

PGRI LOTTERY EXPO & POST-COVID19 LOTTERY: THE MOVIE

Executive Summary of SWOT: Strengths, Weaknesses, Opportunities, Threats Roundtable



SWOT ROUNDTABLE LEADER:

May Scheve Reardon, Executive Director, Missouri Lottery, Chair of Powerball Group

PANELISTS:

Gretchen Corbin, President & CEO, Georgia Lottery Corporation

Rebecca Hargrove, President & CEO, Tennessee Education Lottery Corp. and President of the World Lottery Association

Gordon Medenica, Director, Maryland Lottery & Gaming and Lead Director of Mega Millions

Drew Svitko, Executive Director, Pennsylvania Lottery

Bret Toyne, Executive Director, MUSL (Multi-State Lottery Association)

HOW DOES THE LOTTERY INDUSTRY LOOK THROUGH A SWOT ANALYSIS? Roundtable Leader May Scheve Reardon introduced this session with a discussion about the renewed importance of strategic planning in these challenging and uncertain times, engaging panelists to address: How can the SWOT method for systematically assessing the lay of the land and designing action plans to optimize performance and results, be applied to guide us in the post-COVID19 world? How might Team Lottery identify and leverage its strengths and mitigate its weaknesses; capitalize on opportunities; and prepare for threats to its business model? And how might SWOT be applied to optimize performance of the National Games – Powerball and Mega Millions.

Businesses have been using SWOT – Strengths, Weaknesses, Opportunities, Threats – analyses for decades to help them develop an awareness of all the factors in making business decisions. Often, this takes place over the course of many months, perhaps even a year.

But in 2020, when our entire existence has shrunk to the four walls of our houses (or at least our home offices), a SWOT analysis for the lottery industry can apply to a time-frame of just a few days and change just as frequently. Such is the nature of a business that relies on people being mobile and visiting retailers as well as staying at home and engaging on their phones or computers.

On the surface, identifying the points under each SWOT attribute does not seem too difficult. But truly dissecting a SWOT analysis of the lottery industry requires a

view from the trenches AND from 30,000 feet. Often it is lottery directors who work on both their individual lottery issues and industry-wide issues who can provide the greatest insight.

“This has certainly been the most challenging year I have seen in my many decades in the lottery industry,” said Rebecca Hargrove, President & CEO, Tennessee Education Lottery Corp. and President of the World Lottery Association. “One of the strongest assets of this business is our ability to collaborate and that has certainly been altered since March. We’ve lost that face-to-face contact which has always worked so well for us.

“But if anything, this business is resilient. We have fought back from economic downturns and attacks on our products and how we earn revenue. One of our strengths

is working together and we have managed to do that, even if we’re not in the same room.”

As President and CEO of the Georgia Lottery, Gretchen Corbin has encouraged teamwork to her employees during these unprecedented times. It’s a difficult message to convey when your employees are spread across a large state, but they have responded admirably. And Gretchen sees a similar “we’re all in this together” attitude as one of the strengths of the larger industry.

“We all share the common goal of raising revenue for our states’ beneficiaries which makes information sharing much easier,” she said. “And of course, we’re joined by various multi-state games and we really need those to work to help with our success. So we have more in common than not.

“One of the things that helps me is the ability to call a colleague in another state

and ask for advice. There's very little that happens with our lotteries that hasn't taken place in another jurisdiction, so getting another director's take on a situation is helpful. We're better as an industry when we all work together and help each other out."

Gordon Medenica, Director of the Maryland Lottery, identifies the ubiquity of lottery products and their impact on people as two important strengths.

"Humans have a fundamental need to dream, to believe there is something better for them in the future," Gordon said. "That is one thing we provide, and we sell it in so many different ways. Another strength is the number and variety of different games and distribution methods. We meet the needs of the widest spectrum of consumer profiles and different needs.

"As an industry, we're good at determining which products are best for which audience and what is the optimal time for distribution. And we're able to show incremental growth year after year. It's a strength and something we should be proud of."

As Executive Director of the Multi-State Lottery Association (MUSL), Bret Toyne works with ALL states, so his view of the industry's strengths is much more national.

