Final Market Research Report to the Treasurer's Online Product Task Force

4 December 2012

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Overview

Methodology

To assist the Treasurer's Online Product Task Force in better understanding the way in which current and prospective patrons of the Massachusetts State Lottery view the sale of online Lottery products, SocialSphere, Inc. conducted a four-phase market research study beginning in July 2012. The objectives of the study included:

- A review of the demographic characteristics and buying/spending habits of the Lottery's existing customer base;
- Future trends for that base;
- Demographic characteristics and buying/spending habits of potential customers for online lottery/gaming products, including those sold on mobile devices; potential size of the market in terms of customers and revenues; and
- Projected marketing characteristics for online lottery/gaming sales such as customer acquisition, retention, demand for new products, and other relevant factors.

Phase One: Discovery
SocialSphere analysts conducted in-depth interviews (telephone and in-person) with members of the Treasurer's Online Product Task Force, Spectrum Gaming, and the Massachusetts State Lottery Commission in July and August of 2012. Interviews discussed the current state of planning for offering Massachusetts Lottery products online, potential causes for concern, and questions that needed to be answered during the research process.

Phase Two: Statistical Segmentation
Using the past ten years of market research conducted by the Massachusetts State Lottery Commission, SocialSphere produced N=10 Player and Non-Player statistical segments of Massachusetts residents that are relevant to the Lottery's strategic planning. These segments were used to guide our research and to understand which audiences will have the largest potential impact from the introduction of online Lottery products in the Commonwealth.

Phase Three: Qualitative Research
A total of N=4 focus groups were conducted with Massachusetts residents (both players and non-players) to gauge their initial reactions to the concept of selling Massachusetts Lottery products online. These groups were used to identify areas that needed further analysis during the Quantitative Phase of research and potential barriers to play that exist.

Phase Four: Quantitative Research
In October 2012, SocialSphere conducted N=1,150 (n=1,001 online and n=149 at Lottery retailers) interviews with Massachusetts residents 18+ to solicit reactions to the concept of selling Lottery products online.

Phase One: Discovery

Overview

SocialSphere conducted a series of Discovery interviews with key members of the Massachusetts State Lottery Commission (MSLC) and the Treasurer's Online Products Task Force.

Interviews were conducted either in person at the Lottery's Braintree headquarters or via telephone for members of the Task Force who could not attend meetings in Braintree; each interview lasted between 30 and 90 minutes (for a group interview with MSLC officials) and were aimed at gaining a better understanding of the key questions and concerns regarding the current plans of the MSLC and the Task Force.

In particular, the interviews focused on three areas:

- Issues related to game play and design: What concepts are being considered, what restrictions are in place, and how the Task Force and the MSLC are assessing potential options?
- Security and legal issues: What restrictions are in place, how will players fund cards, and what pertinent laws are guiding the current thoughts of the MSLC and the Task Force?
- Marketing and operations: What plans are currently in place for launching the game, is a marketing budget attached, and how will the news about the game be communicated?

Key Findings

Our analysis of the interviews resulted in the development of five (5) key findings that were used to inform subsequent phases of the research.

1. <u>"If we're going to do this, it's worth doing right."</u> While many current models exist for the sale of lottery products online, there was strong sentiment that it's important not to do this in "half-steps." Allowing players to play existing games like PowerBall and Mega Millions online would not likely be enough to justify building an online lottery in Massachusetts. In particular, there was hesitation of pursuing the path that Illinois has pursued.
2. <u>"Don't forget about the agents."</u> Current Lottery retailers have significant concerns with a move to selling Massachusetts Lottery products online. Whatever system is developed, it is important to remember that agents are going to want to ensure that it does not cut into their current sales or agent fees, and that some system is in place for them to reap some of the benefit of a net increase in sales.
3. <u>"You must explore the do nothing option."</u> There was strong sentiment that some form of online gaming would exist in the near-term future, and if the Commonwealth did not engage in online gaming, then a private entity likely would. Whenever projections are considered, the status quo should take into account the idea that it is highly likely in the absence of action, a new competitor will emerge for the MA Lottery.

