



Jennifer Welshons

Vice President,
Marketing,
Scientific Games



Jeff Sinacori

Vice President,
Retail Development,
Scientific Games



Jennifer Welshons has 14 years of marketing and research experience in the lottery industry including consumer research, analysis, marketing and project management. She has designed and managed research projects, performed analyses, and provided general marketing support for numerous Scientific Games lottery customers around the globe. Jennifer currently leads the efforts of the company's marketing department, which encompasses market research services, analysis and strategic planning and retail insights. She provides thought leadership in her area of expertise as a speaker at industry events throughout the year.

Jeff Sinacori spent the first 18 years of his career as the top-performing lottery retailer in New York where recognizing the true value of his lottery customers resulted in increased sales across all product categories. For the past six years, he has been with Scientific Games as Vice President of Retail Development responsible for developing retail programs for the Company's customers worldwide. He credits his focus on lottery products for his retail success and he offers a unique ability to relate to c-store owners and operators across the globe on behalf of Scientific Games.

PGRI Introduction: Top retail executives are reaching out to strengthen their bond with Lottery. We saw it happening at PGRI's first Retail Executive Summit in Miami in late 2013 and it will be reinforced this spring at Smart-Tech in New York City. This all comes at an opportune time because Retail is undergoing major changes. Change represents an opportunity for those that recognize it, anticipate it and act to align their strategies accordingly. Communication and understanding are key to optimizing this mission-critical relationship. Now is the time for Lottery to get close to its customers, to create the mutually rewarding, symbiotic relationship with Retail so necessary to Lottery

success. All companies that distribute products through the retail channel are pushing hard to reshape the industry in ways that are favorable to their product category. Lottery and provider partners need to act quickly and decisively to ensure that its products and point-of-sale (POS) displays receive the most advantageous space in the modernized retail environment.

Jeff's presentation at the Retail Executive Summit in Miami (see www.PGRItalks.com for the video-recording of the presentation) led to further discussions and this feature. The future of retail optimization begins by establishing the true value of the lottery customer to the retailer. And that future starts right here, right now, by telling the story of Lottery with the passion and conviction that will engage retailers.

CREATING THE SUSTAINABLE SALES GROWTH MODEL

Research studies indicate that no other product keeps revenue coming back to the store as much as lottery products. Knowing what products to showcase on the front counter at c-stores for maximum profit and customer "churn" is a key element to retail success in today's competitive market. The average retailer sells only seven lighters per day and yet retailers have 200 to 400 lighters on their front counter occupying very valuable real estate. A focus on in-store lottery products proves time-after-time to be successful for retail revenues.

