



A Review of the Arkansas Scholarship Lottery

December 2014

Camelot Global - Our experience



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- This presentation will cover:
 - Executive Summary
 - In-depth review of the lottery business drivers
 - Strategy review and business planning
 - Organization review and governance
 - Recommendations and Conclusions
 - Next steps

The engagement is based on three phases:

- Phase One - In-depth review of the Lottery business drivers:
 - Desk based research
 - High-level consumer research study
 - Retail audit and execution
- Phase Two - Strategy review and business planning:
 - Recommendation on the future plan for the business
 - Product, Price, Place, Promotion and Enablers
- Phase Three - Organization review and governance:
 - Establish core principles for the future organization
 - Based upon consumer goods best practice
 - Outline the key Lottery processes and decision making forums

Camelot Global has reviewed the Arkansas Scholarship Lottery (ASL) and neighboring Peer State Lotteries as part of this engagement

- Camelot Global Services has completed the following activities:
 - A series of consumer workshops to identify key questions and validate over 50 hypotheses
 - Interviews with the key stakeholders from ASL's Head Office including:
 - Executive Director
 - Sales Director
 - Marketing Director + nominated agencies
 - HR Director
 - Gaming Director
 - Interviews with two ASL Regional Sales Managers
 - Field accompaniments with two ASL Marketing Sales Reps (MSRs)
 - Unaccompanied retail visits and retailer interviews

Context



- The following presentation is based on information gleaned from the Lottery, the staff of ASL and CGS's own research sources
- It was not possible to meet with Vendors during the engagement:
 - Assumptions on Vendor operations have therefore been made based on information that is available publicly and conversations with ASL staff
- Some recommendations made will need further, more detailed, evaluation to validate

Agenda



1 Executive Summary

2 In-Depth Review of the Lottery Business Drivers

3 Strategy Review and Business Planning

4 Organization Review and Governance

5 Recommendations and Conclusions

6 Next Steps

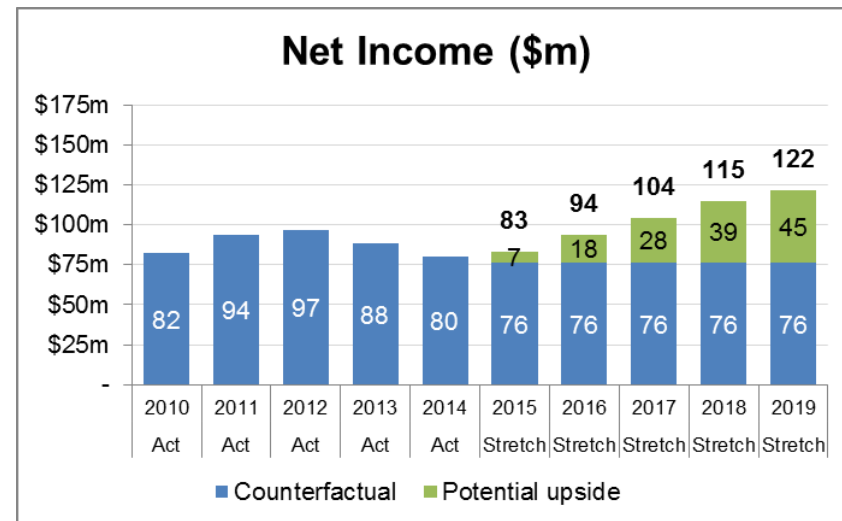
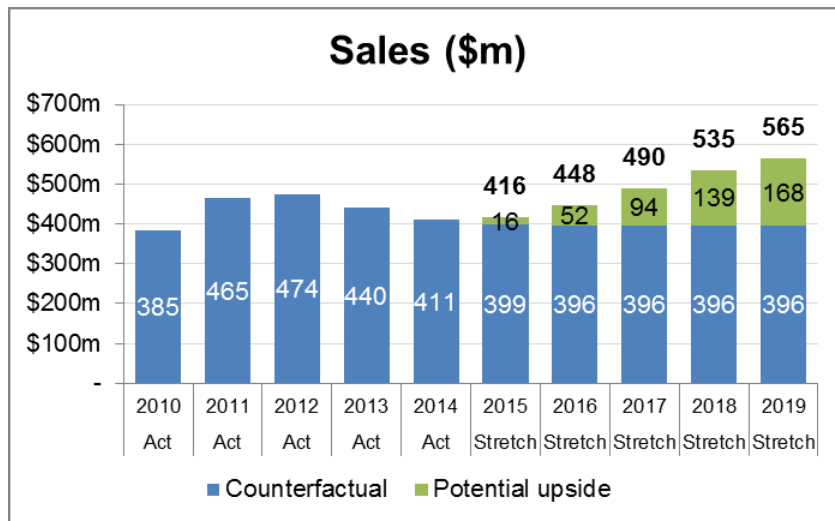
Appendices

Executive Summary

- ASL under performs versus neighboring and Peer States in terms of per capita sales and profit and player participation
- There is a perception of mistrust and general negative publicity towards the Lottery
- The launch of the Lottery did not follow best practice and issues such as inflated management salaries and early mistakes still taint the Lottery's image
- There are too many games in market:
 - An over populated Online Games portfolio hampers comprehension
 - Too many Instants Games impact range management. There is an over reliance on high price point games
- Marketing communications lack purpose, brand truth and consistency
- Vendor costs are significantly higher than industry and Peer average
- Retail execution is inconsistent and in certain instances does not follow best practice. A greater focus is required on chain retailers
- The organization requires political support and a focus on sales & marketing

Executive Summary

- A counterfactual ‘status quo’ scenario has been prepared in order to assess the impact of a potential upside scenario
- The counterfactual scenario assumes sales remain broadly at 2014 levels of approximately \$400m per annum and that Net Income is \$76m per annum
- In the potential upside scenario sales grow to reach \$565m by 2019, with Net Income rising to \$122m
- Over the five-year period, the potential upside scenario delivers incremental sales of \$469m, and incremental Net Income of \$136m



Executive Summary: Recommendations and Conclusions

The overriding strategy must be to move the Lottery away from a gambling organization to a consumer goods sales and marketing organization