4. “How do you model the unknown future?” The move to sell lottery products online in the United States is largely unprecedented. While educated guesses can be made about the potential impact, they will be that - guesses - and whatever data and interpretations are provided, they should be clear about the assumptions that they are making and the unknowns being modeled.

5. “Who exactly are these new players?” With a strong likelihood that there will not be a significant marketing budget behind online products, it is important to be able to identify who the potential new players are who are not currently spending on the Lottery. Any and all projections should strongly note what revenue comes from substitution of previous play and what is coming in the form of new revenue.

Phase Two: Segmentation

Overview

The Massachusetts Lottery has consistent market research data dating back to 2003 from Massachusetts residents about the brand, levels of play and key demographic attributes. N=9,032 interviews with Massachusetts residents have been conducted each year since since 2003, with the exception of 2006. Each year n~1,000 interviews were conducted in late winter or early spring (February to April).

This consistent collection of customer data and insight allows us to highlight changes in play perceptions of the Lottery and changes to playing patterns. For the purpose of this study, questions related to frequency of play, games played, and amount spent formed the core of the data used.

All residents in each survey were asked the same question that is used to define their basic player type:

> *"Thinking about the Massachusetts Lottery - which includes (list of current games) - which of the following categories best describes your behavior? I usually play the Lottery at least once a week; I usually play the Lottery less than once a week, but at least once a month; I have played the Lottery at least one time in the last year; I have played the Lottery, but not in the last year; I have never played the Lottery before."*

Weekly and Monthly Players were then asked follow-up questions on how many times in a "typical month" they play the Lottery, which games they play in a typical month, and how much they spend on each game. Light Players were asked which games they played in the past year, how many times they played, and how much they spent.

Our team used a hierarchical segmentation methodology and the following process:

1. Hierarchical segmentation is an iterative methodology; it assesses a data set and finds the two datum that are closest to one another, and it connects them into a "cluster." It then looks for the next closest pair of datum.
2. With the goal of finding the most stable solution, three segmentations were performed: (1) one on Weekly and Monthly Players that yielded four segments; (2) one on Yearly that yielded two segments and; (3) one on Lapsed and Non-Players that yielded four segments.
3. We focused on three primary factors (1) How much did someone spend on the Lottery? (2) Which games did they spend money on when they played the Lottery? (3) How frequently did someone play the Lottery?
4. First we defined individuals that were most unique, the vast majority of Weekly and Monthly Lottery Players play scratch tickets in a typical month, but less than a quarter (23%) play Keno. As such, being a Keno player is considered to be a more important defining feature than being a scratch ticket player.

5. For Lapsed and Non-Players, other factors were used. Because play frequency data is not available for Lapsed and Non-Players, other data was used for segmentation that included attitudes towards the Lottery.

6. Once the segments were created, they were analyzed for demographic and "techno-graphic" profiles.

The purpose of this segmentation was to identify groups that should be studied further in the Quantitative Phase of this research. While these segments are largely described based on their demographics and play patterns, views towards the Lottery drove the statistical clusters and is at the heart of the model. Understanding the factors necessary to create them was important so that the proper questions could be asked in the Quantitative Phase to ensure that they can be recreated.

Additionally, these segments should be thought about as "How do various groups define their current relationship with the Massachusetts Lottery?" When questions are being considered for inclusion in the Quantitative Phase and when games are being designed, understanding how they reflect those relationships is critical.

Key Findings

The following ten segments were created using this methodology, four segments of Weekly and Monthly Players, two segments of Yearly Players and four segments of Lapsed and Non-Players.

1. "Regular Scratch Players" represent 12 percent of the population:

    - While they do play other games, 85 percent of their total Lottery spending is spent on instant tickets;
    - These players played 2.5 times per month on average, less than most other Weekly/Monthly Players;
    - More often male than not, they are also slightly older, slightly whiter and more likely to read the *Boston Herald* than other Weekly/Monthly Players.

