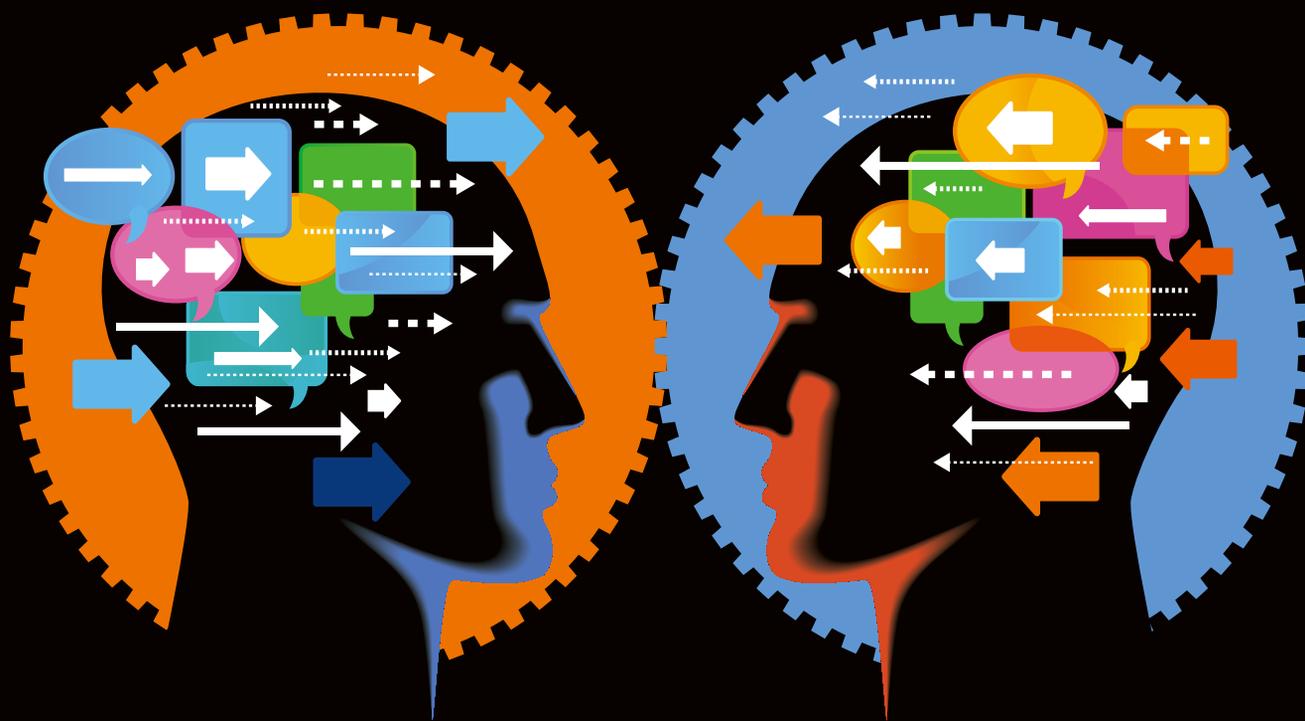


“EDUCATION IS THE PREMISE OF PROGRESS.” BY KOFI ANNAN

Creating Forums for Education and Progress

How many of us can say that we have direct experience in managing a chain retail store? As much as our lottery products depend on retail outlets as our predominant point of sale, to retail owners and operators, lottery is only one of many considerations. In fact, a chain retailer’s top priority list is more likely to include concerns relating to cost reduction, theft, shrinking market share, credit card operating rules, labor laws, state and federal food service and tobacco regulations, etc...

“In terms of producing results, the retail industry is unquestionably one of the most difficult on the planet in which to achieve consistent success. 2013 promises to be no easier, with a large number of challenges facing retailers of all sizes.” — Posterita, Retail Solution Company



How do we further assimilate our lottery product into the complex world of chain retailers and convince them that it's good for their business?



That was one of many questions discussed at GTECH's second annual International Lottery Retail Workshop held in Warsaw in April. This year, 17 lottery delegates shared insights, experiences, and learning's from various lottery retail development initiatives conducted or planned across international jurisdictions.