- Re-boot the Lottery's image and brand – negativity is failing the Lottery's opportunity to grow. This should be done by driving out beneficiary understanding and better communication of the Lottery's offering
- Reduce the number of games and focus on player needs. There are too many Online Games and too many Instant Games. Employ range management and focus on a Rate Of Sale (ROS) strategy
 - Portfolio mapping – review games offered versus needs and games in market. Develop games and promotions for Arkansans and don't deploy Vendor innovation at whim
- Establish an Insight (Research) Division to understand players and grow player-base. This is the forerunner of a consumer goods business mind-set
- Employ brand activation. There is a need for consistency in marketing messaging and better retail execution of product
- Instill marketing effectiveness and a Return On Investment (ROI) process within Senior Management

Executive Summary: Recommendations and Conclusions



- Recruit experts to the Lottery who understand consumer goods and customer appeal. Build-out brand demand based on insight and customer understanding
- Focus on Vendor alignment and value for money in upcoming Request For Proposals (RFPs)
- Protect the Lottery as an entity and as a consumer business. Negative Public Relations (PR) stops player recruitment and impacts trust
- Political alignment and the set-up of an effective commission and agency is required

1 Executive Summary

2 **In-Depth Review of the Lottery Business Drivers**

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Appendices

Section Review



- This section covers the following areas:
 - 2.1 Lottery Overview
 - 2.2 Consumer Research
 - 2.3 Retail Audit

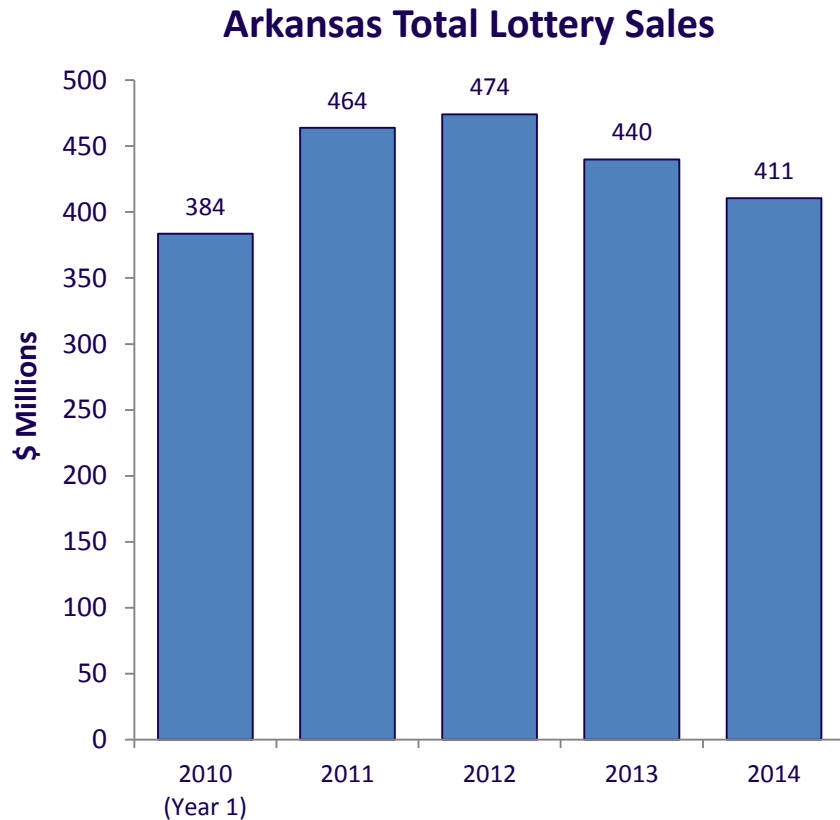
2.1 Lottery Overview - Summary

ASL's net revenue and per caps are performing behind Peer States, while prize payout and Vendor expenses are significantly higher

- 7.4% drop in Lottery sales in FY14 (\$29m)
- Four years on from launch and only Oklahoma has performed worse than ASL (amongst Peer States)
- With average prize pay-out of 67%, ASL has an 8 point higher prize pay-out than the average for US Lotteries (59%)
- Vendor costs in 2013 were:
 - 2/3rds higher in percentage terms than the next highest Peer State (Oklahoma) with 4.97% (\$22m) of sales versus 2.97% (\$6m)
 - 37.5% higher in actual \$ terms than South Carolina's even though SC's lottery sales were 172.5% higher
- In 2014 ASL's Vendor costs rose to approximately 5% (\$21m)
- ASL's player participation by game is falling versus Peer States

2.1 Lottery Overview

Lottery per caps are lower than Peer States. A strong first year has led to unsustainable sales levels (given launch strategy)



Lottery	2013 Per Caps Sales	3 Yr CAGR (First 4 years of Lottery)
Arkansas (2010)	\$148	4.6%
Tennessee (2004)	\$196	32.1%
North Carolina (2006)	\$172	74.1%
South Carolina (2002)	\$252	41.8%
Georgia (1994)	\$363	15.7%
Oklahoma (2006)	\$52	-1.9%

Source: C01 Portfolio (Arkansas Scholarship Lottery) / A1- 2011, 2012 ALC CAFR (Arkansas Scholarship Lottery) / Oxford Economics / La Fleurs (2013)

2.1 Lottery Overview

Lottery prize pay-out is the highest of Peer States and significantly higher than the average for US Lotteries

Lottery	Y1 Prize Pay-out %	2013 Prize Pay-out %
Arkansas (2010)	65%	67%
Tennessee (2004)	50%	62%
North Carolina (2006)	52%	61%
South Carolina (2002)	60%	65%
Georgia (1994)	50%	64%
Oklahoma (2006)	54%	52%
US Average	-	59%

