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Focus On: Retail





Advanced Portfolio Management: Solving the Dilemma of \$1 and \$2 Games

One and \$2 scratch games have long been an industry staple, due in part to higher returns for lotteries. It's no secret consumer demand for both price points has been waning. In the U.S., sales of \$1 games have plummeted 64% since their height of popularity in 2006 – down from \$4.5 billion to \$1.6 billion in 2022. In 2007, \$2 games reached sales of \$6.9 billion vs. \$3 billion in 2022, a 56% decrease.

As players choose to purchase higher price point games, lotteries are taking a hard look at their lower price point games. But revising the mix of lower price points in isolation creates an incomplete view of the portfolio. Managing a strategy for the entire portfolio ensures that product interdependencies and a well-rounded view of player demand and changes in the market are considered.

“Lotteries are asking for a data-driven strategy for their \$1 and \$2 categories. In answer to that, Scientific Games takes a holistic approach encompassing all games and price points within the portfolio through the lens of 15 Determinants of Demand to responsibly maximize sales and gross gaming revenue,” explains Angela Saviano, Principal

Marketing Specialist for Scientific Games, who's studied industry sales and retail trends for 15 years.

This next evolution of portfolio management provides a deeper level of product understanding by taking a multifaceted approach using in-depth analysis, predictive analytics and research to understand and meet the needs of the market and the wants of the consumer.

A Closer Look

In reality, across the entire supply chain, there's just about as much effort in product planning, working paper creation, logistics, and sales and marketing efforts for a \$1 game as there is for a \$5 or \$10 game. So, the lost opportunity cost of launching a \$1 game over another price point must

be considered. This is especially true as the industry continues to try to ease the pain points retailers associate with selling lottery products.

“The solution might appear to be to remove \$1 and \$2 games; however, our research and analysis over the past year provide evidence of the critical roles these games play for consumers and in a lottery's portfolio,” shares Saviano.

New players are definitely entering the instant game category at higher price points – specifically the \$5 – than existing players. But when asked the cost of the first scratch-off they ever played, Scientific Games researchers found that 23% of new players still say \$1 vs. 16% at \$5.

“It's easy to understand why a first-time player would be willing to risk a dollar or two to see if they like the product vs. spending \$5,” Saviano says.

Some lottery directors and product managers believe \$1 games are required for new player entry; while others say they are seeing players entering at the \$5 price point, so they aren't concerned.

“Our research shows that both are correct. While \$1 games are not nearly the requirement they used to be, eliminating \$1 games may not show a

decrease in sales initially but might discourage some from entering over time,” Saviano explains. “A player entering with a \$1 game doesn’t know whether that game is new or old. The takeaway is that you don’t need a lot of novelty at this price point.”

Play Experience and Motivations

The question on many minds is whether \$1 games are the best play experience for new players, with payouts so low. But if this logic is followed to its ultimate end, the best play experience for new players would be a \$50 or \$100 game given the evolution of products.

“We all know that the majority of new players aren’t going to enter at \$50 or \$100. The play experience for new players is critical. Which is why Scientific Games has undertaken a deep discovery process through research and prize structure analysis to truly understand how different win amounts are perceived by players at different price points,” she says.

A major component of that research is the company’s ONE Segmentation study, which categorizes consumers by groups or segments based on shared player/non-player characteristics and motivations. It helps determine which products to offer, where to reach the player segment and what messaging will resonate best. Scientific Games Chief Marketing Officer Jennifer Welshons innovated the study during her 23 years leading analytics and insights at the company, and it was recently refreshed. Fourteen lotteries have incorporated the ONE study in their marketing strategies.

“The entry point for new players really comes down to motivations. With the latest generation of ONE, we have explored the influx of new players, the role each instant price point plays and much more,” shares Welshons. “It’s important that lotteries understand that motivation is critical to product development and marketing. They must know the ‘why’ to effectively reach consumers. But for a full view of players, they also need to overlay the ‘what’ or the behavioral aspects.”

