

# Lottery Commission RENEW Project

As-Is Assessment update

October, 2009



### Agenda

- Progress update
- Big Picture Finance and Consumer Insight
- Interim Conclusions Summary
- Next Steps
- Q&A





#### **Progress Update**





### **Progress Update**

Stage 0	Stage 1	Stage 2	Stage 3	Stage 4
Mobilization and Ramp-up	As-Is Assessment	Option Proposals	Finalise Plan	Implementation
Team Working	Iterative tailored	workshops based on	standard approach	Managed Program
<ul> <li>Finalise detailed plan</li> <li>CA and UK PMO Mobilization</li> <li>Establish Governance</li> <li>Resource rampup</li> </ul>	<ul> <li>Conduct Site Visits</li> <li>Identify and gather data and metrics</li> <li>Synthesise Data and Conduct Analysis</li> <li>Identify and pursue quick wins</li> </ul>	<ul> <li>Develop Strategic options long list.</li> <li>Prepare and conduct analysis workshops.</li> <li>Identify and validate option short list</li> </ul>	<ul> <li>Prepare Business Strategy and plan content</li> <li>Conduct high level feasibility assessment</li> <li>Support quick wins</li> <li>Prepare implementation roadmap</li> </ul>	<ul> <li>Conduct detailed feasibility assessment</li> <li>Develop detailed implementation plans</li> <li>Mobilise implementation teams</li> <li>Conduct implementation</li> </ul>
Stakeholder Engagement				
Management Control				
Ongoing Outok Wine				

**Ongoing Quick Wins** 



#### **Progress Update**

#### Highlights:

- As-Is assessment phase has been successful in developing a thorough understanding of issues and hypotheses concerning root causes.
- Camelot and CA Lottery team members have been working very productively in conducting the as-is assessment.
- The as-is assessment forms the foundation for development of the strategy which follows.
- Analysis is already beginning on the initial options for initiatives to address the most critical issues identified in the as-is assessment we will present today
- The project remains on track





#### **Business Plan Context**

- A Strategic Plan (2006) was attempted in an organization that never had a long range strategic plan since inception, and was accustomed to Director's lasting only a year or two.
- Management deserves credit for creating a long term plan. It contained content of real merit that supported the state of the business at that time.
- We believe the organization has lacked the training, experience and best practices to accomplish successful implementation of a strategic plan.
  - Required structure & project management process not in place. Not enough emphasis communication, feedback and involvement from all levels of the organization and didn't prepare the organization to respond to changing circumstances.
  - There was not clear enough emphasis on the milestones and performance measures which would have aided response to some of initiatives and programs that were not working as planned



