

# After Record U.S. Lottery Revenues in 2019, What's Next?

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According to the North American Association of State and Provincial Lotteries (NASPL), sales and revenue from U.S. lotteries reached an all-time high in fiscal year 2019. The data indicated that in 2019, industry sales of \$91.3 billion exceeded 2018 results by 6.7%

It is evident that 2019 was a banner year for the industry, by almost any measure:

- Double-digit revenue growth in seven states.
- Sports betting increased by 142% (on a small base of \$18.5 million).
- Instant games alone added \$2.6 billion to total sales.

Due to these record results, the industry was initially faced with a question regarding whether significant growth can continue into the future, and if so, how. However, in light of the coronavirus pandemic that started in March 2020, the answer to the industry question has unfortunately been clearly answered: Such growth will not likely continue at this time.

Instead, because of COVID-19, the industry is faced with the question of how to recover. Casinos in virtually every state have been closed, and lottery retailers are finding that their sales have languished as state “stay at home” orders are put into effect

resulting in diminished foot and car traffic. To address these conditions, the industry must come to grips with an unprecedented challenge to its growth and sustainability. A number of state lotteries have closed their redemption offices and are redeeming winning tickets by mail and extending payoff deadlines. For some time, starting Powerball and Mega Millions lottery jackpots, and incremental growth, were guaranteed – this will no longer be the case since jackpot value is driven by lottery sales and those sales are now lagging.

As is the case in many other facets of our society in recent months, a lot of things have changed in the gaming space in at least the near and medium term. First, given new social (i.e. physical) distancing rules, the industry needs to move rapidly to determine how it can serve the gaming public while consumers are unable to readily visit casinos and/or lottery retailers. When they do arrive at casinos, gaming enthusiasts will need to keep their distance around gaming tables – but casinos were never designed to accommodate such physical distances between players.

Second, NASPL has noted that sports betting experienced substantial growth between 2018 and 2019 (primarily due to expansion). But, as

part of the societal response to the COVID-19 pandemic, sporting events have been largely curtailed, leaving little opportunity to place wagers on sporting outcomes.

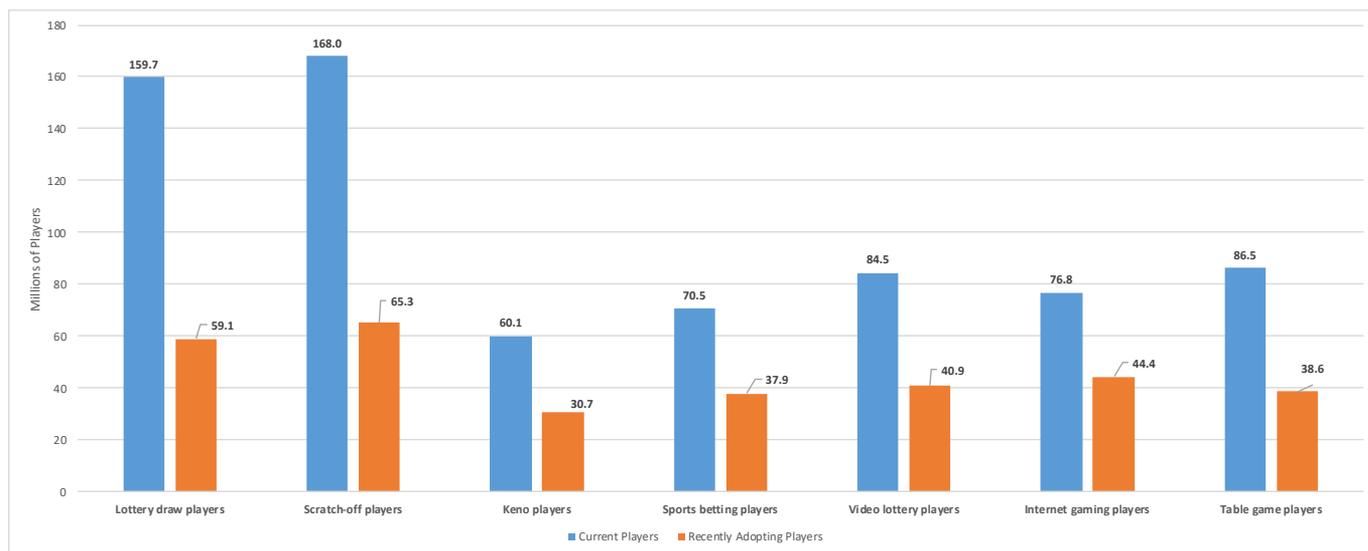
Third, the pandemic has triggered an economic downturn which appears similar in scope to the 1930s Depression. In light of this development, the gaming industry will be faced with a potentially smaller group of players with more limited assets. Harris Poll data (May 2020) indicate that two in ten say they will visit a casino within the first month of the government providing information that the spread of the virus is flattening, nearly half (47%) of the public say it will be between 2-11 months, and a quarter (25%) say a year or longer. Nearly one in ten (7%) say they will never visit a casino again.

