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PGRI Introduction: BCLC has the longest-running i-gaming offering in the Western Hemisphere. Now into its tenth year of internet lottery sales, BCLC also offers sports betting and all varieties of casino style games online, including i-poker. BCLC recently let an RFP for “Retail Optimization Services”, the objective of which is so interesting for its focus on the importance of land-based retail. (It closed on November 19, 2012.) Below is the excerpt that caught my attention for its statement that “the retail environment as the main distribution channel and driver of sustainable growth for the next 15 to 20+ years.” For all of its progress in internet gaming and distribution, BCLC identifies land-based retail as being the key sales driver for the next two decades!

“The purpose of this Negotiated Request for Proposal (the “RFP”) is to receive proposals from one or more consulting firms that can look at BCLC’s lottery retail experience vision and strategic goals, work with key stakeholders and identify core capabilities and requirements to drive transformation. The successful proponent(s) will help develop a technology and systems architectural framework and implementation plan.

“BCLC is investigating the potential to fundamentally transform its lottery business and is considering all aspects of the business such as players, retailers and our central gaming system. BCLC’s lottery division is positioning the retail environment as the main distribution channel and driver of sustainable growth for the next 15 to 20+ years ...

There is a need to look at the impact of changing demographics, key trends in consumerism and retail along with technology advancements and secure payment mechanisms before new systems or hardware are acquired ... BCLC is seeking one or more firms that can lead, inspire and facilitate strategic thinking about the total customer experience and how gaming transactions can be integrated into the future retail experience and technologies.”

Kevin Gass now leads the lottery gaming division for BCLC, and is spearheading the push to transform its approach to retail. Mr. Gass began his career with BCLC on the corporate side of the business including establishing and marketing new casinos. That was nine years ago. He also led the implementation of BCLC’s Internet initiatives up until the middle of 2010. And as Mr. Gass explains, he was not put into this position to be a curator of a valuable but aging brand. His charge is to build a foundation for lottery gaming business that will sustain significant growth well into the future.

Paul Jason, Public Gaming: *BCLC is charged with controlling all forms of wagering and games of chance in British Columbia, correct?*

Kevin Gass: Yes, with the exception of hospital raffles, BCLC’s mandate includes

traditional lottery products, casino games and all other games of chance. And it applies to all channels of distribution including the Internet, retail stores, self-serve kiosks, gaming venues, or POS’s of any kind. That does not mean there are no underground

markets in British Columbia, just that BCLC is the only legally authorized operator.

What percentage of lottery tickets are purchased online?

K. Gass: We’ve been selling lottery tick-

ets over the internet now for eight years, and today it accounts for 2- 3% of our business, which means that more than 97% of our sales come at retail. While it is vital that we make the products available through multiple channels including the Internet, our lottery players continue to gravitate to our retail network. So, even though we had envisioned a higher rate of growth for internet sales, we are perfectly happy to adapt to the consumer play styles and preferences. The potential to enhance the consumer experience at retail is huge and that is where we are focusing now. But we are also exploring the ways in which the internet can be integrated into the broader consumer experience of interacting with BCLC, and the ways in which it can be used to complement and augment the retail shopping experience.

The internet will always be a prime customer acquisition tool and a key contributor to customer management relationship goals and the development of the multi-channel players. But we are now very much focused on innovating in all areas of the business, and not thinking of the Internet as the only way to reaching the next generation player. The next gen' player will be shopping at retail; it's just that the retail experience will likely be much different than it is today. And that is why we are taking the extra step now to really study the consumer experience at retail, understand how it is going to evolve, and position lottery to be the leader in progressive retail strategies.

That would seem to be exciting news for your retail partners. You see retail as not only being the primary sales driver right now, but the source of future growth?

K. Gass: We definitely view retail as the channel with the potential for significant growth. The rate of growth may not be as high in retail as newer channels like the Internet or mobile, but the growth in absolute dollars will be far higher because the baseline is so much higher. BCLC's land-based retail is a billion dollar revenue stream today and that's a business we want to grow.

