

WHERE DO WE GO FROM HERE? LOTTERY INDUSTRY POISED FOR HYPERSPEED CHANGES

Jim Acton, Principal, Acton Strategies, Lottery Industry Consultant

More than 70 years ago, World War II gripped the entire globe. From the islands of the South Pacific to the farmlands of central Europe to the streets of London, the world's citizens were either directly involved in the conflict or had countrymen involved in the fighting.

The human toll of that war was great, and it took many countries decades to recover. But this momentous time in history also resulted in some of the greatest advances to society and our daily lives:

- **Computers:** They might have been the size of a classroom during the 1940s but the predecessor to what today fits in our hands got its start as technology to crack the enemy's "enigma" codes.
- **Penicillin:** With battlefield infections killing thousands of soldiers, the invention of penicillin helped save lives during wartime. It quickly made its way into society's medical treatments.
- **Women in the work force:** World War II provided unprecedented need for women to join the workforce and opportunities for women to hold jobs never before available. While many women lost their factory jobs after the war ended, more than one-third of women continued to work outside the home, and that trend accelerated into the 1950s.

Fast forward to 2020 and instead of a global war it is a global pandemic that has turned life on its head in all corners of the world. When COVID-19 is brought under control sometime in the future, what will be the after-effects? Will there be positive impacts like we saw after World War II?

It may be hazardous to speculate about an uncertain future, but here it goes:

- **Flexible workplace:** In March, tens of millions of workers were sent home as employers responded to government-mandated lockdowns. Now, many of those workers will permanently work from home, impacting how people work and where they live. And I do not think anyone expects that we will ever return to the traditional 45 hours of working in an office combined with jetting off to see clients three or four times a month.
- **Technology improvements:** No work-related travel meant a sudden demand for video conference capabilities. Tech companies responded with platforms that brought employees together to

meet, collaborate and succeed. We are just scratching the surface as "process engineering" will combine with technology to unlock powerful new productivity tools, methods, and infrastructures.

- **Focus on health care:** It is now obvious that healthcare is critically linked to national security, economic stability, and harmonious social fabric. Global governments will need to create health-care systems that focus on value-based outcomes, preventive care and technology.

One still-to-be-seen outcome is which corporate leaders will move us into this new era? Who is best suited to lead us in the healing and growth period that will follow, once COVID-19 is contained? It might be cliché to say that it will be the "disruptors" that rise to the top, but history has shown us that companies that fit into this category are best suited to change and be the catalysts for others to change. Some of the most important - and successful - disruptors offer products and services that are counterintuitive to who they are:



Could lotteries also become disruptors?

Short answer - of course. Actually, in many ways, lotteries have been leading disruptors in some states since March. While other state agencies were locked down, lottery employees were deemed essential personnel. While delays built up in the delivery of services to constituents amongst some agencies, lotteries shipped tickets and critical supplies to retailers and sales soared. And, most importantly to states, lotteries continued to drive revenue and deliver contributions to good causes.

Certainly, the pandemic has altered how many people – starting with government officials – think of lotteries. While other state employees were being sent home (and some are still home), a number of lottery employees continued to work from their offices. As we saw from the fiscal year results released in July, many lotteries enjoyed record-breaking numbers even as other state agencies, particularly those that rely on tax collections, posted huge drops. Suddenly, lotteries became THE revenue generators for states. Seemingly overnight, lotteries morphed into something resembling their private sector brethren.

When the final story is written on 2020 and the global pandemic, the list of winners will be long, with losers including some sectors important to everyone – travel, dining, indoor fitness, entertainment.

But the winners will likely win big – cleaning services, supermarkets, food delivery companies, streaming services, online retailers.

Look at Wayfair, the e-commerce company that sells furniture and home goods. In February, Wayfair announced that it was

laying off more than 500 people across the company as the result of a revenue downturn. Fast forward just a few weeks and from mid-March to the end of April, the company's stock surged 500%. As Amazon focused on the fast shipping of essential goods, Wayfair focused on other products that weren't a priority for Amazon.

