



Walter
Eisele

Senior Vice President and
Chief Technology Officer

and

Randall
Lex

Vice President, Retail Solutions
Scientific Games Corporation



Retail Transformation as the Key to Next Generation Lottery Growth

PGRI Introduction:

Retailers are modernizing to meet the needs of the modern consumer – and to prevent their customer base from migrating to online merchants like Amazon. Scientific Games sees this as the perfect window of opportunity for lotteries to collaborate with their retail channel partners to drive transformative change in the way lottery games are distributed, displayed, secured, sold, and managed in the retail environment. In the process, the company is strengthening its industry position as a most-valued supplier. Creating game entertainment that consumers love to play has always been the key to success. And Scientific Games continues to innovate games. But the here-and-now opportunity for new technology and innovation to make a decisive difference in the market-place, and at the same time position lotteries for long-term success, is in retail sales and support.

Operators in the casino gaming sector have already faced many of the challenges and opportunities that lotteries face today, but lotteries continue to struggle with investment in modernization. The casino sector's experience is instructive to lottery resource allocation and strategic planning. So I asked Scientific Games CTO, Lottery and casino industry veteran Walt Eisele to preface our interview with his outside-the-lottery-industry perspective. The company's VP Lottery Retail Solutions Randall Lex then connects the dots to paint a complete picture of incredible opportunity for elevating Lottery's performance at Retail.

Paul Jason: Walt, coming from the perspective of the casino sector, what surprises you most about the way the lottery industry operates relative to the opportunities and need for modernization?

Walt Eisele: There is much more to admire and aspire to replicate than there is to be concerned about. Lotteries have experienced year-over-year growth over many decades, a market penetration that is the envy of the entire games-of-chance industry, and a distribution network that makes games readily available to everyone, everywhere. Not to mention, lottery is

a brand that is trusted for security and integrity, games consumers loves to play, responsible gaming standards that continue to raise the bar – and best of all, a mission to serve society and support good causes. Lottery has carved out a preeminent role for itself in the games-of-chance industry. And it maintains that position today in spite of the dramatic increase in gaming options.

The challenge when you are the dominant force in an industry is to avoid complacency and resist the impulse to take success for granted. Sustainable growth requires an ongoing investment. The beauty of it is that

lotteries are blessed with multiple pathways to invest in retail innovation for modernization initiatives that command a high and predictable ROI.

The casino industry invests far more in promotion and modernizing technology in spite of a lower and less predictable ROI because casino operators know they have to invest in order to survive in an increasingly competitive marketplace. Thankfully, lotteries do not operate under a cloud that threatens their very survival. The need to invest to ensure ongoing success may not seem as pressing, but that's not true for three reasons. One, we should never ever take success for granted. Two, there is



continuous need to maximize the returns to the good causes lotteries support and, as competition for gaming dollars increases, the benefits to the lotteries' constituents may decrease. Three, our stakeholders deserve our dedicated efforts to preserve the incredible asset value that is government lottery for the benefit of future generations. It must also be recognized that while lotteries have not experienced this type of pressure historically, the ever-increasing variety of entertainment options will force lotteries to compete at a higher level for consumer discretionary spend.

For these reasons, Scientific Games' fundamental value proposition is that there has never been a more exciting portfolio of technological enhancements and products that will position lotteries, and the good causes they support, for long-term prosperity.

This is how the casino industry's investment in the future with Customer Relationship Management (CRM) programs with players clubs and loyalty programs transformed the industry 20 years ago, would you agree?

W. Eisele: Yes and there are actually three interesting aspects to this. First, it required a big investment from casinos in an economic climate where there was no capital for investment. Gary Loveman, CEO of what was then Harrah's Entertainment, got creative and restructured gaming floor payouts to free up investment funds. Even though, just as in the lottery industry, the investment required was quite small relative to the turnover and cash-flows. And it was a very risky move for an uncertain outcome.

Second, once Harrah's competitors saw the power of CRM to acquire and retain players, they all quickly replicated these actions. Any casino who didn't would have gone out of business. This is why we are advocating for the more rapid adoption of best-practices. Once the benefits of a product, a technology or innovative business process is proven, once the uncertainty is removed and ROI becomes predictable and manageable, then the responsible course of action is to invest.

And three, the promise of CRM – turning data into value for both players and stakeholders – has arguably become the most mission-critical competitive differentiator of the future. Amazon is a great example of that reality, and how to leverage it.

But lotteries face different sets of challenges than casinos. Casino operators deliver their games directly to the player, while lottery games are sold through retailers. Lotteries also operate under more restrictions than commercial casinos and are held to higher standards of responsible gaming. Even so, we can all take lessons from how challenges are met in the different games-of-chance sectors.

