

Following is an edited and very condensed transcript of the panel discussion held at PGRI Lottery Expo NYC on October 29, 2019 in New York. You can view a video of the complete panel discussion at PGRItalks.com.



iLOTTERY: CONNECTING WITH THE MODERN CONSUMER

PGRI Introduction: There is no business today that isn't online. The modern consumer expects to be able to buy anything online and now, thankfully, U.S. lotteries are finally able to demonstrate just how successful they can be with a full-fledged transaction-enabled internet-based business. And they are providing conclusive incontrovertible proof that land-based retailers actually benefit when lottery operators build out the online connection with the players.

UNANTICIPATED BENEFITS OF iLOTTERY

As expected, iLottery appealed to the younger and perhaps more affluent consumer demographic profile and that is good. Not necessarily expected, though perhaps it should have been, is that everyone is on-line, and everyone appreciates the option of playing online, including the core lottery players. The option to interact with us online appeals to everyone - regardless of age, gender, where they live, or any other demographic attribute. Another powerful benefit is the many ways in which the online connection to the players yields invaluable information and insight into their preferences and trends. The data captured by online play is an endless source of guidance into game development and ways to improve marketing, promotional and brand messaging. It is like having a 24/7 focus group that informs the decision-making process in countless ways.

Players have to register and join the Players, Loyalty, and/or VIP clubs in order to play online. That transforms the player from being an anonymous consumer at retail into the client who interacts with Lottery on a

personal basis. This dynamic Interactive relationship becomes the basis for long-term sustainability. And as is emphasized in all the current literature on consumer trends and shopping behaviour, Convenience is King. Everyone wants easy, intuitive options and the flexibility to play whenever, wherever and however they choose. And this "want" is rapidly becoming an imperative requirement. The patience the consumer may have had with operators that fail to deliver maximum convenience and flexibility is rapidly disappearing altogether.

Another benefit is how the online connection improves the operator's relationship with Retailers. Beginning with the process of working hard to understand the Retailers' wants and concerns, following that with the formulation of strategies to address those concerns and leverage iLottery to help drive store traffic and sales, and getting close to the Retailers to earn their trust and confidence, and in the end delivering on the promises that iLottery would help and not hurt their sales ... the entire process completely transforms the relationship with Retailers. All of this probably takes more time and resources than the original budget allows for, but it is

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Doug Pollard, Co-Chief Executive Officer, Pollard Banknote

Drew Svitko, Executive Director, Pennsylvania Lottery

so worth it on many different levels. It not only smooths the path for implementation of iLottery. It becomes the catalyst for a 180-degree change in the Retailers' feelings about iLottery, turning an arms-length supplier relationship into a mutually supportive and collaborative partnership.

Like everyone, Retailers have a fear of the unknown. Alleviate and defuse that fear and the walls come down and everyone comes to appreciate how the goals are the same and the opportunities for synergies that produce mutually beneficial results explode.

DATA-DRIVEN GAME DEVELOPMENT AND PROMOTION

The interactive relationship is all about enhancing the player experience. Data-driven marketing enables the operator to move from mass-market segmentation to an increasingly personalized relationship with the player. Machine learning and algorithmic computation helps recommend the right products to the right player at the right time. But these high-level data-analytics depend on the interactive relationship that is based on registration and active online engagement. It does not readily apply at land-based retail.

Player segmentation is not new. But the online interactive connection completely transforms the whole meaning of player segmentation. Moving from age, gender, location, and a handful of other characteristics to what will ultimately be a segment of one – wholly personal and individualized interaction. The insights gleaned are simply not available in the anonymous land-based retail relationship. For example, it was already well-known that big jackpots drive new player acquisition. The interactive channel has revealed the age of those players that you acquire. The data show that about 30% of iLottery players are in that 18 to 35-year-old age category. When there is a jackpot run, that number jumps up to 40%. That would appear to indicate that the online channel is especially critical for acquiring new players in the younger demographic. That delta between the regular ongoing play and the play during the big jackpot run would also appear to indicate that once the younger player engages online, they tend to divide at least a portion of their play between online and retail. Those hypotheses need further testing to prove out, but at least the data is now available to take the journey of knowing the customer up to the next level. It's this kind of data and segmentation that allows the operator to then start reshaping promotional campaigns ahead of time to speak more directly to the play-styles and preferences of a more tightly defined audience. That is just an example of how the interactive relationship with the player will transform the entire apparatus of marketing and communications.

