

Fighting for survival

Amid stagnating ticket sales and increased competition, lottery operators are having to rethink their online strategies to attract new players and safeguard their futures

MARTYN HANNAH REPORTS

The land-based lottery industry in North America has reached a crossroads. Retail ticket sales are in decline in states and provinces across the US and Canada. The Minnesota Lottery has seen revenues fall 5% so far this year, while last month the Illinois Lottery terminated its contract with private manager NorthStar – a consortium comprising Scientific Games and GTECH – after it failed to meet revenue targets for the third consecutive year. NorthStar was reportedly running US\$716m short of its sales target nine months into FY2014.

While some players still enjoy the chance to win big with traditional draw-based games like Lotto Max and Lotto 6/49, others expect to be entertained with different games, ways to play, and prize structures. As such, lotteries are having to modernize, evolve and expand their product offering to cater for younger, more tech-savvy players in order to secure their long-term future.

Some state and provincial lotteries, including Delaware in the US and the Atlantic Lottery in Canada, have already taken the plunge and launched an online offering. Others, fearing cannibalization of their bricks-and-mortar retail business, have opted for a more considered approach when plotting a move online. But with falling ticket sales and players flocking to unreg-

ulated and unlicensed egaming sites, lottery operators are having to seriously reconsider their online strategies or risk further decline.

“We are operating in a global landscape, facing enormous pressure from online offshore operators who offer many of the games players want,” says Brent Scrimshaw, CEO of Canada’s Atlantic Lottery Corporation. “Our products must be modernized to appeal to a broader audience and be complimented by new products designed to more closely meet the needs of new players, those players currently attracted to offshore providers,” he adds.

The Atlantic Lottery already offers online ticket sales, sports betting products, bingo and ‘pick n click’ games, which generated revenues of CA\$19.2m in 2013, up \$1.1m on 2012. However Scrimshaw says they are competing with around 2,500 unregulated internet gaming sites which are taking more than \$64bn from Atlantic players each year. As such, the lottery is looking to expand its online offering in the coming months in a bid to grow its market share and provide greater protections to online players.

“If lotteries don’t modernize they are going to find that their financial results and their impact on responsible gaming both decline. The internet and mobile space will continue to grow in importance to gambling providers worldwide and must

be a focus for the Atlantic Lottery. People will seek gambling options to meet their expectations and we are aiming to become their first choice every time,” Scrimshaw adds.

The next generation

By launching online, lotteries are able to target younger more lucrative players in their 20s and 30s. Minnesota Lottery boss Ed Van Petten says that before going live with instant win scratch games back in February this year, the majority of these players weren’t even aware the lottery existed let alone the products it offered. Since its online launch more than 5,400 new players have created internet gaming accounts, generating around US\$4m in additional revenue.

“Studies show that this younger demographic simply isn’t aware of what the lottery is, or what it has to offer as entertainment,” Van Petten says. “We believe that by introducing the sale of our products on the internet we can expose our products to a broader market, to allow sampling of our products on the internet, and hopefully attract additional customers who will then patronize our retail partners when out in the retail environment,” he adds.

Lotteries can use an online launch to consolidate sales through their land-based retail stores. Those who choose not to through fear of cannibalization potentially miss out on a way of operating a more efficient system for creating and delivering the games players want, when and where they want to play them. Indeed, it is more important than ever for lotteries who rely on retail sales to

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BRENT SCRIMSHAW, CEO, ATLANTIC LOTTERY

use mobile and the internet to connect with customers, maximize the brand power of the lottery, and turn anonymous consumers into loyal, repeat customers.

But is it enough to just offer online versions of land-based ticket games, or do lotteries need to branch out into other gaming verticals such as casino and poker? The Illinois Lottery was one

i IS IT LEGAL?

When the Minnesota Lottery launched its online offering back in February it ruffled the feathers of state lawmakers, who said it had not first sought their approval. A bill was cobbled together seeking to make it illegal for the lottery to sell products online, which passed through the state legislature and onto Governor Mark Dayton’s desk. However, Dayton vetoed the bill, saying the lottery was simply responding to changes in consumer behavior and was acting well within the scope of the law.

of the first in the US to offer etickets for its PowerBall, Mega Millions and Lotto Max draws back in 2012. Year one revenues were US\$6.5m, which almost doubled in year two to \$12.9m. However lottery director Michael Jones says he wants to focus on the immediate opportunity of driving lottery sales before thinking about launching other games types to players.

“The sales and profit penetration in attracting young adults is something that has enormous potential, but one that is yet to be realized,” he says. “I would like to see ticket sales for the games that we offer right now increase dramatically. After two and a half years we have 200,000 people out of a population of nine million registered online, I would like to see that number become more like two million. There is no product we can offer over the internet that is more appealing than a Mega Millions ticket that is worth \$600m.”

