

Hitting the Jackpot

Retailers who feel lucky with lottery can get past long lines, skimpy commissions

By Kelly Kurt



Convenience store operators aren't likely to complain about a product that draws droves of people to their stores, with one exception: lottery. It invokes visions of store-clogging lines, packed parking lots and nickel-on-the-dollar commissions, among other things.

In a June forum sponsored by Scientific Games, in which CSP was the sole media invited, managers of lottery sales for several major U.S. c-store chains acknowledged their pains and shared a Rodney Dangerfield-style lament about the category getting no respect.

And they shared something else: the belief that the lottery holds untapped potential to bolster the bottom line.

"You may say it's just a nickel (commission)," said Steven Desautels, category manager for El Dorado, Ark.-based Murphy USA, which operates more than 1,200 locations. "But lottery customers never buy just a single \$1 lottery ticket and leave. They buy \$5 to \$10 worth of lottery tickets, plus many other of our c-store items."

With U.S. lottery sales totaling nearly \$64 billion last year and more than 60% of those sales taking place at c-stores, retailers are exploring ways to better

leverage the lottery.

More than 90% of retailers surveyed this year by consulting firm Impact 21 Group said they see growth potential for lottery in their stores. And why not? Four out of five reported a jump in total store sales when jackpots are high.

"This is when you can start shaking off that Rodney Dangerfield," said Casey McKenzie, senior principal consultant for Lexington, Ky.-based Impact 21, at the forum. "And you can say, 'My category can help your cigarette sales or your tobacco sales or beer category.'"

Profit Over Pain

Scientific Games, a global provider of products, technology and services to lotteries worldwide, designs and produces more than 46 billion lottery tickets a year from five highly secure lottery manufacturing and technology facilities around the world. The largest facility is located in the Atlanta suburb of Alpharetta, where each month approximately 165 tractor-trailer loads of instant game tickets roll out to U.S. lottery retailers, testifying to the fact that when Americans get the gaming itch, they still like to scratch. Lottery sales at c-stores rank second only to cigarette sales, according to the firm.

Seeking to learn about retailers' pains and help identify greater profit potential, Scientific Games brought together managers from six c-store chains representing more than 10,000 locations. Their concerns echoed those of retailers surveyed by Impact 21. The biggest complaint? Jackpot-generated traffic jams at the checkout counter. Multistate retailers also face the complexity of managing games and rules that vary from state to state.

Many retailers, however, don't seem to know exactly how much profit they get for their pains. C-stores earn an average 6% commission on lottery sales. But gauging the collateral gains from lottery-generated foot traffic can be difficult because ticket purchases are often separate cash transactions.

Earlier this year, Impact 21 surveyed 15 c-store retailers representing about 3,900 outlets, and only one reported measuring the total business impact of lottery players, McKenzie said. "Most retailers say, 'I can't tell you the true value of my lottery customer, but I'd like to find out.'"

The NPD Group's monthly Convenience Store Monitor, which tracks roughly 50,000 c-store shoppers, has found that lottery ticket buyers do aver-

age higher overall rings at c-stores.

In 2013, people buying lottery tickets at c-stores had an average ring of \$12.76, not including fuel, compared with \$9.37 for c-store customers overall, said April Moffa, convenience store channel industry analyst for Port Washington, N.Y.-based NPD. Lottery ticket buyers purchase about five items on average, with three to four of those items being lottery tickets.

Lottery buyers also lead c-store shoppers overall on impulse purchases, most often making unplanned purchases of cigarettes or CSDs, according to NPD data.

“Those impulse opportunities are important to understand for creating promotional opportunities or bundling,” Moffa said. “You’re getting them into the store. You know they’re buying soda. Why not direct them to the chips? Do some type of bundling promotion to get them to buy something else in the store.”

While pending jackpots can cause big lines, retailers surveyed by Impact 21 Group reported a jump in total sales of 1% to 10% during the frenzy of a big-money drawing, McKenzie said. The biggest increases came in purchases of cigarettes, other tobacco products and beer.

