SCRATCH™

FISCAL YEAR 2017 SCRATCH GAME PRODUCT PLAN

The Colorado Lottery will continue to maintain the Scratch product line utilizing the following methods. In addition, the Lottery will continue to take advantage of value-added features offered by the Lottery's Scratch printing contracts. These features will allow the organization to utilize analysis tools and introduce new instant game technology during the next year.

SCRATCH PRODUCT GOALS

- ➢ Continue to Monitor the Price Point/Payout Efficiencies Incorporated in FY14
- ➢ Continue to look at game-launch efficiencies – 40 to 45 games in FY17 for all price points
- ➢ Generate unique products that can be supported through various advertising/promotional efforts
- ➢ Continue to incorporate research projects, and industry best practices
- ➢ Explore new and unique efficiencies, and sales opportunities

PRODUCT OVERVIEW

In order to meet and/or exceed the Lottery's Scratch sales and profitability goals, the following strategies are incorporated into the development of the games introduced. The Scratch category must include an interesting and well balanced mix of play mechanics and themes to attract players. As players go up in price point it's important to communicate value of the added expense at all times. Value can be determined through many means including the size of the ticket, the play action, bonus features and most importantly amount of prizes in the game. When developing games, consideration is taken to ensure for example, $20 and $10 games are more exciting than $5 games, $2 game offer more features than $1 games, and so on. Differentiators can include offering more chances to win as you go up the price points ($1 games offer one way to win where $20 games offer up to 30 ways to win). In addition, adding "bonus" features such as multipliers, bonus numbers or "win all" elements adds to the value proposition. Providing a variety of prize levels and bonus features at all levels, supplies a diverse blend of offerings which should result in additional sales.

The same can be said for the themes of the games. Themes include whimsical, money, gaming, numbers, and extended (bingo, crossword, go-to, etc.). The lower price point games are more apt to include whimsical or fun themed games that appeal to new or infrequent players, while higher price point games are more likely to incorporate more gaming type themes – money, casino, numbers, etc. When developing the product mix, a variety of themes within each price point, and across the entire line-up is taken into consideration in order to maximize customer satisfaction. Too many similar themes and the games can all look the same, where as too few themes could limit the appeal to various players. The themes must be distinctive, yet easy to understand and play with clear instructions.

Planning how many of each price point are released, when they are released, and what games they are released with has changed over the past few years with the Lottery's predictive ordering distribution system. In the past, the scheduling and development of Scratch games was based on the industry practice of launching games every four to six weeks. Using this method, games at various price points were created to meet a specific launch schedule – not player demand. Under the new system, player demand drives the launch of games, and therefore the Lottery now develops "shelf" games at each price point that are available at all times to fill the product line as dictated by the market. Therefore, the games being developed are designed to include the above mentioned themes and features in order to have the proper mix at retail at all times. For example, if a $1 whimsical themed game sells out, the $1 whimsical themed game in the warehouse is shipped out in its place, thus keeping the optimal mix of games available. When the "shelf" game is moved up into the launch scheduled, the development of its replacement game begins – resulting in a new "shelf" game.

PRICE POINT/ PRIZE PAYOUT

In fiscal year 2014, the Colorado Lottery implemented a new prize payout strategy for each price point. Since the Lottery began more than 30 years ago, the payouts at the various price points have changed (up/down) based on a number of variables – industry best practices, administration directives, research findings, etc.

In response to the Lottery's recent efforts to increase the percentage of net profit returned to the state, the payout levels for all Scratch games developed in FY17 will incorporate the prize percentages that were approved by the Lottery Commission. The following are the payout levels for games that will be introduced in FY17:

Price Point	FY16 Payout Levels
$1	60%
$2	62%
$3	63%
$5	68.50%
$10	71%
$20	74.50%

FY17 Price Point Summary

PRICE POINT SUMMARY										
Price Point	Games Available	Themes	Inventory Levels	Prize Payout	Market Share	FY17 Total Games	FY17 Total Sales	FY17 Net Profit	FY17 Profit Percentage	Effective Payout
$1	4 to 5	specialty, money, gaming, numbers	3.36(m) Base games – 4.56(m) 7-11-21	60%	8%	11	$32 (m)	$8.4 (m)	26.22%	60.00%
$2	4 to 5	7s Series, Super 7-11-21, specialty, money, gaming, numbers, license	1.2 to 1.92(m) License Property/Specialty Games – 1.8(m) Regular Games – 2.76(m) Base Games (Super 7-11-21)	62%	6%	5	$25 (m)	$6.1 (m)	24.20%	62.00%
$3	3 to 4	Crossword, Bingo, Poker, "GoTo" Standard	"GoTo"/Poker/Standard – 960,000 to 1.4(m), Bingo – 2.52(m), Crossword – 6.0(m)	63%	13%	8	$40 (m)	$9.3(m)	23.20%	63.00%
$5	5 to 6	Money, Gaming, Numbers, Crossword, Bingo, License	1.08 to 1.8(m) Standard –1.08(m) Holiday theme – 960,000 Bingo – 3.24(m) Crossword	68.50%	23%	11	$128 (m)	$22.7 (m)	17.72%	68.50%
$10	3 to 4	Standard, Crossword and Mega Game	840,000 Holiday – 960,000 Standard – 2.5(m) Spotlight Game	71%	15%	6	$70 (m)	$10.7 (m)	15.22%	71.00%
$20	3	$1 Million Top Prize, Lower Top Prize	1.2 to 2.16(m)	74.50%	20%	3	$80 (m)	$9.3 (m)	11.72%	74.50%
$50	1	$3 Million Top Prize	1.2 (m)	80.00%	15%	1	$21 (m)	$1.3 (m)	6.22%	80.00%

The sales/revenue projections are based on projected sales of 40 to 45 games in FY17. The following details the breakdown in expenses/total net revenue (including interest and nonrevenue):

Price Point	Sales	Payout	$$$$
$1	$32,000,000	60.00%	$19,200,000
$2	$25,000,000	62.00%	$15,500,000
$3	$40,000,000	63.00%	$25,200,000
$5	$128,000,000	68.50%	$87,680,000
$10	$70,000,000	71.00%	$49,700,000
$20	$80,000,000	74.50%	$59,600,000
$50	$21,000,000	80.00%	$16,800,000
	$396,000,000	**69.10%**	**$273,640,000**
Effective Payout			**69.10%**

Combined   FY17

Total Sales

$396,000,000

Payout %

69.10% $273,640,000

Expenses

Comm %	6.98%	$27,640,800
Bonus %	0.85%	$3,366,000
Vendor Fees	1.54%	$6,098,400
Ticket Costs	0.67%	$2,653,200
Mkt Cost	1.50%	$5,940,000
Operating	1.98%	$7,840,800
Distribution	0.26%	$1,029,600
Total		$328,248,800
Revenue(Interest)		$0
Nonrevenue		$0
Estimated Scratch Unclaimed		$0
		$328,248,800
Proceeds		$67,751,200
		17.11%

In an effort to track the Colorado Lottery's Scratch profitability in relationship to the reduction in payouts, a weekly comparison (same week fiscal year vs. fiscal year) of the gross profitability (weekly sales minus payout) will occur. This will

provide an indication on whether or not the lower payouts are producing more profits through a game-by-game and sales-over-sales analysis.

ADVERTISING/PROMOTIONS

<u>Advertising</u>

In fiscal year 2017, it has yet to be determined how the Scratch product will be supported through various marketing efforts. The opportunity for "standard" advertising campaigns will remain – Holidays, $20 games, license property games, etc. – similar to FY16, the possibility of marketing efforts towards Scratch could include a "general" theme that could support a segment (Crossword, Bingo, second-chance drawings), unique features/messages (i.e. Scratch offers a vast variety of fun and exciting options), or promotional efforts. This marketing philosophy allows the Lottery and the advertising agency more flexibility when developing marketing plans to support the Scratch product line throughout the year. This will also allow for more campaign alternatives – full campaigns that include television, radio, Internet, outdoor, etc. – or smaller campaigns that feature shorter television commercials, and less support materials – or "alternative" campaigns that may include just POS, outdoor, Internet, promotions, etc.

