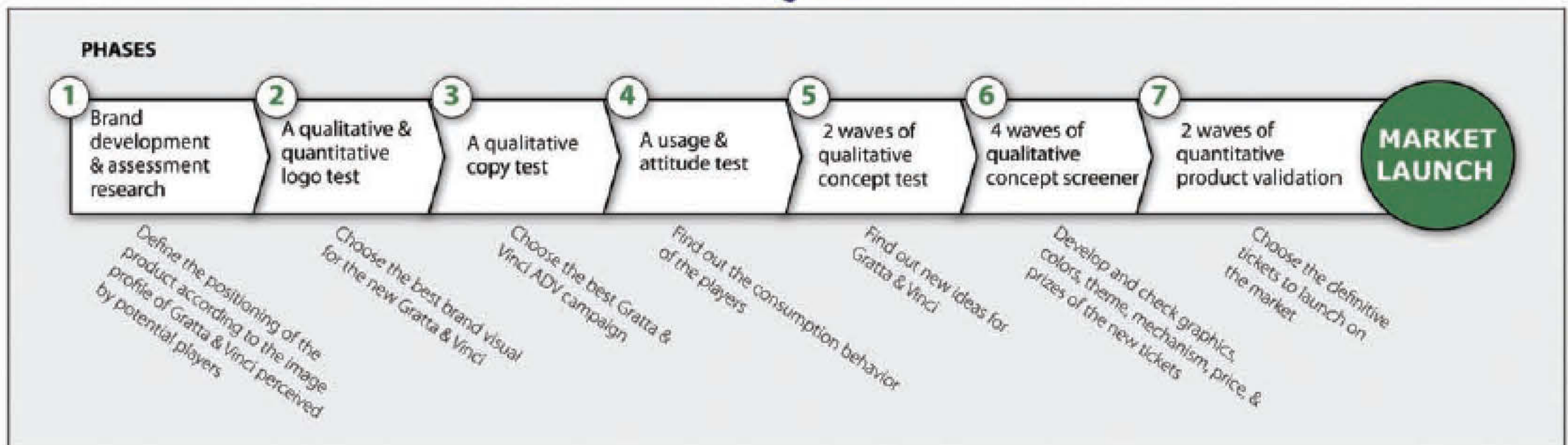
"I would say that we studied more in the past what was going on around the world and I think we were able to review all the experiences others had had and put them in the proper fashion for the Italia market," Sala said. "Recently GTECH provided us with further opportunities to understand the best practices around the world because they have managed these programs for so many lotteries."

The exploration of how numerous lotteries around the world operate helped Lottomatica determine how it would restructure itself in the re-launch of Gratta e Vinci. After significant global insight, Lottomatica ultimately settled on a specific model for the Italian market partly resembling that of their neighbor to the north.

"We saw that one thing American lotteries do is field lots of products, even up to 50 different products at a time. They renew products often, with very short life cycles and new product launches happening almost every week," explained Andrea Faelli, Sales Director for Lottomatica. "In France, they had something like 12 or 15 products on the shelves and at least half of them



MARKET RESEARCH MODEL FOR



were positioned there for years. Half the line delivered a predictable, safe return. Then they experimented with the other half. This is what we decided to do; go more with the French model rather than the American model. So now, for instance, we have about 16 products on the shelf, divided into five different categories. And two of the products that we launched in June of 2004 are actually still there."

Research Player Demands

It is a fairly simple premise, but one that is all too often ignored by lotteries around the world: if you want to know what players want, all you have to do is ask. Not Lottomatica, which engaged in full-scale qualitative and quantitative assessments of its player base to determine how best to meet the demands of Italy's lottery players.

That information process did more than help to define a brand platform that would appeal to players; it also told them specific steps they could take to make the instant ticket offering more appealing to players.

"For example, we redesigned the tickets, making them more fun and exciting and at the same time, more relevant to our country," Faelli said.

Closely Analyze Price Points and Prize Payouts

When Lottomatica assumed responsibility to the Italian instant ticket lottery they began launching two price points – €1 and €2 tickets. By gradually introducing higher price points – first €3, then €5 and now the highly successful €10 tickets – the lottery was able to segment the market and position the different games to suit the needs of different player profiles.

The next item – re-working the existing prize payout structure from 45 percent to a proposed 70 percent – required more than solid market analytics. It required the full faith and credit of the lottery operator to make it happen.

"When we started out our average payout when we took over was less than 45 percent. It was very difficult, but we convinced the state Minister of Finance that if we increased the payout, that it would be good for the game, good for the players, and good for the profitability of the game to them. We took an educated risk based upon our expressed intention to fully

execute global Best Practices that the return to the state would increase. It did."

Advertise the Products and Spruce Up the POS

The lynchpin of the successful re-launch of Gratta e Vinci was the time and resources devoted to advertising and promoting the instant games, including paying particular attention to the point of sale (POS). After all, what good does it do to completely re-engineer the instant ticket offering if the players have no way of knowing how much better the games are?

"We made a significant above-the-line investment to build strong brand equity in Gratta e Vinci and to create high awareness among players of what we offered," Sala said. "We launched a very focused and effective advertising campaign that achieved very desirable results and helped to increase awareness of the offering."

But that was not all. Clean, exciting POS displays were created to make sure players could easily find the products – especially important because the lottery won concessions to expand into even more retail environments as part of a larger distribution expansion effort.

