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Message From The Chairman

2010 marks 25th anniversary of the California State Lottery. After 25 years of operation, we will have contributed over $23 billion to California’s public schools. As the Lottery celebrates 25 years of enhancing education and supporting local communities, it is my pleasure to introduce the 2010-2013 Business Plan.

2010 also marks the end of the 2007-10 Business Plan. We’ve made tremendous progress on many fronts. We introduced the Million Dollar Raffle and Daily 4, debuted a new logo and brand identity, started the Replay Program, implemented a Project Management Program, and the list goes on. The Lottery should be extremely proud of its accomplishments. These efforts have set the stage for a bright future.

We are well positioned for growth. Project RENEW has already resulted in higher sales in Scratchers and MEGA Millions despite the downturn in the economy. Our new website will be launching with state-of-the-art functionality. Most importantly, we have been granted the flexibility to set our own prize payout levels. These exciting changes mean that we are now poised for unprecedented sales levels and contributions to our public schools over the next three years and beyond. It is critical that we not rest at this key crossroad in our business; but instead, take full advantage of the opportunity before us.

There has been a lot of positive change in the last three years and I am confident we can make even more positive changes in the next three years.

On behalf of the Lottery Commission, I am pleased to present the 2010-2013 Business Plan. This Business Plan builds on the work we began in 2007. It presents a detailed implementation plan and implementation strategy that takes our organization to the next level and dramatically increase our contribution to our public schools when they need it most.

John M. Mass
Executive Summary

The Business Plan presented here represents the efforts of a team of leaders within the Lottery working with consultants to produce a plan that promises to turn sales around and achieve unprecedented growth over the next three years and beyond.

It contains a portfolio of initiatives that have been chosen from a long list of possible actions because of their potential to increase sales and our contributions to our public schools.

Specifically, the package of initiatives generate a three year total of over $2.25 billion in sales and $780 million more dollars for education when compared to the downward trend that was projected out to fiscal year 2012/13. When combined with the impact of Assembly Bill 142, which allows us to increase prize payouts to optimal levels, the growth is even more dramatic. Total sales will grow from about $3 billion in fiscal year 2009/10 to over $4.6 billion by fiscal year 2012/13. Our contribution to public schools will grow from over $1.043 billion to over $1.36 billion over the same period.

Our efforts over the past three years are paying off by creating the foundation for the growth we project for the next three years. We believe all the components to achieve our goals are in place and momentum is building.

The following sections summarize the development process we undertook and some of the results.

Road to Recovery

We managed to grow annual sales from $1.7 billion in our first year of operation in 1985, to $3.6 billion in fiscal year 2005/06. This was in spite of the most restrictive legislation imposed on any state lottery. The growth came primarily from continually finding savings in the administrative budget to fund higher Scratcher prizes.

However, by 2007 this strategy had run its course. There was no further source of administrative savings to increase Scratcher prizes. Instead we were faced with stagnation and imminent reduction in Scratcher prize payout levels, and what would emerge as a decline in total sales to $3 billion in fiscal year 2008/09. To add to the difficulties, the major jackpot games were also in decline. California had joined the MEGA Millions multi-state game in 2005 and, while total sales of large jackpot games initially grew, the competition between MEGA Millions and our in-state SuperLotto Plus game had led to a decline in total sales and signs that players responded less and less to large jackpots (also known as “jackpot fatigue”).

2007-2010 Business Plan

We began a process of change that began with the 2007-10 Business Plan. In 2007, we faced year over year declines in both draw and Scratcher game sales. The 2007-10 Business Plan laid the foundation for stopping the decline and growing sales. In developing the Business Plan, the team consulted other industry experts as well drawing on the long experience of our own staff. Over the following three years, we implemented several new games, tried various marketing strategies, invested in staff development, and began addressing our outdated back office processes and systems.

The 2007-10 Business Plan contained many initiatives, educated many people about the Lottery, and successfully began the process of organizational change. We knew the next business plan would focus on more clearly defined initiatives, measurable results, and firm timelines.

As the 2007-10 Business Plan reached the end of its life, we initiated the most ambitious and rigorous planning and implementation process in our history. The effort was dubbed “Project RENEW.” The title reflects our desire to renew our innovation, drive, and commitment to maximizing funding for California’s public schools.
In recognition of the importance of organizational and cultural change in reaching our vision, Project RENEW adopted the slogan, “Teach, Learn, Improve, RENEW.” With these themes in mind, we created teams made up of the most qualified employees from across the Lottery. The teams worked with consultants to clearly define our current environment, estimate future performance, develop initiatives, and develop this Plan for action.

This Plan picks up where the 2007–10 plan ends. It is a continuation of the efforts that began in 2007. The principles are the same—focus on long term planning and invest in our employees and our business. However, in this iteration the focus is on more clearly defined initiatives, measurable performance, effective implementation, and organizational change management. This is the ideal time to execute this plan. We have the right management team in place, succession planning and staff development are fully underway, Project RENEW has already shown success, and recent legislation has given the Commission the flexibility to set prize payouts at optimal levels. Given these factors, we are poised for unprecedented growth over the next three years and beyond.

PROJECT RENEW
Development of this Plan began in August 2009 when a consultant, Camelot, was brought on board and project teams were formed. This Plan documents the initiatives derived from the rigorous and comprehensive effort known as the RENEW Project.

Development of the plan began with an “As Is” evaluation of our business. During the As Is Phase of Project RENEW, we took a hard, honest, top-to-bottom look at our operation and the current environment. A clear assessment of our business provides the necessary foundation for identifying and prioritizing the initiatives detailed in this Plan.

The key points noted in the As-Is Assessment were as follows:

- There has been significant decline in high profit draw-based games for the last 3 years. The decline is not well understood, not being addressed and shows no signs of abating.
- Draw-based game decline and 34% financial constraints mean there is no platform from which to grow other games.
- Scratchers are operating well below their potential.
- The ability to maximize sales of Lottery products through the retail channel is restricted by less than optimal distribution of outlets and inconsistent presentation of Lottery products in store.
- The rationale for marketing plans and the effectiveness of marketing campaigns are not clear and budgets are not sufficient.
- There is a need to re-focus the organization on the key issues that are hurting the business the most.
- We lack a strong sense of individual and collective accountability for our performance and the mindset to actively drive sales across our organization.

Following the As Is Phase, options were developed based on the findings during the As Is phase. These options were then narrowed to those that would reap the greatest benefits. These options became the initiatives presented here. Details include costs, benefits, performance measures, goals, and implementation timelines. It presents the initiatives that will be implemented over the next three years. The main objective of this plan is to make significant and strategic improvements in many areas of our operation.

The major initiatives are:

- Analysis of the existing jackpot-themed draw games, and identifying alternative games for management consideration.
- Review of the opportunity presented by the Hot Spot game.
- Review of the game development process with the objective of researching and having available a range of game ideas that can be taken to market as required.
- A number of initiatives to realize the full potential of the Scratcher category.
- These include improving Scratcher distribution to meet player demand; efficient use of prize payout funds for Scratchers; managing Scratchers as an end-to-end business operation and fostering a Performance Management culture.
To make best use of marketing budget by becoming effective at testing and measuring marketing concepts and Return On Investment of marketing funds; creating an optimal marketing plan and ensuring that the consumer marketing and advertising budgets support sales driving strategies.

A review of all aspects of retailer support to establish a business model and service levels commensurate with business performance. The objectives are to ensure the selection of the best retailers and the most effective use of our sales teams, by removing or modifying activities that do not add sales value.

Continuation of the development of Corporate Social Responsibility through the identification of and engagement with all stakeholders in the Lottery.

The Plan projects sales declining from $3 billion in fiscal year 2009/10 to $2.5 billion in fiscal year 2012/13 if we make no changes to our games or operation. However, as a result of the initiatives defined by the intensive work of the team over the past 8 months, this picture is forecast to change drastically. Each initiative has been assessed for its beneficial effect on sales and returns to education.

Over the three year life of the Plan (FY2010/2011 through FY2012/2013), there will be an incremental sales increase of more than $2.25 billion over what we should expect if we made no changes to our games or operations. This equates to an additional $780 million for California’s public schools over the same period. This does not include the additional incremental effects of prize payout reform legislation (Assembly Bill 142) that was passed in April 2010, which is also evaluated within this Plan.

The financial analysis in this document considers the possible effect of the legislative change that has now been passed with AB 142. To assess one potential benefit of this change, the analysis assumes Scratcher payouts could rise to 63%, with overall payout reaching 60% by fiscal year 2012/13. The return to education would drop as a percentage of sales to 30% in fiscal year 2012/13 but the return to education, at $1.364 billion, would be significantly higher than in previous years.

The outlook for Project RENEW is good. In a relatively short time the combined teams have worked together well to examine many different options to make the necessary improvements. The initiatives that have begun as part of the quick win effort have already resulted in sales increases—particularly initiatives relating to better week-by-week measurement of sales and game performance in the Scratchers category and marketing of MEGA Millions.

The major analysis phase is now complete and it is time for action—to implement the Project RENEW Business Plan and continue on the road to recovery and unprecedented growth.
Section 1 INTRODUCTION
INTRODUCTION

This Business Plan presents the initiatives that will be implemented over the next three years.
These initiatives are derived from the examination of options following the As-Is Assessment.

SECTION 2
In order to set a framework for the project and to focus on the central strategic themes, a key task was the definition of a set of Strategic Imperatives—short, positive statements that all our employees can identify with and relate to in their day-to-day activities. These are presented in Section 2 of the document with their rationale and the strategies that will help achieve the Imperatives.

SECTION 3
Section 3 is the body of the report. It describes each of the initiatives that make up the Business Plan. These deal with the most pressing issues facing us in the current environment and quantify the financial benefits where possible:

- **Section 3.1**: Defines a Corporate Social Responsibility strategy, identifying the key stakeholders with recommendations on how to engage them fully in the joint enterprise of building the Lottery.
- **Section 3.2**: Jackpot Games considers the options for reversing the decline in the large jackpot games whose health is so important to our objectives. These games contribute most in percentage terms to net returns to education but also make funds available for the prize levels necessary for the continued growth of the Scratcher brand.
- **Section 3.3**: Other Draw Games describes two initiatives for the development of other games—one to review the potential for Hot Spot to make a greater contribution to sales and the other to examine the whole of the game development process with a view to having new games available when needed.

- **Section 3.4**: Scratcher End-to-End includes initiatives for Scratchers that will replenish the stock of games at retail for greater consumer appeal and will make optimal use of the available prize funds. Other initiatives will review the end-to-end distribution of Scratchers, seeking efficiencies and cost saving, and institute weekly reviews of the performance of games in the marketplace.
- **Section 3.5**: Advertising, Promotion and Player Communications describes initiatives for the marketing and promotion of games and for helping to make the best use of the marketing budget by introducing an econometric model that will assist in assessing the Return On Investment in marketing expenditure.
- **Section 3.6**: Retailer and Sales Support deals with a range of topics concerned with the selection and support of retailers. The objectives of these initiatives are to improve the quality of the retail network, to segment the retailers by their relative sales and to make the work of the field staff more effective by tailoring support to the real needs of the different segments.

SECTION 4
Section 4 summarizes the forecasts of the financial impact ascribed to each of the initiatives in Section 3. It recaps the forecast contained in the As-Is Assessment on the likely result of doing nothing. The financial benefits of each of the initiatives or groups of initiatives in the Business Plan are then combined into a set of 3-year forecasts for a range of possible scenarios, depending on the outcome of some of the game development initiatives. The forecasts also show the potential benefit of the passage of AB 142 in enabling higher prize percentages to be offered with Scratcher and other games.

Including the effects of AB 142 and under the assumption that all initiatives are implemented effectively, sales and net returns to education are expected to increase to $4.6 billion and $1.364 billion respectively by fiscal year 2012/13, compared with a decline in sales to $2.5 billion
and net returns of $847 million under a do-nothing scenario over the same period. The analysis of the effect of AB 142 assumed that Scratcher payouts can increase to 63%, with overall payout reaching 60% by fiscal year 2012/13.

SECTION 5
Section 5 describes the foundational information technology projects that were conceived and defined prior to the creation of this business plan and did not directly arise out of the assessment and recommendations of Project RENEW. However, these projects have been identified as fundamental to creating the platform required for this Plan to be successful, and will be subject to the same governance and implementation principles as all other initiatives set out in this Plan.

SECTION 6
Section 6 describes the roadmap for implementation, the team who will carry out implementation of the Business Plan, how implementation will be conducted, and how the success of the plan will be measured and tracked.
Section 2 STRATEGIC IMPERATIVES
Once the As-Is Assessment was completed at the end of October 2009, it was important to identify the essential strategic themes that would guide the next stage of the project—to examine and select options for implementing the necessary improvements over the next three years.

A set of Strategic Imperatives was therefore defined. These are succinct statements that encapsulate the themes that Project RENEW will focus on as we set our plans. In addition to setting the framework for the Project, these Imperatives are statements that can be distributed to all employees of and suppliers to CSL, so that they can see where their contribution fits into the recovery plan.

The Strategic Imperatives, the rationale for the Imperatives and the strategies to achieve them are as follows:

**STRATEGIC IMPERATIVES**

Focus on turning around draw game sales

There has been significant decline in high profit draw-based games over the last 3 years. The decline in sales and playership is not well understood and shows no signs of abating.

Because they provide the highest percentage return of all the games in our portfolio, they are an important contributor to the beneficiary. Their high profit enables more aggressive payouts in other games while attaining the overall payout plan. Because Lotto games are an essential core of any lottery’s product plan, it is vital that we understand the reasons for the decline and implement measures to reverse it.

**Strategies:**
- Stabilize and then grow draw game sales
- Stabilize and then grow the number of our players

**Ensure we are getting the most out of Scratchers**

Scratchers are operating well below their potential. Scratchers have been proven to be a high growth category across the United States as well as in California, throughout periods of our history, despite our tight restrictions on prize payout.

It is widely recognized that a higher prize payout would significantly increase Scratcher sales and profit. However, long term consistent growth in Scratchers is dependent on us adopting best practices for all elements of Scratcher management.

**Strategies:**
- Develop efficient use of prize payout funds for Scratchers
- Improve Scratcher distribution to meet player demand
- Manage Scratchers as an end-to-end business operation

Get the most out of our retailer network

The ability to maximize sales of our products through the retail network is restricted by the variable quality of a large percentage of the retailers. Currently 50% of the retailer base accounts for only 20% of sales. Yet these retailers are visited generally as often as higher volume and higher potential retailers. Because of their low volume sales, considerable effort by our sales representatives is spent transferring and re-allocating Scratchers for slow selling retailers. The cost of supporting this large and somewhat fragmented network is high both in terms of equipment and human resources required to service them.

Project RENEW presents the opportunity to segment the retailer network based on volume, age of retailer, and growth potential. This would provide the basis to re-evaluate how we manage our retail network and to tailor its servicing (including visitations), allocation of equipment, fees and remuneration based on these
segments. Adjusting tasks and policies to best service priority segments will not only increase sales but also increase the likelihood for retailers to become advocates for us.

**Strategies:**
- Identify current retailers with the greatest propensity for growth
- Remove or modify activities that do not provide net value
- Ensure that future selection is based on growth potential models
- Establish a business model and service levels commensurate with retailer performance

**Get the most for our Marketing Dollar**
In order to support stabilization and growth imperatives across products and in the retail channel, the marketing plan must be based on research and insight into consumer demand. Sound research will provide clear direction and justification for advertising budget levels as well as direct how that budget is spent and enable measurement of whether that spend has been successful.

**Strategies:**
- Become effective at testing and measuring marketing concepts and Return On Investment (ROI)
- Create an optimal marketing plan
- Ensure the consumer marketing and advertising budget supports sales driving strategies

**Allocate our resources to maximize profits**
Given the difficulties most immediately facing us, funds should be allocated to those core (‘back to basics’) business areas in most immediate need of support, with less emphasis on speculative or experimental areas at the fringe of the core business. Expenditure decisions must be made strategically and based on thorough and clear analyses of ROI.

