

# Why iLottery expands the player-base and benefits retailers:

## Land-based retail sales grow in spite of because of iLottery growth.

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Following is an article based on the keynote presentation by Drew Svitko at PGRI Lottery Expo NYC on October 29, 2019 in New York. You can view a video of the complete presentation at [PGRItalks.com](http://PGRItalks.com).

Land-based retailers are the face of lottery to the consumer. In the U.S. alone, retailers sell over \$80 billion in lottery tickets a year. Retailers trust us to protect their interests and they are concerned that making lottery products available online may cause some of their customers to make less purchases at their stores. Retailers have also expressed worry over potential cannibalization negatively impacting their sales of lottery products. When Paul asked me to talk about this, he suggested the title be “Retail sales grow in spite of iLottery growth.” I approved, but with the modification that retail sales are growing not “in spite of”, but because of iLottery growth. As U.S. states receive authorization to sell online, we are finally able to demonstrate to retailers that not only is iLottery not hurting retail - it's helping. The Pennsylvania Lottery launched its iLottery program in May 2018 and we are already seeing brick-and-mortar sales benefit, because of iLottery.



### **ILOTTERY AND IN-STORE SALES GROWTH**

We began the journey leading up to our iLottery launch by meeting with many retailers, retailer trade groups, and legislators who were concerned for their retailer constituents. The Pennsylvania Lottery was generating about \$4.1 billion in sales through our land-based retailers. We assured them that their revenue stream would continue to grow. They got on

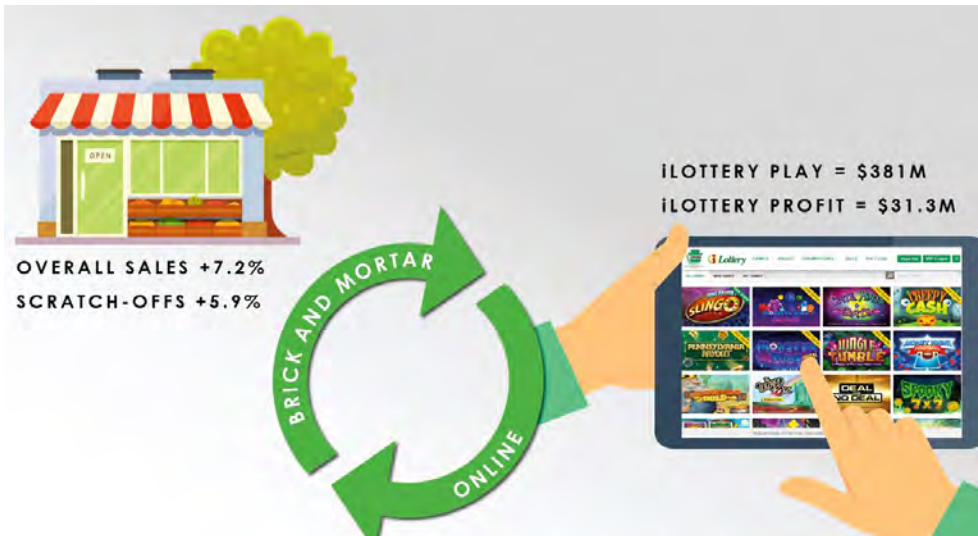
board, but they in turn assured us that we would be held accountable for our promises.

We saw that by applying well-established PA Lottery Best Practices, iLottery was, in fact, helping to fuel in-store growth. The Lottery was expanding its

player base, becoming more relevant to the modern consumer, giving retailers a reason to support iLottery by engaging them in the process of player acquisition.

A key goal from the beginning has been to build an interactive relationship with our online players and leverage that online connection to drive those same customers into stores and generate incremental in-store spending. We wanted to integrate the digital and physical sides of our business to benefit both the lottery and our retailers. Because of the example in Michigan that preceded us, we knew that there was no evidence that iLottery would hurt traditional retail. In fact, it was quite the opposite – traditional retail continued to grow along with the launch and subsequent growth of the iLottery channel. Like many of you, last year we had our best year ever. Of course, the jackpot games were a big contributor. Overall sales were up 7.2% and jackpot sales were up about 6%. But in the meantime we did \$381 million and generated \$31 million in profit from iLottery in our first year. Sales continue to grow this year. Non-jackpot sales





continue to grow at retail too, and we're on track for brick-and-mortar sales to continue to grow while iLottery play does a half-billion dollars in just its second year in Pennsylvania.

We started with a disciplined approach toward executing on a comprehensive plan to use iLottery to strengthen the relationship with our traditional players and drive them back into the store and generate incremental spending. To do that, we needed to fully understand the motivations of the players.