"We have a terrific variety of organizations, whether it's the Mega Millions Consortium, MUSL, NASPL, and then of course our business partners," he said. "And then we have a great diversity of leadership, people from different backgrounds who bring different perspectives to our groups. While at times it can be challenging as everyone has different stressors on them, I definitely see this as a strength."

But drilling down on the word "challenging," making the multi-state organizations operate efficiently can also distract lottery directors from their core duties. Perhaps not exactly the traditional definition of "weakness" but an issue nonetheless. "There's a number of issues on which most directors agree but at some point, we hit issues that are very different from lottery to lottery," said Drew Svitko, Executive Director, Pennsylvania Lottery. "That's where some of our more difficult discussions begin. It also takes a long time to move along projects in our industry so that can also be a challenge, especially with lotteries that have director changes.

"If there is one area of agreement it's that we need to aggressively manage and update our products moving forward. We can't let our products falter to the point where they are no longer relevant. Most of us agree with that but getting us to that point of agreement and action can take some time."

The improvements for multi-state games brought the panelists to the "O" – Opportunities. For one of those opportunities, the lottery directors are looking overseas to international sales of Powerball. As President of the World Lottery Association, Rebecca is keenly aware of the opportunities for brand expansion and raising revenue from new markets.

"This has been a labor of love, with the focus on labor, for the working group that studied the international expansion of Powerball," said Rebecca. "What initially started as a discussion on how to stop the illegal sale of

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our game has now grown into an initiative to sell beyond our borders. Of course, the best way to stop or at least curtail illegal sales is to give the consumer a safe and legal option to play. We'll start with the five Australian states and run a market test in April with Tabcorp. After that, we hope we can take the pilot to UK. On the opportunity front, this has great potential for the Powerball brand and our ability to increase revenue."

For Mega Millions, the opportunity lies with improving the game from within. The group that oversees that game, led by Gordon, is not looking to sell abroad. But many states are now offering Cash4Life, which is available every day.

Gretchen said that all of these opportunities, no matter how difficult to implement, need to be designed with one result in mind – driving revenue. After all, that is the mission of all lotteries.

"Whether we are a large group like MUSL or a smaller group like Mega Millions, we

exist to make money for our beneficiaries in the most responsible manner possible," she said. "I respect that all of us must consider what is right for our states. We also need to consider the players and what they want. All our deliberating will be a waste if the final decision doesn't work for players.

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"We have such great stewards in the industry, people like Gordon and Rebecca who have great experience and share it freely with others. We all want and need the multi-state games to succeed, and everyone is working on how to bring in that next generation of player. If we don't figure that out, the games are in trouble. And that is a major threat."

May concurred. "This is a weakness, opportunity and threat all rolled together. Our player base is older. If we don't add younger players our games will be in big trouble. These are the topics we have to hit next as a group as they address the future of our games and our lotteries."

Taking a page out of the instant ticket playbook, Drew said he wants to also look at the opportunity to push the price point of Powerball and Mega Millions. He sees this as an important opportunity.

"This might be the perfect time to launch that price point," he said. "We know from our research that players are fine with a \$5 price point. Can we take one game to seven days a week and other game to \$5? Those are some big moves but now is the time to consider the future of these games. One of our strengths is communications, so let's use it to address the sales issues of our games and look to increase the revenue of both games, which represents a big opportunity."

This is where Rebecca thinks international sales could play a roll, serving as a laboratory of sorts where ideas can be tested before being implemented in the U.S.

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“We’ve done a lot of testing and we know that Australia and the UK are ready for a \$5 price point and multi-day drawings,” she said. “It’s been 10 years since we started pressing the price point to \$2 in the United States. We will have a platform in Australia to test the idea of an increased price point and if it works, we’ll want to seriously consider the same move here.

Firmly in the “Opportunity” category is iLottery and all panelists agreed that if anything positive comes out of 2020, it’s that the digitization discussion within the lottery industry is in hyper speed. From robust features added to cashless purchasing to player clubs to full online lottery sales, all lotteries are having the internal discussion centered around “what can I launch and how soon can it be in the market?” Some states, like Maryland, are legislatively prohibited from selling lottery product online while others, like Pennsylvania and Georgia, have seen internet sales explode since March.

