

Camelot | GLOBAL



Five Year Business Plan for the Office of the Arkansas Lottery

March 2016

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Disclaimer

- As part of the preparation of the Business Plan and Situation Analysis, Camelot Global (CG) has worked with the Office of the Arkansas Lottery to establish insights, implications and recommendations for a five year Business Plan
- The Business Plan builds on the foundations introduced across OAL, in the past 12-18 months and provides for plans that will build on the recent success of the Lottery to ensure responsible and sustainable growth for the next five years
- The insight, implications and recommendations outlined in this document (and supporting information) are benchmarking OAL against a consumer goods business. In no way does CG imply that OAL is not following US lottery common practices
- The Business Plan itself is an evolving document and its recommendations may alter over time due to consumer, retail, social factors, or other external factors. All timings are therefore subject to change
- Furthermore the most variable part of the plan will be Draw Games. Two-thirds of Draw Games are Multi-state games and are not in the direct control of OAL. Often changes to these games are at short-notice

Disclaimer

- The “facilitators” of this Business Plan (the stakeholders, resources, investment and processes required to implement the plan) need to be aligned and supportive of its implementation
- Any big revenue driving activities that require legislative change are noted as addendums to the Business Plan (and are noted in each strategic business area)
- Proposed recommendation timings may be dependent on OAL’s ability to change their gaming system
- Modus operandi changes, such as working practices and areas for efficiency are also outlined in the plan and require discussion as part of the implementation phase of work (under the RFQ), as the Lottery needs to be managed in the manner of a consumer goods business and not a state agency

Camelot Global's approach and philosophy

Camelot wants to attract new players to the Arkansas Scholarship Lottery by broadening appeal

- From a player point of view, there are three ways to grow sales: (i) Recruit new players, (ii) Get less frequent players to play a little more or (iii) Get existing regular players to spend more
- Camelot Global's philosophy is simple. We believe in getting more people playing a little, rather than a few players playing a lot
- We do this by broadening appeal of the lottery as, "a chance to dream", and add relevance to playing by amplifying the role of the Lottery within state and communities
- The plan that CG recommends to the OAL is to grow sales by recruiting new players, increasing the frequency of less committed players and protecting the play of those who play regularly
- In a nutshell: RECRUIT new players, NURTURE less frequent players and PROTECT regular play

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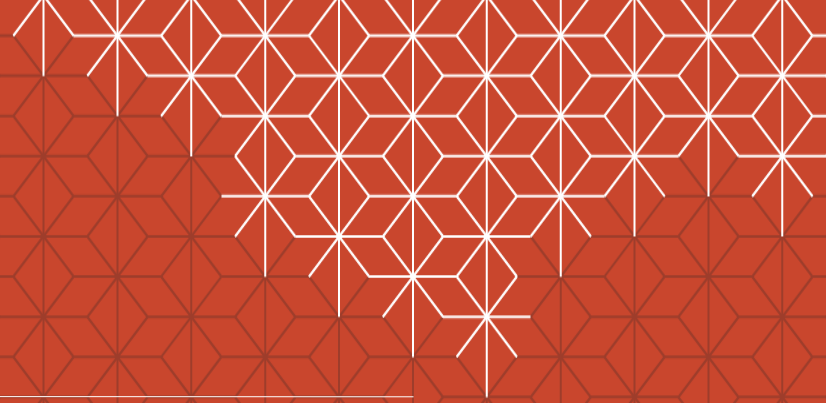
Glossary of Terms

ASL	Arkansas Scholarship Lottery	ISPEX	Insight, Strategy, Planning and Execution
C-Store	Convenience Store	KPIs	Key Performance Indicators
CAPEX	Capital Expenditure	LOC	Lottery Oversight Committee
CG	Camelot Global	L4L	Lucky For Life
DMA	Designated Marketing Area	MHP	Mangan Holcomb Partners
FTE	Full Time Employee	MAT	Moving Annual Total
FY	Fiscal Year (and year is year end)	MM	Mega Millions
GGY	Gross Gaming Yield	MSR	Marketing Sales Representative
GR	Government Relations	MUSL	Multi-State Lottery Association
H1 / H2	First or second half of fiscal year	NFC	Near Field Communication
iMAP	Integrated Marketing Plan	NSJ	Natural State Jackpot
		NPD	New Product Development

Glossary of Terms

OAL	Office of the Arkansas Lottery	RFI	Request for Information
OOH	Out of Home	RFQ	Request for Qualifications
OPEX	Operating Expenditure	ROI	Return on Investment
PB	Powerball	SGI	Scientific Games International
PEST	Political Economic Social and Technological Analysis	SWOT	Strengths Weaknesses Opportunities and Threats
POS	Point of Sale	TVM	Ticket Vending Machine
P&L	Profit and Loss	VoL	Value of Lottery
PR	Public Relations	YoY	Year on Year
PIE	Perfect In-store Execution	CGS	Central Gaming System

1. EXECUTIVE SUMMARY



1. Executive Summary

Camelot Global is pleased to present its Five-Year Business Plan for the OAL in response to RFQ SP-15-0097, “Business Plan and Consulting Services”

- The Business Plan has been developed in consultation with the Lottery’s management team, key employees and vendors. It provides a clear long-term strategy and actionable plans for improving the Lottery’s performance
- A detailed Situation Analysis (Appendix A) provides an in-depth assessment of the Lottery and underpins the Business Plan. Key findings include:
 - The Lottery has benefited from more positive news over the past twelve months
 - Overall sales have been on a downward trajectory since FY11/12 but improving Instants sales over the past 16 months and a record Powerball jackpot will deliver growth in FY15/16
 - FY16/17 budget numbers will be harder to achieve assuming all things remain equal
- We have proposed distilling the essence of OAL’s current Mission and Vision into two simpler statements, which should provide greater clarity for employees and stakeholders
 - **Mission:** To maximize proceeds to Scholarships in a responsible way
 - **Vision:** Operate in a world-class manner, exciting and making Arkansans proud of their Lottery

1. Executive Summary

The Five-Year Business Plan consists of a number of corresponding sections

- 1. Executive Summary** – *Provides a summary of all outputs and recommendations*
 - 2. Introduction** – *Overview of process undertaken*
 - 3. Situation Analysis** – *Full performance appraisal and channel review*
 - 4. Mission and Vision, Key Strategies** – *Informing the Business Plan*
 - 5. Business Plan** – *Five year business plan including recommendation and implementation plan*
 - 6. Financial Summary** – *Financial assumptions and projections supporting the Business Plan*
 - 7. Summary**
- Appendices** – *A. Situation Analysis; B. Commissioned Research; C. Other Supporting Information*

1. Executive Summary

The Business Plan (Section 5) covers the overall strategy and specific near-term actionable recommendations

- The strategy of the Business Plan is built on five key pillars. These pillars underpin sales and marketing consumer facing activities, designed to create brand demand and attract new players
- The five key pillars are:
 - 1) **Brand:** Build a brand with universal appeal for Arkansas consumers and stakeholders
 - 2) **Games:** Deliver games with clearly defined and exciting propositions
 - 3) **Marketing:** Provide compelling reasons to play
 - 4) **Retail:** Focus on better access, category presentation and make play easier (convenient)
 - 5) **Player Relationships:** Understand and then build engaging relationships with players
- Each pillar is broken down into recommendations and activities that are currently permissible under current legislation and working practices
- Any recommendation or activity that is not currently permissible under legislation, is broken out as an addendum (with “3.2 addendum” noted in the title slide for that activity)
- Any addendum activity is not included in the business plan’s sales or net revenue forecast

1. Executive Summary

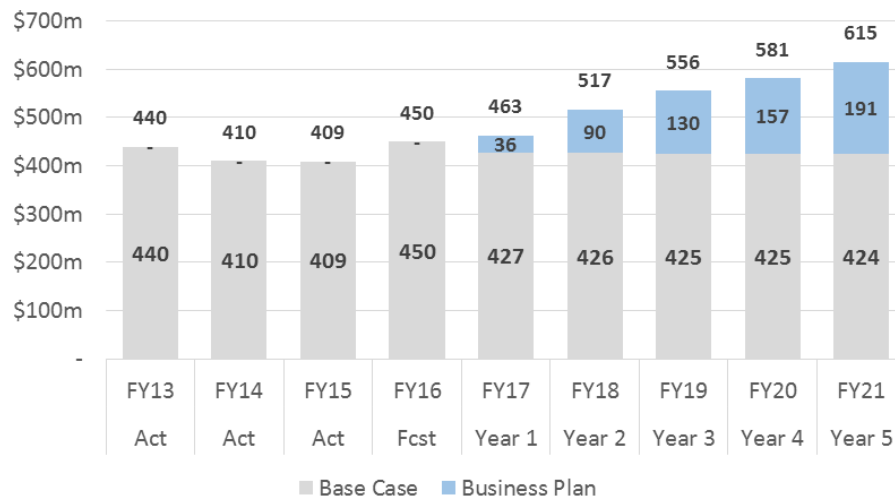
In conjunction with the five pillars, the Business Plan details a number of facilitating activities

- Four factors will impact the success of the Business Plan these are: legislation, investment, vendors and people
- Legislation – is whether a recommended activity is permissible or requires legislative approval, or changes in legislation. As per the requirements of the RFQ, any activities recommended that are not currently legal or aren't within the existing portfolio have been treated as an addendum to the business plan (and highlighted as “3.2 addendum”)
- Investment – the business plan outlines additional budget recommended to increase sales and returns to scholarships (this is covered in Sub-section 6.1)
- Vendors – At the request of OAL, and to preserve any strategy and/or competitive advantage exemptions the OAL may enjoy under the law, CG will not outline any requirements or pricing strategies in this document. This will be provided to the OAL as the contract process evolves
- People – two approaches are outlined in this section: 1) Insource resources (recruit new roles) and 2) Outsource (short term) resources to vendors. Under the CG contract signed Nov 30 '15, CG is obliged to submit an implementation plan to OAL, no later than 15 days after the submission of the business plan. This implementation plan outlines areas in which CG can support OAL with expertise or additional resources – indeed this was the express intent of the contract agreed between CG and OAL

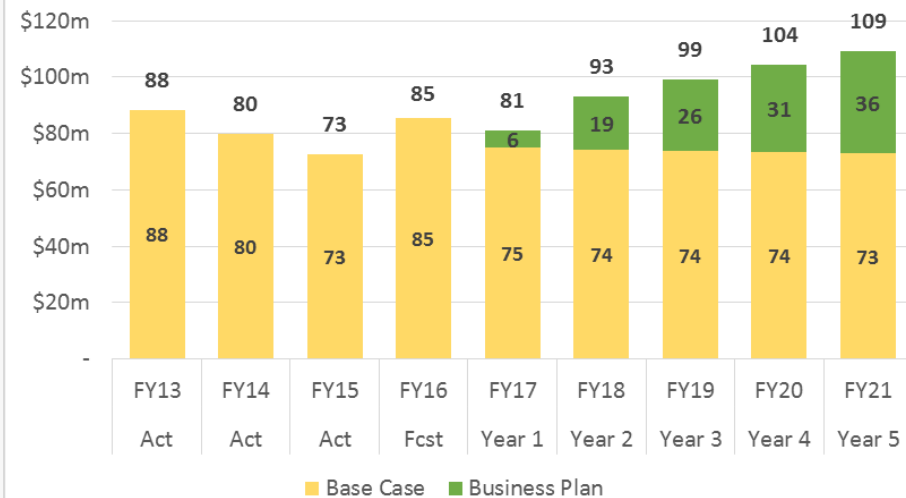
1. Executive Summary

Delivery of the Business Plan will see sales grow from \$409m in FY15 to \$615m in FY21, with proceeds to Scholarships increasing from \$73m in FY15 to \$109m in FY21

Sales - Business Plan vs. Base Case



Proceeds to Scholarships - Business Plan vs. Base Case





2. INTRODUCTION

2.1 Background

2.2 Approach

- Project delivery
- Meeting RFQ requirements
- Implementation Plan

2.3 Overview of document

2.1 Background

Camelot submitted a detailed report in 2014 following a business review

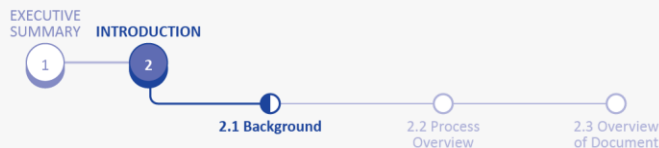
- In September 2014, the Arkansas Bureau of Legislative Research announced an agreement with Camelot Global to provide a review of the Arkansas Scholarship Lottery for the Arkansas Lottery Commission Legislative Oversight Committee, a committee of the Arkansas General Assembly
- The deliverable was for Camelot Global to prepare a “Detailed Report” for the Bureau of Legislative Research and also present an “Executive Summary” in the form of a presentation to the Arkansas General Assembly by early December 2014
- The key areas in focus were: In-depth review of the Lottery business drivers, strategy review, business planning, organization review, governance review and recommendations for the future plan of the business including establishing core principles for the future organization
- As part of preparing the detailed report, Camelot undertook desk based and retail research to develop a comprehensive Situation Analysis



2.1 Background

Camelot Global submitted a detailed report in 2014 following a business review

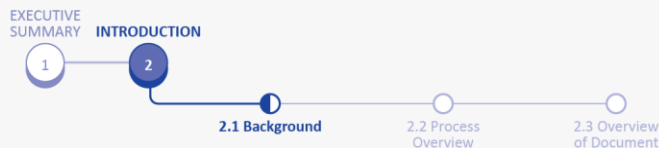
- The team staged a series of consumer workshops to identify key questions and validate more than 50 hypotheses
- Held interviews with the key stakeholders from ASL's Head Office; Retail accompaniments with members of ASL's Retail Team and Retailer interviews
- Both the Detailed Report and Executive Summary were delivered and presented on time
- The report identified opportunities for the Lottery to significantly improve its business and strategic planning processes and organization structure and highlighted significant revenue growth potential. A number of key recommendations have been adopted by the legislature, e.g. abolishing the Commission



2.1 Background

The 2014 Business Review led to an RFQ

- Prior to February 2015, the Arkansas Lottery Commission was responsible for oversight of the Lottery operations
- Act 218 ushered in a new reporting structure. The Office of the Arkansas Lottery (OAL) was established under the Department of Finance and Administration (DFA)
- The Arkansas Lottery Commission was disbanded and was replaced by the Arkansas Lottery Commission Legislative Oversight Committee (LOC)
- The OAL is overseen by the 12-member Arkansas Lottery Commission Legislative Oversight Committee (LOC)
- In June 2015, the OAL issued an RFQ for “Business Plan and Consulting Services,” with the purpose of:
 - A. Provide recommendations and actionable plans for use by the OAL to: Increase the revenue generated for the Arkansas Academic Challenge Scholarship Program and Control OAL’s operational costs
 - B. Provide a comprehensive five (5) year business plan/ strategic plan that incorporates the actionable plan created by the selected vendor
 - C. Provide consultant services on an as needed basis throughout the life of the contract
- Camelot Global was awarded the contract following a competitive procurement process



2.2 Approach

Camelot identified five key phases to deliver the project



2.2 Approach - Project delivery

The contract became effective from December 1st 2015

For each delivery phase identified on the previous slide, the Camelot Global team:

- Undertook detailed desk and field research, incorporated a full performance appraisal and channel review. This included a macro assessment. i.e. Political, Economic, Social and Technology trends
- Carried out consumer research, integrating consumer and Future Foundation research findings
- Held meetings in Arkansas with key OAL employees and third party suppliers (vendors and advertising agency)
- Staged Business Plan development workshops with key Camelot and OAL personnel
- Applied strict management and control processes to govern all resources, time, materials and expenses as per the contract



2.2 Approach – Meeting RFQ requirements

The RFQ requirements have each been addressed in the Business Plan. Compliance tables signpost the scope of specified work and references where these are addressed in the document

Scope of Work 3.2 B - “In-Depth Assessment of OAL”	Key areas of coverage
3.2.B.1 – Sales	Appendix A – Situation Analysis and section 6. Sales Operation
3.2.B.2 – Advertising/ Marketing	Appendix A – Situation Analysis, 7. Advertising and Marketing Appendix B – Research
3.2.B.3 – Game Portfolio and Development	Appendix A – Situation Analysis, 5. Game Portfolio and Development Appendix B – Research
3.2.B.4 – Security	Appendix A – Situation Analysis, 8. Security
3.2.B.5 – Finance	Appendix A – Situation Analysis, 9. Finance



2.2 Approach – Meeting RFQ requirements

Scope of Work 3.2 C - “Actionable Plans”	Key areas of coverage
3.2.C.1 – Retailer Recruitment and Execution	• Covered in Section 5. Business Plan, 5.4 Retail
3.2.C.2 –Advertising and Marketing	• Covered in Section 5. Business Plan, 5.3 Marketing
3.2.C.3 – Game Portfolio and Development	• Covered in Section 5. Business Plan, 5.2 Games (Instants and Draw)
3.2.C.4 – Incorporating the Use of Debit Cards	• Covered in Section 5. Business Plan, 5.5 Player Relationships
3.2.C.5 – Increasing Revenue	• Covered in Section 6. Financial Plan
3.2.C.6 – Improving Cost Control	• Covered in Section 5. Business Plan, 5.5 Facilitators – cost control
3.2.C.7 – Increasing Contribution to Scholarships	• Covered in Section 6. Financial Plan
3.2.C.8 – OAL Staffing Needs	• Covered in Section 5. Business Plan, 5.6 Facilitators – organization
3.2.C.9 – Structure of OAL Contracts	• Covered in Section 5. Business Plan, 5.6 Facilitators – Vendors



2.2 Approach – Meeting RFQ requirements

Scope of Work 3.2 E - “Minimum 5 year business plan content”	Key areas of coverage
3.2.E.1 – A description of specific business strategic opportunities, paths or actions for OAL, including any relevant timelines	<ul style="list-style-type: none"> Covered in Section 5. Business Plan
3.2.E.2 – Identification of estimated, relational, revenue opportunities under each opportunity, path, or action, for a five-year period	<ul style="list-style-type: none"> Covered in Section 6. Financial Plan
3.2.E.3 – Estimated administrative costs to implement each path	<ul style="list-style-type: none"> Covered in Section 6. Financial Plan
3.2.E.4 – A discussion of which aspects of each opportunity, path, or actionable items are best suited for OAL operation and recommendations regarding use of any outside vendors	<ul style="list-style-type: none"> Covered in Section 5. Business Plan and section 6. Financial Plan
3.2.C.5 – Identification and discussion of the competition that will be encountered depending on opportunities, paths, or actions selected by OAL	<ul style="list-style-type: none"> Covered in Appendix A, Situation Analysis (PEST, SWOT and Competition) Appendix B, Research

