

RETAIL MODERNIZATION: A LOOK ACROSS THE LOTTERY INDUSTRY

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ost of us enjoy year-end reviews. And lists are very big. What were the top songs? Top movies? Biggest sports stories? Clothing trends? 10 most creative uses for pumpkins?

Given what we all endured over the last ten months, pandemic-related lists dominated most reviews of the year (most major movie releases were postponed anyway). What TV shows

did we binge the most? Most popular take-out food? Go-to at-home activity?

CNBC recently published an article titled “6 ways the coronavirus pandemic has forever altered the retail landscape.” The list could have been compiled by anyone in the lottery industry.



TOUCH-FREE SHOPPING

CNBC writes: Before the pandemic, a big part of shopping was the hands-on experience: Eating samples at the grocery store. Spending an afternoon in the fitting room. Trying on lipstick at the beauty counter. Swiping a credit card on a long-desired purchase. Many retailers are now trying to stand out for the opposite reason: They are making it easier for consumers to avoid shared surfaces and limit interactions with employees or other customers. That's led to investment and expansion of contactless checkout approaches — particularly by grocery stores. As a way to provide a more touch-free experience, several grocers have expanded availability of smartphone apps customers can use to scan items and tally up orders.

ACCELERATION OF E-COMMERCE

CNBC writes: Customers shopped online before the pandemic, but a desire to limit trips to stores unleashed new demand and encouraged retailers to roll out new options. The result: new habits. Americans will continue to shop at stores, but they also may schedule curbside pickup or sign up for grocery delivery services.

In the U.S., over the course of 2020, almost 36% of online nonfood spending was supported by physical stores, according to research by GlobalData. This is up by 2.6 percentage points since the start of the year. This means that as opposed to ordering goods from sites like Amazon, consumers are realizing they can receive the same nonfood items from their local supermarkets and big box stores. This is a good trend for lotteries, which do not sell on Amazon and can only sell to players within their state's borders.

GlobalData also reported that about 68% of U.S. shoppers say they are going to use curbside pickup at stores more in the future and nearly 60% say they will collect more of their online purchases from inside stores. Consumers still want the ease, speed, and familiarity of shopping at their local store but with the added feature of safety.

This is not surprising to lotteries which have seen the amazing increase in scratch ticket sales, a real-life example of the need for instant gratification and the appeal that in-store retail shopping continues to hold for consumers.

Following are the insights of a few lottery industry leaders into how Retail Modernization trends are impacting the lottery industry.

PANDEMIC PUTS RETAIL CHANGES ON OVERDRIVE

“Luck is what happens when preparation meets opportunity”

Seneca, Roman Philosopher

Not many of us would have considered ourselves as “lucky” in 2020. The pandemic uprooted society and caused severe hardship and even worse for too many people. It also forced a major shift in plans for the lottery industry. But years of preparation provided vendors and lotteries alike the opportunity to focus on players and retailers and enact new initiatives, many of which were in the pipeline and ready for launch but scheduled for the future. The pandemic upended that timetable as this is no time to keep powerful new tools, products, and initiatives on the shelf waiting for some right time in the future to actually put to use. The pandemic freed us up to act with a more pressing sense of urgency commensurate with these challenging times.

Jeff Martineck, VP of Global Innovation at Scientific Games, points out that the changes that were needed for the lottery industry to succeed over the past 11 months had been in development in recent years and are now being adopted and deployed at hyper-speed. A two decades-plus veteran of the lottery industry who started his career at the Connecticut Lottery, Jeff leads Scientific Games' global innovation efforts and cross-company innovation teams. The company's focus is on innovation that modernizes the lottery experience to ensure its customers' growth.

“We've seen that convenience has become more important to consumers in choosing where they shop,” Jeff said.

“This trend accelerated in 2020 and we expect it to continue. Where there is curbside pickup, where consumers can get everything in one quick stop, and where they might have touchless payment methods — these types of conveniences have grown in importance.



Jeff Martineck, V.P. Global Innovations, Scientific Games

“Technology has changed how players interact with lotteries. A trend for all retail including lottery is cashless payments, such as tap-and-go, where no money exchanges hands at retail and the player simply uses their mobile device to pay for their purchase. A significant advancement is the comprehensive digital wallet, where players can purchase lottery games seamlessly across all product lines in a mobile environment that also includes responsible gaming features. Some states allow all game entertainment products, while others may be limited. And an interesting impact of these payment methods is that higher price-point players are more likely to utilize this technology.”

CATERING TO ALL PLAYERS

Attempts to modernize the lottery — such as iLottery and technology which bypasses the checkout counter — have typically faced some retail headwinds. Retail partners have been concerned that iLottery would siphon off players and in-store consumer spending, even though the data and evidence make clear that technology transformations benefited the brick-and-mortar retailer by introducing new consumer groups to lottery and bring new players and shoppers into their stores.