## EXPANDING THE PLAYER BASE

While young consumers, twenty-somethings, shop in brick and mortar stores it's very common for them to ignore our displays, machines and POS material. They walk right past us to buy the products they came in for and they're not even seeing us. We saw iLottery as an opportunity to re-shape that consumer perception of lottery for the benefit of our retailers. iLottery is making the products and brand more relevant to our traditional players, and it is attracting the attention of a new audience.

iLottery has helped us improve our relationship with those players and offer them incentives to walk into stores and purchase other products. Retailers already know that the lottery customer buys other products and is a very profitable customer for them, and we remind them of that, too. We explain how iLottery is an engine that attracts the attention of new consumer groups who become lottery players who also play at retail and buy their milk, bread,

eggs, and other products while they play at retail. We use specific cross-promotions online to drive the community of online players back into the stores. iLottery is effectively promoting our retailers. And they know it. Once retailers see how this is working to their advantage, they come around to supporting our iLottery initiatives, and help us figure new and better ways to connect with the consumer

promotions and holiday games, is being leveraged to create a more engaged consumer for the retailer as well as for the Lottery. An example of that is our GRUMPY CAT® game, which we offer in all those formats. We have the scratch offs, we have an iLottery version, and we have a Fast Play version of that game. We also cross-promote the game by giving incentives to everybody who plays the iLottery version of GRUMPY CAT®, a coupon that is redeemable at the retail store. For example, play \$20 worth of GRUMPY CAT® online and you might get a \$2 Fast-Play coupon or a free \$2 scratch off ticket. And we're seeing about 20-25% coupon redemption rates from those products; absolute

iron-clad proof that we're driving iLottery players into stores where they make a purchase. And retailers are seeing that.

The old perception that retailers don't support iLottery is changing. They are now coming to us and wanting to be an active participant in the development of an integrated plan to engage the multi-channel player.

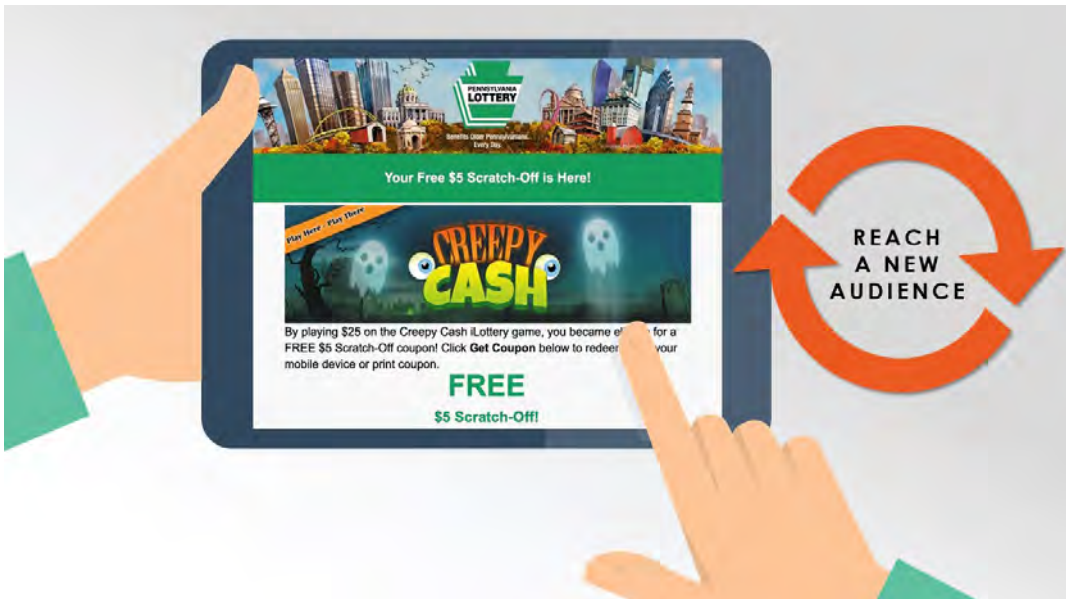


Almost 40% of our iLottery play is coming from people under the age of 40 and that's definitely a shift towards a younger demographic.

and create that multi-channel interactive relationship that benefits everyone. The Lottery brand, and our investment in licensed properties as well as well-funded

We have found that iLottery players are about 10 years younger than traditional players. Almost 40% of our iLottery play is coming from people under the age of





flexibility. As a result, we launched a revised referral program where we give them the option of continuing to have that profit-share as a percentage of the net gaming revenue for a couple years, or a flat \$75 for every customer that they help sign up for iLottery. Retailers may also earn a bonus commission if a player they referred wins \$100,000 or more.

