



**STRATEGIC
PLAN**

FISCAL YEARS 2012-2015

Submitted this 1st day of July 2011

A handwritten signature in black ink, appearing to read "JRA", followed by a long horizontal line extending to the right.

Jeffrey R. Anderson, Director

Mission

The mission of the Idaho Lottery is to responsibly provide entertaining games with a high degree of integrity to maximize the dividend for Idaho Public Schools and the Permanent Building Fund.

Vision

The vision for the Idaho Lottery is to become the highest performing jurisdiction in North America.

Values

We operate the Idaho Lottery in accordance with the spirit and letter of the law that established its purpose.

We conduct business in an ethical and honest manner at all times.

We continuously strive to exceed the expectations of our customers, each other, and our community.

We are personally responsible for our individual performance.

We commit to operational excellence in all disciplines.

We cooperate with each other to create an environment that is conducive to great work.

We treat each other with mutual respect and cooperation.

We have fun.

Goals

1. **Protect the security and integrity of our games**
2. **Responsibly increase net revenues**
3. **Rigorously manage costs**
4. **Guard the honesty of charitable gaming**

Strategies

1 – Protect the security and integrity of Idaho Lottery games by continuing to meet or exceed Multi-State Lottery Association (MUSL), North American Association for State and Provincial Lotteries (NASPL), and internal Idaho Lottery security standards.

We conduct thorough background checks of prospective Lottery and vendor employees (as well as having the option for similar retailer background checks) for criminal, financial, and conflict of interest issues that could affect the integrity of our games.

The Idaho Lottery Security Division will continue to investigate and prosecute theft and fraud relating to Lottery games and, along with the Idaho Lottery Sales Division, continue to be proactive in loss prevention training for our retail partners.

2 – Responsibly increase net revenues by (1) diligently working to improve the net revenue from our portfolio of *Scratch™ Game, PullTab, and TouchTab* products, (2) enriching retailer relations, (3) extending distribution channels, (4) improving the customer experience, (5) gaining a better understanding of the marketplace through research, (6) continuing the distribution of next generation of Player Activated Terminals (PAT) and (7) continuing the distribution of the *TabBOXX* and *TouchTab* dispensing devices for our *PullTab* product line.

2.1 – Lottery game revenue currently comes from three authorized play styles:

- Draw style games – *Powerball with PowerPlay, Mega Millions with Megaplier, Wild Card, Idaho Pick 3, Hot Lotto Sizzler, Double Play Daily (scheduled to end in August 2011, replaced with Weekly Grand), and Idaho Raffle games*
- Instant ticket games – *Scratch™ Games*
- Break open instant ticket games – *PullTabs and TouchTabs*

Net revenue varies by game, subject to player prize expense and the cost of goods sold. *Scratch™* games, *PullTabs*, and *TouchTabs* have higher prize payouts and overall costs than draw-style games. In order to increase net revenues, we will work to responsibly increase total sales, work to increase the ratio of draw-style game sales to instant ticket and break-open instant ticket sales, actively manage gross margins on all games, and implement comprehensive marketing initiatives.

Draw-style games – increase overall game sales and as a percentage of total sales by responsibly promoting the portfolio of draw-style games, recruiting additional retail outlets, promoting sales of the *Powerball with PowerPlay*, *Mega Millions with Megaplier*, and *Hot Lotto Sizzler* options, and offering the fifth annual *Idaho \$1,000,000 Raffle*. We will continue to research and provide different raffle games during spring and summer months.

	2011	2010	2009	2008
Powerball	\$29,665,094	\$36,662,205	\$36,787,378	\$39,471,389
Wild Card	\$2,365,895	\$3,144,771	\$3,152,691	\$4,191,160
Idaho Pick 3	\$1,653,647	\$1,639,869	\$1,883,839	\$1,840,395
Hot Lotto	\$3,137,531	\$3,792,324	\$4,132,812	\$2,760,090
Double Play Daily	\$1,251,529	\$1,569,130	\$360,806	\$0
Mega Millions	\$9,025,392	\$2,623,081		
Raffle	\$2,909,120	\$3,968,525	\$2,500,000	\$2,500,000
Total Sales	\$50,008,208	\$53,399,905	\$48,817,526	\$50,763,034
Change from prior year	(\$3,391,697)	\$4,582,379	(\$1,945,508)	\$4,678,214
Percentage of Product Sales	34.0%	36.2%	35.0%	37.1%
Percentage Sales Change	-6.4%	9.0%	-3.8%	10.2%