Jeff Sinacori, Scientific Games’ vice president of retail development, said that as a former c-store owner in New York, his focus on lottery paid off storewide. He increased his store’s lottery sales from \$500,000 annually to more than \$5 million.

“I realized lottery was a free product. I didn’t have to make it. I didn’t have to refrigerate it. I didn’t have to ship it. I didn’t have to design it,” Sinacori said. “I did nothing but sell it, so that 6% (commission) was really valuable to me. Once I started focusing on that product, every other category increased tremendously.”

He suggests retailers boost lottery sales by posting winners to promote

stores as “lucky,” listing big and small lottery winners on c-store websites and displaying games on menu boards near the registers, among other ideas.

“If people are walking in your store

and not passing the lottery,” he said, “you are leaving money on the table.”

Pump and Play

Murphy USA is putting the lottery where



Chain Reaction: Jeff Sinacori, Scientific Games’ vice president of retail development and a former retailer, explained how working to boost lottery sales in his store led to impressive growth in every other category.



Another Chance: Amy Hill, Scientific Games’ senior vice president for interactive, said digital games can enhance lottery sales by providing c-store customers the chance to enter second-chance drawings or collect points for use in online rewards.

it can't be missed: right at the pump.

With Play at the Pump, fuel customers can buy Quick Pick Powerball and Mega Millions tickets with their debit cards while they're filling up. The lottery numbers print on the receipt or can be sent by text to their cellphone.

Murphy USA wanted to reach fuel customers who had children in their cars or were unlikely to come into the stores for other reasons, Desautels said.

"We service approximately 1.5 million customers a day. Two-thirds of those customers never come inside the store," he said. "The only way you can sell Powerball and Mega Millions draw tickets today is inside the store. We all know when the jackpots get high, they cause long lines. Why not take care of the 1 million potential Powerball & Mega Million customers while they're out there at the pumps?"

The company plans to roll out the Play at the Pump option in Minnesota, Missouri and North Carolina this year, he said.

Not that the game has hurt inside sales. Just the opposite, in fact: The prompt at the pump, says Minnesota Lottery executive director Ed Van Petten, seemed to remind customers to purchase tickets ahead of drawings for big jackpots. In the first six months, nine Play at the Pump pilot locations showed a 4% increase in lottery sales compared with surrounding stores. A year later the increase was about 3%, he said.

"We don't look at this as a great sales generator as much as brand awareness," Van Petten said. "We don't want to do anything that hurts our retail partners. We want to make people aware of our products."

New York-based Linq3 developed the Play at the Pump technology, which integrates fully with Gilbarco dispens-

ers operating with Passport v10 systems. Because Murphy had different dispensers across its retail network, however, it worked with Linq3 to create a unique platform that services all of its locations.

"That gives us the ability to turn every one of our pumps on or off by store, by division, by state," Desautels said. "When another state joins the Play at the Pump program, we just flip the switch at the office to add the option to those stores as well."

A prompt on the dispenser screen asks if customers want to purchase fuel and lottery tickets or fuel only. Lottery ticket buyers have to show age verification either

by scanning driver's licenses with magnetic strips or answering security questions that are quickly verified via a third party, said Daniel Cage, Linq3's CEO.

Murphy is offering \$1 or \$2 tickets in increments of five or 10 for Mega Millions and three or five for Powerball. Each transaction carries a \$1 surcharge. Winners of less than \$600 can opt to have the payout deposited directly onto the debit card they used in the transaction.

The purchase takes less than 30 seconds, Cage said: "We never forget that the core use for the pump is fuel, not lottery."

The retailer receives a 3% commis-

New Game in Town

Scientific Games already offers lottery games for the smartphone set. Some games give players bonus entries into sweepstakes drawings when they use a smartphone to check in at a retail location. Others include QR codes that players can scan for second-chance drawings. Retailers also can link lottery customers to online rewards stores that allow them to collect points for entering lottery game tickets on the Internet and redeem those points for prizes, said Amy Hill, Scientific Games' senior vice president for interactive.

