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virginia lottery

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PGRI Introduction: The Virginia Lottery is reshaping its relationship with corporate accounts, forging collaborations that result in a big win for the consumer, the retailer, and the lottery. The creative process began by setting aside our lottery-focused agenda and taking a broader view of what the retailer is trying to accomplish. What are their business objectives, apart from selling more lottery products? 7-Eleven, for instance, wants to sell more fresh food items. They have also been asking for a lottery product that would be exclusive to 7-Eleven. So, as Director Otto explains, “We came up with the idea that every 7-Eleven Virginia Lottery ticket would be a winner and the prize would be one of their food items.” Now the Virginia Lottery is working on creative collaborations with other corporate accounts. This is innovation that leverages the Lottery’s assets in ways that are affordable, actionable, generate a positive ROI, and position the Lottery for building a more productive long-term relationship with its retail partners.

Innovation is one of the Virginia Lottery’s five core values. “We combine our knowledge of customer needs, current and future marketplace trends, industry best practices and advances in technology with our passion for creativity. The outcome is the proactive development of new and improved Lottery products and services, partnerships and ways of doing business. Our focus on innovation translates into opportunities for personal growth for our people, increased customer satisfaction and enhanced financial benefits for Virginia’s public schools.”

Be sure to see the article *Virginia Lottery Plays to Win With 7-Eleven Partnership* that precedes this interview on page 10; and the interview with Gweneth Dean, Director of Marketing, and Jane Allen, Business Development Analyst that follows on page 19.

Paul Jason, PGRI: *How does your “Every Ticket’s a Winner” project differ from other product and promotional initiatives?*

Paula Otto: Traditionally, corporate promotions have been very tactical in nature. An opportunity is recognized for a promotion or incentive to drive short term sales, impact consumer behavior in some ways, or otherwise produce concrete and measurable results. It was early last year that the potential to grow our corporate account business by focusing on a longer-term approach became more evident. In Virginia, we have forty three corporate accounts that last year represented 42% of retailers, 49% of our total sales,

and more than 70% of our sales growth. This year, forty four corporate accounts represented 50% of retailers, 50% of our total sales and approximately 80% of our sales growth. In fact, the top ten of those represents a whopping 56% of our total sales growth. We decided that we needed to develop a management strategy that was customized to their needs. We started with a blank slate, setting aside all of our preconceived notions about how corporate accounts should be managed, asking questions and brainstorming without constraints. We felt that the best way to manage corporate accounts was to truly understand what their business priorities

were outside of the lottery first. Taking the time to do that created the foundation upon which we could move to the next step of designing a longer term plan that would drive both their business priorities and Lottery’s objectives at the same time. What are their priorities, their concerns, their business objectives? Where does the Lottery fit within their business? How do their store managers and district managers view the lottery and is their compensation impacted by the lottery? If it is, do they clearly see on their P&L what the lottery means to their business? For 7-Eleven, this collaborative process resulted in a product that appeals

to lottery players in a fresh, new way, and delivered promotional value to 7-Eleven that inspires them to be even more committed to Lottery.

What first prompted you to think about it in this way?

P. Otto: Rob and the business development managers who work on corporate accounts took it upon themselves to reimagine the whole corporate account relationship. Many others were and are involved in the ongoing success of the 7-Eleven partnership. But Rob and the business development team conceived of this approach, re-framing the relationship to be one of genuine partnership, starting with the basic question of how can we help 7-Eleven accomplish their broader, non-lottery business objectives.

It actually all goes back to the strategic planning sessions we held as a leadership team seven years ago. We all agreed that we wanted to think like a consumer products company, and not as a state agency tasked with controlling lottery products. Of course, we need to be sensitive to the concerns of constituents that commercial companies do not have. It is integral to our growth plan, for instance, to grow the number of players as opposed to growing the spend of existing players. But the way our products are sold is not unlike Coke or Pepsi or Frito-Lay or the many other consumer products that don't sell directly to the consumer but rely on retailers to be the face to the end-customer.

Rob Wesley: Taking the customer's perspective is not just a good sales technique. Much more importantly, it gets the dialogue moving in an open-minded way that is far more likely to come up with the creative solutions that everyone is striving for. We may think we know the lottery retailing business. And that may cause us to assume we know the retailer's objectives. We don't, not without asking them to explain them. And it is only with their active engagement in the creative process that we can develop the ideas that end up working

for everyone.

You created a new product with a new price-point for this project. Were other retailers concerned that this gives 7-Eleven a competitive advantage?

R. Wesley: We certainly had to address that question. 7-Eleven represents about 20% of our business. That's huge. No one else is even close to that. Our other channel partners understand and accept that we need to deliver as much value to the consumer and our biggest retail partner as possible. Of course, that concern also opens the door to develop incentives and promotions that will drive sales in all of our other retailers too. Some of our other retailers are more receptive to new ideas now that they see what is being accomplished with 7-Eleven. So the perception that 7-Eleven is enjoying the benefits of working collaboratively with Lottery isn't a bad thing. It's a good thing for our other retailers to want us to do more promotional things with them!