Findings from the April and May Harris Poll COVID-19 tracker also reveal six in ten Americans have been impacted financially in some way and more than half (55%) are concerned that they may lose their job due to the coronavirus outbreak. Nearly two in five (41%) think their income will be lower in 2020, 38% are seeking out additional sources of income, and 84% feel that the coronavirus will cause a global recession.

Cash-strapped Americans will be cautious investors, savvy

**Figure 1**

Current Newly Adopting (Past Two Years) Lottery and Casino Players (as of September 2019)



deal-seekers and more inventive and attentive in managing their household budgets. Financing plans, discounting and compassionate brand messaging will separate the opportunists from those who build long term affinity as consumers struggle to get back on their feet.

At the same time, there is a longer term threat to gaming. Industry speculation and research over the past few years has raised questions about the gaming participation of Gen Zers and Millennials as the role of Baby Boomers and members of the Silent Generation decline in the coming years. (See Suh, E., Alhaery, M., Abarbanel, B. and McKenna, A., "Examining millennials' online gambling behavior: A Comparison of generational differences." *Journal of Hospitality and Tourism Technology*, 2017, 8, 314-376.)

To assist in addressing these issues, our research team, which includes The Harris Poll, has undertaken two significant survey efforts focused on gaming activity by the general public. The first study was conducted by The Harris Poll in

September 2019, and determined that Millennials and Generation Z consumers participate in gaming in ways that are different from that of previous generations. These differences suggest that the mix of gaming options provided by lotteries and casinos will need to evolve in the future to a form that is more customized, innovative and more mobile. The second survey effort was conducted at the beginning of March 2020, just prior to the significant onset of coronavirus in the U.S. This survey sought to explore the potential of internet-based state-sponsored lottery applications that would operate on mobile devices (iLottery) and examines how iLottery could make a major contribution to recovery of gaming in the post-COVID-19 era.

### September 2019 Harris Poll Survey of Gaming

An online nationwide Harris Poll Survey was conducted among 2,032 adults aged 18 and older in September 2019 and focused on:

1. The extent of playing specific lotteries and casino games;
2. Whether playing activity was recently started (in the past two years); and
3. Generational differences in gaming activity.

### Key Findings

#### Findings regarding near term growth.

One of the most important findings from the survey is that it supports the fundamental results of the NASPL analysis in terms of the near-term growth in lottery and gaming revenue. That is, traditional lottery offerings generated an additional 6.9% greater revenue in FY2019 than in FY2018.

Findings regarding an increase in the number of gaming participants from the Harris Poll Survey are shown in Figure 1 and reveal a dramatic increase in the number of new players during the past two years. Thus, the number of "scratch-off" players has risen by more than 65 million to 168 million users during the past two years. Lottery players

increased by 59 million over the past two years to 160 million per year. While “scratch-off” games are lottery games, the authors attempted to differentiate between traditional lottery draw games (such as Mega Millions, Powerball, Pick 2, Pick 3, Pick 4, etc.) and “scratch-offs.” Therefore, “lottery players” as defined in the survey include only draw games players.

