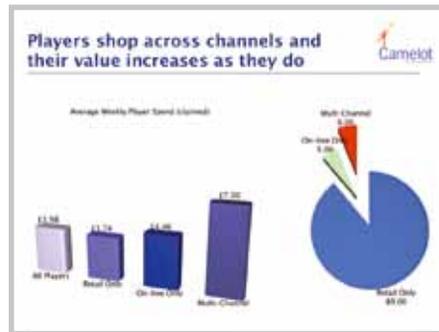


# Why Engaging Your Retail Partners is Key to a Multi-Channel Approach

Dianne Thompson, Group CEO, Camelot



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I know one of the key topics of concern at the moment is online play – how to do it well but not lose your retailers’ support at the same time. In this article, I want to focus on our experience in the UK in terms of how we have managed to get this difficult balancing act right – and continue to work very hard to do so. I don’t pretend to have all the answers – as every lottery market is unique and its relationships are nuanced in often very different ways – but I hope our experience and successes can be of some help at this time of transition. Before I go any further, let me give you some context about Camelot.

Camelot holds the licence to operate the UK National Lottery, which we’ve run for 20 years now. We are in our third licence period as operator and hold the current licence until 2023. Each week, Camelot generates more than US\$58 million for UK National Lottery Good Causes. Unlike many US lotteries, we don’t raise money for one specific good cause. We raise money for a broad spectrum of projects across the arts, heritage, sport and charities. Since The National Lottery was launched in the UK in 1994, over US\$51 billion has been raised for these Good Causes – and more than 420,000 projects right across the UK have been funded, including the US\$3.6 billion that went to part-fund the hugely-successful 2012 London Olympic and Paralympic Games.

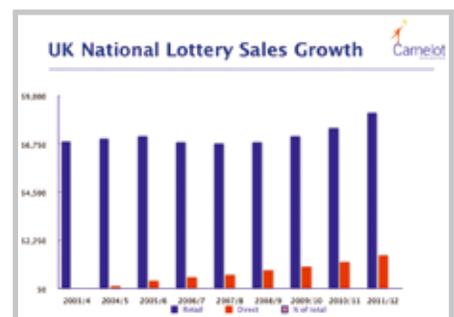
One of our main strategies is to en-

courage lots of people to play our games but to individually spend relatively small amounts. Therefore, we have worked very hard in the UK to make sure that playing the lottery is a discretionary spend – the spare change in people’s pockets that they might spend on a magazine or a candy bar or a soft drink.

In essence, we seek to deliver games for our players whenever and wherever they want. It’s about providing convenience and accessibility to all – on all channels at all times. We don’t tell our players where to play – they tell us where they want to play.

Today, our website – [www.national-lottery.co.uk](http://www.national-lottery.co.uk) – which was set up 10 years ago, has well in excess of six million registered players. It’s Europe’s largest online lottery in terms of sales and it’s also one of the top e-commerce sites in the UK. In addition, we’re a big force on smartphones – where players can play draw-based games, check results and manage their accounts on the move – and we have a strong and ever-growing presence on Facebook and Twitter.

But, although interactive is now the fastest-growing part of our business in percentage terms, we are still fundamentally a retail operation. 83% of our sales come from retail. We work with 37,000 retail partners right across the UK, from major multiples/supermarkets to small independent stores. In fact, independents make up well over half of our retail estate.



Historically, Camelot has always had a good relationship with its retail partners – as the UK National Lottery has been so successful and seen each of them earn the equivalent of thousands of dollars in commission. To date, our retailers have earned over a massive US\$8.1 billion in total commission – an impressive figure, I’m sure you’ll agree.

However, we faced the challenge of keeping them on-side when we launched our interactive channel 10 years ago – and that was quite a trick to pull off. It was that strong relationship that allowed us to do it and, today, we are a very successful multi-channel lottery operator – with a strong and growing interactive operation, alongside a strong and growing retail op-

Since most of our sales come through retailers, it's crucial that we get the relationship with them right. I think we're in a pretty good place right now, but we have had to work hard at it. There was a time, going back over a decade now, when retailers – and I'm particularly talking about the big multiples here – really didn't think very much of The National Lottery. As far as they were concerned, The National Lottery was a low-margin product that they had to provide as a service to their customers. They saw it as a category that created queues and congestion in-store – and one that tied up staff, particularly on draw days. So, we set out to turn that perception around.

