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HARNESSING THE INTERNET TO REVITALIZE LOTTERY SALES AT RETAIL

By: Brian J. Roberts, President,
Jumbo Interactive, North America



Lotteries around the world are all turning to the Internet and smart phones as additional sales channels. Vital to the smooth integration of these new channels is the support of the retailers. Retailers are concerned that the new channels might cannibalize their own sales. Fortunately, it is well-documented in lotteries that have been selling over these channels for years that the opposite is the case. Digital channels of distribution are being used to revitalize lottery sales at the retailer.

The recent deployment at several convenience gas outlets have resulted in significant gains in lottery sales after a POS program supported by an interactive loyalty component was implemented.

For established lotteries with entrenched distribution partners, the introduction of new technologies is improving operations, security, accounting and sales. Internet access not only provides additional consumer options and convenience, it provides a richer variety of playing experiences. The end result is a more engaged core player and additional appeal to bring in new consumer groups. For newer lotteries, implementing all the new technology in the beginning is the best way to avoid controversy later on. In both cases, new technology and channels of distribution quickly become the norm and recognized for the value they bring to all channel partners and consumers alike.

For example, a little more than 30 years ago the U.S. lottery industry started the deployment of what was then called “online” technology to distribute games. This new technology replaced the off-line systems that were the norm in most jurisdictions outside of the U.S. In the off-line world, the tickets were physically collected by couriers each week and delivered to a central processing facility where they were microfilmed before the drawing. After the drawing, the players could be identified because their name and address was on their ticket.

The introduction of online systems in the U.S. did not attract much attention since online was the technological norm for many industries at that time. Only the Massachusetts and New York Lotteries had already implemented off-line systems prior to the introduction of online technology. In Europe however, there were many initial concerns about this new “online technology. Is it secure? The telephone line cost is prohibitive. Can the lottery expect the retailers to provide a dedicated telephone line to connect the online terminal? Will retailer clerks be able to master the operation of a computer terminal? How will players react to not having their name and address on their tickets?

Some argued that going online would hurt customer service as tickets would become bearer instruments. And Lotteries could no longer mail uncollected winnings directly to players which potentially posed more issues and reactions. These are all reasonable responses to something new. But with hindsight, the reality is that those reactions were unfounded and the ultimate benefits far outweighed these concerns even if they had substance. Online made possible multiple draws each week, and the use of the online systems capabilities has enabled improved instant game processing through added functionality for winner validation, inventory control and much more. In the beginning, the benefit to online was thought to be related to security enhancements and operational efficiencies of the online systems. But the ultimate benefit was soon recognized as having much more to do with increased sales that benefits all stakeholders.

It is also important to recognize that these kinds of reactions do not lead the debate into Internet gaming. For most lotteries, implementing an Internet strategy simply means providing players e-commerce and m-commerce channels to conveniently purchase the lotteries existing products. We are not talking about turning a smart phone into a mobile slot machine being used for hours on end.

History can help minimize the concerns of the “new online”

(i.e., the Internet). Several European and Australian lotteries were the early adopters of the internet and several of these lotteries have now been selling over the Internet for over a decade. After a decade of sales growth for both brick-and-mortar retail and e-retail, on a global average in these jurisdictions, e-retail sales still only account for approximately 5 to 6% of total sales. There is no evidence to support the notion that lottery sales over digital channels are detrimental to traditional retail sales or that cyber sales will merely transfer sales from traditional retail. Conversely, in FY12 traditional retail sales in jurisdictions that sell via the internet increased by a global average of more than 10%.

One big challenge facing the Lottery and retailers today is the need to attract new players, especially a younger demographic. Industry research indicates a decreasing amount (less than 38%) of adults 18-34 play Lottery. The evidence shows that the digital sales channels do reach a new younger demographic of players and those who purchase through these sales channels spend more; often double than at retail.

Another challenge is communicating new games and promotions to players and directing them to retail. The average convenience store customer in the US spends only 21 seconds at check-out. Adding an additional Lottery internet distribution channel will increase the Lottery's player base and product awareness and enable retailers to increase traffic by offering online promotions and e-coupons that must be redeemed at retail. The end result is that new players have been added to the network, existing players are more educated, and both are directed back to retail – all of which generates sales and commissions increase at retail.