**Strategies:**
- Spend more wisely on core activities
- Stop doing things that are not supporting Strategic Imperatives
- Wise use of capital investment given current state of the business
- Focus on efficiency and ROI

**Foster a performance management culture**
We lack a strong sense of individual and collective accountability for performance of the business and the mindset to actively drive sales across the organization. We must develop an environment of trust, communication, cooperation, and performance by documenting processes and procedures, clearly identifying measurements and goals, and developing accountability for results.

**Strategies:**
- Build trust across the organization and create a motivated workforce
- Establish a business process where research leads to actionable information and drives product and marketing development
- Develop clear lines of communication and accountability
- Encourage and embrace change and innovation at all levels

**Focus on building productive stakeholder relationships**
We can maximize our success if it has a supportive beneficiary, a strong public image, and a workforce proud to work for and be associated with us.

**Strategies:**
- Increase beneficiary support programs and visibility
- Increase problem gambling prevention efforts and visibility
- Increase consumer protection efforts and visibility

In the following Section 3, the initiatives that have resulted from this strategic overview and examination of the options for improvement are presented. In each case, the relevant Strategic Imperatives introduce the initiative.
Section 3 INITIATIVES
Initiatives

This section presents the initiatives that will be implemented by the end of fiscal year 2011/12. Each initiative is set in the context of the relevant Strategic Imperative(s) and each concludes with the plan for its implementation. A complete Road Map of all the initiatives is attached in Appendix A.

At the end of the description of the initiative, estimates of the financial benefits to sales and returns to education are calculated, where possible. The estimates are based variously on our research data, relevant third party research, and comparisons with lotteries. In some instances (such as the revised procedures for retailer support), initiatives have been grouped for the purposes of the financial analysis.

No attempt has been made to estimate financial benefits: i) where the initiative represents a necessary step in the implementation of other initiatives (such as retailer segmentation, described in 3.6.2) or ii) where there is insufficient information available to make sufficiently reliable estimates (such as the potential launch of Powerball in California).
3.1 Corporate Social Responsibility

3.1.1 AS-IS FINDINGS
We have a variety of initiatives and some engagement with stakeholders already in place. However, it is recognized that a more strategic approach to Corporate Social Responsibility (CSR) and stakeholder management is required. The focus should be on developing a stakeholder engagement plan which would be the basis for a high-level corporate responsibility strategy.

3.1.2 CSR STRATEGY

The strategic imperative relevant to the CSR strategy is: focus on building productive stakeholder relationships.

The CSR activity will also contribute to the achievement of a number of other corporate objectives. These are to:
- Foster a performance management culture
- Improve our brand image
- Create opportunities for partnership and support

The objectives of the CSR program itself are to:
- Build and maintain trust between us and our stakeholders.
- Help to understand and manage current and future risks.
- Stay ahead by being aware of new trends and changes of behavior in our stakeholders.
- Inform, educate and influence stakeholders and the external environment to improve decision-making and actions that impact the organization and society as a whole.
- Encourage understanding of the complex environment we operate in, including market developments and identification of new strategic opportunities.

The approach to development of a CSR strategy and plan to meet these objectives is to:
- Develop a CSR message and statement. These will be the declarations of our role and aspirations.
- Develop a Stakeholder Engagement plan. This is the heart of the CSR strategy that will direct the work of identifying and enlisting the support of all stakeholders with an interest in our future and success.
- Recommend communication strategies; the messages to be delivered and the channels of delivery.
- Define the management structures within our organization that will ensure commitment to and delivery of the CSR strategy.
- Define measures by which success in meeting the Strategic Imperative and corporate objectives can be judged.

CSR Message and Statement
The CSR Message is intended as a reminder to the public of our role and achievements. With the 25th anniversary of the launch of the Lottery approaching, the message is a simple statement of its essential purpose and history:

25 years of enhancing education and supporting local communities.

The CSR statement is an internal statement that expands the message to state those criteria that it will apply to delivering our mission:

To carry out our mission to maximize funding to schools by leading in consumer protection, supporting and enhancing local communities and minimizing our environmental impact.

We can already point to achievements against in this area:

On consumer protection:
- Our Security Law Enforcement Division represents one of the largest, most sophisticated law enforcement operations of any state lottery.
- The Retailer Code of Conduct includes measures to ensure consumer protection.
- Comprehensive consumer protection information is available on the web site.
- Check-A-Ticket devices have been installed in nearly
every one of our retail locations.

**On enhancing local communities, we now support the following programs:**
- Statewide Scripps Spelling Bee
- Chronicle in Education
- Distinguished Schools
- Teacher of the Year
- Young Biz

**On minimizing our environmental impact:**
- The new HQ building is LEED qualified which will lead to low carbon emissions, reduced waste, and increased recycling levels.
- Our Scratchers Replay Program reduces litter.
- We have office-wide recycling programs.
- We use biodegradable Scratcher ticket stock.

**Stakeholder Engagement Plan**
The Stakeholder Engagement Plan forms the basis for the Corporate Social Responsibility strategy and provides a general overview of the objectives for stakeholder engagement, the methodology and framework used and key success factors for engagement. It is described in detail in a separate document “Project RENEW: Stakeholder Engagement Plan.”

The stakeholder engagement plan is based on the internationally recognized Accountability AA1000 series. This is a set of standards for helping organizations become more accountable, responsible and sustainable.

**The standards are based on three main principles:**
- **Inclusivity:** the participation of stakeholders in developing and achieving an accountable and strategic response to a sustainable business.
- **Materiality:** the relevance and significance of an issue to an organization and its stakeholders. A material issue is an issue that will influence the decisions, actions and performance of an organization or its stakeholders.

All of the Lottery’s issues and stakeholders have been integrated into an overall stakeholder matrix table and been given a score indicating their relative priority. These have been developed by assigning scores to primary stakeholders for the issues that have high/medium and low importance (6 for high, 4 for medium and 2 points for low importance) and combining these with the scores assigned for secondary stakeholders (4 for high, 2 for medium and 1 for low importance). The combined scores were then prioritized as demonstrated Figure 1.

A further validation of scores with stakeholders will be part of the development of the stakeholder engagement plan.

**Responsiveness:** an organization’s response to stakeholder issues that affect its sustainability, and is realized through decisions, actions and performance, as well as communication with stakeholders.

**P Priorities**

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<tbody>
<tr>
<td>1</td>
<td>Prize payout</td>
<td>43</td>
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<tr>
<td>2</td>
<td>Sales/Commission</td>
<td>37</td>
</tr>
<tr>
<td>3</td>
<td>Changes to the Lottery act</td>
<td>35</td>
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<tr>
<td>4</td>
<td>Use of Lottery funds</td>
<td>33</td>
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<td>5</td>
<td>Availability of games</td>
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<tr>
<td>6</td>
<td>Responsible play</td>
<td>27</td>
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<tr>
<td>7</td>
<td>Due diligence/compliance</td>
<td>26</td>
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<td>Use of administrative funds</td>
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<td>8</td>
<td>Lottery facilities and technologies</td>
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<td>8</td>
<td>Retailer Fraud</td>
<td>25</td>
</tr>
<tr>
<td>8</td>
<td>Game portfolio</td>
<td>25</td>
</tr>
</tbody>
</table>

**Figure 1:** Priority stakeholder issues in California

**Primary and Secondary Stakeholders**
Stakeholder groups have been prioritized into primary and secondary stakeholders. In each case a “statement of intent” has been declared and the plan sets out recommendations for engagement. The primary and secondary stakeholders are listed in Figure 2.
Statements of intent

These are the statements of intent formulated for the stakeholders:

- **Players and Public**: We strive to offer innovative and entertaining lottery products to our players while maintaining the highest standards of integrity and consumer protection. We want to maintain players’ confidence and trust in the integrity of the Lottery by preventing underage play, raising awareness of problem gaming, and supporting our winners.

- **Employees**: Our success depends on our ability to attract and retain skilled people at every level of our business. We aim to create an environment where people perform to the best of their abilities and where they feel valued, supported and respected. We are committed to diversity, equal opportunities and to helping our staff achieve a healthy work-life balance.

- **Governmental Agencies**: We want to be trusted to operate the Lottery in an efficient and socially responsible way to maximize funding for public education.

- **Beneficiaries**: We want to maximize funding for public education in partnership with our beneficiaries. We also aim to provide additional support for California’s students and their local communities.

- **Retailers**: We seek to work together with our retailers to find creative and effective ways of selling Lottery products. We want retailers to represent the Lottery with the highest standards of integrity and consumer protection. Our relationship with retailers is one of shared goals, mutual trust, open communications and the assurance that the Lottery will provide guidance and support throughout the sales process.

- **Vendors**: We aim to work with our vendors in an open, sustainable and trusted partnership to ensure that they maintain the highest standards of integrity while supplying goods and services and supporting us to maximize funding for public education.

- **Local Communities**: We seek to support local communities by sponsoring programs that enhance education.

- **Gaming Industry**: We encourage the development of cooperative gaming opportunities that can further increase funding to public education.

- **Public Interest Groups**: We want to be trusted and acknowledged for our commitment to maintain the highest standards of consumer protection, environmental responsibility, and accessibility.

- **News Media**: We pledge to provide timely, accurate and interesting information to the media. We seek to develop a relationship with members of the media built on trust and open communication.

- **Law Enforcement**: We work to maintain and foster strong relationships with local, state, and federal law enforcement agencies and organizations. As one of the leading Lottery Law Enforcement agencies in the country we strive for honesty and integrity in California Lottery gaming.

**Communication Strategies**

As well as being a good corporate citizen, we must be viewed as a good corporate citizen. It will therefore be important to present consistent messages throughout the year in controlled communication channels, supporting the CSR Message and corporate messages and providing information on the key initiatives.

The same messages must also be integrated in a consistent manner in any form of stakeholder engagement.
Figure 3 indicates the use of communication channels and the intended audience (excluding the Stakeholder Engagement Plan):

<table>
<thead>
<tr>
<th>CONTROLLED COMMUNICATION CHANNELS</th>
<th>PRIMARY AUDIENCE</th>
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<td>Display area</td>
<td>Employees</td>
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<tr>
<td>Intranet—CLIC</td>
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<td>Employee newsletter</td>
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<td>Retailer magazine</td>
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<td>Terminal messages</td>
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<td>Lottery Briefing</td>
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<td>Consumer protection page on website</td>
<td>Law enforcement</td>
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<tr>
<td>TV Shows&amp; draws</td>
<td>Players &amp; Public</td>
</tr>
<tr>
<td>Advertising</td>
<td>Players &amp; Public</td>
</tr>
<tr>
<td>Tickets, point of sale material</td>
<td>Players, Retailers</td>
</tr>
<tr>
<td>Press releases</td>
<td>News media</td>
</tr>
<tr>
<td>CSL website</td>
<td>Players &amp; Public</td>
</tr>
<tr>
<td>Information booths (fares, festival, conferences)</td>
<td>Players &amp; Public, Law enforcement, Beneficiaries</td>
</tr>
<tr>
<td>Twitter, Facebook</td>
<td>Players &amp; Public, Employees</td>
</tr>
</tbody>
</table>

**Figure 3: CSR communication channels and audiences**

**CSR Governance**

In order to maintain the commitment to CSR across the organization, the program needs strong governance and the involvement of our managers at the highest level. CSR will continue to be led and governed by our Executive Director.

*The work of the CSR program will be guided by a Governance Committee. The recommended membership of the Committee is:*

- Chief Deputy Director
- Deputy Director CSR
- Deputy Director Corporate Communications
- Deputy Director HR
- Deputy Director Legislative Affairs
- Chief Legal Counsel

The Governance Committee will be chaired by our Executive Director.

Individual initiatives that make up the CSR program will be coordinated and monitored by the CSR Deputy Director but implementation will be the responsibility of the relevant business functions.
Measures of success
As the CSR program progresses, it will be important to monitor how well it is achieving its objectives. The following gives recommendations on the measures of success against the achievement of the Strategic Imperative and the corporate objectives that opened this section of the Business Plan.

Corporate objective:
Focus on building productive stakeholder relationships
- Ad hoc performance measures depending on the initiative (e.g. consumer protection, messaging in retail etc.).
- Retailer satisfaction (annual retailer satisfaction survey).

Corporate objective:
Create opportunities for partnership and support
- Number of hits on the consumer protection part of the website (pre- and post-remodelling).
- Amount of coverage in news media related to CSR messages (number of clips).
- Percentage of problem gambling relating to the Lottery (e.g. as reported in prevalence studies).
- Average weekly per capita spending on Lottery products in comparison to the industry average.

3.1.3 CSR IMPLEMENTATION PLAN
The Plan to deliver the CSR Strategy is shown in the Implementation Plan (Figure 4). Work is on schedule with the Stakeholder Engagement Plan now available.

Figure 4: Corporate Social Responsibility Implementation Plan
3.2 JACKPOT GAMES

3.2.1 AS-IS FINDINGS RECAP
The As-Is findings for Jackpot Games focused on the general decline of the category since 2005, and specifically the situation with respect to SuperLotto Plus (SLP):

- Combined sales of both MEGA Millions and SLP were less in 2009 than for SLP alone in 2004. The most alarming source of decline has been in SLP, with MEGA Millions remaining relatively stable since launch in 2005. According to tracking studies, approximately 4 million people have stopped playing SLP on a regular basis since 2002, and those who are playing are spending less.
- SLP is displaying all the hallmarks of what other in-state lotto games have experienced—sales trend declines and reduced playership—which are then exacerbated by competition from multi-state lotto games. However, SLP still contributes a higher percent of total sales in California than does any other lottery’s in-state game. At more than $400 million annually, it is essential that the decline is halted.
- Through research conducted prior to Project RENEW and the initial As-Is Assessment, there is now some understanding for the reasons of the decline in SLP:
  - Jackpot fatigue (cannibalization effects of MEGA Millions)
  - Jackpot win frequency
  - Overall player win frequency and quality

Nationally, in-state lotto games have been declining in sales. However, Scratchers sales have also dramatically risen in other states and that has more than offset the loss of in-state lotto sales. However, we have not been able to convert the lost SLP sales into our other products, be it MEGA Millions or Scratchers. Existing research does not provide a thorough and deep understanding as to why playership has lapsed and spending has declined or what may stop current players from lapsing in the future and arresting the decline in future spending. Yet this loss of playership is one of the greatest potential threats to the long term health of the Lottery.

- Because of its high profit margin and ability to generate loyalty among its players, it is critical for the health of the overall portfolio, that the decline in the draw-based Games category as a whole—and SLP in particular—is stemmed.

Powerball and MEGA Millions Cross Selling
MEGA Millions and Powerball are each operated by a consortium and consist of a group of states that offer one of the games in their state. In the fall of 2009, the two multi-state consortiums that operate Powerball and MEGA Millions decided to allow participating lotteries to sell both games simultaneously—known as “Cross-Selling.” Cross-Selling began with several dozen participating lotteries on January 31, 2010. Given the timing of the initiative and this potential new opportunity, it was not subject to the As-Is analysis stage of the project. However, the cross-selling initiative presents a significant potential opportunity and the recommendations below incorporate the consideration of the Powerball cross-selling that was made during the Options analysis stage.

The initiatives in the Business Plan that respond to these findings are as follows:

3.2.2 DEVELOP SLP OPTIONS

Strategic Imperative:
Focus on turning around draw game sales

SLP sales are declining at a rate of about 10% per year and this trend appears to show little sign of slowing. This initiative would begin immediately and be tasked with the development of a modified Lotto game, to either make adjustments to the current SLP game, or to adopt a completely new game.
This initiative will include robust and systematic game development and research that will develop, consider and analyze a series of viable options for changes to the current SLP game or an SLP replacement game:

**Background Research and Consumer Insight**
Background research focuses on two areas: previous in-house research on lotto-style draw games and industry research. Industry research found that similar in-state lotto game sales decline in other jurisdictions after that jurisdiction joined a multi-state game with bigger jackpots. However, some states have experienced meaningful incremental sales from the combined in-state lotto and multi state game.