2.3 Overview of document

This document consists of four main sections:

3.0 Situation Analysis

Summarizes the findings from the detailed analysis contained in Appendix A. This extensive piece of work forms the basis of the Business Plan

4.0 Mission, Vision, Key Strategies

This section contains a simplified Mission and Vision, taking the essence from the OAL's Comprehensive Business Plan. The key strategies set the direction and overall ambition for the Lottery

5.0 Business Plan

The Business Plan contains the actionable near-term recommendations for the each of the key strategies, linking back to the situation analysis, and longer term considerations

6.0 Financial Plan

The Financial Plan provides full P&L details of the five-year plan, with two scenarios:

- A counterfactual “base case” scenario
- A scenario containing the recommendations from the business plan



3. SITUATION ANALYSIS

3.1 Situation Analysis Summary

3.2 Current Trading

3.3 PEST Summary

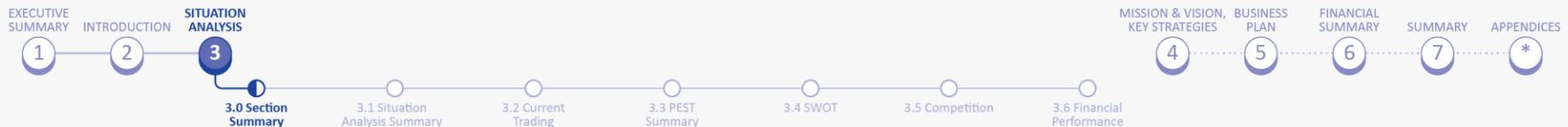
3.4 SWOT

3.5 Competition

3.6 Financial Performance

3. Section Summary – Situation Analysis

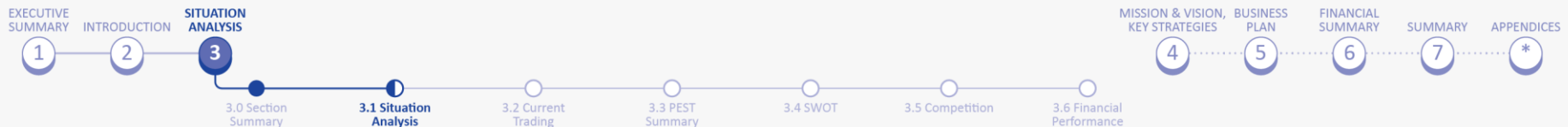
- As part of the response to the RFQ, a detailed Situation Analysis was undertaken to assess the Lottery from a variety of perspectives, including macro environment, trading performance (e.g. sales by game, brand, price-point, proceeds to Scholarships), key vendors, retail, marketing as well as consumer research (both qualitative and quantitative)
- The Situation Analysis was carried out between December 2015 and February 2016
- The output from the analysis provides the basis for the Business Plan itself, with insights and implications leading to actionable recommendations
- The slides that follow are a synopsis of the Situation Analysis; the detailed report can be found in Appendix A



3.1 Situation Analysis - Executive Summary (1/10)

Overall

- Arkansas Scholarship Lottery (ASL) has benefitted from more positive news over the past twelve months compared to previous years
- There has been credible coverage of Scholarships, which appears to be shifting public opinion. The media has been less critical, too
- This coincides with new reporting lines to the state Department of Finance and Administration, improving lottery sales, as well as the ASL University Partnership program that launched in the Fall 2014
- The MAT to FY15 was on a downward trajectory for Instant and Draw Games. However, Powerball (PB) record jackpots and growth from Instant games shift the MAT curve upward in FY16
- This is good news for Scholarship funding, which will increase transfers to Scholarships to approx. \$85m in FY16 (+\$12m vs FY15)
- FY17 budget numbers will be harder to achieve assuming all things remain equal. The Lottery cannot rely on exceptional rolling jackpots to hit targets, which is why the five-year Business Plan and execution is especially important



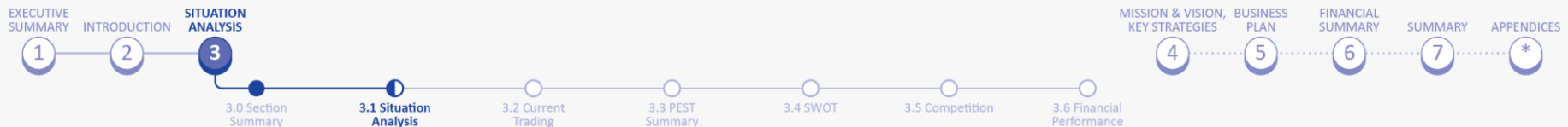
3.1 Situation Analysis - Executive Summary (2/10)

Macro

- The Arkansas population is small but the state is diverse in terms of wealth, ethnicity, religion and geographical concentration
- Consumer behavior is changing rapidly. It impacts the way people shop, transact, consume media and socially interact. ASL must adapt to meet the needs of the 21st century consumer
- ASL operates in an increasingly competitive gaming environment, which places pressure on consumer discretionary expenditure
- Political support for ASL, in combination with an improving economy, is essential to provide key platform opportunities for growth

Instants

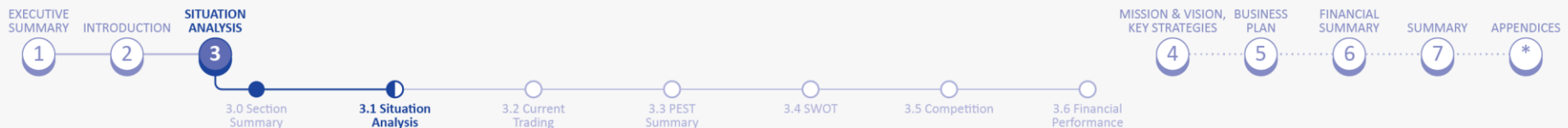
- Sales moved into growth during FY15 following two years of decline. Growth has continued in FY16, driven by higher price-point (\$5+) games - which dominate the sales mix and additional footfall generated by the recent PB run
- The business demonstrates credible Instant product expertise and consumer understanding. The suite of games offer variety. Designs show positive attributes



3.1 Situation Analysis - Executive Summary (3/10)

Instants

- Optimizing prize structures is particularly important for Arkansas. Win frequency is an essential ingredient for retaining existing players and encouraging category reappraisal
- There are too many games in market for retailers to manage which means display is inconsistent and retailers don't always have the fastest selling games on-sale. Range confusion is a big barrier to play. The number of games available to choose is overwhelming for consumers
- Retailers typically stock the same range of price-points regardless of how much / how quickly they are selling each game
- There is misalignment between sales throughput and dispenser bins, which inhibits sales
- There is a disproportionate distribution of Instant vending sales; approx. 50% of vending machines generated 9.9% of total vending sales in FY15. This can be attributed to not being positioned in the areas where footfall is highest; Vending machines stocking out over the weekend and busy periods; Some locations have not allowed the Lottery to set-up their communications to the recommended standard. This means the machines are sometimes out of service and require rebooting; The requirement to scan a drivers license is a barrier to play

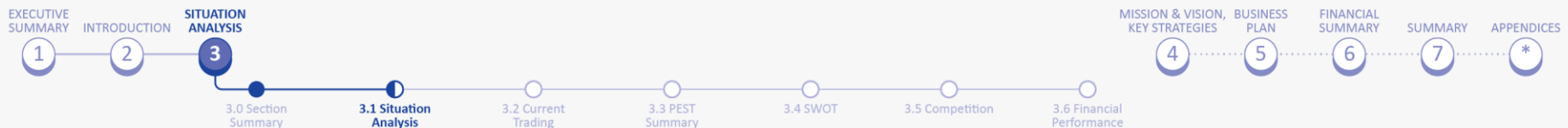


3.1 Situation Analysis - Executive Summary (4/10)

Draw Games

- Consumers find the Draw Games portfolio complicated. They are unclear on the range, how to play, or the benefits of playing
- The MAT has been in decline for the past two years (to FY15) as a result of declining Multi-State jackpot games, which had a low number of rollovers / large jackpots in this period. Powerball* changes this in FY16
- Media reporting of super sized jackpots (such as Powerball) begins when a new jackpot record is about to be broken. Rising national news coverage fuels excitement and triggers a sharp growth in jackpot size and participation
- The percentage of Power Play and Megaplier sales In-State, as a proportion of total game sales, is high, albeit from a low base of players. This indicates there may be an opportunity to grow main game sales further
- There has been approx. 40% growth of In-State games between FY13-FY15. This has largely been driven by Progressive Fast Play Jackpot and Natural State Jackpot (NSJ) games

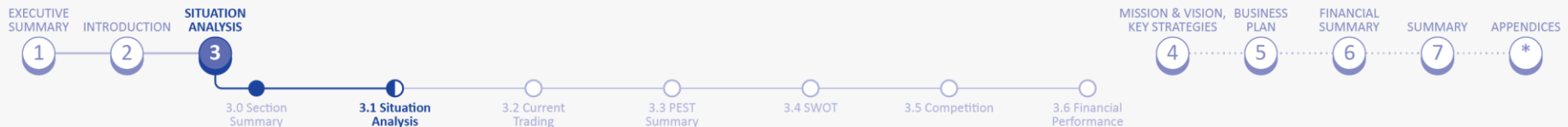
* **Please note:** Powerball matrix change in Oct 15 to pick 5/69 and pick 1/26. Jackpot Odds are longer, now 1:292,201,338



3.1 Situation Analysis - Executive Summary (5/10)

Draw Games (continued)

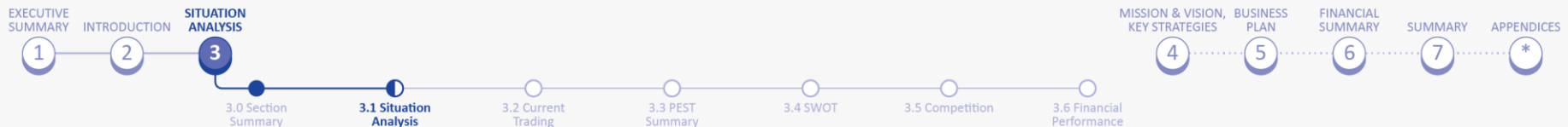
- The NSJ game offers jackpots which start at \$25k, which is lower than Powerball (PB) or Mega Millions (MM). At these lower level jackpots, Fast Play and Instant games present better chances to win exciting comparable jackpot prizes
- More broadly, the majority of Draw Game players do not use regular numbers. Lack of number loyalty is also contributing to declining play frequency over time; it is easier to skip draws when you are not engaged with the numbers
- Cash 3 and Cash 4 games originate from the East coast of the US; number games show more significant sales in these areas as a result of the heritage. Arkansas Cash 3 and Cash 4 game sales are modest by comparison, but show steady YoY sales growth
- Lucky for Life has low consumer awareness, albeit a potentially compelling proposition. It lacks new news to excite the consumer



3.1 Situation Analysis - Executive Summary (6/10)

Retail

- The retail estate is imbalanced in terms of sector composition. For example, the Lottery is heavily reliant on C-Store and Gas retailers, which together comprises approximately 75% of the estate
- A uniform approach is applied to all retailers
- ASL does not currently have a consistent retailer-recognized set of standards, which rewards retailers who adopt best practices
- The number of lottery stores in Arkansas is below the US average on a per capita basis. There are counties / areas across Arkansas where terminal demand appears under-served on a population to terminals basis, e.g. Saline, Hot Springs and Craighead
- There are independent stores and chain retailers who currently either do not sell lottery, or do not have terminals in all their stores
- New initiatives, such as pay at the pump (in some gas stations) along with the trend for using cashless payments, is changing the retail landscape



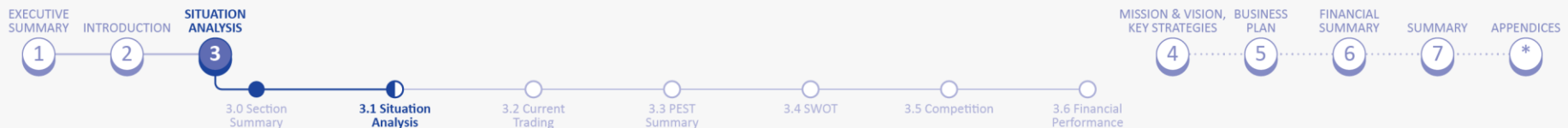
3.1 Situation Analysis - Executive Summary (7/10)

Retail (continued)

- Tel-Sell representatives have established excellent relationships with their retailers, as do Marketing Sales Representatives (MSRs) who demonstrate professionalism, thoroughness and a passion in what they do. Like the Tel-sell team, they have a strong rapport with their retailers, especially individual (independent) stores who are often lottery advocates
- In some cases retailers, especially in chains, have become over-reliant on MSRs
- Large chain stores expect a dedicated contact / Account Manager from their suppliers but OAL is currently unable to fulfill this role because of resource / budget restrictions

Marketing

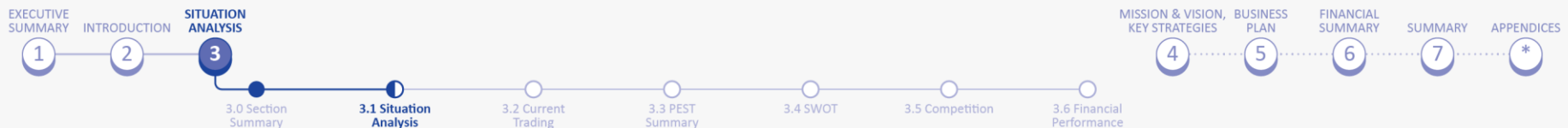
- There has been a significant step-change and improvement in Marketing since 2015
- The beneficiary campaign creates a compelling link to Scholarships. Strong communication forges tangible connections to the lottery and gives it a powerful reason for being. However, the effectiveness is unknown with respect to sales and positivity (by initiative), as these are not tracked



3.1 Situation Analysis - Executive Summary (8/10)

Marketing (continued)

- TV commercials are engaging but execution lacks sales conversion / call to action. The effectiveness of the advertising in stimulating consumer behavioral change is unknown
- Out-of-home advertising (OOH) and website jackpot messaging is current but functional
- Promotional bundles provide value to core lottery players but is confusing for less frequent or non players. Anecdotal feedback suggests retailers have embraced the Jackpot game bundle and have used the promotion to upsell to players
- The look and feel of Lottery Point of Sale (POS) varies in retail. Lots of information which undermines comprehension and reduces impulse purchasing
- \$5m marketing budget is limiting. There is no econometric model in place
- There are five Designated Market Areas (DMAs) in Arkansas. Three are completely within state
- The advertising and media agency – Mangan Holcomb Partners (MHP) – introduced an innovative competitive bidding initiative, which has added value to the Lottery with a key media partnership
- There is no clearly defined brand architecture that differentiates game propositions



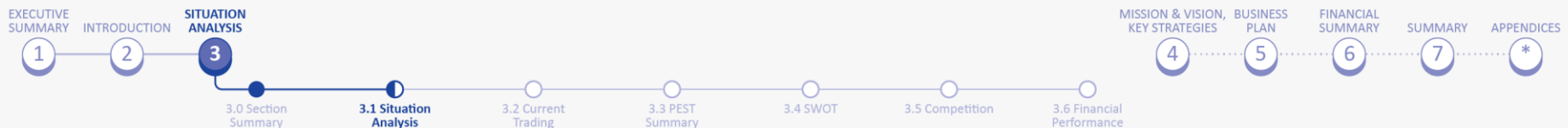
3.1 Situation Analysis - Executive Summary (9/10)

Public Relations

- The corporate media landscape is dominated by monthly sales figures and information gained from the monthly Lottery Oversight Committee meeting. This coverage is generally balanced but lacks proactive input
- Winner's stories are picked up but lack the feel good element
- Big Multi-State Jackpot games capture media attention but their dominance overshadows other Draw Games, which lack media visibility
- The profile of Arkansas Academic Challenge Scholarships is well referenced in the media but the Lottery would benefit further from stronger linkage
- There is a strong program, which highlights Scholarship clips on news/TV channels/social media/billboards and also at state university football games

The Club

- The Club provides a number of rewards for consumers who enter non-winning Instant or Draw Games
- ASL has positively evolved the Club offer. While players in the Club see its value, it's the heavier spending players that are currently benefiting most. The challenge is to widen overall participation by attracting new members and reactivating / engaging those who have lapsed. This is the only loyalty scheme offered



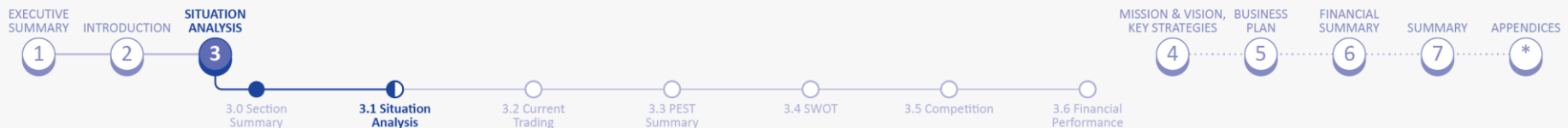
3.1 Situation Analysis - Executive Summary (10/10)

Security

- Overall security meets industry good practice and good levels across physical, information and integrity areas
- Physical security controls appear to be robust and well established. Analysis of retailer behavior is evident, indicating a pro-active approach to retailer fraud
- Compliance with MUSL standards provides a level of assurance that security controls and procedures are significant and well managed

