Following is an edited synopsis of the panel discussion held at PGRI SMART-Tech on April 8 in New York. You can view a video of the complete presentation at www.PGRItalks.com. Edited by Paul Jason, PGRI.

Standardized National Account System Interface & API (Application Programming Interface): How might the industry define a universal language to enable faster retail innovation; i.e. a set of routines, protocols, and tools for building software applications and an interface that provides a single platform for seamless inter-operability, dramatically reducing the costs and time-lines required by Lotteries and their commercial partners to implement new games, technologies, and standardized business practices? How does this kind of initiative benefit Retailers, Lottery, and the Players alike? How do we define the appropriate business model, and who might host it? What are the obstacles to implementation, how might they be overcome, and how quickly can this be executed?

Moderator:
Gary Grief,
Executive Director,
Texas Lottery,
Chair of the Powerball Group

Panelists:
Gardner Gurney,
Director, Division of the
Lottery New York State
Gaming Commission

Carole Hedinger,
Executive Director,
New Jersey Lottery

Terry Presta,
Executive Director,
Kansas Lottery

Paul Riley,
Vice President Product Marketing
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CREATING THE TRULY OPEN, FLUID, DYNAMIC INFRASTRUCTURE THAT SMOOTHS THE PATH FOR RAPID DEPLOYMENT OF INNOVATION

Gary Grief: We spend so much effort trying to develop new products, new games, promotions, and new methods to sell our existing products. And yet, the two main levers we have to drive growth are same store sales and retailer expansion. That's why we try to serve and support and optimize the relationship with our retailers, and optimize the retail shopping experience for the consumer. Thankfully, there is still lots of room to continue to grow sales by improving in those areas. And retail expansion certainly continues to be a great way for us to grow our sales. The investment for cost-effective expansion of the brick and mortar retail network is daunting. Retail attrition, between 3% and 10%, is a problem too. It can be a challenge to find retailers who are willing to sell our proprietary, labor-intensive, complex product in their environment. Our product is age-restricted, requires a separate terminal, and a separate communications network. It has secure inventory with significant liability for our retailers. And the 5% to 6% commission they are paid constitutes a profit margin that is much lower than other CPG's.

We can no longer dictate to retailers all the terms, conditions and methods of how to sell our products. Retailers are raising their expectations for us to integrate with more sophisticated technologies, IT platforms, and standardized processes. Retailers like Wal-Mart and Target and CVS are leveraging IT to increase efficiencies and reduce costs across the entire spectrum of operations. Data from all different channels (transactions, sales reports, customer loyalty programs, etc.) are being captured and leveraged to guide ongoing changes, improvements to operations, and modernization of POS's and marketing and promotional standards. These changes are producing

a better consumer experience as well as operational efficiencies. The other CPG brands are meeting and exceeding these increased expectations. Some of them are even leading the way. Lottery needs to do the same to preserve its high-profile space in the retail environment.

Further to that, Lottery needs go where the consumers are going, which is beyond our traditional channels of C-stores and grocery stores. We need to penetrate new venues like quick service restaurants, transportation hubs, hospitality locations, and other non-traditional venues and POS's. There is a solution that enables us to meet the needs for more efficiently serving and supporting the heightened expectations of our retail partners. It has been deployed by lotteries internationally, but we are slow to adopt it in the U.S. And it's a solution that we must approach not as individual lotteries or a particular vendor, but collectively as an industry. The solution is the API—Application Programming Interface. Our panel is going to delve into the details of API. Ours is a $70 billion industry that is capable of taking this step towards modernization. The standard API enables retailers to integrate our business into their systems on a national scale rather than reinventing the IT infrastructure on a state-by-state basis. It's not without challenges, some of which may be daunting, but the benefits are a game changer for us. And the reason to do it is to increase sales and net funds to good causes. Let's start with Gardner …

Gardner Gurney: The API can be thought of as the secure IT handshake that enables communication, and data transactions, to happen the same way every time. Both receiver and sender can know that the data is being transacted securely and accurately. Your own existing internal control system and your gaming system already operate with an API. What gets programmed into your internal control system is executed in your gaming system and data is transmitted back and forth between the two. You need the common communication language provided by the API for that to happen. So, lotteries are already using API's internally. We just need to work collectively to create the API that enables us to integrate as a group with our retailers.

For retailers it really is about being able to build reports quickly and easily. The retailer does not want to go to 14 different IT hubs to get information that is produced in 14 different formats. They need to go to one place where it is already assembled for them to seamlessly pull it down into their own system.

The API delivers a win/win solution. It just enables everyone to communicate in the same programming language. Outputs, inputs, and responses are all in the same language. For instance, we are in the middle of replacing our winning numbers app. We told the new vendor that they must integrate with the existing API that we already built. We're not going to rebuild it for you or communicate with you on a different platform with different processes and protocols. I require this of our vendors, and Retailers want us, the community of lottery operators, to do the same for them. That is, to collaborate and produce an API that enables them to interact with us, get data and reports and communicate with us, in a single standardized way.