The company’s research shows that 65% of lower price point players would prefer to win between \$11 and \$50 more frequently than a chance to win a bigger top prize. This doesn’t mean lotteries shouldn’t have games in market with higher top prizes, it simply means that they should have the proper balance of value propositions at

each price point to reach the largest audience. And keep new players coming back with what they perceive as fun and exciting play experiences. As an example, \$1 games fill the roles of winter holiday games and gifting.

“The play experience itself for a \$1 or \$2 game hasn’t necessarily decreased. Players can’t buy as much with their winnings but maybe that’s cause for reinvesting those winnings in the chance at a bigger prize with the next game,” Saviano shares.

Advanced Portfolio Management

Scientific Games takes a multifaceted, data-driven approach to portfolio management using four pillars:

- 1. Data Analytics** – Sales, GGR, games in market, five-year CAGR, and SCiQ market basket analysis.
- 2. Existing Consumer Research** – ONE Segmentation refresh.
- 3. Primary Research** – Additional consumer research, including a nationally representative sample and branding questions, both specific to the \$1 and \$2 categories, and another extensive study on consumer roles across all price points.
- 4. New Tools like Predictive Modeling Tool and Feature Engineering** – Assists in revenue and GGR projections based on changes to the portfolio and helps define the most sales impactful game interactions.



To properly evaluate changes happening throughout the portfolio, lotteries need to define price point anchors at the high and low end of their products. The right-side anchor has been sliding up for decades. In fact, the average selling price increased by 46 cents in calendar

year 2022. While this ongoing change in consumer behavior might lead to the easy conclusion of shifting the lower price point anchor from \$1 to \$2, the entire story isn't that simple.

"The \$1 price point still fills a critical role in the portfolio. The answer isn't to remove it altogether but, instead, to strategically realign its purpose within the portfolio and consider the role of each of the price points within the portfolio," Saviano explains.

Data Analytics

The company's analytics show that \$1 games accounted for only 2.5% of sales and 3.7% of GGR nationally in calendar year 2022. Across all U.S. jurisdictions, the \$1 category has a five-year CAGR of -6.7%, down more than 1% from 2021. Weekly per capita sales ranged from \$0.03 to \$0.22 with a mean of \$0.09. The number of \$1 games in market ranged from two to 17 with a median of six.

"In general, what we witness across the country is that more mature lotteries tend to have fewer \$1 games in market and those games are responsible for a lower percentage of sales and GGR," Saviano points out.

The \$2 price point accounted for 4.8% of U.S. retail sales last year, which represented 7.2% of GGR. Similar to \$1 games, the five-year CAGR for \$2 games is -6.2%. Weekly per capita sales for \$2 games ranged from \$0.64 to \$0.09 with a mean of \$0.19. The number of games in market ranged from three to 15 with a median of six.

Similar to the \$1 category, more mature lotteries tend to have fewer \$2 games in market and those games are responsible for a lower percentage of sales and GGR.

A quick look at what's happening with U.S. market share for the \$1 and \$2 games combined, vs. \$20 and higher games, shows that the ROI on the lower price point games is not comparable to higher price points. In calendar year 2022, \$1 and \$2 games made up 34% of total

games produced but represented only 8% of sales and 11% of GGR in the US. In contrast, \$20 or higher price point games accounted for only 12% of games produced but represented 43% of sales and 39% of GGR. From calendar year 2019 to 2022, the number of \$1 and \$2 games has decreased by 17% while the number of \$20 games or higher increased by 47%.

A level of purchase behavior analysis – possible via market basket data from SCiQ (Scientific Games' retail ecosystem) – finds that \$1 games are included in 13% of all transactions. Of those \$1 transactions, 29% bought only one game and 65% purchased only \$1 games. But the most critical takeaway is that 58% of all \$1 purchases consisted of only the same game.

The numbers are very similar for \$2 basket purchases, with 24% of baskets including \$2 games. Of those transactions, 31% purchased only one game and 65% of \$2 baskets consisted only of \$2 games. And, similar to the \$1 category, 59% of all \$2 ticket purchases consisted of only the same game. This data provides strong support that fewer \$1 and \$2 games on market will complement current purchasing behavior.