"Once the product is well positioned in terms of price, place, product design, well communicated, then it's just POS and customers... you find it you buy, and you keep on doing it and you tell your friends about it, even meeting them at the store at certain times of the day, you create a momentum or cycle that supports and reinforces itself, and generates even more interest in the games. That's how we went from going from a few people to over 14 million people playing," Faelli offered.

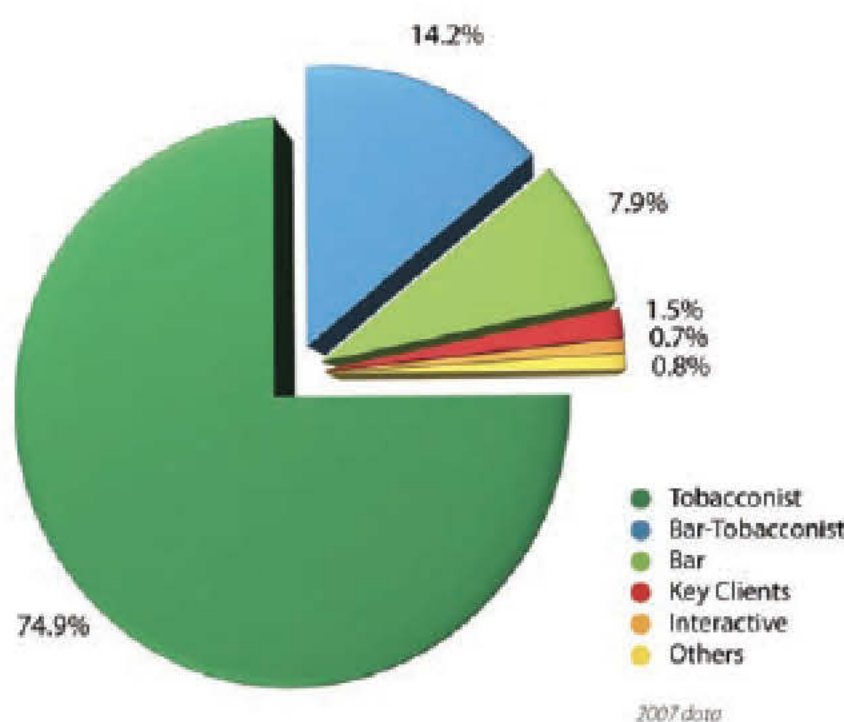
Expand the POS Network

When Lottomatica began selling instant tickets it started with a network of 19,000 POS locations. Recognizing that enlarging the POS distribution network – both in terms of sheer numbers and in terms of location types (tobacconist, bar-tobacconist, bar, Interactive, etc.) – was an essential component of the growth plan, Lottomatica quickly expanded the distribution network to more than 45,000 POS.

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SALES BY CHANNEL



"We recognized very quickly, and devoted a great deal of energy to it, that enlarging our distribution footprint was extremely important if we were to realize our goals for increasing sales," Sala said.

Lottomatica believed so strongly in the importance of the POS environment that it added an external agency on a temporary basis with more than 100 people who visited more than 30,000 POS locations to check on the selling environment and teach retailers how to improve the visibility of the product.

Appeal to National Interest in Sport

In addition, the lottery enhanced distribution by adding lottery-sanction sports wagering in numerous sports betting parlors, as well as other locations throughout the retail network, appealing to the significant national interest in sports betting.

How successful has that venture been? In just four short months – and competing against several established sports wagering opera-

tions in the country – Lottomatica is the second largest operator of sports wagering. In that same time period, the lottery achieved 12 percent market share from more than 1,000 sports wagering POS locations. Over time, and with exploitation of the POS footprint for sports betting, the expectation is that business will grow significantly in the coming years.

Importantly, unlike instants which succeed on the basis of numerous non-competitive factors (play style, price point, prize payout, and POS visibility), sports betting is a more competitive environment, with entrenched competitors and variable offers ("best odds") in an inherently more limited distribution footprint. Player research was the key to the successful sports wagering launch by Lottomatica, permitting the lottery to instantly offer a highly competitive product with the trust and comfort that is associated with a government-regulated entity.

Harness the Power of the Internet

More distribution expansion came in perhaps the most powerful form possible – the seemingly endless power of the Internet. Again, by specifically tailoring the games offered on the Internet channel and by effectively promoting the easy access to the games, the Internet channel was an instant success.

"Our Internet channel launch was quite interesting because in a year and a half we achieved similar results to the very successful UK and French operations in terms of instant ticket product sold through the Internet. In a very short period of time, we reached a strong level of distribution through this channel," Sala offered.

The Lottomatica Internet offering is much more expansive than the Gratta e Vinci instants line; it includes also sports betting, and offers the potential for skill-based offerings in the future.

"It is perhaps the most exciting new frontier for us and we are very enthusiastic about what it may yield in the future," Sala said of the burgeoning Internet channel.

The success of Lottomatica is more than the perfect marriage of good strategy and even better execution. It is a good illustration of the impressive results that are possible when the world's largest lottery operator and the world's largest lottery platform provider work closely together to develop and execute end to end solutions.

"This was one of the reasons for the acquisition of GTECH; it offers a truly unique international platform, and the fact is, their platform is a fantastic platform," Sala said. "We have already benefited by this combination in Italy; GTECH has benefited as well, in terms of our competencies and are now able to provide their customers with our hands on experience. That, I think, is one of the interesting experiences worldwide and something other lotteries can learn from." ♦

