

## **Commission Meeting**

RENEW Business Strategy
April 14th, 2010





## **Agenda**

Key Headlines	JB
<ul> <li>Business Strategy Content</li> <li>How the Business Plan was created</li> <li>Strategic Imperatives Recap</li> <li>Key Initiatives for Growth</li> <li>Leadership</li> </ul>	LN
<ul> <li>Quantification &amp; Financial Modelling</li> <li>Quantification Process and Method</li> <li>Key Scenario Summary</li> <li>Detailed Scenario Breakdown</li> </ul>	LN
<ul> <li>Implementation</li> </ul>	LN
• Summary	JB
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## **Key Headlines**





## **Key Headlines**

- The work for the Business Strategy phase is now complete.
- The business strategy comprises 30 key initiatives to be implemented over the next 3 years.
- We could expect to realise incremental Revenue of \$1.7bn (w/o prize payout reform) and returns to education of \$900m across the next 3 years if these initiatives are implemented successfully.
- Implementation Roadmap has been baselined with a high level feasibility assessment
- New Programme Structure and Governance Model which will embed visibility, accountability and culture of performance measurement
- 1000 days of Camelot Implementation support plus Program
   Management will be used to drive both implementation and longer term sustainability.

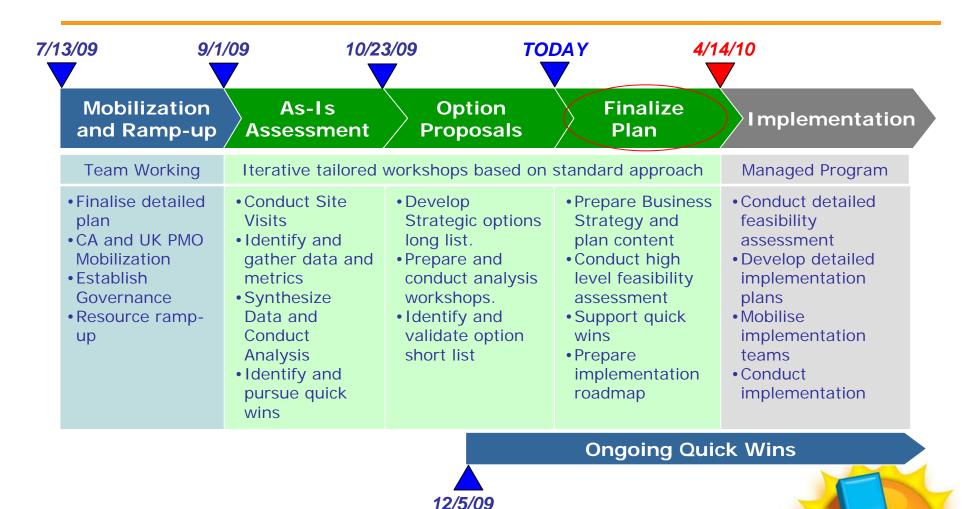


# **Business Strategy Content**





# How the Business Strategy was created





## **Strategic Imperatives Recap**

#### Mission

providing the most entertaining and innovative lottery games in the industry.

To generate maximum funding for education by

#### Strategic Imperatives

- 1. Focus on turning around Draw Based Game Sales
- 2. Ensure we are getting the most out of Scratchers
- 3. Get the most out of our retailer network
- 4. Get the most for our Marketing Dollar
- 5. Allocate our Resources to Maximize Profit
- 6. Foster a Performance Management culture
- 7. Focus on Building Productive Stakeholder Relationships



## **Key Initiatives for Growth - Recap**

Products	Marketing	Retail Execution		
Jackpot Games  SLP relaunch  Powerball cross-sell (TBC)  Lower Jackpot Games  Revitalize Hotspot  Game Pipeline development  Scratchers  Retailer Segmentation and Service  Remove Excess Games & Rebuild Game Plans  Prelaunch research  Weekly trading meetings  Optimize distribution channel	<ul> <li>Consumer Marketing</li> <li>Refocus Marketing Spend</li> <li>Establish econometric ROI measurement</li> <li>Renewed marketing plans</li> <li>Right budget and rationale</li> <li>Brand differentiation</li> </ul>	<ul> <li>HQ</li> <li>Retailer Segmentation</li> <li>Key Accounts</li> <li>Retailer Incentives</li> <li>Sales Advisory Comm. &amp; Trade Assn</li> <li>HQ Staff Retail Visits</li> <li>Field</li> <li>Visitation Schedule</li> <li>Instore Placement &amp; sales call</li> <li>Comms &amp; Equipment Placement</li> <li>Retailer Performance</li> <li>Scratcher Activation &amp; Placement</li> <li>Cascade Process</li> </ul>		
C	orporate Social Respon	sibility		
$oldsymbol{arphi}$		mer Protection Information Optimization esponsible Gaming certification		



