



Tom DELACENSERIE

Secretary, Florida Lottery

Application Programming Interface (API) as the Key to a Sustainable Future for Lottery

Paul Jason: *You come from the consumer products industry. What are their strategies for garnering more favorable treatment from retailers?*

Tom Delacenserie: I'll give you an example. I was reviewing a recent report on the personal care category which includes hair accessories, suntan, soaps, cosmetics, mouthwash, etc. Annual sales from mass outlets i.e. multi-state drug, supermarkets, discount retailers like Walmart, Target, military stores etc. were around \$49 billion. About \$21 billion less than Lottery, right? Yet, look at the space retail allocates to personal care compared to Lottery. The report highlighted the hot trending mascara category making the point that Walmart alone sells 1.6 tubes of mascara every second of every day. 49 million units a year, just in Walmart.

Now here's the interesting part. Walmart's take-away from the statistic was not the significant number of units sold but they feel they're leaving money on the table! So, together, Walmart and the CPG (consumer packaged goods) mascara vendors are investing to enhance their beauty department so they

can realize the category's full potential. Think about that. Mascara already has more space and makes a much stronger statement than Lottery, which generates more sales. Yet, timely sales data allowed Walmart to quickly identify a strong trend and up their commitment to increase those 49 million unit sales. How does that happen? It happens because the CPG brands have the data to prove to

suasive to a corporate account. Having to extrapolate potential from limited data samples is not what motivates corporate accounts to act and they don't have to do it because CPG companies and the corporate accounts have actual data that includes product/category sales for all stores nationally. The technology that enables them to do all of this is the API. Application Programming Interface is the

“ Without the data that API technology provided, the sales trend isn't identified and the opportunity is lost. Scanned sales data rolled up nationally can be very persuasive to a corporate account. ”

Walmart that mascara is a “hot” trending item and the ROI on increasing its commitment to mascara will be positive.

Without the data that API technology provided, the sales trend isn't identified and the opportunity is lost. Scanned sales data rolled up nationally can be very per-

common language that enables scanned data to be captured, transmitted, and organized to inform the decision-making process. Without the API, we don't have the data, we don't have a story to tell, and we don't have the attention of our corporate retail partners. With that data,

our story is so much more compelling. We're able to convince our retail partners of Lottery's potential and make a stronger category impact by getting premium floor space and a secondary selling location at the coveted check-out counter. This is the tool the industry needs to consistently generate the sustainable growth that good causes depend upon.



Without the API, we don't have the data, we don't have a story to tell, and we don't have the attention of our corporate retail partners.

With that data, our story is so much more compelling. We're able to convince our retail partners of Lottery's potential and make a stronger category impact by getting premium floor space and a secondary selling location at the coveted check-out counter.



Wow. It is exciting to imagine what could be accomplished. It's also scary to imagine how we will fare if we do not modernize.

T. Delacenserie: When it comes to using sales data to promote the category, we're still working with an abacus while everyone else is using high speed computers. I believe as an industry, we know what we have to do. We just have to start somewhere. Right now, we just need to move the dialogue forward, address the questions and concerns, and do it all with a sense of urgency. The beauty is that the blueprint is crystal clear. APIs are already being used to great effect, have been for many years, and so we have thoroughly vetted best-practices to model after. Obviously, there are obstacles, like how to fund it and what is the organizational structure that hosts, maintains, and operates the API apparatus. But the ROI on the investment is so emphatically clear, the consequence of failing to invest is dire indeed, and so the will to make it happen should be resoundingly embraced by all of us.

How important is it for Lottery to be visible at the check-out counter, and how does API contribute to that goal?

T. Delacenserie: It's very important. Let's take a look at what goes into a purchase decision. Retailer surveys show that for most brands, the average consumer spends seconds deciding on an in-store brand purchase in part because they al-

ready know what brand they want to buy before they go into the store. For example, the condiment section of the supermarket makes a large statement with many brands and sizes. But it shrinks dramatically in the mind and perception of the shopper when their attention is drawn to the brand of choice. A behavior conditioned from repeat past patterns. People who buy Heinz catsup probably could not even tell you the names of the other brands because they literally do not even see them on the shelf even though they are right next to Heinz. The purchase decision is made quickly.

A buying decision can also be conditioned by seeing a product at multiple consumer touch-points. Let's take Wrigley's gum. They reinforce brand awareness through advertising, as well as with product shelf placement in the aisles where the consumer sees Wrigley's next to the other brands of chewing gum, and then again on the racks at the check-out lane. The key touch-point for the product though is

where impulse intersects with payment—at the check-out lane.

