CRUISING *INTO THE* TOP 10

Michigan's instants business is firing on all cylinders. The Lottery's commitment to innovate and its collaboration on strategy with longtime partner IGT has produced seven-year, double-digit growth, propelling the state from number 22 to number 7 in U.S. instant sales.
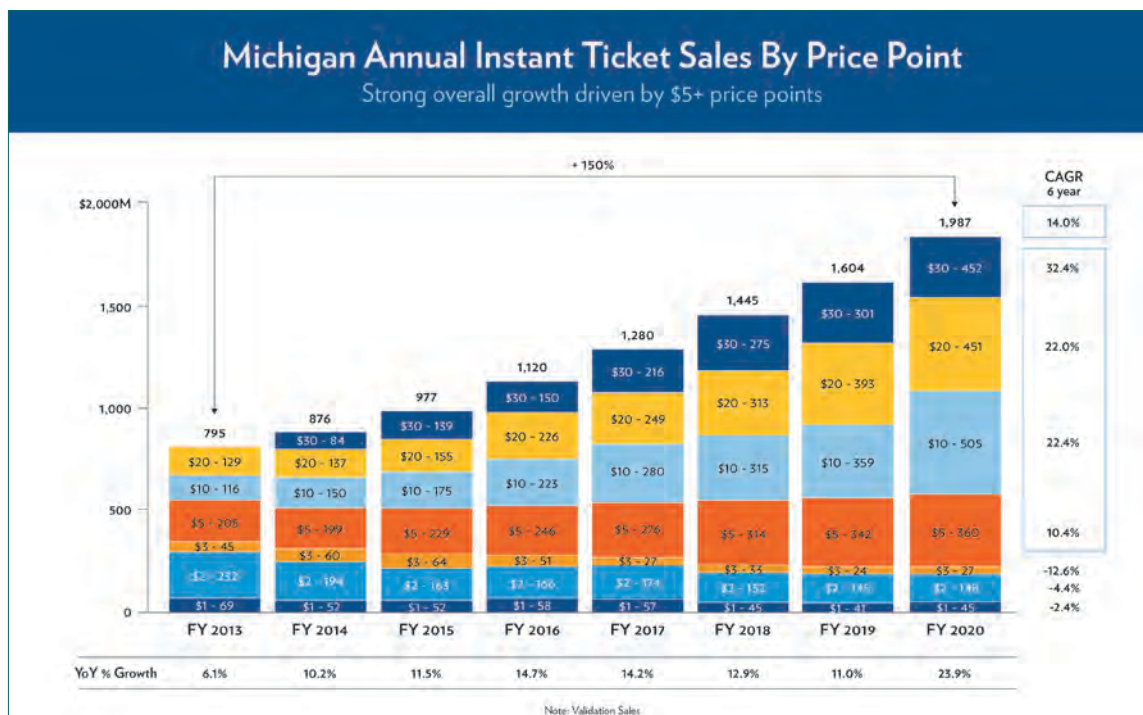
Advancing from number 22 into the top 10 in U.S. per capita instants sales isn't an easy or common move. Michigan accomplished that feat in the past five years by taking a broad view of its instants business and pursuing improvements on multiple fronts with longtime strategic-planning partner IGT.

From instant ticket planning and prize structure optimization to planogram development and changes in launch cadence, the improvements were extensive, but the key to success wasn't any single initiative. It was all the Lottery's actions working in concert to drive responsible and sustained growth.

Today, Michigan is among the country's fastest-growing lotteries, with seven years of double-digit instants growth and corresponding growth in gross profits in support of the state's education programs.

Michigan Annual Instant Ticket Sales By Price Point
Strong overall growth driven by $5+ price points

Price Point	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	CAGR 6 year
Total	795	876	977	1,120	1,280	1,445	1,604	1,987	14.0%
$30	—	$30 - 84	$30 - 139	$30 - 150	$30 - 216	$30 - 275	$30 - 301	$30 - 452	32.4%
$20	$20 - 129	$20 - 137	$20 - 155	$20 - 226	$20 - 249	$20 - 313	$20 - 393	$20 - 451	22.0%
$10	$10 - 116	$10 - 150	$10 - 175	$10 - 223	$10 - 280	$10 - 315	$10 - 359	$10 - 505	22.4%
$5	$5 - 205	$5 - 399	$5 - 229	$5 - 246	$5 - 276	$5 - 314	$5 - 342	$5 - 360	10.4%
$3	$3 - 45	$3 - 60	$3 - 64	$3 - 51	$3 - 27	$3 - 35	$3 - 24	$3 - 27	-12.6%
$2	$2 - 232	$2 - 194	$2 - 165	$2 - 166	$2 - 174	$2 - 152	$2 - 149	$2 - 148	-4.4%
$1	$1 - 69	$1 - 52	$1 - 52	$1 - 58	$1 - 57	$1 - 45	$1 - 41	$1 - 45	-2.4%
YoY % Growth	6.1%	10.2%	11.5%	14.7%	14.2%	12.9%	11.0%	23.9%	

+150%

Note: Validation Sales

HOW DID MICHIGAN DO IT?

