

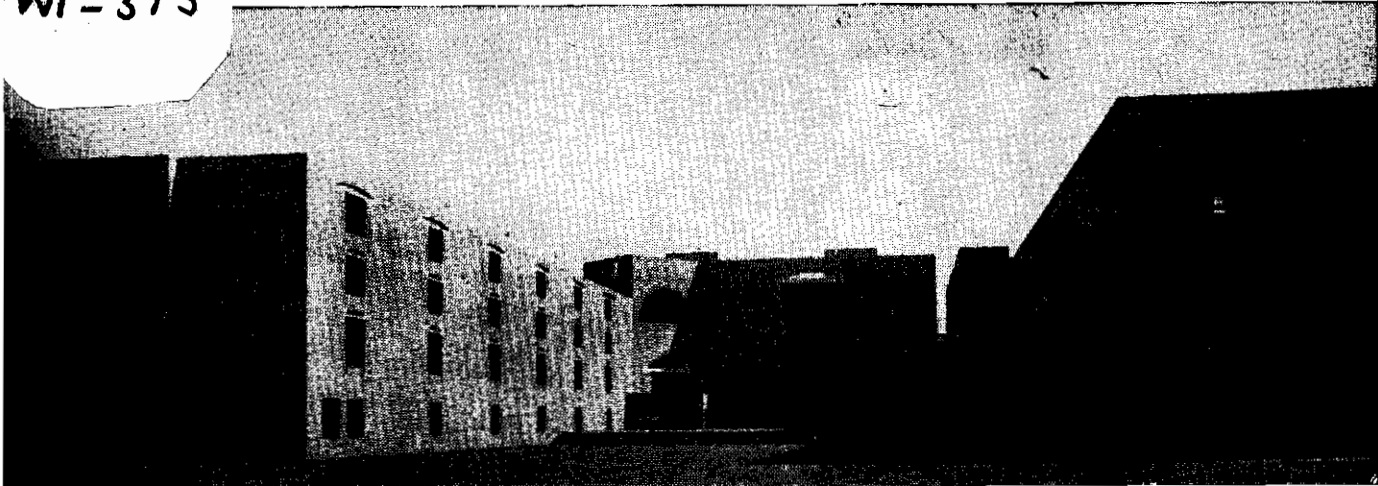
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**MIS-MARKETING BY THE DREAM MERCHANTS:  
THE CASE OF STATE LOTTERIES**

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MIS-MARKETING BY THE DREAM MERCHANTS:  
THE CASE OF STATE LOTTERIES

By

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Introduction

It was in the year 1968 that a state sponsored lottery was first started in India by the Government of Kerala. At that time a state run lottery was a totally new phenomenon on the Indian scene. Vigorous debates on the desirability of the State governments starting such an activity for raising funds had preceded this event. As can be expected, the issue remains unresolved and somewhat controversial even today. The lotteries, however, have continued to enjoy the fancy of the state governments and, undeterred by the objections raised by a small minority, they have been competing with each other to start lotteries of their own. Today, almost thirteen years later, Gujarat is planning to be the seventeenth state to enter the lottery business in August, 1981.

Whether organised by a Casino, Club, or State, there can be no two opinions that lottery is a form of gambling. Why then the Indian state governments who, in keeping with the culture and traditions of this country, had always considered it as one of their important responsibilities to keep the society clean and clear of any type of

vices, had all of a sudden decided to themselves cash upon the often decried gambling instinct of the man? What were the compelling reasons that brought about such a drastic change in the attitudes and behaviour of the state governments which began to vie with each other in organising the largest ever gambling system for the masses of this country?

### Objectives

While it is difficult to find a clear documented list of reasons and objectives behind starting the state lotteries in India, a review of the various government announcements, public statements and published literature does throw some light on the important motivating factors behind the state lotteries:

1. In spite of the legal ban on any type of privately organized gambling, the government had really never been able to stop or even effectively control and restrain such activities. In fact, privately organised gambling continued unabated on national scale involving crores of rupees worth of transactions. The private gambling was always plagued with unfair methods, scandal, cheating, etc. but, in the absence of a better alternative, people had learned to live with it. One realistic and effective way to counter this was to organize a government run lottery which would offer a clean and reliable game of chance to the public.
2. Poverty, the basic disease of this country, was always the most critical concern for the state governments which were hard pressed by

the perennial shortage of resources on the one hand and the huge needs for public spending on the other. The complex tax structure, which employs practically every imaginable method of raising resources, has always operated near saturation level in this country and there was really little scope to increase the taxes any further.

