



M E M O R A N D U M

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To: California State Lottery Commission

From: Nicole Soluri, Chief Deputy Director **NS** [Initials on file]

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Subject: Item 8(f) – Fiscal Year 2019-20 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 covers the tactical details to support the objectives and broader strategies outlined in the 3-Year Strategic Plan.

BACKGROUND

The upcoming FY 2019-20 is an extension of the previous 3-year Strategic Plan, which was approved by the California State Lottery Commission (Commission) on March 24, 2016. The Lottery continues its focus on key strategies to achieve its desired outcomes of growing Lottery sales and profits by increasing purchase occasions among infrequent players, improving perceptions about the Lottery, and expanding the number of Californians playing Lottery games.

The Five Key Strategies are:

- Build sales in jackpot games and Hot Spot[®]
- Clear up myths about the Lottery and elevate the Lottery's brand perception
- Be a responsible corporate citizen
- Put more fun and entertainment into the Lottery brand
- Become more customer-focused and improve the customer experience

DISCUSSION

Similar to the current FY, the proposed Plan for FY 2019-20 revolves around four key objectives that combine strategies to drive sales and profits with initiatives to deliver growth in subsequent years. The four key objectives are:

- Grow sales of all jackpot games and Hot Spot
- Continue moderate growth of Scratchers® sales
- Improve the customer experience for players, retailers, and internal customers
- Elevate perceptions about the Lottery to grow the future player base

These objectives are supported by a combination of multi-year projects that were part of last year's approved Plan and new tactics proposed for the upcoming year.

For both types of projects, staff developed proposals that included descriptions of the project scope, an assessment of the monetary and staff resources needed during the upcoming FY, and a discussion of the potential risks and benefits. The proposals were evaluated by staff from the Business Planning and Research unit, the Budget Office and the Enterprise Project Management Office. This was followed by a review by senior management. Program selection was based upon available Lottery resources, potential benefits that could be delivered, and congruence with the strategic goals.

The highlights of the FY 2019-20 Plan include:

Create Sales Growth in Jackpot Games and Hot Spot

While Scratchers represent the largest portion of Lottery sales, it is also important to grow sales in the Lottery's most profitable games to increase funding provided to public education.

The FY 2018-19 Plan emphasized efforts to increase sales across Mega Millions®, Powerball®, and SuperLotto Plus® (Jackpot Games) through a combination of marketing activities and increased player insights. Overall, key metrics indicate preliminary success and opportunities that the FY 2019-20 Plan intends to expand upon. With a game change to Mega Millions, sales increased in both Mega Millions and Powerball, fueled by larger jackpots. Within the last year, the multi-state games have had jackpots more frequently above \$150 million and \$250 million. As part of the FY 2019-20 Plan, the Lottery will be supporting these larger jackpots with an increase in its Jackpot Alert advertising, which helps drive additional sales.

Within the FY 2019-20 Plan, the Lottery is addressing increasing sales of Jackpot Games on two fronts: a marketing plan to drive sales in this fiscal year and an exploration of concepts to fuel growth for upcoming years. Jackpot Games are more profitable than Scratchers, with the lower prize expense delivering more dollars to California public

schools. Analysis suggests that a continued focus on these games will help attract new players and engage existing players, by utilizing increased marketing efforts to increase purchase frequency and spend, promote traffic-driving jackpots, and boost overall awareness.

The Lottery will also explore ways to expand the profitability of SuperLotto Plus and assess the potential benefits of shifting draw times for some or all in-state draw games.

Hot Spot continues to play a key role in the Lottery's strategic growth plans, as a result of its strong growth possibilities within the category and its continued sales trends. As of May 2019, Hot Spot sales are above goal and 9% ahead of year-over-year sales. However, the game still underperforms compared to similar games in other states across the country. Within the proposed Plan, the Lottery will explore potential new features, enhancements and additions to maximize potential Hot Spot sales.

Continue Moderate Growth of Scratchers Games

Although Scratchers have seen rapid growth over the past three fiscal years – increasing over 30% – the rate of growth is projected to slow in FY 2019-20. Utilizing the insights gleaned from data and analytics, marketing and advertising efforts will focus on identified opportunities.

Scratchers will continue to form a key component of the Lottery's product portfolio, with the planned launch of 52 new games, including more games with lower price points than seen in the current year. Expanding offerings at these price points can help increase the profitability of Scratchers. Additionally, the popular Crossword-style games will maintain their importance with the launch of concurrent Crossword-style games at multiple price points and the first holiday-themed Crossword.

Opportunities also exist at the individual store level, utilizing analytics to understand and support implementation of retail activities and tactics that may most impact Scratchers sales.

Improve the Customer Experience – players, retailers and internal customers

Customer experience (CX) remains a critical focus for the Lottery, as it continues to optimize CX for its external and internal customers to improve the experience for all stakeholders.

PriceWaterhouse Coopers finds that 75% of Americans point to CX as an important factor in their purchasing decisions, further noting that 59% would walk away from a company after several bad experiences and 17% after just one bad experience.¹

New projects for FY 2019-20 will explore ways to improve CX at critical customer touchpoints, including expanded service opportunities in a 24/7 world, research and planning to address potential “pain points” for retailers and customers, and discovering ways to modernize current processes.

These projects align with current multi-year projects already in progress, including refinements to a user-friendly retailer online portal, upgrades to the gaming system, and strategic planning of digital and mobile communications to players.

Additionally, the FY 2019-20 Plan sees the expansion of the pilot project to allow prizes to be claimed at local District Offices. This project, piloted in the current fiscal year, enables players to quickly receive their winnings of \$1,000 or less in person at the Sacramento District Office, rather than waiting weeks for their claims to be processed. Lottery research found that 83% of participating winners were satisfied with their overall experience, and in FY 2019-20, this will be rolled out to a number of additional District Offices across the state.

Players and retailers are not the only stakeholders impacted by CX; the Lottery continues to implement projects that impact its internal customers, its employees. The Plan continues upgrades to the financial system, digital asset management, and improvements to the Northern Distribution Center. New projects explore the ability to digitize manual processes, like Human Resources forms, to maximize efficiencies, eliminate redundancies, and improve tracking and transparency.

Elevate the Perception of the Lottery Brand

Player research reveals that there is still a need to enhance perceptions about the Lottery and its mission. Improving these impressions is vital to increasing the number of purchase occasions among existing players, expanding the number of Californians playing Lottery games, and boosting the Lottery’s contribution to California’s public schools.

The Lottery will utilize external marketing and corporate social responsibility to address these concerns, while also focusing on projects to strengthen player and retailer trust. Two projects continuing in FY 2019-20 address data and information security within the Lottery, including upgrades and risk assessments. With the continuing proliferation of high-profile security breaches across the private and public sector, the Lottery remains dedicated to ensuring customer and retailer safety.

¹ PriceWaterhouse Coopers: Experience is Everything: Here’s How to Get It Right March 2018

Additionally, the FY 2019-20 Plan will continue the Lottery's emphasis on fun and entertainment, launching a shift in strategy for Scratchers marketing that is geared towards improving brand awareness and perception overall, rather than focusing solely on the individual games.

Results of the Business Plan

The initiatives contained in the FY 2019-20 Plan will allow the Lottery to achieve increased sales and profits. Additionally, the elements of the Plan will prepare the Lottery for future growth.

RECOMMENDATION

Staff recommends that the Commission approve the proposed FY 2019-20 Plan.