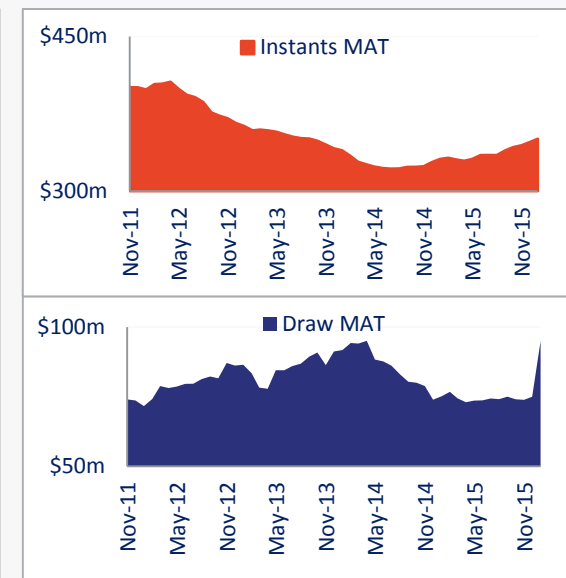
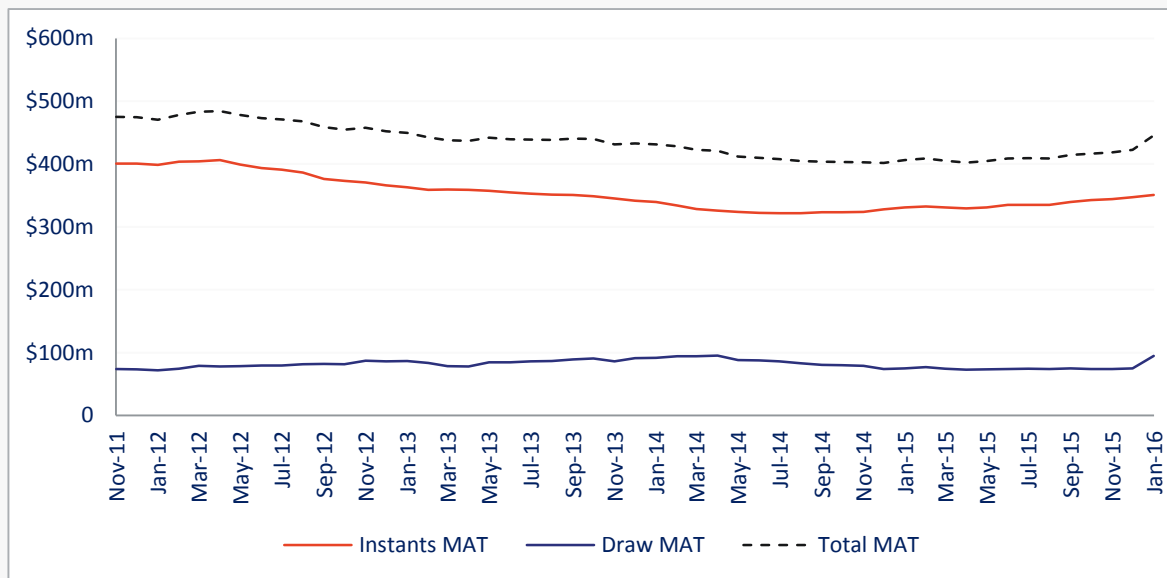
Finance

- The Lottery incurred operating costs (not including prizes) of approximately \$56m in FY15
- A significant portion of the cost base (approx. 78%) is covered by Retailer Commissions (41%) and Vendor fees (37%), where the Lottery has limited scope to reduce cost. Contract renewals represent key opportunities to refresh requirements and maximize proceeds for Scholarships
- Headcount reduced by 20% in FY15 and while Lottery has resource to fulfil day-to-day operations it has very limited capacity to implement new projects or strategic plans
- The Lottery has a professional, dedicated senior management team but limited resource in functional areas. Particular areas where resource and capability are missing include: Consumer Insight, PR and Commercial Finance
- Intralot and SGI manage a significant portion of the lottery value chain. As key suppliers, the OAL needs to drive maximum value from its partners, leveraging their knowledge and expertise while delivering on the OAL's Mission; over time the OAL should retain knowledge and capability in-house



3.2 Current Trading – Sales MAT

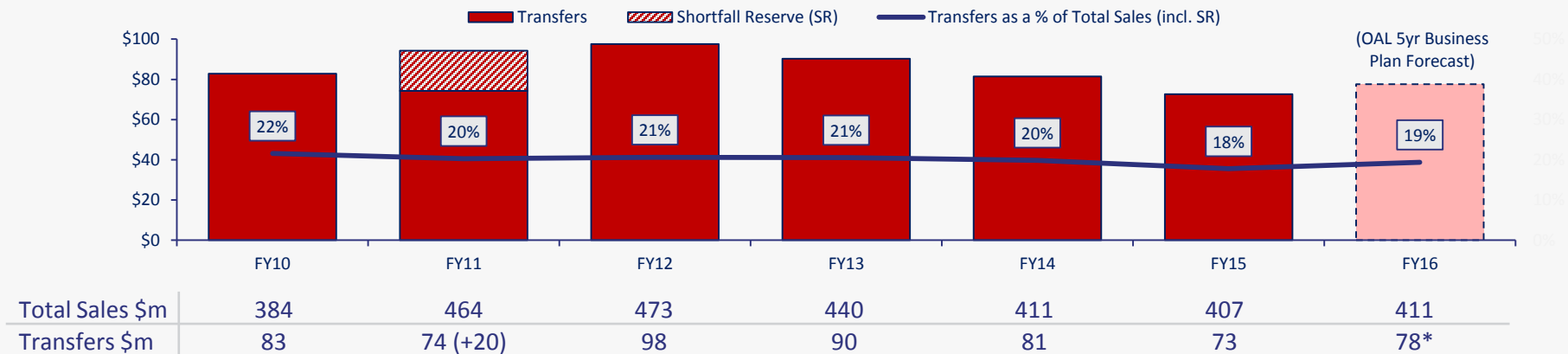
Sales (on a 12-month rolling basis, or Moving Annual Total, “MAT”) to FY15 were on a downward trajectory for Instants and Draw Games. MAT sales will curve upward in FY16 following the record Powerball roll series and continued growth from Instant products



Source: myarkansaslottery.com

3.2 Current Trading – Proceeds to Scholarships

FY16 has been enhanced by exceptional rolling jackpots, leaving a challenge in FY17



OAL net proceeds provide scholarships and grants to Arkansas citizens for in-state colleges and universities

A transfer of \$94.2 million was made to the Arkansas Department of Education (ADHE) in 2011. However, the net transfer came to \$74.2m following a \$20 million transfer from ADHE into the Scholarship Shortfall Reserve Trust

By statute, the Shortfall Reserve is set aside to provide scholarships in case of a lack of sufficient OAL net proceeds

* Based on the OAL Business Plan sales forecast of \$411m, OAL estimates approx. \$78m of proceeds to Scholarships. Latest forecast (March 2016) indicates sales of \$450m and proceeds to Scholarships of approx. \$85m

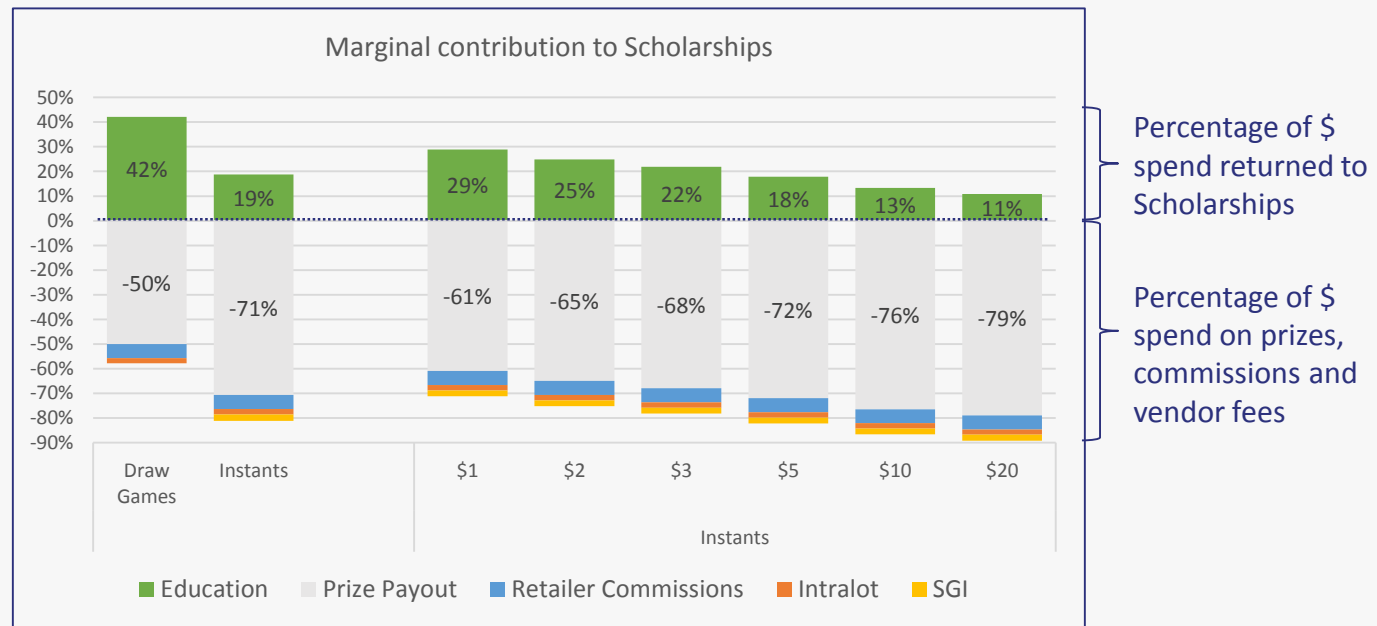
Source: CAFRs and OAL Business Plan 2016-2020 - Arkansas Scholarship Lottery

3.2 Current Trading – Financial Performance

The portfolio mix is important to deliver sustainable proceeds to Scholarships

The importance of a balanced portfolio is illustrated in the chart which looks at: The contribution from Draw Games and from Instants. The right hand side of the chart looks at proceeds from Instants, by price point

- Games with higher prize payout return less to Scholarships (as a percentage of sales)
- A strategy which seeks to grow proceeds needs to deliver balanced growth across the entire range –Draw Games and at all Instant price points



3.3 PEST Summary (1/2)

Political support of the Lottery, in combination with an improving economy, will provide a key platform for OAL to grow game participation and increase Scholarship funding

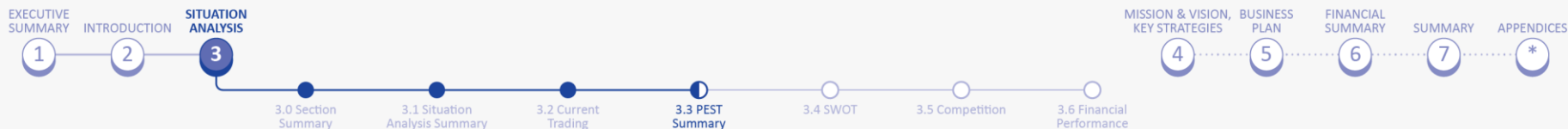
Political

- Federal government more active in reviewing gaming legislation
- Conservative state, part of the “Bible-belt” therefore attitudes to gaming are polarized
- Sensitivity on lottery play amongst lower income groups
- Race tracks established heritage; politically influential

Economic

- US economy improving. More available discretionary spend. OAL to benefit from more favorable economic environment
- Administration projecting \$172m (+2.7%) growth in total general-revenue tax collections in FY16, to \$6.58 billion in FY17. Forecast suggests faith in state’s economic strength / future outlook
- AR is a poor state with high levels of regional inequality
- Scholarship / education funding is important in a state that has suffered from low educational attainment

Source: See Appendix A - Situation Analysis and Appendix B - Supplementary



3.3 PEST Summary (2/2)

The rise of e-commerce and “connected societies” means consumers expect more from the organizations and brands they interact with. The Lottery must prepare to adapt in order to meet consumer expectations

Social

- Media, social media platforms changing the way consumers interact and view content. This is driven by “millennials” - an important demographic for future lottery play
- Gaming competition (illegal sports betting; Fantasy Sports; and neighboring casinos) places pressure on available discretionary spend. Likely tribal casino (near LR airport)
- Racinos increasing number of gaming machines; strong suite of table games. Gaming available via mobile phones
- Faith is a significant motivator. Considerable regional variation in ethnicity and economic prosperity. Educational attainment is low
- Sport is an important area of common ground (the Razorbacks)

Technological

- E-Commerce and mobile usage is significant in the US and growing. Consumers expect a seamless experience across digital and retail
- US cashless payments growing
- OAL has some digital engagement
- Arkansas has low broadband penetration but smartphone penetration is higher than US average
- 4G access is also universal (99%) due to investment by Verizon
- Cyber-security is a concern for lotteries (and players)

Source: See Appendix A - Situation Analysis and Appendix B - Supplementary Information

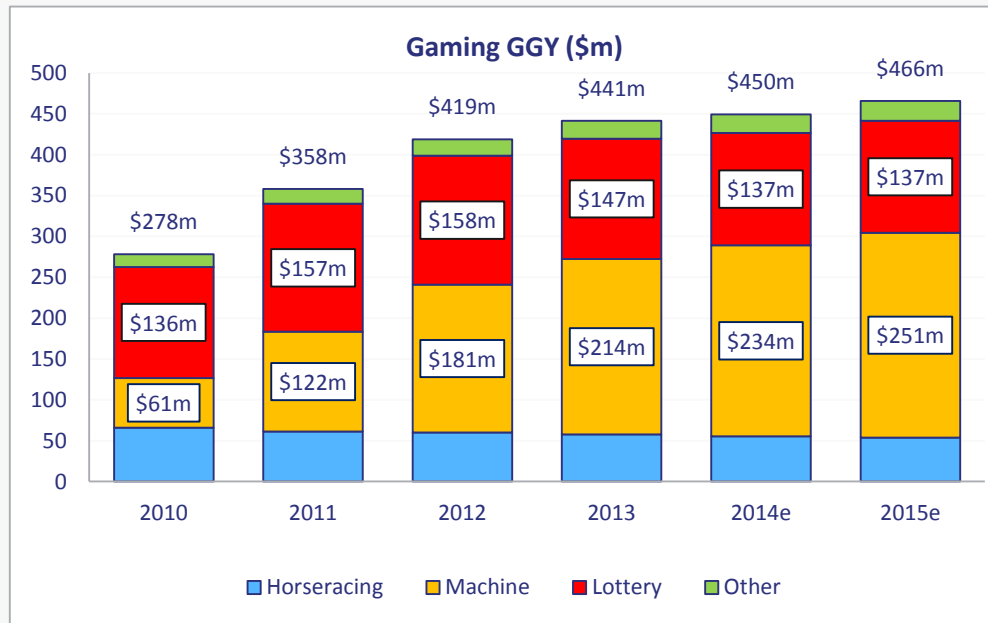


3.4 SWOT

Strengths	Weaknesses
<ul style="list-style-type: none"> • Strong recognition of Scholarships with consumers • Dedicated, knowledgeable staff and work ethic • Collaborative departmental integration. e.g. Sales, Gaming, Product, Marketing and Retail (particularly) • Tel-Sell and MSRs have strong relationship with retailers • Lottery's 2009 launch means it is more relevant to Millennial generation than other US lotteries 	<ul style="list-style-type: none"> • Brand lacks universal appeal • Unclear brand architecture • Support of the Lottery undermined by its turbulent launch / history • Low win belief • Under-resourced in key areas • Heavy workload and high reliance on key suppliers • Heavy skew towards Instant games and low Draw Game per capita sales • Low player participation and play frequency
Opportunities	Threats
<ul style="list-style-type: none"> • Leveraging player relationships • Becoming strategically focused, "consumer first" organization • Game dev. program to clearly define market propositions • Improved in-store execution • Increasing Player Club participation • Proactive PR program • Evolving the Lottery's digital journey, e.g. cashless payment 	<ul style="list-style-type: none"> • Increasing competition from racinos and possible casino in Little Rock • Illegal sports betting and the rise of Fantasy Sports • Political and media opposition to OAL • Falling levels of player engagement with the Lottery • Lottery not being able to adapt to changing consumer behaviors

3.5 Competition

Gaming competition is growing and competes for disposable income. Consumer spending on gaming has increased over the last 5 years and this has been driven by increased spending on Machines



- Over the 5 years to 2015, lottery GGY has remained broadly flat, while spending on machines has more than quadrupled
- Arkansan gamblers had previously made trips across state to Mississippi casinos until severe flooding closed Tunica resorts and casinos in 2011. This diverted gamblers to in-state AR racinos and contributed to the spike in machine GGY
- Oaklawn launched Phase 1 of its \$20m expansion program, which increases capacity by 50%. Given this, we expect the number of recorded machines to grow significantly in 2016

Source: GBGC 2015. **Please Note:** An Indian tribe, native to AR (Quapaws) purchased 160 acres of land in Pulaski County. Likely tribal casino to open in future years

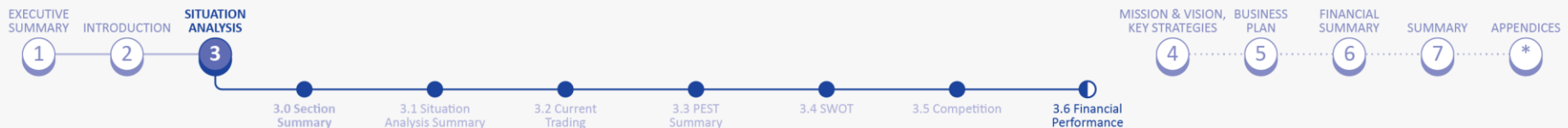
3.6 Financial Performance

The OAL has sought to protect proceeds to Scholarships in the face of declining sales (and weakening gross margin) through operating cost savings, notably in personnel costs and vendor fee reductions

Summary P&L Figures in \$m	Act FY11	Act FY12	Act FY13	Act FY14	Act FY15	FY15 vs. FY11
Sales	465.1	473.6	440.1	410.6	409.2	(55.8)
Prizes	(307.5)	(315.3)	(292.1)	(275.0)	(280.5)	27.0
Gross Margin	157.6	158.3	148.0	135.7	128.8	(28.9)
% Sales	33.9%	33.4%	33.6%	33.0%	31.5%	-2.4%
Retailer Commissions	(26.2)	(26.5)	(25.0)	(23.0)	(23.3)	3.0
Vendor Fees	(24.1)	(24.3)	(22.1)	(20.5)	(20.6)	3.5
Marketing	(4.6)	(4.5)	(4.4)	(4.5)	(5.0)	(0.4)
Personnel costs	(6.2)	(6.0)	(6.0)	(6.0)	(5.4)	0.8
Other Op. costs	(2.6)	(0.2)	(2.0)	(1.8)	(1.9)	0.7
Operating Costs	(63.8)	(61.5)	(59.6)	(55.8)	(56.2)	7.6
% Sales	-13.7%	-13.0%	-13.5%	-13.6%	-13.7%	0.0%
Income before transfers	93.8	96.9	88.4	79.9	72.6	(21.2)
% Sales	20%	20%	20%	19%	18%	-2.4%

