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Instant Appeal

Instant games have been the most significant driver of growth for lotteries in recent years and continue to represent a great opportunity globally to drive profits and transfers to good causes.

Among the many drivers of lottery growth, optimizing the instant category stands out for its proven track record and further high potential.

Instant products represented more than 89% of U.S. lottery sales growth between 2012 and 2017 (\$10.9 billion out of \$12.2 billion of total lottery growth¹). The category currently generates about 60% of total U.S. lottery sales and contributes to about 50% of gross gaming yield and net player spend.²

The benefits to lotteries from optimizing instants can be both substantial in size and quickly brought to market. For example, in the first year of IGT's lottery management operations in the U.S., we partnered with our lottery customers and grew instant sales by 28.3% in Illinois (FY 2012), 14.1% in Indiana (FY 2014), and 11% in New Jersey (FY 2015).³ Instants represent a great development opportunity in the international space as well. In Italy, IGT's Lottomatica grew instant sales of Gratta e Vinci by 207% in its first full year of management (from 2004 to 2005).⁴ Bringing international markets to the same share of instant sales already achieved by U.S. lotteries could generate more than \$34 billion in incremental sales. With this in mind, what is the best way to go about optimizing and growing the category?

Maximizing Instants Growth

IGT's approach to working with lottery customers to develop instant sales is summarized in the 6 Pillars of Instant Success (see Figure 1), a framework that covers all the category dimensions we leverage in supporting our lottery customers across the globe.

Figure 1



Overarching the Six Pillars is the Vision, which articulates the most significant value-creation opportunities for the lottery and defines the expectations in terms of financial targets and time required for implementation. The Vision builds on the situational assessment of a specific instant program, a key area where IGT's experience can help. Through our involvement with and understanding of multiple jurisdictions around the world - each with its own regulations, products, retailer footprint, and operations - and our direct management of lotteries in North America, Europe, and Central and South America, we can provide an outsider assessment and insights to help customers refine and sharpen specific aspects of their overarching goals and objectives.

Once the Vision has been established, it is possible to plan the actions within each of the 6 Pillars. The relative importance of

each pillar in terms of opportunity varies greatly across jurisdictions, based on local regulations and market conditions. For example, in a non-mature instant market, lotteries can grow significantly from introducing higher price points, improving their retailer footprint, and enhancing the communication and promotion of the category. In this way, Lottomatica was able to grow instant sales in Italy from less than €300 million in 2003 to more than €10 billion in 2011,⁵ a 36x growth in eight years, equal to a compound annual growth rate of over 50%.

As a market matures and the low hanging fruit has been harvested, maintaining growth becomes more challenging. Once a market matures, a more varied product segmentation can better serve specific customer needs and propel growth, so typically the variety of products on the market increases significantly over time. This is true across several industries, from health and beauty care, to detergents, to entertainment, and more. In the case of instant games, continuing to extend the portfolio game count indefinitely is not a viable option, because the available retailer footprint is often difficult to expand given the comparatively limited retailer commission for lottery products (versus the typical trade margin for non-lottery products, which can be 15-25 percentage points greater) and, particularly in some international markets, the stringent retailer payment terms. The more a market matures, the more critical it becomes to optimize every available aspect of the value chain.

Optimizing Instants in a Mature Market

There are a number of instructive examples of successful growth initiatives applied across the globe, illustrated in Figure 2.

Pillar 1: Portfolio Design

Significant growth in mature markets has come in recent years from reconfiguring the price-point mix of the portfolio, from the addition of new play styles, and from leveraging the needs of player segments that were not perfectly addressed by existing products. Examples include:

- A few jurisdictions benefited from discontinuing non-extended play \$3 games and instead offering more variety in \$5 and \$10 games.
- Extended play games have proven a very effective way to develop incremental sales, addressing a

Figure 2



previously unsatisfied latent demand. They are played by a loyal player base that, over time, can be upsold to a higher price point, with minimal cannibalization of the pre-existing offering and of the other games at the new, higher price point. Crossword has traditionally been the strongest play style in this category and in several places still represents a key opportunity. Increasingly in some jurisdictions, Loteria performs very well and should be considered based on the jurisdiction demographic. Most recently, in selected U.S. states, it even overperforms Crossword.

- The introduction of less traditional prize structures (for example two-prize-tier games or other games that do not pay a face-value prize) contributed to greater diversity in the portfolio and appealed to specific player segments. Some of these games can also be more profitable for the lottery, as they can be offered at a payout lower than a typical game at the corresponding price and can help to (at least partially) offset the increase in blended payout resulting from the migration to a higher average price point.

Pillar 2: Individual Games

Great additional value can be generated by curating the mix of the portfolio offered in terms of play style, graphics, color, and prize structures.

In recent years, IGT has identified significant opportunities in prize structure optimization. A clear understanding of what matters to different player segments allows a lottery to efficiently leverage the prize pool, delivering a superior playing experience at payout parity. In a few jurisdictions with strict regulatory constraints on payout, we supported significant re-allocations of the prize pool to meaningful prizes that resulted in a better playing experience even while lowering the games' overall payout and increasing profitability. This has enabled a shift in the price-point mix toward higher prices, which would not have been possible without the prize structure optimization.

The addition of a larger quantity of meaningful, mid-tier prizes is also a great lever to promote winner awareness and win retailers' and consumers' full endorsement of a game.

Pillar 3: Consumer Promotion

Consumer-driven marketing is key to driving awareness. Among the most effective current practices are using multiple channels for consumer promotion and leveraging digital means of communication and contextual media at retail.