Randall, how do these differences affect the way lotteries go about maximizing sales and consumer satisfaction?

Randall Lex: In the lottery sales channel, retailers connect Lottery with the consumer, they are the touchpoint of lottery

to the player. This is why lotteries have to view the retailer as its customer. And it's why the effective pathway for lotteries to increase sales is to support its retailers' ability to make sales happen.

The most pressing, immediate and underserved opportunity for innovation in the lottery industry is in the area of retail sales and support. This is where the need to drive short-term results converges with the need to build the foundations of future success.

Is this why the SCiQ® retail ecosystem was innovated? Also, congratulations for winning Walmart's 2019 Supplier of the Year for Product award. That was for the innovation of the PlayCentral®54 self-service machine.

W. Eisele: Yes, it's exactly why SCiQ was innovated. We spent several years talking to lottery retailers of every size. And thank you, we are very excited to receive this recognition from Walmart, and to have the first reduced height player self-service machine ever in market last year. It's just 54" high, but it has the same convenience and user-experience features of our full-size PlayCentral HD. PlayCentral54 was actually custom-innovated for Walmart Super Centers' self-checkout areas.

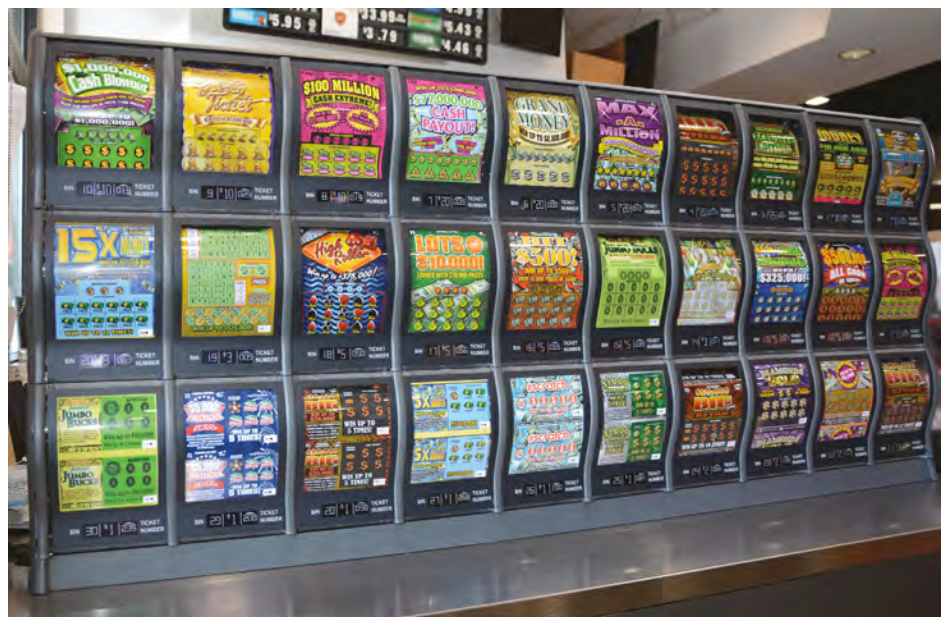
Our goal with retail innovation is to increase access to and ease of playing lottery games, increase player enjoyment, and increase retailer efficiencies in ways that directly drive sales growth. Scientific Games is building the foundation for the lottery industry to turn data into increased value for lottery players, channel partners and stakeholders.

The future is all about knowing your customer, and delivering the right product to the right customer at the right time and place. This requires a completely different mindset than the current mass-market, mass-media and one-size-fits-all approach. For starters, it's all about capturing data and turning it into actionable business intelligence. This is becoming the core competency that secures ongoing success in the market-place. In order to create a future that aligns with the interests of our stakeholders – good causes being the alpha stakeholder – we have to think about what that future will look like. And we have to start laying the foundation for lottery to thrive in the new reality.

The present, though, is all about fulfilling our mandate to optimize sales and net funds to lottery beneficiaries – this month, this quarter and this year. The innovation you refer to, SCiQ and PlayCentral 54, do just that. Both of these new technologies drive performance and results today. They also form the platform that positions lottery for success in a future that will be much different than today.

I can definitely see how retail innovation and lottery modernization enhance efficiencies and therefore profitability for the retailer. But how exactly does that translate into profits for a lottery and net funds for its beneficiaries?

R. Lex: Most of us know that the competition for retail shelf space is intensifying. Lottery is a very low-margin product which is competing with products that deliver much higher margins to the retailer. So





labor-intensive methods of managing lottery instant game inventory, replenishing displays, processing and auditing transactions, etc. just add to retailers' perception that lottery products are not their biggest profit-generator. Of course, we educate retailers about how lottery also drives store traffic and therefore drives sales of other products. And frankly, they now know this to be true.

