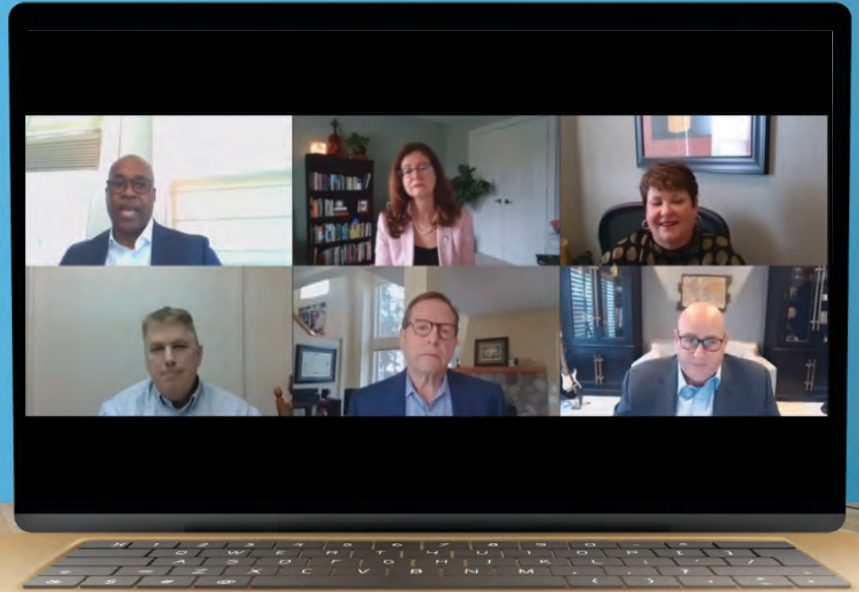


BUILDING STRONG BONDS WITH LOTTERY'S RETAIL CHANNEL PARTNERS

The following article is based on a Roundtable Discussion conducted at PGRI Retail Modernization eConference on April 13.



Under normal circumstances, owning and operating a business is stressful. It is even more so for the businesses where lottery products are sold. Payroll, rent, stock control, marketing, personnel – there is no shortage of issues which keep business owners up at night.

Now, throw in a worldwide pandemic and government-mandated lockdowns, and it's a wonder lottery retailers stayed in business, let alone thrived. But thrived they did, with a huge assist from their lottery and vendor partners. This success has set the groundwork for even stronger revenue growth in the quarters ahead.

Under the general subject of "Focus on Retail," a panel of experts looked ahead to the future of retail. Led by moderator **Sarah Taylor, Executive Director of the Hoosier Lottery**, the Roundtable panelists included:

- **Max Goldstein**, VP of Sales for the Americas, Carmanah Signs
- **Mary Harville**, President and CEO, Kentucky Lottery
- **Adam Perlow**, VP and COO, Northstar New Jersey
- **Terry Presta**, Head of Business-North America, Abacus Solutions
- **Frank Taylor**, SVP of Sales, Georgia Lottery

To better understand the decisions being made by lottery retailers, it helps to review the landscape and pressures faced by these businesses. Setting that stage was Terry Presta, who is the former director of the Kansas Lottery and owned a chain of convenience stores throughout Kansas. Terry walked through the variety of concerns at retail.

"From the moment you open a store, the meter is running on your rent, labor, utilities, property tax," he said. "These are 24/7 pressures and with no regard for whether sales or gross margins are enough to cover the costs. Lottery is a very important product for retailers, but we don't have high margins. 5 to 5.5% on average, which is among the lowest of all products offered at retail. So, we must deliver our product in a way that requires very little spend on their end. If we can make sure that happens, our product will be welcomed, and the industry will see potentially unlimited growth."

Of course, critical no-cost support is provided to retailers by lotteries in the

form of equipment, lottery products and marketing/advertising. Perhaps the most popular piece of equipment is the jackpot signs which are often visible from the gas pumps and passing streets (certainly when a customer approaches a store). Many of those signs are supplied by Carmanah Signs, where support of the brick-and-mortar locations is of primary importance.

"We are seeing an increase in investment by retailers in digital – not necessarily digital sales, but in-store digital marketing tools," said Max Goldstein. "Lotteries are working with their retail partners to create brand awareness and merchandise their products. According to Market Data Forecast, the size of the global digital signage market was estimated at \$19 billion in 2019 and is expected to reach \$32 billion by 2025. This digital investment will attract, engage, and inform players and ultimately help drive sales."

For lotteries, supporting their retailer network is of critical importance. Mary Harville was the legal counsel for the Kentucky Lottery for 16-1/2 years before being appointed President and CEO last fall. She runs an organization that also offers iLottery for players so she is very cognizant of nurturing an effective mix of channels through which lottery products can be purchased.

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“When I think about how we reach our players, I’m reminded of the old Burger King slogan ‘Have it your way,’ because that’s the kind of flexibility we now offer our players,” she said. “Instead of ‘hold the pickles, hold the onions,’ they expect to buy lottery products any way they want, with the same conveniences that they buy other products. They want to come into a store and complete their shopping quickly and easily. They want the option of an online app. They want to use plastic or Apple Pay. We have to make sure they have it their way.