In Delaware, however, the State Lottery took the decision to offer a full suite of online games to players, including lotto ticket sales, online casino games such as slots and blackjack, as well as poker, through the state’s three racinos – Dover Downs, Delaware Park and Harrington Raceway. The racetracks all use the same online gaming platform provided by a consortium including Scientific Games, 888, and WMS through its egaming subsidiary Williams Interactive, with the lottery acting as the regulator.

Money matters

To date, revenues from internet ticket sales have been modest at best, generating just \$247,557 from launch in November 2013 to June 2014. Its other online gaming products have been far more lucrative – internet poker has attracted \$522,073 while online casino has brought in a further \$548,441. Jonathan Drysdale, games development manager at UK-based online lottery game supplier Instant Win Gaming says it is important

for lotteries to offer more than just ticket sales to make the most of the online marketplace.

"If lotteries are only offering ticket sales for draw-based games online then they are missing out on sales," he says. "The same traits in the offline world that lead players to buying a scratch card with their lottery ticket exist online too. Other forms of entertainment such as casual and social games have created a level of expectation in players, which lotteries need to match with their online offering. Offering players only draw-based games and simple online scratch card recreations is not making the most of the opportunity online offers," he adds.

While US lotteries are still finding their feet online, established European operators are now looking beyond this to mobile for future growth. Instant Win Gaming has recently launched cross-channel products with Norsk Tipping, the Norwegian National Lottery, providing content via mobile, tablet and desktop. While not uncommon outside of the lottery industry – the majority of operators in New Jersey offer their online content across multiple platforms – it is something lotteries have been slow to adopt.

For those that have embraced mobile, sales continue to increase. Since the Illinois Lottery launched its mobile app back in February it has been downloaded almost 190,000 times and accounts for around 22% of total online ticket sales. The Atlantic Lottery has also seen around 20% of online sales coming through its mobile offering.

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DAVID GALE, EXECUTIVE DIRECTOR OF THE NORTH AMERICAN ASSOCIATION OF STATE & PROVINCIAL LOTTERIES

"Lotteries are understandably cautious which leads to new technologies and approaches being adopted a little slower than other digital entertainment sectors," says Drysdale. "Mobile and tablet are vital, but desktop cannot be ignored. The mass appeal of online instant games and the way in which games are consumed means that any online strategy has to reach as many players as possible in a method that is as convenient as possible for the player," he adds.

"Mobile enhances the overall experience," adds Mike Lightman, VP of interactive lottery at Scientific Games. "A recent example is the Fortune 55 game we launched with one of our US lot-

ILLINOIS IN NUMBERS

\$12.95m

Total online ticket sales in 2013

UP 99.2%

On the previous year

189,332

Number of mobile app downloads

tery customers. It's an instant game purchased at retail with a barcode that takes the player to an interactive game played on desktop, mobile or tablet. Between 50% and 60% of players entered the interactive game on their mobile. So how important is mobile? It's very important."

No silver bullet

However, simply offering a mobile platform, or online lottery products in general, should not be seen as a simple fix that will suddenly attract new players and instantly boost revenues. Indeed, it's hard to say whether online has proved to be a success in Illinois and Delaware. Both lottery directors say it has, despite revenues coming in way under pre-launch estimates and targets. The long-term value, it seems, is entering the market ahead of the curve.

"It's too early to say if online sales have been a success for those few who are selling," says David Gale, executive director of the North American Association of State & Provincial Lotteries. "However, any new revenue is welcome, even if it is small at first. The few lotteries that have been selling online in the US have shown minimal sales, but they are growing as more games are offered," he adds.

Games need to be tailored to appeal to a particular audience from the development stage all the way through to how the game is advertised and marketed. Lotteries should, therefore, look to their platform and content suppliers, such as Scientific Games, GTECH, Instant Win Gaming, and 888, to provide innovative content that will entice the right players to play online.

Examples of suppliers innovating the vertical include GTECH launching the first online bingo network in Canada between the British Columbia Lottery Corp and Loto-Québec, and Scientific Games and its Monopoly Jackpot, which ties an instant game to a multi-state progressive jackpot. Instant Win Gaming has also launched a new category of game called Progressive Play that aims to expand the enjoyment of players for non-winning games. Lightman says cross-border networks will also help lotteries grow their online and land-based business.

"We may think of the lottery marketplace as being defined by borders of a jurisdiction, state or province. But digital-age consumers do not think this way. For lottery operators future success will involve working together with other operators to build national brands as well as the multi-national distributional, media and promotional strategies that drive the success of those brands," he argues. ■