#### Big Picture – Finance and Consumer Insight





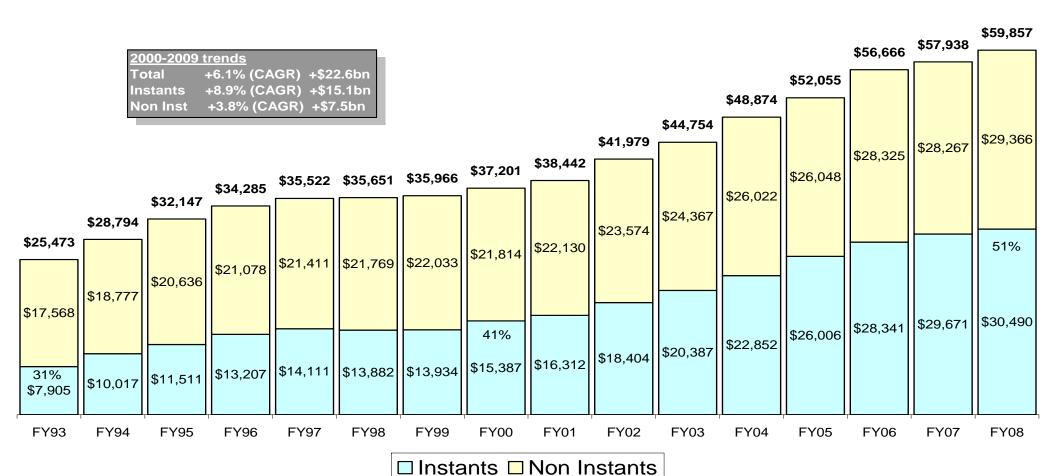
### CA Lottery within US Market





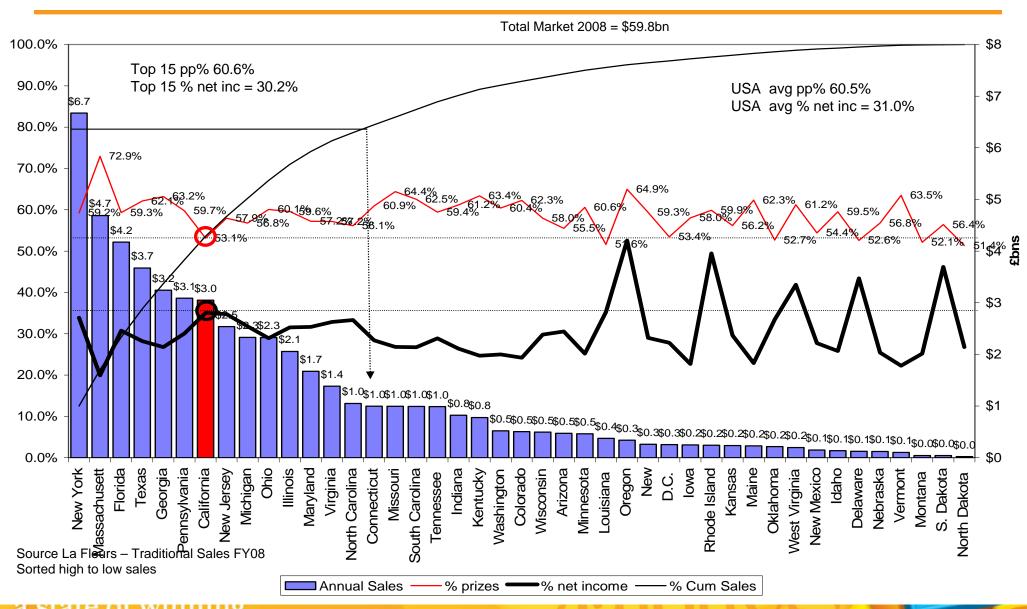
#### **USA Lottery sales Summary**

#### **USA Lottery Sales**



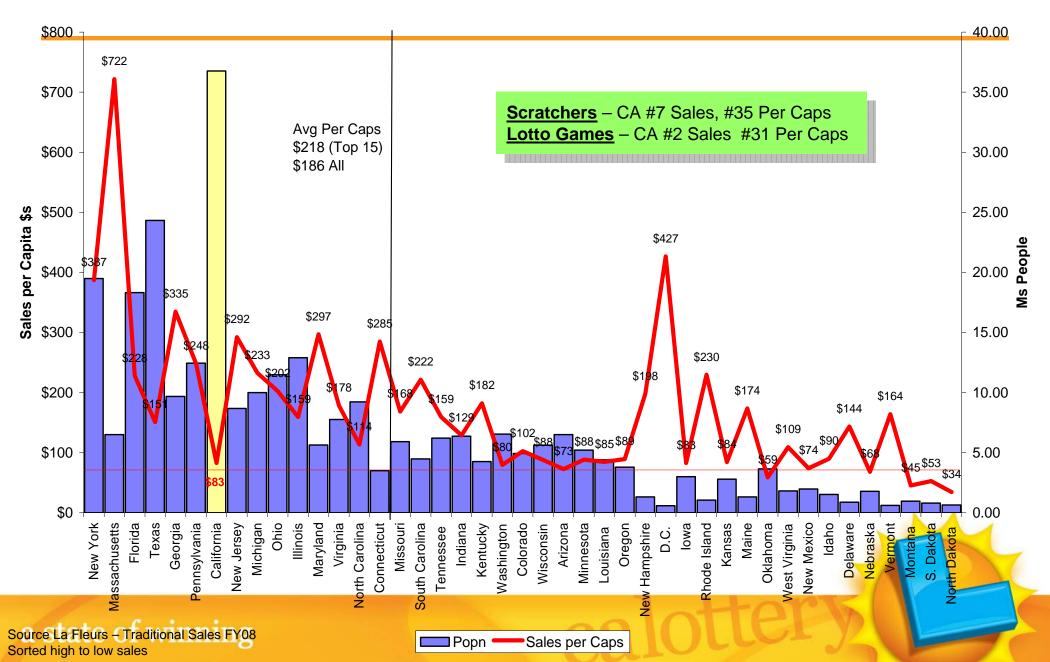


#### Total USA Lottery market (excl. VLT)





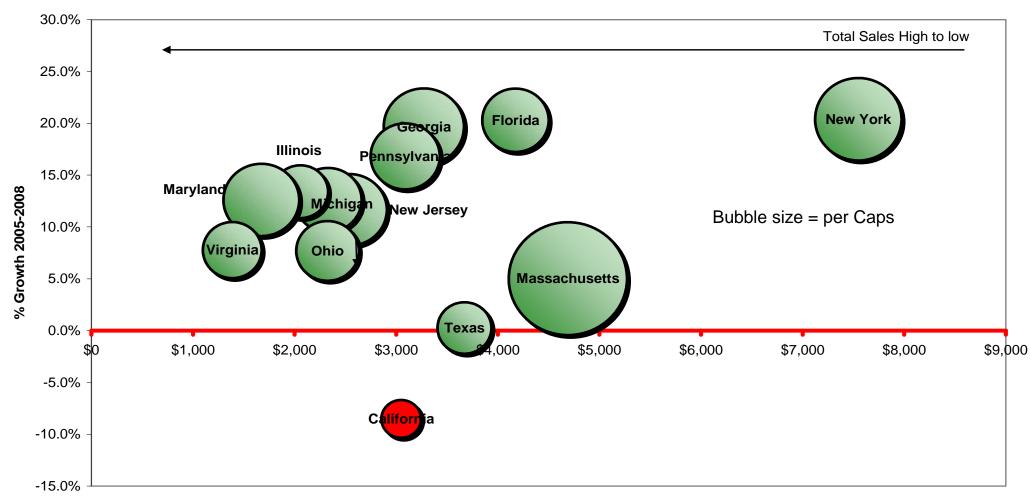
#### USA Lotteries – Population vs Per Caps





#### USA Lotteries – Growth Rate Comparison

#### USA Top (Sales) Lotteries (Total Sales FY08) Growth (2005 to 2008 FY) vs Per Caps - Traditional Lottery Sales (EX VLT)





## Interim Conclusions Summary CA Lottery within US Market

- There is an overall steady growth trend for the US lottery industry that CA is not part of.
- CA Lottery is significantly underperforming against it's peers in terms of growth and per capita performance, since inception.
- CA has the highest <u>percentage</u> (but not dollar) returns to education and lowest prize payout of the top 15 states.
- The percentage constraints around net returns (34%) mean that CA does not have the same levers to stimulate growth and sustain performance as other lotteries.
- If CA were to perform at the average level for the top 15 states, this would be a \$7.9bn/year lottery, returning \$2.4bn to schools.

