

FISCAL YEAR 2021 SCRATCH PRODUCT PLAN

The Colorado Lottery will continue to maintain the Scratch product line utilizing the following tactics/strategies.

SCRATCH PRODUCT GOALS

- Achieve total sales of \$535 million (approximate 10% increase over FY20)
- Generate \$82.4 million net profit
- Implement industry best-practice set launch schedule
- Introduce industry best practices pertaining to Scratch game development
- Enhance research to efforts to ensure industry best practices are being utilized

PRODUCT OVERVIEW

Scratch games generate approximately 74 percent of all Lottery ticket sales. In FY20, Scratch generated \$480 million in sales (\$9.2 million per week) – an all-time high. Through the years, the Lottery has focused on moving players to higher price points, and in FY20, approximately 85 percent of sales came from the \$5, \$10, \$20 and \$50 categories. The price point with the most growth were the \$20 games which had a year-over-year increase of \$14 million.

In FY21, the Lottery will look to incorporate a number of different strategies to increase sales across the product line. Those strategies include:

- Smoothly transition to new Scratch back-office system – as the Lottery develops a new Scratch back office, it will be vital all departments work together to ensure the transition is seamless, and offers new and efficient/effective business practices
- Move from a 24 game strategy to a 28 game strategy – this will allow the Lotteries retailers to offer a greater variety of games specific to the players at their locations. The sales department will work throughout the year to expand the number of dispensers across the state
- Develop a product positioning approach that utilizes industry best practices – the product positon efforts will include a number of variables including game design (color/layout), play style, themes, top prizes, player segment alignment, etc.

SALES AND PROFITABILITY GOALS

The sales/revenue projections are based on projected sales of 45 to 50 games in FY21. The following details the breakdown in expenses/total net revenue for FY21:

Scratch Sales by Price Point

Price Point	Sales	Payout	Payout Expense
\$1	\$27,000,000	60.00%	\$16,200,000
\$2	\$24,500,000	62.00%	\$15,190,000
\$3	\$36,500,000	63.00%	\$22,995,000
\$5	\$132,000,000	68.50%	\$90,420,000
\$10	\$135,000,000	71.00%	\$95,850,000
\$20	\$114,000,000	74.50%	\$84,930,000
\$50	\$66,000,000	80.00%	\$52,800,000
Total	\$535,000,000	70.73%	\$378,385,000

Net Profit

<i>Total Sales</i>	\$535,000,000
<i>Payout Expenses</i>	\$378,385,000
<i>Administration Expenses</i>	
Comm %	6.98%
Bonus %	0.98%
Vendor Fees	1.81%
Ticket Costs	0.91%
Mkt Cost	1.04%
Operating	1.90%
Distribution	0.25%
<i>Total Admin Expenses</i>	\$452,589,500
Revenue (Interest)*	\$0
Nonrevenue*	\$0
Estimated Scratch Unclaimed*	\$0
	\$452,589,500
 <i>Proceeds</i>	
	\$82,410,500
	15.40%

*This will impact the overall profitability of the product, but these numbers are not consistent so they have been left out of the calculations

INDIVIDUAL PRICE POINT OVERVIEW – TACTICS

\$1 Price Point

The role of the \$1 category is to provide an entry level price point to new/lapsed players. They also offer regular players a quick inexpensive option to supplement tickets purchased at higher price points. The games are easy to play and offer a variety of themes.

FY21 \$1 Tactics

- Introduce “niche” games to appeal to new/lapsed Lottery players and offer unique promotional opportunities and grow the market share of the \$1 category
- Include \$1 games as part of the “family of games” if applicable
- Increase sellout rate of \$1 holiday game
- Keep popular 7-11-21 theme available at all times

\$2 Price Point – 4 to 5 Games Available at One Time

The role of the \$2 category is to provide an entry level price point to new/lapsed players. They also offer regular players a quick inexpensive option to supplement tickets purchased at higher price points. In addition, the \$2 category can be used to introduce license property games, and games with new play styles

FY21 \$2 Tactics

- Use the \$2 category to possibly introduce non-traditional themed games in an effort to increase market share
- Include \$2 game as part of the “family of games”
- Consider incorporating new printing techniques/specialty inks to draw attention to games (HD Symbols, neon holographic ink, textured ink, etc.)
- Possibly create license property games in the \$2 category

\$3 Price Point – 3 to 4 Games Available at One Time

The primary role of the \$3 category is to offer non-traditional play action games – extended play to the Lottery’s Casuals Scratch segment. While this is a small segment, it produces nearly 20 percent of all Scratch revenue. It is also a price point that may offer the opportunity to introduce license brands that may include an extended play theme

