

The NASPL/NCLGS LOTTERY ADVERTISING SURVEY
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SUMMARY OF SURVEY AND RESPONDENTS' COMMENTS FROM NASPL

Several months ago, the National Council of Legislators from Gaming States approached NASPL regarding our opinions on the relationship of lottery product advertising to lottery sales. Over the following months, we solicited opinions and received relevant comments from over twenty of our members speaking to the question, **“Do you believe there is a direct correlation between increase or decrease of lottery product advertising expenditures with the rise or decline of lottery sales and profits?”** As many of the responses were similar, the following provides an overall summary of their comments. We have also provided selected comments which are specially pertinent to this question.

It should be recognized that just like a Coke, a Hershey bar, a MacDonald's hamburger or a can of Campbell soup, the overall consumer sales of lottery products benefits from advertising. Advertising increases consumer awareness which is critical in the impulse product market. Additionally, given the heavy amount of advertising investment that lottery competitors such as entertainment entities, point-of-sale products and others vying for disposable income dollars make, it is imperative that lotteries market themselves to remain competitive.

We have quickly found that is extremely difficult to make “apples-to-apples” comparisons using advertising budgets from state to state. Each lottery is legislated and regulated by their individual state boards, commissions and legislators, and each lottery operates under its own set of regulations and within their own budget. The advertising budgets from lottery to lottery will not always include the same line items. The advertising budgets in some lotteries include only expenditures for advertising production and media buys, where other budgets may include expenses for public relations, point of sale items, premiums, promotions, sponsorships, and even prize expenses. Lotteries may also be working under either fixed annual advertising budgets, or their budgets may be more flexible and based on a percentage of sales.

Lottery advertising to a great degree is a subjective science. Its impact on sales is determined by a combination of creative concept and execution, media placement, games that are offered, new game introductions, prize payouts, jackpot sizes, the economy, etc. The finest marketing campaign cannot, in the long run, salvage a flawed product, just as the consumers' perception of best product can be deflated by an expensive but flawed marketing campaign. We can always point to examples of good advertising that boosts sales and bad advertising that does not, yet the failure of misdirected advertising campaigns is not taken as evidence that advertising does not matter. Instead, it serves as a signal to change direction and to try to do better next time.

Proving a direct correlation between advertising and sales is nearly impossible since there are simply too many other variables that impact sales. A reduction in advertising expenditures as demonstrated in some lottery jurisdictions has definitely been proven to show a negative impact on sales and revenues. Focus groups conducted in lottery states that have experienced reduced or static advertising budget indicate that reduced advertising reduces specific game and overall lottery product awareness levels. Directly, instant games that are advertised – sell quicker than non-advertised games. Non-directly, advertised jackpots sell tickets at a greater pace than non-advertised high jackpots although the jackpot itself is the lure.

There are also other examples of lotteries that have faced reduced advertising budgets, yet managed to increase their sales. During these years, factors other than advertising have not remained static and there are certainly other factors that have influenced the sales increases. Lotteries are continually evaluating and modifying their product mix, introducing new games, modifying game prize structures, and promoting jackpot awareness. These modifications coupled with the free media generated during “jackpot mania”, can often increase sales with minimal spending on advertising.

Advertising is used with the short and long term goals of maintaining top-of-mind awareness with consumers. Increases in gaming competition, gasoline prices, and competition for discretionary dollars make it a necessity for lotteries to advertise in order to compete in the retail environment. As with any product, a lottery must continue to drive their product demand through creating awareness of products and benefits, and creating excitement through product special promotions to keep the product offers new and interesting. If a lottery does not advertise and promote, it becomes volatile to the competition: charitable gaming, casinos and other entities that offer this type of entertainment and games of chance. Lotteries must continue to promote top-of-the mind awareness in games, features, special promotions and winner awareness in order to be competitive.

