

Break Open Ticket Development Fund

BOT Price Increase Research Project

Background and Summary of Findings

Purpose of this document

This “background and summary” document provide a brief overview of the origins and findings of the BOT Price Increase Research project.

Origins/reason for the project

The project came out of ongoing discussions last year within the BOT sector about the declining financial viability of the core \$0.50 cent ticket.

The background to the discussion was the reality that although the \$0.50 ticket is obviously still quite popular with consumers:

- The price of this core ticket has remained unchanged for more than 35 years.
- At the same time, expenses for charities, suppliers, and manufacturers have continued to rise.
- Last year’s HLT study of supplier profitability confirmed just how small supplier profits are.
- The existing ticket does not have the optimal “churn” at the low end to stimulate sales.
- As costs continue to rise, the industry is eventually going to reach the point where it won’t be financially viable to continue selling the \$0.50 cent ticket.

One of the alternatives at the time discussed was whether the industry should be trying more aggressively to migrate the market towards a revamped \$1 ticket – one that was more profitable for suppliers, manufacturers, and charities and that had more churn. It was agreed, however, that the industry needed more information about consumer attitudes before there was any further discussion about potential longer term strategies.

It was agreed that the Break Open Ticket Development Fund (BOTDF) would undertake a research project to get a better understanding of existing BOT consumer views about the \$0.50 and \$1 tickets and to get a better sense of whether and to what extent there was more opportunity in the market for the \$1 than was being realized by the industry to date.

Project structure

The project was carried out by Bob Liepa and Deb Klotz of Research Dimensions (www.researchdimensions.com). This firm was selected because of its experience in these kinds of projects including extensive work with Ontario Lottery & Gaming on similar types of projects involving instant tickets. The project has had two phases:

- A *qualitative* phase involving 11 focus groups across Ontario.
- A *quantitative* survey of 401 existing BOT consumers across Ontario.

Findings from the Qualitative Phase

A. The Current Landscape

Lack of product understanding

- Overall, there is little knowledge about the specifics of BOTs, including: specifics about the prize board, awareness of the number of winners at each prize level, the number of tickets in a deal, that all the prizes are in each deal and awarded at that location, the odds of winning, the payout percentage, that BOTs are not an OLG product, and that they are for charity.

Barriers to playing more

- The main barriers to playing more BOTs include:
 - Lack of availability. BOTs are becoming increasingly hard to find in some regions
 - Perceived bad odds of winning
 - The inconvenience of having to play and redeem in the same retail location
 - Lack of awareness of the charity connection.

Awareness of \$1 BOTs

- Awareness of \$1 BOTs varies greatly among players and regions. Overall, there are many players who were unaware of \$1 BOTs prior to the focus groups.
- Much of the lack of awareness of \$1 BOTs is due to their lack of availability at many retail locations.

B. Potential of \$1 BOTs

Perception of existing typical \$1 BOTs

- Though players do not initially express much enthusiasm about the existing typical \$1 BOTs, after looking at a variety of \$1 BOTs (provided in the groups), many players become more interested in \$1 BOTs because they feature higher top prizes and more winners at many of the prize levels.
- This interest indicates that the main barrier to \$1 BOTs is the lack of product knowledge and availability.

Reaction to 50 cent \$1 change

- Overall, the reaction to the possibility of a BOT price increase on the existing core 50 cent product is mildly positive.
- The potential price increase is not received negatively by most players, because of the better understanding of prize configuration generated during the discussion and better understanding regarding \$1 BOTs. Additionally, the possible ticket enhancements are seen to add value and increase positive perceptions.
- However, some players do express disappointment and concern about the price increase. Mainly these concerns focus on the perception that \$1 is no longer “spare change.”

Reaction to potential ticket enhancements

- \$1 BOTs that feature more innovative enhancements that differentiate them from 50 cent BOTs generate positive reactions from participants.
- Desired enhancements that are frequently mentioned spontaneously by players are: higher prizes, more winners, and better odds.
- When presented with other possible enhancements, players react most positively to the idea that the \$1 BOT should be larger in size than 50 cent BOTs. The larger sized ticket, however, should still fit comfortably in the player’s hand. Given the larger size, the idea of having additional windows is also very well received. More windows signify more chances to win and more fun.

Effect of a price increase on dollars spent

- Respondents indicated the amount they would buy if \$1 BOTs were available, and 50 cent BOTs were no longer available.
- If \$1 BOTs were to remain as they currently are, the majority of players say they would spend the same dollar amount as they currently spend. Several would spend less, and a few would spend more than they currently spend.

