




M E M O R A N D U M

Date: June 29, 2023

To: California State Lottery Commission

From: Alva V. Johnson, Director 

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Business Planning and Research

Subject: Item 9(d) – Quantitative Market Simulation Research Services Contract

ISSUE

The California State Lottery (Lottery) is requesting approval to enter into a three-year agreement with Knowledge Systems & Research, Inc dba KS&R for quantitative market simulation research services. The contract term will begin August 1, 2023, or upon final approval, whichever is first, and will end July 31, 2026. The agreement amount is \$300,000.

BACKGROUND

Every year the Lottery considers a multitude of strategies and tactics to optimize sales, payouts, and profits from its games. Sometimes this includes considering additions or changes to our products. To test such product changes, the Lottery conducts market simulation or “spending exercise” research studies. These studies are online surveys that feature an exercise which mimics a real-world in-store shopping experience and asks respondents to allocate their potential Lottery spending under a variety of scenarios. This method has proven to be the most effective at estimating changes to total Lottery sales and profits resulting from a proposed new product offering or change to our products. It can be used to project both the incremental sales and profit gains from the change and how the change may cannibalize sales from other games on the market. The studies also allow us to dig deeper into individual game concepts for diagnostic purposes and later refinement by the Product Development team to improve sales and profit performance.

In the past, some of the changes tested using this methodology include launching and expanding high price point Scratchers® (\$20+), launching the first \$30 Crossword game, adding new Scratchers ticket themes, and changing the game play of a draw game.

For several years, these studies were typically handled one project and contract at a time. However, due to fast-changing consumer trends, the expanding product portfolio, and the importance of data-driven decisions to maximize contributions to education, these studies are now requested on a more regular basis.

In 2022, after a competitive procurement, the Lottery established an agreement with KS&R for two Scratchers market simulation studies. The final study covered under this contract is set to complete in July 2023.

To ensure the Lottery can continue to conduct up to two market simulation studies per year in a timely and cost-effective manner, a new solicitation for a multi-year, multi-study contract was developed and issued.

DISCUSSION

On March 20, 2023, the Lottery posted Request for Proposal (RFP) R000648 on its public website and the California State Contracts Register (CSCR) and sent an announcement regarding the release of the solicitation to potential proposers obtained from the Lottery's vendor databases and lists of top research vendors that might be interested in responding to the RFP. The RFP invited responses from qualified vendors to conduct quantitative consumer research studies specifically utilizing market simulations or "spending exercises" to test game concepts and portfolio changes for their potential on total sales and profits prior to launch.

The Lottery received seven proposals by the April 27, 2023 deadline.

KS&R provided both the strongest overall proposal and the most reasonable costs compared to the other submitting vendors. KS&R received a rating of "Significantly Exceeds" in the Research Methodology and Analysis section based on the strength of the proposed spending exercise design, which allowed for a full mix of games to be shown, best mirroring the real-world experience. Similarly, KS&R received a rating of "Significantly Exceeds" in the Experience section because of its past experience utilizing the proposed methodology within the lottery industry and with similar methodologies among non-gaming industries. KS&R demonstrated a thorough understanding of the objectives and business need for these types of studies and effectively communicated how it could be achieved. For the last section, KS&R received a rating of "Exceeds" as the proposal clearly demonstrated excellent project management strategies and offered ongoing post-project collaboration and support at no additional cost.

In the Cost Proposal evaluation, KS&R also provided the lowest cost to the Lottery by a significant margin.

In accordance with the point systems of both sections outlined in the RFP, a total tally of points was calculated to determine best value. The best value proposal with the highest number of points was KS&R.

A maximum authorized contract expenditure amount of \$300,000 was developed based on an analysis of historical research needs and requirements, and anticipated research needs of two market simulation studies per year. The expected costs from the proposed agreement averages to \$50,000 per study, which is on par with the current contract. As such, this agreement will provide the Lottery a cost savings by setting prices for these services at 2023 rates for the next three years.

RECOMMENDATION

The Lottery recommends that the California State Lottery Commission approve the award of the Quantitative Market Simulation Research Contract to KS&R, with a contract term of August 1, 2023 (or upon final approval) through July 31, 2026, and an agreement amount not to exceed \$300,000.