

COMPETITION WITHIN THE GAMES-OF-CHANCE INDUSTRY

With more than 30 U.S. states offering gambling of some type – casinos, sports betting, mobile gaming, the lottery industry today faces competition unlike any other time in its history. How should lottery executives respond to the ongoing expansion of gambling options? Do we now think of ourselves as being in head-to-head competition with these other games-of-chance options – with players spreading a similar spend across more and more gaming categories? Or are multiple gaming options bringing new players into the marketplace and creating new potential lottery customers? How do we defend against the threats and optimize the opportunities represented by this new competitive landscape?

These type of issues and questions were tackled by experts with front-row seats to the changing nature of the gaming marketplace, and how it is impacting lottery. Moderating the panel titled “Competition Within the Games-Of-Chance Industry” was

Drew Svitko, Executive Director, Pennsylvania Lottery. Drew was joined by:

Derek Levesque, Director of Product Management & Business Development, IGT

Lynne Roiter, Secretary General of the World Lottery Association, formerly President and Chief Executive Officer, Loto-Québec

Matt Strawn, Chief Executive Officer, Iowa Lottery

Lorne Weil, Executive Chairman, Inspired Entertainment

Drew kicked off the session by recounting what has taken place in the Commonwealth of Pennsylvania over the past two decades. The



Pennsylvania Lottery has been dealing with the issue of increasing competition since 2004 when casinos were legalized. The first retail sportsbook opened in November 2018 and online sports betting launched in May 2019. Sportsbooks in the state recorded their first month of \$100 million in handle in August 2019.

“This is an interesting topic,” said Drew. “We take competition seriously at the Pennsylvania Lottery. We operate in a competitive gaming environment, with

164 land-based casinos, and more on the way. Pennsylvania has more slot machines in those casinos than there are in Atlantic City. Pennsylvania has legalized sports gaming which the lottery does not run. The casinos also sell online, so we have iGaming offered throughout the Commonwealth. And we also have an estimated 60,000 illegal skill machines in the marketplace. So it’s a crowded gaming market to say the least. Not to mention, all of the other natural competition that we have for those discretionary entertainment dollars.”

“So I’ll ask the panelists a question I wrestle with every day, ‘How much do we have to worry about losing lottery customers?’ Player acquisition is one thing but what about attrition? How much do we have to actually worry about losing players to the other gaming categories?”

Industry veteran and Inspired Entertainment CEO **Lorne Weil** took the first shot. Lorne

has been involved with all forms of gambling from horse racing to traditional lottery to virtual sports



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throughout his storied career. “While it’s critical that we address this issue, we should stay mindful of one important factor in our favor: our retail network,” he said. “It’s such an incredible asset and strength that we enjoy over all potential competitors. While there are 1,000 plus casinos in North America, there are more than 200,000 lottery retailers. Given this powerful size advantage, we have seen cases where casinos are coming to the lottery and looking for ways to partner together on initiatives that expand their distributional reach. They know we are sitting on this powerful asset. A partnership is also an effective way for us to also expand distribution and get lottery products in front of potential new players and introduce them to our games. New players who came to Lottery by way of casinos can perhaps be driven to our retailers, creating a winning situation for both sides. Casinos are not going away so why not see how we can partner with them?”

As Iowa Lottery Director for more than three years, **Matt Strawn** has seen mobile sports betting added to casino gaming, and this competition is squarely on his radar screen. “In Iowa, we don’t have the same tools as other lotteries,” he said.

“We don’t have iLottery, we don’t have keno, we don’t have Rapid Draw - we have a very traditional lottery portfolio. With a dramatic proliferation in our market of sports betting, we have many challenges facing us, not to mention the impact of inflation. But what we can do is use our retailer network to make sure our products are as available as possible, use in-lane solutions to bring lottery to where players are paying for their purchases. We’re working with companies like Abacus on different initiatives to increase our visibility, starting with Mega Millions and Powerball. As I say to my team, we need to control what we can control and if the Iowa policymakers decide we should add other products to our portfolio, we will be ready to go toe-to-toe with the other gaming options.”

Canada is a few years ahead of the United States in offering the full range of gaming options nationwide, with each individual province overseeing the entire portfolio of

gaming options. In both her roles with Loto Quebec and the World Lottery Association, **Lynn Roiter** has seen the impact of growing competition on lotteries as well as how lotteries have responded. The question for Lynn is how that competition is impacting lotteries and their players.