Scratch™ games – increase sales with creative marketing campaigns, recruiting additional and non-traditional retail outlets, continuing to introduce unique and entertaining play formats and styles, continuing to improve the positive trend in \$2 and \$5 games, continue implementing our core-game strategy by price-point, managing the gross margin on the product portfolio, continuing to improve in-store product presentation through our Retailer Standards of Excellence Program, and increasing product turnover.

	2011	2010	2009	2008
One-dollar games	\$9,105,326	\$9,674,854	\$8,960,548	\$10,695,179
Two-dollar games	\$8,152,994	\$7,833,742	\$8,636,566	\$8,145,796
Three-dollar games	\$19,564,158	\$21,846,132	\$23,301,684	\$28,438,768
Four-dollar games	\$0	\$0	\$0	\$0
Five-dollar games	\$29,742,550	\$26,888,570	\$23,739,595	\$14,601,734
Seven-dollar games	\$0	\$0	\$578,851	\$6,182,442
Ten-dollar games	\$9,616,940	\$11,939,520	\$12,770,140	\$9,946,570
Fifteen-dollar games	\$0	\$525,450	\$6,842,625	\$6,376,095
Twenty-dollar games	\$14,439,360	\$11,939,040	\$3,595,040	\$0
Total Sales	\$90,621,328	\$90,647,308	\$88,425,049	\$84,386,584
Change from prior year	(\$25,980)	\$2,222,259	\$4,038,465	\$1,183,725
Percentage of Product Sales	61.6%	61.6%	63.3%	61.7%
Percentage Sales Change	-0.03%	2.5%	4.8%	1.4%

PullTab games – responsibly increase sales by recruiting additional retailers, increasing the product portfolio, and offer new ways to play traditional *PullTab* games through multiple dispensers at retail, including *TouchTab* dispensing devices**, through our full service contract vendor partner International Gamco, Inc.

	2011	2010	2009	2008
PullTabs	\$3,064,362	\$3,186,863	\$2,424,828	\$1,695,570
TouchTabs	\$3,481,000			
Total Sales	\$6,545,362	\$3,186,863	\$2,424,828	\$1,695,570
Change from prior year	\$3,358,499	\$762,035	\$729,258	\$451,830
Percentage of Product Sales	4.4%	2.2%	1.7%	1.2%
Percentage Sales Change	105.4%	31.4%	43.0%	36.3%

***TouchTab* games began as a pilot project in January 2011 in age-controlled locations only.

TOTAL PRODUCT SALES SUMMARY

	2011	2010	2009	2008
Draw Games	\$50,008,208	\$53,399,905	\$48,817,526	\$50,763,034
Scratch Games	\$90,621,328	\$90,647,308	\$88,425,049	\$84,386,584
PullTab Games	\$3,064,362	\$3,186,863	\$2,406,606	\$1,695,570
TouchTab Games	\$3,481,000			
Total Sales	\$147,174,898	\$147,234,076	\$139,649,181	\$136,845,188
Change from prior year	(\$59,178)	\$7,584,895	\$2,803,993	\$6,313,769
Percentage Sales Change	-0.04%	5.4%	2.0%	4.8%

**Sales on our big-bloc games, *Powerball* and *Mega Millions* were negatively impacted by an uncharacteristic lack of large advertised jackpots and shorter jackpot runs in FY2011.

2.2 – Enrich retailer relations by continuing our Retailer Advisory Board meetings throughout the state to gain customer feedback on our performance, responsibly managing the retailer incentive program, and developing a more effective training program for retail managers and clerks to ensure they are always fully trained in both selling Lottery products and loss prevention.

2.3 – Extend distribution channels beyond our current 1033 retailers by consistently and responsibly adding new retail outlets, including but not limited to, age-controlled trade styles with *PullTab* and *TouchTab* vending machines, traditional retail locations, and non-traditional locations. Our goal is to grow the retailer base to 1085 by the end of FY2012.