2. "All Game Players" represent 14 percent of the population:

    - Close to 50 percent male, 50 percent female, this segment is also close to the general population in terms of age;
    - They spend more on all Lottery games combined than Regular Scratch Players, and 45 percent of their spending is on scratch tickets;
    - They are the most likely segment to say that they are likely to play the Lottery online, with 55 percent saying they would be "likely," and 30 percent saying "very likely."

3. "Keno Players" represent six percent of the population:

    - Heavily male, and significantly older than the population as a whole, Keno players, while united by their interest in Keno, play a variety of Lottery games;
    - They are the heaviest spending segment and play the Lottery with the second highest frequency. This segment is 6 percent of the overall population, but accounts for 14 percent of reported Lottery spend.

4. "Numbers Players" represent five percent of the population:

    - More likely to be female than male and significantly older than other demographics, Numbers Players are the most frequent players of all the Lottery segments, with over half (57%) playing at least 15 times per month;

    - More than half (63%) of their spending is on The Numbers Game. Instant tickets (20%) and jackpot games like Mega Millions and PowerBall (9%) make up the next largest parts of their spending.

5. "Occasional Scratch Players" represent 14 percent of the population:

    - A majority of Yearly Players, Occasional Scratch Players are a heavily female segment (62%) who are slightly younger than the population as a whole;

    - Scratch tickets account for the vast majority of their Lottery spending (72%), however, they are likely to play jackpot games like Mega Millions and PowerBall on occasion.

6. "Occasional Jackpot Players" represent 12 percent of the population:

    - Occasional Jackpot Players spend the vast majority of the money that they spend on the Lottery on PowerBall and Mega Millions, (78%).

    - They are also overwhelmingly female (close to three-quarters are female) and they are, on average, exactly the same age as the population as a whole;

    - They are the most likely segment to play online games, 59 percent play online games like Farmville or Bejeweled.

7. "Lapsed Neutral Players" represent 12 percent of the population:

    - Making up over two-thirds of Lapsed Players, Lapsed Neutral Players have views towards the Lottery that are generally neutral. Their general favorability of the Lottery is in line with the population as a whole;

    - They are one of the least likely segments to view the Lottery as innovative. Only eight percent (8%) rate the Lottery as an 8 to 10 on innovation on a 0 to 10 point scale.

8. "Lapsed Negative Players" represent four percent (4%) of the population:

    - The smallest segment at just four percent (4%) of the population, Lapsed Negative Players are the most vocal critics of the Lottery - only nine percent (9%) view the Lottery favorably.

    - More likely to be male than female, this population is also one of the least tech savvy - only 29 percent have a smart phone, and only 21 percent play online games.

9. "Young Non-Players" represent ten percent (10%) of the population:

    - As their name implies, Young Non-Players are younger than the population as a whole (they range in age from 18 to 40), and have never played the Lottery;

    - The second largest segment within the lapsed or non-player segment, they are also the most tech savvy segment, with high rates of Facebook usage and smart phone adoption;

- They are relatively neutral in their views of the Lottery - for many, the Lottery is not part of their lives.

10. <u>"Lifelong Non-Players"</u> represent ten percent (10%) of the population:

    - Lifelong Non-Players are over the age of 40, and a majority are over the age of 55 (79%). They have never played the Lottery in their lives, and show no plans to start;
    - They are fairly negative towards the Lottery on most issues. Only 44 percent view the Lottery favorably, and their responses to many other attitudinal questions (such as "the Lottery is honest and trustworthy") are significantly lower than the population as a whole.

Phase Three: Qualitative

Overview

To delve further into how players would react to the potential of Massachusetts Lottery Internet gaming, SocialSphere conducted N=4 focus groups on August 21 and 22, 2012. Based on the results of segmentation analysis performed by SocialSphere and conversations with the Online Products Task Force and the Massachusetts Lottery, focus groups were divided into four sessions:

- Heavy, Younger Players: Players under the age of 40 who spent at least $17 on the Lottery per week;
- Light, Younger Players: Players under the age of 35 who spent less than $10 on the Lottery per week;
- Heavy, Older Players: Players over the age of 50 who spent at least $17 on the Lottery per week; and
- Older, Online Game Players: Light and Lapsed Players (have not played the Lottery in the past month) who regularly played some kind of online games.