IGT's Paul Riley, Vice President Retail

Innovations & Partnerships, says that lotteries and their commercial partners are working together to provide support to both sides, to consumers who want easier access to play the lottery and to retailers who want to maximize in-store shopping, and letting the results chart the future course. “The industry has now seen the success of this approach, where there is iLottery and retail remains profitable,” said Paul. “The best-case scenario for a lottery is to make it easy for their players to play on multiple channels. And even where the lottery isn’t regulated to offer digital play, we want to make it easy for players to use all channels available, whether through a clerk at retail or a Lottery Vending Machine (LVMs) or playing on their smartphone in the store where that is an option.



Paul Riley, V.P. Retail Innovations and Partnerships, IGT

“The biggest advantage the industry had going into last year was the expanding knowledge base about players. Operators now have more data and insights into players’ likes, dislikes, and motivations,” he said. “Players clubs and second chance drawings have provided lotteries with further data on player preferences. Most lotteries have apps, and that allows them to get information to players quickly and efficiently. This movement toward the convergence of digital and retail – what IGT calls Connected Play – is a focus that many lotteries were already adopting but accelerated quickly throughout 2020 as the pandemic unlocked the resolve to meet the needs of customers, players, and retailers alike, in this difficult time.”

One thing that hasn’t changed is the players’ desire for convenience. Paul said that the pandemic has prompted IGT and its lottery customers to strategize on how best to get product into player hands while keeping everyone involved safe. “The past year hasn’t changed players’ desire for lottery products, as they appreciate the entertainment

value of our games as well as the winnings,” said Paul. “But the pandemic has certainly pushed hygiene and convenience to the top of the list of issues of where we devote resources. The demand for convenience and consumer options has driven the rise in multiple channels. iLottery, LVMs, in-lane, smartphone, as well as further adoption of convenience (and COVID-fighting) features such as cashless payment and digital play slips.

“We don’t need a crystal ball to see that the change in how lottery products are purchased at retail will continue to evolve beyond the formative trends established over the past year. What takes place in the next year and beyond will be determined by many factors, not the least of which is regulatory modernization. Some states will have to change state legislation to allow players more access to lottery (i.e., iLottery approval, more flexible cashless options, or increased self service). It also requires investment, collaboration, and the willingness to change and adapt. For instance, some states have begun to offer lottery in-lane, which provides another channel to drive incremental sales and engage with consumers in a more convenient manner. Let’s make it as easy as possible to get lottery products into players’ hands.”

INTERNATIONAL EXPERIENCE PAYS OFF DOMESTICALLY

While the retail transformation we witnessed in 2020 might have caught some observers by surprise, the lottery industry has been moving in this direction for years. At INTRALOT, their work in the United States is informed by many years of activity with its European customers. Concepts that many in the U.S. were just hearing about for the first time had actually been in place for many years in Europe and other international markets. So INTRALOT has had a head start on both knowledge of the trends and implementation of the technology.

“We weren’t caught by surprise by what took place in 2020 because service-driven customer experiences, like buy online, pickup in store and curbside pickup, have been happening for years,” said INTRALOT VP of Marketing Kim Williams. “The pandemic has shown us that we must be ready to transform in order to stay connected to consumers and continue to keep their business.



Kimberly Williams, V.P. Marketing, INTRALOT, Inc.

“For better or worse, lottery customers now expect service like they receive in other consumer-facing sectors. Amazon and Walmart continue to win the race to dominate the retail landscape because they are nimble enough to respond to ever-changing shopper needs and behaviors. For Walmart, people will continue to visit their retailer locations because people will still want to see, touch and feel the products. And this parallels the lottery industry. We must find ways to empower brick and mortar retailers because the in-store experience is not going away anytime soon.”

OLD METHODS INFORM NEW INITIATIVES

When your title is Vice President of Retail Growth, retail modernization hits close to the heart. Rick Droste spends his days at Pollard Banknote working on initiatives to help lotteries provide retailers with products for players, while also keeping an eye on the future. A mix of old school and new wave.



Rick Droste, V.P. Retail Growth, Pollard Banknote

“Pollard provides ‘entire store’ offerings to retailers – we print tickets, provide acrylic ticket dispensers, manufacture in-store POS,” said Rick. “At the same time, we offer iLottery platforms through our NeoPollard joint venture. Modernizing the at-retail player experience is critical and something

we take seriously. COVID has certainly moved health and safety to the top of the list of factors we must consider in our retailer outreach and efforts. How much contact must players have with clerks at retail? Can we add vending machines and ticket validators into the retail environment and ensure a positive impact on sales? These are the types of issues we are working on right now.”