“And we’ve done that in Kentucky. We are in the midst of a huge vending machine initiative that was put in place at the end of 2020 with new machines deployed in the field,” she said. “We’re in the midst of selecting a cashless option. At the same time, we’re making sure that the products we provide at retail are attractive to players. So we’re focused on the basics and we’re seeing that pay off in terrific sales numbers.”

In Georgia, Frank Taylor and his colleagues in the sales group have utilized innovation to support their retailers while also making sure all the basics of retailer support are covered.

“Good products, appealing second chance promotions – these are the types of things that drive people into the stores,” he said. “We are always looking at the balance between new technology and successful sales techniques. People want cashless. We’re looking at the technology that can store your numbers on your mobile device so that when you enter a store, you can receive your ticket with minimal extra steps. But the interaction between retailers and customers is so critical to the success of the lottery. Many have friendly relationships with the customers, talking with them about their families and what’s going on in their lives and engaging them on lottery products. For many players, that face-to-face interaction adds relevant value and works better than technology.”

“With that said, we’re implementing some of the cutting-edge technology where needed. Many of our corporate accounts want vending machines,” he said. “I’ve worked with Max and Carmanah on digital media boards that expand the experience for players and are particularly useful for new players. And, of course, iLottery continues to expand and will be an important sales channel into the future.”

Adam Perlow, who has worked at the New Jersey Lottery for Northstar for almost two years, summed up one aspect of how technology helps players. “Sometimes people just don’t want to deal with people.” He said that all lotteries have retailers who have their player’s numbers memorized and hand them their tickets before they even reach the counter. But many people want that self-service experience. Getting even more specific about how a player’s interaction can be improved, Adam discussed how the New Jersey Lottery is not only providing the latest technology to its retailers, but also “piggy-backing” on other retailer technology.

“We’re partnering with 7-Eleven to work within their technology and rewards program to create an even better experience for players,” he said. “They are a critical retailer for many lotteries and working closely with them only benefits the lottery and players. In July, we’ll go live with a program that enables a player who purchases a certain \$5 ticket to receive 500 rewards points in their 7-Eleven program. We’re basically leveraging their technology to give players a special promotional opportunity. It will be a win for the lottery, a win for 7-Eleven and a win for the player.”

Of course, even the best technology won’t work in the lottery industry if it’s not accompanied by attractive products. That is what will keep players returning to retail and, most importantly, buying product. For the lotteries represented on this panel, and many others in the industry, new products such as IGT’s patented Cash Pop™ draw game are leading the way for new games.

In New Jersey, Adam and his team look for games that will engage players and offer news ways to win. “What I like about Cash Pop is that there are different ways to win, and we can also run it as a monitor game alongside Keno,” he said. “It’s one of the only games in the industry that allows the flexibility to play different numbers at different bet levels with a high number of draws each day. We’ve seen this particular game rise to 13 cents per capita in New Jersey – so obviously players are responding.”

Staying on the Cash Pop bandwagon, Frank said that in Georgia the game is popular across different demographics and some of that is thanks to the Lottery’s aggressive communications push. “We talked to many players – current, light, lapsed – and they

all said that a game with this type of play style and flexibility is what they want,” he said. “Our push with advertising and on social media also helped raise awareness and resulted in a lot of buzz. Since the game is run five times a day, people don’t have to wait too long to play again and that helps build a player following. These types of innovations will keep players engaged.”

Mary said that while Cash Pop is available in Kentucky, these types of more social games have been impacted by pandemic closings and restrictions. As things open up, that should change. In the meantime, she is focused on making sure the convergence of brick-and-mortar retail and iLottery is as smooth as possible for her players.

“We want to focus on being there for the players,” she said. “I don’t see online sales being in competition with retail, in fact I think online can help retail. In Kentucky, we have cross promotions to drive players back and forth and support the two channels. We throw the love at these two channels in different ways but certainly in ways that are most impactful for our players. It’s about identifying player needs and meeting those needs through innovation and attractive marketing and products.”

Sarah pointed out that at the Hoosier Lottery, they’ve experimented with different ways to engage their players. The key is make it interesting and keep it fun.

“We’re in the entertainment business so why not offer the type of fun, engaging products players see in other places,” she said. “Over the years, we’ve launched play-for-fun games online. Most recently, we offered the Loaded Zone in support of our “loaded” family of scratch-off tickets. Our retailers appreciate our efforts as well because it keeps players interested and, we hope, buying products. We also focus on our social media networks and players clubs, so we are interacting with players in different ways. The ultimate goal is to drive players to engage with us at retail locations, as well as online.”

Max pointed out that player expectations are being set by the best practices applied by retail leaders. Bricks and mortar retail is becoming an omnichannel vertical, where physical and digital channels interact and thrive. So, Lottery needs to deliver a similarly friction-free and engaging purchasing experience. As the Lottery & Gaming Division of STRATACACHE, the global

leader in digital signage, Carmanah brings that retail transformation expertise to Lottery.