It took a lot of time, work and resources, but we did turn it around – and doing so had a very fundamental effect on our business. We created something which we called the 'Value of Lottery.' This was based on a major piece of analysis and modelling of the lottery market, and retailers' role within it. It was a real root-and-branch review of the lottery category carried out with key retail stakeholders.

With the big multiples, we worked not just with the buyers but also with departments such as Productivity, Customer Service, Finance, IT, Property and Store Operations – everyone from store staff to area managers to directors at board level. We used the multiples' own transaction measurements and added new research, including timing lottery transactions to give us an average transaction speed.

We held in-depth interviews with these stakeholders – so that we really understood their views and knowledge of The National Lottery compared with other categories – and we compared total sales in stores that sold lottery tickets with those that didn't.

From all of that research and information, we built a detailed picture of the retail marketplace for lottery – and found there was a huge gap between the retailers' perception of the category and the reality itself.

For example, in one of the biggest UK multiples, we found that, apart from the staff who sold lottery products, there was almost no understanding of the scale of their lottery sales – even though they ran into hundreds of millions of dollars a year.

With a 5% commission margin, that's a lot of profit not to be excited about. Despite being only one product category of the tens of thousands they stocked, The National Lottery accounted for 1% of their total net profits for the year. Incredible – but they just didn't realise it.

Lottery terminals and equipment weren't included on store format plans and there were no staff members responsible for National Lottery sales or compliance for point-of-sale marketing material.

We were also able to demonstrate that National Lottery sales created additional footfall, which translated into additional sales of over an extra dollar for every dollar spent on The National Lottery. And we came up with some fun statistics – like the fact that, as far as this particular multiple was concerned, it sold more National Lottery tickets than it did bananas – which they thought was their biggest-selling product! Being able to prove that we were bigger than bananas, along with the other positives our research had generated, meant that we could start knocking on our retailers' doors with real evidence.

We started right at the top. CEO to CEO – to ensure buy-in at the most senior level. Once we'd opened the eyes of the people at the top, we then launched a mass-scale communications operation to educate store staff about the size and value of The National Lottery.

We got agreement to get lottery equipment and point-of-sale material included in a sensible position on format plans – in order to help manage queues and maximise sales. We also negotiated for there to be a 'National Lottery champion' in every store responsible for compliance and for lottery sales to be included in every store's sales targets.

This was the start of a long programme to build retailer engagement – a programme that's still going strong and is still paying big dividends today. For example, we set up a Retailer Forum, which is still running and is still very effective. The Forum is made up of around 12 representatives from all categories – from the biggest multiples down to the smallest independents. In addition, the members come from all regions across the country – resulting in a small but very effective working group of key people in the in-

dustry. It's jointly chaired by a senior executive of one of our major retailers and by Camelot's Sales Director. The Forum meets four times a year and the agenda is jointly agreed in advance between our retailers and us – so our retail partners can shape what we discuss just as much as we bring topics to the table.

When it started, I have to be honest, the Retailer Forum was mostly a place for retailers to let off steam about what they thought we were doing wrong! But, over the years, it's become something much more collaborative and much more valuable to both sides. The 'Value of Lottery' work we did was crucial in getting retailers, particularly the big multiples, on board. With the big hitters involved, it made it much easier to gain real buy-in



from the smaller retailers and independent trade bodies.

There are other ways we work closely with our retailers too. For example, with our biggest retail customers, we'll give them a member of our staff, paid for by us, to work in their head office alongside whoever is responsible for National Lottery sales. It's great for the customers. But it's also great for us because it gives us a close-up insight into the real nitty-gritty of how that customer operates, so that we can align our processes more closely with theirs.

We also run regular surveys with our retailers so that we know what's working for them and where we could do more. Again, the results are something we pay a lot of attention to – and, crucially, we act on them wherever possible. This is not about paying lip service – you will quickly lose respect and trust if you do. You have to commit to your retailers, and take their concerns and suggestions seriously.