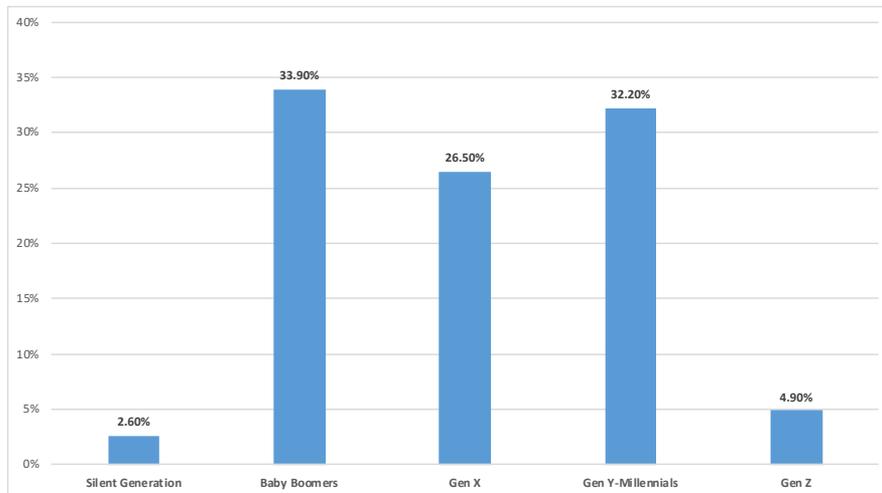
While NASPL analyses show only modest growth in lottery-run gaming table revenue (2.7%), Figure 1 reveals that a substantial portion of current table game players have only recently begun to play those games (39 million) in the past two years. This suggests that prior to the coronavirus pandemic there was significant upside in casino revenues, but that growth in patronage has not yet translated into significant revenue growth. Perhaps, the new players are not yet spending as much as more experienced players.

NASPL findings suggest that revenue from lottery-operated sports betting is relatively small at this point in time (\$45 million in FY2019). The findings from the Harris Poll indicate that over 70 million individuals were engaged in sports betting. However, it should be noted that “sports betting” was self-defined in the survey and could include sports betting activities through casinos or that are not currently sanctioned by states (e.g. fantasy sports leagues, esports wagers, wagering with bookies and so on).

Examination of the total population of gaming players suggests that large portions of the total U.S. population has engaged in gaming during the previous twelve months. The number of players of state lotteries and scratch-off lottery tickets are at or above 160 million players. Such player estimates indicate that gaming has very widespread appeal in the country; in fact, it is hard to think of many aspects of American society that are more popular.

At the same time, it will be important to understand the size of the

**Figure 2**  
Generational Distribution of Adults 18+ in Harris Poll (Sample N=2,032, Weighted Data)



non-gaming population. This is the next question raised in this research.

**What proportion of the population is not engaged in gaming?** To estimate the size of the non-gaming population based on survey results, the survey analysis calculated the number of people who indicated that they have not played any lottery or casino games in the past 12 months. The analysis revealed that 20.7% of the adult population were not engaged in gaming activities during the prior 12 months. U.S. Census data from 2019 estimated that the population of adults 18 and older was 253.82 million. On that basis, it is estimated for the September 2019 survey that the number of non-players is approximately 52.54 million. This will

be an important component of the population to focus on for the future of the gaming industry.

**Generational differences in gaming activity.** In order to examine generational differences in gaming activity, one needs to define different generations in terms of their birth years. To do this, a standardized approach developed by the Pew Research Center was used. The Pew generational definition is shown in Table 1.

In the Harris Poll sample, these generations were estimated to be distributed in the population as shown in Figure 2.

The chart indicates that Baby Boomers, at this time, constitute 34% of the sample in this study, Gen Xers are just over 26% of the

**Table 1**  
Birth Years For Different Generations

Generation Name	Birth Year Range
Silent Generation	1928-1945
Baby Boomers	1946-1964
Generation X	1965-1980
Millennials/Generation Y	1981-1996
Generation Z	1997-

sample, while the Millennial generation is similar in size to that of the Baby Boomers – just over 32% of the sample. Gen Zers, over age 18, currently represent about 5% of the sample. Over time these proportions will shift due to aging, such that the proportion of surviving Silent Generation members and Baby Boomers will decline while the proportion of Gen Xers, Millennials and Gen Zers will grow. At this time, a large number of Gen Zers (born in 1997 and later) have not yet reached the legal gaming age of 18 but will do so in the coming years.