2.4 – Improve the customer experience through the on-going implementation of the Idaho Lottery Standards of Excellence Program and improvements to our website and VIP Club Program. The Standards of Excellence Program is the Lottery’s retail improvement program designed to bring consistency of brand presentation at the transaction point and consists of Six Points of Reference for retail locations:

(1) outside signage; (2) building signage; (3) inside signage; (4) point of purchase; (5) game display; and (6) customer service and retailer training.

For our retailers, there is a secure, retailer-only website that makes doing business with us easier, faster, and cheaper for both the Lottery and our retail partners. Retail bookkeepers are able to view and download their own information, saving on mailing costs, and allowing anytime access to better fit the needs of our retailer partners.

The Lottery is planning an October 2011 launch of a new and improved VIP Club player website where our players can learn more about our games and enter sweepstakes and second chance drawings with accumulated points from purchases and free play web-based games players can play for fun.

2.5 – Continue to utilize responsible market research for insight into Lottery players’ interest in our brand/product offerings and implement actionable plans for creating and responsibly promoting entertaining games.

2.6 – Continue to deploy Player Activated Terminals (PAT) (secure Lottery dispensing devices) that offer both *Scratch*[™] and draw games with a goal of 280 machines in the field by July 1, 2012.

2.7 – Continue to deploy TabBOXX and TouchTab dispensing devices into the age-controlled marketplace by responsibly managing our relationship and contract with International Gamco, Inc.

3 – Rigorously manage costs by controlling and lowering the expense of operating the Lottery through negotiating favorable vendor contracts for services, creating operational efficiencies, and exercising continuous process improvement.

Idaho Lottery Performance Trend:

	<u>FY-2011</u>	<u>FY-2010</u>	<u>FY-2009</u>	<u>FY-2008</u>
Revenue	\$ 147,174,898	\$ 147,234,076	\$ 139,649,181	\$ 136,845,188
Other Revenue	477,041	697,516	666,963	820,169
Total Revenue	147,651,939	147,931,592	140,316,144	137,665,357
Prize Expense	89,932,383	88,276,295	84,997,107	81,463,579
Other Expenditures	21,898,239	21,929,024	20,782,610	20,603,104
Total Expenditures	111,830,622	110,205,319	105,779,717	102,066,683
Income Before Transfers	\$35,821,317	\$37,726,273	\$34,536,427	\$35,598,674
Dividends	\$37,000,000	\$36,500,000	\$35,000,000	\$34,750,000
Total Net Assets, Beginning	1,237,712	11,439	475,012	(373,662)
Total Net Assets, Ending	\$59,029	\$1,237,712	\$11,439	\$475,012

4 – Guard the honesty of charitable gaming through educating, regulating, licensing and overseeing charitable gaming operators and their games.

Performance Measures

The most effective measures of an enterprise operation such as the Idaho Lottery are its performance to plan as reported in the statement of revenues, expenditures, net income, and internal yardstick criteria.

Internal yardsticks include comparing our performance to the industry as a whole and to a peer group of like jurisdictions. The criteria includes, but may not be limited to, our performance compared to the mean and median percentage change in: retailers per capita, dividend change, dividend to sales, advertising to sales, sales per capita, administration costs to sales, overall sales, draw-style game sales, *Scratch™* game sales, prize expense to sales, and product mix. The peer group is comprised of Kansas, Maine, Minnesota, Montana, Nebraska, New Mexico, South Dakota, Tennessee, and Vermont.

Bench Marks

Idaho Lottery Operational Benchmark Measures:

	FY-2012	FY-2013	FY-2014	FY-2015	FY-2016
Draw Sales:					
Powerball w/Powerplay	\$30,500,000	\$32,000,000	\$33,600,000	\$35,300,000	\$37,100,000
Mega Millions w/Megaplier	10,600,000	11,100,000	11,700,000	12,300,000	12,900,000
Wild Card	2,200,000	2,200,000	2,200,000	2,200,000	2,200,000
Idaho Pick 3	1,600,000	1,700,000	1,700,000	1,700,000	1,800,000
Hot Lotto	3,100,000	3,200,000	3,200,000	3,200,000	3,300,000
Raffle	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Double Play Daily	100,000	-	-	-	-
New Draw Game	2,300,000	2,500,000	2,600,000	2,700,000	2,700,000
Total Draw Sales	54,400,000	56,700,000	59,000,000	61,400,000	64,000,000
Scratch™ ticket sales	91,500,000	92,900,000	94,300,000	95,700,000	97,100,000
PullTab ticket sales	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
TouchTab ticket sales	22,000,000	27,000,000	37,000,000	47,000,000	57,000,000
Total Sales	170,900,000	179,600,000	193,300,000	207,100,000	221,100,000
Other Revenue	500,000	550,000	600,000	650,000	700,000
Total Expenditures	133,900,000	142,150,000	155,400,000	168,750,000	182,300,000
Net Income	\$37,500,000	\$38,000,000	\$38,500,000	\$39,000,000	\$39,500,000
DIVIDEND ESTIMATE	\$37,500,000	\$38,000,000	\$38,500,000	\$39,000,000	\$39,500,000

***TouchTab* sales projections are subject to completion of successful negotiations with International Gamco, Inc. for moving from the pilot phase to regular implantation. Negotiations are in progress as of July 1, 2011.

Peer Benchmark Measures:

	FY11		FY10		FY09		FY08	
	PEER GROUP**	IDAHO	PEER GROUP*	IDAHO	PEER GROUP*	IDAHO	PEER GROUP*	IDAHO
SALES PER CAPITA	-	\$93.89	\$103.70	\$95.00	\$100.29	\$90.34	\$101.43	\$89.80
ADMINISTRATION COSTS AS A PERCENTAGE OF SALES	-	6.8%	7.8%	6.8%	8.0%	6.7%	8.4%	6.8%
DIVIDEND AS A PERCENTAGE OF SALES	-	25.1%	24.6%	24.9%	24.0%	25.1%	24.6%	25.4%
DIVIDEND INCREASE PERCENTAGE	-	1.4%	3.7%	4.3%	-3.7%	0.7%	2.0%	2.2%
* PEER GROUP INCLUDES - KANSAS, MAINE, MINNESOTA, MONTANA, NEBRASKA, NEW MEXICO, SOUTH DAKOTA, TENNESSEE AND VERMONT								
**PEER GROUP FIGURES UNAVAILABLE AT THIS TIME								

Infrastructure Assessment

In 2008, the Idaho Lottery embarked on a mission to make formal strategic planning part of our agency DNA. Lottery employees from all divisions, Idaho State Lottery Commissioners, and vendor partners participate in on-going comprehensive training, team building, and road mapping exercises designed to encourage input from everyone in order to establish major strategic initiatives. Cross-functional teams are in place with each assigned a number of initiatives.

The goal is to ensure that these teams are given appropriate levels of authority for tasks, taught to strategize and assign deliverables, and dates for completion within the team have been established. Each team is held accountable for results. The teams are engaged and inspiring each other to perform.

The results are impressive and we remain convinced that our team based approach to strategic planning, road mapping, and problem solving has resulted in the Idaho Lottery performing at a high level.

Examples of some of the accomplishments are:

1. Created and launched a Pool Party web portal with web tools developed to assist players in creating and managing their own pooled lottery play.
2. Created "How to Play" Infomercials and video tutorials on the Idaho Lottery website.
3. Developed a new event team, the *Wooh Crew* to embody the Lottery image and energy while working events and promote the brand.
4. Researched and implemented 300 locations for vending machine installation
5. Created a new, low-risk spring *Winner Take All Raffle*.
6. Established product reporting ROI for each product
7. Created new draw game, *Weekly Grand*, scheduled to launch in FY2012.

8. Redeployed the sales team to provide for expanded coverage to five in the Treasure Valley. This area is the highest density for lottery sales, so the reassignment of a representative from northern Idaho enables us to keep up with population and business growth in the region.

Future projects include:

1. Develop stand-alone vending placement program.
2. Continue work on Standards of Excellence baseline expectations for retail population.
3. Develop and implement new permanent signage in retail locations.
4. Develop co-operative program for marketing opportunities with targeted retailers.
5. Evaluating potential enhancement to *Pick 3* game.