3. Effective collection of taxes from all subjects could have been another way of mobilising resources, but collection efficiency also seemed to have reached a limiting level. In fact, poor efficiency of collection has often necessitated levying of additional taxes resulting into a vicious circle of highest rate of taxation with one of the poorest collection records. Thus, *the states were always desperately looking out for any novel way to mobilize further resources. It, therefore, did not take them long to realise and rationalise that state operated lotteries was one way to raise easy money without making the people feel the pinch of it. Here was an opportunity where people wanted to spend money but were being restrained by law to do so. Here was a product which had a real mass base, since gambling attracted all, the rich as well as the poor. The people would be happy to have a clean way of organised gambling and the government would be happy to mobilise extra resources at so little effort.*

4. It was also felt that the government lottery would offer effective counteracting force to the privately and surreptitiously organised illegal gambling by offering the people a better alternative. This

could be a method more effective than the law to control illegal gambling. Further, the funds collected through illegal gambling were often employed for activities of doubtful social value. With the lottery money, the governments would be able to undertake additional activities for the upliftment of the poor and the downtrodden which could not be taken up for shortage of funds.

#### Present Practices

There is no need to overemphasize the fact that the lotteries have come to stay. It is, however, interesting to see how and in what form the lotteries are run by various states in the country today. Lotteries operated by various state governments can be broadly classified into three categories, weekly, monthly and bumper with 1 to 7 days, 8 to 30 days and 2 to 12 months gap between draws, respectively. The prices for tickets normally range between Re. 0.50 and Re. 1.00 for weekly, Re. 1.00 for the monthly and Re. 1 to Rs. 5 for the bumper draws. The first prizes range between Rs. 10,000 to Rs. 1 lac for the weekly, Rs. 1 lac to Rs. 5 lac for monthly and Rs. 10 lac to Rs. 50 lac for the bumper draws.

To start with, lotteries were confined to the geographical boundaries of the sponsoring states. Their instant popularity, however, resulted into their being marketed on a national scale. While the states, which took the lead in this, benefitted enormously, the other state governments which had not started lotteries soon realised that their objectives for not entering the lottery business

had been totally defeated by some states aggressively marketing lotteries in their geographical areas. This was hurting such states in two ways. On the one hand they were not able to raise and use resources which was an opportunity loss but more than that money from their state was flowing into other states offering lotteries. As can be expected, two types of reactions came from such victim states. One was to start a lottery of their own and market the same nationally, which was done by most of the states. The second was to ban other state governments from marketing their lottery tickets into their territory, which happened in case of a few states. Over time, however, even such states were tempted by the easy money and one by one introduced lotteries of their own.

A brief look at the various lottery schemes being operated by the state governments today reveals a few interesting facts. Firstly, most of the lotteries are priced between Re. 0.50 and Rs. 5 and are, thus, within the reach of even the poorest citizen of this country. The lotteries thus have an excellent mass appeal. In fact, knowingly or unknowingly this has resulted into the lower income citizens as the primary target markets for the state run lotteries today. Moreover, the schemes of various state governments offer only a me-too product with little or no differentiation in product attributes like the price of tickets, the number and amount of prizes and the system of drawing the numbers. This has resulted into a large number of similar products competing in the same market to gain the patronage of basically the

same customers. As a consequence of such a fierce competition, the result is increase in the marketing costs for distribution, advertising, and promotion. A quick analysis of how the gross collections are disbursed shows that as much as 25% of the collections go into distribution costs by way of commission and bonus for the distributors/dealers, 10% is spent in direct administrative expenses, 40% is distributed as prizes (of which nearly 15% goes to the central government as income tax). Thus only about 20-25% of the gross collections are left with the state government for any developmental expenditure. It can thus be seen that of the total money collected at most 25% is available for the state government and 15% for the central government for employing for productive purposes and welfare schemes for the poor. All the rest goes partially into unproductive employment of distributors/dealers/agents/retailers and partially into consumption expenditure.

