

# SMART PORTFOLIO MANAGEMENT PAVES THE WAY FOR A SUCCESSFUL ONLINE GAME BUSINESS

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## ZEAL

**PGRI INTRODUCTION:** ZEAL introduced online lottery to the German market almost 25 years ago and has since become the

market leader for online lotteries in Germany. Our aim in becoming member of the World Lottery Association and connecting with our audience in Public Gaming Magazine is to define the future of lottery – both in Germany and internationally.

The ZEAL Group's business model is unique in many respects, encompassing numerous other business models in addition to online distribution in the traditional lottery sector. For example, the ZEAL Group has a Ventures arm for the segmented promotion of and investment in up-and-coming companies with innovative products, services, and business models for the lottery sector. With its subsidiary ZEAL Instant Games, the group successfully develops and markets eInstants and igaming products from the areas of Instant Win, Scratch and Slots; and now successfully implements the online marketing of the Spanish lottery ONCE with its subsidiary ZEAL Iberia. Through a network of international partnerships, ZEAL distributes its extensive portfolio worldwide, including North America).

As Managing Director ZEAL Instant Games, Julian Tietz leads the virtual slot games and online games business at ZEAL. Previously, Julian worked for the last five years in various positions for ZEAL's portfolio of companies and launched the expansion of the company's online games division.

## The exploding popularity of eInstants

Macro trends in any industry can profoundly impact market dynamics and strategic direction. The Lottery industry is no different and faces considerable and ongoing competition for the discretionary dollar. Lotteries have realized the need to embrace changing player behaviors to ensure

their game portfolios and distribution channels remain relevant, attractive, and easily accessible to the consumer. One of the notable changes over the past decade has been the growth of iLottery, which includes Instant Win Games (also referred to as eInstants). In Europe, they have existed for nearly twenty years. In the U.S. there were eight Lotteries selling eInstants in FY22,

generating approximately \$2.6 billion in sales. In both Europe, the U.S., and globally, the popularity of online eInstants is expected to increase exponentially over the next three years.

The recent growth and popularity of the Instant Win Game category in the U.S. is unsurprising. From a macro perspective, the US is among the largest e-commerce markets in the world. Smartphones have become the most used device to buy online (approximately 7% of total U.S. retail sales in 2022 (Statista)). From a product/consumer perspective, they are similar in nature to retail scratch cards insofar that games can be played anytime, anyplace, and anywhere. It fulfils an instant gratification consumer need and is largely an impulse driven category. It's clear from ZEAL's ongoing conversations with iLottery operators and directly with the players themselves that players are seeking a more immersive, fun, and involving play experience with vibrant and entertaining game graphics.



## Portfolio Management: Best Practices to Revolutionize the Lottery Industry

Applied extensively throughout U.S. retail, particularly in large grocery chains and big-box stores, portfolio management (also referred to as category management) has transformed the Consumer Products Industry. Retailers employ category managers to optimize product assortments, pricing, and merchandising strategies for categories like food, beverages, household goods, electronics, and almost every consumer product category you can think of. Like category management for consumer goods, managing the product mix for lottery providers is the key to a successful portfolio to provide the most customer-friendly display and offering as well as the best possible user experience online to optimize efficiencies and ROI.

ZEAL has for years pioneered the development of the category management approach for draw-based Games, scratch cards and eInstants. A Lottery Portfolio should incorporate distinct propositions aimed at meeting different player motivations and needs. Therefore, best-practice portfolio management principles help maximize yield, not only for one product category but for the whole bandwidth. ZEAL's goal is not to create local optimums for certain product categories but to enhance customer satisfaction, give players compelling reasons to play. In the end, this approach optimizes customer lifetime value and business sustainability. It's about shaping an optimal mix of high-quality games, with different themes, gameplay mechanics, and price points in combination with the classical lottery products players know from retail, to meet market demand and attract the widest audience.