What are some of your current retail initiatives?

K. Gass: Consumer trends towards self-serve is combining with new technologies to open lots of doors. Self-serve lanes in grocery stores are a major consumer trend. In some grocery stores, the percentage of self-serve purchases has climbed to over a third. And that trend is accelerating as consumers become familiar with the self-serve procedures and appreciate its speed and convenience. In fact, within 10 months, in

British Columbia, consumers will be able to purchase lottery products at the self-serve lanes in certain grocery stores. They already purchase lottery at the cashier-manned lanes in these stores.

How do you control for age-restriction in a self-serve environment?

K. Gass: Traditionally, the self-serve terminals are installed in age-controlled hospitality environments like pubs and bars. In these environments, no ID check is required because the physical environment is gated, in other words age-controlled already. Our cashier-manned in-lane terminal is called Lotto Express and it is up and running very successfully. There, the age-control is just as it is in a retail store, with the cashier checking ID's.

Next up is to enable the purchase of lottery in the fully self-serve line in grocery stores. Stores already have a protocol in place for age-restricted items like tobacco so our product would fall into that category. Self-serve lanes are monitored by a customer service manager to assist the customer and also to monitor and prevent the sale of age-restricted items to minors. The key is that stores already do this for certain products; adding lottery does not require anything additional or burdensome to the store. We still need to make some changes to the technology to eliminate the need for cashier involvement. But that development work is on our end, not at the store. They're ready. They are pleased with the performance of Lotto Express in their manned lanes and confident that the self-serve terminal will work well for them as well.

How does Lotto Express work exactly?

K. Gass: Lotto Express uses the same PIN pad you use to pay for your groceries with a credit or debit card. Special purpose software on the PIN pad allows it to communicate between the cash register and our lottery system so that the lottery ticket actually prints directly from the PIN pad device.

While the cashier is scanning your groceries, you use the PIN pad to select the lottery tickets you wish to buy. It's limited to our two major lotto products, 6/49 and Lotto Max, but there are different ticket combinations. It's simple – you just follow the prompts on the screen.

The PIN pad terminal will print a bar code; the clerk scans this slip, which adds the value of the ticket to your total purchase. You pay your grocery bill, which now includes the lottery ticket, as you normally would. Once payment is complete and verified the lottery ticket prints directly from the PIN pad. It's as easy as that.

How long does that take?

K. Gass: We've got the whole process from point of purchase to print out of ticket down to 2 seconds, 3 seconds max. The customer then takes that ticket out of the PIN-pad, takes the groceries, and away they go with their live lotto ticket. They then wait for the draw to see if they won.

Where is the winning ticket redeemed?

K. Gass: That is the great thing about the whole process. The ticket is not redeemed at the grocery check-out, but at any one of our other retailers. This is the most efficient process for the grocery store because their involvement ends with the sale; our existing retailers like it because they have a potential new customer who would not have otherwise come into their store; and we like it because our research is showing that these are largely incremental sales, sales that neither we nor the retailer would have had. The Lotto Express tickets are slightly smaller than the standard ticket sold by the retailer, so the retailer can see that this is a new customer.

The retailer doesn't see this as a lost sale but as a gained customer.

K. Gass: Lotto Express is all about convenience and market growth, not creating a competitor for existing retailers. Retailers recognize the Lotto Express ticket, see that they have a potential new customer, and ideally that customer will buy other products from them. Also, most of the wins are smaller amounts which the players often re-invest in lottery purchases at that same time.

This is a good example of innovation at retail, the kind of thing that BCLC's RFP for "Retail Optimization Services" will hopefully reveal much more of.

K. Gass: It is. Creating a better retail experience, making it more convenient for the consumer, getting in step with trends like self-serve ... these are the kinds of innovations that really will be transformational and add significantly to our bottom line and the funds we transfer to our beneficiaries. The technology of Lotto Express is working flawlessly and customer adoption has been faster and smoother than we anticipated.