Whether or not the money received by the governments is, in fact, employed for useful purposes is another matter. The basic question remains, i.e., is this what the state governments had set out to achieve? Starting with the noble objective of mobilizing surplus resources in the society and employing them to projects of social good, we have today landed in a situation where all the state governments are offering a similar product, and are fiercely competing with each other in collecting the hard earned money from the very segments who, in fact, need it the most for their bare existence by alluring them with attractive dreams and finally in the process squandering a bulk of it



in wasteful ways. The present government lottery has not even succeeded in offering an effective competition to the clandestine private lotteries operated on national scale with one of the highest expected value, and chance of winning facility to bet any little amount that even the poorest can afford and daily results with instantaneous pay off, no income tax and no questions asked. In fact the government lotteries have, if at all, only partially drawn its clientele from the age old private gambling alternatives like 'matka'. This is certainly a **beautiful** case of mis-marketing where a scheme started with the noblest principles has turned into a racket any cheap gambling house could have easily offered.

#### Application of Marketing Concepts

It is our honest belief that the state operated lotteries in India today offer an excellent case where basic application of marketing principles can bring back into focus the prime objectives for which the lotteries were started in the first place. In the context of Indian economy today one has to clearly appreciate that the root cause of all problems is the basic poverty. All the governmental efforts are, therefore, directed towards the dual purpose of accelerating production and bringing about equitable distribution of wealth. And it is very essential to test every social activity on these two principles to ensure that it is in fact desirable and does not degenerate into robbing one poor to enrich the other, whether intentionally or otherwise.

Government's policy on prohibition is a case in point. The basic rationale of this policy is based on the fact that the poor masses, with base means of subsistence, just cannot be allowed to fall victim to this evil which can ruin their family and in turn the society. If poverty were not such a large scale problem, the national policy on this issue would have looked totally different - as is the case with other affluent societies of the world whose governments are no less 'responsible'. And even in India the most realistic approach to this issue has been heavy taxation and not total prohibition which allows only the rich and the affluent to afford this luxury. If this is true in case of prohibition, the same is equally true in case of gambling. The basic objection of the government in banning gambling was that the poor cannot be allowed to fall a victim to it. If so, even a government organised lottery that has, by design or due to oversight, taken a form where only the poor and lower income classes are the primary targets can hardly be justified even on grounds of socially noble principles. Lottery is a clear case of a wrongly designed product being marketed into a wrong segment of society resulting into uncalled for exploitation of the poor while leaving out other more prosperous segments with surplus resources. All this has unfortunately happened due to lack of an imaginative marketing approach.

#### Marketing Research

Marketing research for identifying unsatisfied need segments forms the first step of applying the marketing concept to any problem.

Recently a study<sup>1</sup> was conducted by RN Lal and T. Muralidharan, Post-graduate programme participants at the Indian Institute of Management, Ahmedabad, under the direction of one of the authors of the present paper, for understanding the behaviour of buyers as well as non-buyers of the present state run lotteries. The study clearly revealed that the lower income segments constituted most of the buyers of lottery today while the middle, high income and the affluent classes remained relatively secluded from it. Some of the reasons why this is so can be found in the basic unsatisfied needs of these segments that are substantially different from each other. The economic situation and prospects in India being as they are, the lower income classes really have no hope of substantially raising their standard of living through savings or augmented income. As a natural consequence, this segment has developed a resigned and fatalistic attitude towards life and future. Invariably the members of this segment blindly believe in God and luck which, as some psychologists profess, are concepts created by man as a substitute authority which the helpless human beings can resign to. A survey<sup>2</sup> conducted in 1976 by the Institute for Social & Economic Change, Bangalore, to assess the socio-economic impact of state lottery in Karnataka is extremely revealing in this respect: Of the

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<sup>1</sup> Lal, L.N. and T. Muralidharan, A Study of Lottery Market, Unpublished Project Report, IIMA, 1981.

<sup>2</sup> G. Thimmiah, Socio-Economic Impact of Drinking, State Lottery and Horse-Racing in Karnataka, Sterling Publishers Pvt. Ltd., 1979.

total number of individuals participating in the state lotteries, 55.2% are in the income group below Rs. 1000 per capita per annum which is approximately the national average. Another 26.4% are in the income group of Rs. 1000-1500 and 13% between Rs. 1500-3000. Thus, taking an average family size of 5 persons, almost 81.6% of the households participating in state lotteries have an annual family income of Rs. 7500 or lower. Further, 73% of these are either illiterate or have not completed their high school education. Lottery to such people offers a one time chance to change their life style altogether. In spite of the small probability of winning it, the value of the prize is so high to this class that they feel compelled to this only opportunity available to try the luck even by cutting into their already minimal consumption needs. And it is this segment that is patronizing the present lottery which is affordable and almost tailor-made for them.

