



**Five-Year Strategic Plan/
Operational Plan
September 2014**

Agency 5-Year Plan

Issu 1 Future Support for Public Programs

Description: Maintaining and enhancing ticket sales and transferrable revenues is essential to keeping up with the increasing financial demands from beneficiaries and the Legislature. Lottery Revenue Bond payments were \$37 million dollars in FY14, and payments for university Speed Bonds increased by \$6.4 million over last fiscal year.

Funding for the beneficiaries established by the Legislature is derived from net revenue generated from Lottery game sales. Overall sales for FY14 were \$724 million, an increase of 4.5% over the prior year. This resulted in revenue distributions transferred to beneficiaries in FY14 totaling more than \$175 million dollars. FY14 marks the fifth consecutive year that every beneficiary designated by the Arizona Legislature received full funding.

While the Lottery experienced what most Arizona businesses would consider to be stellar year after year growth, the Lottery must be vigilant about maintaining this growth. Therefore, increasing sales, as well as transferrable revenue, is the top priority for the Lottery.

Solutions:

To increase sales and beneficiaries transfers in FY15–19, in-state drawing games will be evaluated and introduced or removed from the market based on performance analysis, vendor input, and player/game research. The rotation of niche drawing games into and out of market is targeted to occur every 24 months barring programming or system changes that would limit the ability to do so.

The Lottery's two multi-state draw games, Powerball® and Mega Millions®, are largely jackpot-driven, thus the frequency and size of large jackpots have significant impact on sales in any given year. In FY14, the Multi-State Lottery Association (MUSL) implemented changes to the Mega Millions game. These changes resulted in an impressive 74% increase in sales over the past fiscal year. In contrast, Powerball had a 25% decrease. Since drawing games allow for a greater profit margin, their impact on transferrable revenues is magnified. This level of increase is not sustainable and is completely dependent on high jackpots to drive sales. In FY15 the Lottery will be partnering with other states to optimize multi-state game revenue through a new national game which is not dependent on high jackpots. The new game has a \$5 price point and is called MONOPOLY MILLIONAIRES' CLUB®.

Instant tickets continue to perform well, generating a 10.8% increase over FY13. This growth is largely due to the ability to dedicate a large percentage of gross sales dollars to player prizes, improved game design, strategic alignment of advertising and sales efforts, higher price points (\$5, \$10 and \$20), as well as strategic efforts to promote winner awareness.

Strategic targeted research along with input from industry experts routinely provides strategies to increase sales and beneficiaries transfers. Additionally, during FY15, the Lottery will unveil a complete rebranding initiative. Ultimately, the efforts will make the Lottery a stronger entertainment brand, make us more relevant to player and non-player groups, and provide a lift to our sales.

Issu 2 Future Sales Growth Challenges

Description: The Lottery has demonstrated significant sales gains over the past seven years despite the economic challenges facing Arizona. In FY10, the rate of growth in sales was the highest in the industry. However, the Lottery is alarmed that the rate of overall sales growth, as a percentage rate of change, is decreasing year over year.

Solutions:

Lottery success is accomplished through a combination of market research, effective game design, optimization of prize payouts, coordinated game introductions requiring sales and marketing team efforts. As sales grow, so do demands on Lottery personnel and equipment.

As the agency prepares for a slowing sales trend, product improvements will not be enough; the Lottery will need to consider other methods of increasing sales. These methods could include improving productivity at existing retailers, new retail environments, or potentially offering a new type of product. The ability to implement these strategies is dependent on sufficient resources. As an example, growing the retail base would require additional sales support and compliance personnel. The Lottery already conducts statewide operations with a limited number of personnel and outsources over 90% of key functions. This will become a greater challenge in the future since the Lottery's authorized FTE positions were recently reduced by seven positions. The agency lacks the capability to undertake a significant new initiative without the personnel and advertising resources requested in its recent budget request for FY16.

The Lottery believes that the declining sales of draw games are largely the result of four years of declining investment into core business operations and advertising. Revenue growth does not seem sustainable without increased appropriation for core lottery operations and resources.

Issue 3 Future Marketing and Outreach Challenges

Description: Research, data tracking and experience teaches that marketing and advertising efforts directly influence game sales increases and decreases. Most games, especially initially and when changes occur, require that the game be introduced to the playing public. As jackpots increase, marketing and advertising allows players to begin play when their desired level of jackpot is reached. Retailer support is essential to bringing traffic into stores for the purchase of Lottery products.

As America's economy improves, there is a corresponding increase in the cost of advertising in traditional channels such as television, radio and print. In addition, contemporary marketing requires the Lottery to advertise in additional channels such as on-line advertising, social media, and email to subscribers.

The Lottery's advertising budget has remained static for the past five years while costs of commercial production, purchasing ad space, point of sale materials, and many other marketing and advertising components have increased, in many areas, dramatically.

Reaching new customers through computer, tablet and mobile channels requires increasing sophistication and cost. Particularly important is that for 21 to 40 year olds these mediums are perhaps the only form of communication that will reach them effectively.

Solutions:

For the lottery to maintain current sales levels, it is imperative that the advertising budget increase at a rate that allows at least a consistent effort each year going forward. The advertising and marketing budget will support the following critical strategies:

- The Lottery will continue to develop and execute an expanded digital strategy to become a more relevant product/brand in the Arizona market.
- The Lottery will grow its customer base in the emerging market by building awareness, trust, and engagement within this target market. For example, through building the public's awareness of the value of Lottery funding to the state through its "How the Money Helps" campaign.
- The Lottery is seeking Legislative approval for a 10% increase in the advertising and marketing component of the Lottery budget for FY16. This rate of growth would simply keep pace with increasing costs as described above, allowing the lottery to maintain a consistent level of effort.