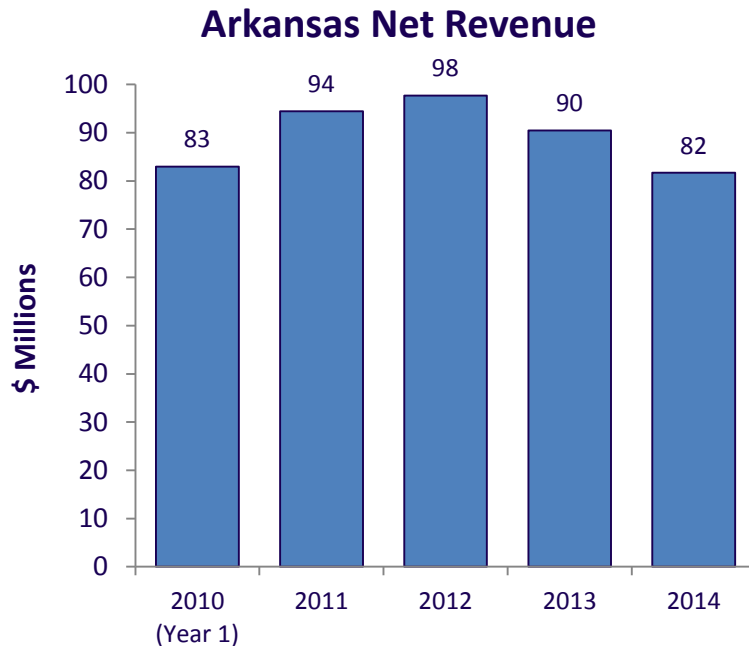
Source: 2014 - D01, D02, D04 and D06 Draw Based Games (Arkansas Scholarship Lottery), / A1- 2011, 2012, 2013 ALC CAFR (Arkansas Scholarship Lottery)

2.1 Lottery Overview

Net Revenue to the State is in decline and falling well behind Peer States

- Prize pay-out is too high
- Over reliance on higher price point Instants Games
- High OPEX (Vendor and Other Costs)

Resulting in the 2nd lowest % Net Revenue to the State



Lottery	2013 Per Caps Net Rev	3 Yr CAGR (First 4 years of Lottery)
Arkansas (2010)	\$30	2.8%
Tennessee (2004)	\$52	30.6%
North Carolina (2006)	\$49	85.9%
South Carolina (2002)	\$64	46.8%
Georgia (1994)	\$93	15.4%
Oklahoma (2006)	\$18	0.0%

Source: La Fleurs 2014/ C03 - Good cause contribution by year, A01 – CAFR 2011 (Arkansas Scholarship Lottery)/ Oxford Economics 2013

2.1 Lottery Overview

ASL's Vendor expenses are significantly higher than Peer States. There is an opportunity to seek cost savings when the Vendor contracts expire

	SC	TN	NC	GA	OK	AR	
	2013					2013	2014
Sales (000)	\$1,199	\$1,275	\$1,695	\$3,636	\$200	\$440	\$411
vendor cost	1.34%	2.15%	1.61%	2.06%	2.97%	4.97%	4.99%
other cost	1.75%	1.33%	2.72%	1.49%	2.30%	2.95%	3.09%
commissions	7.07%	7.00%	6.97%	6.41%	6.54%	5.68%	5.61%
prizes	64.64%	63.73%	60.44%	64.14%	52.17%	66.36%	66.91%
vendor cost	\$16	\$27	\$27	\$75	\$6	\$22	\$21
other cost	\$21	\$17	\$46	\$54	\$5	\$13	\$13
commissions	\$85	\$89	\$118	\$233	\$13	\$25	\$23
prizes	\$775	\$813	\$1,024	\$2,332	\$104	\$292	\$275

- ASL Vendor expenses are high – and aren't aligned to the Lottery's goals given the Net Revenue has fallen by 8.5%
- 'Other Costs' aren't aligned to sales and remain high and over and above peers
- Sales are falling despite prize pay-out increasing
- Retailer commissions are lower than Peer States

Source: La Fleurs 2014/ A1- 2011, 2012, 2013 ALC CAFR (Arkansas Scholarship Lottery)
 Please note: 'Other Costs' include: marketing, staff, general and admin, and in-state agency costs

2.2 Consumer Research - Summary

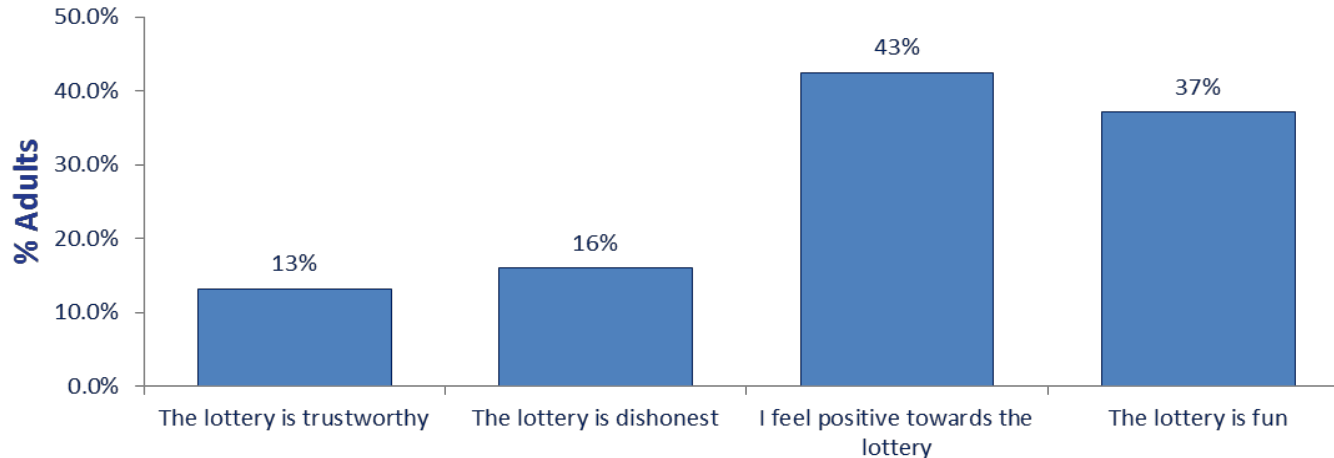


Negative PR and a lack of trust in the Lottery is hindering expansion of the Lottery's player-base and overall brand appeal

