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Expanding the Footprint of Low-Volume POS's: The Responsible Way to Grow the Lottery Business

PGRI Introduction: A lottery's retail network is responsible for the vast majority of sales while at the same time being one of its biggest costs. Purpose built terminals requiring dedicated communication lines take time to install and are increasingly unpopular for the counter space they take up; and of course installing, de-installing and maintaining terminals piles on the costs.

"Retail Optimization" typically focuses on increasing the productivity of individual stores to maximize revenues while eliminating those shops that do not make enough profit to justify the cost of the hardware and services. This effectively encourages retailers to sell more to the same clients reducing costs by shrinking the lottery's footprint. The NOVOMATIC Lottery Solutions (NLS) philosophy is different. Instead of reducing the terminal estate to reduce costs, NLS believes it is better to increase the number of POS's and widen the footprint to increase sales in a more responsible way! To do this effectively it is essential that we reduce the cost of POS hardware and support infrastructure to significantly reduce the POS sales break-even threshold. Opening up a whole new world of thousands of non-traditional trade-styles and POS's expanding access to lottery products = More people playing lottery. This is the responsible way to drive sales. More people playing smaller amounts adding up to higher sales. Made possible by APIs (Application Programming Interface) open to all vendor, technology, and channel partners.

Paul Jason: *"Digitization of Retail" isn't just about enabling Mobile in addition to the lottery terminals. It's really about obliterating the necessity to rely on terminals dedicated to lottery transactions.*

Frank Cecchini: Let's not obliterate anything, just create new options, a whole new world of options, to replace the high-cost infrastructure of dedicated terminals and communication networks. Even while the whole world has transformed around us over the past fifteen years alone, the lottery product has been distributed in the same way for decades. Reliance on terminals and infrastructure dedicated to processing lottery transactions is not only a technologically obsolete model with bloated cost-structure that cripples our ability to expand the retail footprint—it has interfered with the ability for Lottery to progress on other fronts that are vital to progress and innovation. Lottery is the only industry we can think of that has not modernized to facilitate communications between IT systems. Modernizing with API (Application Programming Interface) technol-

ogy would facilitate the standardized reporting, auditing, and other back office business process tasks required by our retail partners. It would smooth a path for the low-cost integration of third-party content and technology solutions. It would unlock a whole new world of modern logistics, communications, and distribution capabilities. And this would absolutely translate immediately into increased sales and funding for the good causes that Lottery supports. Lottery does not need to reinvent the games. People love the games. The low-hanging fruit path to increased sales is simply to modernize with APIs and open the Lottery up to innovation that would triple or quadruple the retail footprint.

There would seem to be two sides to the equation of POS profitability. Revenue minus cost-of-sales and prize-payout = profit. Lower the cost-of-sales lowers the break-even point of POS profitability, and that opens up the possibility of more trade-styles to sell lottery products.

F. Cecchini: Exactly. And the focus of "Retail Optimization" is much more on the revenue component to that equation. How to increase the productivity of the retailer, etc. All that really means is how to sell more to the customers who go into the individual store. And that typically translates into how to sell more to the core customers who are already playing a lot. You know, from a sales point of view, the ROI to drive more sales through the existing base is the most profitable focus for your marketing spend, right? It is always easier to try to get your current customers to spend more than it is to acquire a new customer. The problem is that is totally inconsistent with the values of Responsible Gaming. The RG approach isn't to figure out how to get the $100 a week player to go to $125. RG is about how to spread that player-ship over more and more people so that you

have large numbers of player who spend $25 a week.

Unfortunately, that is not an option when you have the cost of the terminal, the high cost of connecting the terminal to the central server, the cost of managing the terminal, and everything else that goes into the current distributional infrastructure. In fact, the current system causes operators and vendors to discuss penalizing or even dropping retailers who fall below a threshold where their sales do not cover the high costs of supporting the retailer. That is ridiculous. The solution to this is to lower the cost-of-sales, not increase the focus on selling more to the core players which is the result of current "Retail Optimization" initiatives. Shrink the footprint to focus on driving

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high-volume retailers and sell more to core players is not the sustainable strategy that lotteries should focus on.