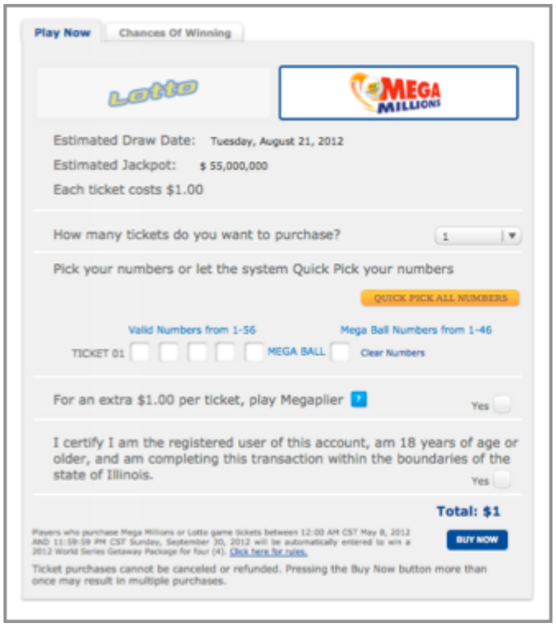
The focus groups had three broad goals:

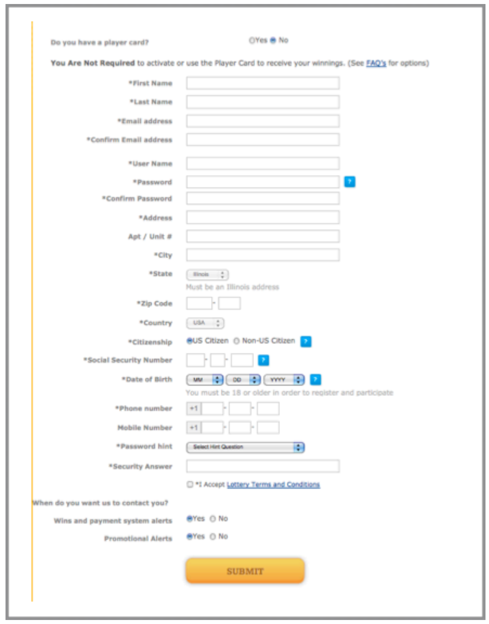
- Understand how current players and key audiences think about the possibility of the Lottery selling products online;
- Understand how current audiences that do not regularly play the Lottery think about the possibility of selling Lottery products online, and;
- Assessing various potential models for Lottery play online;

As with all focus groups, the key findings and results contained in this section of the report are qualitative in nature, and they should not be used for quantitative projections of any kind.

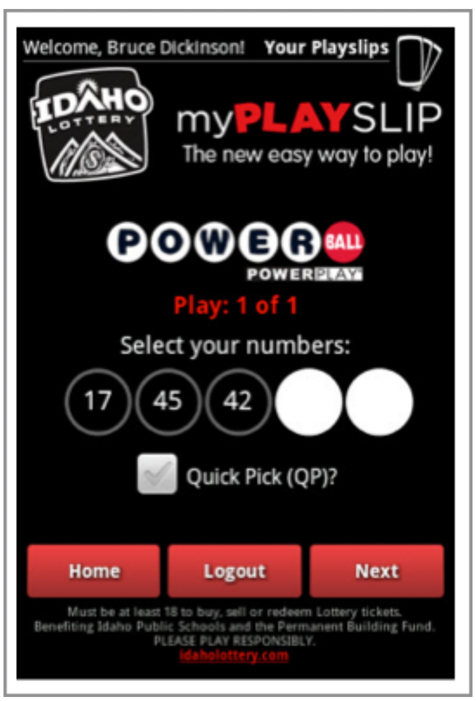
In the absence of specific, developed concepts for online gaming, SocialSphere used various existing online lottery products available in other jurisdictions and developed by gaming vendors to test player reactions to various potential play options.