**Game Design Concept Testing**
Six waves of concept testing were conducted on our website between November 2009 and February 2010.

**Preliminary Review and Ranking of Test Games**
Four alternative game formats have been identified which are referred to as test games. Major research activities during this portion of the project included: focus group testing (completed), Sales Division Oversight Committee ranking of games (completed), Project Team ranking of games (in progress), and Operational and Legal Assessment of all test games (in progress). Qualitative research will also be conducted to ensure that there is enough consumer support and excitement to take these alternatives to final testing.

**Lock Down on Game Concept Alternatives**
Specific alternative games have been suggested for a final round of testing. Other alternatives are being considered, including making adjustments to the current SLP game. When any of these alternatives demonstrates strong consumer approval and support then senior management will make the actual decision on which of these alternatives proceed into final testing.

**Develop Research Stimulus**
As a general expectation, there might be three finalist test games with each game having two or three different versions depending on the attributes assigned to them. Complete game descriptions will be made available with animation, sample tickets and draw results, prize structures, etc. These results will need to be fine-tuned later on, but they should be of high quality.

**Qualitative Concept Screening—Focus Groups**
After the final alternatives have been selected this step is where messaging strategies are refined for the test games, including some game name research. There will probably be six two-hour focus group sessions, two of which would be conducted in Spanish.

**Refine Concepts, Stimulus and Develop Final Test Design**
This is the final stage of preparation getting ready for research where the test game variations are pitted against SLP in head-to-head competition. This means final survey formats language, and questions; survey populations identified and ready to go (Lotto players; Replay Program participants; sales representatives; retailers; and in-store survey intercepts, which will likely include a Spanish language component).

**Conduct Final Quantitative Research**
This is the actual survey execution phase. Some survey elements are likely to be done before June 10, 2010, and analysis of the survey results can begin as soon as the results are available. The great majority of the surveys will consist of pitting one of the proposed test game iterations against SLP in head-to-head competition. However, for retailer and sales representative survey populations, the survey format will need to be modified to accommodate multiple game versions in a single survey.

**Final Consolidated Survey Results and Report**
The survey results should speak for themselves, so there should not be much custom analysis to support the findings. By July 22, 2010, a short report and associated PowerPoint presentation will be presented to the Director’s Office.
**Technical Implementation Plan**

This effort will produce final game programming specifications and address, at a high level, all internal and legal implementation requirements for procedures, regulations, new reports, etc. This Plan will not provide much detail in the areas of communications, as that will be handled in a separate Plan. The actual technical implementation effort will be coordinated by our Draw Games Implementation Team.

**Communications Plan**

With assistance from our contracted advertising firms and point of sale contractor, a detailed communications plan will be produced that explains, in some detail, the specific communications strategy with supporting justification.

**Proposed Game Launch Date: Mid-January to Mid-February 2011**

**Financial effect**

This initiative has been designated as Group 1 in the financial forecasts (see 4.2) and accounts for $232 million in sales and $104 million in returns to education from fiscal year 2009/10 to fiscal year 2012/13.

Initial research into developing a new SuperLotto Plus game has begun but given the number of alternative game formats under consideration, it is difficult to quantify a benefit for this initiative. On the basis that SuperLotto Plus can be redesigned or replaced to prevent further decline, the financial analysis assumes that annual SuperLotto Plus sales will drop to $400 million in fiscal year 2010/11 but then return to fiscal year 2009/10 levels of $472 million throughout the remaining years in the forecast period.

**3.2.3 CONSIDERATION OF CROSS-SELLING POWERBALL**

**Strategic Imperative:**

**Focus on turning around draw game sales**

With the introduction of cross-selling in January 2010, we have an immediate opportunity to sell both Powerball and MEGA Millions.

The potential for selling Powerball in California clearly presents a potentially significant opportunity, but also carries some currently unknown levels of risk. The purpose of this initiative is to assess and quantify these opportunities and risks in order to determine if this opportunity should be pursued.

**There are two primary parallel activities that should be pursued as part of this initiative:**

**Analysis of Cross-Selling Performance in Other States**

By deferring a decision to begin cross-selling immediately we now have the opportunity to benefit from the assessment of performance across all states currently selling both multi-jurisdictional games. It is proposed that a framework for data gathering analysis is established as part of a regular management review process. This process should consider the tracking of some key metrics that would support a potential decision to launch, or not launch, Powerball in California:

- Sales of new multi-state game.
- Incremental sales of multi-state games in total.
- Incremental sales across the portfolio.
- Cannibalization to sales of pre-existing multi-state games and in-state games.
- Trends of sales and cannibalization over time since launch.
- Tracking study evidence of playership.

**Quantitative Research Studies in California**

The initial activities for SLP research indicated a strong awareness of the Powerball brand in California and high propensity for likely play among current heavy SLP game players. Attempts will be made to quantify likely sales levels and the liability for cannibalization across the rest of the portfolio. This can take the form of quantitative research that has been shown to be effective in other jurisdictions.
3.2.3.1 CRITICAL DEPENDENCIES BETWEEN POWERBALL AND SLP

The introduction of the Powerball cross-selling opportunity occurring at the same time as the consideration of the options for SLP clearly creates some complexity with respect to dependencies and priority between the two initiatives. There are a number of concerns:

- To what extent the sales of a new game (Powerball) would be incremental and to what extent those sales are likely to cannibalize existing games such as SLP. Experience with the MEGA Millions launch in 2005 resulted in a 35% drop in SLP sales and a 10% decline in Fantasy 5 sales.

- How the introduction of a new game affects the balance of the portfolio overall and considerations of differentiation across the portfolio. Powerball has an identical play format to both MEGA Millions and SLP. In particular, PowerBall draws are at the same dates and times as SLP; this suggests that cannibalization would be particularly heavy to SLP unless its draw dates are moved.

- The timing of a likely Powerball launch set against a likely SLP replacement launch.

*It is important to clarify the relationship between the two, and what this means for implementation of the respective initiatives. There are some general strategic principles to be considered across these initiatives:*

- SLP has a strong heritage in the State, and in spite of the recent decline, is still forecast to contribute over $400 million in annual sales in 2011. Investigation should be carried out as a first priority as to whether there is a potential game evolution that could arrest this decline or even provide a platform for future growth of a state lotto game. This is per the initiative described in Section 3.2.2.

- Powerball should be considered as an opportunity with risk. An assessment of the relative size and likelihood of the opportunity being realized in California, and the significance of risk should be pursued as per the initiative described in Section 3.2.3. A decision to launch Powerball in California should only be taken if the analysis of performance in other states shows potential for incremental sales. California should also carefully study marketing and promotional efforts by states who may have successfully cross sold these two multi-state games.

- The decision on the timing and implementation of the draw-based game initiatives will be based on the results of extensive research and game testing as well as an analysis of other states’ experience with two multi-state games. The goal is to launch an alternative to SLP or add Powerball sometime between February and May 2011. This will serve two purposes:

  - Stabilize draw based game sales during the next fiscal year.
  - Provide an opportunity to create some differentiation in the portfolio between the state lotto game and current multi-state game—thereby creating potential ‘room’ for a future Powerball launch.

- If there is no identified game alternative to SLP that research indicates could serve to stabilize the current decline, then providing that Powerball researches well in California and performs well in other states, the decision to launch Powerball could be brought forward to launch as soon as possible.

- If there is both a game option for SLP that researches strongly, and analysis of Powerball suggests a strong incremental opportunity in the State, then the launch of Powerball should be considered.

Until research and analysis has been fully carried out, then the relative merits of each option cannot be fully quantified or compared against each other. The specific timings, sequence and proximity of likely launches cannot therefore be finalized until this is done.

### 3.2.4 IMPLEMENTATION PLAN

The Implementation Plan for the initiatives described in 3.2.2 and 3.2.3 is shown in Figure 5.

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>JAN</td>
<td>FEB</td>
</tr>
</tbody>
</table>
| ![SLP & Powerball Decision](image) | ![SLP & Powerball Launch Slot 1](image) | ![SLP & Powerball Launch Slot 2](image)

*Figure 5: Jackpot Games: Implementation Plan*
3.3 **Other Draw Games**

3.3.1 **AS-IS FINDINGS RECAP**

The As-Is findings on the Other Draw Games focused on Hot Spot and the process for developing new games:

- Although the number of Hot Spot retailers has declined and playership has fallen since the move from fixed prizes, to pari-mutuel and then to typical prize amounts, the past performance suggests the game has the potential to be a much larger contributor to sales, especially with the opportunity to raise payouts.
- For the future, a game development “pipeline” process should be established. This pipeline would continually be alive to new game opportunities as well as game add-ons and would search out new game ideas, test marketing game concepts, and have them available to develop and take to the market when needed.

*The initiatives in the Business Plan that respond to these findings are as follows.*

3.3.2 **REVIEW OF HOT SPOT BUSINESS**

**Strategic Imperative:**

**Focus on turning around draw game sales**

Hot Spot represents about 4% of our annual sales (or just under $120 million). The game was adversely affected by the move from a fixed prize structure to a pari-mutuel structure that occurred in 1996 as a result of a ruling by the State Supreme Court. This resulted in the loss of a large number of players whose loyalty to the game was based on winning a meaningful top prize.

For some time the game has not been supported by any player communications or consumer marketing activity. However, there is evidence that recent promotions have had a positive effect and the change in prize payout legislation will present a real opportunity to rekindle interest in the game by increasing the amount of lower level prizes. Additionally, a successful Hot Spot product and its potential to social establishments could lead to new retail channels to distribute other lottery products.

This initiative is to review all areas of the Hot Spot business utilizing the Workstream members’ specific areas of expertise. All subject areas will be reviewed in order to identify and locate any existing data and research as well as anecdotal opinion. A summary and recommendation document will be compiled.

**Areas of Hot Spot business to be reviewed include:**

- Hot Spot product management assignment and support within our product management function.
- Past and current retail outlets.
- Retailer support.
- Game matrix, style, method, frequency, price point, and winning experience.
- Marketing and presentation, using the video terminal to educate players on how to play Hot Spot and to encourage consumers in the establishment to play.
- Consumer opinion of the game.
- The experience of other states with similar games.
- Competitive products within California.
- Potential playership including demographics and new markets.
- Technology.
- Promotions.

The Hot Spot strategy will be in two stages. The first stage is in process now and includes reviewing all best practices with regards to Keno type games and focusing on specific quick fixes—such as increasing amounts of lower level prizes and focusing on promotions that have gained incremental sales.

**Financial effect**

This initiative to review the Hot Spot business has been denoted as Group 2 in the financial forecasts (see 4.2) and accounts for $155 million in sales and $64 million in returns to education from fiscal year 2009/10 to fiscal year 2012/13.
By establishing a head of the Hot Spot business, responsible for planning promotions and monitoring opportunities within the business, the added focus on sales is estimated to add $24 million in fiscal year 2010/11. Adding more retail locations for Hot Spot terminals in prime areas is projected to increase sales by $38 million in fiscal year 2011/12 and $93 million in fiscal year 2012/13.

### 3.3.3 GAME DEVELOPMENT PROCESS

**Strategic Imperative:**

**Focus on turning around draw game sales**

The As-Is assessment found that there have been no new lower jackpot draw games launched in recent years and there are no games ready to launch when needed.

**The recommendation is that there should be a process that:**

- formally assesses the overall state of the portfolio and individual games, (from a consumer insight perspective)
- a clear position and priority on which games are candidates for future development (and when)
- a “pipeline” of games to be developed that address these consumer needs and priorities. The pipeline should develop game concepts and research them and have them ready to take to market when needed.

This initiative responds to that recommendation by taking a fresh look initially at the current game development process, from game concept testing to delivery of the final game to market.

From this a framework of the development process will be produced showing areas for improvement and streamlining.

Once the process has been optimized, then it can be employed to take proactive decisions to grow the portfolio to increase sales.

The process will occur in a series of quarterly management reviews that set priorities for game development across the portfolio, and time frames for research and launch.

### 3.3.4 OTHER POTENTIAL OPPORTUNITIES

While our initial priorities are focused on fixing SLP, we are aware that there remain opportunities in other draw games such as Daily Four, Daily Three and Fantasy Five. These games fit the model of generating higher margin sales which can be directed toward funding Scratcher sales increases. Some US lotteries have experienced growth in other draw games, especially Fantasy Five-type games and the project plans to glean any lesson learned from their experiences. Very targeted market testing will also be carried out to determine how responsive these products are to increased advertising and in store marketing.

### 3.3.5 OTHER DRAW GAMES IMPLEMENTATION PLAN

The Implementation Plan for the initiatives described in 3.3.2 and 3.3.3 is shown in Figure 6.

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**Figure 6:** Other Draw Games (Lower Jackpot Games): Implementation Plan

<table>
<thead>
<tr>
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<td>Lower Jackpot Games</td>
<td>Lower Jackpot Games</td>
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<td>Hotspot Game Recommendation</td>
<td>Game Dev. Process Designed</td>
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<tr>
<td>NPD Portfolio Review 2</td>
<td>NPD Portfolio Review 3</td>
</tr>
</tbody>
</table>

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3.4 Scratchers End-to-End

3.4.1 AS-IS FINDINGS Recap

The As-Is findings on the Scratcher category are:

- There are too many old and slow-selling games in the market at any one time, clogging dispensers and preventing the sale of newer, faster selling games.
- There is a wide variation in the sales performance of retailers and yet many poor performers continued to receive more stock than they can possibly sell. The retailer network should be classified by sales volume in order to create allocation and stock holding rules appropriate to each classification.
- Even with the introduction of higher prize payouts there is an opportunity to improve the management of prize payouts for Scratchers. By reviewing the prize structures of games launched in the past two years and standardizing and streamlining prize levels, the additional prize payouts will be used as effectively as possible to ensure that both consumers and retailers notice the difference.
- More effective management of Scratchers would benefit from regular monitoring of performance indicators and targets that are agreed between Marketing, Sales, Distribution and Scratcher Inventory Management Unit (SIMC). This data would form the input to a weekly sales and marketing meeting.
- More effective management of Scratchers would be best served by having a single manager of Scratchers with responsibility for the end-to-end management of the brand from concept to sale. Part of his or her responsibility would be to review existing ticket design and oversee ordering and distribution processes to root out inefficiencies and solve potential problems before they get to the retailer.
- Wider consumer research would help to establish exactly what players want from the games. Research into games before launch could prevent costly expenditures on poorly performing games.

There are a number of lessons learned from the fiscal year 2009/10 game plan as detailed in the separate Scratchers Strategy paper. Some of these have now been converted into opportunities as detailed later in this paper under the fiscal year 2010/11 Game Plan “Headlines.”

The initiatives in the Business Plan that respond to these findings are as follows.

3.4.2 Removal of Excess Games

Strategic imperative: Ensure we are getting the most out of Scratchers

We maintain too many Scratcher games both in distribution and available in market. The average number of facings per retailer is between 16 and 20 while the average number of games in distribution is closer to 40 and games in market are approaching 50.

This surplus of games causes stock congestion and poor availability preventing the activation of the fastest selling games. This stock congestion is frustrating for the retailer and time consuming for the sales force, taking resources away from their primary task of selling.

As a means of driving availability of the faster selling games and freeing up the sales force to focus on other areas, this initiative will reduce the number of games both in distribution and available in market.

The target is to reduce games in distribution to 23 and the number of games available to purchase down to 32. This initiative is already underway as part of the package of quick wins that were approved at the Commission meeting on December 5th 2009. We closed 13 games at the end of February 2010. A subsequent phase was completed in which there was closure of a further 15 games in March 2010. The games being removed from market will be a mixture of the oldest and those with the lowest rate of sale.
The project has been organized into four phases.