“We know that polling shows that anywhere from 70-80% of the adult population in Canada and the United States have bought at least one ticket in the past year,” she said. “So we know that a large share of our adult population accepts the lottery. This might mean that the lottery is creating players for our competitors and not vice versa. My experience is that it is a small niche of players who only play at casinos but those are the people we can attract to lottery and grow our player base. Most likely, it will be the industry’s instant tickets that attract these players because of the fast action involved. At the same time, let’s focus on our infrequent lottery players and how we can get them more involved. When the pandemic forced all forms of gaming except lottery to close, we saw an incredible increase in sales of instant tickets. People either discovered or re-discovered instant tickets. It was a reminder that we do have products that are interesting to people and allow us to compete with other forms of gambling.”

Derek Levesque

said that the increase in gaming options has had a two-fold impact – younger players are entering the market and more player data is now available. IGT is working on initiatives that help lotteries maximize both.

“The increase in younger adult players in the overall gaming industry is directly tied to the accessibility of the products, particularly

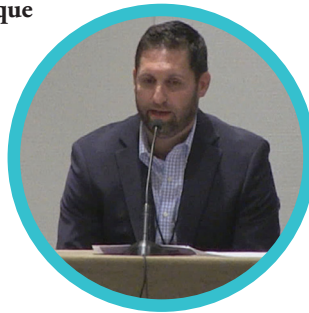
sports betting,” he said. “When you look back at sports betting, the last time PGRI had a conference (Nashville in October), 50% of wagers were placed in retail and 50% were on digital. Last month 88% of sports betting wagers in the United States were online. So the accessibility of the product to the younger demographics and the proliferation of payment methods is impacting that market, including the lottery industry. It’s both a challenge and an opportunity for us to examine what we’re doing and take a look at the value propositions for players in both channels. Turning to the casino industry for comparisons, I don’t think a lottery will be sending their VIP players private jets any time soon. But I do think there’s an opportunity for us to take a much closer look at the loyalty programs and other tools and strategies being applied in other gaming sectors to attract and retain players. We could learn from their experience and modify and adapt those best practices to our lottery sector.

“One opportunity we have that’s not necessarily the same in the iGaming or sports betting market is that we have very specific data points for our players, and we know how we can reach those players in marketing with bonusing and promotions and things like that,” he added. “Where the iGaming market often uses blanket strategies that they utilize globally, we can take a much more customized approach to really speak to those specific players that we’re looking to acquire and retain. As soon as those players opt-in to loyalty, iLottery programs, or any of the programs that offer us digitally acquired data points and insights, we need to leverage that data to ensure we’re doing the right things to retain them for the long term.”

ALL EYES ON SPORTS

Much of the recent attention in the gambling world has been on sports betting, as more states add in-person and mobile betting opportunities. This creates a few important questions: Where does the increased sports betting money come from? Does sports betting threaten to peel off some of the discretionary spend that is now allocated to lottery?

Lynn said there are no simple answers.



“At Loto Quebec, we have worked hard at underscoring that we are the only legal operation for all of our player’s betting needs, with the hopes of showing players that we offer a secure location for their bets,” she said. “I believe our message has been heard and has helped reduce the spending through illegal operations. Once they join us, we want to focus on retention and, if possible, growing their spend in a responsible manner. Since in Canada the lottery oversees all forms of gambling, it’s easier for us to provide cross-market programs. If U.S. lotteries are able to work with casinos and sports betting operations, they should explore possible opportunities to partner with these entities.”

Having seen many gaming trends come and go during his many decades in the lottery and gambling industries, Lorne has a “big picture” view towards how the lottery is impacted by outside factors such as sports gaming. “Let’s look at the poker boom of 15-20 years ago,” he said. “Just like we’re seeing with sports betting, everyone was talking about poker as the number of poker players was growing quickly. But then the majority of players realized that 95% of the money was won by five percent of the players, and the money started drying up. Same thing happened with fantasy sports with that same 95%-5% imbalance. And this will eventually happen with sports betting. One key message for the lottery industry is that in addition to having easy access to our products via the extensive retail network, our players are not susceptible to five percent of players winning 95% of the money. That is a critical message and I believe it will outlive what is taking place in sports betting, just like it outlived poker and fantasy sports.”

