



Achieving relevance:

Modernizing the lottery experience



Executive summary

Consumer-centric design and convenience

While implementing state-of-the-art equipment and systems can certainly help an organization run more efficiently and effectively, it is not a total solution to modernization. In fact, the answer is more philosophical than it is technological. The primary focus in any modernization plan should be filling a consumer's need. When an organization understands a problem and how their product solves it, they are able to remain relevant and modern.

It's how a company such as Best Buy was able to break through and achieve success. As others in the retail industry struggled and self-sabotaged by cutting prices and focusing on sales volume, Best Buy has taken the long view by meeting customers' rising demand for home and small business support through The Geek Squad.

IGT embraces a culture where the player is the inspiration for innovation and believes a fully modernized lottery experience is one that speaks to customers' emotional needs from pre-purchase to re-purchase and every step in between. To accomplish this, IGT is exploring how cashless and in-lane technologies, self-service vending and mobile can refresh the lottery experience.

Research methodology

A blended qualitative and quantitative approach

IGT's *For the Win, A Global Study of Player Motivations* began with a multi-stage, ten-country research protocol in November 2016. The study was led by Gerard Caro, Senior Director of IGT's Insights360 group, and the research was conducted by YouGov.

The first stage consisted of ten qualitative, moderated focus groups that included 90 participants from Argentina, China, South Africa, the United Kingdom and the United States. The focus groups included a Frequent Player group (participants who had played both non-lottery and lottery games during the past month) and a separate Occasional Player group (participants who had played both non-lottery and lottery games during the past year but not within the past month). Moderators guided a discussion on participants' need states, mindset, socialness, emotions, motivators and expectations for both lottery and non-lottery games with separate discussions on ways to modernize the lottery gaming experience.

The second phase began in December 2016 and included a 26-minute online survey of 8,040 lottery and non-lottery players in Argentina, Belgium, Canada, China, the Czech Republic, Finland, Mexico, South Africa, the United Kingdom and the United States. The survey explored participation and frequency, favorite games, socialness, Millennials' participation in the lottery and impact of retailer and payment options, which helped indicate overall modernization strategies.



STAGE 1

10 qualitative, moderated focus groups that included 90 participants



STAGE 2

26-minute online survey of 8,040 lottery and non-lottery players

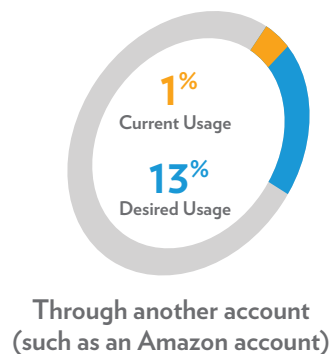
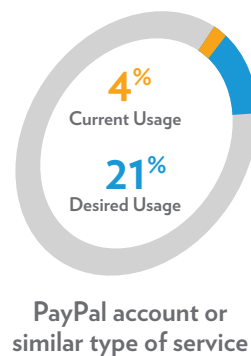
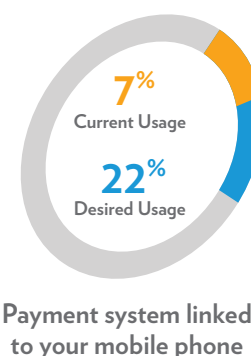
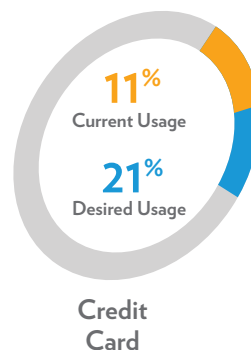
Overthrowing cash, the tyrant king

In general, consumers prefer digital payments (credit, mobile, e-commerce, etc.) over cash for everyday purchases. In Britain, one-in-four consumers will actively avoid businesses that have a cash-only policy and instead patronize card-accepting retailers.¹ In America, only one-in-four people rely on cash for everyday purchases versus five years ago when it was one-in-three.² And as of 2013, in countries such as Canada, only 10% of the total value of payments occurred in cash.³ Clearly, cash is losing ground.

Yet while the rest of the world moves away from physical currency and towards digital transactions, cash remains the most common form of payment among lottery players (85%).

However, most common should not be confused with most popular. In fact, 47% of weekly lottery players dislike paying in cash for their purchases.⁴

Lottery players are interested in moving towards more digital forms of payment when buying lottery tickets with a preference towards credit (+10%), mobile (+15%) or a payment service such as PayPal (+17%).