As a point of reference, \$5 games are purchased most often at 36% of baskets, followed by \$10 games and \$2 games at 24%.



Because \$1 and \$2 price points play an important role for consumers and in lotteries' portfolios, changes in the overarching \$1 and \$2 strategy must take these roles into account to avoid a negative impact on sales, GGR, the lottery's brand, and alienating players.

Lower Price Point Research

Scientific Games research shows that \$1 and \$2 games have broad appeal across both new and existing players. Eighty-two percent of new players and 76% of existing players reported they typically purchase \$1 tickets, and 85% of new players and 78% of existing players report they typically purchase \$2 tickets.

an unplanned purchase of?” 25% of players said they would be most likely to purchase a \$1 game on impulse. Tied for second were \$2 and \$5 games, at 20% of players each.

3. **Good Use of My ‘Spare Change’** – 57% of light players and 37% of core players said that they buy \$1 and \$2 games because it was good use of spare change.

4. **Part of a Family of Games** – 72% of respondents said \$2 games should be included as part of a family and 61% said \$1 games should be included. These games came in second and third, respectively, behind \$5 games, which 82% of respondents selected to be part of the family.

5. **Winter Holiday-Themed Games** – Very popular with players, in fiscal year 2023 these games indexed higher than other \$1 games in all but eight states, with a U.S. average of 124.

6. **Gifting** – Lower price point games are popular as gifts. The most frequently gifted price point is \$5 followed by \$1 and \$2 at second and third, respectively. The most common gifting occasion was the winter holiday season, with 92% of “lottery gifiers” giving at this time and birthdays coming in second. In total, 67% of scratch players report that they have gifted a \$1 or \$2 game for one of these two occasions.

“When creating prize structures for each of these occasions, it is important to remember to have the intrinsic value meet expectations,” says Saviano. “For example, 65% of lower price point players stated that they would rather win

smaller prizes more frequently than have a large top prize at these price points. So, a holiday gift tag would be the perfect occasion to offer a prize structure with many smaller prizes.”

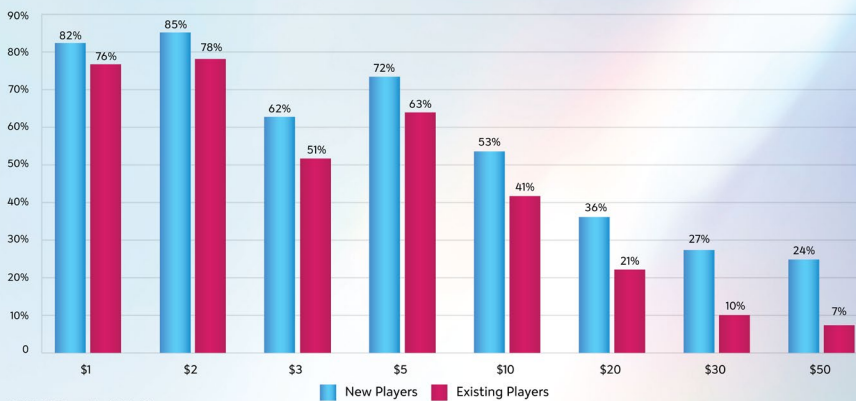
Scientific Games’ nationally representative \$1 and \$2 survey took a closer look at \$1 and \$2 player frequency behavior. Responses indicated that \$1 and \$2 players are highly engaged, and these price points are also popular with all player segments in the ONE Segmentation.

In total, one in three respondents said that they have played instant scratch games in the past year. Of these respondents, 61% said they play \$1 games at least monthly and

\$1 & \$2 Games Have Broad Appeal



\$1 & \$2 games still have the highest reach across most of our player groups
“Which price points do you typically purchase?”