- **Preparation/Decision Phase:** This phase will quantify the number of games on sale and to decide on the desirable number. Decisions on games to be removed will be achieved by ranking the games by sales per week per retailer.
- **Communication Phase:** In this phase, the Sales Division, Finance Division, Distribution Warehouses and the sales representatives are informed of the coming task and are prepared for exceptional events, for example, large numbers of returns to the Warehouse and credit requests to the Finance Division. Retailers will be informed which games will be removed to encourage them to sell or replace them early.
- **Implementation Phase:** This phase creates lists of retailers where the games to be removed are present will be provided to the sales representatives. A process document will be created for the sales representatives who will be tasked to remove the excess stock as part of normal retailer visits. Our Scratcher Inventory Management Unit will amend regular orders to include replenishment stock or make interim orders for replenishment.
- **Review Phase:** In this phase, the emphasis will be on checking whether retailers have current and best selling games activated and available to players. Target retailers will be reviewed to determine any impact on sales. The effect on the workload of sales representatives, the Warehouse and Finance will also be assessed as part of this phase.

**Elapsed times scheduled for the phases are:**

- **Preparation/Communication Phases**—3 weeks
- **Implementation Phase**—6 weeks (based on a 3 week sales representative visit cycle plus contingency)
- **Review Phase**—3 months

The expected benefits from this initiative will be:

- Increased sales through use of better performing games across the whole retail network.
- Reduced overhead and trunk stock for sales representatives.
- Reduced workload for Finance with reduced retailer account adjustment requests.

**Financial effect**

This initiative to reduce the number of Scratcher games in distribution and in market has been denoted as Group 3 in the financial forecasts (see 4.2) and accounts for $316 million in sales and $112 million in returns to education from fiscal year 2009/10 to fiscal year 2012/13.

To estimate the gain from the initiative, the loss in sales from removal of the poorer selling games is netted against the gain from the improved sales of better performers resulting in a net gain figure.

**The financial benefits for the $1, $2 and $3 price point have been calculated as follows:**

- The current game portfolio of ten $1 Scratchers will be reduced to eight. Making a prudent assumption that sales of the poorest games, which amount to $14m, can be replaced at a rate between the third and fourth highest selling games, the potential gain of $25 million results in an incremental benefit of $11 million per year.
- For $2 Scratchers, eight games will be removed, with potential sales loss of $70 million, but a potential gain of $114 million for an incremental benefit of $44 million per annum, based on similar assumptions stated above for $1 Scratchers.
- For $3 Scratchers, nine games will be removed, with potential sales loss of $160 million and a potential gain of $202m for an incremental benefit of $42 million, based on similar assumptions stated above for $1 Scratchers. We have one of the most successful $3 categories in the US, particularly for extended play games. The improvements in availability will make the most successful $3 games more accessible to players and this will drive sales.

### 3.4.3 Retailer Classification

**Strategic imperative:**

**Ensure we are getting the most out of Scratchers**

All of our retailers have been supported equally, regardless of their sales performance. But retailer performance has been highly variable across the network—some with ticket sales less than $600 in Scratchers per week. The consequences are that valuable sales force time has been spent on unproductive retailers and ticket stock has been...
sent to retailers who can’t sell it, while other retailers are in need of such inventory.

This initiative is to rank retailers by Scratcher sales levels and to set the levels of support and ticket stock distributed to them accordingly.

The initial recommendation is to segment retailers into six bands A to F based on average weekly volumes. The level of support provided to each band is shown in Figure 7.

Duration of the project to classify the retailers is estimated at two weeks. Implementation of the process will be through the Retailer Sales Teams, Finance and the Warehouse.

The result of this initiative will provide a new tool for Scratchers retailer administration.
3.4.4 2009/10 AND 2010/11 GAME PLANS

**Strategic imperative:**
**Ensure we are getting the most out of Scratchers**

**Higher Prize Payouts**
Assembly Bill 142 (AB 142) was passed by the Legislature and signed by the Governor in April 2010. AB 142 is key to future growth because it removes a highly restrictive law that prevented Scratchers from reaching their full potential. Specifically, AB 142 removed the requirement that 34% of all ticket sales be transferred to education, lowered the administrative expenditure cap from 16% to 13%, and establishes minimum performance levels for five fiscal years to ensure that the AB 142 has its intended effect. Instead of a fixed 34% requirement, the Commission is empowered to establish the percentage at a level that would return the most total dollars to education. Until AB 142 was recently amended to allow for higher payouts we had one of the lowest available prize payouts for instant ticket games in the country at around 57.5 percent. The management of low payouts was very challenging and, as a consequence, it was not possible to maintain a $5 game in market for an entire year. Cumulative sales are approximately $500,000 to $1 million per week higher when there is a $5 game available for distribution in market, making it clear that there is high demand from both consumers and retailers.

Low prize payouts in the past have meant that the full potential of Instant ticket sales has never been realized. The implementation of higher prize payouts will positively impact sales across all price points but most importantly it paves the way for a multiple $5 strategy in the short term future, something that California’s consumers and retailers have been waiting for.

Instant ticket sales growth across other US lotteries has predominantly been driven by sales of higher price point tickets. AB 142 creates the opportunity to experience the same type of growth and to establish themselves over time as perhaps the biggest Instant ticket seller in the US.

**Elimination of Irregular and Unnecessary Prize Levels**
Although higher prize payouts are a huge opportunity, it is important to use the additional payout as effectively as possible to ensure that players and retailers see a noticeable difference. An extensive review of Scratchers prize structures has identified an opportunity to make better use of available prize payout. The majority of the prize structures that were analyzed may contain too many irregular and unnecessary prize levels.

The definition of irregular prizes are those levels above $5 that are not divisible by 5 (e.g. $7, $12 etc). For example, $60 worth of payout could be used to fund 6 winners of $10 compared to 5 winners of $12.

The definition of unnecessary prizes are those which if reduced will not have a negative impact on the winning experience (e.g. $150 becomes $100, $60 becomes $50, $30 becomes $25 or $20 etc). For example, reducing a $60 prize to a $50 prize can free up around $300K in just a single game.

A series of Scratchers prize structure templates have been produced based on higher prize payouts. The tactical removal and replacement of irregular prize levels throughout the templates will ensure that additional payouts are used as effectively as possible to ensure that players experience meaningful cash wins more regularly. This practice has been employed by other successful US lotteries such as Pennsylvania, Texas, Florida, Massachusetts, and New York.

**Product differentiation**
In developing the 2010/11 game plan, the team is also applying new principles to make clearer differentiation between Scratchers games. Scratchers differentiation is important because one of the significant contributors to revenue growth will come from players trading up to higher price point games. Game differentiation will help players make easier product choices and perceive a rationale for trading up wherein consumers move up from a $1 price point to a $2, for example.
New rules have been defined and will now be applied to all new Scratchers games helping consumers to understand the value of trading up. Figure 8 illustrates the proposed differentiation strategy for the 2010/11 game plan.

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<tr>
<td>CHANCES</td>
<td>1 – 5</td>
<td>10</td>
<td>6 – 16</td>
<td>16 – 20</td>
</tr>
<tr>
<td>FEATURES (Multipliers etc)</td>
<td>Use only one feature per game</td>
<td>No more than two features</td>
<td>No more than three features</td>
<td>Three to four features</td>
</tr>
<tr>
<td>CALLOUTS</td>
<td>Top prize + maybe one other callout i.e. number of ways to win</td>
<td>Top prize + maybe one other callout</td>
<td>Top prize + one maybe two other callouts</td>
<td>Top prize + one maybe two other callouts</td>
</tr>
<tr>
<td>SEGMENTS</td>
<td>Money, Gaming (Cherry only), Luck, Numbers, Whimsical, Seasonal, Family, Wealth</td>
<td>Money, Gaming, Luck, Numbers, Seasonal, Extended, Licensed, Family, Wealth</td>
<td>Gaming, Numbers, Extended</td>
<td>Money, Wealth, Seasonal, Gaming,</td>
</tr>
<tr>
<td>EXTENDED</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PLAY STYLES</td>
<td>Tic Tac Toe, Match 3, Key Number Match, 3 in a row, Add ‘em up</td>
<td>Key Number Match, Extended, Tic Tac Toe, Add ‘em up, Match 3</td>
<td>Extended play, Poker</td>
<td>Key Number Match, Match 3, Poker, Extended</td>
</tr>
<tr>
<td>GAMES TO PLAY</td>
<td>1 – 2</td>
<td>1 – 3</td>
<td>1 – 4</td>
<td>2 – 5</td>
</tr>
</tbody>
</table>

**Figure 8: Scratchers differentiation**

### 2010/11 Scratcher Game Plan

The 2010/11 game plan has approaching completion in preparation for the upcoming fiscal year.

**Headlines**

- Sales forecast of $2.20 billion
- 46 game launches (15 – $1, 13 – $2, 13 – $3 & 7 – $5)
- Four different $5 games on sale at the same time
- All games will be developed with our core player in mind
- First ever $5 crossword game
- First ever $5 holiday game
- NFL & potentially another licensed property
- Lower quantities of seasonal games to ensure “sell through” of all stock
- No $10 game (will be considered for the next fiscal year)

- Differentiated prize structures and product mix
- Free tickets on all products
- Continuous representation in market of core games
- 85% of games in a 20 bin dispenser will be higher prize payout games by September 2010

**Assumptions**

- 75% “on sale” availability for higher prize payout games
- Successful implementation of retailer segmentation
- Marketing support in September 2010 (to support higher payouts)
- Marketing support during holiday season
- Band A-D retailers have an average of 20 dispenser bins
- Aligned focus between the brand management team, sales representatives, and SIMC to drive availability of the right games at the right time in market
Incremental change in Scratchers

<table>
<thead>
<tr>
<th>($m)</th>
<th>FY 09/10</th>
<th>FY 10/11</th>
<th>FY11/12</th>
<th>FY 12/13</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total sales</td>
<td>—</td>
<td>534.0</td>
<td>151.9</td>
<td>293.8</td>
<td>979.7</td>
</tr>
<tr>
<td>Total educational contribution</td>
<td>—</td>
<td>97.7</td>
<td>62.4</td>
<td>112.0</td>
<td>272.2</td>
</tr>
</tbody>
</table>

*Figure 9: Sales and returns to education effects on Scratchers*

**Financial effect**

This initiative to rebuild the fiscal year 2009/10 Scratchers game plan and develop the fiscal year 2010/11 plan has been denoted as Group 4 in the financial forecasts (see 4.2) and accounts for $980 million in sales and $272 million in returns to education from fiscal year 2009/10 to fiscal year 2012/13. While this initiative creates game plans for fiscal year 2009/10 and fiscal year 2010/11, these calculations assume similar payout ratios in fiscal year 2011/12 and fiscal year 2012/13 and further progression in sales due to activities started in the first two years, such as continued presence of the $5 Scratcher game.

As shown in Figure 9 above, this initiative affects both sales of Scratchers while also cutting prize payout costs. The change in returns to education is mostly due to increased sales, but a portion of the incremental benefit is from the decreased prizes paid.

A likely source of Scratchers revenue growth will come from players trading up from $1 games to the $3 and $5 games. Sales for these two price points were hit hardest during the decline between fiscal year 2005/06 to fiscal year 2008/09 but there are strong levels of consumer demand for $3 and $5 games.

The prize structure templates described above will free up enough payout to fund the permanent presence of a $5 game in distribution. Average Scratchers payout, excluding prize payout for unclaimed low-tier prizes, reduces to 54.7% in fiscal year 2010/11 and 54.8% in fiscal year 2011/12 and fiscal year 2012/13 compared to the As-Is case where payout is 55.4% for all three years. Average Scratchers payout including unclaimed low-tier prize payout was 57% from fiscal year 2010/11 to fiscal year 2012/13.

Given the time required to realize these changes in ticket production and distribution, the benefits from these changes will not affect Scratcher sales for fiscal year 2009/10 but will be effective from fiscal year 2010/11 when a 58% increase in $5 Scratchers sales is projected, compared to a 21% increase in the As-Is case. $5 Scratchers sales are forecast to increase further in fiscal year 2011/12 and fiscal year 2012/13, though at a slower rate, as both consumers and retailers will have become accustomed to a permanent $5 game in the market. $5 playership should also increase as new players are attracted by the superior value for money and higher payouts.

### 3.4.5 ESTABLISH WEEKLY SALES MEETING

**Strategic imperative:**

**Ensure we are getting the most out of Scratchers**

**Strategic Imperative:**

**Foster a performance management culture**

The management of the Scratchers category can be made more effective by ensuring that all parties involved in the creation, distribution and sale of the product are informed regularly of the performance of individual games.
The recommendation to set up a regular meeting has now been implemented and it is already showing positive results. It is meeting the objective of making all relevant parts of the organization aware of game performance and allows for decisions to be made regarding retail priorities and game closures. One of the outputs is clear and concise communication to the sales force on the priorities for promoting individual games.

For these meetings we produced a list of metrics that suits our needs. These figures are placed within one report that is available on a regular basis. An extract from a typical meeting agenda is shown in Figure 10 to illustrate the topics covered.

The weekly Scratchers Product Review meeting has now been running since the start of December 2009 and is already aligning focus between divisions and generating actions as sales opportunities are recognized.

Figure 10: Extract from weekly Scratcher meeting agenda

<table>
<thead>
<tr>
<th>AGENDA ITEM</th>
<th>REVIEW DATA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scratchers Sales and Finance Overview</td>
<td>[Total Sales last week, Average run rate this year, required run rate to hit $1.5bn/$1.6bn/$1.7bn, YTD – total, % of target, % increase/decrease on last year]</td>
</tr>
<tr>
<td>Individual Game performance</td>
<td>[Top 5 gross performers, Top 5 Rate of Sale performers, Bottom 5 Rate of Sale Performers, Bottom 5 Gross Performers, Resulting actions]</td>
</tr>
<tr>
<td>Inventory Analysis</td>
<td>[Re-order requests, Out of stock]</td>
</tr>
<tr>
<td>Retail Priorities</td>
<td>[Changes of Scenes etc, New Games, Games to be closed]</td>
</tr>
</tbody>
</table>

3.4.6 COMPLETE END-TO-END REVIEW OF DISTRIBUTION CHANNEL

STRATEGIC IMPERATIVE: ENSURE WE ARE GETTING THE MOST OUT OF SCRATCHERS

STRATEGIC IMPERATIVE: ALLOCATE OUR RESOURCES TO MAXIMIZE PROFITS

The distribution chain for Scratchers, from stocking at the warehouses to placement in retailer dispensers, is a complex process. Unless it is kept under review, inefficiencies in parts of the process will become routine. This ticket distribution process has not been reviewed for a considerable period of time. In order to remedy this, and to synchronize with the end-to-end nature of the workstream and business area, this initiative will undertake a complete review. This will include physical shipment of tickets, ordering systems, warehouse location, and personnel.
The project will have five phases:

- **Review**: to examine every step in the process from Scratchers ordering, through decisions on which retailers receive stock to sales representative delivery and returns.
- **Analysis**: will check our ticket ordering system for optimum performance; assess the personnel needs in all areas of distribution; the policies and procedures that apply within the distribution channel and the pack and order movements.
- **Documentation**: will prepare reports on findings.
- **Options and alternatives**: will make recommendations on potential improvements.
- **Implementation**: will put in place those changes that prove beneficial.

**Scheduling estimates for the first three phases are:**

- **Review and Analyses Phases**: 3 months
- **Documentation Phase**: 6 weeks
- **Options and alternatives**: 6 weeks

Implementation is scheduled to complete by the end of November 2010.

**The expected benefits from this initiative include:**

- Increased sales through better inventory management.
- More effective marketing through targeted releases.
- Potential savings in personnel cost through more efficient use of the ordering system and warehouse savings.