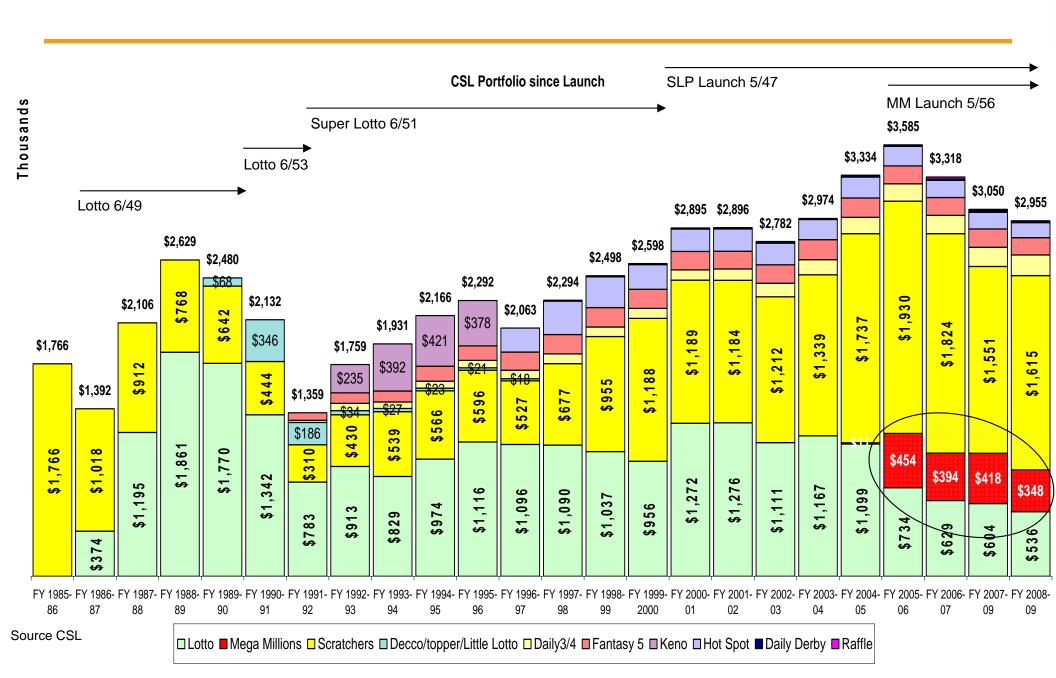


#### High level Analysis of Sales and Returns



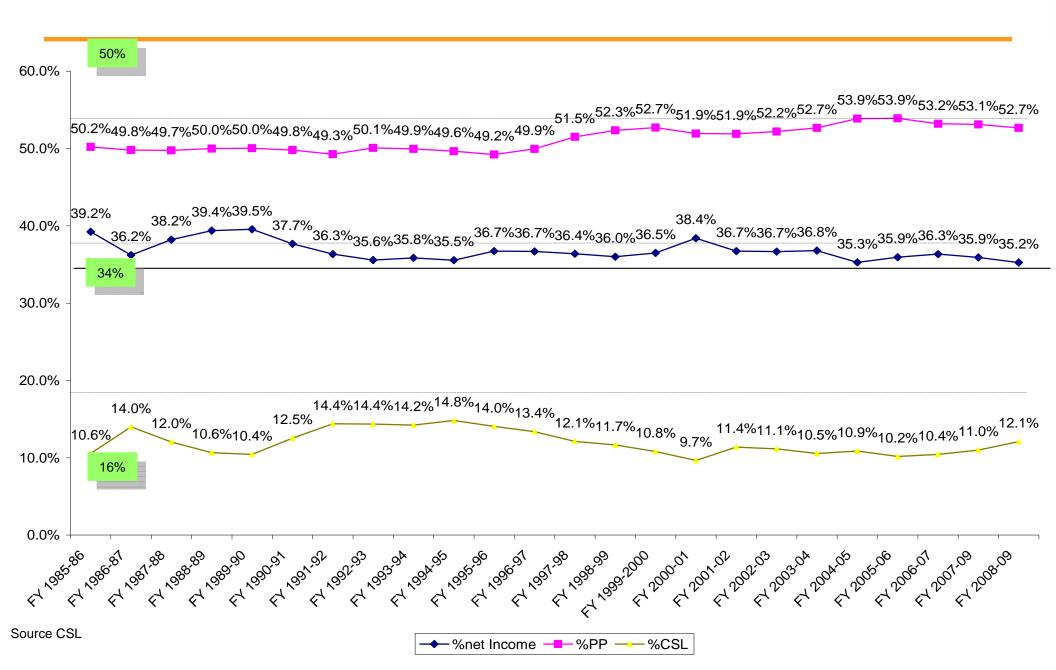


#### CSL Portfolio by Game





## CA Lottery – Prize Payout vs Net income vs Admin costs%





## Interim Conclusions Summary High Level Analysis of Sales and Returns

- Aside from the 6/53 matrix change in the early 90's, Lotto has been successfully stabilised when changes have been made to it.
- Despite the launch of Megamillions in 2005, the combined sales for MM and SLP today are less than SLP alone in 2004.
- The lottery is doing a great job of consistently meeting the 34% net returns commitment, <u>but</u>, this does not necessarily translate into \$ profit.
- SLP and MM are high profit margin games. They are <u>critical</u> to the financial health of the business, and supporting products that players really want.
   Although Scratchers are relatively strong, they alone are not profitable enough to sustain returns to the 34% commitment level.
- The decline in SLP, in particular, needs to be urgently understood and addressed.



#### **CA Lottery Consumers**





#### Demographic Forecast

Table 1

#### DEMOGRAPHICS OF CALIFORNIA LABOR POOL WORKING-AGE POPULATION (AGE 16 & OVER) 2008 AND 2018

Demographic	Number of Persons- 2008	Percentage of Persons	Number of Persons- 2018	Percentage of Persons
Ethnicity/Race				
White	13,741,806	46.6%	13,825,604	41.1%
Hispanic	9,526,152	32.3%	12,527,316	37.3%
Asian	3,664,014	12.4%	4,348,481	12.9%
Black	1,769,651	6.0%	1,860,422	5.5%
All Others	761,641	2.6%	1,043,453	3.1%
Total	29,463,264	100%	33,605,276	100%
Age				
16-24	5,163,617	17.5%	5,410,375	16.1%
25-54	16,155,407	54.8%	17,075,274	50.8%
55 and older	8,144,240	27.6%	11,119,627	33.1%
Total	29,463,264	100%	33,605,276	100%

SOURCE: California Department of Finance. Percentages do not always equal 100 percent because of rounding.