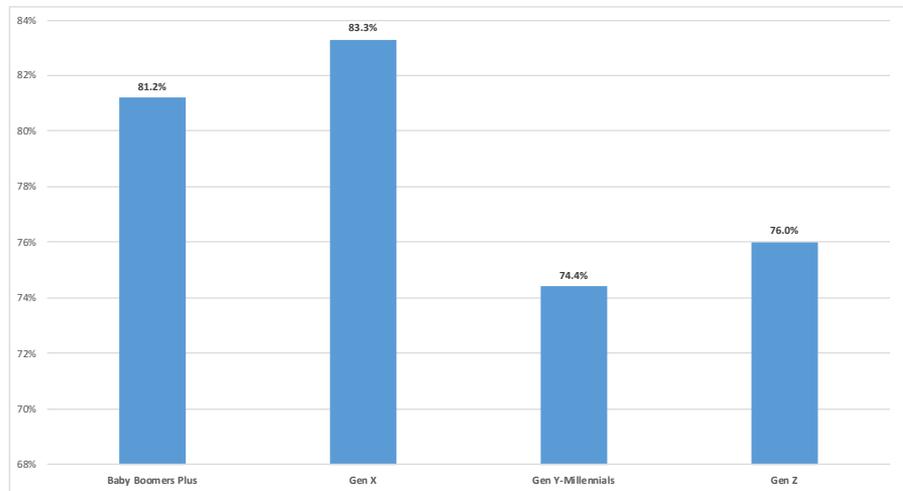
To examine differences in gaming behavior, survey analysis focused on gaming activity patterns across different generations. Considering the small number of Silent Generation members in the sample and preliminary analyses indicating that Silent Generation members act in similar fashion to Baby Boomers, these two generational categories were pooled into a category that is labeled Baby Boomers Plus. Since the survey asked respondents to indicate which gaming activities they have participated in during the previous twelve months, the analysis focused on: 1) what proportion of each generation engaged in any gaming behavior in the past year, and 2) how the generations varied in their participation in specific types of games.

**Across-the-board differences in gaming participation.** The data on whether survey respondents participated in any gaming activities in the previous twelve months is shown in Figure 3.

The chart shows that over 80% of Baby Boomer Plus and Gen Xers participated in some form of lottery or casino activity over the previous twelve months, while only 75% or so of Millennials and Gen Zers participated in some types of lottery and/or casino-based games. These differences were statistically significant (Chi-Square=99.39,  $p < .001$ ).

**Figure 3**

Participation in Any Gaming Activity During the Previous Twelve Months



Turning to generational differences in specific games, the survey examined participation in:

- State lotteries (draw games including Powerball and Mega Millions)
- Instant scratch-off games
- Keno games
- Sports betting (including sports picks and over/under picks)
- Video lottery machine at a casino
- Casino-type games played online
- Table games at a casino

The data suggested the following findings:

- Lottery participation by different generations are roughly proportional to the size of each generation in the overall population.
- Baby Boomers Plus are the more prevalent players of scratch-off games while Millennials are under-represented as scratch-off players.
- Baby Boomers Plus disproportionately participate in Keno games while Millennials are under-represented in the ranks of Keno players.

- Millennials and Gen Zers are disproportionately more likely to engage in sports betting while Baby Boomers Plus and Gen Xers appear less likely to participate in sports betting.
- Baby Boomers Plus and Gen Xers are disproportionately engaged in all forms of casino games including table games, video lottery and online games. Millennials and Gen Zers are less likely to actively participate in casino-based games.

These data suggest that, over time, as Baby Boomers Plus are replaced by younger gaming participants (such as Millennials and Gen Zers):

1. Draw games will not substantially be affected by generational change.
2. A number of games will experience reduced activity and revenue including:
  - Keno
  - Scratch-off games
  - Casino-based games
3. Younger gaming participants will seek participation in different games that provide sports betting opportunities.

