

Insights and Data to Help Manage Today's Changing Consumer Environment

Lower price point instant scratch games (\$1 and \$2) have long been a staple of the lottery industry. Historically, they have been seen as an entry point for new players and a low-cost option for lighter players and gift givers. But it's no secret that demand for both price points has been waning, and for quite some time. In this issue of Data in Motion, we take a closer look at lower price point games and provide some data-based recommendations for how we as an industry should address their decline.

Overall Sales Up, Lower Price Points Down

Sales of \$1 instant scratch games in the U.S. went from a peak of \$4.5 billion in 2006 to \$1.6 billion in 2022, a 64% decline. Sales of the \$2 price point saw a similar drop with sales of \$6.9 billion in 2007 down to \$3 billion in 2022, a 56% decline.¹ Despite these decreases, overall instant scratch game sales continue to climb as players gravitate towards higher price point games. Our research shows that even new players, defined as having played their first instant scratch game within the last two years, are coming into the category at higher price points. So what should lotteries do – if anything – to address this decline in demand for lower price point games?

A Portfolio Approach

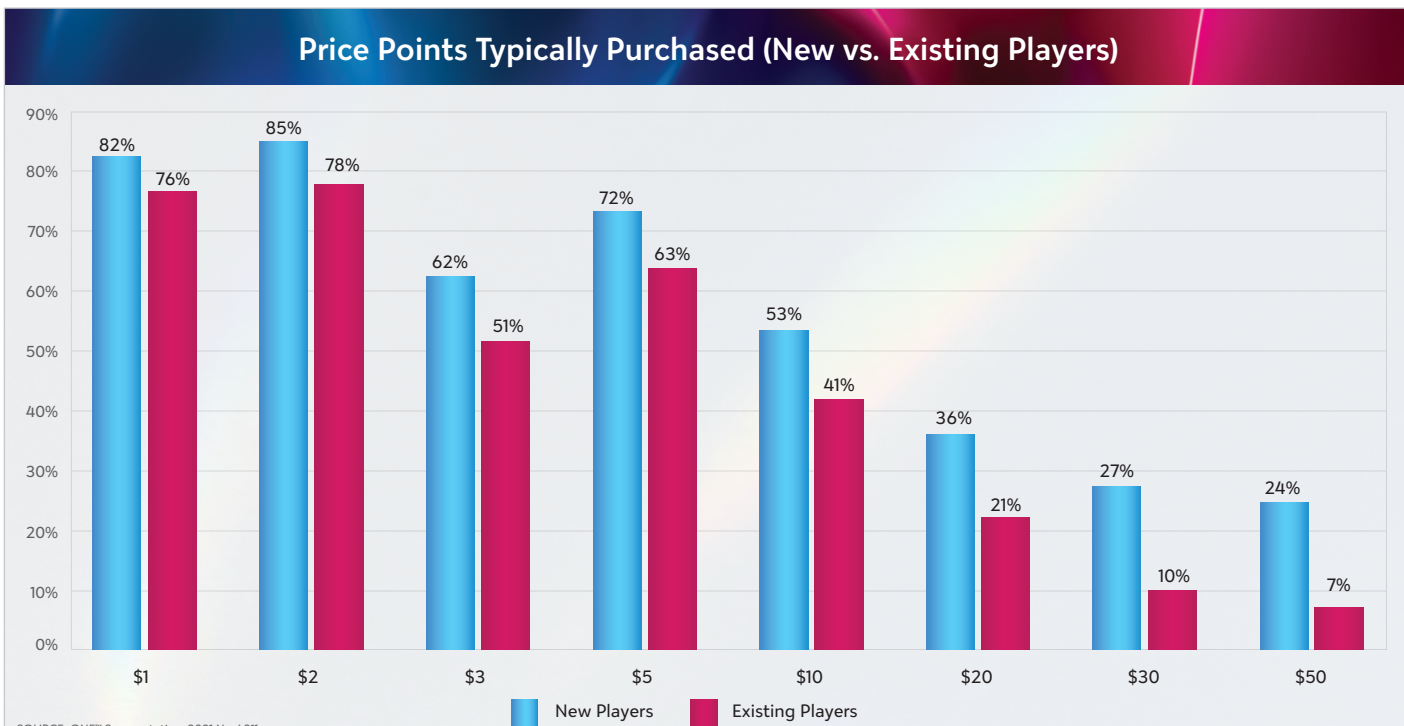
We believe it is important to consider the \$1 and \$2 price points, not in isolation, but in the context of the entire instant scratch game portfolio. After all, players don't view instant scratch games as siloed by price point, but as an entire category of games offering a range of options: different play actions, different themes, different odds and top prizes, and yes, different price points. So our approach goes beyond just the \$1 and \$2 games and takes into account that all of a lottery's price points are interdependent and don't exist in a vacuum.

