JACK UPDATE℠: The Monthly Newsletter From Independent Lottery Research. Issue 16, October 2007

Bloc Heads

INTRODUCTION

Well, we spent most of our time in Louisville answering questions about where ILR's monthly newsletters have gone, why had we taken faithful readers off our mailing list, why hadn't we sent a "We Know Jack" update on reactions to $50 instant games, and where was our booth?

No booth at WLA because of insurmountable logistical problems, no Margaret Mueller, Gary Kubo or Brooke Hendricks because of travel conflicts. Matthew Smith, Erika Pawluk, and Michael Jones were there representing ILR and were delighted with how many of you KNOW JACK. It's very gratifying to know that lapsed, infrequent, and non-players are now on everyone's radar screen as important consumer segments to pay attention to.

The monthly newsletter took a summer hiatus as vacations and general busy-ness took over ILR Directors' lives. But, don't worry faithful reader; you're still on the list. We're back this month with a follow-up to our popular MEGA-POWER TO THE PEOPLE newsletter of over a year ago. (Mega Power to the People)

We think you will be intrigued by the poll's findings and find our ILR implications and recommendations interesting. We will be soon moving to an expanded Jack Poll and newsletter, which will be available on a subscription-only basis. We will be offering early bird rates to both lotteries and lottery vendors. Please call Margaret Mueller for details (margaretm@ilresearch.com or 312.321.8293).

Consumer Confidence in the Economy

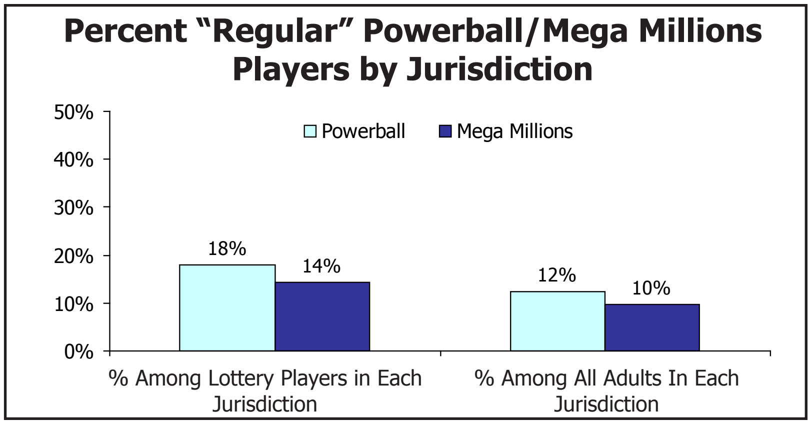
October has seen a mini rebound in the economy as restraints on spending ease and consumers' financial situations improve. Households reporting year-to-year improvement in income rise six points to 49%. Consumers' view of their overall financial situation surges, as 45% say it has improved year to year, a nine-point increase over last month.

	2007									*Change*
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	**Oct**	*Sep/Oct*
INCOME YEAR-TO-YEAR...										
Increased	51%	52%	50%	48%	42%	47%	50%	43%	**49%**	*+6*
OVERALL FINANCIAL SITUATION YEAR-TO-YEAR...										
Better	45	42	40	38	42	46	40	36	**45**	*+9*

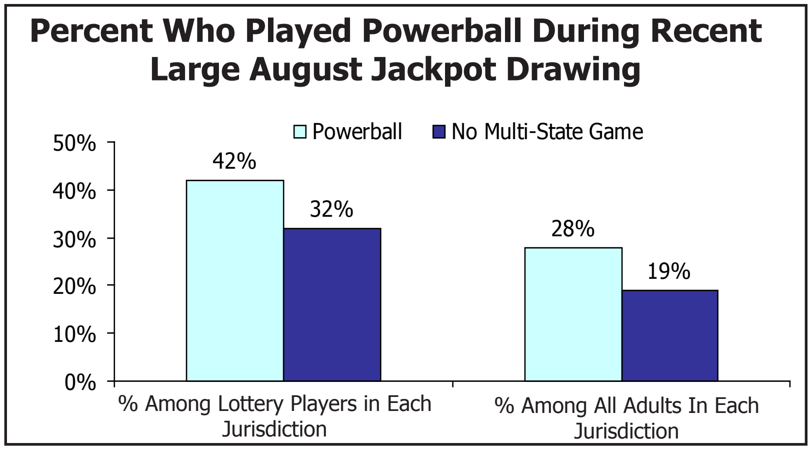
The improved financial situation is making it easier for households to manage their budgets; 24%, seven points more than last month, say it is easier to get by than a year ago (data not shown).