- There is an appetite for gaming in Arkansas
- The credibility of ASL has been undermined by a series of PR issues
- It is likely that a high level of negative press coverage for ASL has contributed to low levels of participation
- Players are aware and highly supportive of money going towards Scholarships, however this does not influence play frequency
- Players find the Instants category confusing and expensive
- Online Game appeal is driven by large jackpots, not the possibility of winning small prizes
- The win experience on Multi-State games is insufficient to attract players on a regular basis
- There are too many In-State games and they fail to drive regular play
- Brand communication is failing to drive saliency, buzz or passion about Lottery play
- ASL is too reliant on impulse purchases

2.2 Consumer Research

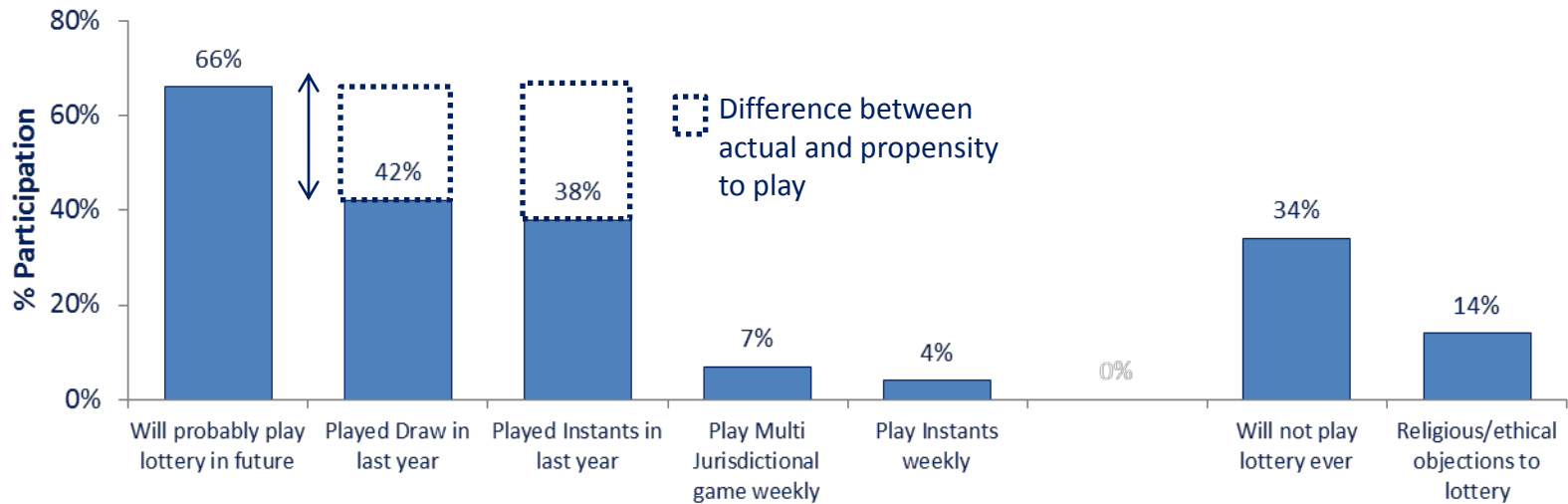
Players do not trust the Lottery. There is positivity in playing the games offered, but little trust in the Agency (16% believe the Lottery is dishonest)



- Trust issues identified in the groups and individual interviews include:
 - High salary paid to senior executives at launch
 - Conviction of ASL employee for ticket theft
 - Failure of Millionaire Raffle to sell-out resulting in an extension of the draw date
 - Failure to deliver on scholarship commitments
 - Vendor contract changes resulting in public resignation

2.2 Consumer Research

Trust is further undermined by low win belief. This contributes towards low participation and frequency



- Over a third of adults (about 760k) say they will never play the lottery
- Win belief rather than religious/ethical objections to the lottery is the major driver of non-play:
 - 300k adults will not play for religious/ethical reasons versus 360k adults will not play due to the odds
 - 500k adults do not play Multi-State Games because of the odds
- ASL is failing to convert propensity to play into actual lottery play:
 - 24% of adults (500k) are non-rejecters of lottery but did not play in the last year
 - 90k adults play Instants weekly out of a player base of 850k who played last year
 - 60k adults play Multi-State games weekly out of a player base of 1m who played in the last year

*All values are approximate

2.3 Retail Audit - Summary

ASL does not focus on its customer (the player) and this is amplified in-store

- Lottery retail standards are inconsistent in the following key areas:
 - Instants display – range, number of facings, location of games in dispensers, location of Ticket Vending Machines (TVM's)
 - Signage and what should be displayed
 - Play Center locations
 - Staff engagement especially in chain retailers
- ASL's Marketing Sales Representatives (MSR's) do not capture retailer information or work towards a store standards blueprint
- Staff in chain retailers receive little or no communication from their corporate head offices. This means the lottery falls outside of the stores day-to-day processes and procedures
- The supply chain is predominantly manual, sending out Instant tickets to retailers on a set day rather than being a Sales Based Ordering (SBO) system
- The age verification process used for TVM's is complicated, unpopular and is a barrier to the consumer

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Section Review



- This section covers the following areas:
 - 3.1 Online Games
 - 3.2 Instants
 - 3.3 Marketing
 - 3.4 Retail

3.1 Online Games - Summary

There are five key areas of focus within the Online Games category:

- 1.** Focus the core portfolio offering and rationalize the number of games
- 2.** Provide compelling and differentiated games
- 3.** Focus on consumer comprehension and appeal:
 - Develop a brand architecture
 - Improve game differentiation
- 4.** Innovation should only be contemplated in conjunction with portfolio consolidation and differentiation, with a focus on player needs
- 5.** Enhance the current approach to player understanding and the role of player insight in portfolio development and life cycle

3.1 Online Games

Two games to eight games in under 36 months...

