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Sweepstakes Gaming – Competing for the Consumer’s Dollar

Mirroring the rise of “Grey Machines,” Sweepstakes Gaming has rapidly gained a foothold in the broader gaming landscape, emerging as yet another competitor for the consumer’s entertainment dollar. Also like Grey Machines, the Sweepstakes Gaming industry has achieved its market presence by structuring its business in such a way to circumvent the stringent oversight and regulation that traditional gaming enterprises, such as casinos and lotteries, are required to operate under. In this issue of *Data in Motion*, we provide an overview of Sweepstakes Gaming, delving into its operational model and potential impact on the overall gaming industry, particularly lottery.

What is Sweepstakes Gaming?

Sweepstakes Gaming platforms operate online, offering many of the same games that traditional casinos offer, such as slots and table games. But with Sweepstakes Gaming, the fundamental distinction lies in the currency used: players use *virtual currency* instead of real money and, importantly, they can acquire this virtual currency entirely free of charge (the “No purchase necessary” clause). Since players can technically play the games without a direct monetary exchange, the activity is legally classified as a “sweepstakes” rather than traditional gambling.

This distinction hinges on the legal definition of gambling, which typically requires three elements: “consideration” (the exchange of something of value), “chance” (the outcome of the activity is determined, at least in part, by chance or a contingent event not fully under the control of the person participating), and “prizes awarded” (receive something of value in the event of a specific outcome).¹

By removing that first element – consideration – Sweepstakes Gaming navigates this legal boundary.

Gaming Categories by Legal Definition			
Type of Game	Prizes are awarded	Chance determines winners	Consideration is required
Gambling / Lottery	✓	✓	✓
Social Casino	✗	✓	✗
Sweepstakes	✓	✓	✗
Contests / Skill Gaming	✓	✗	✓

The Sweepstakes Gaming model works because it is based on a dual virtual currency system – Gold Coins and Sweepstakes Coins.

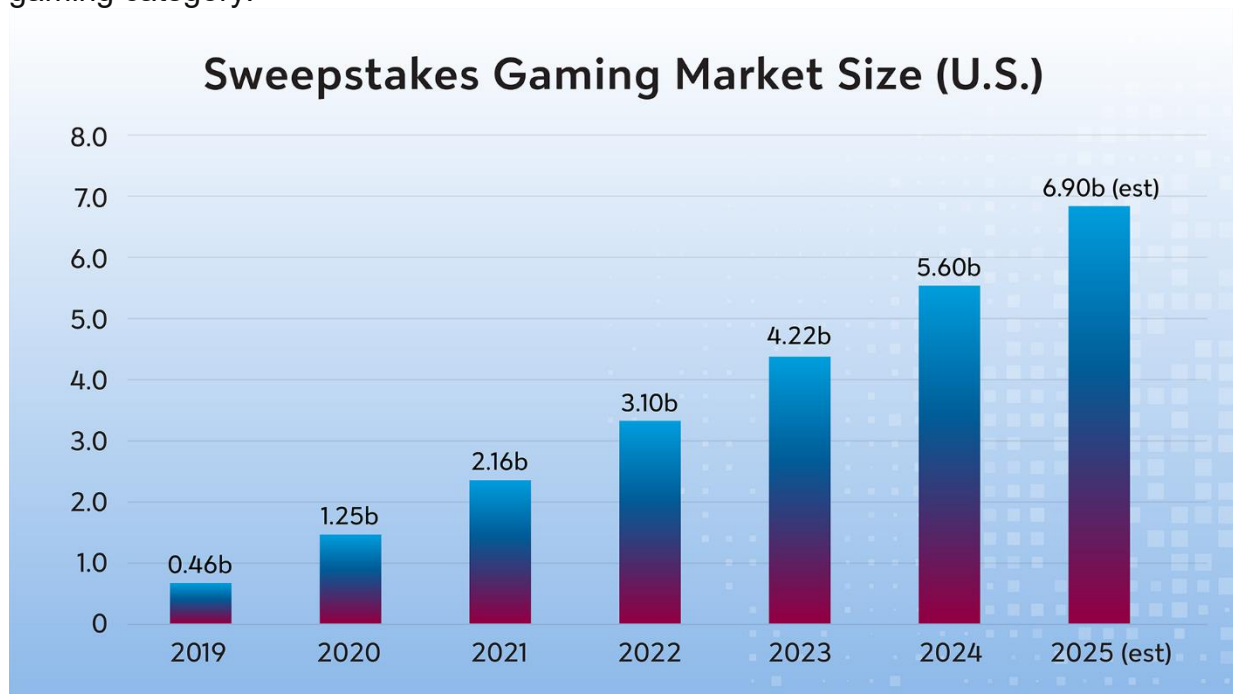
- **Gold Coins:** These are provided for free in limited quantities and are what players use to play the various games. While players can obtain additional Gold Coins for free through various methods (e.g., daily bonuses), the primary revenue stream for Sweepstakes Gaming operators comes from players purchasing additional Gold Coins to extend or enhance their gameplay. Operators actively encourage these purchases, often rewarding players with bonus Gold Coins or other incentives.
- **Sweepstakes Coins:** Unlike Gold Coins, Sweepstakes Coins cannot be purchased directly. Instead, they are “awarded” to players as a bonus when they buy a certain number of Gold Coins or participate in non-game activities, daily logins, mail-in requests, or social media promotions. Players cannot use Sweepstakes Coins to play games, but they can exchange Sweepstakes Coins for real-world prizes of value, such as cash or gift cards.