A few years on from the 2008 recession, when the state's scratch ticket sales remained flat, the Lottery initiated a conversation with IGT that laid the foundations for growth. Michigan's Club Keno program and daily draw games were performing well, but, among other factors, the state's ratio of draw to instants games was about 70/30 when the rest of the country was closer to the reverse, or to an even 50/50. There was no doubt that more could be done to drive the state's instant ticket sales.

"The Lottery invited us to present ideas, given that instant average growth between 2010 and 2012 had been only 0.8%. We took a bottom-up analytical approach and left no stones unturned in identifying opportunities for growth," says **Stefano Monterosso, IGT Senior Vice President Lottery Product & Sales Development.**

"They gave us a quantitative deep-dive into all the data sets," says **Glenn Strong, Michigan Lottery Deputy Commissioner of Games & Marketing.** "The analysis was compelling and different from others we had seen. We didn't agree on every single recommendation, but the IGT team's presentation confirmed the growth potential and suggested some very sophisticated services that could complement some of our other initiatives."

Following that market review, the Lottery and IGT drew up a preliminary plan in 2012 and an initial set of recommendations. The relationship has continued to strengthen and evolve along with ongoing changes to Michigan's instants program.

By 2015, when the initial changes began to bear fruit, the Lottery achieved double-digit growth, which has continued over every calendar and fiscal year since.

Among the large-scale improvements implemented by the Michigan Lottery:

PLANNING

- **Planning from a Portfolio View** The Lottery and IGT teams work together defining each component of the portfolio along with a plan to maintain and refresh it. This paradigm streamlines and gives direction to the planning process. Each time the teams meet, they reassess the portfolio to ensure that all components are captured and decide if any need to be added or removed, based on performance.

- **Launch Cadence** Rather than launching new games every three weeks, the Lottery began introducing three to four new games on the first Tuesday of each month. The schedule allows retailers to better anticipate and focus on game releases, and it gives the Lottery more time to educate retailers and place POS materials. The emphasis shifted from selling novelty to developing strong games that would sell well at a steady rate over time.

- **Move from "Space-to-Sales" to "Space-to-Product"** Product placement at retail is key to attracting player attention, given the impulse nature of instant game purchases. IGT worked with the Lottery to optimize the in-store product mix, so that instead of reflecting the existing price-point sales mix, it reflected the target product mix that had been identified as achievable. This was probably the most critical factor in shifting in the average price point purchased.

PRODUCT PORTFOLIO

- **Prize Structure Design** IGT advised on sweeping changes to the Lottery's prize structures. "When you move from launching 75 or 80 games per year to something closer to half

WAREHOUSING AND DISTRIBUTION

- Changed bi-weekly launches to monthly, reducing annual games launched from around 72 to 38

- Encouraged retailers to face more new games

- Optimized distribution with refined algorithmic ordering protocol
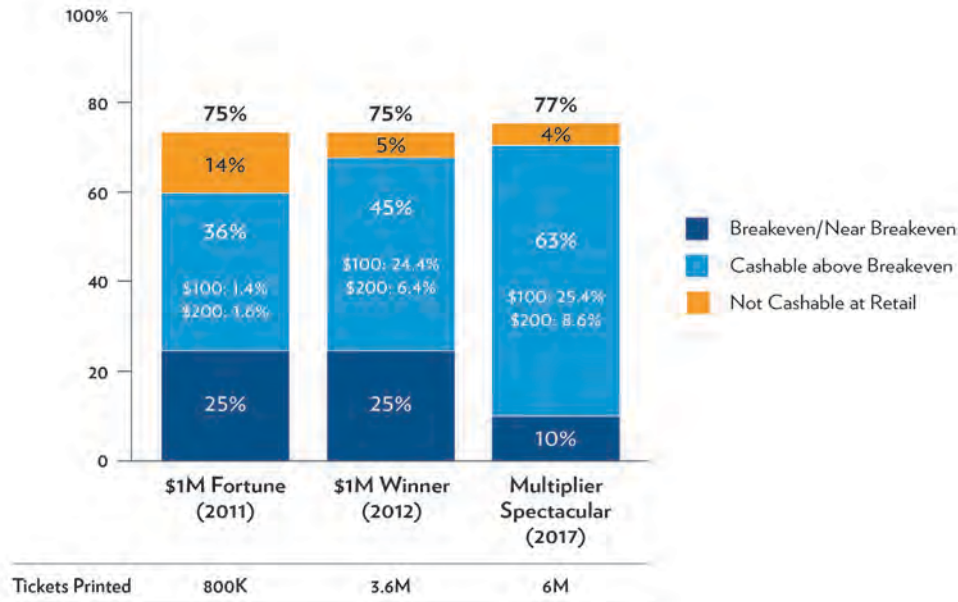
PORTFOLIO OPTIMIZATION

- Prize structure optimization, especially at higher price points, focused on mid-tier prizes