## Quantification and Financial Modelling





### **Quantification Process and Method**

#### **Approach**

- The As-Is assessment financial projections for the next 3 years assuming we "donothing"
  - 3.6% year on year decline in Revenues, 4.1% year on year decline net returns:
    - 9% annual decline in Super Lotto Plus
    - 2.5% annual decline in Megamillions from FY09/10
    - 4% annual decline in Scratchers
    - Portfolio revenue mix breaches current 34% prize payout limitations
- In this final phase of the project, we have attempted to:
  - Individually quantify the benefits of the proposed initiatives
  - Group them into major scenarios
  - Overlay these scenarios onto the "do-nothing" projections to develop future financial projections
- The scenarios set a target for overall performance expectations and annual budgets



### **Quantification Process and Method**

#### **Method**

- From the list of initiatives, determine which are "financially quantifiable" versus "foundational".
- For each financially quantifiable initiative we have determined an estimation approach:
  - CA Research data
  - 3<sup>rd</sup> party research and reports
  - US State Comparative benchmarking
  - Camelot data and experience
- Not an exact science some educated speculation:
  - Range of estimates
  - Generally conservative assumptions
  - Currently some unknowns assumptions may change







Prize Payout Reform

Powerball (opportunity with risk)

"Base Initiatives"

**Do-Nothing** 

- Leverages work already conducted to apply the likely benefits of likely prize payout reform
- Consideration of potential uplift and cannibalization scenarios associated with a potential introduction of Powerball cross-sell
- 20 core initiatives identified across all workstreams combined into logical groups for benefits estimation.
- 3.6% CAGR revenue decline





#### **Base Initiatives Scenario – Revenue Impact**

- To clarify understanding, the 29 base initiatives have been arranged into 9 major financial forecast groups
- Versus a do-nothing scenario, the 29 base initiatives are expected to drive incremental sales revenues of approximately \$1.7bn over the next 3 years:

#### **Incremental Revenue Benefits(\$m)**

Group	Initiative Description	FY09/10	FY10/11	FY11/12	FY12/13	Total
1	Rebuild FY09/10 Scratchers gameplan and develop FY10/11 plan	-	36	152	294	482
2	Reduce number of Scratchers games available for sale	23	46	46	46	161
3	Resume marketing of Mega Millions	5	18	22	12	57
4	Base marketing budget on Return on Investment (ROI) metrics	-	97	133	178	407
5	Develop pilot retailer initiatives and rollout to other sales districts	-	33	53	81	167
6	Develop Key Accounts and promote new recruitment	-	30	33	33	95
7	Review Retailer Incentive Plan	-	-	-	-	-
8	Review of Hotspot business	-	19	38	93	149
9	Redesign SuperLotto Plus	-	40	86	128	254
	Total revenue benefits	28+	319+	562+	864+	1,773+





#### **Powerball Scenario**

- DBG interact with each other changes to games can mean incremental revenues and/or cannibalization of existing games
- Key to the Powerball cross-sell lies in 3 areas:
  - Performance in other states
  - Consumer research in CA
  - The potential of Super Lotto Plus
- Current focus is to understand the potential of a "revised" super lotto plus in CA. We see 2 possible scenarios:
  - 1. SLP can be changed to stabilize revenues.
    - Stop players leaving and maintain or increase per Capita spends to maintain current sales levels
    - 2. Game is differentiated in the portfolio (should it perform and research well)
  - 2. Current decline of SLP cannot be stemmed
    - 1. Execute a managed decline
    - 2. Introduce Powerball as soon as possible (should perform and research well)



#### **Prize Payout Reform Scenario**

- With legislation now passed, removal of the 34% net return obligation will undoubtedly drive growth in those categories typically requiring higher prize payouts than previously permitted to realize potential.
- Both the Chang & Adams Report and previous plans set out by the lottery set out a well conceived and calculated case as to the likely uplift generated by prize payout reform.
- The renew project has reviewed the Chang and Adams report in detail and concurs with it's key assumptions and findings.
- In isolation, we expect prize payout relief to drive upwards of \$2billion in incremental sales revenues over the next 3 years.