For example, in addition to buying placement ("push messaging") on social media channels, lotteries can post content that generates word-of-mouth attention and

create advertising that is customized and contextually relevant. Content management systems and social listening tools can be used by lotteries to optimize and customize ads, spotting online conversations that may be relevant and posting responses. Joining the conversation by pulsing questions and responses increases brand relevancy.

Outside of social media, lotteries can consider other aspects of the customer journey where lottery may not be top of mind and a contextual ad or in-store experience can help to drive awareness, for example, focusing ads around touchpoints that complement a game's theme or player benefit.

Pillar 4: Logistics and Distribution

Recent success cases include leveraging digital signage solutions to communicate the value of the innovations offered on instant games, building on the impulse nature of the category through in-store communication. Optimal product placement is a key success factor for an impulse-buy category. IGT has developed a set of processes, tools, algorithms, and KPIs that ultimately optimize retailer inventory, support lottery customers in planning for product placement from the product ideation, and monitor the effectiveness of sales execution in order to maximize the efficiency of the available retailer footprint. These include:

- Innovative planning processes designed to ensure that new launches can be effectively implemented on the market.
- Streamlining ticket ordering processes and optimizing the mix of retailers reached through different channels (self-reorder, automatic re-order, telesales, etc.). This includes monitoring the performance in terms of game activations, the portfolio carried by retailers (planogram compliance), and stock-outs, and providing improvement targets for each one of these.

- Using predictive ordering solutions such as Order Wizard, which IGT is further enhancing with the application of machine-learning techniques. Currently, 16 North American lotteries are supported by an IGT instant-ticket predictive ordering tool, accounting for more than 110,000 retailers and \$25 billion in annual sales. In Italy, IGT's Lottomatica ordering processes successfully serve more than 65,000 retailers that collectively generate more than €9 billion in sales.

Pillar 5: Retail

Several recent initiatives have proven to be effective in supporting instant sales growth, including offering chain-specific promotion plans to chains that are willing to improve in-store ticket display and promotion; increasing the vending machine footprint (adding vending machines and/or improving their position within the store); adding cashing and cashless features to vending; and pushing newer operating models (for example, the route sales model, where the product in the store is maintained by lottery staff rather than by the retailer's employees) or accounting features, to ease the recruiting of chains that feel uncomfortable with the operating challenges of instant games.

Pillar 6: Digital

The digital channel is a great and evolving opportunity to expand the player base. On top of the opportunity offered to promote/advertise games, the possibility of exploiting interactive channels clearly depends upon the regulatory context. In the most progressive jurisdictions, such as the Nordic countries and Italy, where lotteries have a complete portfolio of digital verticals including skill-based games, sports betting, casino games, eInstants, and traditional lottery games – and often compete directly with vertical, specialized, interactive B2C operators – great results have been achieved

in making the brand relevant and attracting new and different players. IGT continues to evolve its instant game offerings and currently enhances the traditional instant play experience with interactive components including Augmented Reality (AR) games and games for free and for fun, or what we call Play-for-Fun. The most immediate application of these Play-for-Fun games is with interactive games offered as part of a second-chance promotion to add both value and entertainment.

An Integrated Approach

Across all pillars, what cements success is execution, execution, execution, and a robust system of metrics that enable a lottery to effectively track performance and apply the appropriate levers to optimize the portfolio, the operations, and the processes. One of the key factors that enable lotteries to overcome the challenges posed by growing in a mature market is the ability to smoothly integrate marketing and sales activities from the planning phase. IGT has developed proprietary methodologies, tools, and processes that we are happy to share with our customers to support the growth of their returns to good causes.

One of the ways IGT can add value to our customers' perspective derives directly from our experience in managing lotteries in Europe, North America, and Central and South America, and from supporting more than 30 other lotteries around the world. This global perspective, integrated with our customers' knowledge of their local markets, enables us to help lotteries quickly develop a clear vision of where an instants program currently stands and which areas offer the greatest opportunity for value creation. IGT's Same Store Sales teams, located around the globe, ensure day-to-day support in the planning/monitoring/execution phase to unleash the potential in each jurisdiction, driving lottery profits and revenues to good causes. We welcome additional inquiries on how we can support lotteries currently not served by our Same Store Sales team and are excited about the opportunities to further learn from the interaction with our customers to help the industry to further thrive and grow. ■

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Each year for the past 5 years, U.S. lottery customers supported by IGT have outperformed the industry growth average, and in FY2017 they performed more than 4 percentage points higher in year-over-year percentage growth than non-IGT facilities management (FM) customers.

Percentage Instant Sales Increase vs. Prior Year

	FY13	FY14	FY15	FY16	FY17
U.S. Total Instant Sales	5.2%	4.4%	7.5%	7.5%	2.8%
Instant Sales of U.S. IGT FM Customers	6.5%	5.3%	7.7%	8.1%	4.1%
Instant Sales of U.S. Non-IGT FM Customers	2.1%	2.1%	6.9%	5.8%	-0.8%

(Calculations based on La Fleur's data)

¹ La Fleur's World Lottery Almanac

² IGT estimate

³ Source: New Jersey 2015 Annual Report; Hoosier Lottery 2014 Annual Report; Wagering in Illinois, 2015 Update: Commission on Government Forecasting and Accountability, September 2015.

⁴ Agenzia Autonoma Monopoli di Stato (Italy)

⁵ ibid.