### 3.4.7 Test the Value of Pre-Launch Research

**Strategic imperative:**

**Ensure we are getting the most out of Scratchers**

Decisions on the design and style of Scratchers games have largely drawn on experience of what has worked in California and launching games that have performed well in other states. Limited research has been carried out on game ideas to see whether players will find them appealing. A number of other successful US states, such as New York, Massachusetts, Texas, Illinois, conduct pre-launch game testing.

This initiative is to test the value of pre-launch research in California. In principle, by introducing products that players want, there will be benefit through reducing the number of poorly performing games and increasing overall sales. As we increase our penetration and offering of higher priced tickets, it will be imperative to test new ideas, attributes, play styles and play features of $3 and $5 tickets, in order to measure customer acceptance. A variety of qualitative and quantitative testing will be employed, including interactive, to accomplish this initiative.

On release into the market, care will be taken to ensure retailer penetration is similar for all games to avoid any sales bias through skewed distribution. Sales will then be tracked and reviewed against the research findings.

### 3.4.8 Scratchers End-to-End Implementation Plan

The Implementation Plan for the End-to-End Scratcher initiatives described above is shown in Figure 11.
3.5 Advertising, Promotion and Player Communication

3.5.1 As-Is Findings

The As-Is Assessment made the following observations about the marketing of our products:

- To start to recover sales of the large jackpot games, we should resume promoting big jackpots.
- Scratchers have received little promotion recently. The only game to receive promotional activities carried out through mass media (television, radio and newspapers) has been the ‘Make Me a Millionaire’ game in the past 24 months.
- Given the limited budget, measuring the effectiveness of marketing campaigns is vital. Tools need to be developed to measure the Return On Investment of these campaigns.
- The focus of brand campaigns has been on our brand, for example development of the revised logo, and not on specific games within the product portfolio. We need to develop each of our major portfolio products as a brand, to give each a distinctive identity and reason to play.

- The Marketing Division needs to develop best practices in preparing our marketing plans, including agreed-upon performance measurements, to ensure effective implementation of our strategy and to gain the support and buy-in from other divisions as well as senior management.
- A Marketing Plan for fiscal year 2010/11 should be produced that builds on the knowledge gained and revised processes resulting from other marketing initiatives in Project RENEW.

The initiatives in the Business Plan that respond to these findings are as follows.

3.5.2 Marketing Mega Millions

Strategic Imperative: Focus on Turning Around Draw Game Sales

Analysis of the sales performance of Mega Millions shows that players do respond to rollovers and the

![MEGA MILLIONS SALES PERFORMANCE — 2005 AND 2009](image)

Figure 12: Mega Millions sales per week versus jackpot levels at given number of jackpot rolls (Source: CSL sales data)
gradient of the sales trajectory is slightly better in 2009 than in earlier years (Figure 12).

This gives encouragement that Mega Millions is still responding as a large jackpot game should, although it would be better if the steeper gradients of sales increase started earlier in the roll series.

To encourage players to enter rollovers earlier, this initiative will re-initiate advertising of Mega Millions rollovers. There has been no sustained advertising of Mega Millions since 2006.

As well as improving rollover sales, with a consequent lift to base sales, the campaign is intended to improve awareness of Mega Millions and so re-engage lapsed and more occasional players.

The project will develop advertising for the Mega Millions brand, jackpot advertising support and Point of Sale material. Existing creative material from the earlier Mega Millions brand campaign will be reviewed, modified as necessary and aired again.

The advertising will be targeted in areas that have shown the greatest ROI for Mega Millions marketing spend. The objective is to air the new material from early March 2010 and for it to run until June 2010.

Financial effect
This initiative to market MEGA Millions has been denoted as Group 5 in the financial forecasts (see 4.2) and accounts for $75 million in sales and $33 million in returns to education from fiscal year 2009/10 to fiscal year 2012/13.

The projections assume that MEGA Millions would be advertised in the Los Angeles and San Francisco markets for 10 weeks in fiscal year 2009/10 and in Los Angeles for 10 weeks in fiscal year 2010/11 and fiscal year 2011/12 but with no definitive plans for fiscal year 2012/13. Thus, the benefits calculated in fiscal year 2012/13 are a residual effect of the marketing promotions in previous years. The funding for this initiative will be from the current marketing budget estimates.

The goal of this initiative is to raise the share of marketing budget for Los Angeles, the Designated Marketing Area (DMA) which has suffered the highest rate of decline in its share relative to other DMAs. It is assumed that this increase in market share in Los Angeles will increase sales accordingly, by the total estimated $75 million.

3.5.3 MARKETING SCRATCHERS
Strategic Imperative: Ensure we are getting the most out of Scratchers

With the exception of the Make Me A Millionaire show, the Scratchers product category has had limited advertising expenditure. But the initial positive reaction to MMaM game advertising indicates that sales of Scratchers may be responsive to advertising.

This project will advertise a Scratchers product with the objective of increasing sales through increasing awareness and re-engaging lapsed players. The project includes review of existing player research and will include measurements of the effect that the campaign had on sales.

The promotional material will consist of TV advertising and point of sale. The plan is to have the point of sale fully distributed and for the TV advertisement to be on air by early June 2010.

3.5.4 ROI ANALYSIS OF MARKETING CAMPAIGNS
Strategic Imperative: Get the most for our Marketing Dollar

This initiative will provide us with an econometric model so that ROI in marketing campaigns can be measured.

This model will help the marketing team make informed decisions on how to optimize future media spending across all media channels for the greatest impact on business performance.

As a basis for the development of the model, historical data will be collected for the last three years, including:

- Weekly marketing spending by game.
- Jackpot amounts by draw for SLP and Mega Millions.
- Campaign spend and timing.
- Related weekly sales data.
The objective is for the model to provide the following outputs:

- **The total annual sales volume and the proportion contributed** by each element of the media and marketing mix.
- **Quantification of the specific contributions** of each media and marketing driver to overall annual sales growth.
- **Quantification of the sales response** of each media and marketing driver towards our sales at various investment levels.
- **Quantification of the net financial ROI** for each media and marketing driver based on model results. This will also include a specific assessment of returns on individual game properties.
- **Marketing and Media Spending Optimization**—a determination of the most profitable level of total marketing and media spending levels based on financial returns.
- **Marketing and Media Spending—Mix Optimization**—a determination and recommendation of the best mix and levels of marketing and media spending to maximize total sales and returns at current spending levels.
- **Simulator**—An interactive simulation tool which will permit management to conduct unlimited “what-if scenario simulations”, which will provide real-time sales and profitability impacts of changes in any specific media and marketing investment.
- **Model Validations**—A statistical assessment of the model’s validity and accuracy for forward forecasting.

Development of the econometric model will be completed by a Lottery vendor. The development of the model will begin in 2010 with an estimate that it will be fully incorporated into the planning of marketing campaigns from the end of 2010 or early 2011.

**Financial effect**

This initiative to develop an econometric model to measure Return On Investment (ROI) in marketing spend has been denoted as Group 6 in the Financial forecasts (see 4.2) and accounts for $267 million in sales and $104 million in returns to education from fiscal year 2009/10 to fiscal year 2012/13.

The estimated sales benefit is based on advertising agency BBDO’s experience in working with other lotteries on implementing ROI techniques. BBDO provided a range of increase in total lottery sales between 3 to 12% resulting from implementing this initiative. Based on an assessment of the numerous initiatives taking place, a potential uplift of 3.5% is assumed for the first year (fourth quarter of fiscal year 2010/11 and first through third quarter of fiscal year 2011/12), 5% for the second year (fourth quarter of fiscal year 2011/12 and first through third quarter of fiscal year 2012/13) and 7% for the third year (fourth quarter of fiscal year 2012/13).

### 3.5.5 Brand Differentiation

**Strategic Imperative:**

**Focus on turning around draw game sales**

**Strategic Imperative:**

**Ensure we are getting the most out of Scratchers**

For the past three years, the focus of the marketing campaign has been on promoting the California Lottery brand, sometimes at the expense of promoting specific games that make up the product portfolio. Another significant portion of the marketing budget was spent promoting the message that ‘any prize was worth playing for with SLP’ in a failed effort to shift the emphasis of SLP from jackpot dependence.

This initiative is to develop a brand differentiation model. This will be a written framework that provides clarity between our corporate brand and our individual Lottery product brands.

The objective of the brand model is to provide a clear and concise method of communicating the distinctive characteristics of the core products in our portfolio to agencies, stakeholders and consumers. It will help consumers understand the differing value propositions of each game and enable them to select the game that most appeals to them. By offering choice and clarity, the aim is to attract new players and increase incremental sales.
3.5.6 MARKETING PROCESS REVIEW

Strategic Imperative:
Get the most for our Marketing Dollar

Strategic Imperative:
Allocate our resources to maximize profits

There are no formal documented processes within the Marketing Division defining how to turn a business planning and marketing strategy into a project. There is no documentation on marketing processes—from research and concept development through to testing, execution and performance measurement.

By defining, documenting and streamlining the marketing processes, future business activities and efficiencies will be enhanced. By making the processes known to a wider audience within the Lottery, the role of individuals and divisions will be made clear. This increased understanding that marketing plans are well structured will garner support for those plans across the organization.

The scope of the project is to:

- Identify the marketing needs for research and related analysis to be delivered from the Business Planning & Research Office.
- Review and document existing marketing activities within the retailer communications, consumer marketing, and advertising functions.
- Suggest process improvements and required documentation.

The analysis will include a review and suggested improvements for our marketing agencies’ processes.

3.5.7 MARKETING PLAN FOR 2010/11

Strategic Imperative:
Get the most for our Marketing Dollar

Strategic Imperative:
Allocate our resources to maximize profits

The marketing division will develop a strategic Marketing Plan for fiscal year 2010/11 that will be supported by our business and drive strong results in the market. The plan will be based on corporate financial objectives defined in the Business Plan. Capability in marketing planning, and required consumer and market research will be built up over time and some areas of marketing planning will therefore be excluded in the Marketing Plan for fiscal 2010/11.

The following areas and key deliverables will be included in the Marketing Plan:

- Strategy—High level product, consumer, marketing and advertising strategy.
- Finance—Clear financial objectives, cost analysis and timings for all marketing activities and related consumer research, data and insight (Business Planning activities).
- Consumer Research, Data and Business Planning—A research plan covering the consumer, product and advertising research that will be completed in fiscal year 2010/11. The research plan will be based on the research needs as defined by the Product Development, Retailer Communication and Consumer, Marketing and Advertising divisions.
- Product Development—A product plan covering all games that will be launched in fiscal year 2010/11. The product plan will also provide information on the applied product development process covering planning, concept development, design and testing. A recommendation on what products and specific games should be advertised in fiscal year 2010/11 will also be provided.
The benefits from this initiative include:
- A clear overview of all marketing requirements and activities for budgeting and sales forecasting.
- The framework for all activities and an agreed-upon direction on where our business is going and how we will get there.
- A Marketing Plan that will drive integration between our divisions by working together across the business to deliver the plan.
- A more market-focused and customer oriented direction across the Lottery.

The development of the Marketing plan is scheduled for end of June 2010. The plan will be delivered by June 30, 2010 and the implementation will start on July 1, 2010.

### 3.5.8 ADVERTISING, PROMOTION AND PLAYER COMMUNICATIONS IMPLEMENTATION PLAN

The Implementation Plan for above initiatives is shown in Figure 13.

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**Figure 13: Advertising, Promotions and Player Communications Implementation Plan**

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>JAN</td>
<td>FEB</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>▲</td>
<td></td>
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</tr>
</tbody>
</table>
3.6 Retailer and Sales Support

3.6.1 AS-IS FINDINGS

The As-Is assessment made the following observations and recommendations on the support of retailers and the activities of our sales teams:

- There is wide variation in the sales performance of our retailers. So that support and product inventory can be matched to performance, retailers should be segmented by sales level.
- There is an opportunity to increase sales, attract more players and provide more stability to the retailer network by adding strategic Key Accounts.
- The ROI from all of the various retailer incentive programs is unclear. This must be determined in order to understand whether these or other possible programs would meet the goal of increasing sales and building retailer advocacy.
- Re-engagement of trade associations can provide a useful sounding board on Lottery-related issues that affect one or all of the trade sectors.
- There is a lack of engagement between retailers and our upper management. Such engagement would be good for retailer relationships and would also give management a better understanding of the issues around selling Lottery products in the retail environment.
- Sales representative visitation schedules, route plans and sales call content principles and messages should be developed and tailored to each major retailer segment.
- The display of point of sale materials in retail outlets is highly variable and inconsistent.
- Too much of sales representative time is spent on low to no-sales generating activities such as: servicing the retailers, making sure point of sale material is available and moving Scratchers stock. There should be a more efficient and structured approach to call rates, journey planning (routing) and in setting and achieving call objectives.
- Regular communication between us and our retailers is important to maximize selling opportunities.

Centrally-generated communication should be continually honed with feedback from leading retailers and sales representatives on what works best so that best practices are transmitted across the retailer network.

- We have not been successful in attracting completely new distribution channels like shopping malls, big box retailers, new grocer opportunities (e.g. Fresh and Easy), and travel hubs.
- There is a general lack of active performance indicators and targets that are agreed upon between Marketing and Sales. Consideration should be given as to the information required and how it will be used to drive accountability and action within the organization.
- Distribution of Scratchers products and supporting material is not proactively matched to retailers’ ability to sell it.

The initiatives in this Plan that respond to these findings are as follows. The first five (3.6.2 to 3.6.6) are designated state-wide sales projects. The remainder will form part of the Sales Pilot Project to test new processes and techniques in the field.

State-Wide Sales Projects

3.6.2 Retailer Segmentation

Strategic Imperative:

Get the most out of our retailer network

It has been the practice for sales representatives to visit all retailers with the same frequency. Better use of their time would be made by concentrating more effort on those retailers who have the highest sales performance.

This project will categorize the existing retailer network by sales performance, broken down by chain versus independent, retailer trade channel, county, district and zip code. The segmentation will also include the retailers’ total years with the Lottery. This information will form the
basis of initial analysis that will identify both major problems and opportunities within the network.

For example, knowing that 50% of retailers contribute only 20% of sales while consuming 50% of our time and resources suggests changes, not only in service levels but also the need to develop a better support program for these retailers to maximize the investment in them.

Using recent historical data the retailer network is being segmented as follows:

- Segment the retailer network into six categories by total weekly sales of all game categories:
  - A—greater than or equal to $12,000 a week
  - B—$6000 to $11,999 a week
  - C—$2000 to $5999 a week
  - D—$1000 to $1999 a week
  - E—$500 to $999 a week
  - F—less than $500 a week

Categorize retailers within each segment to determine who are in these segments:

- By Chain Name
- By Sectors—Trade Style
- New (selling less than 6 months) and established retailers
- Percentage of retailers and percentage of sales
- Segment retailers in each District Office into six sales contribution bands as above.

The first phase of the activity will be completed in the first calendar quarter of 2010. It will form the basis of other retailer support initiatives and analysis, for example the revision of the sales representative visitation schedule.

3.6.3 KEY ACCOUNT SERVICE, COMMUNICATIONS AND NEW RECRUITMENT

Strategic Imperative:
Get the most out of our retailer network

There is an opportunity to increase sales and provide more stability to the retailer network by increasing the number of Key Accounts as well as by managing them more effectively.

This initiative will review, analyze and re-define the content, timing and frequency of communication between our Key Account Specialists and the corporate headquarters of Key Account retailers. It will also define the levels of service for each Key Account segment and the appropriate level of resources required to support the suggested service level.

To determine the optimum number of Key Accounts and guide recruitment of valuable Accounts, the project will define criteria that characterize the ideal Key Account. The existing retailers within the Key Account portfolio will be measured against these criteria and those that do not match the criteria will be de-listed.

To formalize the support for Key Accounts, an Account Management Methodology will be documented. This will give guidance on strategies for growing the Key Accounts, the requisite service levels, communication, Key Performance Indicators, training and development. Our Key Account Specialists will be trained in the Methodology.