It is this dual currency model – Gold Coins for free-to-play entertainment, and Sweepstakes Coins for prize redemption without direct purchase – that enables the Sweepstakes Gaming industry to operate as a “sweepstakes” and avoid the comprehensive oversight, licensing, and taxation frameworks that traditional, regulated gambling sites must operate under.

Sweepstakes Gaming Market Size

The Sweepstakes Gaming market saw significant growth in 2020, propelled by shifts in consumer behavior during COVID-related market conditions. This growth trajectory has continued steadily, with projected revenues for 2025 estimated at just under \$7

billion.¹ That equates to a Compound Annual Growth Rate (CAGR) of 31% from 2022 to 2025, underscoring the rapid expansion and increasing consumer adoption of this gaming category.



Final Word

Currently, Chumba Casino, owned by Virtual Gaming Worlds, is by far the largest Sweepstakes Gaming operator with an estimated 90% market share.² Chumba Casino is active in 48 U.S. states, with Washington and Idaho being the only two exceptions where it does not operate due to differing interpretations of the "no purchase necessary" clause.

As both Grey Machines and Sweepstakes Gaming continue to blur the definition of regulated gaming, it is important that the lottery industry stay informed and proactive. The growth of these unregulated sectors presents several challenges and opportunities:

- **Competitive Pressure:** Sweepstakes Gaming directly competes for the same entertainment dollar that lotteries seek, potentially drawing away casual players with its "free-to-play" allure and casino-style offerings.
- **Player Perception:** The lack of regulatory oversight in Sweepstakes Gaming can create confusion among consumers regarding fairness, responsible gaming

practices and prize payout guarantees, which could indirectly impact public trust in regulated gaming.

- **Innovation Imperative:** The rapid adoption of online sweepstakes models underscores consumer demand for convenient, digital gaming. For lotteries, this isn't just about offering more games but strategically evolving digital portfolios to further enhance user experience, developing next-generation game formats and features, and leveraging strengths in responsible play and prize integrity to differentiate and foster player trust.
- **Responsible Gaming:** Unlike regulated entities, Sweepstakes Gaming operators aren't bound by the same stringent responsible gaming requirements. This presents a significant opportunity for lotteries to further emphasize their commitment to player protection and responsible play as a key differentiator.
- **Advocacy and Education:** The lottery industry has an important role in advocating for clear regulatory frameworks across all forms of gaming and educating the public about the distinctions between regulated, responsible gaming and unregulated or quasi-legal offerings.

Ultimately, by understanding the evolving competitive landscape, staying agile in product development, emphasizing responsible play and leveraging its established trust, the lottery industry can continue to offer consumers an engaging, transparent and responsible playing experience, safeguarding vital contributions to good causes.

Sources:

1. Eilers & Krejcik Gaming, Intro to Sweepstakes Gaming, 2023
2. SCCG Management

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A Note from the Editor:

We started Data in Motion in 2020 as a way of staying engaged with our lottery friends and partners during COVID. It was so well received that our initial distribution list quickly grew and now Data in Motion goes out to 4,200+ people and is forwarded on to countless others. It has been my honor to be Data in Motion's editor these past five years and I have worked with a lot of smart, talented people in the process. I am retiring soon, so this is my last issue, but I wanted to thank you, our readers, for making Data in Motion what it is – a thoughtful collaboration of curious minds wanting to better understand this strange and wonderful industry we have chosen. Cheers.

JP Candler

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