But big business no longer operates on observable, anecdotal information and imprecise guesstimates. They demand hard data that puts real numbers to any claims. So we have to provide retailers with the data they need to justify the decision to keep lottery as a growth category instead of a "managed" category. This category approach will directly impact sales. Helping the retailer in these ways can translate directly into increased sales and net funds for good causes.

One of the attributes of the *SCiQ* ecosystem is that it provides a precise real-time measure of what is sold. *SCiQ* enables transaction processing data for lottery products to be integrated into the sales data of other products so the retailer and lottery can see what the lottery market basket looks like at a more granular level. *SCiQ* captures the data needed to assess the impact of lottery on the residual sale of other products and other performance indices. And it provides this data on a store-unit level. So, the retailer can now see and measure the contribution of lottery products to store profitability.

What can lotteries improve upon today with their retailers?

R. Lex: Lotteries can do a much better job of customizing their approach for individual stores. For example, a store in one part of the state typically has the same lottery plan-o-gram as a store on the opposite side of the state. This ignores large differences in each store's traffic volume, gaming culture, core playership and market demographics. Here's where *SCiQ* comes in to give the lottery a precise measure of how its games are selling, what might deviate from the norm and how, and what it can do differently to improve performance. *SCiQ* provides a clear pathway for actions to be taken as opposed to a one-size-fits-all approach. The insights we get from *SCiQ*'s real-time sales data tell a complete story about how the merchandising and product mix can be improved to drive sales.

Replenishing inventory based on what is selling means that retailers do not order games ahead of time, bring them into store inventory, and move them out to the shelves as needed. And the retailers do not have to account for all these transactions. Old-style marketers may wonder if this diminishes retailers' motivation to sell what products are in stock, or in over-stock. As you might imagine, the opposite is the case.

Simplifying the system, reducing the inventory control burdens and eliminating the need to return product that doesn't sell frees the retailer to focus on what matters – which is the customer and selling lottery

games. The antiquated model of loading the pipeline so that channel partners feel compelled to push the product out the door is just not the wave of the future. Minimizing bottlenecks and maximizing efficiencies is the wave of the future, and this is what lottery retailers are demanding. In return, they are rewarding Lotteries with increased sales.

With *SCiQ*, lottery products have the high-profile they deserve without taking up valuable retail counter space. And for those who are still trying to convince retailers that the way to sell more lottery tickets is to put them on top of the counter or to get clerks to "upsell" lottery, Mark Hagen, former senior category Manager for 7-Eleven® observed: "If I upsell dog food or put it on the counter, I'll sell more dog food."

Are there any results from the *SCiQ* pilots you can share?

R. Lex: In ongoing *SCiQ* pilots, 7-Eleven franchisees using the *SCiQ* features are selling more lottery products because the products are not only more visible and visually appealing to customers right at the counter, but the store is focused on selling. This is because *SCiQ* is providing visibility and tracking of each ticket, which is work they used to spend hours doing. 7-Eleven is the largest lottery retail chain that sees the value in using *SCiQ* to sell and display the product. In every 7-Eleven *SCiQ* installation, the product visibility is exponentially greater as instant games are modernized in how they are merchandised on the counter. One 7-Eleven store decided to change out the typical 32" digital menu for a 50" digital menu, and within 10 days sales jumped.

Retailers participating in the *SCiQ* pilots are now more receptive than ever to proposals for ways to increase sales of lottery products. Bill Gates calls this the "positive feedback cycle that confers additional forward momentum for each incremental advance." And we couldn't agree more based on the results the *SCiQ* pilots have delivered.

As you well know, discretionary funding to invest in the future is typically quite lean for government lotteries. Are there ways to help lotteries access investment funds to capitalize the investment?

R. Lex: We make it very easy for lotteries to unlock the financial resources to pay for *SCiQ*. There are traditional methods of acquisition: purchase the equipment outright or pay with monthly fee. The provable ROI

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T. Stanek: First and foremost, IGT wants to support our customers which is you, the lottery operators. I do think our customers want us to bring ideas for how to build the business even if it introduces risks. We do everything we can to harness the global data-base of information that helps us to understand the best approach, to measure and minimize risk, and be flexible to explore the pros and cons to different action-plans. In the end, though, we all need to accept some measure of calculated risk. Fortunately, the risks are manageable and the damage to our market position by failing to invest should be adequate motivation to push hard to invest in modernizing technologies.

