

Lottery Modernization and the Retail Space



The roadmap to lottery modernization at retail starts with some basic building blocks. As an industry, we are playing catch up, while trying to leap forward in the eyes of both our retail partners and consumers.

Susan Strouse, Vice President of Retail Business Development at IGT.

In 2015, significant progress was made addressing some of the pain points of major retailers doing business with lotteries. Delivering initiatives such as the ubiquitous additional instant ticket settlement term of 21 days flat is a great start in simplifying the management of instant tickets – particularly for those retailers who do business across multiple states. This industry collaboration shows retailers that we are listening to their concerns and doing something about them, and proves that, by working together, we can be a powerful growth partner.

As we continue working to simplify the management of lottery and addressing some of our retailers' basic concerns, we must also find ways to contribute to their retail shopper experiences as well. All retailers are fighting to stay relevant. If lotteries bring innovation that helps achieve that objective, we stay relevant to our retailers.

To effectively drive and develop new business opportunities with retailers, those of us in the sales world know that the key tenants for success are to:

1. Know your audience.
2. Understand what is important to them.
3. Deliver concepts and solutions that will enable them to achieve their goals.

Understanding Where Retailers Are Headed

The retail environment is morphing at lightning speed, and retailers themselves are struggling to keep pace with technology that is constantly raising the bar with regard to shopper expectations. “Omni-channel” and “IoT (Internet of Things)” are buzzwords that have been flying around the retail industry for the last few years; but in truth, retailers are really scrambling to find ways to effectively deliver the promise of these concepts. Having just come from the 2016 NRF (National Retail Federation) Show in New York City in January, it appears that retail strategists are now trying to break down these concepts into manageable components. The past themes of showcase stores and extreme shopper experiences are still present for those who can afford a Times Square or Michigan Avenue flagship location, but even those retailers realize that they need a more cost-effective infrastructure to provide an enriched consumer retail experience across *all* of their stores.

The major themes of the NRF Show this year included:

- Consumer – improving the consumer shopping experience, with mobile, loyalty, and “frictionless payments” continuing as hot topics.

- Mobile – for all facets of retail, this is a huge area of focus (consumer engagement, shopping, security, associate knowledge, endless aisle, self-checkout and more).
- Innovation – finding new, creative ways to drive the consumer experience at retail while providing efficiency on the retailer backend.
- Data – theme has moved from retailers' need for data to managing and utilizing the mountain of data they have.
- Personalization – for all of the themes above, the focus should be on localization and personalization to effectively drive shopper loyalty.

In a session on the Path to Purchase, Tracey Bowen from Sam's Club showed the graphic below. This graphic resonated as a perfect visual of the challenge lotteries face today:

Experience Journey Members

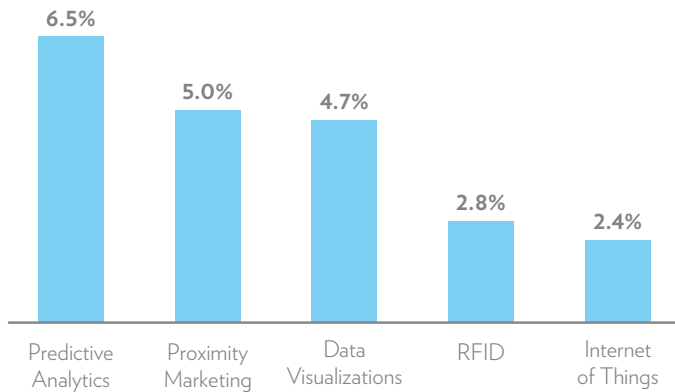


Source: Tracey Bowen from Sam's Club

Traditional forms of lottery marketing and advertising continue to be cannibalized. Lotteries must move toward other channels quickly or risk continued loss of basic awareness and consideration for our product. Shopper loyalty is equally important to a successful business model. This will require an infrastructure that enables adoption of technologies like proximity marketing – where we can more effectively reach the potential player in their shopping path, provide a value proposition that the consumer can act on in real time, or add personalization of the messaging to enhance the shopping experience and increase loyalty.

Retail Info Systems (RIS) and the IHL Group showed that proximity marketing is the second-largest technology in which retailers are investing. In March, IGT will conduct a proximity marketing program

Emerging Technologies Seeing Budget Growth



Source: Retail Info Systems (RIS) and the IHL Group

with the Hoosier Lottery, testing the concept at the claim center at Lottery Headquarters. By April, the proximity program, leveraging the Hoosier Lottery App, will roll out in collaboration with two Hoosier Lottery retail chains – Family Express and Lassus Brothers. Both retailers have their own mobile app, and with success of the lottery app proximity program, future plans are to leverage their retailer apps to enhance awareness to non-lottery players.

