

# LOTTERY FOCUS ON THE CONSUMER

## Lottery Leaders on trends in play styles and preferences



The following article is based on a Roundtable Discussion conducted at PGRI Retail Modernization eConference on April 13.

Lottery sales are up across the product lines. Funds to good causes continue to grow. Retailer commissions have never been higher. With all this good news, what do lotteries have to worry about?

Like the stock market crash in the late 1980s, the Dotcom bubble in the 90s, and the housing price boom/bust in the 2000s, economic surges are cyclical and typically not sustainable. Preparing for this reality is the best remedy that can help us to overcome that volatility and keep the momentum going. As the old proverb says, “Forewarned is forearmed.”

The lottery leaders who participated in the “Consumer Engagement Strategies” certainly have their eyes on the future, while they also celebrate today’s good numbers.

Led by Iowa Lottery Chief Executive Officer **Matt Strawn**, the panel consisted of Maryland Lottery and Gaming Director **Gordon Medenica**, Arizona Lottery Executive Director **Gregg Edgar**, and Vice President of Digital Engagement at Pollard Banknote **Shannon DeHaven**.

Looking back on the past year, the lottery leaders had different experiences. Arizona Lottery maintained its external communications with players but shifted from product-focused advertising and promotion to its “giving back” messaging. Maryland went dark with most of its messaging. But the one constant for all lotteries was that while strategies, tactics, focus, and media mix might change, they continue to maintain strong outreach to their core constituencies – retailers and players. The approach of industry leaders appears to have worked well, as lottery sales kept climbing in spite of the disruption, and the messaging stayed

respectful of the difficult times being faced by everyone over the past year. And now we hope table is set for ongoing success.

For Iowa, sales are up close to 24% year-over-year. Arizona is up a whopping 42% year-over-year. Maryland has a strong reliance on monitor games in social settings which were closed for many months. In spite of these constraints, Maryland sales are still up over 20%. The panelists agreed that the key to lottery resiliency is the decades-long nurturing of its relationship with the players, aided by compelling games and winning experiences.

“In the end, it all comes down to the player,” Matt said. “Yes, a lottery must have great retailer relationships but ultimately you must have a strategic approach to player engagement and how you will maintain relevancy to your players. In Iowa, we challenge ourselves to think about how to

reinforce the activity of going into a store to shop and then capture the attention of that shopper once they're in the store. Then, of course, you have to convert that attention into sales. It doesn't happen overnight. It requires a multi-year plan that can withstand economic challenges and other market forces, and evolve with consumer tastes and preferences. This past year we've seen real-world experiences of how a focus on the player can reap positive results for lotteries."

Player engagement is a bit different in Maryland where unlike many states, less than 50% of the lottery's sales are from instant tickets. Instead, Maryland's sales are driven by a number of products. Monitor games, like Keno and the horse race-themed game Racetrax, account for 25% of sales. To achieve those impressive sales numbers, the lottery works with its retailers to create gaming environments where players can gather, socialize and play – a much different type of player engagement than seen by other lotteries. "A year ago, we were running into a challenge we thought we'd never see – how do you get players to leave a store," Gordon said. "Our retailers were open, the players were returning but they were also staying a bit too long in the stores. Given the pandemic, the retailers had reasons for concern. But we felt that as we entered the summer months, things were normalizing and that was reflected in the sales numbers. Today, our retailers are more than happy to see their customers spend more time in their stores."

Gregg Edgar has an interesting perspective on what the future holds. He has been studying the impressive growth seen by his lottery and asking "What's the driver? What's behind these numbers?" Stretching for deeper insight into these questions will help inform the Arizona Lottery on its future focus. "We've seen that much of our growth is driven by our core player and not necessarily an expansion of our player base," said Gregg. "I see this as an area of great opportunity. Let's use the tactics that have attracted our current players over the years to get new players. Show them that lottery is fun, that there are many winning experiences. Always make sure the core player is taken care of but work on initiatives that

attract other players to broaden the player base. Providing winning experiences is key to both of those goals. How we branch out into different areas, offer fresh products and different programs, is key to our future growth."