At what point do you invite input and feedback from the retailer community? To put it bluntly, I would think that you would need to decide to develop and implement something like Lotto Express without inviting input from the retailers because that would create a lot of uncertainty and confusion. I would think that you need to just do it and then commu-

nicate to the retailer community why it is a good thing for them.

K. Gass: We obviously have a number of initiatives in development, some will make it to market, others will not. At the appropriate time we start dialoguing with key stakeholders such as our retailers. And clearly we are committed to our retailer channel. The RFP is all about optimizing our sales through that channel for their benefit and ours. The retail industry is changing; BCLC and its retail partners have to either lead that change or be left by the wayside. We need to acquire insight into how the world is changing, how the retail experience is changing and turn that into long-range strategic plans. At this point I don't know exactly what that future state will look like but I know it will be consumer-driven and technology enabled. Interestingly, the lag-time between early adopters and mainstream acceptance is being dramatically compressed. We are enlisting the services of expert retail and technology consultants to help us strategically think this through and create an action plan. While we absolutely need the total support of our retailers, it would be impractical to insist that they be a part of every aspect of the strategic planning process. So we do ask our retailers to think long-term, to be open-minded to the ways in which consumer behavior is changing and how that is impacting the retailing experience, and to be willing to change and adapt to the demands of a changing marketplace. And, we will work closely with our retailers and all our channel partners in the implementation process, inviting feedback and making modifications to the plan as needed.

Our retailers are very clear on the fact that we are committed to evolving with the consumer, and innovating to keep up with the changes in the market-place. They are also very clear on the fact that we are committed to their success and can assure them that by working together, we will not only accomplish our lottery specific objectives, but hopefully help them to be a more successful retailer. The retailer community needs to evolve not because we are changing but because the consumer and the markets are changing and demanding that we change with them.

Too, it's up to the retailer to execute well. They need to service lottery customers well, promote our products well, get the signage and the jackpot amounts right. I do a lot of my own "mystery shopping". I will tell our sales people which stores are not delivering a shopping experience that will cause the consumer to come back, and that they should talk to these store managers and owners not just for our benefit but for the benefit of their

whole operation. I want to help our retailers succeed. But we are not going to have our plans determined by retailers who resist change and innovation. We're building strategies for the retailers who want to succeed in the consumer-centric and technology-enabled world of the future.

Your RFP speaks directly to that. "BCLC is challenging its thinking by looking outside of the gaming industry for inspiration, insights and best practices to deliver a customer centric experience. There is a need to look at the impact of changing demographics, key trends in consumerism and retail along with technology advancements and secure payment mechanisms." This kind of research and analyses will enable you to help your retailers better understand consumer trends, improve the operation of their entire businesses, and position themselves for success in a world that is changing with or without their permission.

K. Gass: That's exactly it. We're building a map of the future that first looks at the big picture of how retail trends will change over the next 10-20 years. Then we look at how lottery fits into the new world of retailing. Then we build the detailed implementation plan and acquire whatever technology is needed to accomplish it. The thing is, we are resisting the temptation to simply replace or upgrade our technology and tools of the trade and instead taking this opportunity to rethink everything, to reassess all that we do and the way we do it. The retailing experience is going to change significantly over the years ahead; so we need to prepare to operate much differently than we are operating now.

Some will point out that you need to walk a fine line because you must continue to appeal to the traditional core players. I would think that the much bigger concern should be inertia that impairs your ability to evolve quickly enough.

K. Gass: The entire retailing experience needs to evolve for the next generations of consumer. And it will. The question is whether lottery will change with it. The steps we are taking are not driving the change. They are simply adapting to the change in a timely manner. But to your point, of course we will continue to provide the products that appeal to the traditional core players as we transition the business.

What is the role of the internet and digital communications in this new world of retailing?

