

RETAILERS RESIST LOTTERY'S PUSH FOR ONLINE SALES

By Colin A. Young
STATE HOUSE NEWS SERVICE



STATE HOUSE, BOSTON, JULY 2, 2019.....The Massachusetts Lottery's technological systems are on par with an old, wall-mounted rotary phone -- outdated and inconvenient, but it still works -- while customers increasingly expect to be linked to the world through a smartphone at all times, the agency's executive director told lawmakers Monday.

Holding up a large, black rotary phone, Executive Director Michael Sweeney made his latest pitch to lawmakers to allow the Mass. Lottery to offer its current products -- scratch tickets, draw games, Keno and more -- to customers over the internet. It's an idea that Sweeney, the Lottery and Treasurer Deborah Goldberg have been pitching unsuccessfully for years and again Monday the idea was opposed by retailers who sell Lottery products and rely on that foot traffic to boost their sales.

"This device still actually does work, if it's properly connected. As you know, obviously it's a land-based device, it's heavy and it's also a little bit clunky. But it was revolutionary in its time, much like the Massachusetts State Lottery was when introduced in the 1970s," Sweeney told the Joint Committee on Consumer Protection and Professional Licensure. "Times have rapidly changed and what has now occurred is we have undergone a huge consumer and technology revolution."

The internet has become home to a growing presence of gambling sites, including fantasy sports operations and potentially soon sports wagering sites, that are competing with brick-and-mortar casinos and the Lottery for limited consumer gambling dollars.

"The Massachusetts State Lottery is at a pivot point and we need to have some serious conversations about technology and how we engage consumers because consumers have already radically changed," Sweeney said. "We'll do a billion in profit this year for our cities and towns, but more than 99 percent of that was brought in by cash ... therein lies the problem."

A 2017 survey conducted by U.S. Bank found that 47 percent of consumers prefer to use digital apps to make payments versus cash, which was the preference of 45 percent of respondents. The survey also found that 50 percent of people carry cash less than half the time, and half of the consumers who do carry cash keep less than \$20 on hand.

"The incredible consumer response to digital and mobile banking solutions is changing the entire industry and diminishing the historic use of cash," Gareth Gaston, executive vice president of omnichannel at U.S. Bank, said in a statement. "ATM withdrawals and branch visits are slowly declining, while mobile transactions are increasing dramatically year over year."

Highlighting how far from favor cash has fallen, Sweeney told the committee that he recently took a phone call from a man who said he was a 72-year-old Lottery player. The man was upset that he could not buy a season ticket for a Lottery game with a cashless method and instead had to get a bank check to bring to the Lottery's regional office in Worcester to get his tickets.

"When a 72-year-old customer is calling you and asking you why you're not in the modern age trouble is not on the horizon, it is already behind us," he said. "We need to adjust to where those consumers are of all ages."

A group of retailers who sell Lottery products testified in opposition to allowing the Lottery to move online, arguing that brick-and-mortar retailers fuel the success of the Massachusetts Lottery and in turn benefit from foot traffic from players. Allowing the Lottery to move online would destroy small businesses and threaten the Lottery's success, the retailers said.

"The people who got you to the dance are also the ones that can get you home," Ryan Maloney, owner and operator of Julio's Liquors in Westborough, said.

Robert Mellion, executive director of the Massachusetts Package Stores Association, took issue with Sweeney's comparison of the Lottery's brick-and-mortar retail base to an old telephone.

"We were earlier in this hearing compared to a telephone, essentially," he said. "That's what brick-and-mortar was compared with and this is what retailers across the state were

just compared to. I'll say this about a telephone, it works. It works in a snowstorm, it works when it's sunny out, it works in a hurricane. So it's not necessarily a bad thing."

Online lottery is not a new issue on Beacon Hill. Former Treasurer Steve Grossman appointed a task force to look into it, and Goldberg made her intentions known early in her term, when one branch signaled its approval for the idea.

By a narrow 22-17 vote, the Senate approved an amendment to a 2016 jobs bill that would have allowed the state to sell online lottery products, but that provision did not survive negotiations with the House. It has not gained significant traction since.

According to the National Conference of State Legislatures, at least five other states -- Kentucky, Illinois, Georgia, Michigan and New Hampshire -- have authorized their lotteries to sell at least some products on the internet.

New Hampshire's move towards an online lottery last year, paired with an expansion of Keno in the Granite State, left the Massachusetts Lottery "sitting here like dead ducks," Goldberg said last year.

Sweeney brought the executive director of New Hampshire's lottery, Charlie McIntyre, to Monday's hearing to tell lawmakers about the experience in the Granite State.

"It's been a significant growth for us. We are the fastest growing lottery east of the Mississippi [River]. So our growth in the past year is 16 percent. So the suggestion that it cannibalizes, that it attacks, the traditional lottery would be inaccurate. Our retailers will receive a record year of income this year," McIntyre, who helped expand Keno here as the Massachusetts Lottery's assistant executive director and general counsel, said. "Any new areas you get into obviously cause nerves to be increased, but for us the experience has been a positive one."

Goldberg and Sweeney have previously argued that the Lottery's survival and the hundreds of millions of dollars it returns as local aid are at risk if it is not allowed to move online. But the Lottery's recent financial performance may undercut that argument.

Through May, the Lottery had counted \$1.044 billion in profit, Sweeney told the Lottery Commission last week. Through the same 11 months of last fiscal year, the Lottery had

tallied an estimated profit of \$926.8 million. The Lottery set its record for annual profit in fiscal 2017, when it brought in \$1.035 billion.

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