

Grocery Wars: Implications for Lotteries

In 1999, HomeGrocer.com raised more than \$100 million in investments with ambitions to revolutionize the grocery industry. However, the company quickly filed for bankruptcy in 2001 after an inability to control expenditures and turn profitability. Supply chain complexities, high delivery costs, and slow internet speeds were all cited as contributing factors to the company's demise.

For many years after, online grocery retailing was largely perceived as an unsustainable business model. The complex challenges of logistics and the resulting cost model made it far from competitive to traditional retailers. Further, consumer confidence in online shopping was not well established and online retailers with brand credibility had not yet emerged. Mobile commerce didn't even exist yet.

Fast forward sixteen years. A proliferation of mobile devices has revolutionized modern society. The use of big data has enabled companies to make shopping experiences more personalized and convenient for consumers. Amazon surpassed Walmart's market value and has built a reputation among consumers for simple, convenient, and fast online shopping.

Online grocers are aggressively competing to take market share while local delivery services are effectively taking the shopping experience out of the store. Online grocery sales are nascent and already account for one percent of the overall market. Consumers across all age segments are increasingly likely to try purchasing groceries online.

Traditional retailers are responding to these threats by increasing hybrid services such as curbside pickup to protect their existing business. Even within the store experience, self-service checkouts are pervasive and in-store scan and pay apps are emerging. Looking ahead, in-store shopping experiences are likely to increase convenience through digital technologies in order to remain competitive.

These market forces pose questions about the future inclusion, or exclusion, of lottery sales within digitally-aided shopping experiences. Lotteries should consider proactive measures and may need to act fast. The grocery landscape may evolve as quickly as Uber disrupted the taxi industry based on the emergence of significant new trends.

An Emergence of New Trends

The transportation industry is under massive disruption from the sharing economy movement. Companies like Uber are creating networks of drivers with unprecedented speed and scale while increasing availability and reducing costs to consumers. Beyond ride-sharing services, Uber and Lyft are running pilot programs to deliver restaurant meals and groceries to households.

In a related movement, federal agencies have issued the first guidelines to support autonomous vehicles and drones. Companies like Ford, Google, and Amazon are investing heavily into technologies that can utilize these new modes of cheap and efficient transportation. As these transportation trends take shape, it will broaden access to fast distribution and provide advantages that online grocers did not have in the past.

As another trend, a variety of smarthome devices are beginning to penetrate consumer households. Using products such as Amazon Dash Buttons, consumers can simply push a wireless button that will automatically order packaged foods, cleaning supplies and



other non-perishable goods with fast two-day shipping. Similarly, smarthome hubs like Amazon's Echo can be voice-controlled by consumers to quickly reorder goods from the mega online retailer.

Many online retailers and consumer packaged goods companies are adding subscription services that offer "set it and forget it" conveniences for consumer's regular purchases. Companies like Door to Door Organics ship recurring orders of fresh organic produce to households each week while Honest Company applies the same model to diapers and baby supplies. Many consumers, especially those with busy lifestyles, are likely to embrace subscription services for staple items that once drove regular visits to stores.

The convergence of these market trends will likely result in unprecedented affordability, availability, and convenience in the online grocery shopping experience for consumers. This will reshape the face of grocery shopping, in both online and retail channels, in unprecedented ways.

The Implications for Lotteries

Lotteries are still confronting challenges from the past. The emergence of multi-lane checkout formats has relegated lottery sales into the customer service desks of larger retailers and away from broader consumer traffic flow in the store. The dominance of big box stores, who are averse to lottery operational burdens, has resulted in retailer penetration gaps.

Additionally, the increase in cashless payments has inhibited growth within the lottery industry. Many states prohibit the use of credit instruments for the sale of lottery products. Even where permissible, retailers have varying policies in relation to the use of credit and debit on lottery products due to thin product margins and high transaction processing costs. This has resulted in a detachment of lottery products from the overall consumer shopping experience.

Looking ahead, the adoption of digital technologies into grocery formats, such as curbside pickup, create an even more uncertain future for the placement and distribution of lottery products. Many of these new shopping experiences rely entirely

on cashless payments which may further push lottery into a segmented consumer flow. Moreover, delivery and pickup services have no defined framework that can enable lottery sales.

Lotteries must begin taking actions to preserve their future within the new paradigms of grocery shopping. The answer should not be exclusive to launching direct e-commerce sales for those jurisdictions that are authorized to sell online. Instead, lotteries should actively seek out new ways to integrate product sales into existing retail distribution networks while widening the payments spectrum.

With so much unpredictability, one thing is certain: direct collaboration with retailers will be a key to future success. Retailers and lotteries must solve the payments gap together in addition to testing new digital shopping experiences that can incorporate lottery products. In the long run, the continued growth and sustainability of the lottery industry may depend upon creating innovative and fully integrated shopping experiences within retail. ■

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About Digital Gaming Group

The Digital Gaming Group is a consultancy that is focused on helping lotteries recognize growth opportunities in both retail and online channels through the effective utilization of digital strategies.

Read more and download the full whitepaper from our website at www.digitalgaminggroup.com