MULTI-CHANNEL ENGAGEMENT IS THE REAL OBJECTIVE

Launching iLottery fifteen years ago makes BCLC the most mature iLottery in the western hemisphere. It started out with the demographic profile skewing younger but over time the difference between iLottery player and the retail player diminished. The big difference is this: Multichannel players are five times more valuable than single channel players as measured by spend and frequency of play. The value of iLottery is not fully leveraged unless the player engages at retail as well as online.

Retail is alive and growing. Store openings in 2019 are up 56% and store closings are down 66%, and for every chain that closes a store another chain is opening up five. This is good news for Lottery since the vast majority of sales (even in BCLC the percentage is over 90%) continue to be at land-based retail. The key is to integrate

the different channels of distribution. The old system of evaluating performance in siloed profit centers does not recognize the value of driving engagement on multiple channels. An effective online program of cross-promotions will actually drive sales increases at retail, even when it is the same game that is being offered online. One of the most visited website pages is the retailer-locator, indicating that the online player is really an omni-channel player who interacts with Lottery on all channels and media.

The cost and time required for developing and launching iLottery games is much less than for analog games. The iLottery player expects a higher velocity of new games and promotions but it is more cost effective to deliver that than it is to create new games for the retail channel. This cost model enables the online channel to be used as a testing ground for products that can then be rolled out into the land-based channel. The online channel began by replicating products, promotions, and player experience that were proven to be effective in the off-line world. Now it works both ways, with both channels revealing insights into what drives player behaviour and how the games, messaging, promotions, and overall experience can be further enhanced.

The omni-channel player does not think in terms of different channels. They just think of it as an overall lottery playing experience. Integrating the online and retail experience is the key. We need to deliver that holistic overall experience of seamlessly traversing across multiple channels and game categories.

FACTOIDS THAT POINT AT THE ONGOING IMPORTANCE OF LAND-BASED RETAIL

For over 90% of lotteries world-wide, over 90% of the profits will continue to be generated through retail. That may shift as iLottery matures, but the vast majority of sales and lottery profits will continue to come through retail. Further evidence of that is broad-based market trends: 85% of Americans shop in a non-grocery physical retail stores during a typical week. On average they visit three different stores and, perhaps surprisingly, that average goes up to four different stores per week among millennial shoppers and 5.25 stores among Gen Z shoppers. These trends indicate that younger people are going to retail stores even more than their elders.

HOW DO WE DRIVE INTEGRATION BETWEEN ILOTTERY AND RETAIL?

Players and Loyalty clubs are the online

tools that drive messaging, promotions, and engagement. Second-chance drawings are the simple but effective way to motivate the retail player to register online to see if they won the second-chance draw. Likewise, the players club includes e-coupon offers which motivate the online player to redeem the value of the coupon at the retail store. The end result is not only a more engaged player who is interacting with Lottery on multiple channels, it is a happier player who appreciates the ease and convenience of being able to play how, when, and where they choose.

The redemption rate for the online coupons can be quite high – between 20% and 25%. This is key to the whole retailer engagement-strategy. They need to see that Lottery's online connection is driving players back into their stores. Lotteries are now taking e-couponing to the next level – applying data analytics to discern player and shopper motivations and fine-tune the player profile and specific store and product promotions to deliver more value at a lower cost.

Additionally, there should be a program to compensate retailers for hosting sign-up forms for their in-store shoppers to register online.

IS THE CREATIVE GAME DEVELOPMENT IN ILOTTERY SPACE DRIVING CHANGES IN THE WAY NEW GAMES ARE DEVELOPED FOR TRADITIONAL RETAIL?

The iLottery games can engage the players in a wider range and depth of emotional experience than retail games. This provides more room to entertain the players. The “second-chance” component, for instance, is integrated right into the game in a more convenient and player-friendly way. A goal in the traditional lottery world has been to deliver more entertainment value, more of a game-playing experience. We are learning a lot about player behavior and how to accomplish that elusive goal through the data being captured in the online gaming world. It is important to treat the games as a family of products with the goal of optimizing performance of the overall portfolio. The online world is revealing fresh new portfolio management strategies and methods that drive synergies and better overall results.

And in the end, the similarities between the games being played online and off-line far outnumber the differences. ■