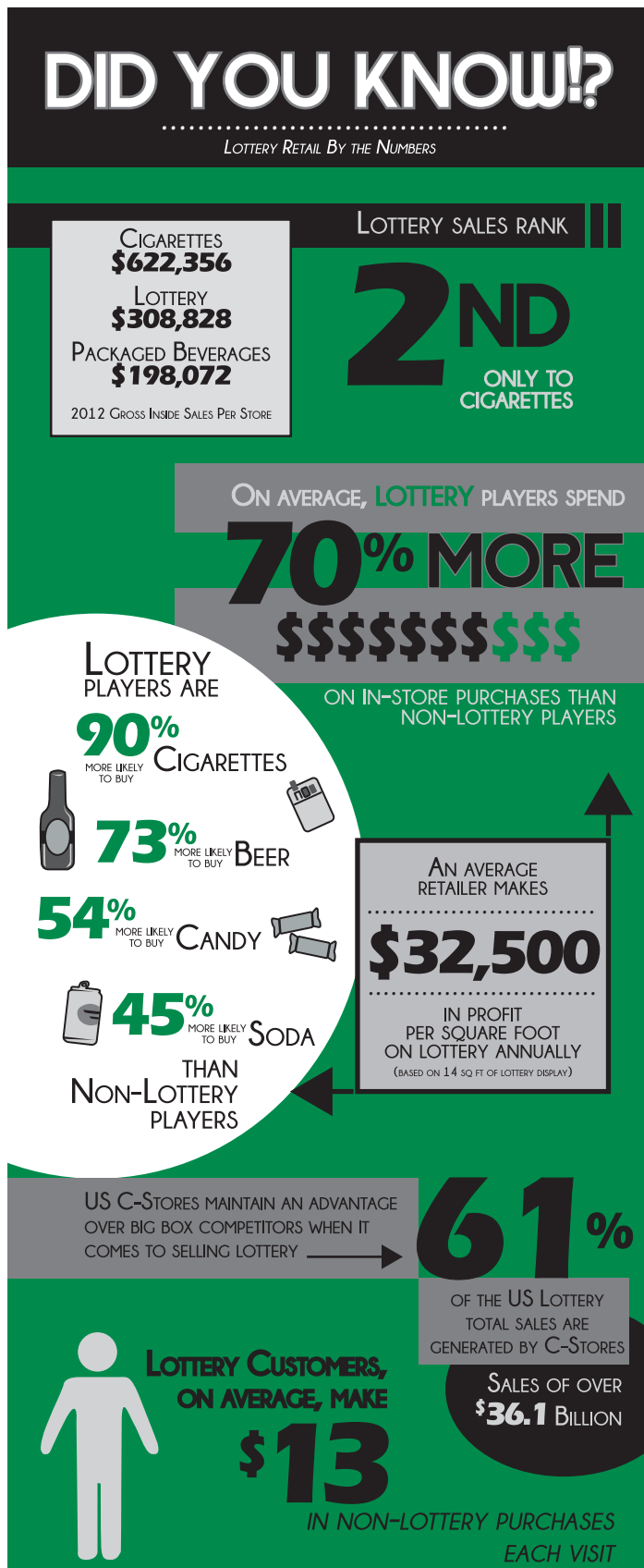
"It's not about a short-term lift in lottery game sales. It's about long-term sustainable sales growth," says Sinacori. "Strategic placement of product, signage and technology improves game sales and lifts sales of other products. Lottery is a great strategy for creating store traffic and consumer loyalty."

Paul Jason, Public Gaming: *Is the retail sector particularly driven towards change and innovation?*

Jeff Sinacori: It may not appear that way to the consumer. But behind the scenes, major change is happening and the impact on Lottery and consumer product goods (CPG) companies could be profound. CPG companies recognize the current trend and are acting quickly to ensure that the changes are favorable for their products. Lottery needs to stay current in the modernized retail environment by being part of this dialogue, at the table with the top executive level of retail stores. Over 99% of lottery sales in the U.S. still happen at land-based retail. Change that causes a 10% swing in sales at retail could constitute a seismic impact on Lottery. The possibility of that kind of innovation-driven shift is very real. We are working together to forge a proactive plan, to ensure that the shift is a positive one for Lottery and for the beneficiaries that depend upon funding from lotteries.

What kinds of changes are happening in retail, specifically?

J. Sinacori: The industry is consolidating – large chain stores are acquiring independents. And as they do this, they are remodeling and modernizing. The process includes re-evaluation of the formats, store layouts, product and POS positions and all manner of business processes. One basic trend is towards making stores larger. Larger stores cost more to operate so there is more attention than ever to analyzing ROI on everything to optimize profitability based on a wide variety of indices. The ways in which profitability is assessed are changing. It is important for Lottery to be part of this discussion and contribute to the creation of these new analytical models. Other CPG companies are a part of that discussion; Lottery definitely needs to participate to ensure that the way that profitability is measured and analyzed does not marginalize lottery. For in-



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Source: National Association of Convenience Stores, La Fleur's Almanac, Doublebase GfK MRI, Impact 21 Group, Scientific Games.

stance, other CPG companies are not likely to recognize that the lottery customer generates a much greater residual value than the commissions generated by the purchase of lottery products. So this fact is not likely to be integrated into the assessment of value and therefore lottery POS placements may be pushed to lower profile. Stores are spending millions on consultants and millions more on the remodels. As an industry, Lottery and its commercial partners need to make sure the decisions are being based on a full recognition for the true value of the lottery customer.