External Factors

Jackpot Dependency

One significant external factor that is out of our control and may affect performance to plan is jackpot dependency. Sales of big-bloc, jackpot draw-style games such as *Powerball* and *Mega Millions* are directly related to the size of advertised jackpots. Higher draw-style game sales as a percentage of total sales have an inordinately positive impact on the dividend because they deliver significantly higher gross margins. As noted below, past performance indicates jackpot size determines the volume of purchases from infrequent and group-play players.

POWERBALL JACKPOTS

<u>Year</u>	<u>Average Announced Jackpot Per Draw</u>	<u>Average Sales Per Draw</u>	<u>Annual Sales</u>
2011	\$63,300,000	\$285,241	\$ 29,665,094
2010	\$83,361,905	\$352,521	\$ 36,662,205
2009	\$68,605,769	\$353,725	\$ 36,787,378
2008	\$71,146,154	\$381,380	\$39,663,541
2007	\$69,694,286	\$364,690	\$38,292,403
2006	\$82,342,192	\$429,896	\$44,709,233
2005	\$49,202,885	\$288,849	\$30,040,342
2004	\$62,099,048	\$342,257	\$35,594,769
2003	\$49,337,500	\$303,631	\$31,577,648

The MUSL has a *Powerball* game change planned for January 2012 that is designed to improve the performance of the game for our players and stakeholders. The new game matrix provides for a \$40,000,000 starting jackpot, more \$1,000,000 Match-5 winners, better jackpot and overall odds of winning, an enhanced *Powerplay* option, and a new ticket price of \$2.

MEGA MILLIONS JACKPOTS

<u>Year</u>	<u>Average Announced Jackpot Per Draw</u>	<u>Average Sales Per Draw</u>	<u>Annual Sales</u>
2011	\$64,900,000	\$86,783	\$ 9,025,392
2010	\$62,500,000	\$61,002	\$ 2,623,081

The *Mega Millions* jackpot draw game was launched in Idaho in January of 2010. *Mega Millions* acceptance in the Idaho marketplace is growing but remains far below *Powerball*, at just 30% of *Powerball* sales at similar advertised jackpots. Played much like *Powerball*, sales are also heavily dependent on large advertised jackpots. Game price remains \$1.

Health of the Overall Economy

The Idaho Lottery is not immune to the effects of the negative impact of the economy in Idaho. We forecast a 0.04% decrease in top-line revenue for FY2011. Draw games encountered a most difficult year with weekly sales declines in all multi-state games except *Mega Millions*. Our in-state *Pick 3* game was the only Idaho-only draw game to post an increase in sales. *Scratch*[™] tickets were essentially unchanged from FY2010 due to stress on player disposable income from rising fuel and food prices. The *PullTab* product line was buoyed by the pilot project for *TouchTab* dispensing devices. Because draw games contribute more to our gross profit, delivering on our dividend for FY2011 was an extreme challenge but we were able to make good on our \$37,000,000 forecast.

The Division of Financial Management (DFM) recently presented a report, “*Idaho’s Road to Recovery*”, to groups across the state. In the June 2011 report, DFM cited personal income of Idahoans in our major trading areas has been negatively impacted by the recession. In virtually all areas where our sales are generated, personal incomes are predominantly in the < 5% to > 10% negative categories.

Reports from Gallup, Inc. in June 2011 confirm the fragile economic environment we exist in today. Regarding unemployment (June 17, 2011): “*Unemployment is at 8.9% (nationally)...The percentage of part-time workers who want full-time work is at 9.7% in mid-June.*” On consumer confidence (June 14, 2011): “*The sharp drop in economic confidence in early June is consistent with the deterioration in the jobs situation...overall pump prices remain over a \$1 a gallon more than they were a year ago.*” On consumer spending (June 9, 2011): “*The significant majority of Americans consistently report they are cutting back on the amount they are spending each week. This may represent the “new Normal” in which Americans are adjusting to a less robust economy...*”

As general economic conditions remain stagnant, we continue to face significant challenges going forward in responsibly growing the dividend for our beneficiaries.

Other external factors that may impact our ability to deliver performance to plan include, but not limited to, unpredictable increases in commodities prices as well as fuel that is beginning to affect our cost of goods sold, further loss of on-premise licensees, our ability to be nimble in responding to rapidly changing retail market conditions, unintended adverse changes to our business model as a result of legislative action, and Acts of God.