- Lower sales and an increase in the mix of higher payout games (Instants, Fast Play), have led to a reduction in Gross Margin, both in absolute and percentage terms
- Retailer commissions are lower due to drop in sales
- Lower vendor fees, mostly due to sales, but also lower rates (5.2% in FY11, 5.0% in FY15)
- Headcount reductions have resulted in lower personnel costs
- Proceeds for Scholarships (Income before transfers) have fallen approx. 20% since FY11

Source: Lottery annual reports





4. MISSION, VISION AND KEY STRATEGIES

4.1 Approach

4.2 Mission and Vision

4.3 Key Strategies

4.1 Approach

The Business Plan requires succinct mission and vision statements. i.e. overarching strategy which guides decision making

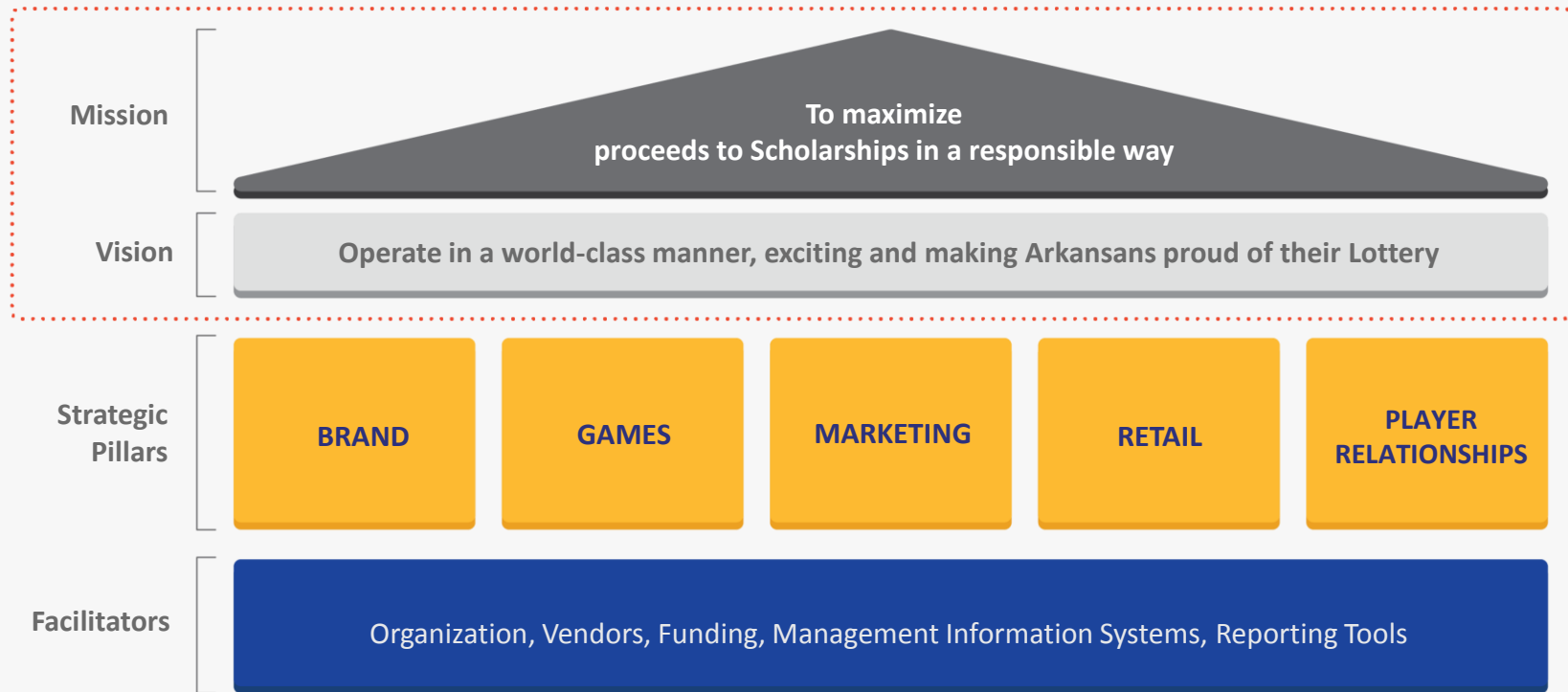
- Camelot considered the mission and vision statements contained in OAL's Five Year Comprehensive Business Plan* and has proposed simplified statements for all stakeholders and staff:
 - A mission statement should guide the actions of the organization, spell out its overall goal, provide a path and guide decision-making
 - A vision statement should provide strategic direction and describes what the company wants to achieve in the future
- All businesses have moving parts and only become high-performing and strategically focused organizations when these parts are all operating in harmony
- The Five Strategic Pillars support the suggested mission and vision. They encompass: Brand, Games, Marketing, Retail and Player Relationships. More detailed recommendations / initiatives, key next steps, financial forecasting and timings follow the Strategic Pillars
- Insight and implications provide compelling rationale for the initiatives
- The business Facilitators identified will deliver the essential foundations that OAL must have in place to deliver the Business Plan

* **Note:** Mission and Vision extracts from OAL Business Plan contained in Appendix C



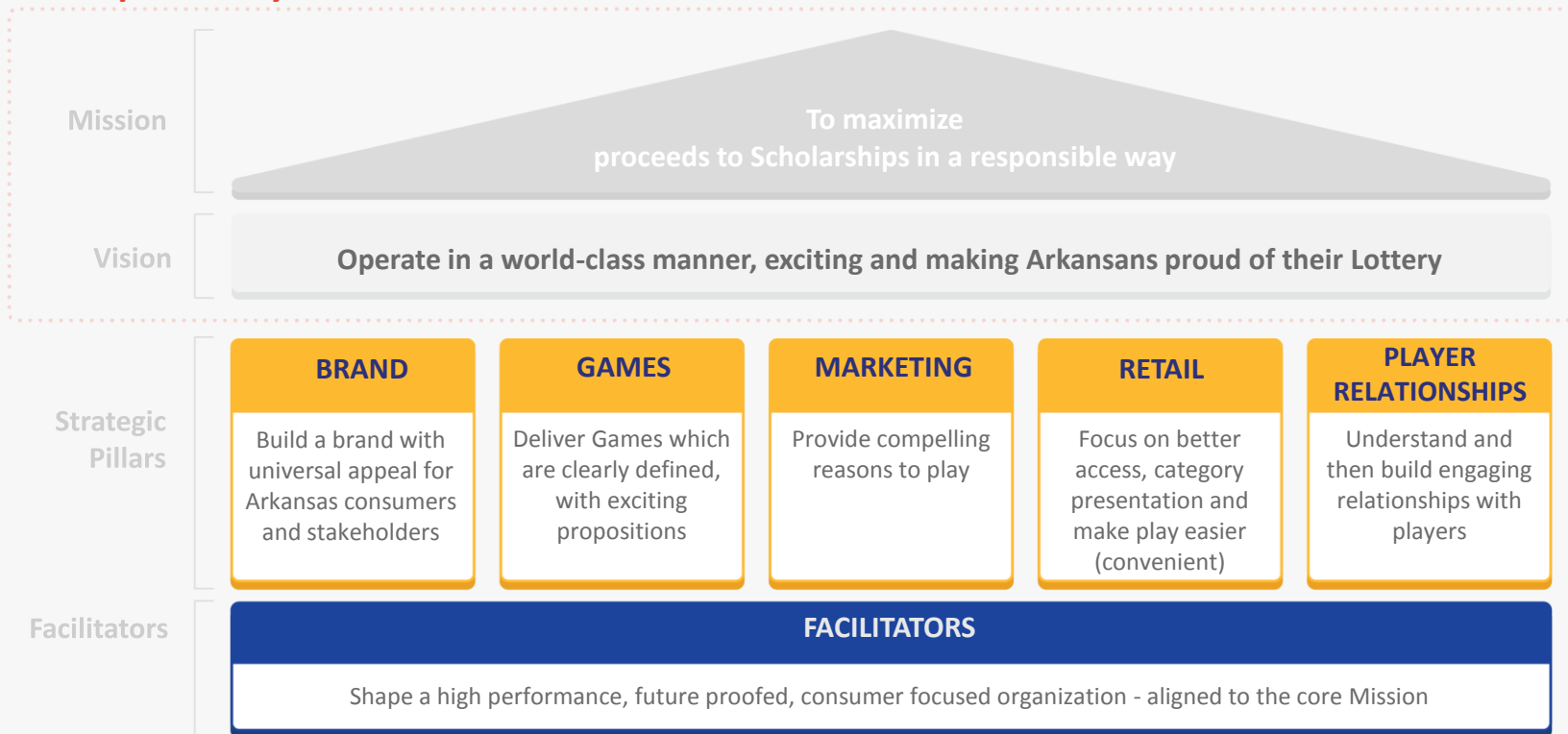
4.2 Mission and Vision

The Mission and Vision guide the principles of the Lottery, with the five strategic pillars supported by a set of Facilitators



4.3 Key Strategies

The purpose of the Business Plan is to deliver responsible, sustainable growth in proceeds for Scholarships. To achieve this, five key Strategic Pillars have been identified which are underpinned by Facilitators



4.3 Key Strategies (unpacked)

1) BRAND

Build a brand with universal appeal for all consumers and stakeholders

- Increase player participation via brand reappraisal (with associated KPIs)
- Strengthen brand link to Scholarships to reinforce reasons to play and maximize current exposure
- Win belief – introduce a consistent winner awareness program to increase win belief and give less frequent players more reasons to play
- Introduce stakeholder management program to widen brand appeal to Arkansans
- These strategies will be delivered via the following 3 activities – parent brand program (the ASL brand/imagery), brand promotion (promotion of reason for being) and brand value (instilling win belief)

2) GAMES

Deliver Games which are clearly defined, with exciting propositions

- Deploy family of core Instant games to deliver sustained sales
- Instants: prize maximization program, game development program to ensure fastest selling games available and product design (Inc. range review to address confusion)
- Rationalize dispenser allocation
- Range - aspiration for more distinct, bigger, better games (Instants and Draw Games)
- Optimize and then extend core Draw Games, then focus on new product innovation
- Develop brand architecture to clearly define game propositions

3) MARKETING

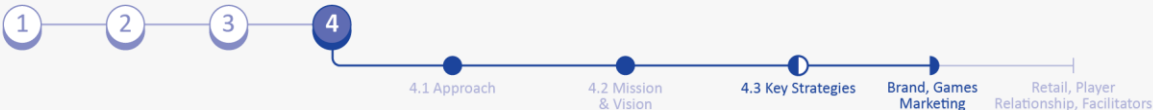
Provide compelling reasons to play

- Maximize consumer awareness, comprehension and appeal
- Ensure marketing plans are integrated through the line and consistent across all player touch-points
- Optimize budget, media mix and creative effectiveness establishing consumer goods best practice
- Support brand and channel requirements to broaden participation and increase frequency of play (and repertoire) of less committed players

Facilitators

(See the following page)

EXECUTIVE SUMMARY INTRODUCTION SITUATION ANALYSIS MISSION & VISION, KEY STRATEGIES



BUSINESS PLAN FINANCIAL SUMMARY SUMMARY APPENDICES



4.3 Key Strategies (unpacked)

4) RETAIL

Focus on better access, category presentation and make play easier (convenient)

- Introduce a new retail strategy, planning and execution principles to channel
- Strategy: Supporting marketing plan, develop value of lottery story, future-proof channel for consumer/retail changes and introduce key account function
- Planning: Develop sales teams objectives, optimize retailer estate and devise requirements for new and existing in-store POS / Equipment
- Execution: Perfect in-store execution, align retail agent support and standards

5) PLAYER RELATIONSHIPS

Understand and then build engaging relationships with players

- Develop richer business and player understanding via insight
- Utilize insight to drive brand, game and channel decision making
- Evolve CRM program across the organization to shift marketing from one-to-many to one-to-one
- Develop a digital program of activities to strengthen player interactions
- Build-out loyalty and retention program that has universal appeal

Facilitators

Shape a high performance, future-proofed, consumer focused organization... aligned to the core Mission

- Align organization to business plan and invest in resources and consumer goods processes/tools
- Leverage and align “key” vendor contracts to support business plan (in areas of expertise)
- Introduce new management information systems and reporting tools
- Agree business case recommendation, format and sign-off with stakeholders

EXECUTIVE SUMMARY INTRODUCTION SITUATION ANALYSIS **MISSION & VISION, KEY STRATEGIES**



BUSINESS PLAN FINANCIAL SUMMARY SUMMARY APPENDICES





5. BUSINESS PLAN

5.1 Brand

5.2 Games

- A. Instants
- B. Draw Games

5.3 Marketing

5.4 Retail

5.5 Player relationships

5.6 Facilitators

5. Business Plan - Introduction

- This section provides the detailed recommendations that underpin the Business Plan
- The recommendations are based upon the findings from the Situation Analysis and the experience that CG has gleaned from its US, international and consumer goods experience
- The section is split into five strategies and then a program of Facilitators. These are:
 - 5.1 Brand
 - 5.2 Games
 - 5.3 Marketing
 - 5.4 Retail
 - 5.5 Player Relationships
 - 5.6 Facilitators
- The sales benefits and associated costs are listed in the Financial Plan Section 6.0
- Any recommendation or activity that is not currently permissible under legislation is broken out as an addendum (with “3.2 addendum” noted in the title slide for that activity)
- Any addendum activity is not included in the Business Plan’s sales or net revenue forecast



[illegible]

5.1 Brand - Overview of Strategy



BRAND

Build a brand with universal appeal for all consumers and stakeholders

- Increase player participation via brand reappraisal (with associated KPIs)
- Strengthen brand link to Scholarships to reinforce reasons to play and maximize current exposure
- Win belief – introduce a consistent winner awareness program to increase win belief and give less frequent players more reasons to play
- Introduce stakeholder management program to widen brand appeal to Arkansans

These strategies will be delivered via the following 3 activities – parent brand program (the ASL brand/imagery), brand promotion (promotion of reason for being) and brand value (instilling win belief)



5.1 Brand – Summary of Key Recommendations

The ASL brand promise and essence will be delivered by a number of separate, albeit overlapping, strategic initiatives. These provide consumer *reasons to believe*; they work in tandem to support and reinforce each other

Strategies (unpacked)	Key Recommendations
Parent Brand: Increase player participation via brand reappraisal (with associated KPIs)	<ul style="list-style-type: none"> • Agree on consumer KPIs (and metrics) for brand reappraisal and increasing player participation • Launch win belief program (consistent campaign across all ASL marketing activities) • Enhance beneficiary campaign and set-up a three-year program for establishing greater link and comprehension • Brand refresh with new branding (logo/slogan) and refurbishment of point of sale equipment and all ASL consumer facing assets
Brand Promotion: Address Win belief perceptions – introduce a consistent winner awareness program to increase win belief and give less frequent players more reasons to play	<ul style="list-style-type: none"> • Expand current winner awareness marketing efforts to include a strategic PR plan and additional marketing communication outlets - operating both locally and on a state-wide basis • New campaign will focus on proof points such as – odds of winning or number of winners (players can win every second on ASL games) • Retail: lucky stores / winner program in trade
Brand Value: Continue to strengthen brand link to Scholarships to reinforce reasons to play	<ul style="list-style-type: none"> • Strength and further invest in beneficiary campaign to maximize awareness of brand links to Scholarships • Ensure consistent messaging across state-wide and local campaigns, engage press and all stakeholders to understand the impact of ASL on Scholarships/education – introduce proof points to amplify message and ensure campaign is enduring and has the appropriate amount of air time
Execution of brand promotion & value: Introduce stakeholder management program to widen brand appeal to Arkansans	<ul style="list-style-type: none"> • Take a proactive and unabashed PR and GR program that amplifies the brand promotion and brand value strategies • Introduce a value of lottery campaign in retail and increase lottery advocacy across all stakeholders PR, GR and non-players



5.1.1 Brand – Parent Brand Reappraisal Recommendations

Insight	Implication	Recommendation	When
<p>From launch, negative publicity has created a less than positive image around the Lottery in Arkansas</p> <p>Apathy toward the brand has been long-held and reflects back to the launch of the lottery. In the past 12 months some in-roads have been made to overcoming attitudes</p> <p>Positioning of the Lottery and its purpose is descriptive and rational – especially on MyArkansasLottery.com</p>	<p>A negative image is a barrier to entry – brands reflect a consumer's self-image, hindering expansion of the Lottery's player-base and overall brand appeal</p> <p>Player's need to feel positive about the ASL brand or they will not think it is relevant</p> <p>Brands can't and won't develop strong lasting relationships with consumers / stakeholders without both rational (the brand promise) and emotional elements (the brand essence)</p>	<p>PARENT BRAND: (Increase player participation via brand reappraisal)</p> <ul style="list-style-type: none"> Set-up consumer trackers (research) to monitor usage and attitude of brand positivity Set Key Performance Indicators (KPIs) to track progress of programs Agree scope of win belief and beneficiary program Execute a stakeholder management program (see 5.1.4) <u>Brand refresh</u> - Refresh the brand and change look and feel in-store, online and across all touch-points 	<p>Launch Q4 FY16</p> <p>Launch Q3 FY18</p>



5.1.2 Brand – Win Belief Recommendations

Insight	Implication	Recommendation	When
<p>Research highlighted the key reasons why players lapse or non players do not play, is their lack of win belief in the games offered – in terms of chances to win the “big one” i.e. the PB/MMs jackpots, visibility of winners in Arkansas and the overall win rate experience on the games played</p> <p>Low win belief is further undermining brand trust, replacing regular weekly play with behaviors such as jackpot-chasing</p>	<p>Players will continue to lapse and the Lottery will struggle to attract new players without addressing public perceptions of a low-winning experience</p>	<p>WIN BELIEF: Brand Promotion - <i>Winners program</i></p> <ul style="list-style-type: none"> Expand current winner awareness marketing efforts to include a strategic PR plan and additional marketing communication outlets New campaign will focus on proof points such as – odds of winning or number of winners (players can win every two seconds on ASL games) and will be reflected on a local and state wide basis Adopt a retail and digital program. Retail program will focus on lucky store and in-store winners 	<p>Launch Q1 FY17</p>



5.1.3 Brand – Beneficiary Program Recommendations

Insight	Implication	Recommendation	When
The current beneficiary campaign creates a compelling link to Scholarships but can be leveraged even further through emotive touch-points state wide	A potent single minded message will forge tangible connections back to the Lottery and gives it a powerful reason for being	BENEFICIARY PROGRAM (enhanced): <ul style="list-style-type: none"> Plan a 3-year program with MHP on the Scholarships /beneficiary program delivering more frequent campaign refreshes and more depth for interested players to access (database) Ensure consistent messaging across state-wide and local campaigns, engage press and all stakeholders to understand the impact of ASL on Scholarships/education – introduce proof points to amplify message and ensure campaign is enduring and has the appropriate amount of air time Communicate a broader pool of “human-story” testimonials using real students, their pictures and names, their back stories, their county location origins and colleges to engage and reinforce the good of the lottery on a tangible level, locally throughout the state 	Launch Q1 FY17