Matt concurred and added, “It’s important for us to make sure we maintain a level of relevancy with sports bettors as they’re kicking the lottery tires and realizing that perhaps sports betting isn’t a long-term place for their entertainment dollars. So do we build a moat around our players and hope no one poaches them or do we drop the bridge and take a more offensive posture? In Iowa, the lottery is partnering with our sports outlets to provide unique opportunities that may attract sports fans to lottery. At the same time, we have other threats, particularly on the budget front. Because of the marketing spend from sports betting operators, our costs have risen dramatically,

not just in our sponsorships but with our sports talk radio stations and our traditional television advertising. Year-over-year, we’re about 16% ahead on costs and I think a lot of that is attributable to tighter inventory because of all the sports betting ads. It’s just another issue that we must navigate.”

SHAPING PUBLIC OPINION

Aside from the retailer network, lottery has additional advantages over other forms of gambling, including its role as service to society and providing funds for good causes. Messaging these advantages is key to taking on the competition.

“While the lottery prize-payout is lower than iGaming, which often offers payouts of more than 90%, lotteries have strong margins,” said Lorne. “You have to wonder about the sustainability of a business that has operating costs on top of payouts over 90%. Where are your profits coming from? iGaming is closer to lottery than sports betting, and iGaming is where the better money is for operators. For lotteries, the best bet is to tell our players that we have fun games and good payouts and make sure that policymakers know that our profits, and therefore the funding for good causes, are far greater than sports betting.”

Drew agreed and said that the Pennsylvania Lottery is fortunate to have a very popular beneficiary. “We have the benefit of having a really solid well-known brand and a beneficiary that most people support,” he said. “The Pennsylvania Lottery funds benefits for older Pennsylvanians, and I always remind our team and our stakeholders that our mission is critical. ‘Benefiting Older Pennsylvanians Every Day’ isn’t just a tagline, it’s why we do what we do. And so, the more we reinforce our beneficiary I find the more support we get. It also doesn’t hurt that older Pennsylvanians happen to be an active, engaged voting bloc. We know policymakers listen when they speak.”

Lynne built on Drew’s point. “We know our competition employs some of the best lobbyists, and lotteries can’t have lobbyists, at least not paid lobbyists,” she said. “But we all have the beneficiaries who are voters and that means they have power to advocate for lotteries. If you can get the groups of people that you’re helping out to be more outspoken in their advocacy to underscore the importance of the lottery, it’s much better than us

saying it. And in that sense, I don’t know that we engage the support of our beneficiaries as well as we should. As Drew noted, politicians everywhere in the world listen to or take heed of the voter. Politicians also listen to constituents like the beneficiaries supported by lottery.”

Matt pointed out that driving home the local angle is key. “I like to tell my team that we are not The Lottery, we are the IOWA Lottery,” he said. “That means something to every single Iowan across the state. It means something to the Iowa Veteran’s Trust Fund and those other causes that we support. In March, we returned \$8 million to the state compared to \$1 million from sports wagers. Those are the types of details that help our cause among our constituents and policymakers. They all can see the amount of money returned to the state and good causes from the various gaming entities, and those returns are led by the lottery.”

FIGHTING FOR MARKET SHARE

Drew pointed out that between states not having iLottery and other states fighting illegal game machines, lotteries have a lot on their plates. “I hear from my colleagues all across the country who are having the conversation with their policy makers about iLottery that retailers continue to be concerned about the potential impact on their business,” he said. “However, all the states with iLottery know that iLottery only helps retail. And many states, including Pennsylvania, are battling illegal gaming machines that are proliferating throughout the state. There are a lot of battles on many fronts.”

Derek said vendors like IGT are trying the best they can to help lotteries through some of these headwinds. “It can be frustrating,” he said. “There are 18 states that allow online sports betting, but only about half that many states with iLottery. I’m hopeful that sports betting will now open the door for iLottery in a lot of states. There’s a much bigger opportunity for states to generate income from launching iLottery than sports betting. Both sports betting and iLottery utilize similar payment methods and feature some crossover between customers. I do see hope that iLottery growth will now benefit from sports betting being legalized in so many jurisdictions.”

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“I also think the most important thing we can do going forward is to continue to understand our players better,” he added. “The ability to now have data points on players where we’ve almost been blind for so long allows us to offer much more targeted and strategic innovation. We can build content and games for the types of players that we want to retain long term. Our keys are understanding our players and continuing to get to know exactly what they’re looking for. This will provide us with the ability to market, promote and overall retain those players at higher levels.”