The bottom line is that all lotteries operate under the mandate to maximize their revenue transfers to their state beneficiaries, coupled with the expectation that this transfer will continually grow from year to year. Additionally there are the caveats placed on the lottery that they are continually in the public eye and must be cautious of their advertising content and audience, continually promote responsible play, and always maintain their integrity. It becomes evident that lotteries face a difficult challenge.

Specific Comments:

From a Mature Mid-Western Lottery:

"It is not enough to spend in quantity; one must also spend wisely. The sales increases enjoyed by our lottery during fiscal years '04 and '05 followed a reassessment and redirection of our marketing dollars as recommended by a committee of outside marketing experts. The "decrease" seen in our advertising expense represents the elimination of costly promotional programs that were deemed ineffective. Our budget for traditional advertising was not reduced. Finally, we must remember that advertising has both short-term and long-term benefits. A focus on immediate results will obscure the long-term effects. Studies of lottery advertising have shown that while increases in advertising can have a rapid effect, it takes time for the impact of advertising reductions to be noticed."

"If lotteries are to maintain their toehold in the market, we need every tool available to us. Yes, reductions in advertising budgets may result in a short-term boost to the bottom line, but our private sector competitors know this will be quickly negated by the long-term effects. We urge legislators to take the long view and continue to provide your lotteries with the means to effectively compete."

From a Mature East Coast Lottery:

"This November, our lottery launched its first Raffle-Style game. At the same time we lost our long-term advertising agency, resulting in an abrupt loss of most of our advertising efforts. Advertising for our products did not resume until December 18th. Raffle game sales were divided into two parts: 11/20 – 12/17 (before advertising) and 12/18 – 1/1 (during advertising). Although the latter period is about 50% shorter than the first one, total sales went up by 31% compared to the first period. Daily averages went up by almost 150% and the majority of the increase is attributable to advertising. Although this example only accounts for a small portion of our advertising budget, it is an unmistakable example of how our advertising efforts do have a direct correlation to our sales."

From a Young Western Lottery:

"In our state, there is a direct correlation between our increased sales and increased advertising expenditures. The advertising budget is created as a percentage of actual sales. Increased sales generate additional advertising funds which, when effectively utilized, generate additional sales. There are certainly other factors that have added to the increased sales, such as substantial population growth, but this has also substantially increased the cost of media used to promote and educate our players."

From a Mature Canadian Lottery:

"Many of our players tell us they play games that are "popular" and they know they are popular because they see them on TV. In addition lottery is a low involvement, low consideration purchase that is sold in environments where up-selling or suggestive selling is very hard to obtain. As such our games need mass media to both create awareness and re-enforce buying decisions. The two best examples of this are for our Jackpot on-line games and new Instant ticket launches. When our jackpots roll we have a very small time window to make our players aware of the jackpot and get them to buy a ticket. Our lottery has conducted no spend and high spend tests that have shown spending on jackpot awareness increases sales. In addition we have modeled a variety of instant launches some with media and some without. There is a

direct correlation between game awareness and total sales. The higher the awareness the higher the sale and advertising is what fuels awareness.”

Spreadsheet Overview:

The Advertising Budget Change spreadsheet provides a summary of actual expense and revenue statistics provided by those US member lotteries responding to our Advertising Budget survey.

As an example please refer to the chart summarizing **FY '02 vs. FY '01** statistics: As shown in column 1, **17** lotteries provided statistics for this period. Of those 17 (as shown in the next columns) **7 experienced Increased Advertising Budgets** vs. the previous year, **7 had Decreased budgets**, and **3 had no change** in their ad budgets. The following columns show the changes in **Advertising Expenses, Total Sales** and **Profits** for those lotteries. For example, of the **7** lotteries that experienced an **Increased Advertising Budget**, all **7** reported **Increased Sales** and **Increased Profits**. Of those **7** lotteries that experienced a **Decrease in Advertising Expenses**, **6** showed an **Increase in Sales**, and **1** showed **No Change**. For those same **7** lotteries, **6** reported an **Increase in Profits**, and **1** reported a **Decrease in Profits** vs. the previous year.