Now let's just take Powerball. Is it a staple like Heinz that is purchased with very little thought or emotional engagement because we know it must be there on the table when it is time to eat dinner? Or is it like Wrigley's gum, something that we want but will not be missed if we don't get it? Brand awareness of Powerball is conditioned by billboards and other advertising. But the decision to buy or not to buy a lottery ticket is often made right in the store. Just like Wrigley's gum, Lottery needs that visibility and easy access right at the check-out counter. It is the repetition of exposure to the brand that conditions the shopper to look for and buy it. The consumer needs to know that every time they are in the check-out lane, they will have the opportunity or be reminded to buy Lottery. We all know how hard it is to procure the premium position. The API is the mission-critical component to this picture that enables all the functionality that the modern corporate account retailer needs to support a product.

So the API eliminates some of the issues that make vending the product laborious for the retailer.

T. Delacenserie: Yes, but it's much more than that. The bar-coded ticket is scanned and that transaction data is transmitted to the Retailer's system as well as to Lottery's central server for processing, all done automatically. By capturing transaction information in digital form, the data can be used in a variety of ways from improving inventory management to providing an understanding of the complex relationships between advertising, promotion, merchandising, and product sales. The business of calibrating the optimal product mix becomes a science instead of an art. Improving the accounting reconciliation alone would create incredible efficiencies that currently aren't being realized at retail with Lottery. This is the type of information CPG brands provide for their retail partners and it is what the retailer expects us to provide. The thing is we need to do this for ourselves, not just

because the retailer requires it. We need to capture this data and render it into the forms that drive our own decision-making processes. Collectively, Lottery spends hundreds of millions of dollars on advertising, product development, merchandising, distributional logistics, and everything else that goes into supporting this \$70+ billion dollar industry in the U.S. However, the return on that spending is much less than it could or should be. The rudimentary tools we use for data collection are just not adequate in today's marketplace—not for our retail partners and not for us either. The result is sub-optimal performance which is in effect costing us hundreds of millions of dollars in sales, operational efficiencies, and ultimately net funding. The API is the bridge to the future in which Lottery becomes a profit-driver for both our retail partners and the beneficiaries of lottery funds.

The defining characteristic of Amazon, for instance, is the sophistication of its data analytics that powers its superiority in logistics, its understanding of the consumer, and its ability to identify trends and develop market strategies at break-neck speed. All made possible by technology that records transactions in a common language and converts data into business intelligence. That technology is the API. I realize we do not aspire to be Amazon. But corporate account retailers are rapidly adopting the best practices established by Amazon, Walmart and other industry leaders. Our competitors in the CPG world are making sure their IT meets the expectations of these retailers and we need to work to keep up with them.

Although not completely API related, I'll give you another example of how selling a product that retailers consider too labor intensive can have a negative effect on growing that product.

Publix Supermarkets is one of our largest and finest retailers. They sell Scratch Offs from both a vending machine and an in-counter dispenser with a higher percentage of sales coming from the vending machine. We projected Publix could increase their sales from the in-counter dispenser by adding product facings.

Publix voiced concern about adding facings and inventory and after addressing them we discovered one of the most important concerns to Publix was the time it would take employees to write down the beginning and ending book numbers for their tracking purposes. A solution they could embrace involved a wand that would scan the books for number entry and save employees time. Publix has agreed to pilot additional facings in a small number of stores to test the idea. Retailers need more



When it comes to using sales data to promote the category, we're still working with an abacus while everyone else is using high speed computers.



efficiencies and standardizing API's would provide those efficiencies and increase the opportunity for product growth.

Without the technology to effectively manage our category, we are ill-equipped to sell to corporate accounts like Walmart.

T. Delacenserie: It certainly puts us at a disadvantage. The intent of a supercenter model is to meet all the customer's shopping needs once they enter the store. A retailer like Walmart knows a significant percentage of their customers buy lottery. They also know not having those products could mean the customer they work hard to attract goes to a competitor for lottery and maybe something else they might have purchased at Walmart. At the same time, they need to know Lottery will operate with the same level of consistency and efficiency as their other vendors, especially when it comes to sales data. We've had discussions with Walmart in the past few years about doing a supercenter lottery pilot in Florida and, while not approved yet, we remain hopeful. However, even if they did approve the idea, a successful pilot and a "national rollout" are two very different things. While I wouldn't presume to speak for Walmart, I'm quite

sure any discussion of rolling out lottery nationwide would at a minimum require the category provide the most basic levels of data and reporting capabilities, which an API could provide. No matter how compelling the performance in one store or even multiple stores within one state, a national or multi-state retailer must be able to accumulate sales data consistently across their universe to see the big sales/profit picture for products it sells. That is why we need to work to-

gether as a community of lotteries to invest in API to achieve our shared objective of expanding distribution of lottery products in national accounts.

I would think that it is not just a matter of getting our products into a Walmart. Don't they analyze performance on an ongoing basis and adjust their support accordingly?