#### Corporate CSL Consumer Image

Corporate Image CSL	<u>2001</u>	<u>2005</u>	<u>2007</u>	Index 07 vs 05
Overall feeling towards the Lottery				
(Very/Somewhat Positive)	42%	39%	37%	88%
Corporate Attribute Ratings				
Prizes paid honestly and fairly	44%	40%	39%	89%
Helps school and education	27%	23%	22%	81%
Being run professional	47%	43%	41%	87%
Run very fairly	42%	37%	37%	88%
Doing what is required by State law	42%	38%	38%	90%
People running are doing a good job	37%	34%	33%	89%
Doesn't listen to players	18%	17%	16%	89%
New gimmicks to get money	45%	43%	44%	98%

Source: California Lottery Communications Effectiveness Tracking Study

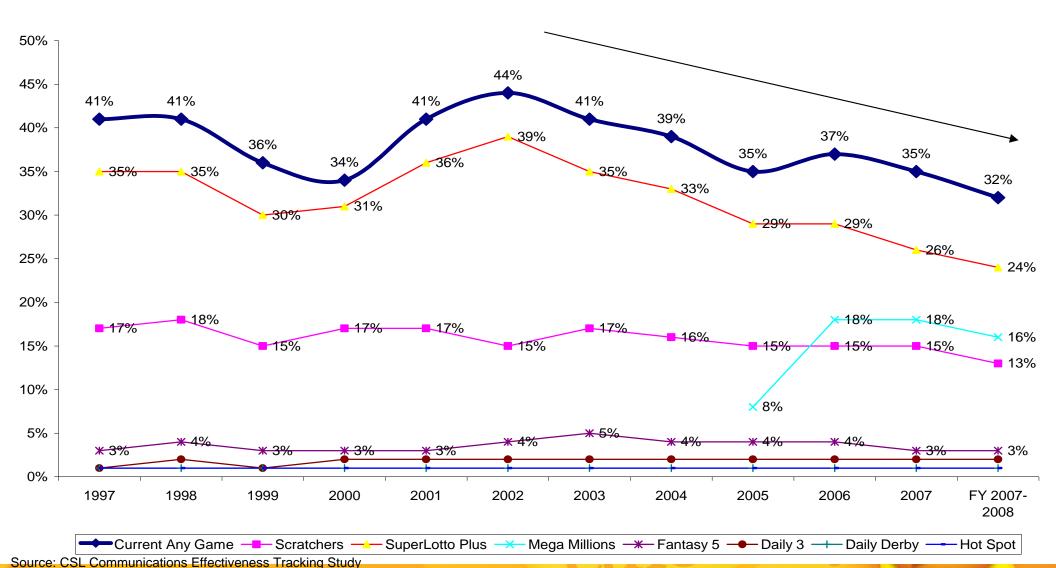
Note: Data from CY 2008 not available for the total year combined due to different research vendors

Source CSL – All Adults corporate (tracking study)



#### Penetration of Adults playing past Month







#### Player Spend

#### **Average Spend analysis (Proxy)**





## Interim Conclusions Summary CA Lottery Consumers

- People are playing less on SLP, about the same on Scratchers
- People are spending less on SLP, but more on Scratchers.
- Nearly 3 million people have stopped playing the lottery since 2002
- A further 2 million people are likely to leave the lottery by 2012 if the current trend continues.
- There are a number of credible hypotheses that explain the decline in player penetration, but further analysis is required to determine what we do about it.