FY21 \$3 Tactics

- Introduce new playstyles (extended) to broaden the appeal of this price point
- Include \$3 games as part of a “family of games” when applicable
- Possibly Introduce a game based on a license brand
- Introduce unique themed games to appeal to a new/lapsed Lottery players and offer unique promotional opportunities and grow the market share of the \$3 category
- Introduce new crossword/bingo games in FY21

\$5 Price Point – 5 to 6 Games Available at One Time

The role of the \$5 category covers all facets of the Lottery Scratch product mix. The category has become an entry level price point for many first-time/lapsed players, it has a strong following with our core players, is vital in the extended

play category and works well for license brands. It creates the most sales of any price point

FY21 \$5 Tactics

- Possibly introduce one or two strong license themed game(s)
- Consider incorporating new printing techniques/specialty inks to draw attention to games (two-sided play areas, Ice ink, neon holographic ink, textured ink, etc.)
- Include \$5 games as part of a “family of games”
- Introduce unique themed games to appeal to a new/lapsed Lottery players and offer unique promotional opportunities and grow the market share of the \$5 category
- Offer new extended play style games (bingo/crossword)
- Increase sellout rate of \$5 holiday game

\$10 Price Point – 3 to 4 Games Available at One Time

FY21 \$10 Tactics

- Create \$10 games as part of a “family of games”
- Add an initial facing to the \$10 category
 - Possibly introduce a \$10 bingo game in the extra facing
- Utilize the price point to introduce strong license themed games
 - Support these games with a tier one advertising campaign
- Possibly feature a \$10 game in a top prizes remaining campaign
- Possibly add a \$10 game to the holiday lineup

\$20 Price Point – 3 to 4 Games Available at All Times

The \$20 category currently offers four games – lower top prize, million top prize and a “Back Scratch” game. Similar to the \$10 category, the \$20 price point has shown strong growth over the past couple years. In an effort to grow the category, the makeup of the \$20 price point could incorporate different play action/themes

FY21 \$20 Tactics

- Research the \$20 category as a whole to determine the best product mix moving forward
- Possibly utilize the price point to introduce strong license themed games
 - Support these games with a tier one advertising campaign
- Possibly feature a \$20 game in a top prizes remaining campaign
- Possibly feature “new” themed \$20 game with a tier one advertising campaign
- Possibly add a \$20 crossword game to the product mix

\$50 Price Point – 1 game available (possibly 2)

The \$50 category currently offers one game. In the past, the \$50 game would be available for approximately 1 ½ years. The next version of the \$50 game will be introduced in early FY21. This game will mirror the latest \$50 games in that it has a lower inventory (1.2 million vs. 1.5 million tickets), and two instant \$3 million top prizes instead of three. Also, in FY21, the Lottery may look to introduce a second \$50 to the product mix.

FY21 \$50 Tactics

- Look at the inventory levels in an effort to sell the game out sooner
- Look at adding an additional \$50 game to the product mix
- Possibly feature a \$50 game in a top prizes remaining campaign
- Research the \$50 category as a whole to determine the best product mix moving forward

ADVERTISING/PROMOTIONS

Advertising

In fiscal year 2021, the Colorado Lottery will continue to implement a “set” game-launch strategy in which designated weeks (approximately every six weeks) the Lottery will introduce games at various price points. When possible, the Lottery should consider supporting one or more of the games in each launch with marketing/advertising backing. The level of marketing support can vary

- Tier one – Full campaign including TV, radio, POS, Internet, Social, OOH, etc.
- Tier two – limited campaign that may include radio, POS, Internet, Social, etc.
- Tier three – these campaigns are more grass roots that may include Social promotions, pop-up promotions, second-chance drawings, etc.

The preliminary FY21 “set” launch schedule includes these marketing campaigns:

July 27 – Tier One Campaign – Cash Family of Games – Budget \$600,000

September 7 – Tier One Campaign – The Golden Ticket (Wonka) – Budget \$600,000

Oct/Nov (games launch Oct 19) – Tier One Campaign – Holiday Games – Budget \$800,000

January 11 – Tier One Campaign – Mayhem Family of Games – Budget \$600,000

February 22 – Tier One Campaign – Casino Family of Games – Budget \$600,000

April 5 – Tier One Campaign – *TBD* – Budget \$600,000

May 17 – Tier One Campaign – *TBD* – Budget \$600,000

Total FY21 Scratch Advertising Budget – \$4.4 (m)

Promotions/Second-Chance Drawings

As in past years, the Lottery continues to look for ways to incorporate new and exciting promotional activities, in addition to the traditional advertising campaigns developed to support the Scratch product line. These opportunities include supporting advertised and non-advertised games. Traditional marketing support in the past included the Holiday game line-up and license property promotional elements. In FY21, the various groups within the marketing department should expand their plans to include game specific promotions/media support for non-advertised games – \$3 license property, new \$50 game, etc. These products are currently to be developed for introduction throughout FY21. The various sections of the marketing department will be kept informed of the development of these products in order for them to create promotional/marketing communications support from their program areas.