T. Delacenserie: Getting your product in the store is just the first step and does nothing more than give you the opportunity to deliver on the potential you promised. The "Power of Powerball," for example, was on full display last January in many stores including Walmart Neighborhood Markets. Retailers like Walmart see the potential Lottery has to drive store traffic and residual sales and not just during big jackpot runs. Yet we fail to clearly articulate that potential and, by extension, what the retailer's potential with lottery is because our reporting capabilities are so inconsistent and fractured. We need to be able to give corporate retailers real-time data on a national scale for them to fully grasp the impact that Lottery would have as both a standalone product and traffic driver. Go back to my mascara example of 1.6 tubes sold in Walmart every second. Impressive, but Walmart saw potential

for more sales by improving their in-store presentation. This is how a product or category convinces a national account it's worth the space it occupies and more importantly grows. Identify a trend, show the account how the trend is affecting product movement, store traffic, and profit, and make a case for growing those numbers by improving space and positioning. I would submit Lottery could tell a very impressive story. The facts are on our side and our corporate partners are starting to understand lottery's potential, but unless we utilize real time data analytics enabled by API technology to harness and successfully manage sales data from a \$70 billion category, we'll be left with nothing more than unrealized potential.

When you consider sales and profit at retail are measured down to the square inch (shelf and floor), you start to realize how important data is. Implementing API to get into an account is just the beginning. Applying new technologies and improving our ability to leverage data-analytics to drive performance is an on-going process. And yes, every vendor must constantly defend their product space with real time data. And not just big picture sales data. Corporate retailers also expect their vendors to be able to drill down in a granular way to look for ways to improve performance.

What kinds of granular data are they looking for?

T. Delacenserie: Knowing what other products are in the basket with lottery products for example. "Other products" share so much about a consumer and provide a rich canvass of opportunities for both retailers and manufacturers including cross sell promotions and marketing/merchandising strategies. Basket size, other product types, cost, frequency of store visits, purchase time of day ... frankly, the kinds of data, intelligence, and insights it provides is limited only by our imagination. It all helps us to understand consumer behavior and to fine-tune our strategies to match product, place, price, and promotion to synchronize with that behavior.

For instance, it has been claimed that

lottery is being purchased disproportionately by the lower-income segment of society. A few years ago we worked with a corporate supermarket account on a promotional idea. The idea was to cross promote lottery with an in-store non-lottery product. We also worked with an independent marketing organization to track the "other products" that were in a basket when someone bought a lottery ticket. The results contradicted the perception. We saw high-end olive oils, specialty breads from the store's bakery, and other products that didn't fit the narrative of lower-income consumers buying lottery along with beer and cigarettes. The lottery player was just as likely as the non-lottery player to buy high-end products. This is the kind of information that is especially valuable to corporate accounts.

Knowing what is in the basket would also help us to substantiate our claim that Lottery is a driver of store traffic and residual sales.

T. Delacenserie: True story: When we did the first Walmart Neighborhood Market test, I was in a store at 6:00 a.m. with two executives from Bentonville to witness the sale of the first lottery ticket. One of the first tickets sold was to a customer who, seeing three guys in suits at the end of the check lane, approached us unsolicited and asked if we were with Walmart. She thanked the gentlemen from Walmart for adding Lottery to the store's product mix explaining how she had to drive past the store each morning to a less convenient retailer to buy her tickets. She continued saying, "I'm really happy knowing I'll be able to get my lottery tickets at Neighborhood Market." Now think about the volume of customer traffic that enters a store like a Walmart Super-Store each week. What percent of those customers leave to go to a competitor to buy a lottery ticket or worse, go past the store because they don't carry lottery?

Publix is a grocery store that sells a billion dollars a year in lottery products in Florida alone. Why don't they require the higher level of data reporting that other multi-state retailers require?

T. Delacenserie: Actually, they do and rightfully so, continually prod us for better information and data integration. At a recent business review we did with Publix, they included a vendor performance appraisal they do with all of their suppliers. Their scorecard has six categories grading performance on a scale from one to five, five being the highest. For the last three or four years, we have received all fives except in one category. That category is technology and data collection. While they understand as a Lottery we're at least partly dependent on industry technology, their expectation is that we work with both the vendor community and the industry to improve inefficiencies and inconsistencies relative to equipment and data collection. I strongly dislike not meeting Publix or any account's expectations, and with that in mind, respectfully submit that all lotteries all around the country could benefit by collaborating to meet the needs of these corporate accounts. Every state has large corporate accounts with the same needs, and frankly, we're in jeopardy of not being able to increase our sales and net funding to Lottery's beneficiaries if we fail to provide it to them.

What about the obstacles to implementation? How can consensus be built to move forward with an action-plan?

T. Delacenserie: I don't presume to have all the answers to that question. I would just point out that we've done it before and we just need to do it again. Imagine what it must have been like for the handful of states which started Powerball back in 1988. These states were all operating independent businesses, with diverse operating systems and IT, and methods of accounting and reporting, and contractual relationships with retailers and all manner of obstacles to overcome. The issues they had to wrestle down were no less formidable than the ones we need to deal with to modernize now. And the urgency of our current challenges is at least as pressing as theirs were then. They did it back in 1988, and we should be able to do it now. ■