The lottery industry's 2020 looks somewhat similar. Low jackpots were hurting Powerball and Mega Million sales and while instant ticket sales had continued to increase, lottery revenues overall were lagging in March. Conventional wisdom said that shelter-in-place orders would cause sales to plummet. And in some states they did, but only temporarily.

Even in a pandemic, people needed gas (convenience stores) and food/supplies (supermarkets). So two of the largest sources of lottery sales remained open in all states. Meanwhile, EVERY casino in the country was closed for a period of time and only re-opened at a staggered pace. For gamblers, the lottery was the only show in town.

With Challenges Comes Opportunity

Where do we go from here as an industry?

For lotteries, the past year has shown that their employees can be flexible and not only adapt to working from home but in many cases, thrive in that setting. This is something we've seen for decades in the private sector. Obviously there are some jobs that require a presence at a lottery office or facility, such as warehouse workers and employees who oversee the shipping of tickets and supplies to retailers. But with the ubiquitous application of technology,

many employees can do their jobs from any location.

As employees slowly return, they will see a different workplace than what they left in March. Contactless entry ways, reduction in the number of cubicles, and plexiglass dividers are among the visible changes they'll see. The changes they won't see are just as important - improvements in air quality management and overnight cleaning of facilities.

But could we see a lottery world with no primary corporate headquarters? Instead of one large office housing key departments, a lottery adds more regional offices for claims and sales support and many workers continue to work from home. In this case, IT would also play a larger support role as the remote workers need laptops and, perhaps, mobile "hot spots" for wifi connectivity.

COVID-19 has forced all of us to reimagine how we live and work. For business, it has accelerated trends that were already starting to gain traction. We have unique opportunities to improve our interactions, evolve our businesses and adapt to the new realities that will certainly continue once the pandemic has ended.

Digital – Dead Ahead

The betting money for lotteries is on a full leap into the digital world. While many lotteries benefited financially from the closing of casinos, the iLottery category actually delivers a better player experience than what is offered online by casinos. In fact, if you put the online gaming options offered by casinos and lotteries side by side, there are many similarities visually. One big difference – the financial payout to players is higher for lottery than casinos.

Currently, there are seven lotteries that offer online lottery purchases for their players. What's taken place with each of them since March is perhaps the preview to where the digital road will take many lotteries over the next few years:

Georgia (2012) – Georgia's iLottery program has grown exponentially under CEO Gretchen Corbin. Initially battered in the early days of the pandemic, the lottery rebounded in the final quarter of the fiscal year, which CEO Corbin attributes to the promotion of their online lottery offering. Final fiscal year profits soared to a record \$1.24 billion.

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Veikkaus' profit to decrease by an estimated 300 million euros due to the coronavirus this year

Ukraine Announces License Fees as per New Gambling Law

Ukraine's new gambling legislation would allow the functioning of ground casinos in five-star hotels in the capital city of Kyiv and four-star hotels in regions.

Italian regulator AgCOM is investigating Google Inc, Google Italy and Google Ireland for ranking foreign gambling operators in google search results.

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Michigan (2014) – Hailed as the lottery that showed that iLottery programs can be successful while not impacting the retailer network, Michigan's digital presence continues to grow. It is now a leading revenue driver for the lottery.

Kentucky (2016) – Kentucky's iLottery sales finished FY20 at \$45.0 million, an increase of \$18.2 million (68 percent). Online sales represent a modest but growing percentage of overall sales.

New Hampshire (2017) – New Hampshire saw online sales of e-instants increase by 92 percent and draw-based purchases go up 39 percent between March 21 and April 25. At the end of the fiscal year, online sales were up 110% over the same period last year.

Pennsylvania (2018) – With their average daily online lottery sales reaching \$3 million during the pandemic, Pennsylvania saw FY20 online lottery sales soar about 24 percent ahead of estimates.