¹ "Cash-only SMEs are losing over £23,000 of profit every year," Smallbusiness.co.uk

² "Americans Using Cash Less Compared With Five Years Ago," Gallup.com

³ "MasterCard Advisors' Cashless Journey: The Global Journey From Cash to Cashless," MasterCard.com, 2013

⁴ Foresight Factory Survey, October 2016

Despite consumer demand for more convenient payment methods, there's a tension between current retailers, legislators and lottery organizations that prevent the industry from fulfilling the consumer's payment needs.

In addition to the pushback from certain legislators in allowing cashless payments, the lottery industry must deal with misinformation among retailers. For example, a 2014 survey of Indiana lottery retailers revealed that a third of them wrongly believed that lottery ticket purchases made with a debit card were illegal.⁵

Despite the red tape that comes with cashless transactions, the lottery industry must adapt to this imminent cashless world⁶ and advocate for and publicize cashless payment options to remain relevant.

Both consumers and retailers prefer cashless



Consumers

- ✓ Cash is the least preferred payment option across all age groups⁷ and is expected to worsen (-11%) by 2020⁸
- ✓ 18-29-year-olds are carrying less and less cash in their wallets (median=\$0, mean=\$27)⁹
- ✓ Only 1% of people with \$150k+ HHI prefer using cash¹⁰



Retailers

- ✓ 80% of the lottery industry's core retail channels (discount stores, supermarkets and gas stations) prefer cashless¹¹
- ✓ Increase in retailer's total sales when switching from cash to credit or debit (Ex: McDonalds,¹² Costco¹³ and Hoosier Lottery¹⁴)

⁵ Hoosier Lottery Retail Research, 2014

⁶ "MasterCard Advisors' Cashless Journey: The Global Journey From Cash to Cashless," MasterCard.com, 2013

⁷ "2016 U.S. Consumer Payment Study," Tsys.com, 2016

⁸ "Payments Awareness Grows, Cash Use Declines," Accenture

^{9,10,11} "2016 U.S. Consumer Payment Study," Tsys.com, 2016

¹² "Credit Cards Make You Spend More," NerdWallet.com, July 8, 2014

¹³ "Costco Gets a Lift by Adding Card Acceptance to Food Courts," DigitalTransaction.net, April 21, 2015

¹⁴ Hoosier Lottery Retail Research, 2014

When players get the itch to scratch

Going cashless can help make playing the lottery more convenient, which is important because a large contingent of lottery players purchase their tickets on impulse. Among light lottery players, over half (54%) of them say that their lottery purchases are impulse buys. The trend isn't limited to light lottery players either, impulse ticket sales have increased overall, from 37% in 2012 to 40% in 2016.

It is important to note that impulse purchasing is more of an opportunity than a desired outcome.

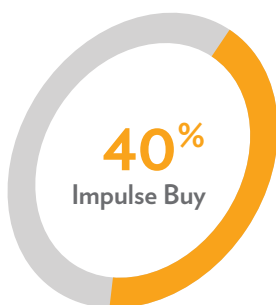
Lottery spending data shows impulse buyers typically spend less than planned lottery buyers. By making a lottery ticket purchase more convenient for consumers, lotteries can more easily convert impulse buyers to planned ones, drive frequency and ultimately increase revenue.

“I never plan on buying a scratch-off ticket when I walk into a store. My decision to do so is more a matter of having some cash or not, more impromptu.”

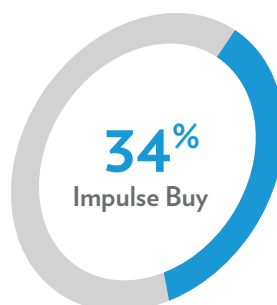
– Lottery Player, United States

Impulse purchase behavior among lottery players

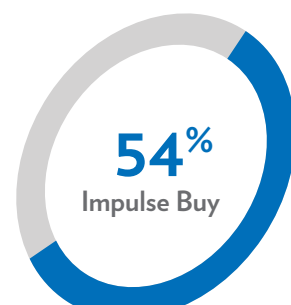
Four-in-ten purchases are impulse buys, including over one-third of Regular Players and over half of Light Players.



Total



Regular Players



Light Players

Move online to move the bottom line

Just as digital is becoming the preferred method of payment, it's also becoming the preferred method of procurement. Currently, in the study's ten countries, nearly a third (32%) of consumers mention that they'd like to purchase their lottery tickets online, clearly showing growth potential.

Failing to provide consumers with a preferred way to access the lottery will only become more problematic as the shift to digital continues. Already e-ticket preference has grown from 12% in 2012 to 18% in 2016, and when you take into account demographic data such as country, income and age, those preferences can differ in intensity.

