




## M E M O R A N D U M

---

**Date:** June 29, 2023

**To:** California State Lottery Commission

**From:** Alva Johnson, Director 

**Prepared by:** Jim Hasegawa, Deputy Director  
Business Planning and Research

**Subject:** Item 9(a) – Strategic Direction

### ISSUE

The California State Lottery (Lottery) establishes strategic plans to provide direction on long-term objectives and business strategies for increasing its contributions to public education. The Lottery proposes the tactical details for the upcoming fiscal year aimed at helping it achieve those objectives in its annual Business Plan.

While many of the Lottery's prior strategic efforts had a designated period of three years, current thinking is to create strategic plans with longer timeframes but more frequent updates. A longer horizon is needed since the tactics to achieve the strategic goals are now more likely to heavily involve technological solutions or changing consumer perceptions which often require more than three years to develop and complete.

### BACKGROUND

The California State Lottery Commission (Commission) last approved a set of Strategic Objectives on May 28, 2020, just a few months after the start of the COVID-19 pandemic.

The strategic planning process starts with an extensive analysis of California Lottery business, a review of the U. S. lottery industry, and an examination into other external consumer and retailing trends. The type of information analyzed included sales trends, playership rates, per player spending levels, consumer perceptions, and other business trends. Highlights from the Business Review was presented to the Commission at the meeting on May 25<sup>th</sup>.

For some historical context, the Lottery has increased its contributions to education in the past ten years by about 70% - going from \$1.28 billion in FY 2012-13 to more than an

estimated \$2.1 billion in the current fiscal year. Over that same time period, sales have doubled growing from over \$4.4 billion to an estimated \$9.2 billion this year.

While there were a multitude of factors helping the Lottery achieve this tremendous growth in sales and contributions to education, here are a just few of the key product enhancements occurring over the past ten years:

- Scratchers®: The \$20 and \$30 price points were introduced along with successful marketing and retail merchandising efforts for the Scratchers product line. Over the ten years, Scratchers sales have gone from about \$3 billion to over \$6.5 billion.
- Draw Games: Powerball® was fully integrated into the product mix as California began selling this game in April 2013. A change to the Mega Millions® game including a move to the \$2 price point was implemented in the fall of 2017. Draw Game sales have increased from more than \$1.4 billion to an estimated \$2.65 billion over this same period.
- Retailers: Aiding this sales growth, the size of the Lottery's retail network increased from just over 21,000 to more than 23,300 over the past ten years.

As an example of achieving the goals set forth in the last strategic plan, the financial goal expressed in that plan three years ago was to surpass the \$2 billion mark in contributions to California public education for the first time in Lottery history. In each of the past two years, the Lottery has provided more than \$2 billion to schools. During this same time period, total Lottery sales have gone from \$6.6 billion in FY 2019-20 to an estimated \$9.2 billion in this current fiscal year.

Additional examples of performance against the prior strategic objectives will be included in the presentation of this agenda item to the Commission.

## **DISCUSSION**

Through the planning process, the four strategic objectives that were developed outline a path to increasing the Lottery's contribution to education over the next several years. And, these strategic directions rely on growing sales in a responsible manner.

While this fiscal year and last fiscal year provided California public education with more than \$2 billion in each year, there were fortunate circumstances which enabled the Lottery to achieve these records – such as the statistically rare high number of jackpots over \$1 billion in Powerball and Mega Millions this current year.

For its strategic financial goal, the Lottery intends to grow sales so that contributions to education consistently exceed \$2 billion without relying on any extraordinary circumstances to reach these levels.

The proposed four strategic objectives including a brief summary of the relevant information from the Business Review as well as some examples of the types of strategies and tactics envisioned to achieve the objective include:

#### Expand Scratchers sales by removing barriers to play among infrequent players

Extensive consumer research revealed the barriers that prevent infrequent Scratchers players from buying tickets more than just a few times per year. The key barriers centered on the purchase process and the need to change some of their perceptions about the product and the Lottery.

In terms of the purchase process, buying Scratchers tickets is difficult since a player must have cash on hand to buy them, and fewer consumers typically carry much cash. The Lottery will explore ways to accept non-cash payments such as debit cards. To tackle one of the other barriers in the purchase process, the Lottery must find a way to help infrequent players select a specific Scratchers game out of the two to four dozen choices there may be at a retailer.

In terms of perceptions, the Lottery needs to change how infrequent Scratchers players view the product from being just about winning money to seeing the play value and moments of fun that Scratchers can bring them. This will be achieved by continuing the marketing efforts to reposition the Scratchers category.

It is very important that these multiple strategies and tactics work together in order to maximize effectiveness of any single element. While some of these efforts have already begun, there are others – such as buying tickets with debit cards - where plans still need to be developed.

#### Grow Draw Game Sales particularly in Jackpot Games and Hot Spot

Given that frequent players, on average, spend about \$18 per month across all three jackpot games combined, the strategies and tactics to address this objective can involve both frequent and infrequent players. These will include both product, marketing, merchandising, and retail strategies.

While product changes in the multi-state games require many states to agree on the direction and specifics of the game modification, Super Lotto Plus is California's game and offers a prime prospect for sales growth. It still enjoys slightly more than 40% of California adults participating in the game, which is a significantly higher rate than the Lottery's other Draw Games outside of the multi-state games of Powerball and Mega Millions yet its sales have declined over the past ten years. Ideas for Super Lotto Plus enhancements have been developed, and preliminary research has been conducted.

Efforts under this objective will also be tied to retail initiatives. In the lottery industry, solutions to selling Draw Game tickets in the lanes of supermarkets have been developed

and implemented in a handful of jurisdictions. This effort offers great promise with the Lottery working towards executing an in-lane product as part of this strategic plan.

#### Explore new ways to expand and utilize the Lottery's strong retail network

As the Lottery grows its retail network, it will be important to expand into new tradechannels to diversify the mix. Through its history, convenience stores have been the dominant type of retailer selling Lottery tickets. However, retail shopping trends have changed, and it will be important to add different types of stores. In 2022, the Lottery expanded into the Walmart Supercenters. Similar growth into newer tradechannels will be a key strategy in the upcoming years. To attract some new retail partners, the Lottery may need to adopt new business models. The In-Lane sales solution for Draw Games discussed earlier also offers an excellent opportunity to expand into new types of retailers.

The Lottery's retail network is a strategic strength not only in terms of the number of places where tickets are sold but also as a touchpoint to consumers. Research shows that Lottery signage or equipment at retail, particularly in places like a supermarket, is the trigger of an impulse purchase. The Lottery needs to find additional ways to create a stronger presence in some retail locations such as supermarkets or other stores with a large footprint.

#### Continue to Improve Knowledge and Perceptions about the Lottery

And, the final Strategic Objective involves continuing efforts to improve the knowledge about the Lottery such as education being the beneficiary of Lottery funds and to show how the Lottery fulfills its mandated mission and operates with the utmost of integrity. By increasing the knowledge about the Lottery, people's perceptions of the Lottery will continue to increase.

#### **RECOMMENDATION**

Staff recommends that the Commission approve the four objectives as the Lottery's Strategic Direction.