

SHOULDN'T THERE BE A MEASUREMENT FOR THAT?

STEPHEN WADE, PRINCIPAL, LOTTERY MANAGEMENT CONSULTING, LLC.



I have heard that question a lot, in various forms, all through my career. I used to hear it when I was working in the life sciences, before I came to the lottery industry. Maybe I am just listening for it. At any rate, I have spent a lot of time trying to work out valid measurements for things that are of interest to people.

When I first came to the lottery industry, I heard from people in the various states that it was necessary and desirable to have new games launched into the market every few weeks. "Players only play new games" was the reason given. It seemed that building many small games and launching them into the market must be a path to success.

This strategy leads to a need to manage many games in the market at once. There may be more games available than a particular store can effectively display. To make the most of the limited space, we should always show the games that are most popular with players.

However, I soon discovered that there was a problem: There was nowhere I

could look, no report I could find, that talked about what the players were doing. Rather, all the reporting was built around what the retailers were doing. A "sale" was when a retailer agreed to pay for a pack of tickets and presumably exposed it to customers. "Sales are highest for new games" was just an interpretation of "retailers put new stuff onto the floor when they get it." Having worked in my family's hardware store when I was a kid, I know that moving new stuff onto shelves does not mean that customers are going to buy it. It's just what you do with new stuff - otherwise, it's sitting around, taking up space, probably tying up money, and needing to be tracked. It's how fast the customers take it off the shelves that matters.

Given this potential confusion between inventory management and consumption, I became a little skeptical about the "players only play new games" idea. I asked whether there was a measurement for how fast tickets moved from the display into customers' hands. I learned that it is possible to know

when each winning ticket in a pack is claimed as a prize. The only use being made of this was to provide an indication of when the pack was likely depleted. When a pack reached a certain degree of depletion, the retailer who had taken the pack on consignment terms had to pay up, or "settle."

About this time, I got to do a ride-along with an experienced sales rep. I'll call him Otto the Beer Guy. Not because he consumed beer overmuch that I ever saw, but because he had worked in beer distribution before coming to the lottery. He frequently drew on that experience for examples of how retail should run.

I got into the car with a planogram that I had been given in my hand - that is, a color picture of how the ideal 24-bin display of lottery tickets ought to look, that month. I showed it to Otto and asked, "Is it hard to get the same sort of presentation at every store?"

"I don't know," he said. "I don't try."

I may have looked surprised. Otto was reputed to be the most effective lottery sales rep ever. If he was disregarding what headquarters thought was good

advice, evidently it was working for him.

“So, what do you look for?”

“I figure I’ve got a set of players, and I’ve got a set of stores, and I want to set things so that there are lots of places to buy the fast-moving games. I’m responsible for 106 stores right now. Do I believe that one player plays only at one store? No, I do not. I see the same people at different stores. I think I have thousands of players, maybe tens of thousands, who shop at some of my 106 stores. And they probably shop other places too. So, the way I look at it, I want those players to have the opportunity to buy Scratch tickets wherever they go. But they don’t have to be able to buy every ticket in every store. I have a lot of opportunity to put stuff out there - each store does not have to be exactly like another. It’s the whole set of stores that’s my channel. But I do want to make sure that I’ve got the right mix of product in the channel. Some games are better than others, and those need a bigger part of the channel. You look in a beer cooler, and what do you see? Bud Light. Doors full

of Bud Light. Cases, half-cases, six packs. Because it moves fast. You looking for Stella? You’ll find it behind the door with your microbrews, your stouts, and all that other oddball stuff.”

“So here, you think more facings for more popular tickets?”

“Yes I do. If I think a game is doing well, I’ll try to get an extra facing here and there, or if space is short and I’ve got to choose one game or the other, of course I’ll choose the one I guess is moving faster. But let me tell you, I shouldn’t have to guess! Shouldn’t there be a measurement for that?”

“How about the index I hear people talking about?”

“Well, I think that’s based on how fast retailers are activating a new game. And it’s compared to how fast they activated other games. So, I have two main problems with it. First, what happens in the first week or two depends not on the new game, but on the games right before it. If they were dogs, the retailers are trying to sell them out so they won’t get stuck with having to process returns or play the end of the pack themselves. So, my slick new game can’t get into the market because the ones ahead of it were slow. And it works the other way too. If the last game was really good, the retailers will have sold out of it and they’ll be looking for something to fill the space. Along comes my new game that the players are going to hate for some reason, but it indexes high in the first few weeks because it’s filling gaps.”

“Why do people use the index, then?”

“Well, it might be better than nothing.” He gave a sly smile.

“Headquarters has got to put out numbers, after all. And it might be OK for the product manager, because after a few weeks go by and players aren’t playing it, the index starts to reflect that. After 12 weeks or so it the index might reflect what happened in the market.

But I don’t care anymore because now I’ve got two new games that have come in behind it. So, your index measurement might be good to somebody who cares about games that

are already dead, but it’s not much use to me while the game is live.”