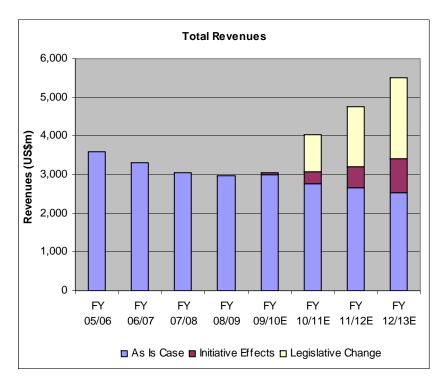


# **Cumulative Scenario Overlays – Revenue and Net Income Summary**

#### **Revenues:**

FY12/13 Do-Nothing: \$2.538bn

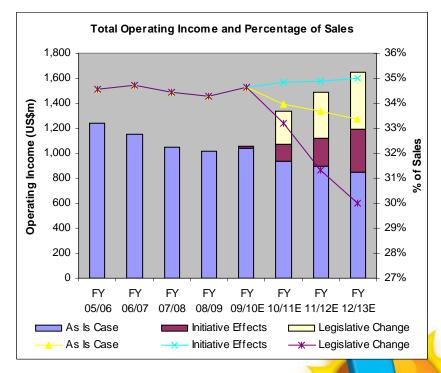
FY 12/13 Base Initiatives: \$3.402bn



#### **Net Profit:**

FY12/13 Do-Nothing: \$0.847bn

FY 12/13 Base Initiatives: \$1.190bn





## Implementation Phase





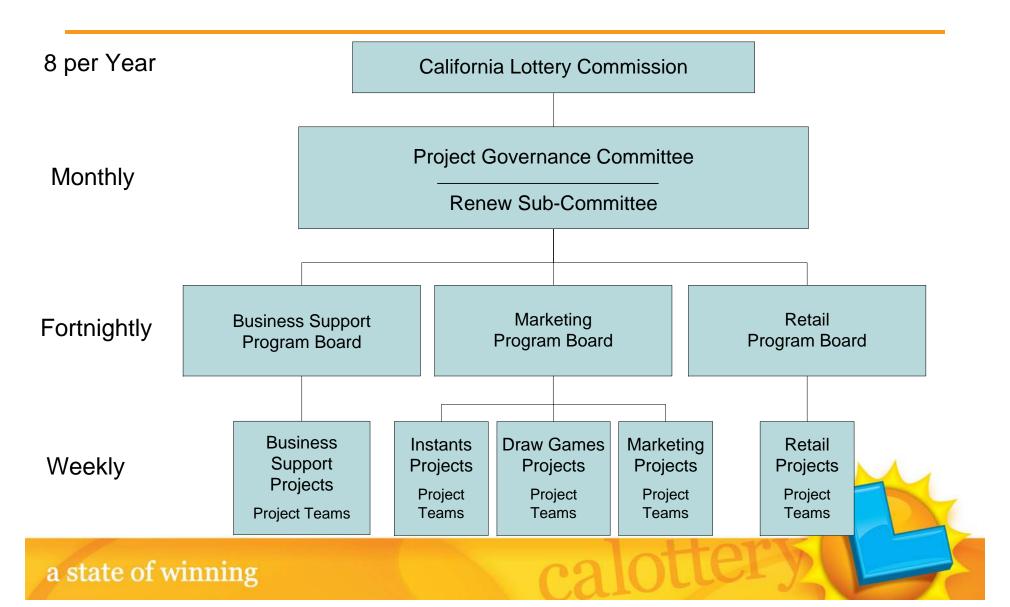
## **Guiding Principles**

We will formally establish a new Implementation Program to execute the Business Strategy:

- A clear 2 month mobilization phase which will
  - Address resourcing shortfalls
  - Establish PMO structure
  - Avoid project fatigue
  - Create space for Staff-wide consultation and communication
- Establish a 'fit for purpose' program organization structure
- Most effective utilization of Camelot Implementation Support (up to 1000 days over next 3 years)
- Strong and visible governance
  - Monthly Steering Committees Chaired by Joan
  - Regular, milestone driven, formal progress reports to the Commission
  - Clear points of escalations of issues and decisions



#### Governance





# Performance Measurement and Accountability

• Key element of the implementation phase is about driving to schedule, quality and cost, and realizing benefits as set out in the strategy.