“CPG vendors who do not develop the capabilities to feed relevant data to their retail partners will get left behind in the player experience journey.”

The power of proximity marketing is in the value of the content to the shopper. This is where the need for significantly enhanced use of big data comes into play. To effectively promote and market to shoppers, retailers – and ultimately their Consumer Packaged Goods (CPGs) vendor partners – need business intelligence to understand which channel the shopper is currently in (i.e., bricks & mortar, mobile, desktop, etc.), what SKU is selling and where, what the inventory availability is for shopping fulfillment in each channel, and what promotions are available to offer that particular consumer.

Execution of a flawless consumer experience in each shopping channel is complicated, but retailers are working to connect all of these big data universes together. CPG vendors who do not develop the capabilities to feed relevant data to their retail partners will get left behind in the player experience journey.

The lottery industry is lagging behind many of its CPG competitors in the minds of our retail partners, but we can catch up. A June 2015 RSR Research study showed that retailers still have a long way to go to leverage all of these emerging technologies, so now is the time for lotteries and their vendor partners to focus on retail solutions

that will enable participation in initiatives that ultimately enhance the shopper experience.

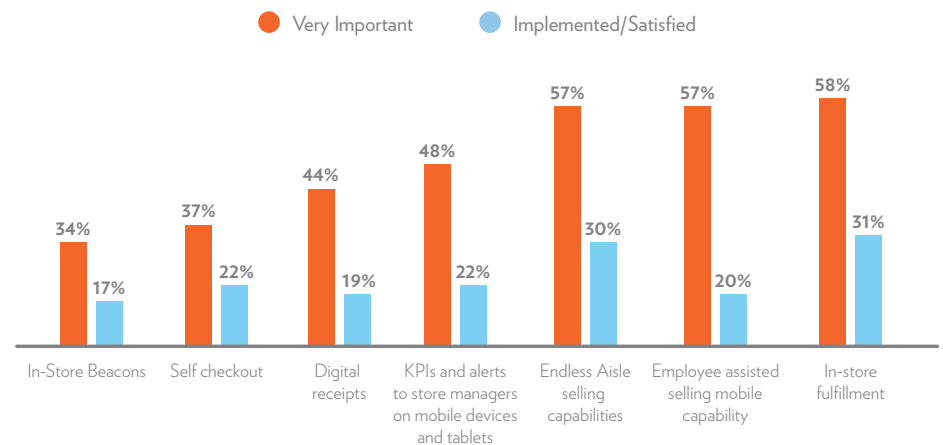
For example, concepts like endless aisle (where a kiosk allows consumers to order items that are not physically stocked) could greatly benefit lotteries with high urban retail populations. In very small retail outlets with high foot traffic, lottery often does not get enough space to offer the full complement of products. Technologies that offer shoppers the ability to purchase additional electronic instant tickets, delivered directly to the shopper’s mobile phone while in that retail location, provide that endless aisle experience for the shopper. The shopper is fulfilled, the retailer is paid on the sale of both physical and virtual inventory, and the lottery makes a sale it otherwise would have missed. That is a win for everyone.

Again, the need for big data comes into play. Prior to IGT investing in development of the Retail Market Insights (RMI) tool, the U.S. lottery industry had no mechanism to consolidate and harmonize retailer-specific sales information, supplemented by third-party data, to create meaningful rankings, indexing of retailer performance, and complete cross-state retailer analytics. While we have made great strides in taking IGT’s RMI tool from proof of concept to reality with participation from 25 of the U.S. lotteries, we have not stopped there. RMI tool enhancements continue to be implemented based on lottery sales and marketing team user feedback. As an example, participants asked for supplemental game analytics by retailer. Under the theme of retail modernization, this data could be used for prioritization of endless aisle screen options to promote those specific games that are most appealing to the players who shop in that particular retail location.

What’s Next in Payments?