The project will also review, analyze and define how corporate agreements and program can be better coordinated and communicated from Key Account Specialists to our Field Management and sales representatives.

This is a medium term project with a planned span of 6 months from start to completion.

Key Account Recruitment

Adopting a more formal and structured approach to the recruitment and management of Key Accounts will result in new Key Accounts who are supportive of us and who have the potential to bring new customers to the Lottery.

The approach to new recruitment will be a detailed analysis of the chain store market in California that will identify chains that exhibit a high potential for Lottery sales, through a review of important indicators, for example, trade style, number of outlets, average floor size, floor traffic, chain demographics and chain brand
recognition. Serious consideration will be given to trade channels that may not have heretofore been considered for a Lottery outlet.

Additionally, we will embark on a new, more vibrant and aggressive sales pitch to prospective new chains and trade channels and, where need be, will solicit the help of our senior management in the recruitment of these new prospects.

The project will identify six to ten potential chains or major trade channels and set parameters and Key Performance Indicators (KPI) for a pilot test.

The initial analysis of this initiative can be completed within 90 days. The recruitment can take up to 180 days and the implementation of Pilot/set up of retailers can be completed within 60 days. It will take up to 330 days in total to deliver a pilot for Hot Spot (i.e. social trade style) locations or any other segments in which we are not currently represented.

In the case of Malls (Westfield Malls & Simon Malls) and Travel Hubs (Sacramento International Airport and San Diego International Airport) the majority of the analysis phase has already concluded.

Financial effect
This initiative relating to Key Account service and new recruitment of retailers has been denoted as Group 7 in the financial forecasts (see 4.2). This includes placement of existing equipment at retailers and focusing on Key Accounts to add $62 million in sales and $24 million in returns to education from fiscal year 2009/10 to fiscal year 2012/13. Additional incremental sales from malls and airports have been calculated but will not be added until the analysis phase has concluded.

We have equipment already purchased from GTECH but awaiting installation. From our data on individual machine sales, installation of this equipment is estimated to add sales of $61 million over the projection period.

3.6.4 Retailer incentives and compensation

Strategic Imperative: Get the most out of our retailer network

Strategic Imperative: Get the most for our Marketing Dollar

We run a number of retailer incentive programs to encourage retailer engagement and sales performance. Most indicators suggest that we are receiving little, if any, ROI from these programs. This project will fully analyze current programs and devise alternative programs and retailer compensation structures that will have demonstrable benefits in increased sales.

Until the analysis is complete, a number of the existing incentive programs will be discontinued, including the Retailer of the Month (ROM) and Retailer of the Year (ROY), as the ROI to us is not at all clear. Others will be subject to review to decide on their future. While the reviews are being conducted, interim programs will be introduced featuring ‘retailer success stories’ on sales performance, merchandising, promotions and/or community involvement.

The project will have two parallel streams, one working on the retailer success stories and the other taking a fundamental look at all retailer incentives.

The tasks to build the retailer success stories will include a makeover program for selected retailers to enhance Lottery awareness and increase sales. The material to form the basis of the makeover program will draw on the results of the Ideal In-Store Execution initiative (3.6.8 below). Candidates will be chosen from the segmentation analysis (initiative 3.6.2) with each sales representative choosing a retailer in their territory to nominate. District Managers will pass nominations to Sales HQ for review and approval.

The project stream to build ‘sales success stories’ began in February 2010 and will be delivered and implemented by early 2011.

The next steps on the wider review of retailer incentive programs will determine the ROI for existing programs.
and develop guidelines based on these findings on future implementation of in-store promotional programs.

**Included in this latter analysis will be a broader examination of the overall balance of trade between us and our retailers to understand whether there is an optimal model that simplifies the flow of money in both directions, creates better incentives for retailers, and results in overall lower costs for us.** This will include:

- Commission levels that are generous compared with other US lotteries, notably the 6% sales commission (4.5% for self serve terminals).
- The (up to) 3% cashing bonus.
- The 0.5% Jackpot Retailer Incentive.
- The sign-on fee and regular administration fees that retailers currently pay us; specifically, the idea of lowering these fees for a reduction of some of the cashing bonus.

### Financial effect

This initiative to re-examine retailer incentives has been denoted as Group 8 in the financial forecasts (see 4.2). It does not have any effect on sales but it does increase returns to education by $300,000 from fiscal year 2009/10 to fiscal year 2012/13.

The net income gain results from discontinuing the Retailer Incentive Plan, which in its current form nominates one retailer each month for a cash prize. The cost savings amount to $100,000 per year.

### 3.6.5  SALES ADVISORY COMMITTEE AND RE-ENGAGE TRADE ASSOCIATIONS

**Strategic Imperative:**

**Get the most out of our retailer network**

**Strategic Imperative:**

**Focus on building productive stakeholder relationships**

In order to engage retailers fully in the drive to increase sales, there will be benefit in having a forum to listen to retailers’ views on our products and promotions.

This initiative will establish a Sales Advisory Committee (SAC), consisting of sales representatives, Key Accounts staff, chiefs and division managers. Part of the function of the group will be to review and consider sales promotions and proposals. The group will also plan and execute sales conferences and briefings.

This initiative will also include the establishment of Retailer Forums (formally known as Retailer Advisory and District Advisory Boards) so existing retailers and representatives from Trade Associations have an opportunity to provide input and feedback on our activities.

The SAC will also set up a segment focusing on player/consumer interests so the information gathered from each field group will provide us with the fullest possible range of feedback and input.

The plan is to set up and coordinate meetings with all relevant parties (field/HQ staff, retailer forums, trade groups and players) on a quarterly or as-needed basis. All segments would be exposed to the same presentation and data exchange opportunity so we can gather input from the key client groups to improve future programs. The input will help determine or confirm viability of promotions, point of sale items, game themes and playstyles, procedures, and implementation plans.

The project will develop guidelines and document the purpose of the SAC. It will develop agenda formats for the meetings and propose a quarterly schedule.

The objective is to have the SAC established by June of 2010.

**Re-engage Trade Associations**

As a precursor to engaging with or joining trade groups and associations, this project will review and determine the value and the potential of building relationships to understand how we can work with the trade groups to maximize our support from the trade group and its members.

The initial task will be to communicate with trade group representatives and ask for further information to understand what the trade groups can offer us.

Assuming the analysis shows the potential for positive benefit, the project will select the most appropriate Trade Associations that offer us the greatest return.

This initiative is planned to complete by the end of 2010.
3.6.6 HQ STAFF RETAIL VISITS

STRATEGIC IMPERATIVE:
FOCUS ON BUILDING PRODUCTIVE STAKEHOLDER RELATIONSHIPS

This initiative will create opportunities for managers in different Divisions to work together and to interact first hand with retailers and sales teams.

The objective is to provide a forum for better understanding of the retailer environment, the role of our sales representatives and our impact at the retail level. The understanding and analysis gathered from the visits will contribute to the development of improved service to retailers.

A visitation plan will be developed as part of this initiative:

- Teams of two managers will be assigned to visit a number of retailers to gather information through interviewing the retailer and complete a pre-printed As-Is retailer checklist. This will document findings on quantity and type of point of sale placed, games faced, terminal location and placement of other equipment.
- This program will be ongoing, pending themes and feedback from the first roll-out to selected managers.

The project will begin in May/June 2010. The schedule for the project allows 3 months to complete the planning process, produce forms, agree on themes and roll out the initial visitation teams.

Sales Pilot Projects

Over time, our approach to supporting the retailer network has changed and new duties and responsibilities have been added. The As-Is analysis of the retail network shows that there is a need to reassess the support and to focus more on helping retailers become advocates for our products. Currently the support resources are narrowly focused, and not centred on those activities that have the capacity to maximize sales and profits.

Project RENEW has developed a pilot program that will consist of seven elements that are considered fundamental to the optimization of the Sales Division. This pilot will include:

- Retailer Visitation Schedule: To develop a flexible retailer visit schedule to tailor call frequencies to the needs of different retailer segments.
- Ideal In-store Placement: This will develop best practice locations for Lottery material in retail outlets.
- Ideal Sales Call: This will create a structured approach to each visit, ensuring consistency of approach and more effective use of sales representative time.
- Retailer Communications and Inventory Levels: To improve communication and point of sale placement.
- Improve New Retailer Performance: The development of an improved activation process for new retailers and increased support for newly recruited retailers.
- Weekly Scratchers Product Review Meeting: This will establish reporting requirements and introduce a sales reporting cascade to our wider sales team.
- Scratcher Activation and Placement: This will be developed to maximize sales by better merchandising of Scratchers, placement of equipment, and improved customer offerings.

The results of these initiatives will create a sales organization that:

- Proactively manages the retailer network based on sales trends and market opportunities.
- Provides more empowered supervision of the sales force and impact on retailers.
- Offers a predictable assortment of Scratchers displayed at retail with responsive and planned management of inventory by our Scratcher Inventory Management Unit and sales representatives.
- Maximizes our assets such as equipment, incentives, and people.
- Implements higher standards for recruiting new retailers combined with effective programs to support them.
- Wherein HQ truly support the sales force.
- Has the opportunity for meaningful field management input into the business on a weekly basis.
- Standardizes expectations and measures performance of sales representative sales calls.

Planning for the Pilot, to be conducted from the San Francisco District Office, will be complete by mid-April 2010 with execution and measurement of results completed by the end of July 2010. Proven portions will then be rolled out to the other Districts.
Offices with the goal of all Districts having successful elements implemented by fiscal year 2010/11.

Each of the Pilot projects is described in more detail in the following sections 3.6.7 to 3.6.13.

**Financial effect:**
These sales pilot project initiatives have been grouped together as Group 9 in the financial forecasts (see 4.2) and add $168m in sales and $65m in net income from fiscal year 2009/10 to fiscal year 2012/13.

Given the roll-out schedule for the Pilot described above, data on the magnitude of the benefits will not be available until July 2010. However, based on data from Camelot’s retail network, it is estimated that all retailers would benefit from these initiatives with an increase in total Lottery sales over the As-Is case of 0.75% in the first year (pro-rated since the initial benefits are not expected until part way through the third quarter of fiscal year 2010/11), 1.25% in the second year and 2.00% in the third year, for a total of $91m over the projection period.

With added focus on potential growth retailers, identified as retailers with $1,000–$6,000 in sales per week which account for 20% of total Lottery sales, further sales growth of 3.75% growth in the second year and 6.00% in the third year, for a total of $50 million over the projection period.

Additionally, our data estimates that total lost sales due to delayed activation of retailers amounted to $9.3 million per year. This initiative encompasses addressing activation problems, which should save 80% of these lost sales in the first year and 100% in the following years. Thus, an additional $26 million is the expected sales gain from accelerating the retailer activation process.

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### 3.6.7 RETAILER VISITATION SCHEDULE

**Strategic Imperative:**
**Get the most out of our retailer network**

The As-Is assessment noted that too much sales representative time is spent on retailers with both poor sales performance and little desire to grow sales. Developing a flexible retailer visitation schedule will enable sales representatives to spend more time with retailers who have the potential and or attitude to grow Lottery sales. This will provide more time for sales representatives to discuss with these retailers the sales propositions for our products, the optimum placement of point of sale and terminal equipment and other training and support that will help drive sales.

This initiative will define the optimal sales and service call level and call frequency from pre-planning phase, through the sales presentation, sales closure, follow up and measurement for all our retailers. The initiative will be developed after the Retailer Segmentation project (3.6.2 above) and will be based on the findings of that initiative and geographic parameters to ensure efficient routing.

As part of the analysis, this initiative will project the potential sales benefit of the proposed service levels and call frequencies for the pilot district and assess the cost savings that can result from it.

**Growth opportunity retailers**

As part of its work to define revised service support, the project will pay particular attention to those retailers with the greatest potential and probability to grow. The retailers will be identified as part of the Retailer Segmentation Initiative. Initial segmentation analysis has identified 2,050 retailers—or 9.7% of the retailer network—as underperforming ‘Marginal Performers’ with a sales contribution of less than $500 per week.

A cost analysis will determine the minimum level of sales at which retailer will break even when our overhead costs are taken into account. From this analysis, the project will recommend the optimal sales and service call level, call frequency and the number of Scratchers games and amount of point of sale.
For those retailers who are Marginal Performers, a Marginal Performance Business Development Plan Template will be developed for field staff to use in an attempt to help their underperforming retailers to improve sufficiently to at least break even.

Procedures will be developed to define the time allowed for a Marginal Performer to climb out of that category and to manage the withdrawal of terminals for those who are persistent Marginal Performers or who fall into the category of Poor Performers.

This element of the project is estimated to take 6 months.

### 3.6.8 IDEAL IN-STORE PLACEMENT

**Strategic Imperative:**
Get the most out of our retailer network

The As-Is Assessment found large variations in the display and presentation of our products and point of sale. Presentation in a number of cases was less than effective for raising awareness of the Lottery and our products. Defining an Ideal In-Store placement will ensure not only consistancy as seen by the consumer in all our outlets, but also the most effective placement to encourage sales.

This initiative will analyze existing placement of point of sale and Lottery brand equipment and any other Lottery support items at retail. The initiative will then define, suggest and implement the ideal placements of point of sale, Lottery brand equipment and any other Lottery support item by retailer segment and establish the KPIs for preferred placement.

This project will include definition and demonstration of the Ideal Placement to trainers and field staff. It will go on to monitor the implementation of the Ideal Placement across the retail network.

The estimated time for the analysis and definition of the Ideal In-Store Placement is 104 days. The duration of the full roll out throughout the retailer network will take a full quarter depending on call cycles and the availability of point of sales/support material.

### 3.6.9 IDEAL SALES CALL

**Strategic Imperative:**
Get the most out of our retailer network

**Strategic Imperative:**
Allocate our resources to maximize profits

As part of the objective to optimize sales representative time, this project will define the Ideal Sales Call. It will include pre-planning, collecting and reviewing retailer data, execution of a pilot, recording, measurement of performance and follow up.

The project will initially review and analyze existing Lottery material that defines the objectives and conduct of the sales call. The material will then be revised and piloted in a sample of selected retailer segments and territories that represents all relevant trade styles and customer profiles. The pilot will be rolled out to two or three territories in each District and will encompass two call cycles. Measurement of the impact of the new model can start at the second cycle and all subsequent calls to the impacted retailers.

To assess the effect of a revised and consistent Ideal Sales Call, the following benefits will be looked for:

- Enhanced product exposure.
- Enhanced product distribution.
- Enhanced product presence.
- Improved inventory control.
- Enhanced call frequency.
- Improved retailer communication.
- Improved sales representative efficiency in terms of servicing their territory from both a retailer segmentation and geographical perspective.

When the revised material has been validated for effectiveness, the project will produce training material to become part of the sales training package.

The initiative will be completed in 18 weeks—10 weeks from analysis to implementation and 8 weeks for a pilot. Full Implementation will be executed subject to approval. The full roll-out is to be completed within one quarter/12 weeks.
3.6.10 RETAILER COMMUNICATIONS AND POINT OF SALE INVENTORY LEVELS

**Strategic Imperative:**
Get the most out of our retailer network

**Strategic Imperative:**
Focus on building productive stakeholder relationships

Effective communication between us and our retailers is one contributing factor to improving sales. For example, giving retailers advance notice of an exciting new Scratchers game will enable them to prepare for its arrival and get their customers excited about it. This initiative is to ensure the communication is as effective as possible.

This project will review, prioritize and develop existing retailer communication material (e.g. point of sale, Altura Screen Messages and Sales Maker and Retail Product Plan) to establish what should be communicated and how. The review will seek input from other stakeholder groups (retailers, sales representatives, SAC, etc) on the existing communication vehicles and future needs. This initiative will also include an analysis of what type and combination of point of sale materials are required by each retailer segment as well as the quantity (see below).