So the Internet should be viewed not as the demise of the lottery retailer but the deployment of technology that will, over time, lead to innovation and benefits that will be far greater than can be imagined or projected today. Traditional retail sales will always remain the Lotteries' primary focus, but Lotteries need to utilize these technologies to develop the new sales channels and new features, functions and services not only to maximize sales and revenue potential for all of the stakeholders, but to protect their current position against other commercial gaming interest.

Over the past several years, the consumer market has changed for many reasons, including the adoption of the Internet and smartphones. Digital devices have given the majority of people an instant pipe line to everything they do in their personal and business lives. Recognizing this fact and harnessing the power of the Internet and Mobile technology can revitalize the retail network to increase sales and create customer loyalty.

Today, many consumers are choosing the Internet in addition to traditional retailers to make purchases. According to Nielsen Global, 85% of Americans report purchasing products online. Most retailers today know their customers are online, and they have opted to offer their products both online and through store channels. Retailers are moving online themselves, or risk obsolescence in the long term.

To maximize sales, lotteries have created diverse retail networks of retailers to provide wide spread and convenient access to capture lottery sales where their customers are. Jumbo Interactive is a lottery e-retailer that has applied this practice to the Internet.

Most traditional lottery retailers understand the power of the Internet and have deployed their own web-sites to provide information (locations and store hours) and products and offers to their customers. Jumbo's tools and solutions enable retailers to become e-retail partners to replicate the same diverse retail net-

work across the Internet; enhancing the retailers reach to provide greater service and convenience to customers. More importantly, retailers now have a mechanism to directly engage with their customers to build brand recognition and loyalty.

Jumbo's e-retailer model creates a more extensive network of e-retailers. That creates many more touch-points to engage customers and capture sales than a single Lottery e-commerce site. The e-retailer model has been successful in revitalizing traditional lottery retail networks in Australia and Europe as well as many other industries including the airline industry where numerous e-retailers (i.e. Expedia, Orbitz, Kayak, etc.) promote and sell airline, hotel and car rental reservations.

There are many tangible benefits to an e-retailer distribution channel. The Lottery e-retailer model is more cost-efficient, secure, accessible and socially responsible than the existing retail model. All player bets and information is confidential and encrypted in a secure database allowing players to manage their own accounts online, and it reduces retailer labor costs and the risks associated with handling cash. Lottery games are fully-automated and accessible with no manual order entry or paperwork required by the player or Lottery. A Web-based system promote responsible gaming by requiring mandatory proof of legal age and residency verification checks and permits players to set consumption limits and/or to exclude themselves from participation.

The Internet provides the opportunity for a retail grocery or convenience chain to implement cross jurisdictional brand and lottery awareness, through web-site promotion of in-store merchandising and vice-versa. And a cross jurisdictional internet based loyalty program can provide added value to each lottery purchase through point awards redeemable for lottery products, second chance drawings and sweepstakes.

Jumbo has developed the platform and tools under its Lotto Points and Lotto Points Plus programs that enable retailers to offer enhanced lottery product offerings to their customers. Jumbo's joint venture with Retail Gaming Solutions (RGS) is developing and deploying innovative interactive programs under its trade marked "Lottery Rewards.com" that add even more value to lottery purchases and provides a vehicle for retailers to provide clear differentiation to their lottery offering. But most important is the fact that a retailer providing digital purchasing options can provide much more convenience to its customers. For example, while waiting in a grocery check-out lane snapping a QR code on a smart phone instead of viewing the tabloid headlines can quickly and conveniently facilitate the player's lottery purchase there and then or remind them later. And players can easily and conveniently play via pools that can be created and promoted by the retailer via their own web site or social media.

Smart retailers will get it and harness the power of the digital age to enhance their lottery business and provide their players with enhanced convenience and service through e-commerce and m-commerce. Once deployed, the digital infrastructure will be in place for much more innovation to enhance lottery, innovation that will benefit of all stake owners. And the fact that we lost knowing who our players are when the original online was introduced 30 years or so ago is now a thing of the past. With the new online we will know much, much more about our players and how to cater for their lottery needs. ♦