## March 2020 Harris Poll Survey of Gaming With a Focus on iLotteries

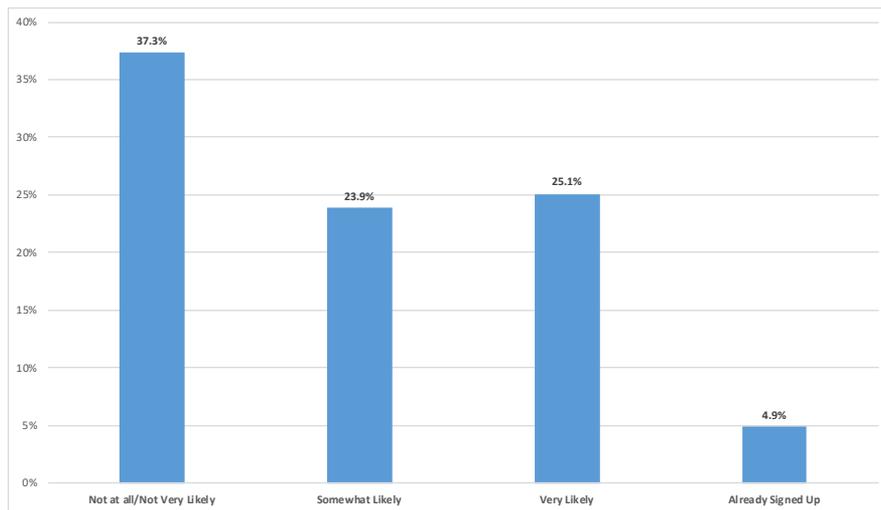
With these findings in hand, the research team initiated a second Harris Poll survey on March 2-4, 2020. The second survey involved 2,011 respondents to explore the likely impact of iLottery programs offered by state lotteries. As of that date, eight U.S. lotteries offered iLottery with single-draw sales. These offerings enable gaming participants to play a variety of online lottery games using a desktop or laptop PC as well as various mobile devices including cellular phones and tablets, encompassing both Android and Apple devices. The games can only be played while the participant is physically located in the state that offers iLottery.

### Key Findings

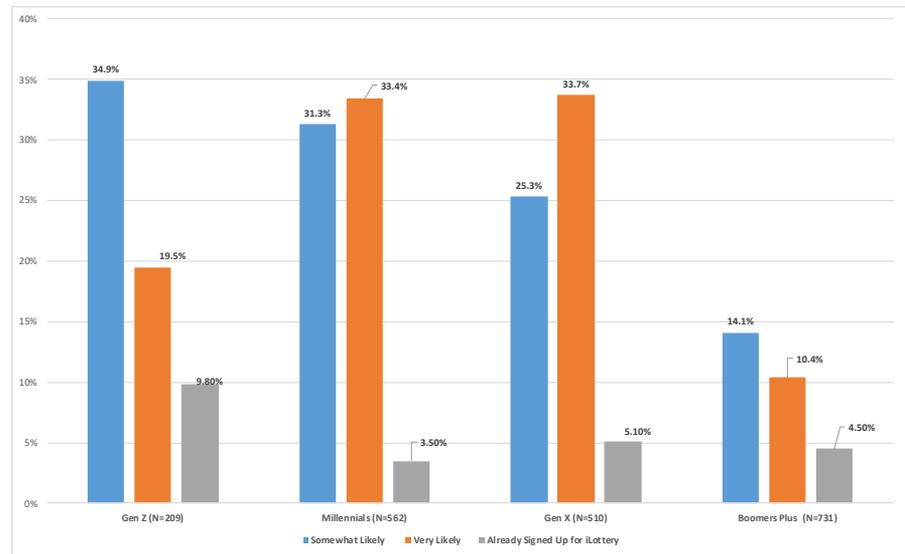
The findings from the March survey covered several key issues, including overall interest in iLottery and generational differences in iLottery opportunities.