Mega-Power to the People Revisited

Last year (see Jack Update Issue 6, May 2006), we asked consumers if they have ever played Mega Millions or Powerball. Eighty nine percent of lottery players in Powerball jurisdictions have, compared to only 63% of lottery players in Mega Millions jurisdictions (corresponding to 55% and 41% of all adults, respectively).



This year, in September and October we ask about "regular" play of block lotto games by asking respondents to self-define whether they consider themselves a "regular" player of the game. ILR research finds that about 80% of self-defined "regular" players play weekly. The other 20% consider themselves "regular" players, but play less often. Again, regular play of bloc lotto games is slightly higher in Powerball jurisdictions (18% of all lottery players; 12% of all adults) than Mega Millions ones (14% of all lottery players; 10% of all adults).

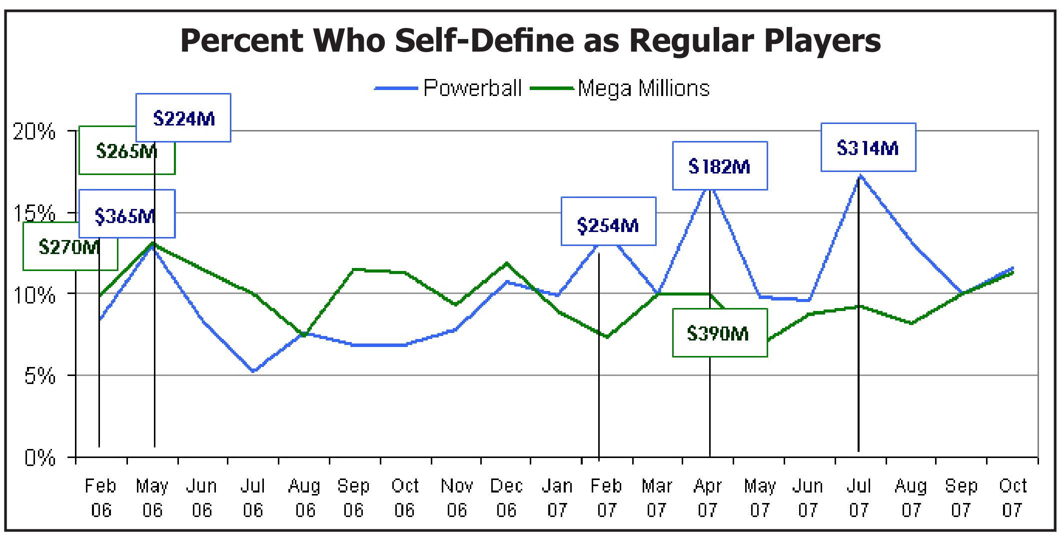


We then asked people about whether they played in the recent large Mega Millions or Powerball drawings. Thirteen percent of adults in lottery jurisdictions reported having played; one in five lottery players say they played (20%). In Powerball states, where the jackpot reached $314 Million in August, 28% of all adults say they played; 42% of lottery players. Even 19% of adults in states with no multi-state game reported having played Powerball during these huge grand prize events.

Those who reported having played in the recent large drawings say they purchased tickets an average of 3 times in the past few weeks, slightly higher in Powerball states than Mega Millions states (3.3 times versus 2.8 times).