This initiative will result in a Retailer Communication Assessment Report that will include recommendations on how communication content for point of sale, Altura Messages and retailer literature can be improved; for example, to include sales building information.

Final recommendations will feed into a retailer communication plan and the project will produce a plan for the implementation of the Retailer Communication Assessment Report.

It will take 90 days to deliver the Retailer Communication Assessment Report.

**Point of Sale Inventory Levels at Retail**

Having the correct point of sale on display in the most effective locations can only help to boost sales. This project is tasked with determining the optimum point of sale quantity and deployment for each retailer segment and trade style.

The team will identify the top key point of sale items, key items per trade style and/or size of store. This will require input from other stakeholder groups including field sales staff, Distribution Center staff and District Warehouse staff.

With the point of sale requirement defined, this project will then manage the implementation of minimum inventory levels of permanent/key point of sale items to establish replenishment thresholds for automatic re-ordering so that we are never out of stock. The initiative will result in a point of sale Replenishment Plan which will be implemented throughout the sales force. This initiative requires continuous team effort across the Lottery with warehouse staff at all levels, field sales staff, sales management and retail marketing.

Time allowed for this part of the project is 90 days.

3.6.11 IMPROVE NEW RETAILER PERFORMANCE

**Strategic Imperative:**
Get the most out of our retailer network

We have gaming terminals in stock and available for installation in new retail locations. This is the result of a temporary hiatus in the recruitment of new retailers while consideration was being given to the optimum deployment. Once terminal deployment begins again, new retailers need to become active Lottery ticket sellers as quickly as possible to maximize the sales opportunity.

This initiative has two objectives—to identify suitable retailers for recruitment and to review and improve the whole process of activating new retailers, from the point at which their application to be a retailer is received through to the installation and operation of their equipment.

**Recruitment**

Recruitment for Key Accounts is continuing as there are some existing opportunities in high-traffic, high-lottery sales venues.
For recruitment in other segments, the project will select retailers as follows:

- Use market research data to identify areas of opportunity.
- Gather and analyze results of the last two Recruitment Drives.
- Review segmentation results (3.6.2 above) to determine areas (geographic, demographic and trade style) of opportunity.
- Review Marketing Plan for game development, draw game promotional activities, advertising plan, etc.
- Draft recruitment objectives by District and for Key Accounts.
- Develop recruitment materials.
- Determine timelines to accomplish recruitment objectives.
- Develop recruitment goals and benchmark dates.
- Present recruitment plan to Lottery Sales Managers.
- Recruitment plan and goals presented to field staff.

As the recruitment progresses, the team will gather and report progress data at benchmark dates. At the conclusion of the recruitment drive, the project will then assess and report final as-is results and institute quarterly reviews of sales performance of newly recruited retailers.

This recruitment component of the project is scheduled to take 4 months including implementation.

Improve New Retailer Activation

This part of the initiative is to review, analyze and improve the retailer activation process from receipt of the retailer’s application through to installation and activation of equipment.

The initiative includes review of the communication between the field (sales representatives and Retailers) to the Network Development Unit and GTECH. It will take a fresh look at all aspects of preparing a new retailer to sell. The project will:

- Review, research and update the application process from retailers up through assigning of a retailer ID number.
- Review, research and update the equipment installation process from prospective retailer approval through to active wagering.

When new procedures and processes have been defined the project will update the District Procedures Manual and develop a quick reference tool/checklist for the field to use to guide the retailer and track progress of the application and installation process with the retailer.

This component of the project is scheduled for 95 days.

3.6.12 SALES REPORTING

Strategic Imperative: Foster a performance management culture

Field staff must be aware of our performance against our sales goals and the relative priorities attached to various initiatives. By providing this information regularly and formally, it will add to the motivation of field staff and direct them to the more important tasks on which they should spend their time and energy. This in turn will help drive sales.

This initiative is to develop and establish two essential information vehicles that will keep the field staff fully informed of the organization’s goals and progress:

- Sales and Marketing Review: this will ensure that the decisions made by the Scratchers Project Management Group each week are implemented at the field level as well as any other strategies, tactics or programs affecting draw-based games being acted upon at headquarters.
- Sales Trends by Retailers: these will be bi-weekly and monthly reports that track retailer sales for both Scratchers and draw based games by retailer and will index them to the total retail network, their specific district and to trade channel.

The project will review the existing sales reports and how the reports are communicated. As necessary, existing sales reports will be modified to give a clearer picture of the status of our business by translating relevant business data into a more meaningful format that educates and motivates employees. This initiative will also suggest how and when this report will be communicated across the business.

The Sales and Marketing reports will include information from various internal stakeholder groups—Sales (SIMC, District Offices, Network Development, Key Accounts), Customer Service, Corporate

The plan is to produce, distribute and cascade the first Sales and Marketing reports within 3 months from the start of the project.

### 3.6.13 SCRATCHER ACTIVATION AND PLACEMENT

**Strategic Imperative:**
Ensure we are getting the most out of Scratchers

**Strategic Imperative:**
Get the most out of our retailer network

The Scratchers product workstream is creating a ‘differentiated assortment plan’ to satisfy the needs of the majority of our customer segments. In this process they are identifying the appropriate mix of price points, game themes and play styles for each retailer based on their ability and potential to sell Scratchers. Additionally, the SIMC organization will be tasked to ensure that Scratchers are allocated and replenished to retailers based on pre-established assortment plans for each volume level of retailer.

The goal of this initiative is to execute the assortment plan at the retail level. Currently, some of the best selling games with the highest customer demand are activated (available for sale) in only 55% to 60% of the retailers. Best selling games should be available in 80% to 90% of retailers. While part of the cause of this is due to having too many excess games and a large segment of underperforming retailers (thus creating slow turnover of games), insufficient retailer training, confusion regarding settlement terms and improper placement and/or unattractive displays of Scratchers also contributed to low activation rates.

This initiative will address this issue by first cascading the results of the weekly Scratchers meetings to the District Offices where priorities of which games to focus on and get activated will be established. There will also be a complete review of which displays (counter tops, in-counter, and vending machines) are appropriate for each type of retailer. Assured activation of core games will be a major focus and responsibility of sales representatives. Sales representatives will also work with lower volume retailers (with potential to grow) to relieve them of slow selling games that are preventing them from displaying best sellers. Additionally, the financial settlement terms for Scratchers will be reviewed (for select games or select levels of retailers) to insure that retailers are encouraged to activate more games. Finally a number of incentive program options will be reviewed which will be directed at increasing game activation.

### 3.6.14 RETAILER AND SALES SUPPORT IMPLEMENTATION PLAN

The Implementation Plan for all of the above retailer and sales support initiatives is summarized in Figure 14.
Section 4 FINANCIAL FORECASTS
In this section, the financial benefits of the initiatives described and estimated in Section 3 are applied to the As-Is case. Section 4.1 repeats the forecast from the As-Is Assessment as if there were no change in the sales trajectory of the past three years. Section 4.2 then aggregates the financial benefits of each Group of initiatives, leading to the consolidated forecasts in Section 4.3. These assume that all initiatives are implemented both with and without change to the legislation that would enable some relaxation of the current restrictions on prize payout.

4.1 NO CHANGE ASSESSMENT
The As-Is Assessment report produced a forecast of sales and net returns to education to the end of fiscal year 2012/13 if no changes were made.

Sales were forecast to fall from $3.0 billion in fiscal year 2008/09 to $2.5 billion in fiscal year 2012/13, with a -4.5% compound annual growth rate (CAGR) in returns to education, primarily driven by falling sales in SuperLotto Plus and Scratchers:

- For Lotto games, a CAGR of -9% was assumed for SuperLotto Plus from fiscal year 2008/09 to fiscal year 2012/13 and of -2.5% for MEGA Millions from fiscal year 2009/10 to fiscal year 2012/13.
- For Scratchers the CAGR was assumed to be -4%.

4.2 BENEFIT QUANTIFICATION
Section 3 above describes each of the initiatives that constitute the Business Plan and estimates their effect on revenue and net returns to education. A full description of the assumptions can be found in Appendix B.

The summary of the effect of each Group on sales revenue is tabulated in Figure 15 and on net returns to education in Figure 16. These data imply that Initiative Groups 3 (Reduce number of Scratchers) and 4 (Rebuild Scratchers game plan) will provide the largest uplift to both sales and returns to education over the projected time period.

4.3 CONSOLIDATED FORECASTS
Figures 17 and 18 show the effect on sales and net returns to education of consolidating the benefits from all of the initiatives described in 4.2.

They show that the initiatives (blue bars) will stem the decline in As-Is sales (green bars) and return us to growth, and that the 34% net return to education will be met or exceeded in every year where the initiatives are applied.
The potential effect of legislative change

The graphs also show (orange bars) the potential benefits of easing the prize payout restrictions, both on sales and net returns to education, if the legislation currently under consideration in the California legislature is passed.

To derive these benefits, the analysis has adopted the formula from the Chang & Adams report ‘Supporting a Business Strategy for the California Lottery: Five-Year Financial Analysis’ that determines the multiplier to be applied to a given prize payout for all lottery revenues.

The prize payout relief is assumed to allow Scratchers payout to progress to 63% and overall payout to reach 60% in fiscal year 2012/13.

When legislative payout relief is achieved, the return to Education drops as a percentage of sales to 30% in fiscal year 2012/13, as shown in Figure 18, but the actual amount returned to Education, at $1.364 billion, is higher than in previous years.
**Executive Summary // SEC. 4 FINANCIAL FORECASTS**

**Figure 17:** Forecast of total sales revenues

**Figure 18:** Forecast of total Returns to education
Section 5 FOUNDATIONAL IT PROJECTS
**Foundational IT Projects**

5.1 OVERVIEW

The primary scope and emphasis of the assessment and strategy described in this business plan is very much targeted towards our product, sales, and marketing operations. However, there are a number of key capability projects that will provide a platform for future growth and support the implementation of initiatives set out in previous sections of this document. In order for management to have a consistent and holistic view of progress and issues, these additional projects will be folded into the governance model of the program moving forward as set out in Section 6 of this document:

5.2 PUBLIC WEBSITE

5.2.1 Overview and Scope

A Lottery digital marketing communications organization, through a reorganization or reassignment process, which includes an improved website, with mobile capabilities, offering visitors and players a new, positive and exciting experience to motivate them to play our games, promote player loyalty and increase our sales, combined with robust analytics, advanced content management tools, player social media conversations, relevant interactive messaging and outgoing promotional digital communications.

The scope is to develop and implement a digital communications infrastructure including a new public player-centric website providing players and visitors increased value by engaging them with an online destination that offers an exciting and positive experience, with traditional devices as well as mobile devices, combined with robust social media conversations and relevant interactive messaging.

5.2.2 Key Deliverables

- Digital Marketing Communications Organization
  - Roles & Responsibilities
  - Policies and Procedures
  - Staffing implementation
  - Robust social media integration
- New PWS
  - New Integrator/host—new design and functionality
  - Integration with appropriate IT systems
  - Players Club, Skill games and other enhanced player services
  - Timely and relevant website analytics
  - User-friendly Content Management System
  - Player focused interactive messaging systems

5.2.3 Project Justification

A new Lottery Digital Marketing Communications infrastructure will help modernize our operations, assist in improving our brand image and will be the culmination of a long-term planning strategy:

- As technology has advanced throughout recent years, we have ventured in the new digital communication channels but have not developed a strategy or infrastructure to leverage all digital marketing communication efforts. Leveraging all these new digital marketing communication channels will maximize our image, awareness, and ultimately increase players, existing player loyalty and sales.
- The foundation of today’s digital marketing communication channels is a website. Our existing site is outdated and is used mainly as an information source. A new website will provide flexibility and modern technological advances to offer an exciting and positive experience that will motivate and engage players to play our games, increase player loyalty and drive sales.
The new site will include enhanced Players Club functionality, have tracking capabilities for marketing research, as well as interactive links to new promotions and games. As the hand-held mobile media devices improve and proliferate, mobile applications must be available.

- An additional digital marketing communication channel, and the wave of future communications, is the social media channel. Our efforts in this channel must be improved to leverage the efforts by coordinating the message, engaging this channel, and maximizing its potential. Additionally, the enhanced Players Club functionality will include player blogs, player-to-player communication and interaction with us.

- As the social media channel expands, email channel’s second place in communication importance is usurped and now resides in third place, still very important. Our email protocols have been established ad hoc and lack coordination and responsiveness to our customers, ultimately creating a negative impression. Improve systems, coordination and execution will turn a perceived negative impression of us into a positive.

- The Digital Communications infrastructure responsibilities will include managing content for a majority of pages requiring updates, managing and training Division “content point people”, working directly with the integrator/host for additional functionality, handling incoming player communications, eventually restructuring/managing the “Retailer” micro-site in the next phase, providing relevant analytics, ensuring mobile capabilities, managing future player experiences and services, managing the Players Club and Jackpot Captains and future pool activities and directing outgoing promotional digital communications.

5.3 ENTERPRISE RESOURCE PLANNING (ERP) IMPLEMENTATION

5.3.1 Overview and Scope

The Enterprise Resource Planning (ERP) Preparation project will produce a comprehensive preparation plan that will lead to an ERP solution.

The project scope is to ready us for adopting an ERP solution, which integrates multiple tightly bundled modules to serve various business functions, to increase our productivity and efficiency, as well as help us grow revenue and manage costs. An ERP solution will also provide us the capability to collect data for performance management and return on investment analysis.

The delivery of an ERP solution is a multi-phase project, and this project scope focuses on the preparation phase. The purpose of the preparation phase is to shorten acquisition timeline and to reduce the cost and risk associated with adopting an ERP solution. This project will result in detailed documentation that provides specific directions for the preparation of a complete ERP solution.

5.3.2 Key Deliverables

Key deliverables of the ERP Preparation project includes thorough analysis and documentation of the following:

- Our overall business needs for an ERP solution
- Division-specific needs that are prioritized
- Our business requirements
- System/Business Operations Impact Evaluation Document
- Evaluation criteria for an ERP solution
- List of modules commonly found in ERP products, with each module classified as “essential,” “desirable,” and “not applicable” based on the Lottery’s business needs
- Prioritized list of the “essential” and “desirable” ERP modules
- Any best practices to be adopted for preparation of an ERP solution
- Comprehensive plan and guidelines that defines the best approach for the entire life cycle of an ERP solution

5.3.3 Project Justification

One of the goals in the 2007–10 Business Plan is to modernize operations. We need a modern and flexible management information system to take advantage of new business opportunities as they arise. Currently, we have many manual processes, and our existing systems are not sufficiently flexible. More specifically, the outdated systems do not support efficient generation of timely management data, and hinder our ongoing
effort to increase emphasis on performance management. These gaps in our systems present challenges because consumer and retail trends constantly change.

- To solve these challenges, we acknowledge the need to implement an ERP solution, with the first phase being preparation. This project is the preparation phase with the plan to procure the services of consultants with experiences on similar engagements to guide us through this phase. It is essential that we utilize consultants who are experienced in implementing various ERP solutions. The consultant will assist us in analyzing the organization’s business needs and in creating a plan for the complete life cycle of the project.

5.4 BUSINESS INTELLIGENCE SYSTEM

5.4.1 Overview and Scope

The Business Intelligence Initiative project will create a fully integrated Business Intelligence platform for delivering information to decision makers.

The scope of the project is to design, develop, and deploy an enterprise-wide Business Intelligence (BI) system that provides Key Performance Indicators (KPIs), alerting, standard and ad-hoc reporting, advanced analytics such as forecasting, and Executive Dashboard capabilities delivered through a web portal. In addition, the project will define and implement data governance processes such as data standardization and ownership, which are essential to ensuring the long-term success of the BI system.

The project will be implemented in a phased approach that is aligned with Project RENEW.