“So you need something that’s quicker.”

“I need to know how it’s doing this week.”

“And you need to know now, because you have to make choices among what’s available now.”

“I don’t care about how it ranks against all the games ever. I care about whether I ought to have more or less of it as I see chances to change something this week.”

Is “turn rate” a term you use?

“I’ve never seen it in this job, but in the beer business we track it. When we called on a store we kept track of how many days it was taking a guy to turn over his inventory. Fast turns, you want to load him up. Slow turns, you better watch it or you’ll be picking up post-dated beer. Beer is heavy. There’s no point in trucking it around to where no one is going to drink it.”

“You want to know about the turn rate. You want to know which games are moving faster this week.”

“Right! How come this outfit doesn’t provide that?”

“Probably because no one has ever asked for it. Were you ever involved in the business requirements process?”

“What, you mean like for reports and stuff? Good Lord, no! That’s why I don’t want to work at headquarters. I hate that!”

I have heard more than once that the step that divides high-value IT projects from the others is the very early one, of understanding the eventual users’ business need. Usually we ask them what they want us to provide, and they tell us they want something much like what they have been getting. Doing this is very much like ordering off the menu in a restaurant, rather than telling the chef how you want to feel once you have eaten. It is quicker and less demanding for everyone. It produces the same result time after time. It does not drive innovation or improvement.

However, since my role in research and development allows me to contemplate the work of others, I can build things that people have not yet asked for. Several years ago, after my ride with Otto, I built

“YOU WANT TO KNOW ABOUT THE TURN RATE. YOU WANT TO KNOW WHICH GAMES ARE MOVING FASTER THIS WEEK.”

some measurements for the Scratch business that have now proven their value. I describe here a measurement that serves both the sales reps' need to make good choices about which games to face this week, and the category manager's need to understand which games over the long run have been the most popular with players.

As Otto agreed, this measure is based on turn rates. My purpose here is not to describe precisely how to calculate it: that would interest only a few. Rather, I will sketch what it does. If this sounds like something you would like to have, I will talk calculations with whoever cares about such things.

The most useful measure I have developed is the Game Popularity Index (GPI). This number describes how fast players are consuming the inventory that they find of a game, compared to the mix of all games of the same price and pack size that are on the market this week. If the GPI equals 1.0, the game has a turn rate exactly like the whole mix of games that are for sale this week - it is exactly average. If the GPI equals 0.5, the game is moving off the shelves at only half the rate of the market mix. And if the GPI equals 2.0, the game is moving twice as fast as the category.

When I first rolled out this measure, Otto loved it, and he has used it ever since. His rule of thumb is: when a game has GPI greater than 1.3, swap it in for any game whose GPI is less than 0.8. When a game has GPI around 2, double-face it whenever possible. When a game has GPI less than 0.5, don't restock it - prepare to gather it in for shredding.

Since I recalculate the GPI each week, the effect of Otto's double-facing is to increase the inventory of the favored game, which tends to decrease its GPI toward 1.0. Otto considers that his channel is well stocked if each game has a GPI between 0.7 and 1.5.

This measure is useful for the category manager, too. The GPI of each game on the market can be plotted week-by-week. A truly popular game will produce more consumption per unit of inventory than the category average each week of its market life, especially if sales reps other than Otto are following a planogram that

calls for equal representation of all games. Over time, consistently popular themes or styles can be identified by higher-than-average GPI. The turn-rate-based GPI, unlike the activations index, is not contaminated by the performance of a game's predecessors in the market.

Using the GPI, I can document how player preference changes when a new game is introduced to the market mix. There is some truth in the notion that players only play new games: about 10 percent truth, I would guess. Much of the support for this notion comes from confusing activations with consumption.

The chart below shows the week-by-week GPI for recent \$5 games in Washington. During any particular week, Otto could understand from this chart which games could use more exposure in his retail channel, and which games could use less. Over the whole period, most games show a pattern of very gradual decline in popularity, accelerated by the appearance of new games. Some hold up better than others. The category manager learns from the games with more durable popularity.

Now, I said I would not go into detail on the math, and I won't, but here is a brief

outline for those who may care how to get to this metric:

Let's think about the category of five-dollar games. There are probably several games on the market at once. Thousands of retailers have some stock of each game that they are hoping to sell. Counting the number of tickets held for sale by the retailers and valuing each at \$5 gives an activated inventory value for the category, in the millions of dollars. Of course, we can get the subtotal by game, as well.

During the course of one week, we can estimate the value of tickets that has been consumed by customers, from the number of winning tickets cashed. We can do this by game, and also for the category of \$5 games.

The turn rate for the category would be category consumption divided by category activated inventory. This has units "per week," which many people find awkward. This is one reason why we go further and simply divide the turn rate of each game by the turn rate of its category to produce the Game Popularity Index (GPI). This number has no units, and has the desirable properties outlined above. ■