Lotteries should explore new options to dramatically cut the cost-of-sales and explode the footprint to a huge size. That can be done in an affordable way by increasing the varieties of trade-styles and POS venues so that you add thousands of retailers with smaller revenue streams that would be profitable for the Lottery and the retailer because the sales and distribution process is so much more efficient. That in a nutshell is NLS's value proposition.

Make lottery more accessible to huge segments of the market that are not currently playing the lottery.

F. Cecchini: Absolutely. Lottery products should be as ubiquitous as other consumer products. Fewer and fewer people are going into convenience stores. And this trend applies even more to Millennials. That is one reason why Lottery is falling off the radar of the next generation of consumers.

Some lotteries do not sell online. But all lotteries are beginning to embrace the potential for social media to drive consumer engagement.

F. Cecchini: We have seen a fabulous presentation at the last NASPL conference by the vice president of marketing for Coca Cola. They don't sell the product online, at least not directly. Their business model is just like Lottery's. They are driving consumers to retail stores to buy their product. Yet, they are all over social media. Their Facebook and Twitter initiatives are amazing. Engage the consumer on social media and drive sales at Retail. Social media does require a higher level of creativity and a sometimes a longer time-line to gain traction. But the costs of implementing beta tests are low and the ROI on successful initiatives are totally off-the-

charts. The impact on sustainable player engagement and loyalty is in an entirely different universe from conventional advertising like billboards and TV spots which have a short-term impact.

And we're taking about a soft-drink! How do you generate social media engagement with a soft-drink? Lottery products, games that people love to play, represent a hugely more powerful content platform than any other consumer product. Facebook in particular is a grossly under-utilized platform to build a social media connection with Lottery. Everyone wants more content, more opportunity to connect with like-minded people, more opportunity to share their interests. Lotteries are already implementing Facebook strategies but I feel we are just scratching the surface of its potential to build lottery player communities with clever campaigns that create fun and excitement. Notice how those Coca Cola campaigns were whacky out-of-the-box ideas. That's what gets people going, especially young adults, and that is what Lottery can do.

It occurs to me that promoting a social component to the game also aligns with a Responsible Gaming agenda to get more people to play a smaller amount.

F. Cecchini: Of course. Like El Gordo in Spain. Lots of people join together to buy lottery tickets. It becomes a fun exercise in social-bonding. Nobody spends much. It is more about the fun of playing together, being part of a social event that invites everyone to talk about what they might do if they won. The RG component is not just about lots of people playing small amounts of money. It's also about lots of people playing lottery for the entertainment and socially fun aspect of the game. Deriving entertainment value apart from the dream of winning a life-changing jackpot should be a vital part of Lottery's sustainability strategy going forward.

More POS's selling to more people would relieve some of the pressure to drive sales by increasing the price of the tickets.

F. Cecchini: I believe there are now $100 scratchcard tickets with 75% payout; this level of prize payout and win value is akin to a slot machine . It drives sales but takes the focus off of being a fun diversionary recreation. Players who buy a $50 or $100 ticket have one thing in mind. Buying a couple $2 tickets when you are checking out of the grocery store, or checking into a hotel, or maybe passing by a kiosk at the airport, or even better, joining with a community of friends on Facebook to pool your $5 play with 100 other people … now that is what Lottery is all about. Fun, recreational, and harmless. And combined with a business plan to reduce the cost-of-sales and explode the number of POS's, it will result in driving sales growth in responsible fashion.

As you mentioned, the technology that enables this kind of flexibility is the APIs (Application Programming Interface).

F. Cecchini: The whole purpose of the API is to facilitate communications between IT systems. It simply establishes the common language and the interface that enables lotteries, retailers, and their technology providers to send and receive data. By definition, the goal is for the API to be open and enable content, technology, and solution providers to connect with the Lottery, the retailers, and with each other. The security is effectively applied at the points of transmission and receipt. The API is not a new or untested technology. It has been around for years and is widely used in almost every industry in existence. Except the Lottery industry. The methods to implement API for Lottery are being explored now as we speak. Our concern is that the API be configured to support the entire industry and not result in

even more barriers to entry for innovation and new technology.