Resource Assumptions

	FY2017 Estimate	FY2018 Estimate	FY2019 Estimate
Full-Time Equivalent Positions	102.8	102.8	102.8
General Fund	0.0	0.0	0.0
Other Appropriated Funds	115,146,500.0	119,248,900.0	123,542,300.0
Non-Appropriated Funds	534,303,000.0	558,243,000.0	583,317,000.0
Federal Funds	0.0	0.0	0.0

2014 - 2016 ARIZONA MASTER LIST OF STATE GOVERNMENT PROGRAMS

LOA 0.0	Agency Summary
	LOTTERY
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Mission:

To support Arizona programs for the public benefit by maximizing net revenue in a responsible manner.

Description:

The Arizona Lottery was established to maximize net revenue dedicated to various beneficiaries assigned through a statutory distribution formula. An advisory Commission and an Executive Director, both appointed by the Governor, oversee operations. The Lottery sells tickets through a licensed retailer network to provide players with innovative, entertaining, and rewarding games of chance.

◆ **Goal 1** To increase revenue to the State.

Performance Measures	FY 2014 Actual	FY 2015 Estimate	FY 2016 Estimate
Dollar amount of instant ticket sales (in millions)	488.3	519.0	544.7
Dollar amount of on-line sales (in millions)	235.7	258.0	267.0
Dollar amount of all game sales (in millions)	724.0	777.0	811.8
Increase/(decrease) in instant ticket sales from prior year (in millions)	47.8	30.7	25.7
Increase/(decrease) in on-line sales from prior year (in millions)	(16.8)	22.3	9.0
Explanation:	On-line sales are largely jackpot driven, impacting sales increases/decreases in any given year.		
Average dollar amount of sales per ticket vending machine.	228,100	235,000	240,000
Out of stock percentage for ticket vending machines.	4.5	4.5	4.4

Performance Measures	FY 2014 Actual	FY 2015 Estimate	FY 2016 Estimate
Total Lottery dollars distributed to State programs (in millions)	175.4	197.0	205.6
Percent of lottery ticket sales distributed to state beneficiaries	24.2	25.3	25.3
Explanation:	Draw games as a percentage of total game sales were lower in FY14, resulting in a lower overall profit margin.		

◆ **Goal 2** To increase agency efficiency.

Performance Measures	FY 2014 Actual	FY 2015 Estimate	FY 2016 Estimate
Number of hours draw games system not available for processing transactions (operational hours: 20 hrs per day x 365 = 7300 hrs)	3.8	3.5	3.5
Number of hours instant ticket validation system not available for processing transactions (operational hours: 20 hrs per day x 365 = 7300 hrs)	3.82	3.50	3.50

Performance Measures	FY 2014 Actual	FY 2015 Estimate	FY 2016 Estimate
Percent of Lottery program expenditures outsourced	90.9	93.9	93.9
Administration as a percentage of total cost	5.1	5.0	5.0

Performance Measures	FY 2014 Actual	FY 2015 Estimate	FY 2016 Estimate
Average number of days required to pay vendors	10	9	9
Percent of vendor invoices paid within 30 days	94.4	95.0	96.0

◆ **Goal 3** To maintain an effective retailer compliance program.

Performance Measures	FY 2014 Actual	FY 2015 Estimate	FY 2016 Estimate
Percent of active retailer accounts in good standing	99.7	99.7	99.7
Percent of routine retailer inspections in compliance with underage wagering requirements	99.9	99.9	99.9
Percent of routine retailer inspections resulting in discovery of a rule violation or criminal activity	1.9	.9	.9
Explanation:	Increased effort regarding compliance in FY14 caused slight increase. Subsequent years should be lower as retailers are aware they will be routinely inspected.		
Number of "at risk" retailers requiring immediate investigation (2800 total retailers)	71	110	110
Explanation:	Measure depicts retailers that require immediate inspections as compared to routine compliance inspections.		

◆ **Goal 4** To expand public awareness regarding the Lottery's image, beneficiaries, winners, and products.

Performance Measures	FY 2014 Actual	FY 2015 Estimate	FY 2016 Estimate
Percent of general public indicating the Lottery is run honestly and with integrity	77	78	78
Percent of general public indicating the Lottery is a good way to raise money for the state of Arizona	72	73	73

Performance Measures	FY 2014 Actual	FY 2015 Estimate	FY 2016 Estimate
Average number of calls received per month on automated winning numbers line	231,700	238,000	240,000
Average number of total visitors per month to the Lottery website and mobile website	2,162,500	2,184,100	2,206,000
Average "open" rate for Lottery product email blasts	22.0	22.2	22.4
Average page views per visit to the Lottery website	2.4	4.6	4.7
Explanation:	The Lottery anticipates growth in page views as a result of a redesigned website as well as Lottery rebranding efforts.		

◆ **Goal 5** To enhance retailer relationships.

Performance Measures	FY 2014 Actual	FY 2015 Estimate	FY 2016 Estimate
Percent of retailers achieving additional .5% commission incentive	36.4	34.0	34.0
Total instant tab game commissions earned by charitable organizations	878,900	900,000	900,000
Percent of retailers expressing overall satisfaction with Lottery services	96	97	96

◆ **Goal 6** To attract and retain high quality employees.

Performance Measures	FY 2014 Actual	FY 2015 Estimate	FY 2016 Estimate
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2014 - 2016 ARIZONA MASTER LIST OF STATE GOVERNMENT PROGRAMS

Percent of agency staff turnover	14	12	10
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