**Overall Interest in the iLottery Concept.** In the survey we asked respondents to indicate how likely

**Figure 4**  
Respondent Likelihood of Signing Up for iLottery



**Figure 5**  
Generational Differences Among Respondents in Likelihood of Signing Up for iLottery



they would be to sign up for an iLottery service in their state. Figure 4 displays the results.

Those results indicate that 5% of respondents in the survey already subscribe to an iLottery offering. In addition, 49% indicated that they would be very likely (25.1%) or somewhat likely (23.9%) to sign up. These data suggest that there

is good upside potential for the iLottery concept among consumers. If one takes a conservative view of these data using an 80/20 rule (80% of “very likely to sign up” plus 20% of “somewhat likely” to sign up) then it might be anticipated that approximately 25% of the population will sign up for the iLottery service. This estimate should be supplemented to the proportion in the population (4.9%) indicating that they are already signed up for iLottery, which leads to a total estimated demand of 30%. This estimate suggests that iLottery can make a major contribution to recovery of gaming in the post-COVID-19 era.

**Who Is Likely to Sign Up for iLottery Service?** One of the keys to understanding the likely impact of iLottery on the gaming industry is to determine how likely different segments of the population are to sign up for iLottery as a mechanism to participate in state-sanctioned gaming. Considering the differences across generations in terms of gaming activity identified in the

**Table 2**

Estimated Demand for iLottery Participation by Generation

Generation	80/20 Market Estimate	Already Signed Up for iLottery	Total Estimated Demand
Gen Z	22.58%	9.80%	32.38%
Millennials	32.98%	3.50%	36.48%
Gen X	32.02%	5.10%	37.12%
Boomers Plus	11.11%	4.50%	15.61%

September 2019 survey, the analysis was focused on differences in iLottery interest among Gen Zers, Millennials, Baby Boomers and Gen Xers.

The results from this analysis is shown in Figure 5.

The analysis entailed an 80/20 rule (80% of Very Likely plus 20% of Somewhat Likely) to develop an estimated demand level for iLottery by generation. Earlier it was noted that approximately 5% of respondents already participate in iLottery in their states. The level of existing participation was then added to the likelihood estimate to yield an overall estimate of demand by generation. These results by generation are summarized in Table 2.

The data reveal that demand for iLottery varies substantially by generation. Millennials and Gen Xers appear to be the most likely to adopt iLottery, at around 36%-37%. Gen

Zers are also likely to adopt this new platform and, in fact, 10% appear to have already done so. Baby Boomers and their predecessors in the Silent Generation are only about half as likely to sign up for iLottery.

In some ways these results are not surprising since the younger generations are highly dependent upon mobile phones for much of their communication and entertainment.

### Conclusions and Recommendations

In the face of challenges confronting the gaming industry over the next few years, it appears that iLottery can potentially provide a direction that the industry can pursue as it seeks to recover from the current coronavirus pandemic. Study findings suggest that iLottery offerings also provide a

vehicle for addressing the coming challenge of generational change as Baby Boomers are succeeded by Millennials and by Gen Zers. Younger generations appear to be more interested in iLottery and this will be important for future sustainability of the industry.

Our team also recommends that lottery and casino operators develop programs for tracking changing preferences in gaming as a method of guiding efforts to recover from the COVID-19 downturn and to anticipate changing needs of younger generations. ■

### Notes

*These surveys were conducted online within the United States by The Harris Poll from September 10-12, 2019, among 2,032 U.S. adults ages 18 and older, and March 2-4, 2020, among 2,011 U.S. adults ages 18 and older. COVID-19 related surveys were conducted from April 11-13, 2020, among 2,013 U.S. adults ages 18 and older and from May 1-3, 2020, among 2,039 U.S. adults ages 18 and older. This online survey is not based on a probability sample and therefore no estimate of theoretical sampling error can be calculated.*

*For complete survey methodology, including weighting variables and subgroup sample sizes, please contact Alex Chew (alex.chew@harrisinsights.com). For other questions or for more information, please contact Dr. Barry Goodstadt (bgoods@comcast.net) or Sarah Fulton (sfaresearch01@gmail.com).*