2009	2010	2011	2012	2013	2014	2015

3.1 Online Games

An over-crowded portfolio has hindered retailer and consumer comprehension

Insight

- Nine core games offered today. If you include seasonal games, add-on games and sub-games this stretches to 18
- The portfolio expanded rapidly in the first 2 years. New game introductions were based on what's worked elsewhere irrespective of state size and lottery heritage
- Game propositions, such as Mega Millions and Powerball, overlap resulting in retailer and consumer confusion
- The new product pipeline is focused on Multi-State innovation. This is beyond the immediate control of ASL and results in less attention being given to In-State games. Pick 3 and Pick 4 games (Cash) under-perform
- The poor perceptions around win belief and win frequency are impacting play frequency and ultimately leading to lapsed play

3.1 Online Games

ASL needs to focus the core portfolio and provide compelling and differentiated games

Recommendations

- Develop and launch games designed to meet the motivations of consumers through needs mapping and research
- Use category management principles to manage the portfolio. Adopt a “less is more” approach to make the portfolio easier to navigate and comprehend
- Replace under performing games with games that deliver higher win frequency
- Look at games that genuinely appeal to under-served player segments
- Work with Multi-State partners to improve game designs and develop new games with higher win frequency
- Put Arkansas consumers at the heart of business decision making

3.2 Instants - Summary

There are two key areas of focus within the Instants category:

1. Product - portfolio, range and supply chain:

- Management of prize pay-out
- A game plan strategy that requires more science
- A price point strategy
- Rationalize range and establish rate of sale
 - Reduce the number of games in market
 - Re-evaluate pack sizes

2. Place - retailer management

- Segment the retailer estate
- Improve dispenser and facings management
- Enforce plan-o-grams
- Develop a Key Account function

3.2 Instants - Product

Instants sales peaked in FY12 but have since declined \$68m (FY12 \$391m to FY14 \$323m)

Insight

- **Instants Game Plan:**
 - The Instants Game plan is influenced by 'common', not 'best' practice which has driven some poor strategic decisions. The ASL product team is steered by Peer States and advice from the Vendor
 - The game development plan is weak. There is little understanding of player need states, design and category management principles
- **Price Points:**
 - ASL has a full range of price points in place. The introduction of higher price point games in the first two years was ill-advised, premature and quickly alienated low spenders
- **Prize Pay-outs:**
 - Prize pay-outs are high across all price points (they aggregate c. 71%). This, in combination with an Instants-biased portfolio mix (80: 20), is an inherited and difficult problem to remedy

3.2 Instants - Product

A strong Instants business plan must be supported by a high quality supply chain and competitive Vendor contracts

Insight

- Inventory / Supply Chain:
 - Supply chain management is an essential ingredient for successful consumer packaged goods companies
 - ASL has an inefficient supply chain which drives inconsistent display and presentation of Instants across the retail network. This leads to a premature decline of older games simply because there is no space to display them
 - The combination of monthly initials, large pack sizes (particularly at \$1 and \$2), multiple facings per retailer and the volume of games causes challenges
 - In the 52 weeks to 06/29/14 there were 97 games that were available to order across that period. Of this, the top 30 games generated 78% of revenue
- Contracts:
 - The Vendor contracts are not competitively priced. The contract makes provision for marketing and support services, printing, distribution and warehousing, Instant ticket dispensers. It is charged at 1.9% of sales
 - In addition to this, 1.5% of player's money is diverted into a 'Points for Prizes' scheme. The program rewards 'the minority' (approximately 100k players) who have signed up to the scheme but not the majority who play the game

3.2 Instants - Product

Re-position and re-energize the Instants category to make it more accessible

Recommendations

- Define core strategies:
 - Define and implement the strategic planning process and long term Instants strategies
- Consumer Understanding:
 - Develop a richer consumer understanding leading to a full game development program that ensures games meet Arkansas player needs
- Portfolio Growth:
 - The attraction of new players to the brand is possible, desirable, necessary and needs to address consumer confusion
- Brand Identity:
 - The Instants category needs to be re-booted so consumers feel 'they are a brand for someone like me'. Consideration should be given to brand as well as product led communications

3.2 Instants - Product

Enhance, simplify and diversify the current Instants range

Recommendations

- Range Management
 - Each price-point has a role within the range and this makes it easier for consumers to 'shop the dispenser'
 - ASL needs to simplify the Instants range by removing the slowest-selling games and reducing the number of game launches per year. The number of games available should ideally match the number of facings available to display product
 - Pack sizes should be reduced especially at the lower price points
- Commercial Arrangements
 - There is an opportunity to reallocate the funding currently destined to the players club into the prize structures
- Prize Structure
 - Better prize structures will enhance the winning experience, will improve brand perception, increase play frequency and spend, as well as drive new player recruitment

