



M E M O R A N D U M

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To: California State Lottery Commission

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Director

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Subject: Item 9(a) – Fiscal Year 2021-22 Business Plan

ISSUE

The California State Lottery (Lottery) operates on a July 1-June 30 Fiscal Year (FY). Each year, the Lottery develops a Business Plan (Plan) that encompasses the objectives and tactical details needed in the upcoming year to stay on the path of meeting our strategic objectives and to support the sales goals in the fiscal year budget.

BACKGROUND

In May 2020, the California State Lottery Commission (Commission) approved six strategic objectives that put the Lottery on a path to continue increasing its contributions to California public education – surpassing the \$2 billion threshold in the near future.

The six strategic objectives approved by the Commission in May 2020 are:

- Modify operations to ensure health and safety and to recover from depressed sales
- Revisit retail strategies to adapt to the new consumer preferences
- Grow Draw Game sales particularly Jackpot Games and Hot Spot
- Defuse the barriers to play by changing consumer perceptions
- Better inform the Public and Stakeholders about the Lottery
- Transform the Corporate Culture in the Lottery organization

While these strategic objectives form the foundation for the annual Plan, the Lottery also conducted a business review to uncover any recent developments that need to be addressed in the upcoming year. This review included an extensive analysis of Lottery sales and playership, consumer attitudes and perceptions, retailer information, and general business trends. Some of the key highlights from this review was presented in May to the Commission as part of the Draft Business Plan informational item.

Additionally, over the past six months, various teams composed of members from diverse divisions and units within the organization have been established to develop, assess, and recommend major initiatives and tactics to achieve the strategic objectives. When completed, this work will create a strategic roadmap of the Lottery's key priorities for the next few years.

DISCUSSION

The FY 2021-22 Business Plan provides a good balance of initiatives in many respects. It not only tackles long-term projects needed to position the Lottery for future sales growth but also addresses immediate needs by responding to issues that have emerged during the current fiscal year. To further show how the Business Plan provides a good balance, the Plan not only includes tactics tied to the Lottery's products, players, and retailers but also focuses on the organization itself to transform the Lottery by improving its infrastructure, processes, and corporate culture.

Although not a specific objective in the Business Plan, the Scratchers product plan is critical in meeting our financial goals for the year. This year's product plan includes a total of 52 new games that will be introduced across monthly game starts. This represents an increase of 5 new games from what was actually introduced in the COVID-19 modified Scratchers plan for FY 2020-21 but a return to the norm before the pandemic. A significant increase will be occurring with the number of new \$2 games being launched as this price point offers an opportunity to grow sales among the casual player. There will be one additional game introduced at the \$3, \$10, and \$20 price points. This product plan and the associated marketing initiatives enable growth in Scratchers sales with the fiscal year goal surpassing \$6.5 billion.

For FY 2021-22, there are five objectives. These objectives are supported by a combination of multi-year projects some that were part of last year's approved Plan and new tactics proposed for the upcoming year.

Respond to Emerging Needs from Recent Events and Trends

Under this objective, initiatives to re-engage casual Scratchers players where sales declines are evident, to maintain the higher rates of play in Daily Games and Hot Spot, and to research and implement a post-pandemic telework policy and plan will take place in the upcoming fiscal year.

Focus Efforts to Reinvigorate Retail

The types of retailers where the Lottery sells tickets and the process for buying a ticket have not materially changed over the past 20+ years. Yet, during this time, there have been many changes in the retail landscape in terms of the types of stores people shop and how consumers select and pay for their items.

The Plan includes initiatives that will assess new trade channels for selling lottery tickets and evaluate new methods of buying lottery in-lane at supermarkets or other large, multi-register retail locations. Additionally, the Lottery will be acquiring over 1,800 state-of-the-art self-service machines. There will be two different models but each offers improved technology such as a touchscreen player interface and real-time business management information. One of the models can accommodate a greater number of Scratchers games than we can currently offer while the other model would allow for potential expansion into new retail channels by meeting the retailer's needs and specifications. Both models make it more apparent to consumers that the machine sells Draw Game tickets in addition to Scratchers tickets.

Strengthen Sales in Jackpot Games

While we have seen growth in some of the Draw Game products as result of more Californians playing the Daily Games and Hot Spot, the Jackpot Games (Mega Millions, Powerball, and Super Lotto Plus) were quite impacted by the pandemic. The \$1 billion Mega Millions jackpot in January reinvigorated the category. However, issues such as jackpot fatigue and relatively low levels of player spending have limited the sales growth of these products. Increasing sales of Jackpot Games is vital since they have higher profit margins resulting in higher contributions to public education.

There are a few initiatives designed to boost sales of Jackpot Games with a couple that would impact sales in the upcoming year.

In late August, Powerball will expand to three draws each week adding Mondays and providing players an additional opportunity to participate in the game.

The upcoming year will also see the purchase and placement of additional retail signage to generate awareness of the jackpots not only for Mega Millions, Powerball, and Super Lotto Plus but also for Fantasy 5 and Daily Derby. Through this initiative, more than 3,000 additional retailers will be outfitted with this signage.

The Mega Millions consortium is currently investigating various ideas to enhance its game, and a decision is likely to occur sometime in the next several months. This game change may not be implemented during the upcoming fiscal year but significant staff time will be spent on this project during FY 2021-22.

Defuse the Barriers to Play by Changing Perceptions

The barriers to playing Lottery have been identified from prior consumer research. Some of the key issues include having to buy Lottery tickets with cash, uncertainty about what happens to the money from Lottery sales, and different misperceptions or negative associations with lottery games and/or lottery players in general.

A few initiatives will be undertaken in the upcoming fiscal year to help modify perceptions about the Lottery. A Scratchers repositioning effort will begin in the first half of the year. This initiative will focus on the entire Scratchers category of games to better connect the Scratchers brand as a fun and exciting form of entertainment and a valuable addition to a consumer's normal routine. In terms of countering misperceptions about the Lottery organization, there will continue to be efforts in disseminating more information about the Lottery and its contributions to public education and being transparent about its operations.

Transform the Lottery Organization

While there will be many elements in this effort, none will be more important than transforming the corporate culture within the Lottery. It is not just new processes and programs. To achieve culture change within a company, it must be part of a company's DNA. And, to do that the firm must look to its people – they are the ones who will create the change in the organization. Everyone will need to see how their efforts lead to the lottery's contribution to public education and feel like a valued and respected member of the team. An initiative is slated in the upcoming year to begin these changes.

There are many initiatives – several, of which, are multi-year projects – that will help improve the Lottery's infrastructure. Some examples include the continuation of cybersecurity safeguard installations to reduce the potential for any threat, the completion of upgrading Lottery's financial system, and the start of a multi-year project to migrate from a paper-based Human Resource system at the Lottery to a software solution.

The Lottery must also look to enhance its operations by improving the customer experience. At the same time, the organization must also continuously look at how it can be as efficient as practical to maximize its contributions to public education. An organization-wide initiative will begin in the upcoming year to assess where opportunities lie in these respects.

RECOMMENDATION

Lottery staff recommends that the Commission approve the proposed FY 2021-22 Business Plan.