CELEBRATING TWO DECADES OF THE BIGGEST LOTTERY MARKETING TRENDS

Ray Bates Keynote EL/WLA Marketing Webinar, 2 Feb 2022 Ray Bates is the former Director of the Irish National Lottery, former President of the EL, and now Honorary President of EL

For WLA Members, this 20-year period was book-ended by the Y2K fears (remember back in 2000 when the date clocks in all computers switched over to 1 January 2000, and the world was supposed to stop) and Covid in 2020 … when the world actually did stop. For EL Members, this 20-year period is also neatly book-ended by the Introduction of the Euro in 2002 and Covid in 2020 (with a financial meltdown in the middle – in 2008). On the technology side, while Amazon and Google were already up and running in 1994 and 1998, and the first Bloggers appeared in 1999, the social media landscape certainly exploded in our 20-year period with

Facebook 2004, Youtube 2005, Twitter 2006, Instagram 2010, "Influencers" 2015, and Tiktok in 2015.

But, back to 2002. The changeover to the Euro for the 12 initial States and the 7 subsequent States who joined at later dates caused major upheaval for the Lotteries concerned. Why? Well, the entire portfolio of games had to be redesigned, realigned, and repriced for the new currency. The desirability and use of unitary pricing for the most part also caused difficulty in choosing appropriate price points. The Irish Government, for instance, was so obsessed with not adding to inflation at the changeover that we ended up with a lotto panel priced at 95 cent. Can you imagine how much we begged the Minister for Finance to allow us to round the price up to 1Euro? So, as a direct result of our most unfriendly price points, our sales in 2002 fell by 0.9% for the first and only time in my 18 years as Director.

PRICE POINTS

All of this shows the importance of developing a strategic approach to managing price points …which leads to one of the first important trends over the past 20 years: the continued player interest in, and sales growth in, scratch card sales mostly driven by a gradual increase in the choice of scratch card game price points.

While scratch cards can sometimes be viewed as the "poor relation" of our family of games, we know just how important they are in some jurisdictions, particularly in North America.

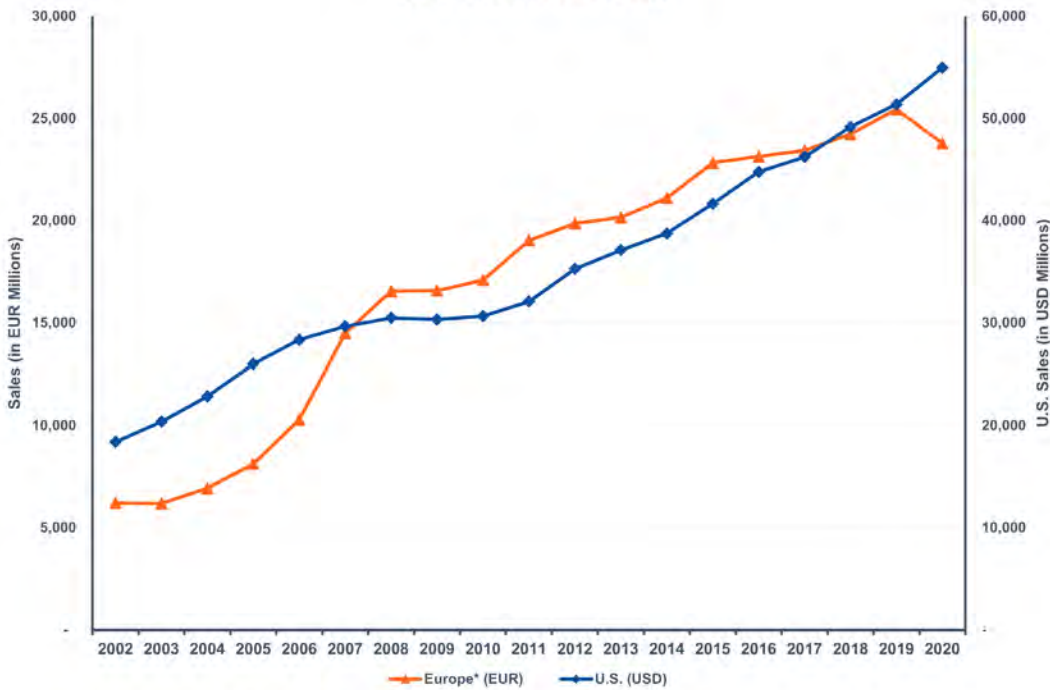In 2021 62% of total lottery sales in the US were from scratch cards.

In 2020 30% of total lottery sales in EL Members were from scratch cards.

And the 2021 figure of $65B sales in the US represented an 18% increase on fiscal year 2020 … and all this in the height of a pandemic.

2002 - 2020 Instant Sales

Source: IGT Marketing Intelligence; La Fleur's Almanac; Worldwide Master Sales spreadsheets for Calendar Year 2002-2020
*Top 15 European Instant Lotteries with Italy Loterie Nationale (EUR)

This graph of scratch card sales in EU and US 2002 – 2020 is impressive.

You can see the very strong growth in sales of scratch cards, both in the US and Europe.