## Transforming an Industry with Holistic Portfolio Management

Lottery is not the only sector that could reap great benefits from the targeted application of portfolio or category management. For example, the consumer package goods industry has long recognized that deep category understanding creates a lasting competitive advantage through effective brand positioning and adaptability to

market dynamics. It serves as the central platform for brand owners in the consumer package goods industry to engage with retailers, offering the essential language, structured processes, and metrics to convey both strategic and tactical suggestions to the retailer. Furthermore, category management has profoundly reshaped consumer products marketing, market segmentation, and brand management. This strategic approach centers on treating product categories as discrete business units and has revolutionized marketing through data analysis and consumer insights, empowering companies to comprehend consumer behavior, preferences, and trends, enhancing the effectiveness of marketing strategies. Category management also streamlines product assortments, allowing marketing teams to focus on high-performing products, reducing inventory risk and improving resource allocation. The development of brand portfolio strategies is also enabling companies to cater to diverse consumer needs within a category. The approach has also encouraged innovation, ensuring that brands adapt to evolving consumer demands and market trends, securing their relevance and longevity.

A valuable example for category management in the consumer package goods industry is the consumer goods group Procter & Gamble, a market leader that boasts more billion-dollar brands than any other competitor in its field and pioneered the implementation of category management back in the 1980s. Applying data-driven category management principles has enabled P&G to optimize their product categories and thereby maximize overall sales and market penetration. By analyzing consumer behavior and market trends, the group makes informed, consumer-centric decisions. This approach, combined with a diverse brand portfolio strategy, enhances brand loyalty and market competitiveness. And for lotteries, this translates into increased diversity of player profiles and overall playship.

## Fit for Revolutionizing the Lottery Industry

Despite the success stories in other industries, category management is not a well-established practice in the Lottery industry yet. But as gambling competition intensifies (especially in the USA), consumers are being granted greater access to alternative

ways of winning money. For example, the rise of sports betting in the U.S. has been prolific. (Gross revenue reached \$6.9bn across 23 active online sports-betting states in 2022. Nationwide, it has soared by 91% YoY.). The availability of non-lottery games widens the competition for consumer's discretionary dollar.

This is why, now more than ever, Lotteries must look to their portfolios and apply best practice category principles to optimize their range, overall sales, and net income returns.

## The ZEAL Approach to Category Management

In our own category management approach, ZEAL places particular emphasis on data analytics to learn more about consumer requirements and preferences, market developments and player behavior before developing and distributing new products.

For the ZEAL Instant Games business, we want our products – and by this, I mean every single game – to be a success in the market for the benefit of our clients. Therefore, we invest a lot of time and resources to analyze the market and our target audiences even before launching our first games. We wanted to deeply and thoroughly understand the market for instant games, get familiar with the players and the competitors in the games-of-chance space. Our goal is to offer exactly the products the market wants and needs, and in the quality the players have come to expect from ZEAL.

For us, well thought-out category management and regular data collection were a real game changer for the positioning of our instant games. It helps us on a daily basis to make more informed decisions about which games to promote, retire, or update, leading to more effective strategies.

ZEAL's approach also drives synergies between lotteries and instant products. For example, by developing ways to use eInstants as conversion tools to optimize cross-selling, lottery activity can be funneled from draw based to instant products and vice-versa. ZEAL Instant Games achieved strong results by resembling the look and feel of local lottery products with instant draw products that offer players the chance to apply their preferred thoughts, feelings, and play-styles across multiple game categories. For instance, players might like to use the same numbers they just played in a draw-game afterwards in an instant game

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about working with our existing retailers to find new ways to sell and attract players,” she said. “Over the past 20 years we’ve seen the retail product continue to increase in sales and while we’re in a bit of a lull right now, I’m confident sales will increase at retail. The industry has always found ways to keep the retail product growing. But it will take a reimagining of how we do things in the retail environment. You don’t take your wallet into the store to pay for gas anymore. So how do you get that wallet into the store? Things like a digital menu board help merchandise your products and promote sales. We’ve seen it work in a number of lotteries. To attract new players we have to find them where they are at a time that works for them. Some of this is digital but is also means making the retail experience as simple as possible for players.” As the director of a lottery that does not sell online, Brian certainly agreed with Jennifer’s assessment. “Even if you can’t sell through the internet, you need to offer a good mobile app and make sure the retail experience is as seamless as possible,” he said. “In the end, we’re basically selling the same type of product that was created 50 years ago but we have to figure out how to make it relevant, available and, for new players, approachable. I attribute a great deal of our success to adding features to our app. We can’t sell through it, but players can check their numbers and enter promotions. Our app downloads have doubled over the past year. That’s an example of staying relevant, even if you can’t sell through that app. It’s easy to complain about what we don’t have