The middle and high income groups on the other hand have some discretionary cash in hand to be spent on fun, enjoyment etc. A big prize offered by the lottery is still of great value to this segment. However, better level of education tells them that the lottery with very negligible probability of winning is not really worth its while. The expected value of a lottery, which is sum total of all prizes weighted by the probability of winning them is, therefore, an important consideration for this group in deciding whether to bet their money on it. Also the cumulative probability of winning any prize is a

consideration, since even the lowest prize does offer some net gain. Their present standard of living does hold some prospects for the future and to that extent this segment is less frustrated and desperate to try a game of such a weak chance like the lottery. Thus, while prize with a very low probability of winning is of little attraction to this segment, it is willing to spend on a game of chance that also offers some excitement, involvement and possibly use of their personal skills. Several individuals from this segment who were non-buyers of the lotteries, revealed during the interviews that they felt the state run lotteries were a cheap game of chance designed for the very poor classes. They further felt that lotteries were a 100% game of chance and offered little opportunity for excitement, involvement or application of personal skills. Some of the attributes this segment looks for in a gambling game as revealed by the study of Lal & Muralidharan are: excitement provided by the game, involvement of the person, expected returns, chance of winning, skill needed in the game, socialization and affiliation possible through the game, waiting period before the results are announced, stakes involved in terms of money, personal pride and finally a chance to effect a change in life style. In their search and need for these attributes this segment often patronizes games like playing cards (bridge, flash, rummy), housie, stock exchange, crossword puzzle, chit fund schemes and to a certain extent horse racing. It can thus be seen that this segment does offer a potential market for a government sponsored lottery which, if properly

designed and marketed, can mobilize substantial resources, at the same time bringing about social equity and justice.

Finally, the affluent segment is one which has everything the best standard of living can afford. Prize money of one or a few lacs is not a major attraction to this segment. The basic unsatisfied needs of this segment are fun, excitement and social prestige, which it seeks to achieve through membership of exclusive clubs and honorary positions of prestige and power. A second spectrum of the unsatisfied needs of this segment can be found in facilities and commodities that are in short supply like imported goods, admission to prestigious educational institutions, foreign exchange for travel abroad, etc. This segment, thus, offers another unexploited market which the governments can justifiably tap with a marketing programme which is well conceived, planned and executed.

Having identified three economic segments of the society with distinct needs the next step would be to select target segments that can be economically and socially justified to marketing a product like state operated lottery.

Clearly the lower income group is the most exploited segment of our society which offers very little justification or scope for further exploitation. On the contrary, all the present laws that prohibit privately organised gambling are, in fact, designed to

protect this segment. Even if it may be possible, this segment must be left alone and in fact definite disincentives must be incorporated into the product to keep this segment out of the state organised gambling as far as possible. This is to be done not by refusing to sell to this segment but by making the 'offering' unattractive to them.

The middle and high income groups on the other hand, offer an excellent potential for marketing a government run lottery designed to serve the specific needs of this market. The major distinction between the needs of this and the affluent segment is in terms of the types of prizes that attract them. On the other hand, both the segments do look for other benefits like excitement, involvement, personal skill, etc. With proper adjustment in product design, therefore, it is possible to attract both these segments to the state run lotteries.

#### Designing the Product

Physically a rectangular piece of paper, a lottery ticket is characterised by the name of the state or brand name, a unique number identifying the ticket, date of draw, first prize and the price of the ticket. To the consumer, however, it is a means of satisfying his needs and wants. A lottery designed for the middle income, high income and the affluent segments, therefore, must offer what they are looking for. The first prize offered is thus of immense importance in deciding what the lottery would mean to the consumer. While high cash prizes would be still an attraction for the middle and high income segments,

some imaginative prizes can make it attractive even to the affluent segment. Thus, free education in a foreign university for anyone sponsored by the winner, admission to a school, college or professional institution in India on the basis of a certain minimum eligibility, imported goods of choice, a trip round the world sponsored and completely arranged in VIP style by the government, a house-flat in Bombay, meeting with high dignitaries, etc., could be some of the novel prizes that can be considered for the lottery winner. The second important factor after prize for this segment could be the probability of winning some prize. It is, therefore, essential to make serious attempt to offer highest possible probability if the lottery has to become attractive to this segment. Lottery being basically a game of chance, there are limitations on the extent to which other attributes desired by this segment like involvement, excitement, and use of personal skills can be incorporated into it. A detailed market research along with brainstorming, depth interviews, and focussed group discussions could come up with some novel ways of bringing in such elements. One excellent way to bring in excitement and involvement could be by introducing some of the features of the housie in the lottery. Thus, drawing one number a day for 5/6 consecutive days and giving prizes to those who have it as last number, last two numbers, etc., could be a way to ensure involvement and excitement as it happens in the horse racing.