During the two day workshop, each lottery presented a retail situation analysis, case study, development initiative, or challenge for input and discussions. GTECH presented on three themes during the workshop: Retail Perceptions, Prepare for the Future, and Partnership & Practice.

RETAIL PERCEPTIONS

At present, lottery stands outside of the Fast Moving Consumer Goods (FMCG)/ Stock Keeping Unity (SKU) system – the very system that is the lifeline of chain store profitability. To manage upwards of 35,000 products per store, every item sold in a chain store has a SKU that has an associated profitability. Because lottery is outside of this system, it is not seen as having an associated profit, but rather it is considered a cost that, at best, in some cases, can simply offset another cost. For example, it may offset the cost associated with a staffed kiosk.

To bridge the gap in perceived value between lottery stakeholders and chain retail management, lottery operators have to understand the complexities and challenges of the chain retail world to a far greater level of detail than previously thought. We all see the world through the lenses of the glasses we wear. To create growth opportunities for lottery in the chain store, we must see the challenges they face and ask ourselves questions like:

Q: What is the retailer's perception of the lottery?

A: SKU vs. just a cost

Q: How are lottery promotions tied into the retailer's activity calendar, which already includes non-lottery value promotions, calendar promotions, and corporate events?

A: Lottery has to be processed and promoted as a FMCG product to fit in and perhaps lead promotional event calendar.

Q: How can lottery better engage with chain retail management in a multi-level/multi-department way?

A: It is important to build relationships at all levels right across the business to ensure you understand the challenges, priorities and perceptions of the lottery fully. Availability and presentation of all lottery data has to match that of all other chain product inventory.

Q: How can we tailor our product to each store format to ensure that lottery matches the shopper's journey and adds value, not complexity, for the retailer?

A: Even within the same chain, store format dictates content. Other product categories tailor their products by retail format – pack sizes, display solutions and promotions will be designed to suit the retailers processes and more important the customer need/mission – no point in stocking a 15kg bag of dog food in a store where the customer base is commuters struggling home with their shopping on the train or bus. Acceptance by chain retailers requires assimilation of product to store type. Can we create new products that are better paired with the type and purpose of the shopping experience?

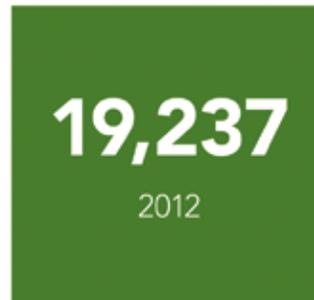


"Chain retail outlets are gaining market share because they operate an incredibly effective, well-oiled machines all designed to service their customers' every need in the most efficient way" explained GTECH's Joe Ward, Director of International Marketing. "Any change to their extremely lean process adds complexity and cost and will not be viewed positively."



“The Retail Perceptions presentation on improving lottery’s standing with key accounts was especially insightful and timely for Veikkaus. We see the base of private retail shop ownership eroding everyday. Finding ways to expand our presence with chain retailers is a top priority. In fact, the Key Account Managers of the Nordic Lotteries — Finland, Sweden, Norway and Denmark held a three day meeting just three weeks after the GTECH Workshop and we also discussed In-Lane and Lottery Inside technology.”
 — Sami Kauhanen, Partner Manager, Veikkaus Lottery

Retail Networks Are Changing UK INDEPENDENT GROCERY/CONVENIENCE RETAILERS



STORE NUMBERS FELL BY 900. A LOSS OF 4.5% SINCE THE PREVIOUS YEAR.

Over the last five years there has been a 22% drop in independent grocery/convenience retailers in the UK and a 43% drop since 2002. Source: The Grocery Retail Structure 2012, UK

PREPARE FOR THE FUTURE

Having acknowledged that traditional lottery outlets are undergoing a transformation, the second segment of the workshop focused on the technology solutions and innovations that GTECH can offer to integrate into the new age of retail. With recent demographic data in hand from the 2012 World Player Survey, it is clear that lottery must engage the technology-enabled consumer as well as the technology of chain retailers.