K. Gass: It's a vital component, not just as a channel for distribution, but as a channel for

communications to market, promote and connect more to our customer base. Ultimately we will move from an anonymous player-base to loyalty programs and account-based play. But it's a mistake to think of this as internet-driven. It's consumer-driven and the consumer is tied to the retailer and will be for many years to come. That consumer-retailer connection is evolving and we need to redefine the role of the player at retail, redefine the role of the retailer for the player, and redefine the role of BCLC in the whole equation.

What will it all look like in 10 years?

K. Gass: Obviously we don't know the full answer to that question, but we know pieces of it. It will be an end-to-end digital experience. Paper will go away. Personal consumer devices will be a big part of that digital infrastructure. Self-service and convenience will be a critical part of the picture. The most effective retailers will integrate entertainment and excitement into the shopping experience. Consumer "engagement" will be a big theme. There will be whole new categories of product. Product life-cycles will shorten and turnover accelerate. We will know many of our customers individually through their personal accounts with us. And (in British Columbia) we will see convergence with our gaming facilities and internet channels.

So even for the core player at retail you will need to speed up the rate at which you refresh and change the product?

K. Gass: We're pushing into new territory here and won't know exactly how it will transpire, but yes to that question.

Do you think of lottery more as a game or more as a consumer product?

K. Gass: I would have to say that we really do not frame the issue that way at all. We ask simply whether it is fun for the consumer, what makes it fun, and how can we make it more fun. For us, the more relevant question is whether the business is product-driven or player driven. The player would never frame the issue as to whether it is a game that is played or a product that is purchased, and so neither do we. The player either enjoys the experience or not and that is what we focus on.

For all of my talk about change and innovation, lottery products in fact have held the attention of the consumer for decades. I can't think of another consumer product with that kind of longevity. So, as we think about refreshing the games, we should probably also think about what might be the

product attributes that are fundamental and shouldn't be changed.

K. Gass: Paul, that's a very big question and it's one that I can't answer conclusively, at this point. The fundamental value proposition is that lottery gives players the opportunity to spend a very small amount of money to create the excitement and potential to win a very large amount of money. In other words, a very small purchase creates the possibility for a life-changing event. I can say that we are working on some new concepts that leverage that fundamental value proposition in some new and different ways.

Lots of companies talk about moving executives into completely different areas of responsibility, but BCLC seems to do it. You moved from the corporate/casino to internet gaming and now to lottery gaming. Jim Lightbody moved from lottery gaming over to casino gaming. Darryl Schiewe moved from casino to implementing a new, province-wide Casino Management System, which I understand will be one of the most advanced in the

industry. The benefits of a fresh perspective must be outweighing the downside of longer learning curves.

K. Gass: It has worked very well for us. Our CEO, Michael Graydon, is a very empowering leader. While many companies talk about this kind of change, very few actually carry through; Mike did. And he simply asked us to bring fresh eyes to everything and do what it takes to grow and innovate the business in a responsible way. The results have been very rewarding.

As the number of channels and media increase, do you need to worry about confusing the consumer? Don't we as an industry need to develop a more consumer-friendly user-interface that integrates the different channels so the player can easily migrate from one POS to another, and feel like they are familiar with the product and how to buy it or play the game?

K. Gass: We call that the multi-channel player. We have the casino player, what we

call the facility player. And we have the retail lottery player and we have the Internet player. There is a huge overlap among those player bases. We know our players enjoy having this level of variety in which to play so there is a tremendous opportunity here. We do want to make the process of playing on more than one channel easier and are working now to improve the look and feel and protocols to make that happen.

Our ultimate goal is to turn the anonymous player into a connected customer. As we gain better understanding of their play styles and preferences, the user interface can, for instance, be customized to the individual. As we get an enterprise-wide view of the player, and the player experiences a single set of access protocols and buying processes with BCLC, the stage will be set for a genuinely interactive relationship, one that evolves dynamically as the player evolves, as the technology evolves, as new games are introduced, and as new consumer devices introduce even more POS's. That's where we are going. ♦