A distinct need expressed to differentiate the product from the common lottery and give it some kind of exclusiveness shows that the



product designed for these segments must be and must also appear to be different. Change of name is one important aspect that needs consideration here. Rather than calling it a lottery labelling it as a 'GAME' may be one way of making this distinction. However, name is only one of the aspects. The most important point is that the product must, in fact, be different than the common lottery on some of its salient attributes.

#### Determining the price

Price is another important tool in differentiating the lottery meant for the middle, high income and the affluent segments. While price on the one hand is supposed to reflect the value of the product to the consumer, on the other hand, it is used by the consumer as a measure of its worth to him. Another specific objective of pricing here should be to keep the lottery somewhat out of the reach of the poor so that they do not unnecessarily get deprived of their bare minimum. Both these objectives can be simultaneously achieved by fixing the price of this lottery much above the present level. The exact level of pricing, however, needs to be decided only after a proper indepth research of the targetted consumer groups is conducted.

#### Determining the distribution channels

It is clear from the facts presented earlier that the total emphasis of marketing efforts in the present lotteries is on distribution. This situation has arisen due to two reasons. Firstly,

the segment chosen is the lower income group which constitutes very widely dispersed masses. And lottery being a convenience product, it is essential to have mass distribution outlets. Secondly, the intense competition resulting from all the state lotteries trying to tap the same market segment has necessitated it to allure the dealers and distributors to push the product. The result of this all is that the distribution costs by way of commission are as high as 25% of the gross collection and even then no state lottery has an edge over others by way of preferential patronage of the channels. For distribution a product like an exclusive lottery for the middle of higher income segments, a totally different approach to distribution will be called for. Firstly, it is essential that the channels are exclusive and different than those used by the present lotteries. Some of the channels that could be explored for this purpose are the banks, post offices, gas stations, hotels, etc. It will also be worthwhile to enter into tie-up arrangements with popular consumer product companies like soap, razor blades, cigarettes, etc., who can offer lottery tickets as an integral part of their consumer promotion schemes. Such tie-ups are often useful in exploiting the strengths of both the products into a mutually satisfying and rewarding scheme for the manufacturer and the consumer. The choice of such channels emerges from the need to satisfy three basic criteria. Firstly, the channel must reach the product to the middle and high income segments only. Secondly, it must be exclusive and thirdly, it must involve minimal distribution. Distribution of tickets by mail against telephonic or written order may be another alternative worth exploring.

Second part of the distribution channels concerns the distribution of prizes. There is clear evidence in the survey<sup>3</sup> that the present arrangements of prize distribution are far from satisfactory. In fact, many of the high income non-users of present lotteries have stated this as a major reason for keeping away from the lottery. The survey clearly revealed that consumers despise being made to run from pillar to post and subjected to long waiting periods to collect the prizes. Clearly there is a need to evolve simple procedures for disbursement of prizes, even at a slightly higher risk of prize going to a false claim. Firstly, the government certainly has the machinery to tackle and bring to book people making such false claims. Secondly, there are data<sup>4</sup> to prove that prizes amounting to nearly 10% of the net collections remain unclaimed. Thus, there is sufficient margin to take such a risk. Finally, if necessary, such risk can be incorporated in the cost of operating the lottery for false claims to be written off. Unless imaginative and bold methods are used to remove these inhibitants, the lottery specially designed for the higher and middle income segments cannot become attractive.

#### Designing the Communications & Promotions

Most of the communications in the present lotteries are carried through press advertisements, and the messages are mostly factual. While information is always an important part of communication, ther

<sup>3</sup> Lal & Muralidharan, op.cit.