5.4.2 Key Deliverables

Key Deliverable consist of:

- A BI System that includes:
  - Enterprise Data Warehouse
  - Enterprise Data Integration Framework
  - Ad-hoc and standard reports, KPIs, alerts, Executive Dashboard, and advanced analytic tools
  - Lottery BI Portal
  - User Documentation and User Training
  - Data Governance Program

5.4.3 Project Justification

Our 2007–10 Business Plan established the foundation for organizational change. This Business Plan is designed to capitalize on the momentum generated by the 2007–10 Business Plan in order to significantly improve our performance and operational efficiency.

Ensuring the successful implementation of Project RENEW requires simple, uncomplicated access to our business information. Our information, however, is spread across different data sources and reporting environments designed for narrow requirements. Current reporting tools were developed for individual business applications, are technical in nature, and do not effectively support executive and managerial reporting and decision support needs. These gaps in our information systems present big obstacles when business decisions need to be made quickly and information is not immediately available.

A solution to address these needs and challenges is the implementation of a BI solution.
Section 6 DELIVERING THE BUSINESS PLAN
6.1 A NEW IMPLEMENTATION STRATEGY
The completion of this Business Plan is a significant milestone; however it is essential that this serves as a call to action and a basis for realizing the potential benefits set out in this document. Our past experience has shown that while high quality thought and content can be articulated through a strategic business plan, it is only of value if implementation of the plan is followed through. This was a challenge identified with the 2007–10 Business Plan.

There are a number of principles that will be key in ensuring that the business plan is realized through well executed implementation:

Broad based Acceptance of the Strategy
A key thread of the Business Strategy phase to date has been to openly secure input and support of staff in the core workstreams. However, the opportunities to articulate back an end-to-end picture across all workstreams have so far been limited due to timing constraints. It is critical before the Implementation Phase is fully initiated that there is the opportunity to articulate the strategy across the business and secure buy-in to its objectives and approach for implementation.

This articulation can take a number of forms, for example:
- Staff Briefings
- Intranet articles and Director’s blog postings
- E-mail updates and overviews
- Meetings and conferences out in the field for the sales force

Leadership and Corporate Mindset
The tone of our attitude and activity throughout implementation must be set from the top of our organization, with behaviors that convey an expectation of achievement with the provision of appropriate support.

Managing the Portfolio of Projects
In order to generate necessary drive, momentum, and focus, the implementation phase should not now be thought of as “business as usual.” The danger of only folding implementation activities into the regular jobs of the staff, and expecting these projects to still be delivered, is that day-to-day activities and priorities will inevitably take priority.

Rather, implementation of this Plan should consist of:
- **A Timeline:** A defined launch date and completion date (with significant milestones for each individual project set out along its delivery path)—with an initial mobilization phase that will allow the detail of the implementation design to be finalized and established.
- **A clearly agreed scope.**
- **A well defined project structure** and an agreed and committed set of resources to execute the delivery.
- **Strong and Transparent Governance:** Implementation of a large portfolio of projects is typically a difficult task for any organization and the path to completion is rarely smooth. As individual projects are initiated and executed, there are invariably a series of obstacles to be overcome that require leadership and a clear escalation path for resolution. The governance model will set out clear points of accountability—top to bottom—in the organization for delivery of the initiatives set out in the strategy, and realization of benefits from those initiatives.
- **Measurable outcomes** by which the success of the portfolio and its constituent initiatives can be evaluated and evolved accordingly.
The following sections will explain each of the elements of the portfolio in further detail:

**6.2 TIMELINE: PROJECT RENEW ROAD MAP**

Following the top-down planning activity conducted during the Business Strategy Phase, the following key milestones have been identified as part of the overall project portfolio roadmap:

Section 5.5 sets out an overall governance approach for implementation, and the roadmap is a key tool in managing progress on a regular basis at the project team and Governance Committee levels.
While a number of quick win and immediate start initiatives are already in-progress, and should continue to progress, the completion of the business strategy will lead immediately into a Mobilization Phase of the project to plan each initiative in complete detail, set up the regular governance forums, and fill any immediate resourcing gaps identified through the detailed planning. It is expected that the mobilization phase will be completed by the end of May 2010, with the Implementation Phase being formally launched at the beginning of June 2010.

6.3 SCOPE
The overall content scope for the Implementation Phase is defined through the initiatives described in Section 3 of this document.

As each initiative is started according to the timing of the implementation roadmap set out in Section 5.2, a formal project charter document should be drafted that describes the scope of the individual project in complete detail and is signed off by the Governance Committee. All initiatives should expect to complete a project charter.

6.4 PROJECT STRUCTURE AND RESOURCING
The overall structure of the Implementation Phase can be described as follows in Figure 20:

Implementation will effectively be broken out into three separate teams:

Business Support Team
The Business Support Team will be responsible for deliver of all projects relating to business support functions, including the Foundational IT Projects set out in section 5 of this document.

Marketing Team
The Marketing Team will be responsible for delivery of the projects under the following workstreams set out in the implementation roadmap:

- Jackpot Games
- Other Draw Games
- Scratchers End-to-End
- Advertising, Promotions and Player Communications
6.5 GOVERNANCE APPROACH
AND PRINCIPLES

The purpose of the governance approach is to:

- Set expectations across the organization concerning the importance of delivery and be the driving force to achieve milestones.
- Set a tone of clear focus on outcomes.
- Establish a formal escalation path for issues and pro-active management of risks.
- Formally communicate progress and achievements across the organization.

The Implementation Phase will comprise of the following key governance forums:

Project Governance Committee
- Constitution and Membership
  - The Project Governance Committee consists of the Director, Chief Deputy Director, Deputy Director of Finance and the Deputy Director of Sales and Marketing. It is chaired by the Director and facilitated by the head of the Enterprise Project Management Office.
  - The Project Governance Committee is responsible for:
    - Monitoring progress against the roadmap.
    - Assuring quality of key deliverables.
    - Managing risks and issues as escalated by the Project Sponsors and Team Managers.
    - Managing interdependencies between the projects.
    - Directing and committing resources across the portfolio to enable the activities to be successfully achieved.

- Reporting Procedures
  - At each Commission Meeting, the Chairperson of the Project Governance Committee shall report to the Lottery Commission on the progress of implementation.

Business Support, Marketing, and Retail Teams
- Constitution and Membership
  - Team members will consist of project managers and key personnel from the projects within each team. The teams will be chaired by the Team Manager and facilitated by the Assistant Manager.
- The teams are responsible for:
  - Overall management of progress against the plan.
  - Proper escalation to the Project Governance Committee.
  - Identifying and managing cross project dependencies and interactions.
- Reporting Procedures
  - The Team Manager shall report formally to the Project Governance Committee on the progress of implementation at each Project Governance Committee Meeting.

6.6 PERFORMANCE MEASUREMENT
AND ACCOUNTABILITY

A key element of the Implementation Phase is about managing to the schedule, quality and cost, and realizing benefits as set out in the strategy. The approach to performance management during the Implementation Phase can be described as follows.

Milestone Plan
This is explained in Section 5.2.

Quality Plan
- The Quality Plan defines the deliverables that will be produced for each project in the portfolio.
- It is used in the final assessments at critical milestones in a project to determine if all the deliverables have been produced for a particular stage of the project and meet expectations.
Financial Plan

The Financial Plan is used to review the long term financial performance of Project RENEW. It serves two purposes:

- Some projects may require capital investment and it is necessary to ensure the projects are delivered to the budget approved by the Project Governance Committee in order to deliver best value.
- Tracking financial benefit performance against the baseline 3 year projections set out in Section 4 of this document.

Tracking Studies, Surveys, Research

Tracking studies, surveys and research will be used to identify and track non-financial benefits arising out of the initiatives. The requirement for these components will be determined on a project-by-project basis, and will be set out in the Quality Plan.

Balanced Scorecard

The Balanced Scorecard will be used to present a single-page summary of implementation status, taking into account the following considerations:

- Project status
- Adherence to the schedule
- Quality Plan snapshot
- Cost performance
- Benefits realization

The Balanced Scorecard will be produced by EPPO on a monthly basis and used as a basis for the agenda of Governance Committee meetings.

RENEW PERFORMANCE SUMMARY

<table>
<thead>
<tr>
<th>DASHBOARD</th>
<th>Overall</th>
<th>Scope</th>
<th>Schedule</th>
<th>Budget</th>
<th>Risks</th>
<th>Issues</th>
<th>04/10/2008</th>
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<td>Project 3</td>
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<tr>
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<tr>
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<td></td>
<td>Stable</td>
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<tr>
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<thead>
<tr>
<th>FINANCIAL PERFORMANCE - COST</th>
<th>04/10/2008</th>
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<tbody>
<tr>
<td>% Variation in Overall Budget</td>
<td>(0.87%)</td>
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<tr>
<td>Days since last forecast</td>
<td>58</td>
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<table>
<thead>
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<th>Trend</th>
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<td>0.00%</td>
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<table>
<thead>
<tr>
<th>FINANCIAL PERFORMANCE - BENEFITS REALIZATION</th>
<th>04/10/2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Quarter Sales Performance Versus Renew Baseline</td>
<td>(0.87%)</td>
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<tr>
<td>Reforecast Performance Versus Renew Baseline</td>
<td>0.70%</td>
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<table>
<thead>
<tr>
<th>PREVIOUS MONTH</th>
<th>Overall</th>
<th>Trend</th>
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<td>0.00%</td>
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<tr>
<th>COMMUNICATIONS</th>
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</thead>
<tbody>
<tr>
<td>No Significant Announcements This Month.</td>
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Figure 22: Sample RENEW Project dashboard
## Appendix A: Project RENEW Road Map

<table>
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<tr>
<td>JAN</td>
<td>FEB</td>
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<tr>
<td>JACKPOT GAMES</td>
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<tr>
<td>LOWER JACKPOT GAMES</td>
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<tr>
<td>SCRATCHERS E2E</td>
<td></td>
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<tr>
<td>ADVERTISING, PROMOTION &amp; PLAYER COMMS</td>
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</tr>
<tr>
<td>ERP</td>
<td></td>
</tr>
<tr>
<td>BIS</td>
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<tr>
<td>PUBLIC WEB SITE</td>
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</table>

**2010–2013 California Lottery Business Plan**
**Appendix B:**

**Benefit Quantification — Summary Table of Assumptions**

<table>
<thead>
<tr>
<th>GROUP</th>
<th>INITIATIVE DESCRIPTION (Strategic Imperative)</th>
<th>TOTAL INCREMENTAL SALES ($m)</th>
<th>AS IS CASE (does not reach 34% return)</th>
<th>AS IS CASE PLUS SPECIFIED INITIATIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Redesign SuperLotto Plus (Focus on turning around draw game sales)</td>
<td>232</td>
<td>SLP sales of $536m in FY08/09 drop to $361m in FY12/13; CAGR of -9.4%</td>
<td>SLP sales of $536m in FY08/09 drop to $466m in FY10/11 then stabilize at $489m thereafter; CAGR of -2.3%; Based on expectation that SLP sales losses can be stemmed</td>
</tr>
<tr>
<td>2</td>
<td>Review of Hot Spot business (Focus on turning around draw game sales)</td>
<td>155</td>
<td>Hot Spot sales of $126m in FY08/09 drop to $107m in FY12/13; CAGR of -4.0%</td>
<td>Hot Spot sales of $126m in FY08/09 rise to $200m in FY12/13; CAGR of 12.2%; Based on benchmarking versus other US states and analysis changes to be made in current state</td>
</tr>
<tr>
<td>3</td>
<td>Reduce number of Scratchers games available for replenishment and for sale (Ensure we are getting the most out of Scratchers)</td>
<td>316</td>
<td>Same as Group 1 above</td>
<td>Additional sales of $1, $2 and $3 games and no change to $5; $1 CAGR of -3.2%, $2 CAGR of -0.4%, $3 CAGR of -3.8%, $5 CAGR remains at 3.0%; Total Scratchers sales CAGR of -2.3%; Prize payout of 55.6% (FY09/10), 55.3% thereafter; Based on analysis of current low-selling games and assumed replacement by high-selling games</td>
</tr>
<tr>
<td>4</td>
<td>Rebuild FY09/10 Scratchers game plan and develop FY10/11 plan (Ensure we are getting the most out of Scratchers)</td>
<td>532</td>
<td>$1 CAGR of -4.1%; $2 CAGR of -3.4%; $3 CAGR of -5.4%; $5 CAGR of 2.9%; Total Scratchers sales CAGR of -3.9%; Prize payout of 55.6% (FY09/10), 55.4% thereafter</td>
<td>$1 CAGR of -1.8%; $2 CAGR of 0.4%; $3 CAGR of -0.7%; $5 CAGR of 14.9%; Total Scratchers sales CAGR of 0.8%, Scratcher prize payout of 55.6% (FY09/10), 54.7% (FY10/11), 54.8% thereafter; Based on Camelot experience and CSL knowledge of game space</td>
</tr>
<tr>
<td>5</td>
<td>Resume marketing of MEGA Millions (Get the most for our Marketing Dollar and Allocate our resources to maximize profits)</td>
<td>75</td>
<td>MM sales of $410m in FY09/10 drop to $380m in FY12/13; CAGR from FY08/09 to FY12/13 of 2.2% due to low sales of $348m in FY08/09; CAGR from FY09/10 to FY12/13 of -2.5%</td>
<td>MM sales of $421m in FY09/10 fall to $392m in FY12/13; CAGR from FY08/09 to FY12/13 of 3.1% due to low sales of $348m in FY08/09; CAGR from FY09/10 to FY12/13 of -2.4%; Based on projection of targeted market share</td>
</tr>
</tbody>
</table>
## Appendix B: Benefit Quantification — Summary Table of Assumptions (cont’d)

<table>
<thead>
<tr>
<th>GROUP</th>
<th>INITIATIVE DESCRIPTION (Strategic Imperative)</th>
<th>TOTAL INCREMENTAL SALES ($m)</th>
<th>AS IS CASE (does not reach 34% return)</th>
<th>AS IS CASE PLUS SPECIFIED INITIATIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>Base marketing budget on Return on Investment (ROI) metrics (Get the most for our Marketing Dollar and Allocate our resources to maximize profits)</td>
<td>267</td>
<td>Total lottery sales of $2.95bn in FY08/09 fall to $2.54bn; CAGR of -3.7%</td>
<td>Total lottery sales of $2.95bn in FY08/09 fall to $2.68bn; CAGR of -2.4%; Based on BBDO study of similar projects</td>
</tr>
<tr>
<td>7</td>
<td>Develop Key Accounts and promote new recruitment (Get the most out of our retailer network)</td>
<td>62</td>
<td>Same as Group 6 above</td>
<td>Total lottery sales of $2.95bn in FY08/09 fall to $2.56bn; CAGR of -3.5%; Based on bottom-up analysis of target customers based on CSL experience</td>
</tr>
<tr>
<td>8</td>
<td>Review Retailer Incentive Plan (Get the most out of our retailer network and Allocate our resources to maximize profits)</td>
<td>—</td>
<td>Same as Group 6 above</td>
<td>Cost savings of $100,000 per year for FY10/11, FY11/12, FY12/13 after discontinuation of program; Based on assumption that no further revenue-generating activity is immediately begun using these advertising dollars</td>
</tr>
<tr>
<td>9</td>
<td>Develop pilot retailer initiatives and rollout to other sales districts (Get the most out of our retailer network and Allocate our resources to maximize profits)</td>
<td>168</td>
<td>Same as Group 6 above</td>
<td>Total lottery sales of $2.95bn in FY08/09 fall to $2.63bn; CAGR of -2.9%; Based on bottom-up analysis of similar initiatives within Camelot and top-down analysis of targeted retailers and CSL data on loss from delayed activation of retailers</td>
</tr>
<tr>
<td>10</td>
<td>Determine participation in Powerball cross-sell (Focus on turning around draw game sales)</td>
<td>TBD</td>
<td>TBD</td>
<td>TBD</td>
</tr>
</tbody>
</table>