SOURCE: ONE™ Segmentation, 2023 (N = 401)

\$1 and \$2 Games Play an Important Role in Portfolio



- Entry Level Price Point
- Impulse Purchase
- ‘Spare Change’ Purchase
- Part of a Family of Games
- Winter Holiday Games
- Gifting



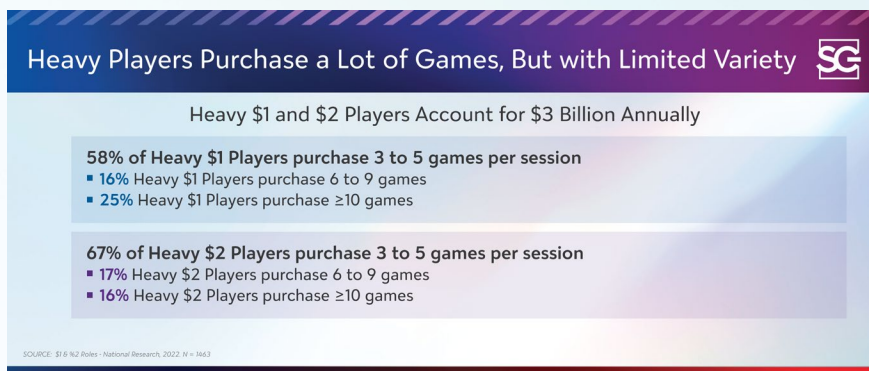
SOURCE: \$1 & \$2 Sales - National Research, 2022 (N = 1463)

Scientific Games conducted extensive research and analysis of the needs and wants that \$1 and \$2 games fill for players and distilled these findings into the six most important occasions for these lower price point games:

1. **Entry Level** – 43% of all respondents answered \$1 when asked, “What was the price of the FIRST instant scratch-off game you ever purchased?”
2. **Impulse Purchases** – When asked “Which price point for instant scratch-off games are you most likely to make

58% reported that they play \$2 games at least monthly.

A deeper dive into the purchasing habits of “Heavy Players” at the \$1 and \$2 price points showed that they purchase a lot of games but with limited variety.



These players account for more than \$3 billion in annual \$1 and \$2 sales, or 64% of industry-wide sales. The findings indicate that 58% of Heavy \$1 Players purchased three to five games per session, with 25% purchasing 10 or more games per session. And 67% of Heavy \$2 Players purchase three to five per session, with 16% purchasing 10 or more tickets per session.

“While Heavy Players are a very active segment, it’s important to remember that through market basket analysis we know that they aren’t buying a large variety of games,” says Saviano.

Strategies and Recommendations

“We’re all aware that \$1 and \$2 games are problematic for most of the industry and some lotteries have started to adjust their strategies accordingly. But lotteries risk losing

sales if they remove \$1 and \$2 products altogether,” she cautions.

Supporting this position, Scientific Games research found that 7% and 8% of players indicate they would no longer play scratch-off games if the \$1 and \$2 price points were eliminated, respectively.

“Now that we understand the weighted importance of \$1 and \$2 games, we are developing new practices for execution that consider those weights. We are shifting the balance of effort to match the balance of consumer buying and thus helping lotteries increase their return on investment,” explains Welshons.

Adjusting a strategy for one or two price points is not the solution; the interdependencies of all price points must be considered.

“The \$1 and \$2 dilemma everyone is talking about is not solved with just a lower price point strategy. Consumers don’t view instant products siloed by price point – they view games across the entire lottery product portfolio,” Saviano reiterates.

Understanding what role each of these price points plays for consumers and determining how to clearly establish value propositions between and within price points is necessary to create a strong and sustainable lottery portfolio.

“We know several lotteries are experimenting with \$1 and \$2 games, and others are watching closely because there really isn’t an easy, one-size-fits-all answer. Our recommendation is to stay tuned. We are following the analytics and applying the

research to help evolve and manage the entire portfolio to protect returns to good causes,” advises Welshons. ■

NOTES: A new player was defined as someone who started playing lottery in the last two years, and an existing player as someone who started playing lottery more than two years ago.

Heavy players are defined as players who play at least weekly and purchase three or more games on occasion, or monthly and purchase six or more games; they make up 27% of \$1 players and 20% of \$2 players.

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