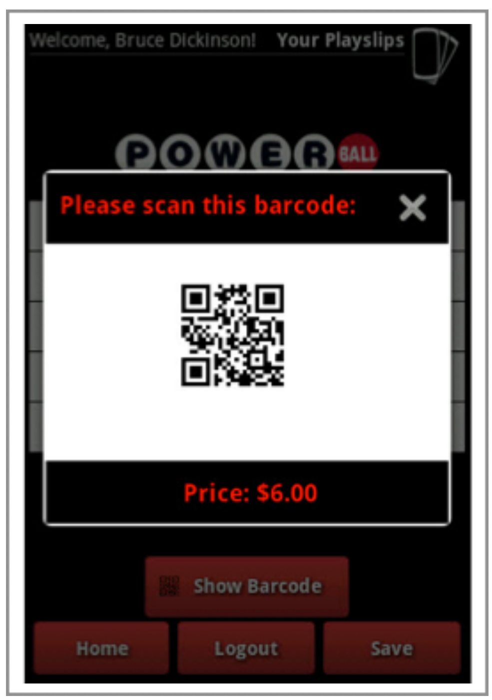
Concept One: Illinois Lottery - Online Mega Millions Play





Concept Two: Idaho Lottery - Mobile Powerball Application





Concept Three: Gaming Vendor - Online Single-Player Interactive Games

Concept Four: Gaming Vendor - Online Multi-Player Interactive Games (Bingo)

Key Findings

After eight hours of discussion with four focus groups, the key findings and hypotheses that we developed and later tested in the quantitative instrument included:

1. Communication is Key. When players - and some non-players found out about the the specifics of how lottery products could be sold online, they tended to have a very positive reaction - however, the concept of “online lottery products” is one that many players had difficultly conceptualizing without further information. As such, any potential positive reactions to the concept should not be taken as “given” - they must be effectively communicated.

2. Funding, Security, and Preventing “Problem Gaming” is a Concern. Negative conceptions exist about the dangers of people being able to wager at home, and strong sentiment existed that there is some need for precautions to be in place. While players offered up some potential solutions to alleviate some of these concerns, their was some belief that purchasing Lottery products from home could be “too easy,” and that abuse by minors, fraud, or overdrawn credit accounts may be inevitable if not properly accounted for.

3. Mobile May be the "Lowest Hanging Fruit." When talking with players about game play scenarios, the idea of being able to "play in the doctor's office" or while on the go seemed to be the most intuitive to many players, and this largely contextualized potential online lottery products into a competitive set (i.e., Bejeweled, Words with Friends) that are used as distractions.

4. "Gift Card" Funding Concept has Potential. As a means of funding, allowing players to buy cards in stores that can fund accounts attracted players and non-players. Players liked the fact that such a method of funding would allow them to set explicit limits on how much they play (because funding their account would not be linked to their credit card), and that they would not have to provide significant personal information to play online or via a mobile device. Additionally, it also has a potential to deal with the issues involving current Massachusetts Lottery agents.

5. Idaho Lottery's Mobile Powerball was the Best of the Concepts Tested. Of the four potential concepts tested, Idaho's mobile Powerball - in many ways the simplest concept tested - was the one that resonated best with players. Players seemed to understand both how they would use it and saw a need for it in their current Lottery playing patterns. While much of the favorable reaction may just be current players substituting their current in store play with online play, the concept was favorably received, and potential exists for it to draw incremental revenue.

6. Players - Particularly Heavy Players - Were Favorably Disposed to the Concepts Once They Saw the Potential Games. Players, particularly Heavy Players, had favorable reactions to all the concepts that were presented to them once the games concepts were shown and explained. For Light Players and Non-Players, though, there was very little indication that there would be incremental revenue as a result of showing the various game concepts. In particular, the social interaction aspect of games like Bingo appealed to players.

7. Privacy Details During Registration Are a Concern for Some Players. While players generally trust the Lottery, they are weary of giving up what they feel is highly personal and sensitive information. In particular, players were very hesitant to disclose their Social Security number during the registration process (as the Illinois model would require them to do).

