

# OVERCOMING OBSTACLES ON THE JOURNEY TO iLOTTERY

## Lotteries Look to Join Retail World with Online Sales

Jim Acton, Lottery Industry Consultant and PGRI Editorial Contributor

In January 2017, Virginia Lottery director Paula Otto appeared before Virginia's House General Laws subcommittee to make the case for expanding iLottery in Virginia, which currently allows only subscriptions. Director Otto noted that the Virginia Lottery has been selling online for ten years, but that an expansion could increase revenue for the Commonwealth by an estimated \$25 million for education over five years. Otto cited successes in other states and presented details of how brick-and-mortar retailers would be included in the program.

But a coalition, led by convenience store owners, sounded the alarms in front of the

same committee. "It's bad for business," said Chuck Duvall, a lobbyist representing 7-Eleven. "Customers don't just buy lottery tickets. They buy cigarettes. They buy soft drinks. And sometimes they buy beer. And all of those are higher markup items than the lottery ticket. So if we don't have that body in the door, we are probably not going to sell those other products."

Despite the overwhelming evidence that the lobbyist's claims are not borne out by experience, elected officials sided with the retailers and the iLottery bill was overwhelmingly defeated by the subcommittee.

"It was disappointing but we gave it our best shot," Otto said. "Clearly, we need to continue to work with our traditional retailers to assure them that we are interested in attracting new players, not taking away their current ones." For the past five years, Virginia's strategic plan has focused on growing the player base as a responsible way to grow revenues.

"Lotteries need to keep pushing for additional platforms on which to sell our products," she continued. "The market has changed. Our strategy for long-term sales, profit and player growth includes digital innovation with the goal of creating an omnichannel delivery system. We believe this strategy complements digital efforts underway at the most successful traditional brick-and-mortar retailers. iLottery is just one component of our digital strategy."

The trend of a small number of coalitions banding together to fight U.S. lotteries as they search for additional sources of revenue has grown during the past few years. Associations as diverse as the National Association of Convenience Stores and the Virginia Assembly of Independent Baptists have joined forces to thwart the move to the

internet. And their activities have delayed, altered and, in some cases like Virginia, stalled lotteries' efforts to expand their businesses and, ultimately, increase revenues for good causes.

The National Association of Convenience Stores (NACS) has been particularly forceful in this fight, on both the federal and state levels. Locally, they send representatives to testify at legislative hearings and publish scathing op-eds in newspapers. Federally, their lobbyists are fighting the Department of Justice's interpretation of the Wire Act to weaken lotteries' role in online gaming.

So far, four states offer same day/single-ticket online lottery games:

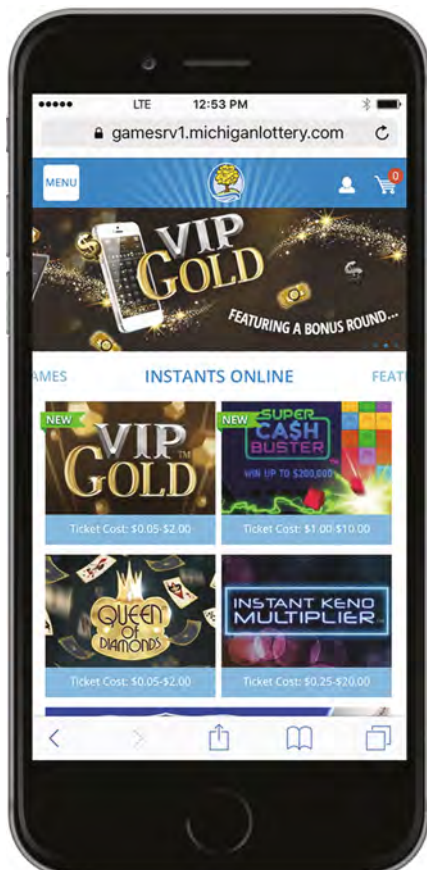
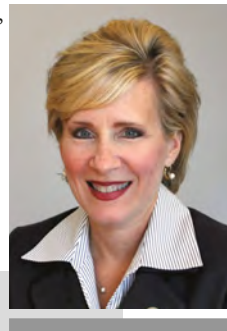
- Illinois (March 2012)
- Georgia (November 2012)
- Michigan (August 2014)
- Kentucky (April 2016)

These lotteries will be joined by New Hampshire in 2018 as NH Governor Chris Sununu signed legislation in June allowing the lottery to sell its products online.

A number of other states, like Virginia, offer subscriptions only.