Our retail focus must acknowledge:

- The Lottery footprint is eroding
- Our product must follow the shopper
- Our solutions must be flexible to attain and retain key accounts
- Brick & mortar sales must be complemented with an Omni-channel strategy (a seamless approach to the consumer experience through all available shopping channels) in cooperation with key accounts
- Solutions must have extended reach and accessibility to compete with FMCGs

Our Player Focus must deliver:

- Increased Connectivity, increased mobility
- Social Media
- Ubiquity of Mobile Devices
 - Enabled technology player has a way to connect with the brand before and after they shop
 - Engaging the enabled technology player is different compared to the ‘traditionalist’ gamer

TODAY'S RETAIL: Operating multi-format, multi-channel stores gives retailers the chance to tailor staff needs to shopping patterns. At smaller locations, staffing structures have been adjusted by eliminating check out clerks and doubling the number of stock clerks. Why? Because consumer data showed that shoppers in this store format are buying only certain items and only a few at a time but very frequently. Because the shopping is rather light but regular, the priority for the consumer is not assistance at check out but rather assurance the product is on the shelf. Thus the retailers' decision to change the staffing structure to fit the trade style, satisfies the shopper and protects the sales base.

The question for lottery is — if there is no one at the check out, and speed is a priority to the shopper so lining up a second time in a separate service line is not likely — where does lottery meet the consumer in this type of trade style? Will the shopper stop at a separate self-service machine or must chain self-service check outs include lottery?

PARTNERSHIP & PRACTICE

On day two of the workshop, GTECH spoke to a recent example of customer collaboration.

In 2012, GTECH's International Marketing Team worked in partnership with the retail development team at Veikkaus to undertake an analysis of the lottery retail network in greater Helsinki, and to look for retail optimization and sales development opportunities. The team at Veikkaus embraced the project as part of their efforts to optimize retail sales performance. The retail development project focused on three key areas:

1. Identification of potential new lottery retail locations.
2. Measuring the impact of sales performance in relation to the quality of lottery retail execution.
3. Building predictive sales models based on utilizing socio-economic geo-demographic data.

The Veikkaus sales team audited approximately 50% of the retail network in the greater Helsinki area. GTECH analysts and marketing professionals analyzed sales by product and trade styles and cross referenced this analysis with socio-economic, geo-demographic data, which allowed predictive sales models to be built. The project was initiated in the summer of 2012 and results and recommendations were reviewed with Veikkaus management approximately six months later. The Veikkaus' sales team is currently in the process of executing against many of the findings and recommendations resulting from the joint Retail Optimization project.

Also on day two of the workshop, Totalizator Sportowy hosted a number of retail visits for all delegates to see examples of various lottery retail trade styles and lottery retail channels currently active in Poland. As part of the retail visits, delegates got an opportunity to see the new Gemini Ultra selling both instant and draw based games. Visitors got to play games in-lane through Lottery Inside at the REAL hypermarket and witness various types of retail execution and branding models, including ESMM driven Keno draw shows.

The true value of the workshop was perhaps best summarized by Veikkaus attendee Sami Kauhanen:

“Even though every gaming market in every country is different - it is very helpful to get new best practices that can be applied to your market and your retail network. GTECH's seminars and workshops have helped me to build a network of professional resources and a personal base of knowledge. I am better able to evaluate solutions that I know have been applied in other jurisdictions to address the constantly changing business opportunities that arise for Veikkaus.”

Sami Kauhanen,
Partner Manager, Veikkaus Lottery

Contributed by Michael Roygaard, Director, Retail Solutions International, GTECH and Joe Ward, Director of International Marketing, GTECH. Michael is a point-of-access expert working with lotteries internationally for more than 17 years. He has specialized in Retail Solutions by assisting lotteries to develop in-country retail strategies that incorporate lottery self-service and in-lane channels. Joe Ward has helped develop and implement brands' marketing strategies and programs across grocery retail, financial services and gaming for nearly 20 years.