Another example - we use a state-wide contract and system to support the processing of debit and credit card transactions for subscriptions. This is enabled by an API that gets some of the best ratings by the users, as well as delivering a lower cost for us, because it's for the entire state, not just for the lottery. It's just about being creative and being flexible.

Carole Hedinger: We are all so limited by our closed systems that System A can't talk to System B. And now, it's not only the multistate retailers that are demanding that we upgrade our IT. In-state single-owner retailers are also consolidating into multi-store operations that need the data to be aggregated, and for the communications systems to be streamlined in the ways enabled by the API.

We need to look at our retailers as our customers. Consumers buy the product, but retailers are our first customers. We need to treat retailers the way the producers of other products treat their customers. We need to meet their needs for convenience and operational efficiency. Current processes are simply not doing that.

Paul Riley: Our industry needs a standard API for our offer to be compelling to the modern retailer. That is what enables the retailer to integrate seamlessly with the $70 billion industry that the U.S. Lottery industry represents. The retailers want to make this happen. They just need us to modernize, and for them that means implementing a standardized API.

As Gardner pointed out, APIs actually permeate all of our lives already. Whenever we post something to Facebook, buy something at Amazon, or watch a movie on Netflix … all of these activities are enabled by API's. If we could make it easier for retailers to interact with us on a communications and operational level, that would unlock a whole new level of ease and efficiency. The impact of that on sales and net funds to good causes is potentially profound.

API's are imperative for the Lottery industry to meet the needs of the modern retailer. I think we have good support from the vendor community. We just need to accelerate our efforts. We all have IP and our R&D investment to protect, but collectively we need to pursue the best possible solution for the industry as a whole. The single API is not technical rocket science. It just requires that we collectively come together to establish that solution and implement it on the back end.

Gary Grief: Do we have the right contractual relationships and business models with our vendors to move us from where we are to where we need to be regarding API?

Gardner Gurney: I think we do have the right contractual relationships. It's about being creative. When you write an RFP, insert language requiring the vendor to commit to research. It doesn't even need to be specific, but it should require a commitment to invest a specific monetary amount to research within a pre-set time, like 12 or 24 months.

Carole Hedinger: Any lottery can write in an RFP a requirement for either open systems or the ability to connect with open systems. The modern RFP should look much different than it did even a few years ago. We need to think about how our needs have evolved, and future-proof by thinking about how they will be evolving over the next number of years.

Gary Grief: Terry is the chair of the NASPL retail subcommittee. Tell us where we're going with that.

Terry Presta: We have to get into the retailers' point-of-sale system, and the API is the best way to do that. In my first year as director, our largest retailer of lottery products, increased from 12 to 20 facings. After a year, they reduced us back to 8 because we were slowing up their lines. We're really not in-lane anywhere in groceries in America because they're not going to put up with us slowing their lines down. That's why it is so important for us to get into the point-of-sale in whatever fashion that takes. API's are a key component to making that happen.

Retailers know they need to sell our product. We are sometimes frustrated because they tend to think of Lottery as a "managed" category as opposed to a "growth" category. Well, there's a reason for that. We treat our own product like it is a "managed" category. If we cared about growing sales, we would meet the needs of our customers, i.e. the retailers, for improved IT and operational support systems, starting with a standardized API. Right now, retailers think of Lottery as a product they need to sell because it draws customers into the store and if they don't sell it then the customer will go to the competition to buy it. Their main goal is to not lose money on Lottery and not let it slow down their lines too much. That mindset is just not a great recipe for driving sales. We need to show them that we mean business. We need to treat them like a customer, help them decrease the cost and increase the profit for them to sell Lottery.

It's not just about enhancing service to our retail partners. The open API benefits us too. It increases the speed to market of new technologies and new games. It enables third-party innovation to be implemented at a fraction of the cost to replicate the deployment across different IT platforms. These are benefits that would clearly translate into increased sales and net funds for Lottery.

Gary Grief: How can we make the cashless initiative and API work together to expand our retailer footprint and make the point of purchase easier for the consumer?

Gardner Gurney: Cashless and APIs line up perfectly together. In New York, for the past three or four years, we've been using redemption of instant tickets at self-serve. When someone redeems their ticket at self-serve, they can immediately play—they don't have to take cash out of their pocket. Sales were maybe $10,000 a week in the beginning, and now we're doing $2 million a week in self-validation at self-serve. It makes it easy for the player to continue to play with their winnings. This is an example of how an API enables a cashless application to make it easier for the consumer to play the lottery.

Gary Grief: The feasibility of innovating becomes a matter of cost and ROI. And isn't that about getting everybody to agree that the benefits of implementing the standard API exceed the costs?

Carole Hedinger: We need to start having this discussion. Vendors and lotteries need to be clarifying the costs, the values, the details of implementation, and work it out. Enabling standardized API's that operate across multiple lotteries is certainly not an issue that will solve itself or work itself out over time. We need to get actively engaged, address the issue head-on, find the common ground of what we want, decide on an action-plan, and make it happen. ■