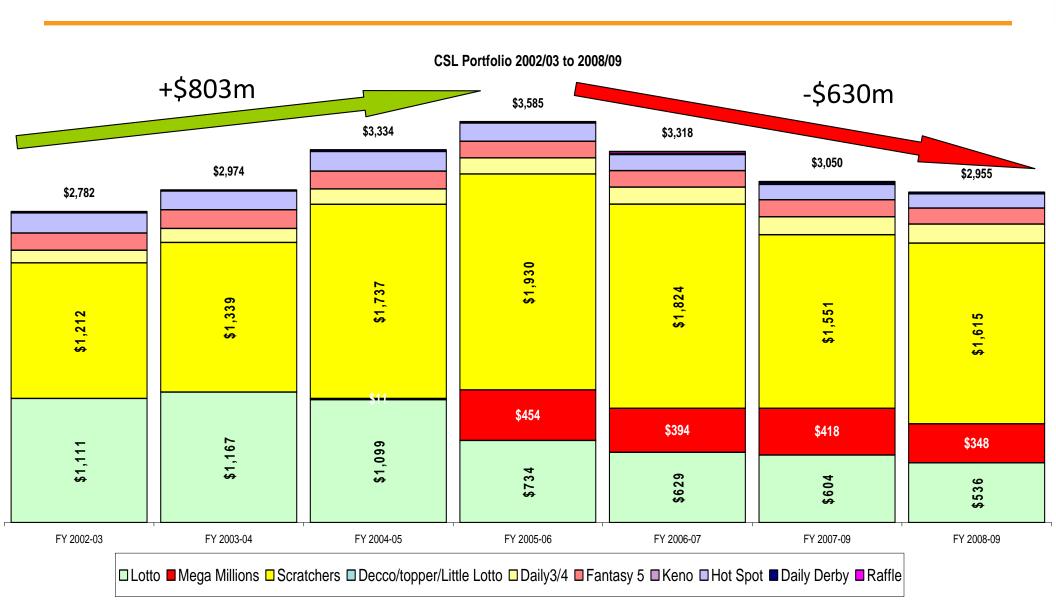


#### Sources of Decline in recent years





#### **Growth and Decline**





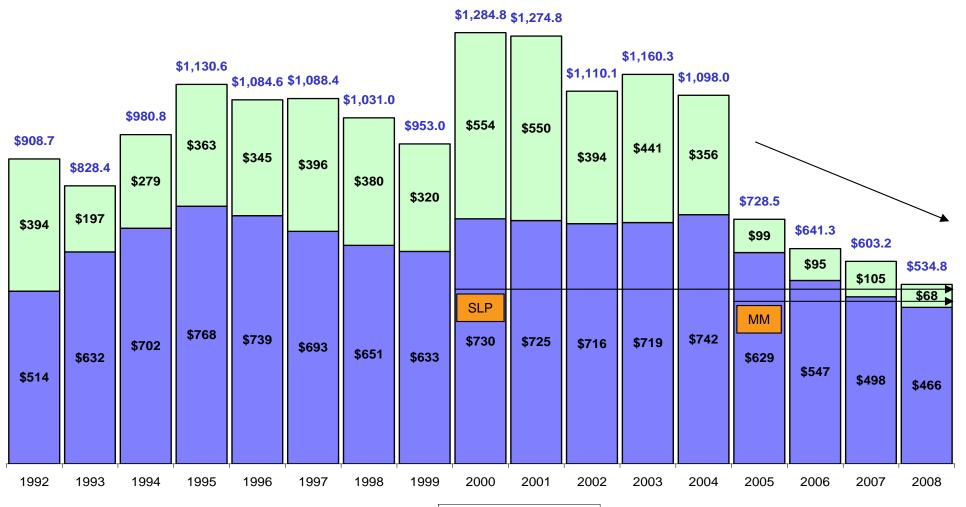
### Source of decline by product

\$ Change	2002-2005	2005-2008
Lotto	(\$376.7)	(\$197.8)
MM	\$453.7	(\$106.0)
Fantasy 5	(\$5.6)	(\$5.0)
Lotto Games Total	\$71.5	(\$308.9)
Scratchers	\$717.9	(\$314.3)
Daily 3/4/Derby	\$30.7	\$30.2
Hot spot/Raffle	(\$16.6)	(\$37.2)
Total	\$803.4	(\$630.2)