8. Some Players Would Potentially Play Online Lottery Games "In Addition" to Their Current Play. Though many players simply viewed the sale of online Lottery products as a replacement or substitution for their current Lottery play, some saw the sale of online Lottery products as a distinct, new game that they - or other players that they know - would play in addition to and in different situations from their current Lottery play.

9. Attracting Non-Players and Light Players Will be Difficult. In the Non-Player group, even after being presented with the full game concept, only two of eight participants said that they would consider playing Lottery games online. While there may be potential incremental revenue from current Non-Lottery Players, projections need to be conservative in their estimates of the likely play levels that will come from current Non-Players.

10. "Game of Skill" vs "Game of Chance" Distinction and Barrier Will be an Important One to Understand. For many current online gamers (i.e., Bejeweled and Farmville), playing games is attractive because they are "games of skill" and present players with ways and opportunities to either play against other players or actively challenge themselves. Since lottery games are, by law, games of chance, it is not clear that they can ever attract current online gamers who view skill as a critical part of their gaming experience.

Phase Four: Quantitative

Overview

Between October 5 and October 16, 2012, SocialSphere interviewed N=1,150 Massachusetts residents about issues related to the potential sale of Lottery products online in the Commonwealth.

- n=1,001 interviews were conducted online with Massachusetts residents; and
- n=149 additional in-person intercept interviews were conducted at N=10 Massachusetts Lottery retailers throughout the state.

Data were weighted to be reflected of the ten Lottery segments that emerged during the previous phase of this study. Questions in the study primarily concerned current gaming and Lottery habits, current online activities, and reactions to potential online gaming options, including a series of questions that could be used to develop financial projections.

Key Findings

In most instances, the hypotheses that were developed in the qualitative phases of this project were proven in the quantitative phase, especially surrounding issues related to level of interest, barriers of playing and the hybrid role that the online and offline sales channel can play to safeguard consumers. The five most important findings from the survey include:

1. Current Level of Interest in Online Lottery Products. When Massachusetts residents, 18+ are offered the following scenario:

   If, at some point in the near-term future [INSERT OPTION HERE] were to offer you the ability to bet or wager online in some way, without knowing anything else, would you say...

   slightly less than 1-in-10 residents (9%) are "very interested and would likely wager no matter what"; and an additional 32 percent say that they are "interested, but would need more information before they decide to wager."

   Slightly more than one-quarter (26%) indicate that they are not very interested, but not completely opposed to playing -- with 34 percent indicating that they are not at all interested and would not play under any circumstances. Among the ten segments that were developed in Phase Two, four segments accounting for 37 percent of the population were more likely than others to suggest significant interest:

- 20 percent of “All Game Players” indicated that they would be very interested in playing;
- 19 percent of both “Keno” and Numbers Game” Player segments indicated that they would be very interested; and
- 12 percent of “Regular Scratch Ticket Players” indicated heightened interest.

Eight percent (8%) of “Occasional Scratch Ticket Players,” five percent (5%) of “Young, Non-Players,” and two percent (2%) of “Occasional Jackpot Players” indicated that they were very interested. None of the members of the two lapsed segments or the lifelong Non-Player segments indicated that they were very interested.

When compared to online products from a major, well-known, US-based casino operator, the initial read from Massachusetts residents was that Lottery-branded products would be preferred. Six percent (compared to 9%) indicated that they would be very interested to wager on a casino product with an additional 23 percent (compared to 32%) indicated that they would be interested, but would need more information.

2. Information Necessary to Inform Judgment. Among those who offer at least some interest in learning more about potential online Lottery products, the areas of questioning that are most common include odds about the games (41% mentioned this), the payment method (32%), wagering security (28%), types of games (12%).

3. Expanding Current Games to a New Platform is of the Most Interest. As the prospect of offering Lottery products online is new to Massachusetts, the current data indicates that the most popular way to begin offering online products would be to begin with what is currently known. For example, when several new concepts were displayed via the Internet and residents were asked how likely they would be to play or wager on the game, “virtual scratch tickets” and “jackpot” games were rated higher than the others.

