



Break Open Ticket Development Fund

BOT UPDATE:

New Single Licence and \$1 Tickets are Producing Positive Results for BOT Sales

In 2010, the AGCO introduced a new single licence option for charities, suppliers, and municipalities. This new policy gives charities and suppliers a lot more flexibility to introduce new ticket types during the course of a licence period without having to apply for a new or additional licence. It also allows for longer licence periods, fewer reports, and gives charities the ability to carry-over partially sold deals from one licence period to the next. Not having to reconcile and close-out partial boxes at the end of a licence period streamlines the administration and reduces the costs. Since then, in 2011, the Break Open Ticket Development Fund conducted extensive consumer research on the viability and profitability of the \$1 ticket compared to the \$0.50 ticket that showed that \$1 tickets, which are more profitable for charities, suppliers, and retailers, if promoted effectively, have the potential to increase overall ticket sales and profitability without negatively impacting sales of \$0.50 tickets.

Both these developments have been in place for over a year now and we've asked some people in the industry, who are also members of the Break Open Ticket Development Fund Management Committee, about their experience with single licence and \$1 tickets working together and here is what they had to say.

The Charity Perspective:

Cindy Rock, Director of Financial Operations, Canadian Deafblind Association

"Following-up on the research that was done last year on the \$1 ticket, we have been working with our supplier and retailers to put a lot more energy into this category and we have been having great results. Over the past year, our sales of 50 cent tickets have been slowly declining just like everyone else's. But during the same timeframe, we have more than doubled our sales of \$1 tickets, which has meant a big boost to our bottom line. And just recently, we had a request from a retailer for a \$2 ticket, which is pretty exciting news.

I think our results show a couple of things. First, they validate what we learned from the consumer research on a \$1 ticket – that this ticket is pretty underdeveloped in the marketplace right now. Not that it can replace the 50 cent ticket as our core ticket right now, but it obviously has much more potential than the industry has probably been giving it

credit for. Second, it shows what is possible when the charity, the supplier, and the retailer are aligned and get behind a new direction.

Single licence has been part of making this happen for us. As a provincial charity, we get our licence from the AGCO and they have been really terrific from a customer service point of view. Our licence is now for three years, which is significantly more convenient and, also, we only have to produce a one-page, once-per-quarter report that covers all of our different ticket types. That's been a significant savings in time and effort for us and no doubt for the AGCO too.

The process to amend the licence couldn't be easier. Recently, we identified a new ticket type that we wanted to add to our licence. The whole process – from when I first approached the AGCO about how to go about amending our single licence, to actually getting confirmation that our licence had been amended – took only 3 days!”

The Municipal Perspective:

Angela Duerksen, Lottery Licensing Co-ordinator, City of Niagara Falls

“Single licensing has been a very positive thing for our municipality. It's been very easy for us to implement and it hasn't created any additional work on our part. In fact, we actually get fewer reports now, which streamlines things and saves money for us and also for the charities and suppliers.

But the main advantage is at the retail point of sale. It's giving charities and suppliers in our municipality a lot more options in terms of experimenting with different ticket types and being more able to experiment and mix and match in order to find out what is going to work best in a particular location. It's great when one ticket type is doing particularly well and it makes it easier to add more units.

Our experience, so far, has been that it takes the first years for charities and suppliers to get the hang of this new approach. It's a trial and error process to some extent but that's actually what the single licence was supposed to allow for. We are expecting that over several licence periods, charities and suppliers will get a better sense of which ticket types work best together and so which ones to include on the licence application. And just because a ticket is mentioned on the licence, of course, doesn't mean the charity has to use it.

As far as the \$1 ticket goes, we have had them in the marketplace for some time now and I have seen the research showing that they could be a bigger seller than at present. I haven't seen a lot of situations so far in our municipality where charities and suppliers are taking advantage of single licensing to improve \$1 ticket sales but it makes sense and would be worth pursuing.

On the single licensing front, I sit on the Break Open Ticket Development Fund Management Committee as the municipal rep and I am aware that some municipalities are hesitant about the move to multiple ticket types under a single licence. It's interesting because the AGCO set it up so it could result in charities increasing revenues and municipalities reducing administration and it's really not an option. So I am assuming that it's just not something that my colleagues in other municipalities have had a chance to get their heads around yet. It definitely means, from a municipal perspective, you have to change a few forms but for us and our charities, it's been well worth it. I would be pleased to chat with any municipal licensing officials who would like to find out more about how we implemented this in Niagara Falls."