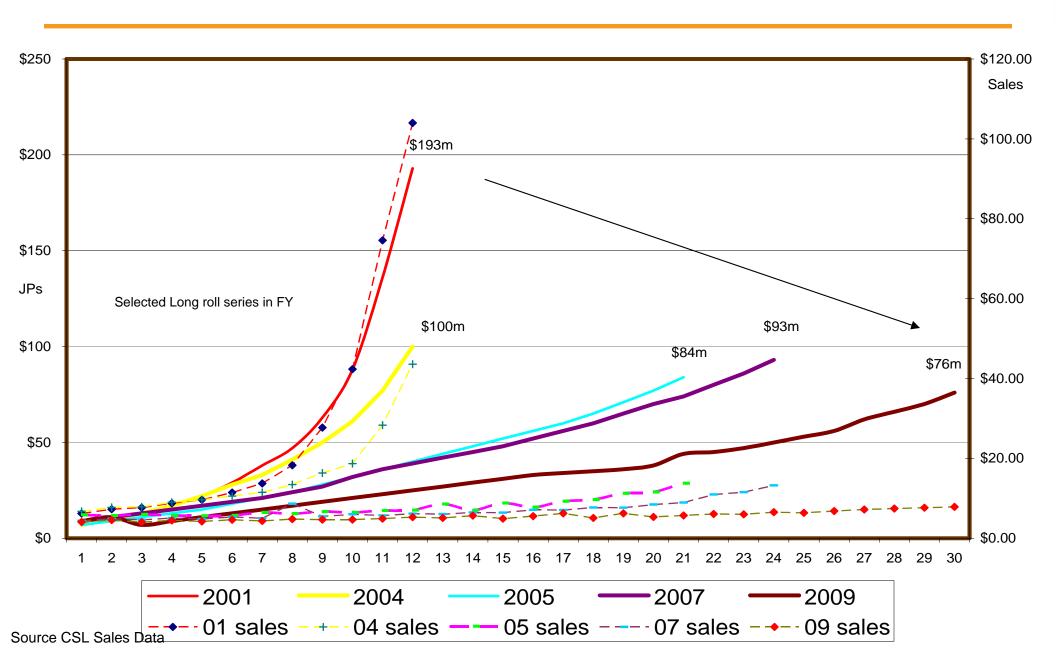
#### Super Lotto Plus Base and Rollover Sales

#### Super Lotto Plus Base vs Roll Sales FY



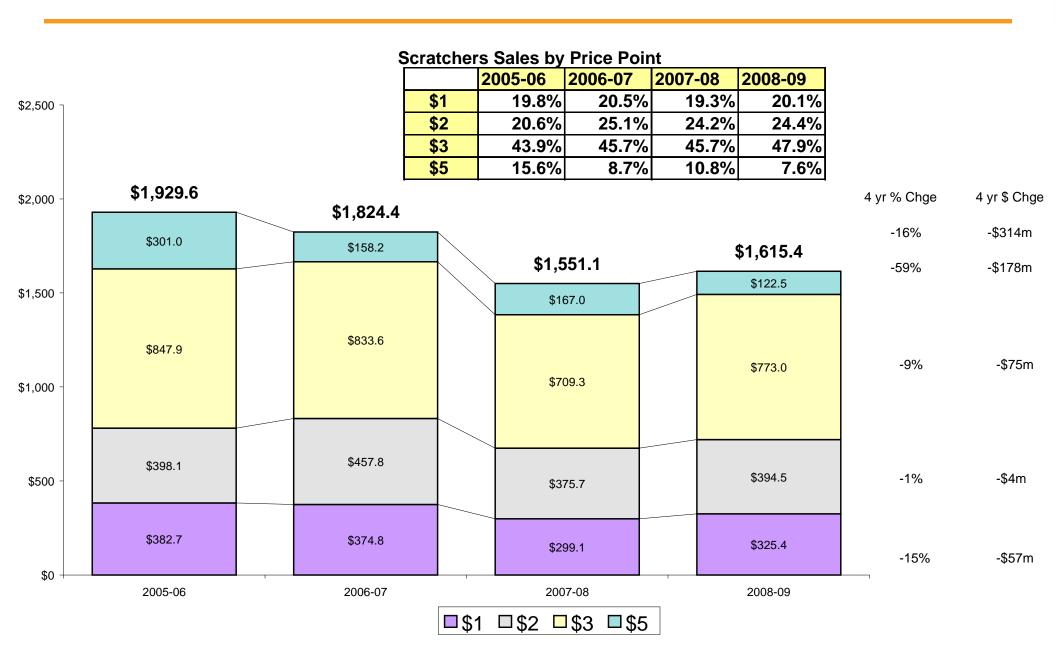


## Super Lotto Plus – Roll Series and Sales Response





#### Scratchers Sales by price point





#### Interim Conclusions

#### Sources of Decline in Recent Years

- The major sources of decline are in Scratchers, Super Lotto Plus and Megamillions
- Rollover performance for SLP has collapsed sharply since 2004 with an accompanying decline in base sales.
- SLP exhibiting signs of being a very sick game solution likely to be something more than better execution/channel marketing alone
- Scratcher performance is hampered by availability of high price point products that players really want.
- Too many scratchers in market for too long has a number of negative downstream consequences