<sup>4</sup> Financial Express Bureau, "Sweepstakes No Longer Sweep Them", Financial Express, Oct. 21, 1980.

is room for the use of persuasive appeals through creative themes. In case of a special lottery designed for the middle and upper income segments of the society, there would be a clear need to depart from this mass communication approach to a selective communication approach. In order to reach the select target segments for such a lottery, the advertising will have to be essentially through periodicals, professional journals of wide interest and the TV. The advertisements would constitute an important element of marketing in ensuring a proper place for the lottery in the mind of the consumer. Apart from the prizes, the advertisements, therefore, must lay adequate emphasis on the excitement, involvement, fun and prestige offered by such lottery. Unlike the common lottery, there is certain scope for personal selling in this lottery either at the point of purchase or elsewhere. Attractive displays, prizes for best selling outlets and for consistent buyers of lottery can generate enough enthusiasm to launch such a product successfully.

#### Organization

It is clear that whether sponsored privately or by the government lottery is a hard core marketing job to be done by professionals. There is an urgent need to realise this fact if the lotteries have to grow and, in fact, attain their avowed objectives. The present scene projects a dismal picture of all state-run lotteries on this account. Most, if not all, the state government lotteries are plan

executed and controlled by special directorates headed by an officer from the bureaucracy and manned by the government employees who have little knowledge of marketing. Most of the staff is often drawn from the Finance Ministry and the easiest route for them to get into business is to find out all they can about the practices and policies of the neighbouring states as to the manner in which lottery is 'marketed'. While many of them are competent administrators and have excellent record of performance in their chosen disciplines, to expect them to become effective marketers without any training and background is highly unrealistic. This lack of professionalism has been reflected in numerous ways and in every direction. The very fact that all states have designed more or less an identical product and are competing fiercely for the same segment of market in itself is an ample proof of their lack of market orientation. Further, the fact that all of them are exploiting a segment that really needs to be protected, and have left out higher income segments that need to be brought into the purview is further proof of the absence of marketing thinking. There is, thus, an immediate need to ensure that the job is entrusted to hard core marketers if the proposed lottery for middle and upper income segments has to be successful.

#### A Central Lottery

Many of the suggestions presented above are pointers to the possibility of the central government organising such a lottery for the middle, high income and the affluent segments. In fact, it may

be more economical to plan and market such a lottery on a national scale than doing it in a fragmented way at the states level. Moreover, the government can even think of ways and means to attract the unaccounted money holders who could legitimise such holdings after indirectly paying income tax through such a lottery system. Thus, a lottery scheme could be designed which assures minimum 50% return on the amount invested and additionally offers attractive prizes with a fair probability of winning them. Such a lottery could have tickets of denominations starting from Rs. 1000 upwards. Such a scheme that at worst means payment of 50% tax without penalty on unaccounted money and otherwise offers an opportunity of winning really big prizes still keeping the anonymity of the subscriber intact would be ideal to attract the unaccounted money holders. After all, the central government has been trying schemes like the voluntary disclosure scheme, bearer bond scheme, etc., to bring out unaccounted money without any penal action and the same concept when combined with a lottery could perhaps form an attractive package. If this could be done, lottery would be really tapping the segments that need to be tapped and, thereby, achieve the basic objectives for its creation.

The paper pleads for a total review of state operated lotteries in India. The idea of state run lotteries came with the laudable objective of mobilizing surplus money in the society by exploiting the gambling instinct and employing it for social good. In the proce

of translating it into practice, however, the whole purpose has got distorted. Today, we are crowded with state run lotteries that are tapping the poor segment which, in fact, needs to be protected and leaving out other richer segments that need to be tapped to bring about social equity and justice. Further, the undue competition has resulted into excessive and wasteful marketing expenditures with little, if any, net gain from the whole effort. There is, therefore, an urgent need to have fundamental rethinking on this whole issue. There is need to design a lottery that would specifically serve the upper middle, high income and the affluent sections of our society. There is also a need to entrust the job to professional marketers rather than leaving it to the bureaucracy. Finally, there is a need to consider organising such lottery at the central government level which will minimise wasteful marketing expenditures due to excessive competition and, in fact, use the funds for schemes of social value.

As far as the present lottery schemes are concerned, ideally the ultimate aim should be to phase them out of the market but there is a danger that their present patrons may revert to private gambling. The least that the government can do is to substantially increase the poor man's returns on these lotteries, shifting most of the burden of administrative overheads and marketing promotional expenditure to the new product which also should generate additional resources for developmental purposes.

The paper is not meant to present a ready solution. The suggested approach has, however, been evolved with sufficient analysis and conviction that, if necessary, such a scheme can in fact be designed and operationalised effectively.