Too, the fact that the product and price-point is unique to 7-Eleven defuses the concern that it is taking away from the sales of the other retailers. The product and promotion appeal to consumers who are already going into the 7-Eleven stores. It's not likely to cause the consumer to change their shopping habits and switch convenience stores.

You point out how the concern of retailers who compete with 7-Eleven is turned into a positive. It positions you to tell all your retailers how you'd like to help them sell more Lottery products too.

R. Wesley: Absolutely. Rather than thinking about it as a negative that we need to defuse, we used it as an opportunity to do just what you said and say, Okay, what can we do for you? Let's work together to come up with ways to design a program or a process that will help you drive your business. Let's talk about your non-lottery objectives and see how we might be able to use Lottery to help you

accomplish those as well.

P. Otto: We have incentive funds that are available to every single retailer, no matter how big or small. The funding for some incentive programs may not allow for something as scalable as this 7-Eleven project. But our retailers know that we would love to work with all of them to develop innovative ways to drive their business success.

How do the economies of scale work with printed Scratch-offs? How difficult is it to do smaller print runs and smaller campaigns?

P. Otto: We pay for the print run on a per-thousand basis. We estimated how the product would sell by looking at historical \$5 and \$10 sales. With those projections and knowing the cost of production and prize structures, we had a very good idea about how the whole project would look and knew we were not going to lose money. We knew the "Everyone's a winner" partnership would make money even though the print-run was limited to a subset of our retailers.

And there are metrics for success other than the profit generated from ticket sales. Doesn't this engender more engagement and support from 7-Eleven for the entire relationship they have with Lottery? Couldn't this be a platform for developing fresh, new, and perhaps even better collaborative initiatives with 7-Eleven, and your other retailers too?

R. Wesley: Exactly. This initiative is only one part of a bigger overall plan with 7-Eleven. This particular idea was conceived as a way to provide 7-Eleven sampling opportunities for their customers on their highest priority products, fresh food and proprietary beverages. The goal, in the long-term, is that the sampling will lead to increased sales of those products. With a redemption rate that is tracking at just under 50%, 7-Eleven is receptive to other ideas for how to work together to find more promotional and cross-sell synergies.

While ROI as measured by sales and net

is vital for every product launch, we also value the impacts that are not as quantifiable. This specific 7-Eleven collaboration is just a part of our strategy to position the Lottery for further collaborations and as leverage to get other things done. For example, we got electronic jackpot signs placed in all 7-Eleven stores, as well as significant window signage for the proprietary ticket, which 7-Eleven has never allowed before, at least not in Virginia. Additionally, we needed a better way to manage the inventory of Scratch tickets. A system that would minimize out-of-stocks, facilitate returns of slow selling games and ensure new games were out for sale immediately after launch. Like us, 7-Eleven also wants to make sure the bestselling games are available. But the back office and accounting procedures would get in the way of doing that. So we're working with them on a standardized way to provide training to their stores and give them the tools to make sure they're not out of stock and have the best-selling games always displayed and available for sale.

Almost all states have 7-Eleven stores. Why couldn't these methods to improve back-office procedures be applied everywhere?

R. Wesley: We are all working together to make that happen. The main barrier is the variety of lottery accounting terms in different states. While the processes may be slightly different for each state, 7-Eleven recognizes the benefits and have agreed to start in Virginia, with the goal of implementing a similar solution in other states. The main thing is that this successful venture with 7-Eleven has elevated Lottery's profile so that they are now quite receptive to our other proposals. They are more willing to work with us to develop ways to get our accounting procedures in sync. They are paying more attention to Lottery and thinking themselves about creative ways that we can help each other accomplish our goals. You know, other consumer products companies are also pitching the retailers on new ideas for

how to market their products. We need to be proactive to get their attention and get them enthused about Lottery. Creating this customizable product and promotion required their active engagement and involvement. Getting that is the real success of this 7-Eleven initiative.

How did you fund the cost of the redemption food items?

R. Wesley: We have a budget to fund retailer incentives. 7-Eleven is around 20% of our business and we allocated less than 20% of our incentive monies towards this project. So we did not need incremental money to cover the cost of redemptions.

P. Otto: The math had been done to make sure that we would not lose money on the project. After all, like many lotteries, we do not have a big budget for promotions. We have a very specific number as a percentage of sales that we use for retailer incentives. We require our sales department to make the ROI case for every incentive program.

But the goal is much bigger than that. We want to take the partnership with our corporate retailers like 7-Eleven to the next level.

It would seem that this promotion enables the retailer to see how valuable the Lottery player can be for their business. Wouldn't those redemptions generate a lot of residual business, customers who end up buying more fresh food as a result of being introduced to it via the redemption? Or end up buying other products while redeeming their fresh food coupon?

P. Otto: Our retailers do know that the Lottery player is valuable to their overall business model. And Lottery sales people continue to emphasize that over and over, as they should. But we need to also realize that Lottery takes more work than other products to sell. Corporate accounts are especially sensitive to that. Their operations are streamlined to rely on easily executed procedures. Retailers

are not typically asking themselves how they can channel even more of their staff time towards Lottery. Our challenge is to engage them, to motivate them to allocate more time to Lottery when they are already doing more for Lottery than for their other products.