A lottery with different issues is Michigan. Until May of this year, Shannon DeHaven was the long-time Deputy Director of Digital Operations at the Michigan Lottery, where she oversaw the lottery's pace-setting iLottery program. She has since moved on to Pollard Banknote, but she shared some of the learned lessons from a lottery that showed how successful iLottery can be in the U.S., and how retail can grow right alongside the rapid growth of the online channel. "Michigan has always promoted both channels and, given our knowledge of the players, we could send them promotional materials for both retail products and online products," said Shannon. "When the

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restrictions over the past year took hold, and we didn't necessarily want to drive people into retail locations, we were able to promote the iLottery options. As things have opened back up, we saw players returning to their normal behaviors. The key is to continue to let players know they have options. If it's 8 pm, we'll let them know the drawing is coming up and they can buy their tickets online. To me, it's all about providing players with convenience."

With her shift to Pollard Banknote where she now oversees the company's digital engagement efforts, Shannon is still focused on how to make the purchase path easier for players. Her work is critical as lotteries seek the appropriate blend of online and at-retail opportunities for players. "If we continue

to expect players to disrupt their shopping experience to purchase lottery tickets, we may find ourselves losing sales before we know it," she said. "I believe that consumers are going to expect the ability to purchase in lane and that may include an integration to offer multiple products within the POS. Make it easier for them. That kind of spontaneous purchase as the consumer goes about their shopping experience is critical to our future growth. It's one of the things that Pollard is focused on providing solutions for and we'll only see this part of our business grow."

All participants on this Consumer Engagement Roundtable agreed that technological advancements are the key to future growth in the lottery industry. Whether it's at retail or in our homes, technology will keep current players coming back and attract new players. For instance, in Arizona, Gregg and his team are right in line with Shannon's feelings about in lane.

Put lottery products where the consumers are located, particularly at the point of payment. Arizona is working with a number of vendors to implement programs designed to offer consumers purchasing options. Arizona currently offers Quickcard in-lane with InComm and Blackhawk, but is in development on a number of other products.

"We're excited to implement a SCiQ in-lane product from Scientific Games and I think that will positively impact how we sell and how much we sell," said Gregg.

"We're also working with Pollard and InComm on an implementation of their ScanACTIV product that allows instant tickets to be displayed in-lane and scanned for purchase. We are also working with Abacus on an in-lane implementation at Costco. All these initiatives are designed to make the lottery purchase easier for the player and put the product in front of them as often as possible at retail. We are currently locked out of iLottery in Arizona because of our Tribal Gaming Compacts, so we need to use other tools at our disposal."

For Maryland, the advancements in self-service machines have noticeably moved the sales needle. Throughout his career at three different lotteries, Gordon has encountered different receptions to the machines. But the

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## How do you overcome the tendency for self-service options to undermine clerk-assisted counter sales at the counter and sometimes even cause a decline in store sales?

**Jay Finks:** Oklahoma's grocery sector is dominated by Walmart and Target, not traditional retail grocery chains. In turn, our self-service efforts (and sales related to self-serve) in years past have been weak. Also in years past, when we put a self-service machine in a convenience store, we saw that store immediately move away from counter sales and ultimately hurt our sales efforts. So we decided to take a new approach to mitigate that trade-off and create a synergistic relationship between self-serve and counter sales. We started with our #1 convenience chain and sold in the concept of adding self-service; but we held the line by making the retailer sign a "self-service agreement" that covered things like minimum sales, counter sales, instant game counts, etc. This ultimately led to 25% to 30% increases in total sales in those stores. We used that model to expand to other chains, all the while, holding the line on minimum sales and counter sales initiatives.

