PANEL DISCUSSION

Following is an executive summary of a one-hour panel discussion held at the PGRI Lottery Expo Conference in Nashville

Retail Modernization and Optimization

Krista Stepa-Ammeter

Terry Presta

Max Goldstein

Tonya Beenders

Paul Riley

Drew Svitko

So much ink and thoughts have been spent pondering the future of the lottery industry in the digital world, one might think that consumers are migrating en masse onto the internet. In reality, the vast majority of revenue continues to flow from brick-and-mortar lottery retailers, the large chains and convenience stores that have driven lottery sales for decades.

The land-based channel may be referred to as "traditional retail," but retail stores are innovating to stay relevant to their customers just as lottery is evolving to stay relevant to its players. Lottery leaders realize that their players have changed and how they interact with the lottery is going to be quite different in the years to come. Panel moderator and Pennsylvania Lottery Executive Director Drew Svitko began the discussion on retail modernization by pointing out the challenges faced by today's lottery. "More and more we're talking about how our players are connecting with us and us with them, and reaching them wherever they are," he said. "That certainly includes connecting the retail experience with their digital life. Reaching them before they get to the stores and then helping shape their purchasing decisions once they're in the stores. One of our goals today is to look at how we can best marry the retail and digital experiences."

Helping answer this, and other important retail questions were:

Krista Stepa-Ammeter, Director, Sales & Marketing, Pollard Banknote

Tonya Beenders, Chief Sales Officer, Missouri Lottery

Max Goldstein, Vice President Sales Americas, Carmanah Signs

Terry Presta, Head of Business, North America, Abacus

Paul Riley, Vice President, Retail Innovation & Partnerships, IGT

Pollard's **Krista Stepa-Ammeter** pointed out that because our players have such a diversity of motivational drivers and ways to access and play the games, lotteries must be ready to reach everyone no matter where the consumer may be inclined to purchase lottery tickets. "We can't necessarily utilize the same digital channels to connect with all players," she said. "And the majority of lotteries can't sell online. So when it comes to pathways to connect with our players, there is no one-size-fits-all answer for all lotteries. However, we need to be working towards the idea of unified commerce across all channels. Whether the player is buying at a store or online, using their mobile device or a self-service checkout, we need to keep the message the same, and make it easy to navigate across multiple distributional channels to play the games."

Max Goldstein of Carmanah Signs, a specialist in reaching players at retail, said the tried-and-true method of "can't miss" signage still provides the best at-retail marketing. "The biggest bang for your buck is putting jackpot signs in-lane," he said. "We have research from many jurisdictions that shows how placing relatively inexpensive jackpot signs in-lane resulted in as much as a 250% increase in sales versus no signs. Looking at other areas of growth and the future of retail, games like eInstants and Fast Play represent a new communications challenge. These categories require networked digital signage, you need a solution that provides real-time data. And, really, that is what players expect from lottery.

"Consumers, especially those under 40, now expect digital communication at retail," Max continued. "Leading retailers and brands are responding by installing in-store digital signage, improving the retail experience and generating incremental sales. Lotteries are installing their own digital signage networks in which they can control 100% of the content and messaging. Examples of digital sign formats include Digital Menu Boards, Digital PlayStations, and small footprint countertop signage. This type of digital content reinvents the lottery retail experience and engages players with highly targeted, automated dynamic content."

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than other forms of gaming, especially sports betting. Sharing all this data will help lotteries make a very convincing case."

From the Jackpocket angle, Bishop said the nimbleness of couriers has been one of their reasons for success. "We can be up and running in a jurisdiction within 60 to 90 days," he said. "That is certainly attractive to states that can't get iLottery quickly or might never get iLottery. And states with both iLottery and couriers have enjoyed success as well because of the marketing and advertising of lottery undertaken by couriers. From an old director's standpoint, I agree with everyone who said we have to work together. Look at sports betting. There is something called the Sport Betting Alliance made up of key operators. That's the kind of unified front that could help the lottery industry. Sports betting happened very fast because they were speaking in one voice. The lottery industry could certainly use that type of strategy when it comes to iLottery."