At your Lottery Expo Retailer Summit, some of the major retailers said that Lottery should engage the retailers in their own planning process. We should engage at both ends of the planning process. But none of this can happen without a concerted and focused effort.

As a Lottery provider, are you interacting directly with the executive level of retail operators? Or is that part of the relationship controlled by the Lottery?

Jennifer Welshons: The relationship with retail management is managed by the Lottery. That is as it should be because the business belongs to the individual lottery. A few years ago, though, some of our lottery customers began to invite us into the discussion. We are engaging with the retail store management much more directly now. And I would respectfully submit that getting the vendor involved is really a win-win for both Lottery and retailers. We've seen good progress and development in those accounts where we work with the Lottery and its retailers on marketing programs, training, games and technologies.

What does Scientific Games have to offer in this quest to engage retailer support and increase sales?

J. Welshons: The lottery brings its own invaluable perspective as does Scientific Games through our four decades of experience, research and innovation as a provider to lotteries around the world. Together, we need all the resources possible to apply maximum impact to the mission of engaging retailer support. One scenario we see across the retail base all around the world is sometimes it is just a matter of hearing the same message but from a different person. There are times when we visit a retailer that has not been

receptive to the recommendations of a lottery representative. We follow-up on the discussion, share information and the retailer may reconsider the idea. We may not have said anything different than the lottery rep. Hearing the same message from a different perspective can produce the desired result. Overall, we work hand-in-hand with our lottery customers, visiting the retail executives together as a team.

being asked more and more by our Lottery customers to help in sales training and provide support to make this happen.

There is the simple fact that lottery budgets are severely constrained. Our lottery customers also think of it as outsourcing some of the cost of sales. Scientific Games is available to allocate our professionals and capital resources towards the goal of optimizing retail sales performance.

To optimize lottery profits, you must build an environment – not just a store. Right now, many retailers look at Activity Based Costing (ABC) ... essentially how much work for how much return and how quickly will the inventory churn?

– Jennifer Welshons, Vice President, Marketing, Scientific Games

The lottery provider is a commercial company so the way you think and act and conduct business is the product of the commercial culture – which is a sales culture. To compete with the billion-dollar, sales-driven world of CPG, how can Lottery harness an equally effective, multi-prong approach that includes aggressive sales as well as customer service?

J. Welshons: Scientific Games is just as focused on service for our customers as it is on sales. And Lottery has some very effective sales forces. But I would agree with the notion that the Lottery and the provider should work together and harness all of their combined resources and capabilities to accomplish the desired results. I believe our business focus around the world is much aligned. Both the Lottery and the provider want to maximize sales, and that means connecting better with the community of retailers and engaging players. That means truly informing and selling retailers on the benefits of Lottery. Lottery has a super powerful story that needs to be told with passion and conviction. However that can be done and whoever can do it should have the ability to make it happen. We are

Multi-state chain store operations represent a huge sales opportunity for Lottery. The main reason Lottery is under-represented in these major retail operations is that lottery operations, business processes and products differ from state to state. Some of those differences are intractable. But are we doing everything we can to standardize what can be standardized?

J. Welshons: Lotteries are doing a lot to address that situation. Certainly retailers have a management structure that supersedes state boundaries and lotteries do not. So, retailers are challenged in understanding why lotteries can't do more. The fact is that products do vary from state to state. In fact, the entire approach to marketing and merchandising varies depending on the gaming culture, maturing of the marketplace, the kinds of games offered, per-capita play levels, public policy directives, and a multitude of other factors. It's not so much that lotteries don't want to address the concerns and try to meet the needs of retailers – they do. I think success comes from creating a high-level dialogue to clarify what can and cannot be done and to identify the opportunities. This way we can all focus on an

actionable plan that makes us all successful.

Also, it is important to recognize that retail is hard work. While retailers may express some level of dissatisfaction with how the lottery business operates, we need to keep doing our best to remove obstacles that interfere with our shared objective of increasing sales.