   Residents who said they are “very,” “somewhat” or “not very interested”[1] in online Lottery products (66% of the adult population) in our survey were asked to rate seven new concepts; the responses below are reflective of this segment of the population.

   - 60 percent (27% rating it a 6-7 and 33% rating it an 8-10 on a scale where 0=not at all likely and 10=very likely) indicated that they would be likely to play an online game that functioned like a major jackpot game – like and including Powerball and MegaMillions – whose top prize could top $100 Million.
   - 53 percent (27% rating it a 6-7 and 26% rating it an 8-10 on a scale where 0=not at all likely and 10=very likely) indicated that they would be likely to play an online game that functioned much like a Lottery scratch ticket.
   - 49 percent (26% rating it a 6-7 and 23% rating it an 8-10 on a scale where 0=not at all likely and 10=very likely) indicated that they would be likely to play an online game,

[1] Those who were “not at all interested” were not asked this series of questions.

based on a casino game like roulette or poker where the outcome of the game is based on your skill as a player.

- 43 percent (26% rating it a 6-7 and 17% rating it an 8-10 on a scale where 0=not at all likely and 10=very likely) indicated that they would be likely to play an online bingo game where a live, online announcer announced the results and where you could play against and "chat" with other players.

- 41 percent (25% rating it a 6-7 and 16% rating it an 8-10 on a scale where 0=not at all likely and 10=very likely) indicated that they would be likely to play an online game, based on a mobile game such as Bejeweled where the outcome of the game is based entirely on luck and not skill.

- 36 percent (20% rating it a 6-7 and 16% rating it an 8-10 on a scale where 0=not at all likely and 10=very likely) indicated that they would be likely to play an online game, based on casino games like roulette or poker where the outcome of the game is based entirely on luck and not your skill.

4. Sharing of Personal Information is a Major Impediment to Play. Based on feedback from the Qualitative and Discovery phases of our work, potential barriers to play and funding mechanisms were tested to see what impact they would potentially have on online play.

   We found that if as part of the verification process, personal information such as a Social Security number was required in order to wager, 80 percent of potential players would be much less (53%) or somewhat less (27%) likely to play. However, if date of birth or home address were required, and not a Social Security number, the percentage of those less likely to wager decreases to 50 percent (17% much less likely and 33% somewhat less likely).

   On the other hand, more than two-third of potential players (70%) would be much more (36%) or somewhat more (34%) likely to wager assuming they were able to fund their account through a card that you would purchase in a retailer, such as a convenience store or a grocery store. Like a gift card or pre-paid card one could enter a code from the card and apply those funds to your online account. You would not have to link your account to your credit or debit card in any way.

5. Annual Projections for Net Sales [2], Including a Cannibalization Factor, Could Reach $26 to $78 Million. Based upon our analysis, the Massachusetts Lottery can reasonably expect new topline income of between $94,000,000 and $281,000,000, after cannibalization, based upon the following assumptions:

   - The nine percent (9%) of the population who say they are definitely going to play, will play.

   - Eighty percent (80%) of the 32 percent of the population who said they would probably play, will play.

[2] Net sales equals gross sales minus payout to players.

- For both of these groups, 44 percent of their spending on online Lottery product will come from money they are currently spending on the Lottery (cannibalized sales recorded from player estimates in the quantitative survey).
- Players would increase their overall annual gambling spending by between 5 and 15 percent (SocialSphere estimate).
- Seventy-two percent (72%) of gross sales will be retuned to players in the form of prizes (SocialSphere estimate based on current instant ticket portfolio).

The table on the following page displays these assumptions and how the net impact of $26 to $78 million is arrived at.