Stephanie's final words were, "States with iLottery, like Pennsylvania, will continue to provide the industry with data and real-time information to combat the myths that come up. We have seen how important the iLottery player is to our states and how it can attract a new and often younger consumer. We must all work together to get this important sales tool into as many states as possible." ■

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At Abacus, Terry Presta and his colleagues are implementing strategies with a view towards positioning lottery for the future retail store environment. "While we understand that players are on their mobile devices and either buying or scanning tickets, lotteries need to re-imagine the in-store experience," he said. "Look at how many stores now offer self-checkout because of the staffing and margin pressures they face. Look at how the consumer is rapidly accepting self-checkout as the easiest and fastest way to get in and out of the store. This represents a tremendous opportunity for the industry. We've seen the success of offering lottery within self-checkout lanes in Canada and Europe. It removes labor and stock shrinkage and moves lottery into a positive for retailers. In-lane lottery sales is now a critical option for lottery to remain viable at retail."

IGT's Paul Riley agreed that "upping the game" at retail will pay off in the long run. "We know there are certain solutions that work pretty much everywhere they are deployed – jackpot signage, digital menu boards," he said. "IGT has also created new vending machines which put lottery products front-and-center at retail and get us in front of even more people. These new machines have different sizes and different mixes of products so we can address the needs of a variety of retailers. Some retailers don't want to handle the cash from a vending machine or load the tickets, so we have to provide business models and equipment that addresses their needs. We also have some new devices and solutions that are focused on in-lane, which is a long-term play for the industry and allows us to make inroads into previously untouched retailers and trade styles. All vendors are looking at how they can increase the number of products available in-lane, including re-designing instant tickets so they can be more easily sold in-lane."

As a lottery representative, Missouri's Tonya Beenders said they talk often with as many retailers as possible, and providing new technology will only increase sales. "Many lotteries are limited in what they can provide to retailers because of staffing issues, so we rely on the vendors to manufacture and deploy the latest tech," she said. "And we know that when the latest technology is deployed, sales only go up. Things like digital menu boards have allowed some retailers to increase the number of games they offer and speed up transactions. Retailers have told us what they want. Now we have to find the budget to provide this technology to as many locations as possible. In Missouri, as in many states, we can't sell online so we need to up our game at retail."

Looking to the future, Drew asked "What should every retailer be doing in the next five years?

Paul's answer was simple. "Vending and in-lane," he said. "There is amazing opportunity to expand lottery vending machines and optimize existing deployments. It has the added benefit of aligning with retailers' and consumers' continued adoption of self-service. Getting in-lane right is critical to the industry's future. We have been working with Dollar General, one of the largest chain stores in the country and a trade style that is experiencing rapid growth in the U.S. They don't want lottery equipment in their stores, so in a few jurisdictions we've added in-lane capabilities for QuickTicket, draw-based games. Our hope is that we can prove the value of lottery to them and expand their offering to add instant tickets. Walgreens, another huge retailer with more than 8,500 locations across the country, has made some very detailed inquiries about lottery to include in-lane. If we can show these retailers that in-lane works, it's another way to engage a category of retailers that has been difficult to penetrate. Through modernization, we can expand the lottery footprint."

Max said that in five years he sees the use of paper play slips continuing to drop,

perhaps not eliminated completely but largely replaced by digital play slips.

"You're already seeing it happen now and this is another reason why digital advertising will see tremendous growth at retail," he said. "No more play slips means lotteries will need to protect their retail real estate and leverage their current play stand space to adapt to these changes. Lotteries will need to modernize how they communicate with and educate players before they reach the counter. Digital PlayStations with continuously updated attract screen content and interactive experiences will become more prevalent. This gives lotteries more visibility in a retail environment that affords less POS space. It also gives lotteries centralized control over real time messaging including jackpot values, Instants promotions, live monitor games, prizes remaining, localized winner awareness, loyalty programs, and more.

Ongoing conversations with retailers will continue the digital push, according to Krista. "To me, retail modernization is

happening because of good partnerships between lotteries and vendors," she said. "We bring solutions to them which help solve concerns they have. Once their issues are visible and clarified, we can then make connections and develop solutions that show we understand that one size does not fit all. Continuing this dialogue will be critical to making sure the retail experience is as seamless as the digital."

