



# MEMORANDUM

**To:** California State Lottery Commission      **Date:** February 28, 2007

**From:** Joan M. Borucki  
Director

**Prepared by:** Linh Nguyen, Director  
Business Planning

**Subject:** Item 9(b) – Approval of New Retail Model Regulations (Approval of Amendments to Retailer Compensation And Incentive Bonus Regulations)

## **ISSUE**

Should the California State Lottery Commission (Commission) adopt amendments to the Retailer Compensation and Incentive Bonus regulations to give the Director the authority and flexibility to enter into alternative compensation agreements with retail partners for the purpose of pilot testing new retail business models?

## **RECOMMENDATION**

Staff recommends that the Commission adopt amendments to Retailer Compensation and Incentive Bonus regulations. Adoption of these amendments will allow the Lottery to pilot test new retail business models. The amendments will become effective on March 1, 2007.

## **BACKGROUND**

Consumer shopping trends and retail models have changed significantly since the Lottery's creation in 1984. Despite these changes, the Lottery has used essentially the same retail business model for the last 20 years. This model requires that retailers comply with our unique, one-size-fits-all business model. The Lottery would like to begin pilot testing new business models that will focus on retailers' business needs and requirements as well as our own. The goal is to make carrying Lottery products more desirable and profitable to a variety of retail models to assist in the retention and recruitment of these retailers.

## **DISCUSSION**

In order to successfully develop and test new business models, the Director must have the ability to negotiate and enter into alternative compensation agreements with retailers depending on the type of model to be tested. Current Retailer Compensation and Incentive Bonus Regulations do not give the Director this flexibility. Staff recommends amending the current regulations to give the Director this authority upon notification of the Chair of the Commission and only for the limited purpose of pilot testing new business models.

If the new business models prove to be effective, the Lottery will return to the Commission for approval of the new model and compensation structure.

## **SUMMARY**

Allowing the Director to negotiate and pilot new business models and retailer compensation structures that are mutually beneficial to the Lottery and retail partners, will allow the Lottery to keep up with changing consumer shopping habits and retail trends.