The timeline to develop future campaigns will also vary from several weeks to several months depending on the product being advertised, the launch schedule and time of the year.

Conclusion

The amount of marketing support provided to the Lottery's Scratch product may vary throughout the year – depending on budget amounts, the moving Jackpot game schedule, and the fact that FY17 includes a presidential election cycle. Scratch advertising campaigns/support may be limited to three to four with several smaller campaigns distributed throughout the year – similar to recent years, or Scratch may take more of the marketing focus.

The Lottery will need to monitor how these changes may affect the product during the year, and sales and proceeds projections may need to be adjusted as the year progresses.

Preliminary FY17 Scratch Marketing Support:

August/September – Tier One Campaign – $5*Frogger* – this is a license property offered through our Scratch vendor Pollard. The property comes with a number of marketing added features including pre-produced :30 television and radio

spots – *Budget TBD (this number depends on the use of marketing support provided through the license agreement)*

Objective
- Business Objective: Drive sales of $5 Scratch game *Frogger* and the entire Scratch category
- Advertising Objective: Increase awareness of $5 Scratch game *Frogger*

Product / Program Details
- TBD

Background / Situation Analysis
- 1.8 million tickets for sale
- Potential Sales = $9 million
- Potential Gross Profit = $ 2 million

Audience
- TBD based on Cactus planning team's research. Most likely will include Trailblazers, Fun Active Scratchers, and Ritual Budgeters
- $5 Scratch is a popular game for the Lottery's core players, and Frogger theme may attract new players

Marketing Support:
- TV (possibly use TV spot provided by Pollard)
- Radio (possibly use TV spot provided by Pollard)
- POS: TBD
- Internet

Interactive Elements:
- 2nd chance top-prize drawing (other possible 2nd chance drawing opportunities TBD)
- Web marquee
- Announcement Email

Social Media:
- TBD

November/December – Tier One Campaign – Holiday Advertising – *Budget $750,000*

Objective
- Business Objective: Drive sales of Holiday game line-up
- Advertising Objective: Increase awareness of Holiday games

Product / Program Details
- $1, $2, $3, and $5
- Top prize = $100,000
- Promotional second-chance drawing
- Include all tickets in advertising

Audience
- TBD based on Cactus planning team's research. Similar to past holiday campaigns
- Infrequent and core players

Marketing Support:
- o   POS: Same as past holiday campaigns

Interactive Elements:
- o   2nd chance promotional
- o   Homepage takeover
- o   Announcement Emails

Social Media:
- o   Possible social-based contest

February – Tier One Campaign – NASCAR – *Budget TBD*

Objective
- Business Objective: Drive awareness of $5 *NASCAR* Scratch ticket along with the entire Scratch category
- Advertising Objective: Increase awareness of $5 Scratch game *NASCAR*

Product / Program Details
- o $100,000 top prize
- o   Once in a lifetime second-chance drawing opportunity

Audience
- o   TBD based on Cactus planning team's research

Marketing Support:
- o   TV
- o   POS: TBD (similar to past Scratch advertising campaigns)

Interactive Elements:
- o   Possible Homepage takeover
- o   Web marquee
- o   Announcement Emails

Social Media:
- o   TBD

April/May – Tier One Campaign – *TBD* – *Budget TBD*

Objective
- Business Objective: Drive sales of Scratch category
- Advertising Objective: Increase awareness of Scratch category

Product / Program Details
- o   Scratch category
- o   Promotional second-chance drawing

Audience
- o   TBD based on Cactus planning team's research. Similar to past license property campaigns (Iron Man 3, The Walking Dead, The Green Hornet)
- o   Infrequent and core players

Marketing Support:
- o   POS: Same as campaigns

Interactive Elements:

- 2nd chance promotional drawings
- Homepage takeover
- Announcement Emails

Social Media:
- Possible social-based contest

JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE
26 3 10 17 24	31 7 14 21 28	4 11 18 25	2 9 16 23 30	6 13 20 27	4 11 18 25	1 8 15 22 29	5 12 19 26	5 12 19 26	2 9 16 23 30	7 14 21 28	4 11 18 25
	$5 Frogger Tier 1			Holiday - Tier 1			License Property ($5 NASCAR) - Tier 1			TBD Tier 1	

Total FY17 Scratch Advertising Budget – $3 to $4 (m)

Promotions/Second-Chance Drawings

In addition to the advertising campaigns associated with Scratch games, the product department is reviewing the strength of the second-chance drawing promotions as a means to increase Scratch sales.   Several other promotional ideas may be developed throughout the fiscal year. These opportunities include Holiday game second-chance drawings, and license property promotional elements (the Lottery is looking to include "free play" interactive games to various Scratch games throughout the year – several possibilities are currently being considered). These products are currently in the works and will depend on available resources.

As in past year, the Lottery continues to look for ways to incorporate new and exciting promotional activities. One of the programs considered is a points-for-prizes program where players can earn points by entering purchased Scratch tickets into their accounts. They could redeem their points to received free Scratch tickets. The following is an outline of how the program will work.

Timing: FY17
- Develop a player rewards promotion where MyLottery members can enter a drawing by 1) scanning the bar-code on eligible Scratch tickets with their smart phone/tablet or 2) entering the 22-digit directly online and on the mobile site.
- Establish security process for transfer (API) of Scratch data (both winning and non-winnings tickets are eligible).
- Create cross platform application.
- Retain "points" system. The more dollars spent, the more points earned.
- Offer Scratch tickets as "points" prizes. Awarding Scratch is simple to administrate, is valued highly by Scratch players, and is more cost-effective than awarding merchandise.

- o Players will bank their points, and then use those points to receive "discounted" Scratch tickets (tickets for points values yet to be determined)
- This promotion will launch as a "thank you" to our players preferably during the holiday season, and in connection with the launch of our new Web site. The Lottery started collecting player's points immediately upon the launch of the Scratch mobile App. Then during the holiday season, the Lottery will announce the point's promotion, and as a "gift" to our loyal players, award them the amount of points they have earned since the Scratch mobile App was deployed.

Marketing Support (see advertising section)
- Advertising support (budget TBD)
- Likely include mobile and internet advertising
- POS, ESMM (a tag on existing material)
- Marquee, MyLottery emails

Phase II
Develop a similar (bar-code scan) Jackpot game player rewards program.

RESEARCH/INDUSTRY BEST PRACTICES

In fiscal year 2017, the Lottery will look to incorporate the findings of research conducted in FY16 to better understand who is playing Scratch games, and ways for the Lottery to establish initiatives that will help broaden the player base in order to increase sales and overall profitability.

The most recent segmentation study will continue to help determine which groups of players offer the greatest potential for growth, and will be utilized during the game development process. In addition a new segmentation study will be launched to further update the Lottery's knowledge of various playership groups.

As part of the Lottery's Scratch contract, Scientific Games will provide research support that will help move the product forward in FY17 and beyond. These projects may include continued updates to the optimal payout research continued Scratch ethnography research projects that will help the Lottery learn how Scratch players shop for and buy games, interact with tickets, what are the Lottery's under-met or un-met needs, player rituals and during the shopping and buying process, what is the Scratch player's interaction with POS, vending machines, retail clerks and other in-store materials.

Ongoing research and analysis projects will be developed throughout the fiscal year.

In addition to traditional research projects, the Lottery will continue to monitor best practices throughout the industry, and determine if those efforts can help the Colorado Lottery make the Scratch product more efficient and effective.

Conclusion

The Lottery takes pride in being an innovator within the industry, and will continue to work with other lotteries to determine additional ways to innovate the Scratch product. By participating in industry conferences, sharing information via surveys, and utilizing tools provided through vendors, the Lottery will continue to look for the most innovative and efficient ways to further the product.

FUTURE EFFICIENCIES/SALES INCREASES

In addition to the steps being taken to create efficiencies through payout reduction, game launch schedules, and marketing support initiatives, other cost-saving measures will be considered in FY17.