5.1.4 Brand – Stakeholder Management Program Recommendations

Insight	Implication	Recommendation	When
Despite the singularly strong and noble purpose of the Lottery – to raise funds for Scholarships for Arkansans – the Lottery is not universally supported in state	The Lottery will continue to have negative media coverage and be an easy target for “haters” if this is not addressed directly.	STAKEHOLDER MANAGEMENT EXECUTION: <ul style="list-style-type: none"> Proactive PR and GR program that sets an unabashed tone and approach as to the good purpose of the Lottery, one that unequivocally leaves no credible leeway for any person to be negative about the powerful purpose of the lottery – the future of the state – its youth 	Launch Q1 FY17
Students who have benefited from Scholarships are now in the workplace benefiting the state through their taxes and services directly relating to their education	Students (and their parents) who have and who are benefiting from the Scholarship program are likely to be the biggest advocates of the Lottery	<ul style="list-style-type: none"> STAKEHOLDER MANAGEMENT EXECUTION: Broaden “Lottery Advocate” program which actively involves the students who have benefited from a Scholarship, engaging them with opinion-formers face to face, to turn them into vocal advocates for the Lottery 	



5.1 Brand – Recommendations and Proposed Timeline

The key brand activities are planned (as below). Three programs of activity for beneficiary campaign, winners campaign and stakeholder management – and a brand refresh in FY18



5.1 BRAND	FY16	FY17				FY18				FY19		FY20		FY21	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2	H1	H2	H1	H2
Beneficiary Program (enhance)															
Winners Program (define and execute)															
Stakeholder Management & Advocate Program															
Brand Refresh															



5.2 Games - Overview of Strategy



GAMES

Deliver Games which are clearly defined, with exciting propositions

- Optimize family of core Instant Games to deliver sustained sales
- Instants: prize maximization program, game development program to ensure fastest selling games available and product design (Inc. range review to address confusion)
- Rationalize dispenser allocation
- Range - aspiration for more distinct, bigger, better games (Instants and Draw Games)
- Optimize and then extend core Draw Games, then focus on new product innovation
- Develop brand architecture to clearly define game propositions



5.2.A.1 Instant Games – Summary of Key Recommendations

The Instants plan focuses on three core areas: Game Design, Range Management and Retail Execution. The long term aspiration is to move to “fewer, bigger, better games”

Strategies (unpacked)	Key Recommendations Summary
GAME DESIGN: Consistently launch high quality games with proven consumer appeal that offer great win experiences	<ul style="list-style-type: none"> Introduce a pre-launch game development program and recruit an Assistant Product Manager to ensure that all games are high quality and deliver the fastest rates of sale Conduct an in-depth product design review and incorporate recommendations into a formal Instant Games design principles document. This will be used as a basis for creating future designs Conduct a prize maximization program to ensure that payout is used in most effective way possible
RANGE MANAGEMENT: Offer a fully differentiated product range that’s aligned to consumer demand	<ul style="list-style-type: none"> Extend the core game strategy to deliver sustained sales Establish range / category principles. Move to a, “1 in 1 out”, approach to range management, supported by planograms Tailor product ranges to better meet sales demand
RETAIL EXECUTION: Ensure that dispenser bins and pack sizes are aligned to demand	<ul style="list-style-type: none"> Rationalize dispenser allocation and identify which retailers are likely to benefit from an increase in dispenser facings and install new dispensers accordingly Conduct the dispenser refresh in combination with a pack size review for each price-point



5.2.A.1 Instant Games – Game Design Recommendations

Insight	Implications	Recommendations	When
<ul style="list-style-type: none"> Current game development delivers some good quality games into the plan but research capability is limited due to the lack of available funding and absence of dedicated insight resource 	<ul style="list-style-type: none"> Sales performance for individual games is inconsistent, with big sales index variations between the strongest and weakest performing products 	GAME DESIGN: Introduce a pre-launch game development program and recruit an Assistant Product Manager <ul style="list-style-type: none"> To make certain that all games are high quality Take advantage of some “quick win” game launches for an immediate impact on sales 	Launch Q1 FY17
<ul style="list-style-type: none"> The large display of Instant Games is overwhelming for consumers Designs are visually similar Price of ticket is recessive Consumers don’t have the time to properly browse the dispenser 	<ul style="list-style-type: none"> Some players choose not to purchase Instant tickets because the range is confusing Consumers struggle to identify the ticket price, which is problematic because their purchases are governed by the money they have in their pocket Current players are less likely to play (or try new games) if they cannot quickly select a product in a time-pressured environment It is difficult to grow playership by attracting non-players as they are not prepared to invest time browsing the dispenser unit 	GAME DESIGN: Conduct an in-depth product design review initiative <ul style="list-style-type: none"> Recommendations to be imported into an Instant Games Design Principles document. This will become the blue-print for all future Instant design creation Design recommendations will address range confusion (e.g. size/position of pricing, clarity of top prize, hierarchy of messaging, etc.) in combination with the range management program also prescribed 	Launch Q1 FY17



5.2.A.1 Instant Games – Game Design Recommendations

Insight	Implications	Recommendations	When
<ul style="list-style-type: none"> Aggregate prize payout is high, which is a consequence of volatile Draw Game sales and Instant Games priced \$5+ generating an increasing proportion of total Instants sales Consumers are not hearing about Instant winners 	<ul style="list-style-type: none"> ADHE transfers fell in 2015 despite total Instant sales growth Winning, and hearing about winners is an essential ingredient for retaining existing players and encouraging category reappraisal 	GAME DESIGN: Prize Maximization program <ul style="list-style-type: none"> To recommend best payout allocation, by price point and effective use of payout to enhance consumers' winning experiences 	Launch Q1 FY17



5.2.A.2 Instant Games – Range Management Recommendations

Insight	Implications	Recommendations	When
<ul style="list-style-type: none"> Some Instant Games perform consistently well in market but are not always available to purchase in retail e.g. Bingo 	<ul style="list-style-type: none"> Sales are not being maximized when the games with the fastest rates of sale are unavailable. This also means consumers don't have continuous access to favorite games which disrupts their play frequency 	RANGE: Extend the "Core Game" strategy <ul style="list-style-type: none"> Ensure games with dependable and sustained rates of sale are permanently available to purchase e.g. Multiplier and low top prize families, Crossword, Bingo etc 	Launch Q4 FY16
<ul style="list-style-type: none"> Retailers, Tel-Sell and MSR's are all making independent decisions about which games to stock and/or activate Approximately 52% of games generated 88% of sales in FY15 	<ul style="list-style-type: none"> The best-selling games are not consistently on display 	RANGE: Establish range and category principles <ul style="list-style-type: none"> Move to a 1 in 1 out approach to range management Supported by planograms Provide greater clarity to all stakeholders about what games should be on-sale 	Launch Q2 FY17
<ul style="list-style-type: none"> There is currently a one size fits all approach to product ranging 	<ul style="list-style-type: none"> Some retailers are not maximizing sales as the range of games they select is not tailored to consumer demand within their store 	RANGE: Tailor product ranges to better meet sales demand <ul style="list-style-type: none"> Align the mix of price-points to demand for each individual retailer 	Launch Q4 FY17



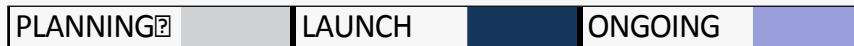
5.2.A.3 Instant Games – Retail Execution Recommendations

Insight	Implications	Recommendations	When
<ul style="list-style-type: none"> There is a misalignment between sales throughput and the number of dispenser bins 	<ul style="list-style-type: none"> Having too many or too few bins inhibits sales. Too few = stock outs while too many = stock congestion 	<p>EXECUTION: Rationalize dispenser allocation</p> <ul style="list-style-type: none"> Identify which retailers are likely to benefit from an increase in dispenser facings and allocate and install new dispensers accordingly Also consider which retailers are candidates for removing facings in order to speed up rates of sale Conduct the above in combination with a pack size review for each price-point 	Launch Q1 FY17



5.2 Instants Games - Recommendations and Proposed Timeline

The Instants plan focuses on three core areas: Game Design, Range Management and Retail Execution. Activities will start on approval of the implementation plan and will span the life of the five year Business Plan



5.2 INSTANTS	FY16 Q4	FY17 Q1 Q2 Q3 Q4				FY18 Q1 Q2 Q3 Q4				FY19 H1 H2		FY20 H1 H2		FY21 H1 H2	
Core Game Strategy															
Prize Maximization Program															
Pre-launch Game Development Program															
Game Design Principles Document															
Pack Size Review															
1 on 1 Outreach to Supply Chain															
Review Dispenser Allocation															
Product Innovation															
Tailored Product Ranges															



5.2.B Draw Games – Summary of Key Recommendations

Strategies (unpacked)	Key Recommendations Summary
Optimize and then extend core Draw Games, then focus on new product innovation	<p>Establish a new product game development pipeline to renovate existing Draw Games and develop more potent and differentiated Draw Games, which will:</p> <ul style="list-style-type: none"> • FY17 and FY18 - optimize the current core Draw Games via the NPD pipeline: <ul style="list-style-type: none"> • Endorse OAL's plan not to launch further Fast Play games • Renovate Natural State Jackpot to deliver bigger jackpots and better win frequency • Review and refine Cash game category and investigate potential add-on game feature e.g. Lucky Sum • Work closely within the Multi-State workgroups to influence Multi-State game evolutions • FY19 and FY20 - extend beyond the core Draw Game offering: <ul style="list-style-type: none"> • Develop games designed to meet the motivations of consumers in Arkansas through needs mapping and research e.g. monitor games, social games and syndicated pool games, etc • FY21 - extend the current core offering in time, in to Next Generation games that genuinely appeal to under-served player segments and in time, new younger players e.g. experiential games
Develop brand architecture to clearly define game propositions	<ul style="list-style-type: none"> • Develop a clear brand architecture framework for the parent brand and games to ensure each game has a clear and compelling reason to exist in the portfolio and minds of consumers
Range - aspiration for more distinct, bigger, better games	<ul style="list-style-type: none"> • Focus on establishing a portfolio of differentiated, fewer, bigger, better games • Adopt category management principles to manage the portfolio and product life cycle - replace underperforming games with games that deliver higher win frequency and meet player needs



5.2.B.1 Draw Games – Optimize the Core Recommendations

Insight	Implication	Recommendation	When
<p>The sales MAT for Draw Games has been in decline for the past two years (to FY15) due to declining Multi-state jackpot games (PB and MM)</p> <p>Consumers find Draw Games complicated. They are unclear on the range, how to play, or the benefits of playing</p> <p>There has been approx. 40% growth of In-State Games between FY13-FY15. This has largely been driven by Progressive Fast Play Jackpot and to a lesser extent the Natural State Jackpot (NSJ) game</p>	<p>The Lottery does not want to be reliant on exceptional rolling jackpots to grow total Draw Game sales</p> <p>Range confusion is a big barrier to play and why participation is low</p> <p>Fast Play games deliver lower net revenues, which present longer term profitability issues for the Lottery</p>	<p>OPTIMIZE THE CORE: Establish a new product game development pipeline</p> <ul style="list-style-type: none"> Map out a five year roadmap of both In-state and Multi-State Game development Focus on delivering games designed to: <ul style="list-style-type: none"> Meet the motivations of consumers in Arkansas through needs mapping and research Provide better frequency Endorse OAL's strategy to recycle existing Fast Play games and not to launch further new games <p>(See following page for NSJ)</p>	<p>Launch Q1 FY17</p>



5.2.B.1 Draw Games – Optimize the Core Recommendations (In-State Games)

Insight	Implication	Recommendation	When
<p>NSJ resonates with consumers because they feel it's a game for Arkansans, which unlike PB and MM, they know someone from AR will win. However...</p> <p>The jackpot begins at \$25k, which is far lower than PB or MM. At these lower level jackpots, Fast Play and Instant games present better chances to win exciting comparable jackpot prizes</p> <p>NSJ has long roll cycles which deliver minimal sales uplift from draw to draw (approx. \$5k).</p> <p>More broadly, there are no In-state Draw Games that delivers <i>millionaires</i> for Arkansans</p>	<p>An In-state Draw Game for Arkansans provides an encouraging starting point but the Game's success is undermined by the game mechanics</p> <p>It takes approx. 60 rolls (three months), to see a sales step change to around \$100k per draw</p> <p>The NSJ game requires a far stronger proposition to boost its appeal with consumers, drive sales with magnitude. It needs to be <i>renovated</i></p>	<p>OPTIMIZE THE CORE: Renovate In-State Natural State Jackpot to deliver new compelling reasons to play every draw</p> <ul style="list-style-type: none"> Consider and Research – renaming the game and introducing new features to promote regular play, via reallocations of prize pay-out <p>OPTIMIZE THE CORE: New In-state bigger "Lotto" format game:</p> <ul style="list-style-type: none"> Consider and Research – the design and develop a new mid-tier In-State "Lotto" format game that delivers jackpots greater than NSJ but smaller than PB and MMs – with a focus on regular jackpot wins to sustain Win belief Positioned as the game that is "Played in Arkansas / Won in Arkansas" 	<p>Launch Q3 FY17</p> <p>Launch Q3 FY18</p>



5.2.B.1 Draw Games – Optimize the Core Recommendations (In-State Games)

Insight	Implication	Recommendation	When
<p>Cash 3 and Cash 4 games originate from the East coast of the US; <i>number</i> games show more significant sales in these areas as a result of the heritage</p> <p>Sales of Cash 3 and Cash 4 are modest by comparison in AR. Despite this, sales show steady YoY sales growth</p> <p>Research highlighted consumer confusion. Consumers did not appreciate how, why, when to play, etc.</p>	<p>Cash 3 and Cash 4 propositions is not widely understood / valued in AR</p> <p>This lack of understanding inhibits trial and presents a big barrier to play</p> <p>Consequently, the sales potential for Cash 3 and Cash 4 games is not being realized</p>	<p>OPTIMIZE THE CORE: Review and refine Cash game category and investigate potential add-on game features</p> <ul style="list-style-type: none"> • Ensure top prizes remain relevant against inflation (but under tax liability limit) • Scope for Lucky Sum type add-on game or alternative • Consider removal of Cash 4, or Cash 3, if research with players highlights a more potent and compelling game 	<p>Launch Q2 FY18</p>



5.2.B.1 Draw Games – Optimize the Core Recommendations (Multi-State Games)

Insight	Implication	Recommendation	When
<p>The current OAL product pipeline is focused on Multi-State innovation but this is beyond the immediate control of ASL and results in less attention being given to In-State games</p> <p>PB and MM offer high rolling jackpots and long odds. Consumers are chasing the big jackpot and not playing for lower tier prizes. These games have low “win belief”</p> <p>Jackpots are taking longer to grow and it is taking more rolls to reach the cumulative sales seen in previous years</p> <p>Media reporting of super sized jackpots (such as Powerball) begins when a new jackpot record is about to be broken. Rising national news coverage fuels excitement and triggers a sharp growth in jackpot size and participation. AR however, has one of the lowest per capita PB base sales and was one of the lowest per capita lotteries on the \$1.5bn PB jackpot in (Jan’16)</p>	<p>PB and MM game design decisions made on behalf of all member states are not always suitable for the Arkansas player</p> <p>Current win belief and win frequencies are eroding the dream of, “winning the big one” - leading to less play and ultimately lapsed play as players are deciding to play the game at increasing jackpot levels</p> <p>Players have become more selective about what level of jackpot they deem “worth playing for”. The population size in AR is relatively small. Win belief in AR for PB and MM is therefore low</p> <p>This impacts sales and opportunities to engage with occasional and infrequent players</p> <p>Sizeable opportunity to grow participation and average spend per player in Arkansas</p>	<p>OPTIMIZE THE CORE (Multi-state Draw Games)</p> <ul style="list-style-type: none"> Work closely within all levels of the MUSL and Lucky For Life community workgroups (specifically Marketing and Game development) to influence Multi-State game evolutions Look to focus game evolutions away from further matrix increases towards delivering better win experiences and better differentiated games Push for a five year roadmap of game evolutions A roadmap for L4L should also be agreed, and then influenced with L4L member lotteries 	<p>Launch Q1 FY17 onwards</p>



5.2.B.2 Draw Games – Extend the Core Recommendations

Insight	Implication	Recommendation	When
<p>Draw game portfolio offers a traditional set of games, with only L4L offering something new to players – new games need to follow the same lead and be differentiated</p> <p>Player needs around social, syndicated and other motivational needs states are currently not being met with current portfolio</p>	<p>Need to attract new and lapsed players to the lottery category through the diversification into new, differentiated games designed to inject 21st Century relevance and appeal to broad but specific audiences</p>	<p>EXTEND THE CORE: Focus on ways to play and Next Generation new product innovation</p> <ul style="list-style-type: none"> Develop, Qual and Quant research and build business cases backed by Volumetrics for: <ul style="list-style-type: none"> New In-State and Multi-State formats <i>Monitor Games (3.2 not in business plan)</i> Social, MicroBets and syndicated pool group play games Next Generation games offering: “Must be Won” weekly formats to drive urgency and appeal with new generations e.g. Ride of your Life, Job of your Dreams Cash with non-cash experiential prizes Premium Draw game formats e.g. “El Gordo” and seasonal event opportunities Partnership games to win cash and “money can’t buy” experiences with “Hometown Heroes” e.g. “Calling the Hogs” with the Razorbacks 	<p>Q3 FY18</p> <p>H1 FY20</p> <p>H1 FY21</p> <p>H2 FY20</p>