Lottery has incredibly powerful brands, and the state lottery is itself a powerful brand. We need to do more to leverage the power of our brands to help our retailers. The direct cost of sharing that brand equity with our retailers is small and leveraging the brand in these ways does not diminish that equity. In fact, a well-conceived collaboration increases that brand equity. And it delivers big value to our retail partners. In return, we get active engagement on their part to help us in our mission to increase sales and net funding for our beneficiaries. And the consumer wins because they get more value from their lottery purchase. Everyone wins.

Mega Millions and Powerball have huge brand equity. Why not look for more ways to connect that with retailers and other big consumer brands?

P. Otto: We are. The potential to further monetize the equity of those brands is huge. Partnerships that would leverage those brands to confer value to other consumer brands, to drive store traffic and sales for the retailer, and take more advantage of the increased store traffic when the jackpot rolls up. Both game groups are working on collaborative concepts that we hope will produce shared value that will drive lottery sales.

What are some of the obstacles to forging these kinds of collaborative initiatives, or towards enhancing our relationship with corporate retailers in general?

R. Wesley: Selling at the corporate level isn't about just getting buy-in from the top. That's just the beginning. To make it work, we need to get full support up and down the organizational

chart. Nothing will happen at the store level without the support of the store manager. Regional managers and district managers need to be on board for execution at the stores to be systematic and effective. Engaging support from all these different groups only happens if we talk their language and understand their concerns, not just on a corporate level but also on an individual level. How are they compensated or how is their performance evaluated? What are their underlying concerns? How can we make their jobs easier or help them accomplish things in ways that were not necessarily brought up at the top corporate level? And we do need to always make sure that everyone does understand how much money retailers make from lottery, and how vital the lottery player is to overall store performance. Some accounting systems do not separate lottery as a line item so the managers are not always clear on how much lottery they sell. And we are always selling the residual benefits that accrue from the lottery player who is also buying other products. We may feel like we've talked about that so much that everyone must get it by now. But it needs to be repeated again and again.

Having a specific, concrete, actionable proposal was key to engaging the active involvement of everyone. Without that, it's all just talk and retailers feel like they've heard it all before. The fresh food promotion combined with a ticket exclusive to 7-Eleven provided the basis for us all to be working on something together, with clearly-stated action items that required the attention of all levels of the organization, and that needed to be accomplished to meet the objectives agreed to by everyone.

I would expect that the success of the 7-Eleven collaboration is inspiring you to explore similar opportunities with other corporate retail partners?

R. Wesley: The obvious opportunity is to recognize that many convenience

stores are trying to grow their fresh food category. At one retailer, we had a program we called "Free Ticket Fridays" so that every Friday during the month the shopper receives a free lottery ticket with the purchase of a drink and a fresh food item. There's another retailer who has a fuel card that rewards their gas customers. They call it a "fuel perks card." When a customer signs up for the fuel perks card they get a free lottery ticket. We're working with a grocery account now where we're leveraging their loyalty program to create awareness of our products and lottery vending machine in their store.

The key part of all of these initiatives is to integrate the specific promotion to the longer-term plan. What we are getting in return for giving something away for free is the reinforcement of further progress in other areas of our retailer relationship. In return for doing a "Free Ticket Friday" program, for instance, we might get the retailer to move from in-counter dispensers to on-counter dispensers. Or to give us incremental signage on an ongoing basis. The promotion can include a contest that rewards the stores based on hitting higher sales targets. Rewards or incentives can be based on making sure new scratch game activations are done within the first three days. There's always something, additional to the sales of the promoted product, that we're getting in return for the investment in time and resources that we are putting into these programs.

P. Otto: I'm not the expert on social media, but I can tell you that these promotions also form the foundation for games and contests that are driving our social media engagement in a big way. The longer-term plan extends beyond retail. Social media is used to build that direct connection to our consumer. And it is also used to drive traffic back to retail.

How do you decide when you've done enough research and it's time to pull the trigger and launch the product or promotion?

R. Wesley: The retailer incentives are based on our conversation with retailers. Many times retailer incentives are more about changing retailer behavior than consumer behavior. The main goal with retailers is to just make sure we have the right product in the right place at the right time. Make sure the tickets are properly displayed and you don't have empty bins. It is more a matter of working closely with the retailers, understanding their needs, and trying different approaches to see what works best. Just because something does not work well in one retail environment does not mean it won't work in a different environment. So testing, analyzing the results, updating or tweaking, and re-launching is an ongoing process.

P. Otto: We certainly mix in some consumer research to get a measure of the consumers' perception of value. How much do they value a free ticket or promotional coupon for a discount on a fresh food item, etc. But even then, there is no alternative to trying different things in new and different ways.

And every real-world iteration generates more data that informs the process of evolving and enhancing your products, promotions, and strategies. The big take-away is that as an industry we have more flexibility to apply creative marketing techniques. They are affordable, actionable, generate a positive ROI, and position the Lottery for building a more productive long-term relationship with its retail partners. ■