The Supplier Perspective:

Gary T. Jacob, Vice President, Sales & Marketing, Bazaar Marketing

"The \$1 ticket is actually breathing new life into our business and our results are tracking pretty closely to what the researchers told us last year. Based on what we've learned, we put more energy into the \$1 category – something I know other suppliers have done too – and the results have been terrific. Because of the \$1 ticket, we've actually seen an overall increase in sales and that's without any cannibalization of our 50 cent products. That means a higher overall volume of tickets sold and, of course, the \$1 tickets are much more profitable for charities, suppliers, and retailers than the 50 cent ticket.

Just to prove that the \$1 ticket is undervalued out there, we actually went back to some retail locations in the GTA that we had closed out because the 50 cent ticket wasn't doing well for them. And what we found is those locations are now viable, selling the \$1 ticket. Actually, they are doing better with the \$1 ticket than they did with the 50 cent ticket.

The next thing we're trying now – and again, it's based on the research – is a \$2,000 prize ticket in some locations where we can put in an additional container and where the retailer will get involved bringing it to the attention of players. So far, the results have been very positive and we're getting more customers and sales in those locations.

The single licence has also been a very positive part of the mix now that we are starting to see the benefits. As a company, we're saving ourselves and charities a lot of time and money through less reporting but, even more, through not having to reconcile and close-out partially sold deals at the end of the licence period. Being able to carry those deals forward into the next licence period has saved us all lots of time and money but also meant that we don't have dormant, almost empty containers at the end of the licence period.

I know there are still some municipalities out there that haven't put this policy in place, but I think they should really get going on it given the positive impact it will have for the charities within their community. I think if they had a minute to check it out and then to work through how much easier it makes everything, they definitely wouldn't hesitate any longer."

The Retailer Perspective:

Peter Chappell, Senior Category Manager, Macs Convenience Stores Inc.

"Over the past 5 years, the \$1 ticket has been a major part of our growth strategy. Macs now have \$1 tickets alongside \$0.50 tickets in 95 percent of our stores. And in the last couple of years in particular, consumers have been sending a very strong message about their preferences. Today, the \$1 ticket is rivalling the \$0.50 ticket in sales potential. Macs is now selling just as many \$1 tickets as \$0.50 tickets. And that's per unit volume, not total sales value.

Given the greater bottom-line profitability on the \$1 ticket, that's a huge impact on the bottom line for our charities and for us as a retailer. In the past two years, sales of the \$1 ticket have increased by 15 percent year-over-year. Meanwhile, sales of our \$0.50 cent ticket have declined 4 percent each year.

One of the long-standing concerns in the industry about the \$1 ticket has been the idea that retailers won't want to carry enough cash in the till to payout the higher prizes because of security reasons. About a-year-and-a-half ago, the AGCO put in a new rule in place that allows retailers to pay prizes within 24 hours. This has alleviated the security concerns at Macs in awarding \$1,000 prizes as the store manager has time to pick up the funds.

So, from a Macs perspective, all of this lines up with the BOTDF's consumer research from last year. The \$1 ticket really is the future for the BOT category. Ticket volumes will maintain current levels in unit sales. However, with the customers switching more-and-more to \$1 tickets, the opportunity for dollar sales increases and greater profitability will reward both the retailers and the charities in the future. But the most important thing our experience shows is that, given the opportunity (and by this I mean putting \$1 tickets in stores alongside \$0.50 tickets and making sure they are visible) consumers will actually make the choice for us."

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Next month, our newsletter will contain a more in-depth interview with Peter Chappell where he will be talking about the Macs BOT program and the factors that have contributed to their success.

OCGA strongly recommends that you investigate increasing the presence of \$1 tickets in your retail location with the move to a single licence in order to take advantage of the new rules and to increase sales. If your municipality is not aware of how this change can be implemented with little difficulty, please give us a call so we can assist. We would also recommend that you contact your supplier and try-out one the many \$1 tickets available. In recent years, many gaming products have been repositioned with greater values and a higher price-point with great success.