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**Ilan Rosen:** We offer both and believe that offering both, where possible, is a best practice. Lotteries can jumpstart their interactive channel by leveraging existing brands and creating digital versions of popular, best-selling games that are sold at retail. These games need to play in a similar way to their printed counterparts, yet need to be adapted to the interactive space to optimize the player experience. We are experts in managing these adaptations and they do evolve over time. Lotteries should also introduce new styles of games online to differentiate the interactive space. Of course, consultation with the lottery client is key to developing an exceptional online portfolio that drives players across all channels. Again, we want to convert lottery players into multi-channel players, and attract new players to this multi-channel lottery ecosystem.

*How will the success of iLottery be measured?*

**D. Pollard:** Sales and the profit they produce for good causes are always critical. However, sales alone are not the sole determinant of success. In Michigan, the lottery presented aggressive sales targets, way above the current benchmark of US lotteries, and we fully intend to meet them. But sales alone are not the sole determinant of success. We also need to measure success using several additional metrics. We like to use a return on objectives mindset. If a lottery's objectives include the expansion of the player base, reaching the 18-34 demographic, and migrating players across channels, then simple sales numbers will not clearly represent results. We need to ask, and answer, a different set of questions: Does iLottery engage new and existing players? Does iLottery change common pre-conceived notions about lotteries from a traditional form of entertainment to a modern, accessible, and convenient way to play? Does it reach a younger demographic, and are young players migrating across channels? Are core instant ticket players going online? Does iLottery help retain existing and new players? Measuring these broad-stroke shifts in player behavior will ultimately provide lotteries with the results they require. With the help of our partnership, we predict the results will be impressive. ♦

From our point of view, the enduring lesson of that original 'Value of Lottery' work was the realisation that we constantly have to remind retailers of how important National Lottery sales are, despite being a low-margin category. Low-margin, maybe. But in terms of overall sales, it's huge.

Last year, for example, National Lottery products were worth well over US\$9 billion to our retail partners. That makes The National Lottery a bigger category in UK retail than pretty much anything else, except tobacco and soft drinks. Camelot now operates four of the top 10 fast-moving consumer goods brands in the UK and, by fast-moving consumer goods, I mean convenience purchases – drinks, snacks, basic foodstuffs. Our core game, Lotto, is the single biggest FMCG brand in the country, and total lottery sales last year were bigger than the combined sales of some of the biggest and most recognisable high-street brands, including Coca-Cola, Pepsi, Nescafé and Walkers Crisps.

To achieve this success in retail, we don't just put a great deal of time and creative effort into our relationships. We back this up with plain hard cash investment. In the last decade, we have invested around US\$200 million into our retail estate. Much of this goes into supplying our retailers with free, state-of-the-art in-store furniture, as well as constantly refreshed, relevant and innovative point-of-sale material – both of which sharply increase the visibility of our products in stores.

In 2011, we embarked upon a hugely ambitious project to extend our retail estate by 8,000 stores, following a massive project to identify untapped demand that we could channel through our retail estate to drive sales. This involved a huge outlay and a bold investment by our shareholder. But our retail partners see this commitment from us and understand that we mean what we say when we tell them that we will keep on looking for ways to drive growth across all of our channels. Again – it's not about lip service.

It's about saying what you mean and meaning what you say.

The point of all of this work on retailer engagement is to grow sales by building strong and mutually-valuable relationships. And we were able to draw on the strength of those relationships when we decided to launch our interactive channels over 10 years ago. This was potentially a difficult moment. Understandably, retailers are anxious that interactive channels will simply cannibalise sales from the existing retail operation – and ours were no exception. However, because we were open with them, because we'd built up strong relationships and because our retailers could see that setting up new channels didn't mean we were lessening our commitment to them – because of all that, their initial fears soon evaporated.

We still need to work hard to make sure that they know our commitment hasn't wavered. One of the ways we do this is by regularly sharing sales analyses with them and one of the most powerful stats that we can talk to them about is how weekly spend increases for multi-channel players.

For example, a retail-only player will spend around US\$6.21 a week on National Lottery products and an online-only player will spend around US\$7.40 a week. However, a multi-channel player will spend around US\$12.12 a week. So, retailers can see that this spend is truly incremental and beneficial to all.

Increased overall spend also leads to bigger jackpots, more exciting games and more players spending more money both online and in-store. So, my message to you is that it is possible to develop a strong interactive lottery channel alongside your existing retail operation. However, to get this right, you need to make sure you engage and take your retail partners with you. The key to that is building strong, mutually-supportive relationships through good communication and by proving yourself faithful to your word. ♦