5.2.B.3 Draw Games – Develop Brand Architecture Recommendations

Insight	Implication	Recommendation	When
<p>Arkansas has seven core Draw Games (excluding sub and add on games)... which is high considering the Lottery launch in FY10, as well as the four games which have also been delisted in this time period but contributes under 20% of total sales vs. an average of 37% in the USA</p> <p>PB and MMs tap into the same “consumer need state” i.e. Games which offer extremely high “Life changing” amounts of money. While consumers are more familiar with PB than MMs, there is no loyalty and a tendency to switch according to the size of the jackpot</p>	<p>The Draw Game portfolio is over crowded with competing, rather than complementing, propositions which is confusing for retailers and consumers. Resulting in low Draw Game adoption vs. peer states and USA average</p> <p>Incremental revenues from the cross sell initiatives have not been materialized and/or sustained – instead four draws a week has exacerbated “jackpot fatigue”</p>	<p>BRAND ARCHITECTURE: Develop brand architecture to clearly define game propositions</p> <ul style="list-style-type: none"> Develop a clear brand framework to ensure each game has a reason to exist in the portfolio e.g. “This is that game that....delivers your best chance to win a jackpot in Arkansas” An example of what a brand architecture could look like is in Appendix C 	Q4 FY16 onwards
<p>Portfolio has expanded through the introduction of new game mechanics – often based on what’s worked elsewhere e.g. Cash 3 and 4, irrespective of state size and lottery heritage - not through addressing Arkansas consumer need states gaps. Lucky for Life has a potentially compelling proposition but as yet has failed to resonate with consumers in Arkansas</p>	<p>Consumers won’t play games that are not relevant to them or their needs – impacting potential incremental sales</p> <p>The lack of heritage for these game play styles means consumers need education on why to play</p>	<p>BRAND ARCHITECTURE: Develop brand architecture to clearly define game propositions</p> <ul style="list-style-type: none"> Using the brand framework to define clear and compelling reasons to play core games and develop advertising to deliver the propositions in appealing ways to consumers in Arkansas 	Q1 FY17 Onwards



5.2.B.4 Draw Games – Range Management Recommendations

Insight	Implication	Recommendation	When
<p>The number of games has made the Draw Games portfolio complex; consumers do not understand the range of games available, how to play, or the benefits of playing. The research highlighted this was the case even amongst weekly players</p> <p>The majority of players (approx. 80%) are playing via Quick Pick across PB, MMs, NSJ and L4L</p>	<p>Consumers won't play games they don't understand or relate to – human nature means it is easier to stick to what they know or reject – impacting sales of the Draw Game category vs. the potential evidenced by peer states</p> <p>Playing by Quick Pick makes it easier for players to skip draws. Over time this contributes to declining play frequency</p>	<p>RANGE: Adopt category management principles to manage the life cycle of games in the portfolio</p> <ul style="list-style-type: none"> Replace underperforming games with more potent games, that deliver higher win frequency Reduce the overlapping choice overload and focus on establishing more distinct, bigger games – with clear compelling propositions – to make navigating the category easier for consumers 	<p>Launch FY18</p> <p>Launch FY18</p>



5.2.B (3.2 not included in business plan) Monitor Games

Monitor Games should be reviewed from FY18 but there should be no launch consideration before 2020



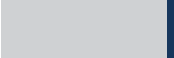
















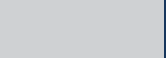

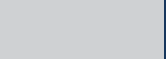











- Monitor Games, played especially in bars and social environments, are available in 17 US States
- State peers such as Kentucky and Kansas have per caps of \$11 and \$6, suggesting a sales opportunity to the OAL of between \$20-30m per annum
- A comprehensive review of Monitor Games should be undertaken in 2018 with the following considerations:
 - Consumer Needs Mapping in Arkansas
 - Social responsibility
 - Distribution considerations
 - Sales estimates
 - Timings
- At this point in time Monitor Games should not be considered for launch until 2020



5.2 Draw Games - Recommendations and Proposed Timeline

The focus for Draw Games is to establish an NPD pipeline, starting with re-launching existing games (where there is an opportunity) and then extending traditional game offers ahead of new innovation via next generation games. *Note: Multi-state games are not in the control of OAL however the ambition is to seek the changes outlined*



5.2 GAME DRAW GAMES	FY16 Q4	FY17 Q1 Q2 Q3 Q4				FY18 Q1 Q2 Q3 Q4				FY19 H1 H2		FY20 H1 H2		FY21 H1 H2	
Establish NPD pipeline															
Renovate the NSJ Game															
Renovate Powerball and Mega Millions (test)															
Review "Cash" Games															
Introduce new bigger In-State Jackpot Game															
Launch new In-State Game															
Launch next Generation Games															



5.3 Marketing - Overview of Strategy



MARKETING

Provide compelling reasons to play

Marketing covers marketing strategy, marketing planning and marketing execution – the core themes for this section are:

- Maximize consumer awareness, comprehension and appeal
- Ensure marketing plans are integrated through the line and consistent across all player touch-points
- Optimize budget, media mix and creative effectiveness establishing consumer goods best practice
- Support brand and channel requirements to broaden participation and increase frequency of play (and repertoire) of less committed players



5.3 Marketing – Summary of Key Recommendations

Strategies (unpacked)	Key Recommendations Summary
Marketing strategy: Maximize consumer awareness, comprehension and appeal	<ul style="list-style-type: none"> • Adopt and apply consumer goods processes and tools to develop, set and measure effectiveness of marketing communications • Research barriers to play and develop an insight informed Regular Play Strategy • Develop new advertising to be more benefit-led to consumers (\$-led and have a greater call to action) • Rationalize marketing efforts on Magnitude (games which can deliver sizeable sales growth) and Momentum (games with a positive growth trajectory)
Marketing planning: Ensure marketing plans are integrated through the line and consistent across all player touch-points	<ul style="list-style-type: none"> • Develop Communications Frameworks for each core game (derived from brand architecture) around a “Big Idea” platform • Introduce Integrated Marketing Plan (iMAP) to help plan and deliver strategic marketing campaigns across all consumer touch-points
Marketing execution: Optimize budget, media mix and creative effectiveness establishing consumer goods best practice	<ul style="list-style-type: none"> • Invest in growing Net Returns by increasing marketing budget YoY • Plan flexible weekly media mix, adopting an “Always On” 52-week approach in core media to optimize ROI on every marketing dollar spent and adopt a “pilot / measure / learn” to media • Build an econometric model to inform week to week media investments and related ROI on increased marketing budget investment



5.3.1 Marketing – Marketing Strategy Recommendations

Insight	Implication	Recommendation	When
Characters and production values used for TV commercials can be engaging, but: i) executions lack sales conversion call to action and ii) the effectiveness at stimulating consumer behavior change is unknown. Available MUSL advertising not always fit for purpose and OAL input to influence is limited but does represent a cost saving if used	Investment in advertising is occurring without fully understanding how it will be received and interpreted by consumers as creative development does not always allow for comprehension and appeal via qualitative research testing for creative refinement	Marketing strategy – adopt consumer goods best practices <ul style="list-style-type: none"> Adopt and apply consumer goods processes and tools to measure effectiveness of marketing communications Introduce new client briefing form for agencies that include initiative KPIs to enable activity evaluation and future improvements Introduce governance and processes that ensure creative development timescales allow for the testing of consumer appeal / takeout of communications 	Launch Q1 FY17
OOH and website jackpot messaging is current but functional – which is likely to result in rational consideration i.e. switching between games for the biggest jackpot	Attitudes and behaviors are more meaningful than demographics so functional and rational consideration of the big jackpot games is necessary – especially in a state the size of Arkansas where a jackpot win is un-likely	Marketing strategy – research barriers <ul style="list-style-type: none"> Research barriers to play around jackpots and develop an insight informed Regular Play Strategy that actively engages players about < \$100m Jackpots Using research findings, develop emotive advertising to re-frame the \$\$\$ value of prizes emotionally, not just the functional numbers 	Launch Q4 FY16 onwards



5.3.1 Marketing – Marketing Strategy Recommendations

Insight	Implication	Recommendation	When
<p>Jackpots are not fully optimized throughout the year and in some media environments messaging is generic and not specific to any particular jackpot draw/amount at that point in time</p> <p>As evidenced by PB, large jackpots do cut through to hard to reach consumers</p>	<p>To become a “Millionaire” is typically the default entry point for anyone considering the lottery category the world over – not communicating the reason/benefit to play i.e. the jackpot level that week/that draw means the reason to play that week is not being landed with potential players</p>	<p>Marketing strategy – benefit-led advertising and rationalize support</p> <ul style="list-style-type: none"> Actively leverage jackpots to deliver greater lottery category engagement, engage broader participation Ensure current jackpot levels are promoted and reflected in all marketing communications as much as budgets permit 	<p>Launch Q1 FY17 onwards</p>
<p>Marketing Plan moves too quickly from one initiative to the next, combined with in-store promotional overlays, is adding to difficulties consumers are having in navigating the category</p>	<p>Less is more – proliferation of activities is time consuming, with the potential that no single activity is focussed on sufficiently long enough to be landed with the target audience e.g. Lucky For Life launch</p>	<p>Marketing strategy – rationalize efforts</p> <ul style="list-style-type: none"> Rationalize marketing efforts on a Magnitude (games which can deliver sizeable sales growth) and Momentum (games with a growth trajectory) basis across a rolling 18 month integrated marketing plan to maximize effectiveness 	<p>Launch Q1 FY17 onwards</p>



5.3.2 Marketing – Marketing Planning Recommendations

Insight	Implication	Recommendation	When
The look and feel of lottery POS varies in retail. There is a proliferation of sometimes over complicated messages and promotional offers	Communications work harder when one Consumer opportunity to see/hear builds on the previous one	Marketing planning – brand comms & iMAP <ul style="list-style-type: none"> From the brand architecture develop Communications Frameworks for each core game around a “Big Idea” platform Plan and develop campaigns holistically with “how will we say this” in all communications channels in mind Introduce iMAP to help plan and deliver to market strategic marketing campaigns through all consumer touch-points Introduce new ways of working across sales & marketing to align all marketing activities consistently 	Launch Q2 FY17 onwards



5.3.3 Marketing – Marketing Execution Recommendations

Insight	Implication	Recommendation	When
<p>Five DMAs cover Arkansas, 3 completely within state covers a complex and diverse consumer demographic to reach</p> <p>\$5m marketing budget is already limiting (30th out of US lotteries on a Per Capita basis and 28th on a sales basis based on FY14 Source La Fleurs) but no econometric modelling in place to aid week to week investment decisions, monitor impact and effectiveness of product or media marketing spend and return on investment</p>	<p>Marketing budget is insufficient to effectively cover the diversity of the 5 DMAs and thus is impacting ASL's ability to deliver YoY net returns growth</p> <p>The Lottery cannot track Return on Marketing Investment</p>	<p>Optimize budget, media mix and creative effectiveness establishing consumer goods best practice</p> <ul style="list-style-type: none"> • Increase marketing budget to \$6m p.a. in FY17 (30th to 21st on a Per Capita basis) to enable greater reach and frequency of ASL sales driving initiatives across DMAs • Build an econometric model capable of tracking and informing week-to-week media investments and related ROI to track returns from increased budget. • Target \$6.5m marketing budget by FY18 (21st to 19th on a Per Capita basis) • Target \$7m marketing budget by FY19 (19th to 15th on a Per Capita basis) • Target \$7.5m marketing budget by FY20 (15th to 12th on a Per Capita basis) • Maintain upper quartile marketing budget level 	<p>Q4 FY16</p> <p>Q2 FY17</p> <p>FY18</p> <p>FY19</p> <p>FY20</p> <p>FY21 and beyond</p>



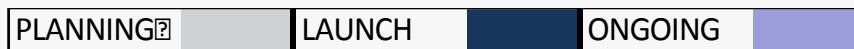
5.3.3 Marketing – Marketing Execution Recommendations

Insight	Implication	Recommendation	When
Product media flighting (timing pattern of campaigns) appears too rigid and designed for a typical consumer goods portfolio vs. requirements of the lottery category	Plan and associated expenditure is not sufficiently flexible to optimizing Lottery revenue opportunities	Optimize budget, media mix and creative effectiveness and be consistent across all player touch-points <ul style="list-style-type: none"> Plan flexible weekly media mix to support games, adopting an “Always On” 52 week approach in core media to optimize ROI opportunities through base coverage in key DMAs and copy swapping Allocate monies to test new media and channel opportunities, adopting a “pilot / measure / learn” philosophy to inform future media planning 	Launch Q4 FY16 onwards
Marketing agency, MHP, introduced competitive bidding via a “Media Circus” which has delivered a key media partner and related added value e.g. Student interviews on the news, while still retaining BOGOF on every spot purchased	Notwithstanding the added value gained via “Media Circus” the Lottery cannot hope to communicate to every potential player in Arkansas and would be at risk of spreading marketing investment too thinly in trying to do so - resulting in wastage (In shared DMAs) and reduced impact.	Optimize budget, media mix and creative effectiveness establishing consumer goods best practice <ul style="list-style-type: none"> Invest in fewer, bigger brands and activities to maximize marketing budget effectiveness and deliver better brand momentum - focusing on those games with the biggest potential for incremental growth. Maintain/Evolve “Media Circus” approach to media partnerships and added value 	Launch Q4 FY16 onwards



5.3 Marketing - Recommendations and Proposed Timeline

Upfront marketing activities focused on marketing strategy, planning and execution are proposed. Once in place, the plan is to continuously improve marketing activities and hone over time as tools and techniques ‘test & learn’ and follow best in class



5.3 MARKETING	FY16	FY17				FY18				FY19		FY20		FY21	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2	H1	H2	H1	H2
Consumer Goods Process and Tools															
Introduce Brand Architecture															
Introduce Regular Play Strategy															
Develop Comms Frameworks and Introduce Map															
Research (barriers to play and motivation)															
Introduce Insight-led Advertising															
Introduce Econometrics Model															



5.4 Retail – Overview of Strategy



RETAIL

Focus on better access, category presentation and make play easier (convenient)

- Introduce retail activation, planning and execution principles to channel
- **Strategy:** Support the marketing plan, future-proof channel for consumer/retail changes, improve retailer relations and chain store management
- **Planning:** Align sales teams (MSRs and Tel-Sell), optimize retailer estate and review the requirements for new and existing in-store POS / Equipment
- **Execution:** Perfect in-store execution, align retail agent support and standards



5.4 Retail – Summary of Key Recommendations

The plan introduces Activation, Planning and Execution principles to the retail channel

Strategies (unpacked)	Key Recommendations Summary
STRATEGY: Support the marketing plan, future-proof channel for consumer/retail changes, improve retailer relations and chain store management	<ul style="list-style-type: none"> • Develop an enhanced Value of Lottery (VoL) story to increase retailer advocacy and improve understanding of the lottery category • Introduce a Key Accounts team to support chain stores at Head Office and regional levels • Make buying the lottery more convenient for consumers
PLANNING: Align sales teams (MSRs and Tel-Sell), optimize retailer estate and review the requirements for new and existing in-store POS / Equipment	<ul style="list-style-type: none"> • Ensure deployment of terminals available (est. 600) under terms of the Intralot contract • Map the retail landscape to quantify the right number of terminals and plan allocation in line with the findings • Segment and prioritize the existing retail estate • Review dispenser allocations and ensure retailers are selling from the right number of dispenser facings • Maximize sales from existing TVM's and locate every machine into retail • Introduce a new retail strategy - the iMAP process (Integrated Marketing Activity Plan) • Develop an agreed set of consistent retail objectives across the sales team
EXECUTION: Drive Perfect In-store Execution (PIE) aligned to retailer support and standards	<ul style="list-style-type: none"> • Introduce a retailer recognized consistent set of standards based on their input and support • Score retailers on their “on entry” standards each time they are visited • Develop league tables to show the high performers • Focus MSRs on stores that execute poorly and manage performance



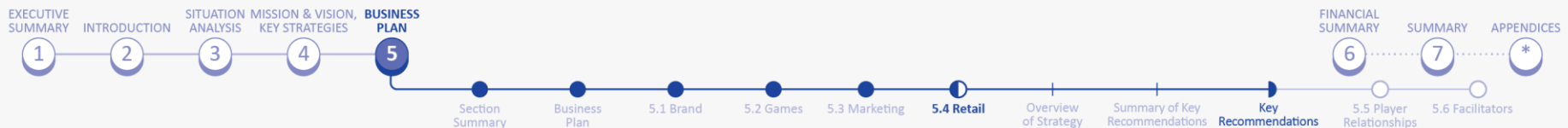
5.4.1 Retail – Activation Recommendations

Insight	Implication	Recommendation	When
Chain stores expect a dedicated contact / Account Manager from a large supplier but OAL is unable to deliver this role because of the strain they have on resources	MSRs find it difficult to manage the Lottery in chain stores at a local level because the Lottery sits outside standard store processes, which makes agreeing merchandising standards at store level, for example, difficult The Lottery risks being over-looked for other less valuable categories, due to lack of representation at head office level – space, staff resource, location	STRATEGY: Introduce a Key Accounts team <ul style="list-style-type: none"> Recruit an individual to fulfil Key Accounts role, focussed on managing top chain retailers at head office or regional level Chains with the largest actual or potential sales to be prioritized 	Launch Q1 FY17
Retailers not currently selling lottery are not excited or inspired to sell the Lottery. They do not appreciate the value it could add to their business This is especially prevalent in chain stores where the Lottery often sits outside of the store's regular processes and procedures	The OAL has not found it easy to bring new retailers on board	STRATEGY: Develop a Value of Lottery ("VoL") story <ul style="list-style-type: none"> Utilize a strong VoL story to motivate retailers to sell lottery – move from, "I have to", to "I want to" Demonstrate size of the Lottery category in retail through comparisons with other consumer goods Use the VoL story with chain store contacts to explain the total value and added value the lottery brings to their stores Develop and deploy the VoL program through a motivated sales team supported by a targeted trade engagement strategy 	Launch Q1 FY17



5.4.1 Retail – Activation Recommendations

Insight	Implication	Recommendation	When
<p>The retail landscape is fast changing to meet evolving consumer needs, operate more efficiently and incorporate new technological advances</p> <p>Lottery retailing for Draw Games and Instant tickets is the same now as it was seven years ago</p>	<p>Lottery retailing lags current retail and consumer trends, which places the category at risk.</p> <p>Consumer engagement is being eroded because the Lottery brand is increasingly losing its relevance in today's world.</p> <p>Failure to embrace retail change long term will lead to the Lottery becoming obsolete</p> <p>New cashless technology such as Apple Pay are currently not included within lottery retailing</p>	<p>STRATEGY: Establish a program to future proof the lottery to accommodate changing retailer trends</p> <ul style="list-style-type: none"> Establish “retailer forum” (representative of AR’s retail environment and structure) Understand emerging retailer landscape, including new initiatives and understand implications for Lottery Establish consumer goods category principles <i>Cashless payment (3.2 addendum) , e.g. Debit Cards, Apple pay, etc. to be trialled with a soft launch – allowing retailers to make choices on whether they adopt</i> 	<p>Launch Q3 FY17</p> <p>Launch Q3 FY17</p>