An example of pushing hard is what Gary did in Texas by insisting that IGT, Pollard Banknote, and Schafer Systems sit down together and collaborate to develop a solution for in-lane instant tickets; should they be fan-folded or not, where exactly is the POS in the lane, etc. Challenging us to collaborate and create a solution will allow the industry as whole to benefit.

G. Grief: Thank you for that, Tom. Some of you are too young to remember the time when we had to order the telephone land-line prior to moving into a house or apartment. That was the first thing we did. We didn't call it a land-line since there were no other kinds of lines. Similarly, I wonder how long it will be before we look back nostalgically at the time when lottery ticket purchases were processed by a dedicated lottery terminal. That may be where in-lane sales is taking us. We can appreciate and very much respect the willingness of our commercial partners to self-disrupt and partner with us in our journey to modernize, even when it is not always in their short-term best interests.

T. Stanek: It's a team effort and IGT is in it for the long-game.

T. Delacenserie: I second Gary's commendation of our vendor partners. They're the ones assuming more of the risk, and more of the cost to self-disruption. But it is a team effort and there really is no alternative to adapting to market-changes. If Plan B is to end up like Eastman Kodak, then we all need to work together and assume the risk, make the investment in modernizing innovation and the technologies that will keep us aligned with our players and our channel partners.

It comes down to disrupt or be disrupted. Thank you, ladies and gentlemen, and thank you panelists! ■

easily justifies the investment. Alternatively, we can create a contract that allocates a percentage of sales towards the purchase of the system. We've also developed a retail participation tool to help lotteries negotiate a cost-sharing program with their retailers. We have several different cost-sharing models that incentivize retailers to optimize performance.

Is the data also made available to the lottery sales reps who call on the retailers?

R. Lex: Absolutely. The lottery sales rep is equipped with all the granular detail and solutions and a focus on improving performance. No wasted time to ask questions of a store manager whose time is very limited. And this is just the beginning, the foundational platform that will soon enable single-ticket activation, along with single ticket billing and auditing, and data-mining that will open up entirely new avenues for growth. Having this data unlocks the ability to roll out best practices exponentially – and roll out in warp speed.

For instance, we just installed *SCiQ* in 30 stores for an initial roll out in Ohio Kroger stores. The Ohio Lottery and Kroger asked us for the sales data from those stores. We were able to provide it instantly, as well as give them the ability to access the data anytime anywhere, which motivated them to green-light a *SCiQ* roll out to all 150 plus Kroger stores in Ohio.

What are the obstacles to unlocking the resources and the willingness to invest in modernization?

W. Eisele: It's largely a matter of just making the case for why investing in modernizing technologies and products produces a short-term financial ROI as well as the platform for long-term sustainable growth. Compare investment in retail modernization to investment in a new lottery game. It is readily apparent when a game performs well. Other lotteries see that success, learn from it, and work to replicate that success in their own markets. Best-practices in game development spread quickly, being widely adopted in a timely manner. That is not true in the application of new technologies and products to support the distribution of lottery products. In markets where modernization initiatives like *SCiQ* and *PlayCentral 54* are being adopted, it's a strategic part of the overall business plan to drive sales growth

and increasing the gap between the best performing lotteries and under-performing lotteries. So it's largely just a matter of getting the word out.

And we're here today doing just that. ■

INNOVATION SNAPSHOT

SCiQ®

- Intelligent lottery retail technology ecosystem
- Revolutionizes the way lottery products are sold
- Pilots have run in 10 U.S. states (AZ, FL, GA, ME, NY, NC, OH, PA, SC, TX) with major retailers, incl. Walmart, Kroger, Circle K and 7-Eleven
- First comprehensive, in-store lottery technology to offer lotteries and retailers:
- Single ticket tracking and Inventory control
 - Product security
 - Increased speed-of-service
 - Modernized merchandising
 - Simplified accounting functions
 - Unit level, real-time data down to the individual customer's lottery shopping cart
- Consumers benefit from touch-of-a-button ease and convenience
- Mobile advance pre-order capable
- Single ticket activation and billing capable

PLAYCENTRAL® 54

- Scientific Games named 2019 Walmart Supplier of the Year for Product (*PlayCentral 54*)
- Industry's first reduced height lottery self-service machine in market (May 2018)
- Custom-designed for Walmart Super Centers self-checkout areas
- PlayCentral machines are the first self-service machines offering full portfolio of lottery products: instant, draw and high-frequency draw games
- PlayCentral machines are the first self-service machines offering purchase of lottery games with cash, debit card or mobile payment (i.e. Google Pay or Apple Pay).
- PlayCentral machines are the first Payment Card Industry (PCI)-certified card and mobile payment options