Rhode Island (2020) – Rhode Island's iLottery program launched in May, featuring Keno and eInstant games. Last year, the lottery also launched sport gambling. Both are available through mobile apps.

Virginia (2020) – Virginia Lottery's launch over the summer exceeded the lottery's expectations. July and August per caps soared past other similar iLottery launches and the lottery added new games into September.

What's the Future?

Where will we be six months, one year, two years from now? Will there be double the number of lotteries offering iLottery? More?

UK: World famous icons of British tourism and entertainment at risk unless Government moves to support casinos

Some of Britain's most iconic casinos, who attract high spending visitors from around the world, are sitting idle whilst pubs and restaurants round the corner are open and doing a roaring trade.

World famous venues like the London Hippodrome in the city's West End and Les Ambassadeurs casino in Mayfair are among just over 100 venues in England expressing grave concern about their future following the announcement by the Prime Minister that casinos, which had been given the green light by public health officials to reopen on August 1st, should remain shuttered.

And will forward-thinking states create gaming structures like those that exist in Rhode Island and New Hampshire, where all forms of lotteries are controlled by the lottery? Governors and legislatures in those states realize that lotteries have the infrastructure and security to adequately handle expanded gambling. And perhaps most importantly, the lotteries have clearly identified good causes to which their profits are directed.

The New Hampshire Lottery – the first in the United States – is showing that, indeed, lotteries can do it all. With traditional lottery products rebounding after a difficult period at the beginning of the pandemic, New Hampshire's iLottery platform is gaining popularity as the lottery offers new content.

And the lottery's tentacles now stretch into sports gaming. DraftKings is the exclusive sports betting provider of the New Hampshire Lottery and launched mobile sports betting in the state on December 30, 2019. The first sports betting retail location launched on August 12 and the second facility opened on September 13.

Obviously, this arrangement won't work for all lotteries, especially those that already have gaming commissions which oversee casinos and/or sports gambling. But gradations of what New Hampshire is offering would substantially change the face of lottery gaming in the United States.

So let's start with iLottery because for many lotteries, that is the "lower" hanging fruit when it comes to online game delivery. Many gaming experts believe that risk-averse legislatures might lean more toward enacting iLottery, at least initially, because of the

Scientific Games Strengthens European Instant Game Business With Four-Year Dutch National Lottery Contract

The agreement may be extended by Nederlandse Loterij for up to four additional years. The program generated more than 28% growth in the Lottery's scratch card retail sales during the previous contract period (2015-2019). Since SGEP services began in 2011, Nederlandse Loterij's instant game retail sales increased 98%. Using data analytics and insights to responsibly maximize the Lottery's performance, SGEP manages every aspect of the instant product portfolio including game design, manufacturing, inside sales, warehousing, distribution and retailer programs.

reason just mentioned – experience, security and good causes. Additionally, the path to iLottery can be as simple as small changes to lotteries' enabling legislation. Then the lottery can figure out its own rules and regs governing internet sales.

Whatever the outcome of the iLottery debate, one thing is certain – the "blocking and tackling" of lottery will remain. Paper-based scratch tickets will continue as the key revenue generators. Draw-based games such as daily numbers and in-state "Pick" games will remain as the "oldies but goodies" with their critical base of long-time customers. Multi-state games such as Powerball and Mega Millions will remain as the most-recognizable brands which attract new and casual players when jackpots make their runs.

Like the duck that looks calm above the surface but is a flurry of activity below the surface, lotteries will continue to maintain business continuity to their retail network and customer base. Behind the scenes, however, is where the hard work is taking place. The payoff for states is that they can rely on lotteries for a continuing stream of revenue.

Indeed, as much as things have changed in 2020, some things remain the same. The lottery is a critical economic driver for states, retailers are the backbone of the lottery industry, and technological improvements are allowing the lottery to offer different avenues for players. This has been the successful formula for the lottery industry for more than 50 years and this dedication to service and performance will keep lottery relevant for many years to come. ■