But this is not an exclusively North American phenomenon. In France the percentage of their total sales from scratch cards was 62% for the first half of 2021.

In Italy, Gratta e Vinci instant games launched in 2004 and the product category grew to more than $10 billion in annual retail sales by 2018, a more than 23% compound annual growth rate … mainly driven by introducing higher and higher price points.

Guesses please, on how long it will take to see the launch of a mainstream $100 scratch card…

DRAW BASED GAMES

Our second big trend concerned Draw Based Games (DBG).

We saw many changes in domestic Lotto Games - increasing price, adding extra draw nights, and adding extra features such as Megaplier, raffles or add-on draws … but the big change in our 20 years was growth in Multi-jurisdictional games.

While the original Powerball and MegaMillions have been around since 1992 and 1996 …we saw a major acceleration of North

American Multi-jurisdictional Games development with the introduction of cross-selling in 2009. Before 2009, each U.S. lottery sold either Powerball or Megamillions, but not both. Now all U.S. lotteries sell both Powerball and Megamillions.

While in Europe we saw the introduction of Multi-jurisdictional Games with Euromillions launched in 2004, followed by Eurojackpot in 2012. Both of these games had a significant impact on the sales figures in all participating jurisdictions. But they also posed a serious Marketing problem … or "positioning problem" … for the domestic DBG market in each of the participating countries.

These games were also responsible for the most noteworthy (or headline grabbing) DBG development in the 20 years, with the $1.6 Billion Mega Millions Jackpot in October 2018. This came from the North American model –similar to the Australian Oz Lotto – where the Jackpot is not capped. As we know, the European policy is to cap Euromillions or Eurojackpot Jackpots at a certain level to moderate the growth of the Jackpot. I have always argued for the European approach … but then who is to say what is right?

Just a passing reflection on the top or call-out prizes: In 2002 there was a clear separation of DBG's from Scratch Cards. This is best represented by the slogans which went "A Lotto win will change your life – a scratch card win will change your day". By 2022, with scratch card top prizes as high as $10million, or £4Million in the UK, this simple rule is beginning to look like a sad anachronism … and the drive for bigger and bigger call-out's on scratch games top prizes is destined to continue.

While this may be a trend, it is one of which I would not be a fan.

Sports Betting

In May 2018, the US Supreme Court overturned a 1992 law that prohibited states from legalizing sports gambling. This opened up the possibility for states to authorize their lotteries to enter the sports gaming market. Many States in the US are

From Retail (Line) to Online

In 2020 EL Members generated online GGR of €3.6 billion, representing 12% of total GGR in 2020 and a 25% year-on-year increase.

now regulating sports betting – or have legislation to allow betting on their books or waiting to be passed. Watch this space to see how this very special market develops.

SALES TO GGR

Another interesting change during the period might be glossed over as a simple accounting matter. But underneath it lies a significant development. There has been a move to reporting ticket sales figures in GGR (Gross Gaming Revenue) rather than straight Sales figures.

This change is a practical response to the changing product mix of lottery games. The more extreme representation of this would be when Veikkaus merged with ray (the Finish Slot-machine Association) and Fintoto (horse racing) in Finland in 2017. How could you possibly add together the sales from these three companies? It also reflects the general upward drift in % prize return to players and the move to integrate slot-type games with very high pay-out games. Of course, given the higher margins of traditional lottery, GGR also more accurately reflects the immense difference between lottery and all other games-of-chance sectors when it comes to net financial benefits to society or good causes.

Interestingly, in a related development, those administrations offering licences or private management contracts to third party operators are gradually changing to using percentage of GGR rather than Sales as a payment basis.

CSR-RG

Speaking of higher prize payouts and faster games bring us neatly from GGR to RG (and CSR)

Responsible Gaming

EL and WLA Certification started in 2008 and we now have almost 50 certified lotteries in Europe and over 100 in WLA. During this period, Lotteries began to realise that there was a business case to be made from Responsible Gaming.

The recent introduction of mandatory certification for all EL Members by 2022 is a sign of commitment to the certification system.

MOVE TO ONLINE

The trend of a move from retail to online over the 20 years hardly needs reporting. In 2002 there was very little online business being done by lotteries. Now there are some lotteries where more than 50% of their business is online and, during the pandemic, there has clearly been a shift to online from the retail channel. According to recent data from IBM's U.S. Retail Index, the pandemic has accelerated the shift away from general physical stores to digital shopping by roughly five years for what would have previously been one year's migration.

This leaves the difficult task of forecasting the behaviour of the Covid recruits to online gaming as things return to "normal". Will they behave as regular online newbies in the rate at which they

gradually tire of the new channel and revert to their old ways of playing? Time alone will tell. But one thing is sure … online playing will continue on its inexorable growth path.

RETAIL

Retail has undergone serious change in the 20 years. It has moved from traditional to e-commerce to MultiChannel to OmniChannel. I am not personally comfortable with this latter term. I have difficulty with the term OmniChannel as I do not believe Lottery at retail is the same as a Macys or a Zara. We do not have showrooming of lottery products … to try them out …and we do not need to have the ability to return purchases to different purchase points. But we do have a development where a player could "buy" tickets at retail and "play" them later online. We also have the possibility of extended play by allowing play to happen either online or in retail outlets. I am happier with the term digitization of retail, or "phygital" … a term FdJ has adopted to describe their developments in this space. I believe this model more accurately represents how the player journey should be enriched and managed in the new retail space.