3.2 Instants - Place

ASL needs to review its Retail strategy for Instants

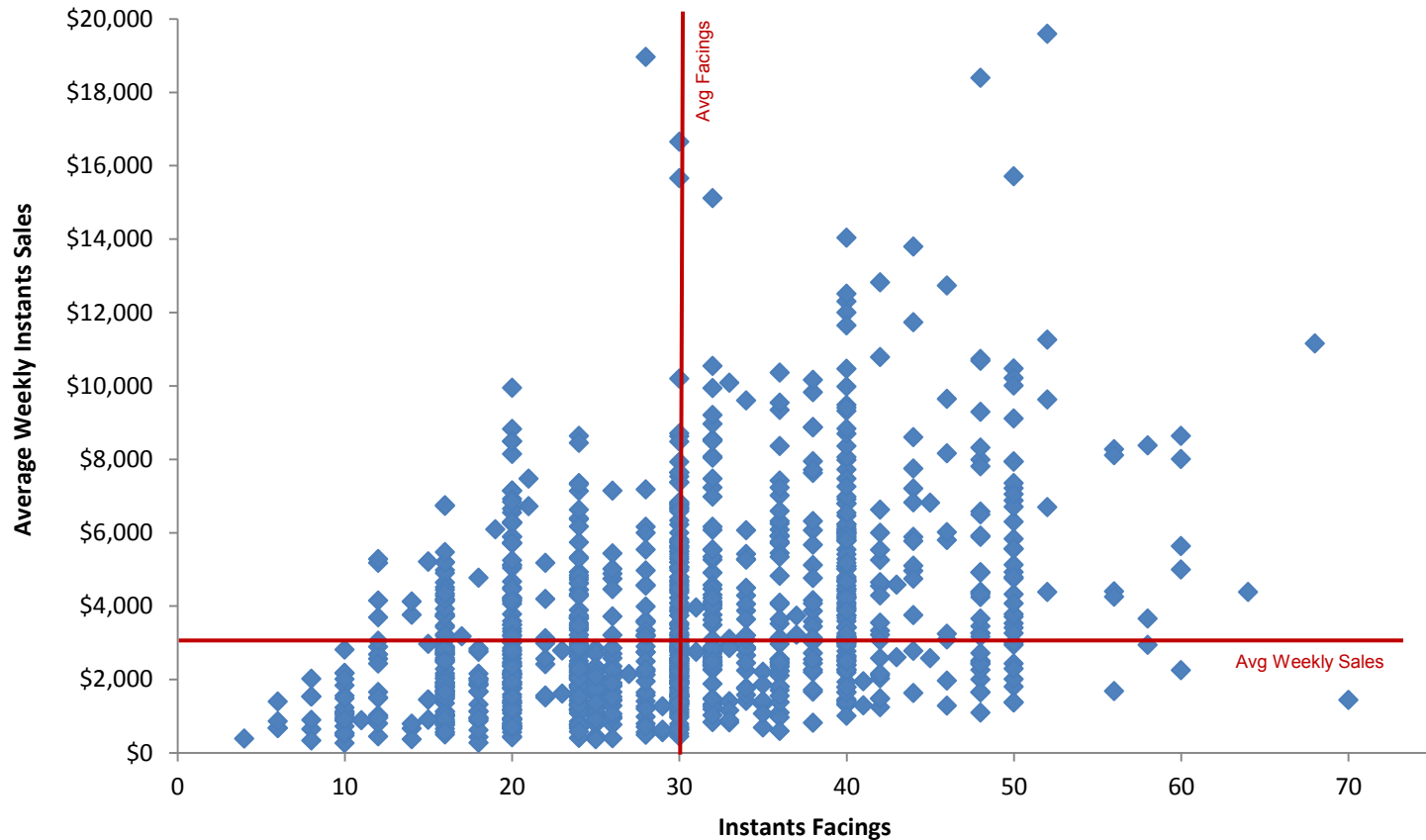
Insight

- The average number of facings per store does not appear to be based on sales. This means there are retailers with too few and some retailer with too many facings which negatively impacts the Rate Of Sale
- The decision maker for the location, number of facings and the type of dispenser is often decided by the retailer without consultation
- Consumers have limited ability to navigate the category through inconsistent displays. In-counter displays are particularly difficult to see
- The distribution (facings) strategy, subjective game selection and non-conformity to planograms is outside of consumer goods industry best practice
- The age verification process for Ticket Vending Machines (TVM's) is inhibiting sales
- The Lottery does not provide retailers or MSRs with the right tools. For example dispenser facing numbers to help navigate the category

3.2 Instants - Place

There is a low correlation between the number of facings and pack sales. This can hinder the launch and sales impact of new games

Outlets plotted by average weight of sale and numbers of slots



3.2 Instants - Place

ASL needs to re-engage with retailers and adopt a more category-focused approach to selling Instants

Recommendations

- Implement an Instants distribution strategy that better fits with retailers expectations of a consumer goods company
- Conduct a thorough dispenser audit and re-model the retail estate to drive optimal distribution based on sales and implementing the best Instants game range
- Use plan-o-grams as a driver of the distribution strategy and rigorously enforce them in retail
- Develop the in-store offer to improve visibility and range in line with consumer goods industry best practice
- Recruit a Key Account team to work with chain retailers to develop and implement the Instants plans
- Work with key stakeholders to improve the player experience at TVM's

3.3 Marketing - Summary

There are five key areas of focus within Marketing:

1. Maximize budget effectiveness through rationalization of marketing activities
2. Adopt consumer packaged goods processes and tools to measure effectiveness of marketing communications
3. Improve the presentation and promotion of the parent brand, while strengthening the relationship between playing the games and the Scholarship beneficiaries
4. Build partnerships with marketing agencies
5. Create player demand via insight-informed advertising of core games

3.3 Marketing

Messaging varies from functional (encouragement to jackpot switch / chase) - to intangible benefits such as 'Better' or 'More' - to trying to convey too many messages at one time to be effective

Static Billboard: Jackpot Amounts



Static Billboard: 5th Anniversary



Source: July – Oct 2013-14 Billboards and Playstation (Arkansas Scholarship Lottery)

3.3 Marketing

In-store signage and messaging is over complicated for the retail environment. It is not geared for the engagement of occasional, infrequent or new players



Source: July – Oct 2013-14 Player Advertising Devices (Arkansas Scholarship Lottery)

3.3 Marketing

\$4.5m marketing budget is limiting and there are no Key Performance Indicators (KPIs) in place to monitor impact

Insight

- Advertising is either produced in-house, with poor, graphic based production values or it has been borrowed from other lotteries
- Creative briefs focus on the game call outs rather than what's needed to land the game with players in advertising
- Five Designated Market Areas (DMAs) cover the state, with only three wholly within Arkansas - with campaign coverage & frequency only documented quarterly
- New game launches are briefed with sales projections based on individual industry experience and past performance
- No econometric modelling is in place to inform investment decisions
- A monthly sales report is circulated to the ASL leadership team, but no formal structure exists to discuss, review or respond

3.3 Marketing

ASL investment strategy needs to be reviewed and changed to maximize effectiveness and Return On Investment

Recommendations

- Focus marketing efforts where the population is and avoid wastage – 3 Arkansas only DMAs cover 78% of the population (88% coverage if Memphis DMA included) - focus efforts on high population densities to amplify marketing impact, sales returns and avoidance of ‘dark’ media periods
- Adopt and apply consumer packaged processes and tools to measure effectiveness of marketing communications
- Introduce governance and processes that review sales performance and deliver a consumer informed, revenue focused marketing plan
- Rationalize marketing efforts on a “magnitude and momentum” basis across a rolling 18 month integrated marketing plan to maximize budget effectiveness
- Invest in fewer, bigger brands and activities. Focusing on those with the biggest potential for incremental growth. This will deliver better brand momentum and retain existing customers