“We focus on providing players with the information they need before they reach the counter, just like when they are in a fast-food restaurant,” he said. “Today’s digital screens are quite amazing in that they deliver multiple screens of easy-to-reach information in a short period of time.”

New digital signage technologies, such as Digital Menu Boards and Countertop Displays, offer players more meaningful and interactive visits, transforming physical stores into seamless brand experiences.

“We are not quite there yet with lottery, but it’s where we are going and will get there eventually,” he said. “It’s happening at most other retail locations with other consumer products. It’s only a matter of time before these advancements are embraced by the lottery industry.”

Terry and his Abacus colleagues are strong believers that lotteries need to work with retailers to integrate with the retailers’ technology. This includes their apps as well as points of sale technology.

“If lotteries can get embedded into the retailers’ apps, then you have access to all their customers,” he said. “We all know that instant tickets are driving revenue for most lotteries. So, we’re working on putting additional instants in-lane because that’s where we also have draw games. All products should work together synergistically so the whole becomes greater than the sum of the parts. How lotteries handle the traditional/digital balance will be important,” he said. “Digital provides many positive attributes – no payment for ticket printing, no shrinkage, no waste. Retail will always be the mission-critical face to the customer. But retail and digital can definitely live together.”

That sentiment was echoed by Mary, who used the apt adage “a rising tide lifts all boats” to describe the iLottery channel. “We certainly had some pushback when we launched internet sales. We worked hard to make sure our retail partners know that we are committed to their success,” she said. “Coming out of the pandemic, we see that there is a place for iLottery, that some lottery players want the convenience of online lottery. And I think retailers now see that the two can co-exist, that online brings in

new customers, enhances customer engagement, and be a mutually supportive channel partner.”

For Georgia, all departments work together to make sure the needs of the retailer are satisfied. “We constantly talk about our messaging to retailers to make sure they are not surprised by anything we are doing, whether it is new products at retail or additional online offerings,” he said. “They are our partners, and we want them to be a part of this process. One important point is that the thing that cures all issues is sales. Right now, our sales are high. This certainly helps in the short term and we want to use this opportunity to be ready for the future.”

Whether it’s the expansion of new technologies or innovative product launches, the focus on retail will be a central mission of lotteries. Providing the retail network with the most advanced tools available to bring lottery products to the players, where and how they want them, will only help lotteries maintain the phenomenal sales growth that most have enjoyed over the past year. The end result will be the support and approval of all lottery stakeholders – retailers, players and beneficiaries. ■

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grew quickly even though consumers were actually visiting retail locations less frequently. Matt said that in his conversations with Iowa’s larger corporate chains, they noted that while trip frequency declined the overall size of the basket when the consumer visits the store increased. “This is an interesting trend and one that has to be watched closely, especially by states like Iowa that don’t have iLottery,” he said. “What are the implications for the industry and the vendors who serve the industry? There is not enough data right now to say this is a lasting trend. But it is something to watch.”

The decrease in retailer visits could also be one reason why Powerball and Mega Millions have experienced drops in play. With more people working from home, the impulse purchase by infrequent players was diminished and that impact was felt more by the national games. And even though people who were able to work from home are slowly returning to the office, routines have now been disrupted. Office pools could be a thing of the past, particularly if the pool members are not in the office at the same time (or not at all). How the industry

handles these issues could determine the future of the two national games.

The leaders of Powerball and Mega Millions have carefully evaluated various options for the games and the industry will see the outcome of their hard work over the next year.

“As everyone is aware, Powerball is making a significant change by adding a third draw day to the week, as well as offering the Double Play feature,” said Gordon. “And Mega Millions has worked closely with MUSL, as it’s important to coordinate strategies. To our players, the games are almost indistinguishable, and research show players don’t necessarily care whether it’s Powerball or Mega Millions; they just buy whatever jackpot is bigger. But I think we need to differentiate the games to consumers, to cut through the indifference. Could Mega Millions take a step towards something that’s been in discussion for many years and take the price to \$5? And what would that \$5 game look like? Important questions and we don’t know how it will eventually work out. But for the growth of these important games, we want to figure it out.”

Gregg concurred, but with tempered expectations. “While I’m a proponent of the three-day change, I don’t think any of us have an expectation that it will drastically change our returns to the state. But it is responsive to the needs of the marketplace and what we’ve heard from players. This isn’t the only change we need to make. Brand messaging, applying all the principles we have discussed today, and our whole approach to marketing are important too. But it is an incremental step in improving the overall playing experience for the lottery consumer.”

The bottom line for these industry leaders is that while the past year-plus has been challenging, planning for the future is now the critical task. Players now have more entertainment options than ever before and if the lottery industry is to retain its appeal and player-ship, critical decisions need to be made. The revenue numbers are heartening; ensuring they continue is the task at hand. And continuing to keep the focus on the customers will always be job Number One. ■