Retailers are demanding more data and information that will help them evaluate the profit performance of all the different SKU's. Insofar as Lottery is not capturing and organizing that data in the method required by retailers, doesn't that put us at a disadvantage against the CPG suppliers that are doing this?

J. Welshons: Data is the absolute king. Clearly the use of analytics leads to better business performance. This is a challenge for Lottery because data is not captured consistently or in the same format. It's going to be an ongoing area of focus for all of us in the coming period of time to access and report on data in the format preferred by retailers. This definitely will make it much more powerful to tell the story and share the value of lottery products at retail. The true value of the lottery customer is so much greater than retailers recognize today. Using actionable data and insights will help convince them of our claims.

Some of the key areas we are working on

today are very exciting. Scientific Games exhibits at the annual National Association of Convenience Stores (NACS) show. We have made tremendous progress with the retailers over the past two years. Retailers are clamoring for data and more information that will help them to understand why they should give Lottery the attention and high profile that it deserves. They loved our "Did You Know" fact sheet (shown in side-bar). We continue to develop ways to provide a more comprehensive data package on a systematic basis. We can tell our story all day long. But unless we have data to support the story – and everyone from retail management to the store clerk understands the value proposition of Lottery – it is very hard to get recognition for even the basic facts about how and why the lottery customer is such a huge contributor to c-store sales and profitability.

Does the information you're providing retailers (see "Did You Know" sidebar) seem to be making an impact?

J. Welshons: We think so, and we are using the data available to reinforce the fact of how and why the lottery customer is such a profit generator for retailers.

Couldn't lotteries put together a plan to integrate their websites, their loyalty programs and Players Clubs with their retail partners in a fashion that would complete-

ly turn the whole iLottery issue around?

J. Sinacori: Absolutely. We promote the fact that lottery websites have huge traffic and this can benefit retailers in many ways. In a number of states, the lottery website is the most visited website in the state. The power of this online connection that Lottery has with its customers is awesome and it can be used to benefit retailers by driving players back into retail locations to possibly enter exclusive in-store promotions or to purchase additional games. The possibilities are truly endless.

Why is Lottery's online connection to the consumer so grossly under-utilized, is it because NACS retailers are opposing it so vehemently?

J. Welshons: The story of Lottery is about informing, educating, and also about correcting misconceptions. More of the big retail operations are assigning dedicated category managers to lottery. This will help to get our message across. And all of us, Lottery, retailers, and providers alike, are becoming more aware of the others' point of view. In this important respect, the future is bright indeed. The potential to increase sales and income for retailers and Lottery is really quite amazing. The more we communicate, the more we understand, the better we will all be at finding win-win solutions. ♦

What is the True Value of Lottery? Churn = Profits for Retailers

- 2013 instant game sales in the U.S. were over \$36.1 Billion (USD).
 - Of the average 67% of prize payout, an estimated 88% of all dollar value of prizes is redeemable at retail locations. Generally, the bulk of prizes awarded in an instant game are \$500 or less, all redeemable at retail.
 - 67% of instant game prizes equaled approximately \$24.3 Billion in total prizes awarded.
 - Of this cash dollar value, an estimated 88% or \$21.4 Billion was redeemable at retail.
 - 99.8% of all prizes won are redeemable at retail locations (more than 99 out of 100 winning tickets). The prizes that are not redeemable are the larger jackpot prizes which are claimed at the lottery claim center. And when big wins happen, the customer will most likely return to the store to try their luck again.
 - There may be no other product in a store that gives shoppers cash back – or that provides an opportunity to spend on additional lottery games or other items in the store. So it's the churn of cash that can promote additional spending and additional profits for the retailer.
 - It's not just 5% or 6% in lottery sales commissions for the retailer. Beyond churn, even if the lottery customer doesn't play their instant game on that particular visit, research indicates they will generally buy other items in the store (i.e. soda or cigarettes). So their market basket may increase AND they will most likely return to the store after playing the game if there are winnings to redeem.
- Source: Lottery prize structure study 2011 through late 2013; Scientific Games; National Association of Convenience Stores; La Fleur's Almanac.*