5.4.2 Retail – Planning Recommendations

Insight	Implication	Recommendation	When
There are counties / areas across the state where terminal demand appears to be under-served on a population to terminals basis	Sales and returns to Scholarships not optimized	PLANNING: Optimize retail distribution <ul style="list-style-type: none"> Ensure deployment of est 600 terminals available under terms of the Intralot contract Geo-map retail landscape to understand the optimal number of Lottery retailers Prioritize the under-served areas Develop a strong sales story to attract new business including a criteria of what is required to be a lottery retailer – space allocated, location of equipment, staffing, training Understand objections for independent / chain retailers not selling lottery; partner for a solution 	Launch Q2 FY17
Approx. 7% of retailers have TVMs but majority underperform. Best practices from top 25% not replicated across the remainder of the estate. Vending distribution linked to pop. centers and zip codes (similar to terminal allocation). Some retailers see TVMs as the only solution to sell Lottery	<p>Sales and returns to Scholarships are not maximized. TVM Capex per machine is high. Slow selling TVMs have low ROI</p> <p>TVM allocation not optimal</p> <p>TVMs absorb resource from retailers and staff who assume (wrongly) the Lottery team will manage the machines for them, which results in lost sales at peak times such as Fridays and weekends</p>	PLANNING: Maximize sales from existing TVMs <ul style="list-style-type: none"> Set out an agreed level of standards expected from retailers to have a TVM in store including: a good location and an agreement for store staff to replenish stock levels Continually review the TVM estate with a view to making changes Locate every machine into retail Maintain retailers with high cash pay-out frequency 	Launch Q4 FY16



5.4.2 Retail – Planning Recommendations

Insight	Implication	Recommendation	When
<p>Retailers are broadly all treated the same irrespective of current sales, sales potential and levels of advocacy</p> <ul style="list-style-type: none"> The top 50% of retailers account for 80% of sales. The bottom 25% account for under 5% of sales 	<p>Time / store investment, (sales team coverage, tel-sell, point of sale) is disproportionate to sales returns</p>	<p>PLANNING: Segment and prioritize and the existing retail estate</p> <ul style="list-style-type: none"> Prioritize estate to focus on high sales or sales potential Re-allocate key resources based on this segmentation model Tailor MSR call cycles and Instants deliveries and allocations to fit within this approach 	<p>Launch Q1 FY17</p>



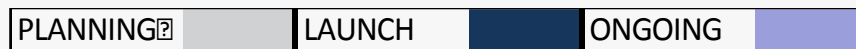
5.4.3 Retail – Execution Recommendations

Insight	Implication	Recommendation	When
Retail execution is inconsistent with different point of sale, equipment and brand messages displayed	Consumer, retailer and sales team confusion on what the correct look and feel is for the lottery in retail	EXECUTION: Implement a Perfect In-store Execution program <ul style="list-style-type: none"> Implement an agreed set of standards for all retailers supported by a scoring system to drive compliance Use the iMAP process to plan and develop each campaign communicated across all stakeholders 	Launch Q1 FY17
The Sales Teams are extremely capable and motivated, which is commendable. Tel-sell and MSRs have established excellent relationships with retailers. MSRs demonstrate professionalism, thoroughness. However sales teams lack consistency of mission	<p>The MSRs approach varies as a result. In call priorities also differ</p> <p>Good performance broadly goes unrewarded. Similarly poor performance is difficult to manage</p>	EXECUTION: Build on the existing MSR and Tel-Sell motivation levels. Engage teams and establish aligned direction, planning and communication with retail <ul style="list-style-type: none"> Ensure all sales teams is working to the same collective goal and objectives Recognize good and exceptional performance through a rewards and recognition program 	Launch Q4 FY16

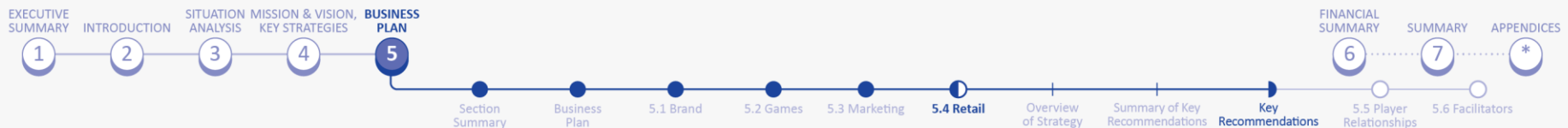


5.4 Retail – Recommendations and Proposed Timeline

The Retail plan focuses on retail activation, planning and execution within the channel. In FY17 the focus will be on optimizing and building-out distribution with an additional estimated 600 terminals and 17 TVMs



5.4 RETAIL	FY16 Q4	FY17				FY18				FY19		FY20		FY21	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2	H1	H2	H1	H2
Maximize Sales from Existing TVMs															
Key Accounts Function															
Prioritize & Segment															
Perfect In-store Execution															
MSR Team Focus															
Optimize Distribution (est. 600 terminals)															
VOL program															
Future Trends															
Brand Refresh (POS refresh)															



5.5 Player Relationships – Overview of Strategy



PLAYER RELATIONSHIPS

Understand and then build engaging relationships with players

- Develop richer business and player understanding via insight
- Utilize insight to drive brand, game and channel decision making
- Evolve CRM program across the organization to shift marketing from one-to-many to one-to-one
- Develop a digital program of activities to strengthen player interactions
- Build-out loyalty and retention program that has universal appeal



5.5 Player Relationships – Summary of Key Recommendations

The Player Relationships plan focuses on five core areas which spans: insight, decision making, CRM, digital and player retention

Strategies (unpacked)	Key Recommendations Summary
Develop richer business and player understanding via insight	Create an insight capability by recruiting an insight manager to own research and data strategy and pull together all insight and data sources within OAL and its vendors. All insight (and the data strategy) must be aligned to the ASL strategy
Utilize insight to drive brand, game and channel decision making	Adopt an insight-led decision making approach to all sales and marketing activities within OAL. Become obsessive over decisions requiring proof and validity to be approved
Develop a CRM program across the organization to shift marketing from one-to-many to one-to-one	Build-out The Club player data, by capturing player data/contact details to promote game and promotional activities to interested players. Use website, The Club , app and other affiliates to build-out one CRM data-base to push consideration of play
Develop a digital program of activities to strengthen player interactions	Develop, a digital marketing strategy that centers on digital media (owned, earned and paid for). Expand digital-owned platforms to provide a more convenient means of interacting with ASL
Build-out loyalty and retention program that has universal appeal	Progress loyalty and retention program from the <i>few</i> to the <i>many</i> . The Club will require test and learn adaption to understand the optimal balance of players and reward. Other means of loyalty (special draws/second chance draws and promotions) will be introduced along with a new communications plan to aid awareness and conversion of interested players



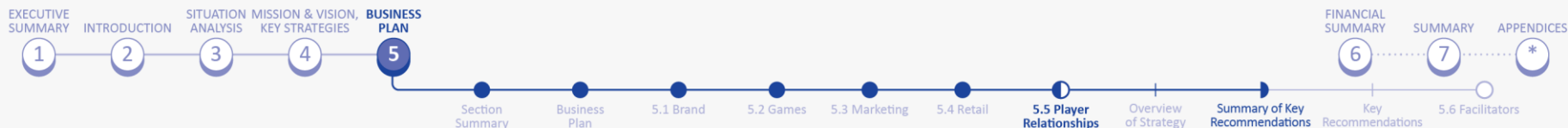
5.5.1 Player Relationships – Insight

Insight	Implication	Recommendation	When
<p>Nobody within OAL is directly responsible for Insight</p> <p>There is a research program in place, which is overseen by OAL but paid for by the vendors</p>	<p>The research in place is reasonable but limited in scope</p> <p>Research does not drive key strategy and decision making within OAL</p>	<p>Create an insight capability by recruiting an insight Manager to own research and data strategy and pull together all insight and data sources within OAL and its vendors. All insight and the data strategy must be aligned to ASL strategy</p> <ul style="list-style-type: none"> Establish first-class holistic insight and foresight program to proactively drive strategic direction Define Insight resource requirement who has responsibility for data analytics, research and game development program – and establish a data strategy for OAL Shape game development program aligned with OAL's strategic priorities, in collaboration with third party suppliers. To include: Qualitative and quantitative research; tracking; retail audits; digital insight; econometrics model; optimal retail outlet selection and future trends Develop key performance metrics and reporting to inform the business, facilitating swifter, better and more evidence-based decision making 	<p>Launch Q4 FY16 onwards</p>



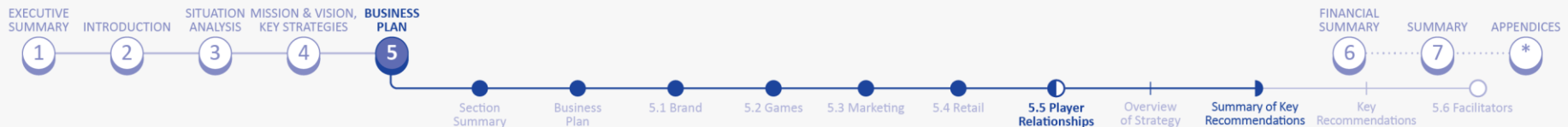
5.5.2 Player Relationships – Decision Making

Insight	Implication	Recommendation	When
Nobody within OAL is directly responsible for Insight. Insight is paid for by vendors and often generic.	Insight doesn't live within the organization in the same way it would be in consumer good company. The wrong decisions or sub-optimal decision could be made by OAL	Adopt an insight-led decision making approach to all sales and marketing activities within OAL. Become obsessive over decisions requiring proof and validity to be approved – proposed to LOC (when required). See business case template <ul style="list-style-type: none"> Adopt ISPEX approach and governance to decision making. ISPEX is Insight led strategy that is planned and then executed in the organization. Adopt new sales and marketing governance within OAL that uses strategy, reporting and insight to make decisions Agree on a business case template (See 5.6) to gain stakeholder approval or agree “major” internal investments Establish relevant KPIs and reporting for stakeholders to monitor and track the performance of OAL against strategies 	Launch Q4 FY16



5.5.3 Player Relationships – CRM

Insight	Implication	Recommendation	When
Limited direct marketing and CRM capability versus consumer goods best practice. This is not limited to Arkansas, and is under-served across the USA	<p>Traditional marketing is expensive, often untargeted and doesn't allow the convenience and flexibility of direct marketing / <i>one-to-one marketing</i></p> <p>In a world where consumer behavior is moving away from TV, radio and print, OAL needs to future proof its marketing communications</p>	<p>Need to create a CRM program and employ resources to devise a detailed strategy based-upon</p> <ul style="list-style-type: none"> • Build one players data set by pushing convenience, ease registration and simplify process • Consider best place to home data – need one single source (likely to be outside of The Club) • Encourage sign-ups with incentives (such as prize promotions and draws) and ensure a re-targeting campaign is in place to keep players interested and using the facility • Use The Club, the website and the app to build database along with third party sites and affiliates to maximize reach • Focus on owned assets to increase conversion of subscribers (via retail and see 5.5 (3.2)) 	Launch Q3 FY17



5.5.4 Player Relationships – Digital

Insight	Implication	Recommendation	When
<p>There are digital platforms in place (website, app and social media), however messaging between platforms is inconsistent</p> <p>Players are already digitally savvy – 54% use website to check numbers [Crestwood Research]; 36% Powerball players and 29% of Instants players very interested in being able to play online [Camelot Research]</p>	Underserved in digital means the Lottery isn't resonating with Millennials and Generation X	<p>Develop, a digital marketing strategy that centers on digital media (owned, earned and paid for). Expand digital-owned platforms to provide a more convenient means of interacting with ASL</p> <ul style="list-style-type: none"> Agree a strategy for aligning all digital owned platforms and social media into one plan that aligns to iMAP and allows for amplification of marketing comms Develop app to provide more functionality: ticket checker, dynamic store locator, random number generators for games Start digital in retail program: allow players to use digital playslips on smart phones, serve e-coupons and promotional tickets. Promote digital pool play and subscriptions purchased in retail E-beacons and NFC marketing in and around retailers Develop digital program for POS refresh <i>Play via digital platforms (iLottery Draw Games and then Instants) (3.2 addendum)</i> 	<p>Launch:</p> <p>Q4 FY16</p> <p>Q2 FY17</p> <p>Q3 FY17</p> <p>Q4 FY17</p> <p>Q3 FY18</p> <p>H2 FY19</p>



5.5.5 Player Relationships – Retention and Loyalty

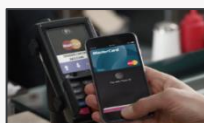
Insight	Implication	Recommendation	When
<p>The Club is welcomed by its regular users (25k), but is under represented as a % of players. The lottery player base was around 1m players in 2015 (Crestwood)</p> <p>Limited wider forms of loyalty</p>	<p>Marketing investment into loyalty isn't being maximized. Reach of current program doesn't meet strategic ambition</p>	<p>Progress loyalty and retention program from the few to the many. The Club will require test and learn adaption to understand the optimal balance of players and reward. Other means of loyalty will be introduced</p> <ul style="list-style-type: none"> Agree program of test and pilots on a “reach” program for The Club. Agree program with MDI and set objective to increase regular uses to 20% of the Instants player base Introduce new program for The Club and optimize current second chance draw offering Introduce a new prize promotion draws for players who sign up to CRM Thank you campaign for players relating to Scholarship funding Promote loyalty by making it easier for players to play. Retail section includes cashless payments (see Retail and Player Relationships) 	<p>Launch:</p> <p>Q1 FY17</p> <p>Q3 FY17</p> <p>Q2 FY17</p>



5.5.6 (3.2 addendum) Cashless Payment

The world is moving to a cashless society... the Lottery needs to adapt

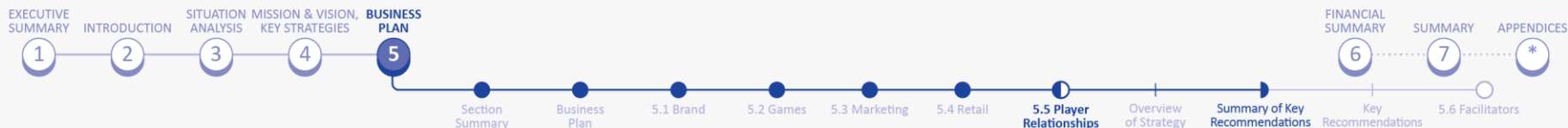
- Consumers now enjoy seamless retail and digital experiences in many parts of their life...e.g. in Starbucks >20% of payments now made via mobile, >40% of Domino's pizzas are ordered on mobile
- As a retail product, lottery needs to meet consumer expectations – debit cards are accepted by approx. 90% of US lotteries, mobile payment via Apple Pay and others will come too
- Research indicates that the opportunity to pay for lottery in a cashless way will increase engagement, particularly for under 55s



Fit shops
methods of
payment



- CG recommends that the state allows retailers to accept payment for lottery products as they would do any other product or good within their stores
- The Lottery would not promote debit or other payment types, they would just be accepted like any other product type by retailer – this would be a soft launch of new payment methods
- Players could play and pay via their phones, via other in-store methods of payment even via debit cards using existing retailers infrastructure

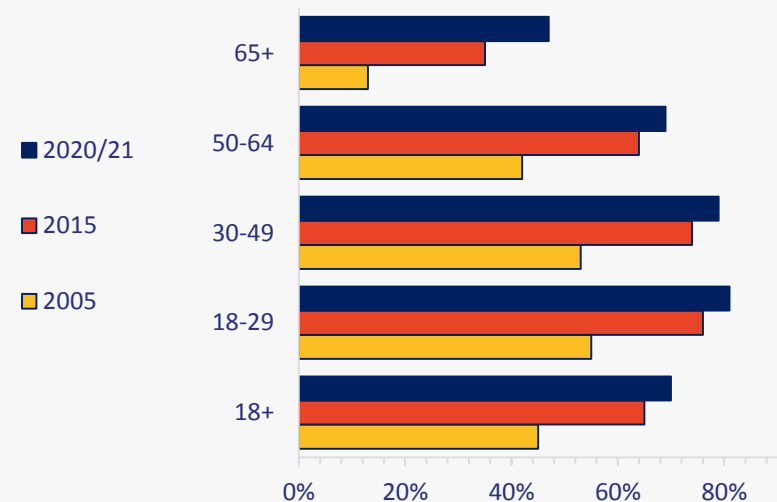


5.5.7 (3.2 addendum) Digital Channel (iLottery)

Consumer behaviors are changing, more people are buying products online

- E-Commerce and mobile usage is significant in the US and growing. Consumers expect a seamless experience across digital and retail. US E-Commerce = \$300bn in 2015 (from \$177bn in 2010). US Smartphone ownership = 53%; 63% transact via phone
- AR has relatively low broadband penetration vs US average (AR = 81% vs US = 86%). However, smartphone penetration is higher than US average at 69%. 4G access is also universal (99%) due to investment by Verizon
- Lotteries are mass-market. Digital is mass-market with mobile driving more convenient access
- Digital offers an answer to unlocking a new audience and responsibly off-setting downside risks from gaming competition due to age verification, spend control mechanisms and geo-locking
- The experience in UK and Europe demonstrates that Digital, in particular mobile, has potential to grow sales incrementally without cannibalizing sales in the retail channel

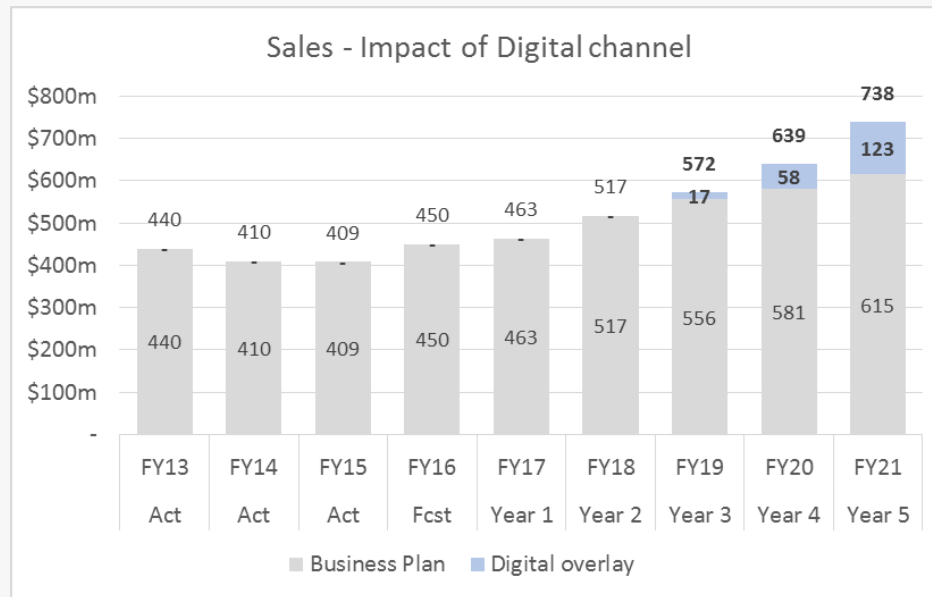
% of US internet users (18+) who have bought a product online



5.5.7 (3.2 addendum) Digital Channel (iLottery)

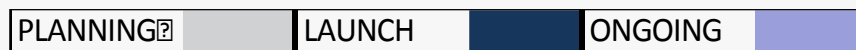
Consumer behaviors are changing, more people are buying products online

- With a digital eco-system in place – The Club, website, apps, Twitter, Facebook and a community of online interacting players – it is logical to start online convenience
- Allowing subscriptions and draw games online first, followed shortly after by Instants Win style games online
- Based on a launch in FY19, a digital channel could add 3% in incremental sales, rising to 15% incremental by FY21



5.5 Player Relationships - Section Summary

Recruit an insight manager and start work (with vendor support) on CRM and digital programs will be the focus for FY16 & FY17. The CRM and digital programs will require business case approvals and likely capital investment



5.5 PLAYER RELATIONSHIPS	FY16	FY17				FY18				FY19		FY20		FY21	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2	H1	H2	H1	H2
Build Insight Capability															
Enhance CRM program															
Enhance Digital program															
Enhance Loyalty & Retention program															



5.6 Facilitators – Overview of Strategy



Facilitators

Shape a high-performance, future-proofed, consumer focused organization... aligned to the core Mission

Four component parts to facilitating the business plan: legislation, investment, vendors and people.

