



## Resourcing for Internet Lottery Distribution

December 29, 2016

Published by: Danny Bogus  
[danny.bogus@digitalgaminggroup.com](mailto:danny.bogus@digitalgaminggroup.com)  
[www.digitalgaminggroup.com](http://www.digitalgaminggroup.com)

In many ways, internet lottery sales (“iLottery”) has parity with the long-established channel of retail sales. iLottery players can purchase jackpot games online, and sometimes scratch or keno games, and then have opportunities to win life-changing prizes. But in the iLottery channel, there is a stark difference in the fact that the retailer generally does not participate in the operation. Instead, the lottery itself takes on the role of a conventional retailer.

In the retail environment, lotteries create games, conduct drawings, manage technology, rollout product placement, market to consumers, and perform other essential functions. On one hand, lotteries are providing a valuable service and benefit to the retailers. This is particularly noticeable during large jackpot runs, when long waiting lines of players can make headline news. Moreover, U.S. lotteries provide over \$4 billion in commissions to retailers each year.

From a lottery perspective, the value that the retailers provide can sometimes be underestimated. However, retailers are providing vital resources that make the traditional lottery distribution model so successful. These resources, or the lack thereof, become much more obvious when a lottery enters the world of internet sales. As experience is now demonstrating, iLottery operators are faced with a myriad of new responsibilities that are generally, and often wholly, provided by retailers.

### **Retailers Drive Everyday Traffic**

Lotteries utilize advertising and awareness tactics to support traffic into licensed retailers. However, retailers have long carried the heavier burden in this regard. Retailers made a significant investment into a piece of physical real estate that is in a convenient and high traffic location that can pull customers into their store. Moreover, retailers collectively spend heavily on advertising activities to drive consumers into their stores. Not least of all, they are also managing dozens to hundreds of other product categories, such as gas and groceries, that drive traffic and ancillary product sales.

For most lotteries, aside from a small core of regular players and a rare jackpot run, few consumers are thinking about going to a lottery site on any given day. And far less are thinking about going there to buy tickets. Visiting the lottery website, unlike the gas station, is not part of a daily or weekly routine for most consumers. This necessitates iLottery operators to invest heavily into traffic driving activities to their online properties. Without a steady stream of traffic, there is little hope to grow sales.

On the internet, Google, Facebook, and YouTube are the busy street corners. And you have to pay endlessly in order to get visibility on that virtual street corner, while also bidding against global giants such as Amazon plus anybody else in the world who sells something online. Now take that situation and multiply it across web, tablet, mobile and app channels that a consumer may be using as their window to the internet. Effectively driving traffic under these circumstances is a daunting effort for any company.

### **Retailers Manage the Customer Experience**

Retailers are competing fiercely to deliver an exceptional shopping experience in-store. This can include making sure that the temperature in the store is right, the lighting is sufficient, the products are well organized, pricing is clear, and that the checkout lanes are flowing quickly. If a bottle of milk cracks on the floor, it doesn't go unnoticed resulting in consumer frustration and anxiety. The retailer staff mops up the mess and ensures that the customer experience is restored to a high level of satisfaction.

For lotteries selling on the internet, they inherit the responsibility of maintaining an exceptional customer experience. It becomes critical to take care of each player-facing portal on a 24/7/365 basis. Constant attention is required to ensure that the pages are loading fast, the design is optimal, the navigation is well organized, and the site is rendering properly on different devices and browsers. Plus, the game is always

changing. As new mobile phones are released, the digital storefront may require testing, verification and updates to maintain a consistent shopping experience.

Moreover, consumers shopping on the internet will judge their site experience based on the best e-commerce retailers in the world. Internet giants such as Amazon are setting new expectations each year regarding the ease of registration, payment, product browsing and customer service. Lotteries must strive to match that level of customer-centricity in order to attract and retain consumers beyond the occasional jackpot run.

### **Retailers Analyze and Optimize**

Retailers of all sizes are analyzing the activities that drive traffic and revenues. Small and independent retailers may do this informally with simple trial and error testing. Larger retailers do this as a formal practice, evaluating massive amounts of data to better inform the business such as product velocity, pricing strategies, advertising effectiveness, promotion impacts, among many other factors. These efforts ensure that the business is constantly adapting to market conditions.