SocialSphere Projects of Annual Online Lottery Product Sales

Player Type	Percent of Adult Population	Total Number of Players	Percent Expected to Play Online	Reported Annual Lottery Spending	Reported Annual Total Gaming Spending	Assumed Payout Percentage
"Definitely" Would Play	9%	466,595	100%	$1,804	$3,213	72%
	Internet Play As A Percent Increase In Total Gaming Spend (Assumed)	**Monthly <u>Gross</u> Online Gaming Spend**	**Reported Cannibalization Per Month**	**Monthly <u>Net</u> Online Gaming Spend**	**<u>Gross</u> Total Annual Sales**	**<u>Net</u> Total Annual Sales**
	5%	$13.39	$5.89	$7.50	$41.97M	$11.75M
	10%	$26.77	$11.78	$14.99	$83.45M	$23.51M
	15%	$40.16	$17.67	$22.49	$125.92M	$35.26M

Player Type	Percent of Adult Population	Total Number of Players	Percent Expected to Play Online	Reported Annual Lottery Spending	Reported Annual Total Gaming Spending	Assumed Payout Percentage
"Probably" Would Play	32%	1,659,005	80%	$687	$1,394	72%
	Internet Play As A Percent Increase In Total Gaming Spend (Assumed)	**Monthly <u>Gross</u> Online Gaming Spend**	**Reported Cannibalization Per Month**	**Monthly <u>Net</u> Online Gaming Spend**	**<u>Gross</u> Total Annual Sales**	**<u>Net</u> Total Annual Sales**
	5%	$5.81	$2.56	$3.25	$51.81M	$14.51M
	10%	$11.62	$5.11	$6.51	$103.62M	$29.01M
	15%	$17.43	$7.67	$9.76	$155.43M	$43.52M

Total Impact

Internet Play As A Percent Increase in Total Gaming Spend	<u>Gross</u> Total Annual Sales	<u>Net</u> Total Annual Sales
5%	$93.78M	$26.26M
10%	$187.57M	$52.19M
15%	$281.35M	$78.78M

Conclusion & Recommendations

Not only is the Massachusetts Lottery the most profitable lottery per capita in the United States, it is a vital part of funding 351 cities and towns across the Commonwealth, an important driver of more than 7,000 small businesses, and one of the best managed and most respected public institutions in America. As the Treasurer's Online Product Task Force considers options for selling Lottery products online, our research indicates that a number of critical factors must be properly accounted for. Because there is significant risk involved no matter what option is pursued, it is our recommendation that entry into the online market be phased in and pilot tested so that more robust directional data can further inform this or subsequent committees.

While entry into the online channel will provide additional revenue sources to the Commonwealth (see projections on preceding page), we do not see this as a method of significantly increasing the number and type of players who current engage with Lottery products. Before a complete commitment to enter this space, we suggest a pilot test that includes the following six variables:

- A minimum of four play styles (jackpot games, virtual scratch tickets, a casino style game and a new, concept not part of the current Lottery portfolio);
- The ability to wager online via a PC or a mobile device (with a native design and interface);
- Multiple funding options that seek to decrease barriers to entry to the greatest degree possible (including gift-card style options);
- An enhanced marketing database / rewards / loyalty program;
- Properly funded marketing and communications strategies;
- Constant and rigorous feedback and input from current Lottery agents and players.

Regardless of the pilot test, it is imperative to any financial projection or scenario, that the following three factors are adequately and fully addressed -- underperforming in any one of these factors could significantly impact the viability and profitably of this endeavor.

1. Aggressive and sustained marketing and advertising. Most residents of the Commonwealth are unaware of the concept of online Lottery products, it is something that they have never considered and therefore have many questions about. An early, systematic and strategic campaign aimed at introducing the products, their benefits and the ease and security of playing is critical to launching a new series of products and channel.

2. Lowering barriers to entry. With one opportunity to launch this new channel, it is imperative that the Commonwealth utilize the most up-to date technology and limit the collection of personal information such as Social Security number. The Commonwealth should aggressively explore options that allow players to play without having to enter their Social Security number and does not tie their online account to unlimited credit and debit card transactions.

3. Innovation. The gaming industry has undergone significant innovation during the last decade. If and when the Lottery begins to offer products online, it will be competing for limited gaming and gambling resources against better funded private corporations. For the product to be successful, it must be competitive in terms of game play, security, payout and loyalty initiatives -- this will likely require a significant up-front and on-going capital investment and/or strategic partnerships.