### OPPONENTS FIGHT BACK WITH DUBIOUS RESEARCH

New Hampshire's success in passing iLottery legislation came at a time when its southern neighbor, Massachusetts, has struggled against fierce opposition. Opponents of online gaming have resorted to the distribution of self-created, erroneous "research." Case-in-point – the attempt to move along iLottery legislation in Massachusetts. Each year for several years, iLottery legislation has been introduced only to fall apart. In 2017, thanks to countless meetings with key legislators and information dissemination,



proponents felt they had their best chance.

But in May, a bomb was dropped on the process. The Boston Globe ran a story headlined “Voters Oppose Online Lottery, Survey Finds.” The article starts as follows: “Nearly 70 percent of Massachusetts voters do not support legislation that would allow the state lottery to sell tickets online, a new survey has found.

Just 5 percent said they support expanding the lottery to include Internet games “very” strongly, the survey found, while 7 percent said they support the proposal “somewhat” strongly.”

The article stated that the research was funded by Princeton Research on behalf of a coalition that included the New England Convenience Store and Energy Marketers Association, Massachusetts Package Store Association, and Boston Convenience Store Owners Association. But nowhere in the article is it outlined the methodology of the research or how the questions were asked.

One of the more outrageous or perhaps more accurately, uninformed, comments was from Jon Hurst, president of the Massachusetts Retailers Association, who said, “Abandoning the current system for a model which has yet to be proven successful anywhere in the country is simply bad policy,” he said.

But this is the hyperbole that lotteries are facing as they look to modernize their operations.

In the Virginia debate, a common talking point of the iLottery opposition groups was underage gambling. “I’m still concerned about verification online,” said Eddie Aliff, director of the Virginia Assembly of Independent Baptists. “Kids are smart, and I just don’t know how you are going to do that.” This despite the fact that online player verification is often times stronger than that of brick-and-mortar lottery retailers.

## FOR ILOTTERY ROADMAP, LOOK TO MICHIGAN

Someone needs to send the opposition groups the results of the Michigan Lottery’s experience.

In 2012, Scott Bowen, at the time the Michigan Lottery’s Executive Director, began implementing a plan to bring iLottery to his state. Bowen undertook countless



meetings with Governor Rick Snyder’s office as well as key legislators. And those meetings paid dividends, as he received support right up to the Governor.

“The Governor said ‘It certainly makes sense to distribute lottery products through any method that will help drive sales. And, frankly, I can’t understand why it’s not happening already,’” said Bowen, who now works for NeoPollard Interactive as the Senior Vice President of Business Development. “We also met repeatedly with retailers and as a concession, told them we wouldn’t include either of the Daily 3 or Daily 4 games in our online sales. That gesture seemed to placate some of their concerns.”

A study on the Michigan Lottery’s iLottery efforts certainly supports the state’s online decision. In a December 2016 report by Digital Gaming Group on the Michigan Online Lottery, much like online gambling, the online lottery customer and the traditional brick-and-mortar lottery players tend to be two different players.

“The Michigan Lottery’s success story should be a page in the book of every lottery looking to convince its stakeholders of the value, certainty and complementary nature of this new sales channel,” the report states. Additionally, the report found existing lottery customers who register online accounts don’t decrease land-based spend.

“Multi-channel growth has been observed across the globe where iLottery is present and the industry is finally obtaining domestic evidence as well,” the report concludes.

As Bowen travels across the U.S. helping lotteries chart their iLottery futures, he said the Michigan results are proof that iLottery can succeed.

“The Lottery just passed the \$1 billion mark in iLottery sales and at the same time, retail sales are up 16%,” he said. “It’s been proven – in Michigan, Canada and everywhere in the world where Lottery products are sold online, that iLottery brings in more people. The more distribution points you have, the more you can take care of the demand for your products.”

And research shows that consumers want more lottery options via the Internet. A 2016 KANTAR TNS Research consumer survey of 1,000 adult Virginians found that

63% feel it is appropriate to expand lottery offerings on the Internet and another 20% are neutral. In terms of purchase intent, 34% of said they would “definitely or probably” buy a lottery ticket via the Internet. Additionally, 85% of Virginians said it is just as acceptable if not more acceptable for the Virginia Lottery to have the same type of online selling ability as horse racing and fantasy sports.



## VENDORS, NASPL HERE TO HELP

For lotteries looking to implement an iLottery program, there is help. Most of the large vendors have some type of interactive division which can work with lotteries on their online plans. And the National Association of State and Provincial Lotteries provides support to member lotteries. In fact, on its web site NASPL provides info to help lotteries debunk the most common myths about online lottery sales:

**“If lottery sales are allowed on the internet, retailers will lose considerable sales.”**

Although relatively new to the United States, online games are a staple in other countries, where they have

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## Younger Lottery Winners

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Andrew Hunter, a 26-year-old who works in software, said he does not buy lottery tickets, but his grandmother does.