Versatility and flexibility will define the future, Tonya said. "We need to help define what retailers should expect from lottery," she said. "Retailer needs change quickly and sometimes we're not as nimble as they need for us to respond to these changes. Consolidation of retailers has only increased the pressure for lottery to be more responsive and on a timelier basis. The downside for lotteries is that it can be costly to modernize and keep up with what retailers see or get from other consumer products vendors. The new lottery vending machines, for instance, are costly but our retailers want them and the only way we'll expand our footprint is by offering this technology. This is one example of how we need to change the way we think and do business if we want to meet the expectations of our retail partners. We need to be prepared to offer customized solutions, particularly to our largest retailers."

Terry owned a convenience store chain before becoming Kansas Lottery director (and eventual Abacus head-of-business) so he brings a wealth of experience on the needs of retailers. "You must have a modern strategy and smart tactics which support that strategy," he said. "If you look at the lottery industry's tactics over the past 20 years, it's been effective especially on the scratch product side of the business with increased price points and payouts. These tactics have been great for sales. Eventually you reach the point of no return where the price and payout to player is so high it's hard to increase the bottom line. The move to digital will help attract new players but in the end, it's about keeping players happy, whether that is through new products or new technology."

Max reiterated the importance of making sure players are aware of jackpots and understand how to play the lottery. "Some of the changes lotteries need to make are simple, such as upgrading to new jackpot signs that have the ability to display jackpots in the billions instead of stopping at $999 million," he said. "Other changes, such as building a digital signage network, can be introduced over time.

Lotteries can start with a pilot, testing use cases and building out a digital communication platform. STRATACACHE's digital signage software makes it easy to add new digital experiences, building a more sophisticated signage network over time while conveniently managing all digital signage content from a single browser interface."

Continuing to offer technology and platforms that make lottery easier and more enjoyable to players is high on Paul's radar screen for the future. "Apps, loyalty programs – these are direct conduits to the player that exist today. And they're among the tools that will continue to strengthen our ability to provide services to players that improve the playing experience," he said. "Apps now include notifications to communicate changing jackpots. Apps also allow players to scan tickets for quick results and allow proximity marketing to reach players when they are near retail locations. And we have an opportunity to further strengthen our value to our retailer partners. If someone buys a ticket from a vending machine, it's a relatively anonymous purchase. But by allowing the ability to capture the retailer's consumer identity from their loyalty programs and feeding it back to the retailer, we allow them to gather a more complete picture of their consumer and work with lotteries to market to those players. The ongoing sharing of player data will help forge better relationships with retailers and ultimately help drive sales."

Drew wrapped up the panel by focusing on the relationship with retailers and what panelists are hearing from them. "We want more money," is the number one thing Tonya is hearing from Missouri retailers. "And while we can't change their commission rate or give them more money, we can give them the tools they need to sell more lottery products and that will make them more money. They want the transactions to be quick and keep them protected from theft. And the major vendors are working on all that. The retailers also expect us to be collaborative and have a two-way dialog. When a strong communication channel is created, retailers consider lottery to be a true partner."

Paul said the bigger the retailer, the bigger the demands. "The top 20 retailers generate about 25% of all sales and comprise one-fifth of all locations in the U.S., so they not only receive a lot of our attention, they appreciate lottery and what it brings to them," he said. "The flip side to that is that they are demanding on the operational aspects of things, particularly with respect to data. They want real-time data and nightly reconciliations to the penny. They are so important to our future revenue that we have to listen to them and create systems that provide them with the data and operational features they need."

Terry agreed that helping retailers with their operations is one important piece of the lottery relationship. "When Abacus talks with retailers about our in-lane solutions, they all like it and at the same time want to make sure we don't add complexity to their work," he said. "All too often, retailers see lottery as adding to their workload at a time when they are trying to contain labor costs. But many now see an opportunity to get control of the lottery category and merge it with all their other POS transaction processing systems, instead of the historic two system situation that has existed for as long as there's been lottery. Retailers are also pleased with how lottery has built up loyalty and is pushing players to return to retail. We are doing things that help retailers and we need to continue to focus on their needs."

Retailers expect us to speed up our reaction time, according to Krista. "I think lottery is a bit siloed at retail and we move slower than some of the other industries that sell in the retail environment," she said. "It's important to start talking to our retailers about some of the big opportunities in front of us. The retail world is constantly evolving and while it is a huge investment of time and money, if we don't evolve at their pace and bring solutions for today's needs while futureproofing for changes that lie ahead, retailers are going to outgrow us and leave lottery behind. Continue the collaboration with retail and the results will be good for everyone – retailers, lottery, vendors, and players." ■