Matt said everything comes back to the retail network. “We’ve seen over and over again, and not just in gaming but in many, many industries such that it’s almost becoming a cliché by now, but the omni-channel strategy is critical,” he said. “The organizations and companies that embrace this approach tend to consistently outperform either those that are only retail or those that are only online. The lottery industry needs to take full advantage of the opportunities that the omni-channel approach presents in terms

of the online reinforcing and helping the retail network thrive. Help the policy makers understand the importance of iLottery not just for the sake of iLottery itself but for the eventual synergy that it will create with the retail network. Show them the numbers from the lotteries now offering iLottery. This is an area where we need to concentrate.”

Lynne emphasized that lotteries must take advantage of their place in the gaming hierarchy. “We know that our industry started as a monopoly and as other forms of gaming have proliferated, that monopoly status has been challenged,” she said. “But lottery is still the best-known form of gaming in most states. Illegal gaming will always exist because it’s difficult to totally eradicate it. But lottery is such an attractive form of gaming – good payouts, strongly regulated – that the demand for our products will always exist. We have beaten back all forms of competition before and we’ll continue to do it.”

Looking back on his career in the industry, Lorne said that lotteries should be heartened by how they have survived through many

forms of competition. But that doesn’t mean lotteries shouldn’t be constantly looking for ways to innovate.

“It’s interesting because our games are essentially the same games we were selling fifty years ago,” he said. “We need to understand that you would be hard pressed to think of any industry that has grown the way the lottery industry has grown in fifty years that effectively is selling the same products. I rack my brains trying to think of another one and I can’t. So there’s something incredibly enduring about lottery and something incredibly ingrained in the psyche and the behavior of people who buy our products. I can assure you that if fifty years from now the products are the same instant tickets and the same Pick 6 and the same daily numbers as lottery offered fifty years ago, the industry is not going to be as successful as it is and will certainly cede market share to our competitors. At the end of the day, innovation should be our primary focus as it is key to building sustainable growth and a long-term successful future.” ■

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us and working to ingratiate ourselves with our neighbors and the different organizations has helped a lot.”

POWER OF BRANDS

With four executives from MUSL-member states, the panel’s discussions inevitably turned to Powerball and its retail reach. “Not only are our products in hundreds of thousands of retailers across the country, but we also have the best-known brand in gaming – Powerball,” Gregg said. “As a group, we are starting to understand better how we can utilize that game more. From the conversations we’re having on the licensing side with private sector businesses, we are getting a view of what they value and therefore what we can offer those other brands. We’re an entertainment brand and we need to work with partners who are also in the entertainment business, among others.”

Stephen agreed and said there are past examples the lottery can model after. “For years, Hallmark made cards and now they have a huge Christmas ornament business and operate three cable channels,” he said.

“I’ve used the LEGO example as well.

Growing up, they were just bricks you used to build things. Now they have movies and TV shows. For Powerball, we used to have a game show but now we’re involved with some very interesting marketing and promotional ideas. That is how you stay relevant. You evolve and take your brand where your potential customers will see you in a different light.”

As the panel’s singular representative from the private sector, Brad’s experience building EQL Games has not been that different than the work to build the lottery and Powerball brands. “I started as a horseracing company and then was able to build relationships with leagues, such as MLB, NBA, and the NHL,” he said. “What is surprising is that working with the large sports leagues has been much easier than working with the horseracing entities. Horseracing doesn’t understand its brand. They have 50 different people who you work with to get 50 different licenses for 50 different racetracks. That is why horseracing is where it is and why the other leagues are much more popular. At Major League Baseball, I work with three people to get everything taken care of.

“The bottom line is that lotteries should never fear engaging with brands that might seem to be more powerful than us,” he said. “Those mega-brands might actually be the ones who recognize the reach, impact, and value of our own lottery brands and end up being the ones who work with us in an effective way. They have the resources and the high-level vision which put them into this elevated position. Let’s reach out to engage them in mutually supportive collaborations. No brand should be considered too big or powerful to gain from a relationship with Brand Lottery.”

Gregg wrapped up the panel with a shout out to his fellow MUSL Committee chairs and members, and their work to expand the Powerball brand. “It’s been almost six years since we kicked off a strategic planning process to build on the primary pillars that have been in place,” he said. “Our MUSL leadership and staff in Iowa has masterfully managed our efforts, including strengthening the committee structure. It’s not one or two people that have ownership of this strategic plan and (MUSL Executive Director) Bret (Toyne) and his team have worked hard to keep our discussions moving forward.” ■