3.4 Retail Summary

There are six key areas of focus within Retail:

1. Segment the retail estate
2. Implement store blueprints that are enforced via plan-o-grams
3. Develop the sales and reporting tools available for the field team
4. Improve the management of chain retailers
5. Develop performance based KPI's for the field team based on factors within their control and influence
6. Optimize terminal distribution including new business opportunities

3.4 Retail

The Sales Team lacks measurement and reporting tools. It operates outside of the consumer goods industry practices

Insight

- Sales Structure
 - All retailers are treated the same irrespective of sales levels or potential
- Reporting and Communications
 - There is no vehicle for on-going reporting and communications
- Performance Management
 - There is no incentive for the Sales Team to sell more tickets
- Key Accounts
 - There is no Key Accounts function within the Lottery
- Store Blueprint
 - Plan-o-grams are rarely used and are not supported by the supply chain
- Optimizing Terminal Distribution
 - There is a lack of strategy and science behind this

3.4 Retail

There are opportunities to improve the management of existing Lottery retailers and develop a strategy to maximize terminal distribution

Recommendations

- Conduct a thorough review of the existing retailer estate
- Segment the retailer estate using a number of criteria to better allocate resource
- Develop improved commercial relationships with major chain retailers
- Introduce an input based measurement process aligned with improved reporting tools to improve in-store standards
- Constantly review the existing ways of working
- Incentivize the MSRs against agreed KPIs they can influence
- Implement plan-o-grams that follow a category approach and are correctly communicated. Then rigorously enforce them

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- This section covers the following areas:
 - 4.1 US Lottery Governance & Structures
 - 4.2 Organization
 - 4.3 Private Management Governance
 - 4.4 Comparison of Governance Models

4.0 Organization Review and Governance Summary

The current set-up needs to change and future Lottery organization needs political and public protection. The Lottery is an important State asset

- Private Manager could be considered in the future which could provide professional management and more financial security for the Scholarship Fund
- The Lottery is set up to be an independent agency but in practice it is treated more like a state agency. It needs to have more commercial personnel policies, incentives and procurement practices
- The majority of commission members, including the Chairperson, should be selected by the Governors office. Members of this forum should be considered based on expertise (Finance, HR, Marketing and Sales) – with the Chair being appointed by the Governor
- Transformation of current Lottery processes required. Needs to become consumer facing and focused on the delivery of the business plan
- Legislature should have an oversight of Lottery activities but not in a way that hinders progress. They should conduct / schedule independent audits and a formal meeting should be scheduled between the Lottery and LOC

4.1 US Lottery Governance & Structures



There are five major types of US Lottery governance structures:

- 1. State Agencies (PA, MI, FL):** Lottery Director reporting directly into an Executive Office of the State
- 2. Appointed Commission State Agency (MA, NY, CA):** Similar to above, except Governor/Legislature appoint a Commission to oversee the Lottery. Lottery Director reports to the Commission
- 3. Independent Agency (SC, NC, OK, AR):** Operates as an independent, stand alone agency separate from other agencies but who follows all the laws of the State. The agency has sovereign immunity and is self funding. Commissioners are appointed to oversee the Lottery and have authoritative control of the Lottery. The Executive Director is accountable to the Commission
- 4. Lottery Corporations (CT, KY, GA):** Independent Agencies, where Lottery Board of Directors has authoritative control. Structure is quasi-public and the Corporation is responsible for personnel, compensation, pension and procurement processes
- 5. Privately Managed Lotteries (IL, IN, NJ):** State recruits a private sector company to manage sales and marketing operations of the Lottery. Usually this is accountable to the Lottery Director and the Governor's office

4.1 US Lottery Governance & Structures



Four main public governance structures, with age of Lottery characterising type of agency. Governance varies between Executive Office and Commission

	State Agencies (PA, MI, FL)	Agency / Commission (MA, NY, CA)	Independent Agency (SC, NC, OK, AR)	Lottery Corporations (KY, GA, CT, TN)
Ultimate Accountability	Elected State Treasurer or Governor (Lottery Director reporting to an Executive Office)	Lottery Commission appointed by Governor/Legislature	Lottery Commission or Governor(OK)	Board of Directors
Executive Office Involvement	Involved as needed	Major decisions/issues or policies	App't of Commission Major Political-policy issues	App't of Directors Major Policy issues
Role of legislature	Approve budget Lottery oversight Approve new types of games	Approve or review budget Lottery oversight Approve new types of games Approve comm. members	Oversight advise and review Can conduct audits or investigations	Board of Directors
Qualification of commission/ directors	N/A	One law enforcement One CPA/Finance	Should represent demo and regional mix of state and cover essential bus skills	Financial, Legal, Business
How are they appointed	N/A	Majority by Governor	Usually equally by Governor. Senate and House	Governor/ consent by Senate
Timing of Audits	Some annually Some less frequent	Annual Audits	From quarterly to annual	From quarterly to annual

Source: Camelot Desk Research – Interviews with Peer State Lotteries, Oct-Nov 2014

4.1 US Lottery Governance & Structures



Lottery director and structure:

	State Agencies (PA, MI, FL)	Agency / Commission (MA, NY, CA)	Independent Agency (SC, NC, OK, AR)	Lottery Corporations (KY, GA, CT, TN)
How is Lottery Dir. Appointed?	Political - with reasonable qualifications	Political - with reasonable qualifications	Qualifications	Qualifications
Lottery Director Salary Range	\$125k to \$160k	\$125k to \$160k	\$165k to \$300k	\$200k to \$500k
Incentives	No	No	Yes (except AR)	Yes
Is the Lottery Unionized?	Mostly	Mostly	No	No (except for some part of CT)
State Pay Grades	Yes	Yes	Mostly No	No
Personnel Policies	State Agency	State Agency	Most develop own policies	Develop own policies
Retirement Plan	State	State	Mixed	Separate from state (Except TN)

4.2 Organization

Organization processes and structure should be reviewed and focus on the following areas:

- Insight and strategic planning requirement for the Lottery
 - Formal business planning process required to maximise sales / Net Revenue
 - Increasing player-ship of lottery/bettering propositions
- Marketing focus
 - Re-engineering of Marketing department / focus on brand management / propositions
 - Brand marketing expertise
- Sales department changes
 - Retail analysts and segmentation requirement
 - Key Account requirement (drive our key account policy)
- Supplier management / development
 - Vendor management team to cost control

4.3 Private Management Governance

Private management varies across the Globe. De-lineated regulator / operator set-up is key with clear roles for each

	US (IL,NJ.IN)	UK/France
Accountability/ Governance	<p>Lottery director reports to Governor and Private Manage(PM) reports to Lottery Director/Commission Legislature has limited authority—oversight function. Legally, all major divisions must be made by the state((working with the PM) Governance remains with Governors office and the State</p>	<p>Lottery Operator reports to A Regulator who ensures compliance to the license and oversight of operator. Lottery operator responsible for day to day operations in all functions Net Revenues are mandated (UK) Highly regulated in terms of responsible gaming Legislature involved in budgeting and in approving new games and channels</p>
Management	<p>Lottery director manages and oversees PM A formal and financially committed business plan is required of the PM who will make up any shortfalls Monthly, quarterly reports are submitted from the PM to the lottery Annual audits by State Auditor</p>	<p>Business plans are the blueprint of the lottery operator and must be adhered to Annual report required Compliance and financial audits are required</p>
Organization	<p>Previously unionized states “lease” their employees to the PM, so they can retain benefits. PM hired staff are usually professional, seasoned and highly incentive</p>	<p>No political appointments. Staff is hired based on qualifications with heavy emphasis on commercial and consumer goods experienced. Well paid and highly incentive. All have a pension plan</p>

4.4 Comparison of Governance Models



	Advantage	Disadvantage
State Agencies	<ul style="list-style-type: none"> ◦ Political Sponsorship; ◦ Employee Benefits ◦ Legislature set budget 	<ul style="list-style-type: none"> ◦ Too bureaucratic/politicized ◦ Not commercial mind-set ◦ Often low priority for Governor ◦ Legislature set budget
Agency/Commission	<ul style="list-style-type: none"> ◦ Same as state agency ◦ Commission provides more guidance 	<ul style="list-style-type: none"> ◦ Same as state agency ◦ Commission often lacks authority
Independent Agency	<ul style="list-style-type: none"> ◦ More commercially oriented ◦ More frequent reports and audits ◦ Can operate more like a business ◦ Commission has significant power ◦ Lottery director more based on qualifications 	<ul style="list-style-type: none"> ◦ State comp/personnel polices restrict operations ◦ Lacks political sponsorship ◦ Power is a negative if commission is not aligned
Lottery Corporations	<ul style="list-style-type: none"> ◦ Operated like a business ◦ Commission has significant power ◦ Lottery director based on qualifications ◦ Staff judged on performance ◦ Governor more involved 	<ul style="list-style-type: none"> ◦ Power of Board is a negative if Board is not aligned with the state leadership <ul style="list-style-type: none"> • Legislature has less input
Private Management US	<ul style="list-style-type: none"> ◦ Provides Professional management ◦ Some upfront cash ◦ Union power is lessened ◦ Pvt Mgr objectives aligned with state-net profits 	<ul style="list-style-type: none"> ◦ DOJ ruling limits benefits and competition ◦ Director has ability to be an obstacle to PM ◦ Union issues could limit effectiveness ◦ PM requires political support
Private Management Europe	<ul style="list-style-type: none"> • Completely commercial oriented • Lottery operator has freedom to operate lottery like a business but with high regard for social responsibility • Total emphasis is on net returns to state 	<ul style="list-style-type: none"> • Highly regulated vs their competition • Changes to rules, regulations and budgets could be a cumbersome process

- 1 Executive Summary
 - 2 In-Depth Review of the Lottery Business Drivers
 - 3 Strategy Review and Business Planning
 - 4 Organization Review and Governance
 - 5 Recommendations and Conclusions**
 - 6 Next Steps
- Appendices

5.0 Recommendations and Conclusions

The overriding strategy must be to move the Lottery away from a gambling organization to a consumer goods sales and marketing organization

- Re-boot the Lottery's image and brand – negativity is failing the Lottery's opportunity to grow. This should be done by driving out beneficiary understanding and better communication of the Lottery's offering
- Reduce the number of games and focus on player needs. There are too many Online Games and too many Instants Games. Employ range management and focus on a Rate Of Sale (ROS) strategy
 - Portfolio mapping – review games offered versus needs and games in market. Develop games and promotions for Arkansans and don't deploy Vendor innovation at whim
- Establish an Insight (Research) Division to understand players and grow player-base. This is the forerunner of a consumer goods business mind-set
- Employ brand activation. There is a need for consistency in marketing messaging and better retail execution of product
- Instill marketing effectiveness and a Return On Investment (ROI) process within Senior Management

5.0 Recommendations and Conclusions

- Recruit experts to the Lottery who understand consumer goods and customer appeal. Build-out brand demand based on insight and customer understanding
- Focus on Vendor alignment and value for money in upcoming Request For Proposals (RFPs)
- Protect the Lottery as an entity and as a consumer business. Negative Public Relations (PR) stops player recruitment and impacts trust
- Political alignment and the set-up of an effective commission and agency is required

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6 **Next Steps**

Appendices

6.0 Next Steps

- Develop a detailed 5 year strategic plan and associated activity plan for execution (Jan-Mar'15)
- Review Lottery governance and organizational structure, with Legislature and Governor's Office working with the Lottery Commission to set foundations for a protected Lottery institution (Jan-Mar'15)
- Overhaul the Lottery's sales and marketing approach (in-line with recommendations) and set-up tracking and measurement of marketing return on investment and media planning (Mar-Jun'15)
- Ensure vendor and third party alignment to 5 year strategic plan and net revenue forecast (on-going/respective RFP processes)
- Engage press and all stakeholders in the 'Value of Lottery'. Viscerally demonstrate the worth of the Lottery to all Arkansans (start immediately)



Thank You and Questions