This portfolio approach enables us to better understand what role each price point plays for consumers and determines how to establish clear value propositions between and within each price point. To achieve this objective, Scientific Games took a multi-faceted, data-driven approach to the issue that included data analytics, existing consumer research, primary research, and a variety of predictive modeling tools.

Still A Go-To for Many Players

Our research and analysis made two things clear: 1) there is still a place for \$1 and \$2 games in a lottery's overall instant scratch game portfolio, and 2) there are tactics and strategies that include the \$1 and \$2 price points which can be deployed to maximize revenue long term.

First, it's important to establish that \$1 and \$2 games still have broad appeal as the chart below² shows:



To fully understand the role that \$1 and \$2 games play in the minds of the consumer, Scientific Games conducted extensive research and analysis of the needs and wants that these price points fill for players.³ We then distilled these findings into the six most important occasions for purchasing lower price point games:

- Entry Level** – When asked what price point they first purchased, 43% of the respondents answered \$1.
- Impulse Purchases** – When asked what price point they typically made an unplanned purchase of, 25% of the respondents answered \$1.
- 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 a good use of their spare change.
- 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.
- 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 index of 124. And a related finding...
- Gifting** – Lower price point games are popular as gifts. The most common gifting occasion was the winter/holiday season, with 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.

Fewer Games in Market

An analysis of purchase behavior – made 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, 58% were of the same game. The numbers are similar for \$2 basket purchases: 24% of baskets included \$2 games and of those transactions, 59% consisted of the same game. So players are definitely buying \$1 and \$2 games – they just aren't buying a large variety of these games.

This data suggests that lotteries should still offer games at the \$1 and \$2 price points, but it may be that they can have fewer of them at any given time. This is where a reimagining of the \$1 and \$2 prize structures comes into play. Our research shows, for example, that 65% of lower price point players said that they would rather win smaller prizes more frequently than have a large top prize at the \$1 and \$2 price points. It stands to reason, then, that if a lottery has fewer games in market at these price points, order quantities should be increased to ensure coverage and prevent out-of-stock situations. By ordering larger ticket quantities, lotteries are able to create stronger, more exciting prize structures that keep players engaged.

The Final Word

In the end, Scientific Games believes that the following tactics should be considered when developing an overall instant scratch game portfolio strategy:

- Keep \$1 and \$2 games as part of your portfolio, but...
- ...launch fewer, more strategically positioned games at these price points, including:
 - Base game(s)
 - Holiday-themed games
 - Family of games (multiplier, numbers-themed, hit/frenzy, select licensed properties)
- Increase the order quantities of these games to create healthy prize structures that offer...
 - ...smaller, but more frequent winning experiences
- Consider pulses of bigger games vs. more/additional new games at these price points

The above recommendations are built on a solid foundation of data analysis and consumer research, but we understand that the issue of how to manage lower price point games is complex and that there is no "one-size-fits-all" solution. As the consumer landscape continues to evolve with additional entertainment and gaming options becoming more widely available, we will continue to monitor the role that lower price point instant scratch games play in meeting the needs of the consumer while delivering revenues to good causes.

Sources:
 1. Infuse, Scientific Games Business Intelligence System
 2. Scientific Games ONE Segmentation
 3. Scientific Games \$1 & \$2 Roles- National Research Study