"In fact, the majority of our Internet programs start with the purchase of a game at retail," she said. "The goal is to use digital solutions to support the sale of lottery games at brick-and-mortar locations."

The company also has developed a new national lottery game that is expected to launch in a number of states in October, with a marketing reach that will link retail, the Internet and TV. The Monopoly Millionaires' Club game is expected to build excitement akin to that of Powerball and Mega Millions, Hill said. It will be \$5-per-play draw game that features an initial \$15 million jackpot, as well as a pot of \$1 million in prizes that has the potential to make millions out of hundreds of people.

Players can also enter their tickets through game websites in an attempt to collect Monopoly properties, just like they would by playing the iconic Hasbro board game. A "monopoly" earns them the chance to appear on a planned national TV game show, with the chance to earn more money.

However, Scientific Games' Jennifer Welshons, vice president of lottery insights, made it clear that the company has no plans to abandon lottery's mainstay of instant games. She points to new instant games that also are designed to reach and engage a changing consumer demographic. Millennials, women and young Hispanics all offer possibilities for retailers to expand lottery play. "There's still significant opportunity," she said, "because there are over 20 million people who have stopped 10-plus times at a convenience store in the past month and not purchased a lottery ticket."

sion for sales through Play at the Pump. The \$1 fee goes to Linq3, which pays for the debit transaction. There's no cost for the system, except for any POS updates needed for compatibility, Cage said.

Because many players provide their cellphone numbers during the purchase, retailers working with Linq3 have the ability to offer mobile promotions or ties to rewards programs to entice players at the pump to come inside their stores.

"We wanted to create a tool that retailers could use to drive more revenue," Cage said. "We created this platform to engage the casual lottery player."

Lottery Online

Industrywide, retailers are worried about states' efforts to appeal to more tech-savvy players through Internet sales of

lottery tickets. In 2012, Illinois became the first state to offer online lottery sales after a reinterpretation of federal law by the U.S. Department of Justice cleared the way for states to pursue Internet gaming.

NACS is pushing for a ban on online lottery sales and Internet gambling, warning that it could prove devastating to retailers.

Van Petten says Internet lottery sales in Minnesota, such as Play at the Pump, have been less about driving sales and more about reaching people who don't participate in the traditional lottery.

"By making instant products available on the Internet, it gives today's society the ability to see it and see how it works. They feel more comfortable purchasing it inside (after trying it on the Internet)," he said. "I don't see it as a competing factor at all, but

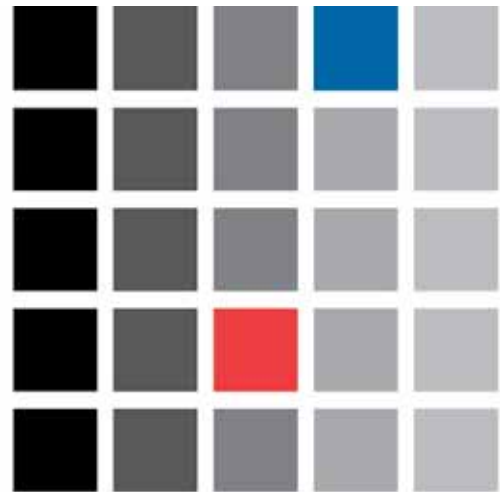
I do understand the fear it will be."

Some retailers are creating their own online play opportunities for lottery customers. Hess Express, for example, offers customers with non-winning tickets the opportunity to win getaways through a second chance Web-based lottery rewards program.

Internet lottery sales in Minnesota, North Carolina and Illinois have represented no more than 1% of total sales, Sinacori said. He, too, believes the Internet-based games draw a fresh set of players that could ultimately benefit c-stores.

"The lottery website is the state's most visited website," he said. "Do state lotteries have the potential to drive people back to your stores when they go online? Absolutely. Is it a good player? Absolutely." ■

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