



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 2022-23 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 for the upcoming year that are aligned with our strategic direction and needed 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 were presented in May to the Commission as part of the Draft Business Plan informational item.

DISCUSSION

The FY 2022-23 Business Plan provides a good balance of initiatives in many respects. Over the past few years, the Lottery has focused on including many initiatives in the Plan dedicated to improving its infrastructure while at the same time continuing to have tactics tied to improving opportunities to grow revenue. This Business Plan also balances long-term projects that will enable sales growth in the future with initiatives that will address immediate needs.

For FY 2022-23, there are five objectives. These objectives are supported by a combination of multi-year projects and new tactics proposed for the upcoming year. The five objectives for the upcoming year are:

- Maintain Scratchers interest and play in view of increased competition for the entertainment dollar
- Focus efforts to reinvigorate retail
- Create opportunities to grow sales of Draw Games particularly Jackpot Games and Hot Spot
- Defuse barriers to play by continuing to improve knowledge and perceptions about the Lottery
- Transform and modernize the Lottery

Maintain Scratchers Interest and Play in view of Increased Competition

The Business Review revealed how lottery sales rebounded and began to rise to record levels after the first several months of the pandemic. The strong lottery sales seen in 2021 resulted from certain players not being able to participate or being uncomfortable participating in other forms of entertainment and leisure such as going to the movies, traveling, or dining in restaurants. It also showed how as the pandemic subsided and restrictions eased, lottery sales in the spring of 2022 started to dip below the levels seen a year ago. With consumers wanting to resume activities put on hold for two years, there is and will continue to be significant competition for the entertainment dollar.

The Scratchers product category represents the Lottery's best opportunity for this competitive environment. To showcase the entertainment value of Scratchers, several tactics are planned for the upcoming fiscal year including the continuation of the advertising campaign launched in 2021 to position Scratchers as small moments of fun that consumers can add to their day. The FY 2022-23 Scratchers Product Plan also includes expanding the highly successful Crossword Scratchers franchise into additional price points and developing additional licensed properties into Scratchers games.

To support the sales goal, a total of 53 new games will be introduced across monthly game starts – representing one additional game compared to the current year's plan. A slight increase in the number of \$1 and \$10 games is proposed. This product plan and the associated marketing initiatives will enable the Lottery to achieve the Scratchers sales goal of \$6.58 billion.

Focus Efforts to Reinvigorate Retail

With Lottery purchases only being conducted at brick and mortar locations, its retail network is extremely important to achieve its mission and deliver its revenue goals. The most significant FY 2022-23 initiative under this objective is the addition of Walmart Supercenters to the Lottery retail network. This expansion will add 200 locations during the upcoming year with these Walmart stores being outfitted with new self-service machines specifically designed to meet Walmart's specifications.

Additionally, the Lottery will be upgrading many existing retailers with a new self-service machine that also utilizes the state-of-the-art touchscreen player interface, a better display of Draw Game products, and the ability to accommodate more Scratchers game facings.

Looking towards the future, the upcoming year will also include assessing other new trade channels for selling lottery tickets and investigating feasibility and timelines associated with new methods of buying lottery in-lane at supermarkets or other large, multi-register retail locations.

Create Opportunities to Grow Sales in Draw Games

Increasing sales of Draw Games is vital since their greater profit margins generate higher contributions to public education. However, product changes utilize significant resources as they require changes to our Gaming System and other related systems. To ensure the Lottery is maximizing the use of its resources, significant research and assessment are completed prior to initiating implementation efforts.

In FY 2022-23, several studies will be conducted among various Draw Game tactics to determine which ones will offer the best promise for achieving revenue growth and can be implemented within our resource constraints. For example, a cross-division team developed many potential ideas to boost interest and sales of our in-state Super Lotto

Plus game. The top candidates will be researched during this year to identify tactics for implementation in FY 2023-24 or future years.

Defuse Barriers to Play by Continuing to Improve Knowledge and Perceptions of Lottery

The barriers to playing Lottery have been identified from prior consumer research. Many are based on misperceptions or lack of information such as uncertainty about what happens to the money from Lottery sales, and different negative associations with lottery games and/or lottery players in general.

On-going efforts to help improve perceptions about the Lottery and increase knowledge about the Lottery and its operations will continue in FY 2022-23 with specific tactics included in the presentation of this agenda item.

Transform and Modernize the Lottery

The Lottery looks to transform itself by modernizing its infrastructure, improving the customer experience for its players, retailers, and internal customers through more effective yet efficient programs, processes, and technology upgrades, and elevating the corporate culture within the Lottery.

There are many initiatives that will help modernize the Lottery's infrastructure. Several of these projects are multi-year efforts such as the current effort to migrate from a paper-based Human Resources system at the Lottery to a software solution.

While there will be many elements under this objective, none will be more important than 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 organization must look to its people – they are the ones who will create the change in the Lottery. 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. While a few new programs started in the current fiscal year, additional initiatives are slated in the upcoming year.

RECOMMENDATION

Lottery staff recommends that the Commission approve the proposed FY 2022-23 Business Plan.