“If I was going to bet money for entertainment it would probably be on sports betting versus lottery, just because it’s more interactive,” he said after leaving the same store.

In that same article, New Hampshire Lottery Director Charlie McIntyre noted, “Most millennials don’t want to wait two days to see if they won the Powerball. They consume entertainment content just much faster than consumers did 20 years ago. We’re not broke, we’re just at the inflection point where a failure to change will have a steep decline over time.”

Getting younger players to try the lottery is one of the goals of the Executive Director of the lottery that happily celebrated millennial winner Chuck Davis. Paula Otto said that while she is thrilled that Chuck enjoyed the same good fortune as thousands of his fellow Virginians, the Virginia Lottery needs to continue to work to attract younger players.

“We found it interesting that Chuck ‘learned’ to play the lottery from his grandmother,” Otto said. “That’s perhaps a great insight, that millennials who grow up with lottery playing parents or grandparents are in a different category than those who aren’t familiar with the lottery.”

“Like many lotteries, our main focus for younger players is offering our products digitally and in an engaging way whenever possible. Cashless is also important. Our new on-line subscription system through NeoPollard accepts debit. We’re also excited to be offering debit as an option later this year on our new IGT self-service machines. We know most young people don’t carry cash. Even my generation doesn’t always have cash!”

Of course, earning blaring headlines on nationally-recognized web sites that normally don’t report lottery news can only help the efforts of all lotteries:

### **Virginia Football Players Wins The Lottery – Literally**

SportsIllustrated.com, June 30, 2017

### **Look How Happy This UVA Player Is After Winning \$100,000 In The**

**Virginia Lottery, This Is Just So Great,**  
SBNation.com, June 30, 2017

### **Cavaliers CB Chuck Davis Hits It Big With \$100K Win In Virginia Lottery**

ESPN.com, June 30, 2017

### **Virginia Football Player Wins \$100,000 Lottery Prize – And The NCAA Can’t Touch Him!**

Herosports.com

“As we like to say in the PR business, ‘You can’t buy this kind of publicity,’” said Paula. “But while I think any stories that show the lottery industry in a positive light are welcome, we need to do more. Selling tickets where millennials spend their time – in the digital arena, for example – is certainly one tactic. As an industry, we need to solve this issue...and quickly.”

Perhaps the Virginia and New York lotteries can sign up winners like Chuck Davis and Anthony Lavarone as spokespeople (although given NCAA rules, the Lottery would have to wait until AFTER Chuck graduates). Anthony, for his part, said he is using his winning to start a landscaping company (“I’ll probably just go and buy a new truck,” Lavarone told the New York Post after his big win. “That’ll be my fun thing.”).

Or maybe the Virginia Lottery should hire Chuck’s grandmother.

“My grandmother has been playing the Lottery for years,” Chuck said. “Pick 3, Pick 5, MegaMillions, Scratchers – she plays them all. She’s done o.k. over the years.”

“And she taught me everything I know about the Lottery,” he added. ■

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## iLottery

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increased public awareness and interest in lottery games as well as attracting new customers for all games. Offering games through digital channels can create new sales opportunities for retailers as well as lotteries. For example, online play “gift” cards that are available only at retailers. Or rewarding online players with free ticket coupons that must be redeemed at retailers.

Providing an online games option to players is a proven success in other countries and holds great promise in the United States to broaden the industry’s customer base by

attracting new – and younger – players to all lottery games. The public increasingly is turning to the internet for personal, business and entertainment uses. Adapting to the widespread use of that technology can position lotteries and retailers for ongoing success in the future.

**“If lottery sales are allowed on the internet, compulsive and underage gambling will rise.”**

In many respects, online lottery sales provide a MORE responsible platform due to a key element that’s not available at retail-imposed limit setting. Available platforms provide daily, weekly and monthly deposit limits that address how much a player can put in their account for wagering. There’s no way we can track how much an individual spends at a retailer on a given day – but through the internet we have this ability, and can throttle down how much a person spends. This is in addition to other activities laid out in the National Council on Problem Gambling’s Internet Gambling Standards that include self-exclusion, time outs and informed decision making to name a few. Stringent age verification measures at registration – including checking numerous databases – combats underage gambling issues.

New Hampshire Lottery Executive Director Charlie McIntyre echoed many of these points as the iLottery legislation was being approved.

“For us, it’s just an evolution of how we do business,” McIntyre said. “We’re not really selling anything new. We’re just doing it in a different way.”

And if Lotteries can convince their retail associations and other naysayers that iLottery is good for them as well, perhaps more lotteries can modernize like their counterparts in other industries. ■



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