The operative word is "open." Security is always a mission-critical component to everything a lottery does. APIs have been deployed for years in the financial services industry, defense and intelligence agencies, and others with the highest mission-critical security standards. So the need for security should not be used as a reason to impede access by vendors and technology providers with innovative solutions to offer.

Getting to grips with API's is a vital step for lotteries. It needs to be done to meet the needs of retailers for more efficient transaction of data and reporting. It also needs to be done to open up an entire new world of solutions that lower the cost-of-sales by enabling new ways to sell lottery products. There is an incredible potential for Lottery to expand its POS footprint, add thousands of new POS's. But it depends on the implementation of APIs to enable modern communications that connect the lottery operator to the POS's. The alternative is to be stuck with the legacy system of terminals and communication systems dedicated to serve only Lottery. The cost of this obsolete infrastructure prevents the kind of progress that delivers a sustainable pathway to growth, expansion of player-ship, and effective application of the most basic Responsible Gaming standards. Further, the API is key to the implementation of any kind of omni-channel model that includes a variety of channel partners and POS's.

How might the API agenda be moved forward?

F. Cecchini: APIs are standard operating procedure for all industries. The Lottery's RFP should require an API solution that provides access to the database, to the transaction engine, to the central system. The supplier would propose the API solution that enables others, like retailers and technology providers, to connect to

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the system. The required documentation is provided to all who want to connect. There is minimal additional programming, no additional software—there are just parameters that need to be met for everything to work. Honestly, it is simple, it is already in wide use, and it costs very little. And there is no need to add layers of costly and complicating steps to enable this enhanced level of connectivity.

NLS publishes the software instructions and rules for others to integrate with APIs that serve Danske Spil, Open Bet, BCLC, and many others. It is a simple, straightforward, line-by-line instruction for every stage of the interaction with the transaction engine and back office. It's low-cost, it's published, and it's available to whomever needs it. Even the writing of the API takes less than three weeks.

The current focus of the API dialogue is on enabling a modernization of Lottery's methods of supporting its retailers.

F. Cecchini: As it should be. Retail is not going away. In fact, it is modernizing and working mightily to carve out a big role for itself in the consumer market of the future. But if the lotteries do not modernize with APIs that open up new methods for connecting with the modern retailer, and for expanding its retail footprint, our current retail-focused model will become irrelevant in ten years.

RFPs in U.S. jurisdictions often require that the bidder have successful implementations in other states. That would preclude vendors who may have an established record of success outside of the U.S.

F. Cecchini: Clearly. And that is unique to the U.S. Everywhere else applies a more sensible approach towards the process of encouraging competition and smoothing a path for innovation. The RFPs in the U.S. presume a legacy model of high-cost infrastructure to support dedicated terminals. Why not open it up to new models that would dramatically lower the cost-of-sales, simplifying the whole process for selling lottery products and enabling an expansion of POS's? The result would be a massive expansion of player-ship, more people playing smaller amounts of money, increased sales, and the more sustainable and responsible long-term growth strategy.

It would not be hard to amend RFPs to invite a wider variety of solutions that will drive sales, profitability, increased player-ship, and Responsible Gaming. Everyone talks about innovation, but precluding technology and solutions that have established track records outside of the U.S. is clearly an anti-innovation agenda. The current system is not delivering optimal results but the RFP specs that block innovation effectively forces the continuance of sub-optimal performance.

What should be done about it?

F. Cecchini: Lotteries should remove the requirements for pre-existing implementations in the U.S. and allow us to make a proposal and provide the evidence to back up our claims. They should invite vendors to bid and tell their story, show their successful track record even if it is outside the U.S., show why their proposal would deliver the best results. Obviously, that would not place any requirements on which bidder should be selected. It is so simple, so do-able, does not cost the Lottery anything, and just opens up their options to a wider variety of solutions and competitive proposals. No downside, only upside.

Lottery has never been in a better place to build the foundations for sustainable growth and ongoing success. Its brand value and network of retail partners is unique and can't be replicated by anyone in the games-of-chance industry. Likewise its massive consumer base of active players. These are the assets that take generations to create and Lottery already has them. The future is bright indeed! ∎