These efforts should focus on introducing Scratch to lapsed or non-players. The games being developed are designed to appeal to a younger consumer (millennials) who may not be inspired to purchase more traditional (core) Scratch games. When developing plans to support these games, each department should keep in mind the Lottery's goal to increase player-ship of non-traditional groups/consumers.

In FY21, the Lottery may change directions within the promotions department as a new promotions manager is added to the staff. This could provide the organization the opportunity to incorporate new statewide promotional opportunities/efforts.

RESEARCH/INDUSTRY BEST PRACTICES

In fiscal year 2021, the Lottery will look to incorporate the findings of research conducted in FY20 – more specifically the new segmentation results to better understand who is playing Scratch games, and ways for the Lottery to establish initiatives such as product development of games, advertising strategies, retail enhancements, etc. that will help broaden the player base in order to increase sales and overall profitability.

The FY21 research efforts will include:

- Bi-yearly license property/brand testing
 - Test the latest brands via the Lottery's Community Panel
- Game attribute/position database
 - Comprehensive document that tracks the product positioning of games as they are being developed

The Lottery will also continue to incorporate the following research projects throughout FY21:

- Quarterly tracking studies
- Retailer research
- Geo-mapping
- Economic Optimization (payout analysis)

ADDITIONAL SCRATCH SUPPORT TACTICS

In addition to the customary marketing support, other tactics will be explored in an effort to increase Scratch sales in FY21. Those areas include:

- Work with Jackpot vendor/sales department during the implementation of the new Scratch back-office system
- Continue to look into incorporating new technologies as associated with the Scratch product in an effort to appeal to new and younger audiences. These technologies may include:
 - Virtual reality
 - Augmented reality
 - Play for Fun electronic games

Objective 1: Achieve \$535,000,000 in sales of Scratch tickets	
Strategy	Highlighted Tactics
1	<p>Continue to implement a six-week launch cycle throughout FY21</p> <ul style="list-style-type: none">• Track game sell-out dates via various sales reports• Continuously update a Scratch Game Schedule spreadsheet/visual database to track game performance• Refine core games to achieve an ultimate mix: Xword, Bingo, etc.• Reprint games that are selling at a high velocity level to maximize sales of a specific game concept• Closely evaluate game quantities to increase the life of games in the field. Incorporate pulse changes to keep larger game quantities fresh in the market

2	Continue the transition to new Scratch back-office system	<ul style="list-style-type: none"> • Provide resources and feedback on the programming of the system requirements. • Develop communication processes that help to share timely Scratch data. • Work with sales department to determine best product mix using data from the new back office.
3	Develop a product positioning approach that utilizes industry best practices	<ul style="list-style-type: none"> • Work with Scratch vendors to monitor game development according to product position best practices. • Introduce “niche” games to appeal to new/lapsed Lottery players and offer unique promotional opportunities and grow the market share of the \$1 category • Introduce unique themed games at multiple price points to appeal to a new/lapsed Lottery players and offer unique promotional opportunities and grow the market share of the \$3 category • Introduce unique themed games and extended play styles (bingo/crossword) to appeal to a new/lapsed Lottery players and offer unique promotional opportunities and grow the market share of the \$5 category
4	Incorporate license properties that appeal to new or lapsed Scratch players	<ul style="list-style-type: none"> • Utilize findings from the Lottery’s Two Cents license property research project. • Contact vendors who provide various properties in an effort to determine any asset that will help the Lottery increase sales/playership. • Possibly create license property games in the \$2 category • Possibly utilize the \$20 price point to introduce strong license themed games • Support these games with a tier one advertising campaign
5	Leverage success of “family of games”, \$20 and \$50 tickets, and license property products to maximize marketing efforts and encourage players to purchase multiple price points through advertising efforts	<ul style="list-style-type: none"> • Cash Scratch Campaign – July (Tier 1) • Golden Ticket Campaign – September (Tier 1) • Holiday Games Campaign – October – December (Tier 1) • Mayhem Scratch Campaign – January (Tier 1) • Casino Scratch Campaign – Feb. (Tier 1/2) • TBD Campaign – April (Tier 1) • TBD Campaign – May (Tier 1) (Look at alternative FOG themes – Life Time, Gaming, etc.)
6	Use the \$20 & \$50 Scratch games to generate excitement for the category, mobilize the	<ul style="list-style-type: none"> • Refine aspects of the \$20 and \$50 game to increase current playership spend and encourage new or current players to try games at this price point.