In the iLottery world, a similar level of analysis must be conducted by lottery staff in order to ensure that the digital storefront, products, advertising, promotions and other activities are performing optimally. Furthermore, in a digital environment, lotteries must utilize data in order to deliver a personalized and relevant shopping experience to each individual customer. It would be nearly impossible to grow an iLottery business effectively without a comprehensive analysis framework in place.

### **Retailers Manage the Customer Relationships**

Customer relationship management began, and is still best done, in the smallest retailer stores. The owner and staff often know customers on an intimate level. Not only knowing about their purchase habits, but also their work, family, life experiences and more. Many customers are greeted on a first-name basis and meanwhile the owner knows exactly what they purchase and always makes sure it's in stock.

As larger stores began to emerge, they have always attempted to emulate the envied customer relationships of small retailers. They have attempted to achieve this in a mass-customization approach that can sometimes feel more invasive than personalized. Large retailers have often resorted to loyalty programs in order to capture consumer identities and transactional data to encourage repeat visits while adding levels of personalization to the shopping experience.

For iLottery operators, the tremendous responsibility of building and maintaining consumer relationships becomes a primary focus of daily operations. Player data must be captured widely and cultivated into common groups of player segments. Segments must be added, deleted and modified regularly as the business, market and player compositions evolve over time. The data must be integrated with each potential touchpoint in the customer journey, such as on-site messages or emails, in order to provide a cohesive and relevant experience for players.

### **The New Paradigm: Direct to Consumer Distribution**

Lotteries have long and successful histories operating in a business-to-business mode of product distribution. The structure necessary to run an iLottery program, which is a business-to-consumer model, is similar but also different in many respects. This requires lotteries to consider what systems, suppliers, staffing, marketing and financial investments are necessary to become more than just the product distributor – but also a direct retailer of goods.

With the retailer removed from the front lines, lotteries must drive site traffic, manage the customer experience, analyze and react to data, and nurture player relationships. This requires staff that are well-versed in digital media, user experience, advanced data analysis techniques, and direct-to-consumer relationship marketing. These teams will also require dedicated investment in order to manage and evolve their programs and initiatives. After all, displacing the tremendous value that retailers provide in exchange for billions in annual commissions is no easy task.

Beyond the subjects already explored, retailers are also managing aspects of product security, payments, and front-line customer service within the physical world. These are additional considerations that any lottery, and its supplier partners, will need to consider before going online. Each of these facets of the business must be fully supported in order to deliver a world-class digital experience that will attract and retain consumers to the lottery's digital sites.

Meanwhile, this new paradigm should not be contemplated without retailer involvement. In an iLottery mode of business, the retailer simply takes on a different role as does the lottery. Indeed, the retail network is one of the greatest assets that the lottery has within its business model. Any legal or illegal online gaming enterprise would be hard pressed to compete with an iLottery that is fully integrated into an expansive retail network. There are numerous methods in which this can be achieved.

Examples include prepaid programs where consumers can load funds at retail to be redeemed for online play. iTunes is one of the most successful digital business models in the world and a meaningful portion of its funding originates from prepaid products sold at retail. In a reverse approach, the retail channel can be utilized as a cash-out method for winnings received online. This is far more convenient than a bank transfer process that takes multiple days to complete.

As another example, affiliate programs can be deployed where retailers earn compensation for assisting to drive traffic to lottery online sites. Amazon, the largest retailer in the world since surpassing Walmart this past year, also happens to run one of the largest online affiliate programs. These types of programs, similar to the physical world, enable lotteries to pay for performance through a licensed partnership network.

With examples like the Michigan Lottery, which is on pace to capture \$6.25 million in iLottery profit for the month of December 2016, the opportunity for online revenues is clear. As additional lotteries consider moving online, or expanding current iLottery operations, they must examine the former role of the retailer and structure their plans accordingly.

### **ABOUT DIGITAL GAMING GROUP**

The Digital Gaming Group is a consultancy that is focused on helping lotteries to recognize growth opportunities in both retail and online channels through the effective utilization of digital strategies. Learn more at [www.digitalgaminggroup.com](http://www.digitalgaminggroup.com)