Purchase behavior: online vs. in-person

% Purchase Online/Internet			
	Current	Desired	Desired Increase
Total	23%	32%	9%
Country			
Finland	51%	53%	2%
United Kingdom	43%	45%	2%
China	29%	47%	18%
South Africa	25%	40%	15%
Belgium	24%	25%	1%
Mexico	15%	31%	16%
Canada	8%	16%	8%
Argentina	8%	24%	16%
United States	6%	16%	10%
HH Income			
Low	24%	31%	7%
Mod	22%	30%	8%
High*	22%	38%	15%
Age			
18-34	23%	34%	11%
35-54	23%	33%	10%
55+*	23%	28%	4%
*Figures rounded to nearest whole number			

Country: In Finland and the United Kingdom, online lottery play and purchasing has been around for 14+ years. Not only do digital purchases represent a large portion of their sales (Finland: ~50%, UK: ~20%), but they're projected to grow (CAGR: Finland: 13.2%, UK: 10.4%).¹⁵ The success of these digital strategies in the two countries may be an indicator of the potential demand in countries without online purchasing options.

Higher Income: There's a notable draw towards online lottery among higher income earners, yet 15% of their purchase preferences are not being met.

Millennials: The lottery industry is finding it difficult to get Millennials to play. With +11% of 18-34-year-olds desiring to purchase lottery tickets online rather than in person, the industry must adjust and drive awareness of online options.

¹⁵ La Fleur's

Every store should be a convenience store

Modernizing the lottery includes making a move towards online purchasing, but that doesn't mean abandoning brick and mortar retailers. In fact, until a lottery can implement an e-commerce option, improving the in-store experience takes on even greater importance.

Several brands have successfully added to their bottom lines by studying their consumers' needs and behaviors and designing in-store experiences that are natural and adoptable. The fitness apparel company Lululemon offers in-store workout classes. Apple offers full-service sales clerks.

While lotteries may not need to go to similar lengths, it's important to think about reducing the barriers to purchase. Shifting away from 100% service desk sales towards in-lane checkout is one such approach. Based on their appetite for more convenient shopping:

- ✓ 44% of Total and 58% of Millennials state that they would spend more money on lottery tickets if in-lane checkout was an option rather than having to go to a separate counter
- ✓ 64% of Draw Game players and 67% of Instant Ticket players would be more likely to purchase tickets if they were provided in-lane

“Retailers shouldn't be trying to beat Amazon at its own game – they should be focusing on what they do well, and that begins with in-store experience.”¹⁶

– rebusinonline.com

¹⁶ "Online Versus Inline: Success Demands Retailers Focus on Enhancing In-Store Experience," RebusinessOnline.com, March 28, 2017

Overall implications



79%

of adults have their smartphones within arm's reach for 21 hours each day

Mobile

Retail will continue to be an extremely important purchase path, but the category must diversify the options for purchase. Lotteries need to be where consumers are, which is on mobile. Among adults, 79% have their smartphones within arm's reach for 21 hours of the day.¹⁷ Ideally, lotteries shouldn't need to rely just on foot traffic to gain sales and should explore how best to add mobile payment and play.¹⁸



41%

of consumers would spend more on lottery tickets if they could purchase at a self-service machine

Self-Service Vending

41% of consumers say that the total money they would spend on lottery tickets would increase if they were able to purchase at a self-service machine. Although many stores have self-service vending, many consumers aren't aware of it. The industry needs to consider how to optimize the placement of in-store vending machines as well as promote the option to help make it more top of mind.



58%

Younger consumers more likely to increase lottery spending with an in-lane purchase option
vs. consumers over the age of 35 (38%)

In-Lane

With half of consumers seeking a convenient shopping experience, it's crucial to streamline the in-store shopping process and not rely only on the service desk. Working with legislators and retailers is crucial to optimizing and modernizing the purchase experience from start to finish.

¹⁷ "10 Mind-Boggling Stats from Mobile World Congress," AdWeek.com, March 5, 2015

¹⁸ AdWeek.com, Smartphone trends

About

International Game Technology is the global leader in the lottery and gaming industries. We enable players to experience their favorite games across all channels and regulated segments. From slot machines and social games to lottery terminals and business management, we anticipate the demands of consumers wherever they decide to play. As the lottery category leader, we serve 39 out of the 45 jurisdictions in the United States offering lottery and run 79% of wagers through our systems. We also assist 27 national lotteries including the United Kingdom, Finland, Poland, Czech Republic, Italy, Mexico and Colombia.

Contact

For more information about IGT's *For the Win, A Global Study of Players Motivations* please contact:

Gerard Caro, Senior Director of Marketing Insights
gerard.caro@igt.com



IGTTM

Insights360
Growth through understanding