This concept was the impetus, in 2020, to finally get 7-Eleven (Oklahoma's largest chain, independently owned) to finally agree to sell Lottery. We launched a self-service only model in over 100 stores and they have already settled in as one of the top 3 chains. In the end, it took a progressive line of thinking to embrace a new model of Lottery delivery to consumers...and the net result is a measurable lift in our sales.

Thankfully, the commercial community is responding to the consumer demand for options by enhancing the user-experience of self-serve machines and processes. Of

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technology behind self-service has changed rapidly and most lottery resistance has now dissipated. "Previous generations of self-service machines were a bit clunky and not user friendly," he said. "But the technology has evolved quickly. Touch screens, large easy-to-read screens, marketing capabilities that appeal to the shopper, replication of purchase patterns – these features have made the machines a must-have in many locations. Couple this with the ability to make cashless

course we still want retailers to continue to deploy clerk-assisted full-service options for lottery players. But self-service is an important trend. Our goal is to make sure it complements and augments the channel mix of options and contributes to sales.

## Even though the OLC does not sell tickets online, you have taken a very proactive and progressive approach towards building the online connection and towards digitization in the retail environment.

**Jay Finks:** Absolutely. We are certainly evolving our business and pushing ourselves to embrace every possible digital outlet available to make us more efficient. For example...

- We are converting all of our traditional outdoor boards to digital. We asked ourselves, what is the ROI of an expensive outdoor board that for the most part promotes a jackpot amount that does not create consumer response (i.e. \$20m to \$200m+)? Why not utilize the flexibility of digital to promote the jackpot when it is most relevant and then use it for other purpose, for all different kinds of messaging objectives, when the jackpot is at lower levels?
- We are adding a fully functional ticket checker to our app and are exploring more ways to engage the player on the smart-phone.
- We are going to launch a digital playslip via our app but here is the kicker ... we are eliminating ALL paper playslips once we launch it.
- We are actively exploring ways to eliminate the large plastic play stations in all stores and continuing our push to put digital advertising screens in as many stores as possible. We have found

purchase, and lottery consumers have options never before available. I know the retailers appreciate these new trends that have reduced many of the on-counter issues faced by retailers."

For Shannon, it's all about the purchase paths available to players. "In Michigan, there is a high demand for self-service machines," she said. "But it doesn't have to be one or the other. Why not have self-service and in-lane together? These are just

that digital point-of-sale creates more efficiencies, as well as a much stronger impression on the shopper, when you compare it to paper point-of-sale.

## What do you think iLottery might be approved in your state – maybe in the next two years? Do you expect any other regulatory changes to be enacted in the near future?

**Jay Finks:** We are actively engaging Legislators to educate them on the value, sales opportunity and return to the State if they would authorize us to execute iLottery. However, that conversation does not stand alone. Oklahoma has over 100 tribal casinos which ranks them 3rd in the nation in total slot machines. All conversations legislatively are going to include tribal gaming compacts, sports betting, iLottery and potentially more. It's a very wide-sweeping topic. I am always hopeful that Oklahoma can come up with a solution where "everyone wins" but the challenge there is significant. It is my top priority from a legislative strategy standpoint.

## Given your background and deep experience in Lottery marketing, you didn't need an introduction to the OK Lottery. What has surprised you since you were appointed to lead the lottery last year?

**Jay Finks:** I wish I had something profound here to say but this transition has been as smooth as anyone could expect. Former Oklahoma Lottery Director Rollo Redburn and I sat down years ago and built a succession plan with one goal in mind ... don't let a leadership transition impact our sales and operational momentum. It was built to keep our internal culture strong and to sustain a high level of confidence with our Board and our legislative leaders. ■

more placement opportunities for lotteries. Having options will help get lottery into retailers who may have been previously resistant to the sales of lottery products. At Pollard, we've been testing the placement of small self-serve machines into bars and restaurants that never thought they could offer lottery. That is how the industry will continue to grow."

One of the interesting trends that took place over the past year-plus was that lottery sales

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