	core, and encourage infrequent and jackpot players to play.	<ul style="list-style-type: none"> If inventory is appropriate, include a \$20 and \$50 game in a Top Prizes Remaining campaign late in the fiscal year Possibly add an additional \$50 facing to the product mix Look to see if a \$20 crossword theme game can be added to the product mix
8	By December 31, 2021, have 40 games available for retailers to sell in the marketplace to allow for best 28 games suited for specific retailers to be available. The number of games will need to be coordinated with the implementation of the predictive ordering system to be live by June 5, 2020, to provide optimum ‘learning’ by the system.	<ul style="list-style-type: none"> Beginning in December of 2020, target all regular launch cycles to have a 4 to 5 games in the launch. Work with the sales department to evaluate by March 1, 2021 if 40 games is the optimum number to have in the marketplace or should additional games be added.
9	Monitor game performance in relation to inventory levels to ensure games sell out to optimum levels within designed time frames	<ul style="list-style-type: none"> Look at increasing the inventory of core games utilizing pulses to make the games viable in the market for a longer period of time Look at adjusting the amount of inventory produced for other games to incorporate industry best practices for game development. Reorder games that exceed sell-out expectations to maximize sales of a specific game

Alternate Projections

The following is a breakdown of sales and revenue projections based on flat year-over-year sales and a drop in sales based on current impacts from the recent economic downturn.

Scratch Sales by Price Point – Flat Year-Over-Year

Price

Point	Sales	Payout	Payout Expense
\$1	\$24,300,000	60.00%	\$14,580,000
\$2	\$23,300,000	62.00%	\$14,446,000
\$3	\$34,800,000	63.00%	\$21,924,000
\$5	\$123,000,000	68.50%	\$84,255,000
\$10	\$127,000,000	71.00%	\$90,170,000
\$20	\$95,000,000	74.50%	\$70,775,000
\$50	\$53,000,000	80.00%	\$42,400,000
Total	\$480,400,000	70.47%	\$338,550,000

Net Profit

<i>Total Sales</i>	\$480,400,000
<i>Payout Expenses</i>	\$338,550,000
<i>Admin Expenses</i>	
<i>Comm %</i>	6.98%
<i>Bonus %</i>	0.98%
<i>Vendor Fees</i>	1.81%
<i>Ticket Costs</i>	0.91%
<i>Mkt Cost</i>	1.04%
<i>Operating</i>	1.90%
<i>Distribution</i>	0.25%
<i>Total</i>	\$405,181,480
<i>Revenue(Interest)</i>	\$0
<i>Nonrevenue</i>	\$0
<i>Estimated Scratch Unclaimed</i>	\$0
	\$405,181,480
<i>Proceeds</i>	\$75,218,520
	15.66%

The flat sales curve would include most of the marketing campaigns designated in the increased projections. That is based on trying to keep sales from dropping further. However, in Q3/Q4 adjustments may be made to the marketing support if it seems sales will remain flat and other products could benefit from additional marketing spend.

Scratch Sales by Price Point – Economic Downturn

Price Point	Sales	Payout	Payout Expense
\$1	\$22,000,000	60.00%	\$13,200,000
\$2	\$21,000,000	62.00%	\$13,020,000
\$3	\$31,000,000	63.00%	\$19,530,000
\$5	\$110,600,000	68.50%	\$75,761,000
\$10	\$114,300,000	71.00%	\$81,153,000
\$20	\$85,400,000	74.50%	\$63,623,000
\$50	\$47,700,000	80.00%	\$38,160,000
Total	\$432,000,000	70.47%	\$304,447,000

Net Profit

<i>Total Sales</i>	\$432,000,000
<i>Payout Expenses</i>	\$304,447,000
<i>Admin Expenses</i>	
<i>Comm %</i> 6.98%	\$30,153,600
<i>Bonus %</i> 0.98%	\$4,233,600
<i>Vendor Fees</i> 1.81%	\$7,819,200
<i>Ticket Costs</i> 0.91%	\$3,931,200
<i>Mkt Cost</i> 1.04%	\$4,492,800
<i>Operating</i> 1.90%	\$8,208,000
<i>Distribution</i> 0.25%	\$1,080,000
<i>Total</i>	\$364,365,400
<i>Revenue(Interest)</i>	\$0
<i>Nonrevenue</i>	\$0
<i>Estimated Scratch Unclaimed</i>	\$0
	\$364,365,400
<i>Proceeds</i>	\$67,634,600
	15.66%

These sales projections are based on the economic downturn lasting through the FY21 Q1/Q2. Several marketing campaigns could be impacted by a slower economy/budget cuts. For example, the state may not approve the license fee for The Golden Ticket. Cutting that game/campaign would impact overall cutting several million dollars from projections. In addition, if sales slow, the amount of inventory needed to fill the market could be reduced, thus resulting in less games launches/marketing campaigns. The most likely cuts would come in the February and May set launches.