- Planogram development for all retailers

- Strengthened core game offering with line extensions to higher price points

- Launch and continued expansion of $30 price point

RETAIL EXECUTION

- Bin expansion at the highest performing retailers

- New game activation and planogram compliance

- Introduced IGT Merchandiser Program to support the Lottery's sales team

Allocation of Payout from Selected $20 Prize Structures

Strategy: Reduce allocation of breakeven and near-breakeven prizes, top prize, and prizes not cashable at retail and reallocate to meaningful mid-tier prizes

	$1M Fortune (2011)	$1M Winner (2012)	Multiplier Spectacular (2017)
	75%	75%	77%
Not Cashable at Retail	14%	5%	4%
Cashable above Breakeven	36% ($100: 1.4% $200: 1.6%)	45% ($100: 24.4% $200: 6.4%)	63% ($100: 25.4% $200: 8.6%)
Breakeven/Near Breakeven	25%	25%	10%
Tickets Printed	800K	3.6M	6M

that amount, you need to modify the games to engage players longer," explains **Patrick Bentley, IGT Director of Sale Development.** For the past six years, IGT has collaborated with the lottery's product development team to develop the prize structures for the Michigan Lottery's new instant games. After the concept and artwork for a specific game have been finalized, IGT analyzes what type of prize structure will best serve the market at the time of launch, to be implemented by the printer. "We know players like to win, and we have a unique design strategy to optimize the prize structure by putting more of the prize money into prize tiers that are more meaningful to players than break-even prizes, but easier to win than the top prize," says Bentley. "Where we've done that, players have responded positively."

■ **Addition of the $30 Price Point**
Michigan was an early adopter of the $30 price point in 2014, and IGT has done extensive analysis on $30 games to refine and optimize their prize structures, as well as to determine the best way to position multiple games at this price point in the market. IGT helps to assess the demand for the games and ensure that the Lottery is launching enough and at long enough print runs to meet the demand in the market.

DISTRIBUTION AND SALES

■ **Planogram Development and Compliance Enforcement** The Michigan Lottery began using a planogram for all of its retailers in 2013 and defined compliance benchmarks for its sales reps and the

IGT merchandisers. "You can see how compliance improved over a few years and has now reached the highest possible rate and been maintained there," says Bentley.

■ **New Game Activation**
The first week of a new game's sales can affect the whole month. The positive impact on sales will be stronger if players see the new product in stores immediately when it becomes available. The Lottery implemented an incentive for both the retailers and sales reps aimed at activating books in the first four days of the week of a new game's introduction. Where in the past it might have taken the Lottery a full month to get a new game activated, Michigan regularly has more than 95% of its retailers activate new games within a week and often within a few days of launch.

■ **Merchandiser Sales Program to Support the Lottery's Sales Force**
The Michigan Lottery operates its own sales force, and in collaboration with the Lottery, IGT created a Merchandiser program in 2009 to supplement their work by making sure instant products are loaded in the bins of the vending machines for planogram compliance and the equipment is running correctly. "Our team supports the Lottery's sales staff by helping ensure that retailers get frequent visits, the correct games are being displayed, and there are limited out-of-stocks," says **Steve Foust**, **who leads IGT's Instant Ticket Specialist, Merchandiser Sales, and Special Events teams.** The Lottery's sales force and IGT's merchandiser program contributed to the Lottery's success in activating games in the first week.

LOOKING AHEAD

Some of the initiatives undertaken by the Michigan Lottery are structural changes that, once implemented, require monitoring, and most of them depend on each other for success. The wide range of enhancements and changes were designed not to achieve a one-time sales bump but to serve as the foundation for sustainable growth.

Based on industry sales data between FY12 and FY20, the U.S. lottery that experienced the most growth in total instant sales was Michigan – by a large margin. "We knew some changes might make a big impact in a single year, but our focus was on changes that could make positive impacts year after year," **says William Griffin, Michigan Lottery Deputy Commissioner of Sales.**

"No matter our customers' circumstances, we can support them by providing data and information to inform their strategic choices," says Monterosso. "In all areas, the customers are the decision makers. We closely examine their specific local circumstances and adapt our recommendations and their sequencing to those."

The teams have already envisioned other improvements to keep the growth trend going. The Lottery is scheduled to roll out new IGT retailer terminals and peripherals beginning in September 2021. And in the latter half of 2022, Michigan is due to receive a new IGT Aurora system and business applications.

Aurora, IGT's high-performance, high-reliability lottery central system solution, has open interfaces with a modern architecture to support Michigan in meeting all its needs today and enable the Lottery to respond rapidly to changing market conditions.

Among the new IGT business applications, Order Wizard's predictive ordering algorithm will help to ensure that retailers will be replenished with sufficient inventory to avoid revenue-draining stock-outs, while not over-stocking games that result in costly returns. Order Wizard also ensures that the retailers get the right games in the right quantities at the right time to optimize the instant ticket display at retail.

The Michigan Lottery's original request for IGT's ideas to grow instant sales has evolved over many years to an ongoing day-to-day collaboration. One of the reasons it has worked so well is the Lottery didn't pursue just one tactic or another. The Lottery took a broad view and made improvements that touched all parts of its instants business over time. ∎