but that won’t help us attract players. We need to make lottery as simple and accessible as possible, offer exciting promotions and products, and get in front of as many people as possible.”

Andrea added to Brian’s comments by stressing the importance of doing as much as you’re allowed in the area of digital. “To entice new players, you must bring the online experience to retail,” she said. “Most players buy their tickets at gas stations, convenience stores and supermarkets. Lottery is typically not the primary reason they are there. How are we going to make it as easy as possible for them to see the product, to get their hands on lottery tickets, and play our games? Perhaps it’s a single sign-on experience that’s hassle free and allows them to purchase with different types of payment methods. Let’s figure out how we can best attract and engage our customers. We’ve seen it work in the video game world, where players are continually provided with new experiences that keep them online as long as possible. If we can extend the experience for our players, they will find lottery fun and enticing and continue to purchase our products.”

Jessica explains how best to attract and retain players. “Through our CRM platform, we’re collecting first party data that allows us to understand the characteristics of players and predict their future value to the lottery,” she said. “This data is collected from both iLottery and non-iLottery player activity and includes second chance entries, loyalty points earning and iLottery purchases. We can

now build profiles of players that help lotteries create look alike audiences to reach new players in their paid media channels. This information also helps the acquisition and retention teams work together so they are not operating in two separate funnels. The more collaboration, the more your teams can better chart the user journey and make better decisions on how to reach players. Everyone at the lottery should be on the same page and using the player data available to them to make the most informed sales and marketing decisions possible.”

Brian wrapped up the panel by urging his colleagues throughout the industry to identify the competition and make sure we stay a few steps ahead of them. “Look at what happened during the pandemic,” he said. “Lottery was the only game in town and our sales boomed. But when consumers returned to their normal routines, and other forms of gaming returned, our sales didn’t drop to pre-pandemic levels. Why? They liked the experience they had. They liked the value proposition. Currently our growth is not the same as it was in that initial stage of severe disruption, but we are retaining a lot of players, many of whom may not have played lottery before the pandemic. If we can make our games appealing, offer a variety of price-points, and make the sales process as seamless as possible, we’ll continue to attract and retain new players as well as satisfy the needs of our current players. We just need to execute on well-conceived plans and stick to what we all do best.” ■

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and directly know if they won or not.

Furthermore, by delivering the best possible service to our partners, which begins with a compelling instant games portfolio, we also bring lots of knowledge about how to optimize market and portfolio strategies. We not only aim to optimize revenue of the games categories our partners have booked from us. Instead, we believe that applying our knowledge to help our partners optimize their portfolio management and therefore their customer lifetime value benefits the operator, the players, and ZEAL as a games supplier. This holistic portfolio

management approach facilitates cross-selling, thereby attracting customers who might never have played instant products and enhancing the overall player experience for everyone. If our operator partners can increase their players’ lifetime value, they can more efficiently monetize customers for the benefit of good causes.

ZEAL’s mission is to build a tailor-made solution for each lottery partner and their portfolios. For that matter, the portfolio of our support services can be configured to align with your exact needs, including some or all of our products and services. We

offer the whole range of managed services from delivering and aggregating game content to managing our partners’ instant game portfolio and even the whole iLottery platform as needed.

Our long-term goal is to work with our partners to shape the future of lottery for the benefit of the good causes supported by government lotteries. Category management is one of several measures that we apply to bring innovation to an industry that is on a tremendous trajectory of change, growth, and prosperity. ■