ILR has tracked the percentage of adults in each jurisdiction who say they have played the lottery in their state and self define as "regular" players of the lottery ("Joes"). The percentage of adults who self define as Joes fluctuates anywhere between 8% and 13% of the adult population at the national level. What determines this fluctuation and why does it rise even higher in some states at different points in time? Using a longitudinal analysis of the past two years of monthly surveys, we find a strong correlation between recent large Mega Millions and Powerball jackpots and self-reported "regular play" in those jurisdictions.

This "rain shadow" effect has implications for tracking surveys and other research conducted in lottery states. Depending on what is going on in your market at the time the survey is conducted, estimated playership can fluctuate as much as 200% (from 5% in July 2006 to 17% in April 2007 in Powerball states).



Implications

This recent ILR survey finds that while many people play, most do not.

We all know that consumer and media reaction to large bloc lotto prizes is not what it once was. The free press that created "Lotto Fever" comes late, if at all, as a prize grows. And, an analysis that ILR did on sales per Mega Millions drawings during large prize events indeed showed significant sales erosion by prize level over a three-year period.

We have examined the concept of "jackpot fatigue" in previous monthly newsletters and NASPL Lottery Insights articles, and found that our data did not support that it was an actual description of consumer reaction as opposed to an industry palliative. What we discovered then, and what we validate this month, can be interpreted in a number of interesting and actionable ways:

- There are significant opportunities for sales growth within a lottery's most profitable game
- Large numbers of willing Jacks are not participating in bloc lotto games, even at high prize levels and they represent a significant opportunity
- Large prizes still attract greater playership and encourage repeat play

Most troubling of the National Jack Poll this month is the indication that even at a $300 million prize level, three quarters of adults did not buy a single ticket. And, mirroring a surprising finding from our home state, more adults have ***never*** played bloc lotto games than have ***ever*** played.

"Regular" play of bloc lotto games is extremely low, which might not be a problem with fixed payout numbers games but is problematic in a pari-mutuel game like Powerball or Mega Millions. Such low participation has robbed both games of a major feature: a large grand prize that grows dynamically based on sales that increase as the prize is not won. The reality of multiple bloc lotto drawings is that all prize increases are artificial until weeks of un-won grand prizes finally fuel an actual reaction to play, thus producing an invisibility of our most visible game. No one really cares about bloc lotto, nor plays it, for weeks at a time. Then when weeks of un-won drawings result in a prize showing some dynamism, the market sighs rather than cheers.

But, even given such structural flaws and the ennui of media, retailers, and players, ultimately the games become dynamic, and while not achieving the successes of the past, they still represent the best example of why lotteries remain the most popular form of gambling…the audience doubles and many players play more and more for each drawing. Jacks flood in from other states (19% of adults in neighboring states!), and in a short amount of time more sales and profits are booked than any subtle change in instant game prize structures can ever create.

Recommendations

It seems from both experience and data that large bloc lotto prize events are anticipated, but not planned for. We recommend strongly that they be planned for…everything from timely POP, new proceeds messaging, retailer training, cross promotional opportunities, cross selling of other lottery games, pre-selling of upcoming games, things to do while standing in line, public relations plans beyond the norm…these grand prize events are our NFL playoffs and a $300 million prize is our Super Bowl. Our opportunity is to take advantage of a flood of new interest and Jacks from our state and other states buying our bloc lotto tickets.

We also recommend using this data when planning creative and media placement. Over half of our potential audience for our most universal game has never even played it…not even once. Yet they are not religiously or morally opposed to doing so.

Beyond new distribution technologies like cell phones, the Internet, and short codes, our retail space in thousands of retailers should reflect an appreciation of the possibility of grand prize events. A retailer should offer different products anticipating a different audience when Powerball hits $200 million. All convenience stores have different POP and offers from a variety of products leading up to the Super Bowl…why don't we?

Each month we conduct our monthly National Jack Poll SM and will share this information with you. If you would like to suggest a question to add to our poll, email us: info@ilresearch.com.