"Are we getting it done, in the right way"

"Is it being effective"

	Schedule	Quality	Cost	Benefits Realization			
What	Focus on attaining key milestones as per the schedule	Ensuring that the projects and their deliverables are fit for purpose	Ensuring that resources are being managed effectively to deliver the project	Emphasize outcomes not process			
How	Renew Program Milestone Plan	Renew Program Quality Plan	Renew Program Financial Plan	<ul> <li>Renew Program Financial Plan</li> <li>Tracking Studies, Surveys, Research</li> </ul>			

**Program Balanced Scorecard** 

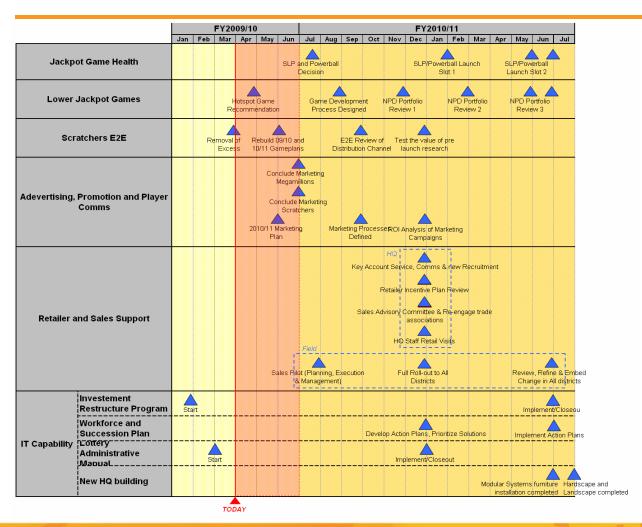


## **Program Balanced Scorecard**

Renew Program Sco	<u>orecard</u>					04/10/2008	
Dashboard Dashboard						Previous Month	
Project Name	Overall	Schedule	Issues	Risks	Costs	Overall	Trend
Project 1							Stable
Project 2							Worsening
Project 3							Worsening
Project 4							Stable
Project 5							Stable
Project 6							Stable
inancial Performance - Cost						Previous Month	
% variation in overall Budget					(0.87%)		0.00%
Days since last forecast					58		0
			MM				
Financial Performance - Benefits R						Previous Month	
Current Quarter Sales Performanc		aseline			(0.87%)		0.00%
Reforecast Performance versus R	enew Baseline				0.70%		0
Communications							
John Marious Constitution of the Constitution							
lo Significant Announcements Th	is Month						



## **Renew Program Milestone Plan**



- The milestone plan will be the primary tool used to drive progress of the program
- Upcoming key milestones will drive the agenda of upcoming commission meetings



## **Key Risks**

#### **Key Risks**

Key Resource Constraints

#### November Elections

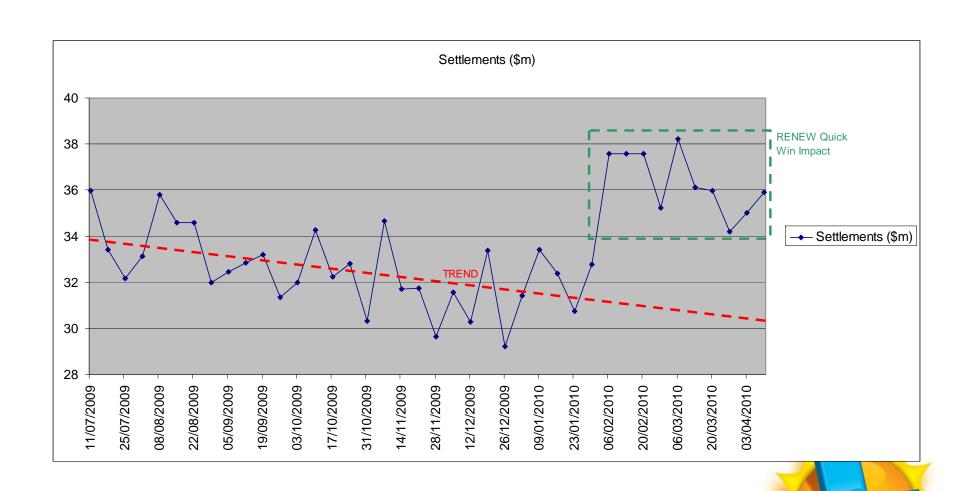
 Employee understanding and buy-in

#### **Mitigations**

- Effective use of Camelot time in short term
- Develop succession and development plans
- Drive performance this calendar year
- Conduct pro-active communications sessions in Sacramento and in the field



# Quick wins are already starting to have positive effect





# Summary





### **Summary**

We believe the business plan:

- Addresses the key issues facing the lottery
- Has candidly assessed all of the options open to the lottery to address the issues
- Will deliver significant financial growth in terms of returns to education.

We have placed great emphasis on setting up the Implementation Phase for success:

- Strong Leadership
- Clear Program Structure
- Emphasis on accountability

The high level feasibility conducted to date shows that we face challenges but are well equipped to overcome them.