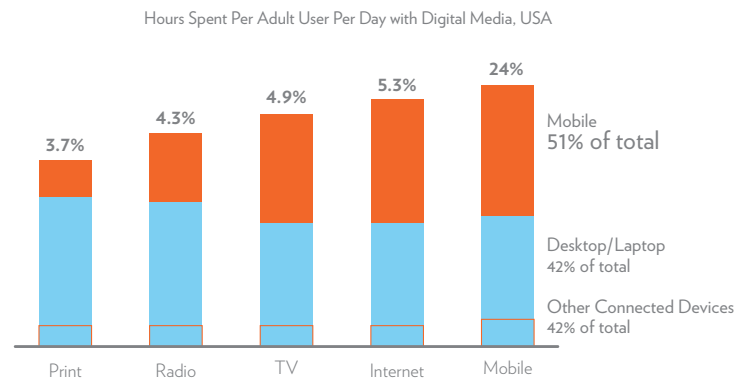
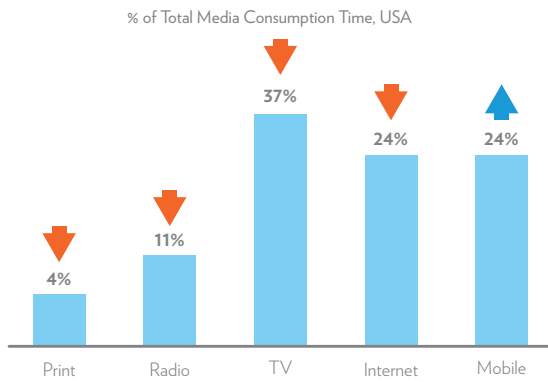
In the NRF Show payments panel discussion (made up of participants from MasterCard, Google, Fresh Direct, and Kohl’s), the main theme was how brands that deploy a multi-channel approach must provide a frictionless experience across all shopping channels. If a shopper starts the brand awareness in one channel and is disrupted and re-enters in another channel, the experience should be seamless. The brand

Retail Perspectives on Enabling Technology



Source: RSR Research, June 2015

If Digital Ate the World, then Mobile Just Ate Digital



Source: KPCB Internet Trends Report 2015

should recognize the re-entry and continue where the shopper left off without having to start the journey from scratch. Payment is one important aspect of this experience. While security is still king, the payment experience must also be seamless. One way retailers are creating a less disruptive interaction is with “Buy Buttons.” They appear as part of advertising or other marketing and provide an effortless path to payment. For those jurisdictions that allow Internet wagering, we provide Buy Now buttons that provide a quick path to purchase.

The panel members did not discuss which payment methods were most appealing – they were focused on how the breadth of payments should be accepted and easy to execute. Since shoppers research product across many channels, brands that offer the most payment options and provide the simplest payment execution will likely capture sales and repeat business. Debit and credit (where legislatively approved) solutions for lottery need to be tested further to determine the impact on sales and build the business case for “cashless” payments for lotteries and retailers. Early tests in Indiana and Florida show promising results and, in every industry before us, accepting debit and credit cards leads to incremental sales and profits. We expect to see the same for lottery. Solving the cashless payment challenge will broaden lottery appeal to another generation of players.

Mobile Is King

Mobile continues to be the hot topic among retailers, and the statistics justify the buzz. In addition to continued media consumption losses in traditional print, radio, and TV media, mobile has now overtaken all other channels of digital media.

Retailers are taking advantage of this mobile trend and focusing heavily on either launching or enhancing their mobile initiatives. Lotteries that figure out how to piggyback on the mobile initiatives of their top retailers will open up a world of incremental opportunities to market to both existing and prospective lottery players. Wal-Mart is currently ranked #3 in the 2015 *Internet Retailer Top 500 Guide*. An astounding 22 million people regularly use Wal-Mart’s mobile app, which provides discounts, helps them locate items within the store,

and will soon support payment. Imagine the possibilities if a lottery promotion were tied into the Wal-Mart app.

In January, 7-Eleven announced that it had opened up mobile rewards to age-restricted products. The goal was to enable mobile rewards to apply to a significant portion of their inventory, including alcohol, tobacco, and lottery. 7-Eleven research tells them that their customers want shopping apps that help them interface with their preferred brands. As these new and exciting opportunities to partner with retailers appear – lotteries and their vendors need to be prepared to take advantage. Retailers are looking to stay relevant and counting on their CPG partners to explore ways to collaborate to provide consumers a continually evolving shopping experience:

We prioritize four strategic collaboration thrusts where the industry is underperforming, which will help to establish new value creation:

- 1 Consumer engagement**
Open dialogue with consumers to build trust
- 2 Transparency**
Information readily available about products (sourcing, ingredients, etc.)
- 3 The last mile of distribution**
Exploring opportunities to collaborate
- 4 Modularized Technology**
Ensuring business agility and rapid collaboration

Source: Capgemini and the Consumer Goods Forum

The retail environment is constantly evolving, and IGT is committed to keeping abreast of this ever-changing and dynamic environment and investing in the solutions that will allow lotteries to responsibly reach and engage with their consumers – whenever and wherever is optimal for that consumer.