Contactless payments and other innovations introduced by necessity during the pandemic will continue to offer an enhanced service to players at retail.

In-lane selling is beginning to have traction, with even the German discounters beginning to accept lottery at the tills. The

In-lane sales

reluctance by some lotteries to print lottery tickets on non-lottery paper stock at supermarket tills is gradually being overcome.

ADVERTISING

The classical and simple analysis of the changes in advertising over the period would be explained by a move from functional to emotional advertising. The Cadbury "Gorilla" TV ad from 2007 (**https://www.youtube.com/watch?v=NHtEyDrD4oA**) which resulted in a sales increase of 10%, and the two other ads from Norsk Tipping (**https://www.youtube.com/watch?v=2keNtOwZrnY**) and EL Gordo (https://www.youtube.com/watch?v=F-mgDksIoh0) are two of my favourite lottery ads from the period … neither of which look very happy (for lottery ads) but those of you who know the ads will know just how they pull at our heart strings.

In preparing this paper I asked the ex-CEO of the Irish Advertising Agency that we used in the Irish Lottery (and who is now a professor of Marketing in one of our Universities) what he saw as the main advertising changes over the period and his answer was brief … "Ads", he said, "have simply become less effective". Admittedly, apart from being a cynic, he is a person obsessed with the effectiveness of advertising. So, while "Charlie Bit My finger" may have had 800 million views on Youtube in the past 14 years …what other effect has it had? Or the recent guy on TikTok on a skate board in Arizona lip-synching to Fleetwood Mac and drinking cranberry juice … has the cranberry juice company sold more product?

So, while social media as a marketing tool may be mesmerising 20-something year-old advertising creatives … my Professor of Marketing believes the problem is that they only have a time horizon of one to two years and want to get a quick win and move on to their next agency … without a thought about building long-term value for their brands. It is all about the next tweet and keeping up with the competition.

This might be seen as a cynical view … or it might be exactly on the money. Who knows? One interesting FACT, however, is that Google ad revenue rose from an annual figure of $0.4b in 2002 to $147B in 2020 … up by a factor of 365.

At the beginning of our period, Brand building consisted of companies working to give their Brands specific values that they thought were important and communicate them to their customers in interesting ways. With the development of social media, cultural communities or "tribes" in this new space were empowered to turn off ads; ignore corporate messaging and create their own view of the world of corporate brands. So the task of marketers now is to identify these Brand communities; form relationships with them and interact with them as much as possible. But, let's be very clear … this is not the same thing as simply hiring "influencers". This phenomenon is sometimes referred to as "Cultural Branding". I'm not completely happy with this term, but I think you get the message. This approach is particularly relevant as we emerge from the Pandemic. According to the experts, in times of crisis we fall back on "culture" as a way of making sense of our new reality and what our players now need most of all is reassurance and authenticity.

Two final trends that are worth noting …
Draws and Market Research.

As lotteries introduce more and more draws and, as we witnessed during the pandemic, the importance of having an alternative or backup method of producing our results is vital … there is now an almost inevitable move to RNG-systems.

I used to be a firm believer in the value of physical draw machines – where players could witness "chance happening", but I am changing my views on this matter.

For example, the live draw for EuroMillions (carried out in Paris) is not broadcast "live" by any of the participating lotteries. And I see the need for electronic draw systems to produce results for the more frequent draws that are becoming more and more common. For example, Cash Pop, a new game that is gaining in popularity in the US, needs 5 drawings a day. This is simply impractical or infeasible with the full rigors of a formal physical draw process. So, changing requirements and more robust and auditable RNG systems will convince more and more lotteries to embrace this change.

From Market Research to Big Data and Data Analytics

With the advent of Big Data – a term born in the early part of our 20 years – and Data Analytics – a term that has been around for many years, but whose time has now come – there is a whole new way of analysing behavioural data to provide reliable models for predicting consumer tastes trends and behaviour. In 2002 you or your market research company developed a set of questions; surveyed a sample of the market and fed back information on which you based decisions about a price increase or whether to launch a particular new game. Using Data Analytics you can now have much deeper data, better analysed, which enables you to develop a relationship with your players and move from just analysing behaviour to suggesting purchasing behaviour …

It has moved on from

"If you like that, you might like this" to

"People who bought the games you play also played this new game" or

"People like you, with your profile, also bought this new game"

So, to finish …

When you review all the changes in our sector over the past 20 years, I see very strong evidence of resilience, innovation and creativity. The lottery sector is sometimes criticised for not being innovative enough. I normally defend the lottery position by pointing out that true creativity comes from a process with constraints. We have Regulators; we have Responsible Gaming, and we have our "for the good of society" brand values to sustain.

We are not free to do whatever we like.

However, sometimes it's good to be in the box to be able to think outside it.

As Leonardo da Vinci put it

"Art lives from constraints and dies from freedom"

Bring on the next 20 years!