### **Interim Conclusions - Summary**





#### Interim Conclusions Summary

- There has been significant decline in high profit DBG for last 3 years. The decline is not well understood, not being addressed and showing no signs of abating:
  - Alarming decline in player penetration
  - Lotto exhibits all the signs of being very unhealthy (base and rollover response)
- DBG decline means there is no effective platform from which to grow other games
  - Severe limitations in ability to grow scratchers business due to 34% constraint.
- Scratchers are operating well below their potential in their own right
  - Too many products in distribution for too long. Confusing to player, creates operation overhead, frustrating for retailer.
  - Too much, or unknown, inventory in circulation also has impact on Salesforce
- Ability to maximize sales of product through Retail is restricted
  - Sub-optimal retailer estate size, spread and mix
- There is an immediate need to refocus on the key issues that are hurting the business the most.



#### Next Steps and Q&A

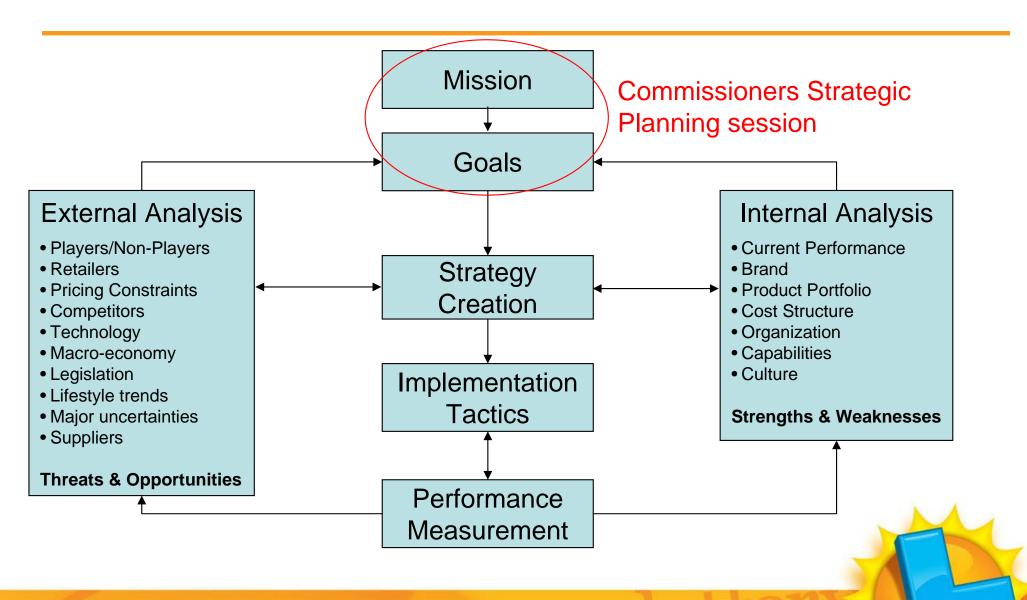


### Addressing the issues through Project Renew

- These conclusions are being turned into a long list of key strategic imperatives and initiative options.
- We see huge opportunity to address these key issues. A long list of potential initiatives (including quick wins) has already been identified by the project workstreams.
- The workstreams are well structured to conduct analysis of these options, and we expect
  to have completed initial analysis of the long list by early November:
  - Approach
  - Resourcing
  - Benefit/Impact Assessment
  - Dependencies
  - Constraints
- Workstreams will be making a recommendation on the short-list of initiatives to be considered for further feasibility assessment by the end of November
- In the meantime, we expect to identify and approve the start of quick win activities by the first week of November



## Corporate Strategy Development Context





#### Next Steps – Key Dates

Milestone	Date
Complete As-Is Assessment Phase	30 <sup>th</sup> October
Complete Strategic Options Analysis – Long List	6 <sup>th</sup> November
Conduct Strategic Planning Session (Commissioners)	16 <sup>th</sup> November
Complete Strategic Options Analysis – Short List	4 <sup>th</sup> December
Consolidate Options and Finalise Business Plan	15 <sup>th</sup> January