- If \$1 BOTs were to be enhanced with some of the ideas tested during the groups (e.g. larger size, more windows, etc.) then the vast majority of players say they would spend the same amount as they currently spend, and several would spend more. Very few would spend less.

C. Key recommendations based on the Qualitative Findings

50 cent vs. \$1 BOT price increase

- If the BOT industry would like to move toward only offering a \$1 BOT, this qualitative research indicates that a price increase to \$1 would likely be accepted by a majority of BOT players. There would be a segment of players that would be upset by the loss of the 50 cent BOT, but it is likely that many would still play the \$1 ticket, especially if it featured new ticket enhancements.
- If 50 cent BOTs are phased out, it is important that some traditional style \$1 BOTs (in terms of visual design and game mechanics) remain available. Such BOTs would appease those players who have an attachment to the traditional style game.
- However, if the decision is made not to phase out 50 cent BOTs, strong consideration should be given to differentiating \$1 BOTs to indicate they are worth more than the 50 cent tickets.

\$1 BOT enhancements

- As noted earlier, acceptance and purchase of \$1 BOTs would likely be heightened through enhancements. Qualitative findings indicate that the enhancements that would be most positively received include:
 - Larger sized \$1 BOTs that contain an additional tab/window or two
 - BOTs that clearly indicate higher prizes and more winners
 - BOTs that clearly indicate that they are for charity.

Availability of \$1 BOTs

- Findings from the qualitative phase of the research indicate that the **main barrier to the success** of \$1 BOTs is lack of awareness and knowledge of the games, primarily due to lack of availability in many retail locations.
- Regardless of whether or not 50 cent BOTs are phased out, for \$1 BOTs to be successful, it is imperative that awareness, knowledge, and availability be increased.

Increasing churn

- Given that most players “re-invest” small winnings under \$10, consideration should be given to increasing the number of small prizes on BOT prize boards. The positive effect of increased churn could be two-fold:
 - Increasing the number of tickets purchased (re-investment).

- Increasing positive impressions of BOTs because the increased churn would likely lead to the perception of better odds of winning (currently many players have a negative perception of the odds).

Findings from the Quantitative Phase

Replacing the \$0.50 ticket in the short term:

- If 50 cent tickets were replaced by \$1 tickets, the best case scenario (including smooth, effective implementation of a transition strategy across the province) is that sales would remain about the same as now.
- In reality given the fragmented structure of the industry and challenges associated with making a smooth transition, there would be some risk of an overall drop in sales.

Expanding availability of the existing \$1 ticket with no advertising/awareness support:

- This is a conservative scenario that includes no changes to the \$1 ticket and no retailer/consumer awareness and promotion program.
- Without any concerted retailer and consumer awareness project and without making any changes to the typical \$1 ticket, simply making \$1 tickets widely available, and in addition to 50 cent tickets, would likely lead to a small increase in existing sales of about 15%.
- More realistically, depending on how effective distribution was and levels of consumer awareness in individual markets, overall sales would likely increase by less than 15%, but still with significantly more \$1 tickets sold than now.
- In the short term, 50 cent tickets would still account for the majority of sales.

A revamped \$1 ticket and strong retailer consumer awareness program:

- If the \$1 ticket was reconfigured and if this “new” ticket was supported by a concerted retail and consumer education and awareness program, even greater consumer interest could be generated.
- The current typical \$1 ticket is not optimized to maximize consumer appeal. The following preferences/opportunities for \$1 tickets were identified:
 - A primary focus on prize boards with top prizes in the \$100-\$500 range, but some room for \$1,000 top prizes as well in niche markets.
 - A slightly bigger ticket size than existing 50 cent tickets.
 - 6 pull tabs instead of the traditional 5.
 - Tickets with different shapes and themes.

A longer term transition to \$1 tickets as the main ticket type

- Replacing all tickets with \$1 tickets is not recommended at this time, but remains a possibility for the longer term if the product were revamped and supported by retailer and consumer education and communication.
- Among other things, it would not be unreasonable to expect greater consumer comfort and acceptance with \$1 tickets over time. This was what happened with initial price resistance to \$2 Lotto 6/49 and \$5 Lotto Max.
- Consumer acceptance of \$1 tickets would be enhanced and accelerated through consumer education and communication.
- It is recommended that, at a minimum, POS materials be used to alert consumers to the presence of \$1 tickets, and to communicate their enhanced prize structures as compared with 50 cent tickets.