“In Georgia, we have worked hard to expand the ability to buy our products without cash,” said Gretchen. “It’s been a priority, both from a sales and safety perspective. And iLottery provides another safe channel for sales. We’ve grown the product 300% this year and while we saw growth throughout the first three months of 2020, certainly the pandemic was a major driver of this huge spike.

“My hope is that states like Georgia can assist lotteries that are pursuing iLottery and want to share with their stakeholders that adding this important sales channel will boost revenue without hurting retailers.

iLottery is not a threat to retailers...it is an opportunity for all of us to add new players, a younger demographic, and the overall lottery customer base. We need to get that message out there.”

While Bret agrees that the iLottery category is the future for the industry, he sees the current status of the channel as a weakness and threat as well as opportunity, all in one.

“MUSL’s product planning committee saw iLottery as an important channel many years ago and began to study the best course for lotteries,” he said. “But the scattered approach to launching iLottery is certainly a threat to gaining the new customers that will make it a success. It is a challenging category, it’s not like an instant ticket. You need people to take a number

of steps that sometimes involves alternate payment forms. It can be complicated, especially for a multi-jurisdictional implementation that would involve different constraints from state to state.

“At MUSL, we’re working on a three- to five-year plan regarding iLottery. What’s the national strategy that we can create to help lotteries more efficiently roll-out their own plans for the category? We have 48 lotteries with 48 different agenda and different priorities. But there are only a small number of vendors that are supplying these programs and only so many different ways to offer these games. If we start there, with a plan that begins at the ground floor, the opportunities become much more achievable.

Gordon said he is heartened that the industry, particularly the North American Association of State and Provincial Lotteries (NASPL), has answered the clarion call for iLottery and responded with support and forethought. The realization that this is not just a moment in time created by the pandemic, that iLottery is here to stay, bodes well for the expansion of iLottery into states beyond the handful currently offering these platforms.

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“NASPL’s pivot to education and continuing with seminars that provide lotteries with the information they need, especially with respect to iLottery, has been encouraging and helpful to this important cause,” said Gordon. “NASPL is a unifying umbrella organization for all of us and they have certainly embraced that role this year. We’re a business with consumer products but we’re also government agencies. Having NASPL serve as the entity that can focus on the business side while we handle the government side is incredibly helpful.”

An additional opportunity for some lotteries, a potential threat for others, is sports betting. The increase in sports betting has been eye-popping as it has eclipsed iLottery in terms of legislative

debates. Whether a lottery or another state agency is overseeing sports betting, all lotteries must monitor this additional form of gambling. This includes non-sports betting states with border states that allow it, as players may cross state lines to make their bets.

“Sports betting wasn’t necessarily on my radar screen a few years ago but it has been my primary work in 2020,” said Rebecca. “I’m the regulator for mobile-only sports betting which is now live in Tennessee. None of us knows what the threat will be to our traditional lottery products. But if sports betting is on mobile and lottery is not available on mobile, that is potentially a threat and is something that needs to be rectified.”

Staying with “threats”, Drew said he, like other directors, is concerned about the strength of the overall product mix. It’s been widely discussed that Powerball and Mega Millions have faced strong headwinds over the past year-plus. But other games have been impacted by the pandemic too, such as Keno which is primarily played at social settings. It’s troubling and needs addressing.

“In Pennsylvania, as with other states, strong instant ticket sales are masking other problems because they are adding so much to our top line revenue,” said Drew. “But we are seeing some significant long-term trends with our product lines that we have not had to address in depth because our overall financial picture looks strong. I’m certainly grateful that my instant ticket sales are so strong, as they are just about everywhere. But the

conditions that contribute to those sales are not permanent, so we have to figure it out sustainable solutions going forward.”

Closing out the discussion, Gretchen said that in this time of little travel and no in-person meetings, planning and communication is critical.

“Taking us back to the subject of this panel discussion, I love a good SWOT analysis and a good plan because it keeps us on a path to success,” she said. “We must also make sure we keep open lines of communication between our states. When we share information, we are better as an industry and as individual lotteries. Together we can identify our threats and weaknesses, focus on our strengths and act on our opportunities.” ■