NeoPollard Interactive, Pollard’s joint venture with NeoGames, supplies platforms and games to AGLC (Alberta Gaming Liquor & Cannabis), Michigan, New Hampshire, Virginia and North Carolina Lotteries. Even for those lotteries which do not offer iLottery, the player data and insights gleaned from iLottery jurisdictions provides valuable business intelligence that is being applied to all areas of the business.

As the former Deputy Commissioner of the Michigan Lottery, Rick has seen firsthand the positive impact that iLottery can have on the entire lottery organization, particularly in across-the-board modernizations. “Not all lotteries can offer the full iLottery program like that in Michigan,” said Rick. “But the lessons learned from iLottery can help everyone. Lottery apps must be as robust as those offered by major retailers with ticket info and players club options. So much is done on our mobile phones today and lottery can’t be the only consumer product marketing business that does not provide a robust mobile platform.

“At the same time, retail locations can also take a lesson from the online environment where in-person contact with a lottery representative is restricted,” said Rick. “Lighted and electronic monitors display clear ticket information to players before they approach the counter. Ticket validators provide immediate information without the need to approach a clerk. Vending machines offer products without a counter purchase. Finding ways for lotteries to sell instant tickets in new retailers and in-lane has become a priority for many lotteries. We know that, just like with iLottery, players will become more comfortable with non-traditional retail offerings.”

INNOVATION, INFORMATION TAKE CENTER STAGE

At Scientific Games, the entire organization collaborates to deliver quick and efficient

When the goal is to increase revenue, modernizing the retail experience – whether in the store or online – needs to be at the top of everyone’s “to do” list.

service and innovative products that lotteries need to maximize profits. Enter Jeff, whose group divides its work within the critical areas of the lottery industry – researching and developing the next trends in instant games, working with lotteries to support the draw game category, looking for opportunities to integrate digital, and modernizing the retail experience to ensure the industry’s sustainability. His group of industry veterans has never been busier than in the past year, and their efforts won’t slow down in 2021.

“Innovation has always been at the core of our work at Scientific Games, and that is increasing this year,” said Jeff. “Our innovation obviously extends beyond lotteries to retailers. While the big chains have adopted modern technology across their categories, we want to make sure all retailers have access to the most advanced lottery products and solutions.

“In the U.S., 72% of C-stores consist of chains with 50 or fewer locations. We believe that consolidation in the C-store industry will continue at a record pace, presenting challenges for lotteries to remain influential in how retailers display and support their products. Approaches like our SCiQ® retail ecosystem will provide the strategy to work with these changes across the widest range of retailer types.

“To us, it goes back to the convenience of buying lottery products. Make it seamless and friction-free for the player to get in and out of the store, whether they prefer draw, scratch or digital games. If a particular jurisdiction doesn’t allow credit card purchases, then we can work with the lottery on a digital wallet where they can place their order and then just pick-up their lottery purchases. We learned over the past year that down-the-road innovations need to take place now to protect and maximize lottery sales and profits.”

INTRALOT has used data for years to drive its efforts across the world. The trick has been to take vast amounts of data and make it usable by lotteries. Again, this is another service that has taken on even more importance for lotteries. “We believe there will be even more reliance on CRM systems over the next few years,” said Kim. “The data collected on players will allow retailers to drill down to customer behaviors and become more efficient. For both instant tickets and system-based games, retailers only have so much space and bandwidth. With efficient data, we can offer products that players are buying and eliminate those that are no longer working.”

As Kim and her colleagues at INTRALOT look to the next few years, they see various trends that are here to stay – retailer curbside pickup, home-delivery services, increase in e-wallet usage, email and programmatic marketing increases to service an increase in customized “shopping lists.”

Of course, some of the need to modernize at retail is also driven by finances – more specifically, enormous budget shortfalls facing many states. Two of the states hit hardest by the pandemic are searching for sources of revenue. New York Governor Andrew Cuomo recently stated his intention to regulate and tax sports betting as his state will have a \$15 billion shortfall this year. California’s shortfall is closer to \$50 billion. Michelle Carney, IGT’s Vice President Global Lottery Marketing, said these challenges can result in more support for lottery modernization efforts.

“In times of economic hardship, state governments look to the Lottery for new sources of revenue,” said Michelle. “This has historically been a good opportunity to promote awareness and acceptance of initiatives to modernize and accelerate growth, and to educate legislators on expansion opportunities – for example, self-service, Keno – and technological advancements such as cashless, mobile, and iLottery. These are the times that call out for change and can breathe new life into initiatives that previously did not have broad acceptance.”

When the goal is to increase revenue, modernizing the retail experience – whether in the store or online – needs to be at the top of everyone’s “to do” list. ■