

# WHAT I LEARNED ABOUT THE LOTTERY FROM THE ECONOMIST OF A REMOTE PACIFIC ISLAND

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It has been my pleasure over the years to have some conversations with academic economists who include lotteries among the things they study. Not too long ago there happened to be an annual congress of economists in Seattle, and I joined some of my contacts there to celebrate the long summer evening.

In the party was a government official from a remote Pacific republic. Educated in the American Ivy League, he had returned to his native island as an administrator. Out of deference to his public role, I will refer to him only as Pio. This is not his real name, nor is his island really called Zoa. I will point out that if you wish to go to Zoa in a slow boat, you would probably do well to start from New Zealand.

Pio is a man of very solid physique who prefers not to talk like an academic. It turned out he was with us this evening because, among his other duties, he was in charge of the island's Lottery.

I confessed to the group that although I am very interested in lotteries, I did not know about his, and in fact did not know much about his island at all.

Pio explained briefly:

"On Zoa we still have a nice barter economy. We have lots of coconuts, and we have lots of fish. And taro. There is practically no end to the good you can do with these three things. No one can really control the supply of any of these things."

"We have lottery because we do like to have some cash

for trading outside, and we don't like to tax our people. We are improving a road from one side of the island to the other. We don't want to improve it too much. It is not a long road, and we don't want to take the adventure out of it. In fact, our

improvements might look more like obstacles. It's for the tourist trade."

"You have a tourist trade?"

"We get twelve ships a year. It's always poor weather somewhere, except Zoa. People pay a lot of money to embark in New Zealand and cruise to Zoa. And when they get to Zoa, they want to have fun. They seem to like to drive jeeps. Not those things you call 'SUVs' here. Jeeps. Willys. No tops. Hard seats. Big gearshift with transfer case, little engine. We don't want them to trash the island, so we build a road for them. A bad road."

"So it's sort of a nostalgia thing?"

"Pretty much. They want simple, they want old-time. They want nothing to change. We have had Web for years, but we keep it low profile. And to pay for making the road bad, we sell lottery tickets."

"Just to the tourists?"

"No, the locals buy some too. But it's mostly the tourists who make it a big success. We bring in more money every year, and messing up a road is not very expensive."

Always keen to know what drives sales of lottery products, I followed up on the money rather than the dis-improvement.

"How do you make more money every year? Is the number

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of ships increasing? Are the ships getting bigger?"

"Same ships, same twelve visits, same number of passengers. Everything the same."

"Do you improve the games? Did you introduce higher price points?"

"Only one game. Same game. One million instant tickets, one coconut each. Top prize one hundred coconuts per day, for life. Takes a long time to sell one million tickets on Zoa."

"One hundred dollars a day does not seem like a lot of money."

"Who said dollars? I say, 'coconuts.' Remember the locals play too, and on Zoa we have mostly the barter economy. Coconut is basic unit of value. Everyone can get some, everyone needs some."

"The tourists pay in coconuts too?"

"Yes. Tourists buy, locals sell."

"Have you improved your merchandising?"

Pio gave me a quizzical look.

Feeling foolish even as I tried to frame a question about how one would more effectively merchandise a single scratch-

off ticket, I stopped going down the list of things I am accustomed to think of as determinants of demand. I simply asked:

"Pio, how do you make more money, selling the same tickets to the same people year after year?"

"We are keeping everything same-same."

"But Pio, you are too modest! If you are making more money year after year, you must be doing something to increase the relevance of your offering to the players!"

Here Pio evidently realized that although he had tried his best to keep the conversation at a polite and sensible level with island chill, there was no stopping me from using vulgar marketing talk. He smacked me back with:

"But Stephen, you are not modest enough! Year after year, in your lottery, you are charging money for tickets, to pay money for prizes. Year after year, the money is worth less: both what people pay, and what they hope to get. If your tickets have the same "relevance for the player" (he put air quotes around the offending phrase), year after year, you better be seeing more money. If the money counts the same, you are losing ground."