Here is how it works: The retailers have a brochure and that brochure has a unique code specific to that retailer. For every player who enters that code online and sets up an iLottery account, that retailer gets \$75 cash as soon as that player makes as little as a \$10 deposit. Additionally, there is a hybrid plan that offers \$25 cash combined with a smaller share of the revenue. These programs engage the retailer in the success of our player acquisition efforts. But you can see, and our retailers can see, that they also reinforce the feeling of trust and confidence in our partnership, and our commitment to helping them succeed and make money from iLottery.

WebCash is an iLottery funding mechanism sold at the traditional retail terminal. To give players an additional reason to

buy Webcash, we created a special offer. iLottery players who buy Webcash at retail get a \$25 iLottery credit for only \$20 at retail. It is an effective iLottery player acquisition tool for us, the retailers get a standard commission from it, and the iLottery customers who go into retail to buy a lottery product end up buying other products while they are in the store. Win-win-win. These may be small things but added together they absolutely have an effect. I think about 7% of Michigan's iLottery player deposits was coming from that program and four or five months into the program, we've seen WebCash making up about 5% of total deposits. We are confident that it will continue to grow and we will continue to develop tools like this that integrate the digital and physical sides of our business.

*Continued*

**EARN EXTRA MONEY with the iLottery Referral Program**

**PROFIT SHARE**      **FLAT FEE**      **HYBRID PLAN**

**EXPAND THE PLAYER BASE BY INCENTIVIZING RETAILERS**

iLottery customers who go into retail to buy a lottery product end up buying other products while they are in the store. Win-win-win.

40 and that's definitely a shift towards a younger demographic. That is relevant to retailers, because it is yet more evidence that we are reaching a new audience. But our integrated approach is not just for launching iLottery. It's ongoing. Our key strategy is to build online relationships, appeal to players through multiple channels of distribution and media, for the benefit of the retailers and the players alike. We'll continue to add more games and features. We want to give credit to our friends in Michigan who showed us and the retail

community how iLottery complemented and augmented consumer engagement at retail.

Another lesson that we learned from our friends in Michigan was the value of a referral program. We launched iLottery with an affiliate program that also gave retailers a share of the net gaming revenue that we generated from players for the first couple of years of the player's new iLottery life. But our conversations with retailers revealed that they wanted more

## Drive Online Players Back to Retail

Our goal is to build a full integration of the two sides of our business – online iLottery and off-line traditional retail - a full integration of every component. We continue to work on ways to drive iLottery customers into retail and to drive retail customers to iLottery. Our prepaid debit card - we call it “Play Plus” - is a physical card and a branded iLottery funding mechanism that allows players to load money into their iLottery account and also get money out of it. That money becomes redeemable at retail. Most of our retailers have a PIN pad device connected to their terminals that enables them to accept this debit card. “Play Plus” is also compatible with our vending equipment which already has debit card readers. Again - integrating the two sides of our business.

Player acquisition is a big cost to building an effective iLottery program. It is vital to engage retailer support and active involvement in the process. Some of our best and biggest affiliates who have well-established digital programs are benefiting in a huge way from the affiliate program. By simply providing a link to iLottery on a website, these affiliates are earning additional revenue, some of them significant revenue.

Part of our integration of online and off-line channels is to discontinue the use of terminology that reinforces the perception of differences. Over time, we will stop referring to “iLottery” and just call it the Pennsylvania Lottery – play online. Whether you play on your mobile or vending machine or at the clerk-assisted retail counter – it’s all still lottery gaming, and you’re playing the Pennsylvania Lottery.

We are also working on another payment methodology - a mobile pay that enables the players to use their phone to pay, and a mobile wallet, which will allow not only mobile pay but also will allow use your mobile app to cash tickets. Imagine having a \$10 Powerball® winning ticket and being able to use your PA Lottery app to take a picture of the bar code, for us to then do all the validations and debt collection in the background and in a couple seconds have that money deposited into your iLottery wallet. And then being able to use that iLottery wallet to buy things at retail - not just lottery products but other products. We should have that within a year or two.

Retailers don’t want to keep more cash in the drawers than necessary. So we are looking to expand the “Play Plus” card to provide retailers a way to load money onto that card, enabling the retailers to

pay a prize without using cash. Another benefit to retailers is that the funds on the consumer’s “Play Plus” card can then be used to buy other products or more lottery products.

The main idea is that we are highly focused on creating a full integration of the digital and physical sides of our business. And we want our retailers to be our partners in helping players to easily migrate across multiple channels. That is what the players want, it is what we want, and it is what brings in new consumer groups, drives store traffic, and increases sales for our retail partners as well. As always, constant communication and genuine transparency will continue to be the key to maintaining the positive and productive relationship we have with our retailers.

Develop a plan to integrate both sides of your business. Communicate that plan to your retailers. You will grow your player base, you’ll increase retailer engagement, and you’ll grow sales and profits both for the retailer and for your lottery.

Thank you. 🇺🇸