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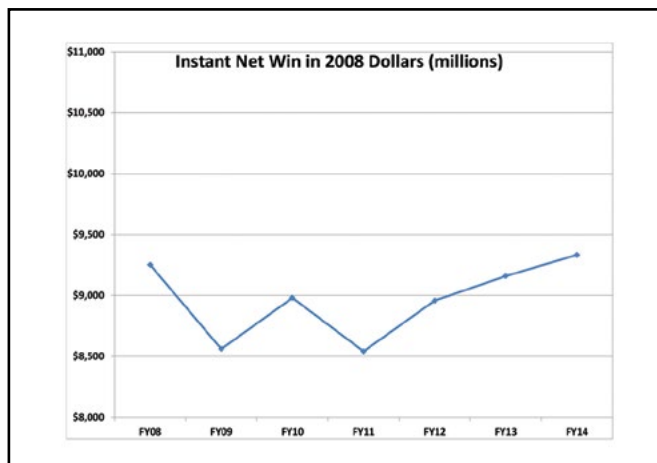
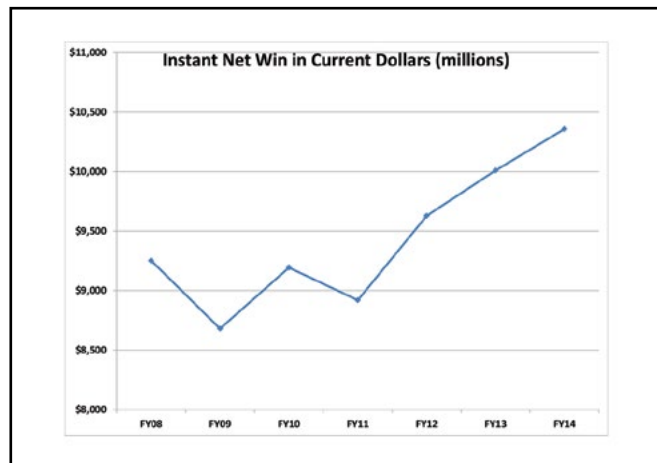
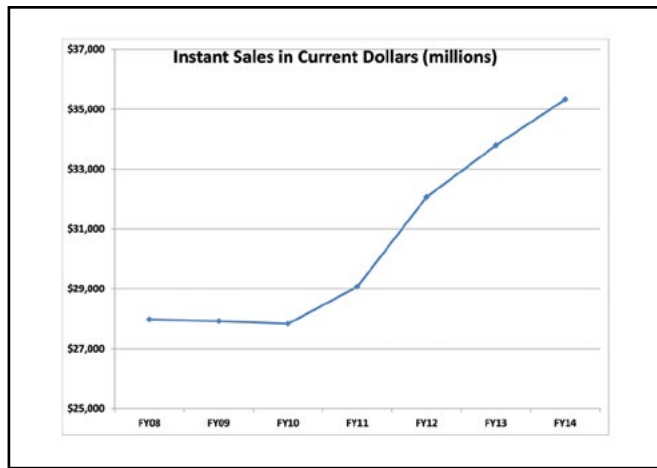


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"You mean we're just talking about inflation?"

Seeing that I was at last beginning to follow, he gently walked me through it:

"Tourists buy coconuts to play in our game. Our people sell coconuts. When they take dollars from the tourists, they use the dollars to buy those few things we want that we do not produce ourselves. Our people are not silly. They see it takes more dollars every year to buy the same things. And the tourists, they are just as willing year after year to buy coconuts in order to play. Money is cheaper, easy come easy go. It's same-same. The exchange of value on the island has not changed. The money just got less powerful. It got cheaper."

A word that had been rattling around in my mind since I said "inflation" founds its footing and stood up: Verbilligungsdatum. German: literally the "cheapening rate," and the term they use for inflation. Very much to Pio's point.

I ventured to recapitulate what I had learned:

"So, if we're keeping up the same exchange of value in a currency that cheapens year after year, every year is going to be a record sales year?"

The economists nodded all around.

"And the same is going to be true of what the lottery wins: if we are capturing the same value, it will be in ever-increasing dollars?"

"Increasing dollars, constant coconuts," said Pio.

At this point, my common sense reasserted itself and closed down my interest in macroeconomics, in favor of what Pio and his friends were doing for entertainment that evening. I did not talk shop any further that evening, as we wandered under the midsummer sky that was still steel-blue at ten o'clock.

Later, however, when I looked at the macroeconomic models that I have used for years to forecast Scratch sales in Washington, I could not help but remember Pio's "Stephen, you are not modest enough." Really, when our currency is losing value from one year to the next, shouldn't we expect our winnings to set a new record every year? If players are not "giving" us the same purchasing power year-to-year, how can we say that we are gaining ground? Why do we not evaluate changes in purchasing power?

Actually I did this recently, and now I know why we do not generally do it.

I assembled data from 32 US lotteries for which I could get good records of instant sales and instant prize expense, from fiscal year 2008 through fiscal year 2014 (1). I calculated the aggregate sales of these lotteries year by year, and then the aggregate net win (sales minus prizes). Then I corrected the dollars of each year to constant 2008 dollars, using the Consumer Price Index published by the National Institute of Labor Statistics. The three charts on the previous page show this progression.

The end point for net win was within three percent of the starting point of six years earlier (2). Out of that net win, of course, we still had to pay the retailers for the increased sales. Six years of effort, six years of ever-increasing sales, just to keep in pretty much the same place.

The good news, according to Pio of Zoa: we are same-same. This is perhaps humbling – it surely was for me. It is only bad news if we were expecting otherwise. ■

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**FOOTNOTES**

(1) The lotteries were: AZ, CA, CO, CT, FL, GA, ID, IL, IN, KY, LA, ME, MD, MA, MI, MN, MT, NC, NE, NY, OH, OR, PA, RI, SC, TX, VT, VA, WA, WV and WI.

(2) I can provide a brief presentation of this study to anyone who is interested. E-mail me at [lmcbusinessintel@hotmail.com](mailto:lmcbusinessintel@hotmail.com).

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