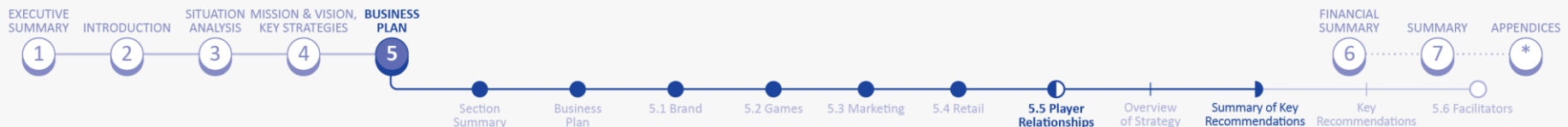
- Align organization to business plan and invest in resources and consumer goods processes/tools
- Leverage and align 'key' vendor contracts to support the business plan (in areas of expertise)
- Recommend new ways of working
- Agree reporting and business case template for any approvals (internal)



5.6 Facilitators (Business Plan support)

This section outlines the support required to successfully implement the business plan

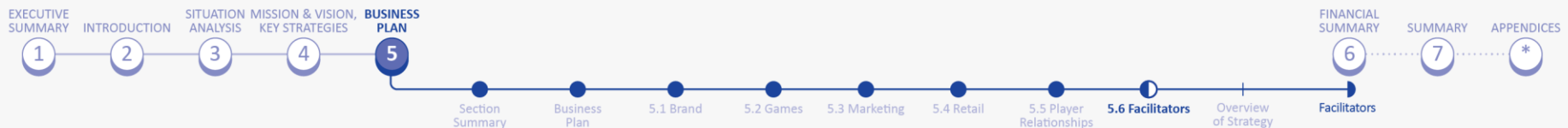
- Four factors will impact the success of the Business Plan, these are: legislation, investment, vendors, and people (and processes)
- Legislation – is whether a recommended activity is permissible or requires legislative approval, or changes in legislation. As per the requirements of the RFQ, any activities recommended that are not currently legal or aren't within the existing portfolio have been treated as an addendum to the business plan (and highlighted as “3.2 addendum”)
- Investment – the business plan outlines additional budget recommended to increase sales and returns to scholarships (this is covered in Sub-section 6.1)
- Vendors – At the request of OAL, and to preserve any strategy and/or competitive advantage exemptions the OAL may enjoy under the law, CG will not outline any requirements or pricing strategies in this document. This will be provided to the OAL as the contract process evolves
- People – two approaches are outlined in this section: 1) Insource resources (recruit new roles) and 2) Outsource resources to vendors. Under the CG contract signed Nov 30 '15, CG is obliged to submit an implementation plan to OAL, no later than 15 days after the submission of the business plan. This implementation plan outlines areas in which CG can support OAL with expertise or additional resources – indeed this was the express intent of the contract agreed between CG and OAL



5.6.1 Governance

Work with current Governance Processes and Practices to deliver Business Plan

- CG will advise the OAL as required throughout the duration of its contract on governance, reporting and business case justification
- In the business plan a number of “addendums” are listed that should be considered by the OAL for implementation. The list of addendums are:
 - Cashless payments (allow retailers to sell lottery products like any other good/service) – FY17
 - Change to prize payment collection/verification (allow through major retailer(s)) – FY17
 - Digital channel (iLottery opportunity) – FY19
- *Separate justification will be provided to the OAL for approval of addendums as and when required*



5.6.2 Investment

The business plan incorporates incremental investment to deliver the recommendations

- Marketing - To deliver the Brand and Marketing plans, an increase in spend is needed
 - In FY17 Marketing spend in the Business Plan is \$6.0m (1.33% sales) and in FY18 \$6.5m (1.29% sales)
 - By FY21 Marketing spend grows to \$7.9m (1.3% sales vs. a historic average of 1.0%)
- People – The plan calls for an additional 5 FTE in key roles. The cost for these positions (including salary and associated expenses) is assumed at \$60k per FTE
- Consumer research and Game Development – a number of the recommendations require additional support for activity such as consumer research, econometric modelling, sales analytics
 - In FY17 the plan includes \$995k for such costs
 - Investment will be needed throughout the life of the plan, but at a lower level; the investment in the last four years of the plan totals \$2.9m



5.6.3 Vendors: Key contracts

**Outside of prizes and retailer commissions, vendor costs form the largest proportion of Lottery overheads (37%).
The long-term nature of the contracts currently in force mean cost savings opportunities are limited**

The Lottery should seek to:

- Maximize value from its current long-term contracts
- Prepare adequately for renewal of contracts nearing expiry

Lottery P&L (\$m)	FY15 Act	Percentage of cost base	Cost type: Contractual / Discretionary	Review and comment
Instants	335.0			
Draw Games	73.7			
Ticket Sales	408.7			
Instant prizes	(241.8)		Discretionary	Limited opportunity to maximize
Draw Game prizes	(38.7)		Discretionary	Outside of lottery control
Total Prizes	(280.5)			
Instants	93.2			
Draw Games	35.0			
Other Retailer Fees	0.6		Contractual	Limited opportunity to maximize - fixed annual fee by retailer
Gross Margin	128.8			
Operating Costs				
Retailer Commissions	(23.3)	41.4%	Contractual	Outside of lottery control
Vendor fees	(20.6)	36.7%	Contractual	Largely outside of lottery control - maximize value and prepare for renewals
Compensation and benefits	(5.4)	9.6%	Discretionary	Largely fixed costs, limited opportunity for cost savings
Marketing, advertising, promos	(5.0)	9.0%	Discretionary	Seek to optimize value - see recommendations in 5.3
G&A	(1.3)	2.3%	Discretionary	Lottery should conduct a review to identify cost saving opportunities
Services provided by ADHE	(0.5)	1.0%	Contractual	Outside of lottery control
Services provided by Legislative Audit Agency	(0.1)	0.2%	Contractual	Outside of lottery control
Legal & professional services	(0.0)	0.0%	Discretionary	
Depreciation	(0.2)	0.3%	Contractual	
Interest income	0.2	-0.4%	Contractual	
Operating costs	(56.2)	100%		
Proceeds to Education	72.6			

5.6.3 Vendors: Key Contracts

Outside of prizes and retailer commissions, vendor costs form the largest proportion of Lottery overheads (37%). The long-term nature of the contracts currently in force, mean cost savings opportunities are limited. Considerations for future contracts are:

At the request of OAL, and to preserve any strategy and/or competitive advantage exemptions the OAL may enjoy under the law, CG will not outline any requirements or pricing strategies in this document. This will be provided to the OAL as the contract process evolves

Gaming Systems

- Intralot's contract for host technology is set to expire in August 2019 and OAL needs to consider approach and review of technology in FY17.
- The key decision is whether a full RFP or further extension is in the best interest of the state
- The Lottery should consider alternative pricing structures for the replacement contract

Instant

The Lottery has recently renegotiated a long-term contract for Instant ticket printing and associated services to gain efficiencies. Primary focus for the lottery should be to maximize the value from this contract.

Specifically the Lottery should look to:

- Maximize the value of the The Club – see recommendations in 5.5
- Continue to critically assess the value of any additional fees payable outside of the percentage of sales rates (e.g. options such as holographic foil or special inks), i.e. will the selected option result in increased proceeds to Scholarships



5.6.4 People

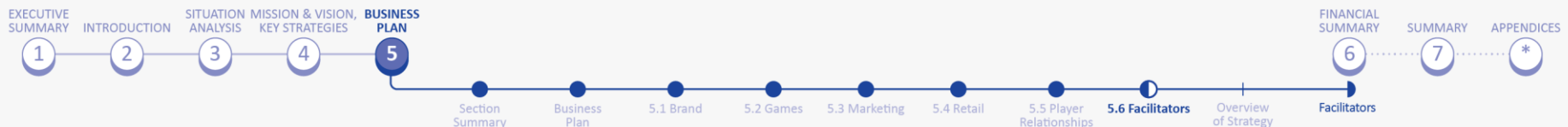
There are two ways to resource an organization, in-source and out-source. CG recommends the following resourcing approach for OAL

In-source – 5 additional roles to support the implementation of the business plan:

- Key account manager – to interact with chain stores at a head office level, promoting the value of lottery
- Consumer Insight – it is essential the lottery gains a greater understanding of its players in order to effectively implement the initiatives contained in the Business Plan
- PR – In order to implement the brand initiatives in the Business Plan we recommend 1 FTE is recruited
- Commercial Finance – This role will provide sales analysis, business case support, cost control (e.g. use of options with vendors) and have dotted reporting line into OAL Director
- The Assistant Product Manager role is required to deliver the Game plans, both Instant and Draw Game

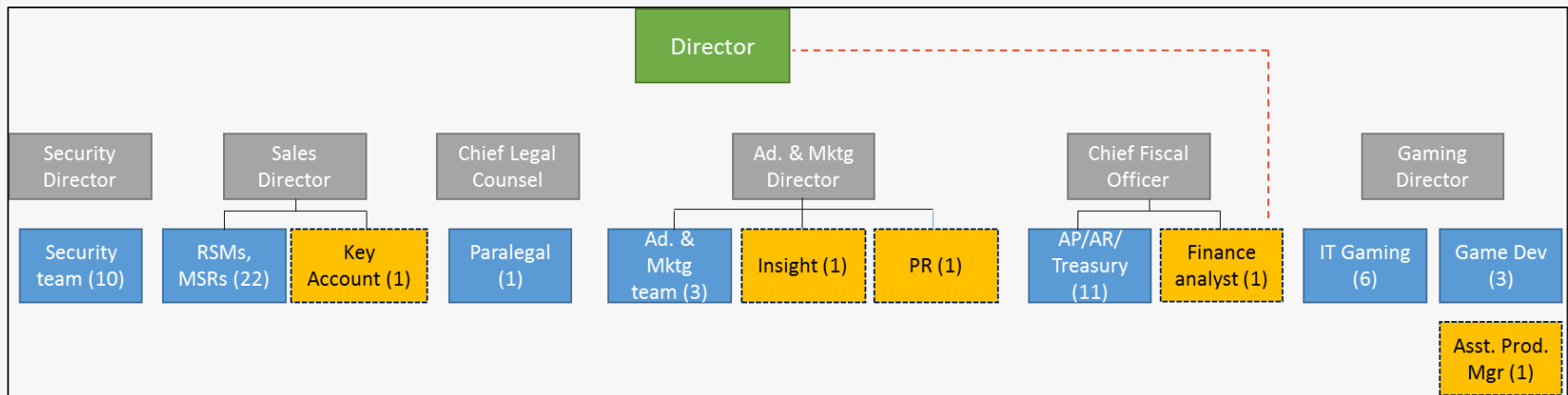
Outsource – short term use vendors and third parties to support implementation of the business plan:

- CG is obliged to submit an implementation plan 10 days after the business plan is submitted
- A scope of the activities contemplated follows in line with the intent of the contract and RFQ
- OAL should also look at maximizing vendor contracts, where vendors have the appropriate experience or credential to support the plan and provide bandwidth to OAL

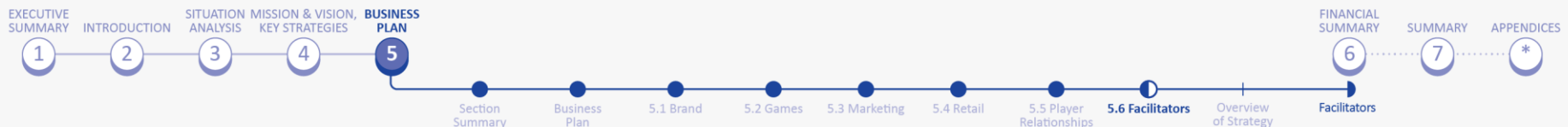


5.6.4 People – Insource (additional roles)

Proposed structure of approximately 68 FTE adds support in areas where the Lottery currently lacks resource, identified by the Situation Analysis and meetings with senior management



- Key account manager – to interact with chain stores at a head office level, promoting the value of lottery
- Consumer Insight – it is essential the lottery gains a greater understanding of its players in order to effectively implement the initiatives contained in the Business Plan
- PR – In order to implement the brand initiatives in the Business Plan we recommend 1 FTE is recruited
- Commercial Finance – This role will provide sales analysis, business case support, cost control (e.g. use of options with vendors) and to fulfil enhanced reporting. The individual will have a dotted line into the OAL Director
- The Assistant Product Manager role is required to deliver the Game plans, both Instant and Draw Game



5.6.4 People – Outsource

CG is obligated under its contract to provide an implementation plan to the OAL within 10 working days of submitting it's Business Plan. The scope of activities will include:

- **Insight:** establishing insight responsibility – recruit, transition and upskill resources and support implementation of business plan
- **Game:** develop new product development process – establish pipeline, research requirements and international benchmarking and then support implementation of business plan
- **Marketing:** ways of working within sales and marketing – establish integrated marketing across organization via ISPEX and iMAP tools and support implementation of business plan strategies
- **Retail:** Retail execution support – additional retailers and setting up key account team
- **Digital:** Formalize digital plan, set-out KPIs and support one-to-one marketing program (and CRM) – assist the lottery with devising a fit-for-purpose localized solution that helps attract more players to use digital and interactive platforms
- **Loyalty:** Support the loyalty and player retention program proposed in the Business Plan

It is envisaged that CG, under its contract requirements, can provide specialist project managers to support sales and marketing initiatives. These individuals will have a mix of consumer goods and lottery expertise



5.6.4 People – Other

Security interview was conducted and overview follows. Other observations from People/organization

Security overview and requirements

- Interviews with key stakeholders have taken place reviewing three main criteria: Physical security; Fraud; and IT Security
- Camelot use a structured approach to the assessment of the security activities and the management of security risks. The framework objectives are to:
 - Identify the implementation, operation and maintenance activities and artefacts that manage the information security risks and associated controls
 - Provide a reference against which current practice and proposed improvements can be measured
 - Identify and designate personnel responsible for ensuring standards are maintained
- A high level analysis has concluded that security arrangements in place within the OAL are in line with good industry practice

Other – training and development of staff

- OAL should be allowed to send staff and senior management to industry conferences and multi-state meeting forums to help in their development (and increase influence of Lottery). A program of upskilling staff from vendors could also be considered – to start to in-house responsibilities and knowledge where appropriate.



5.6.5 Facilitators – Responsible Play

Camelot recommends OAL establishes a responsible play program

- A program for responsible play should be established focused on vulnerable play – underage and excessive player behavior
- Any program should consider following principles from the WLA responsible play program
- Input based criteria should be established against:
 - Game design (game parameters for new styles of games)
 - Advertising codes (establish a formal advertising code)
 - Retail awareness program
- Output based metrics should be established focusing on:
 - Tracking play via player contacts
 - Monitoring play in-store
- Any responsible play program should be monitored by a cross departmental panel (covering sales, marketing and operations)





6. FINANCIAL PLAN

6.1 Base Case

6.2 Business Plan

6. Financial Plan - Introduction

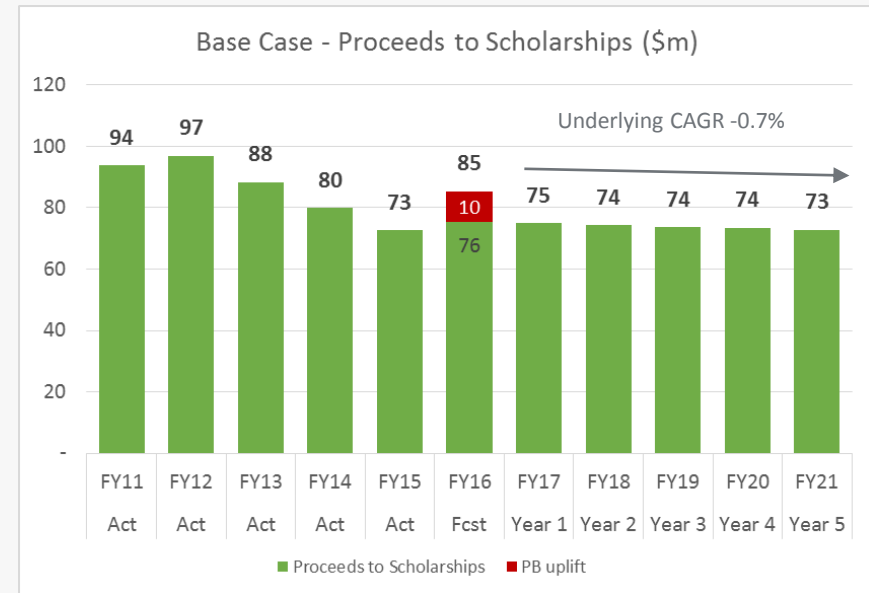
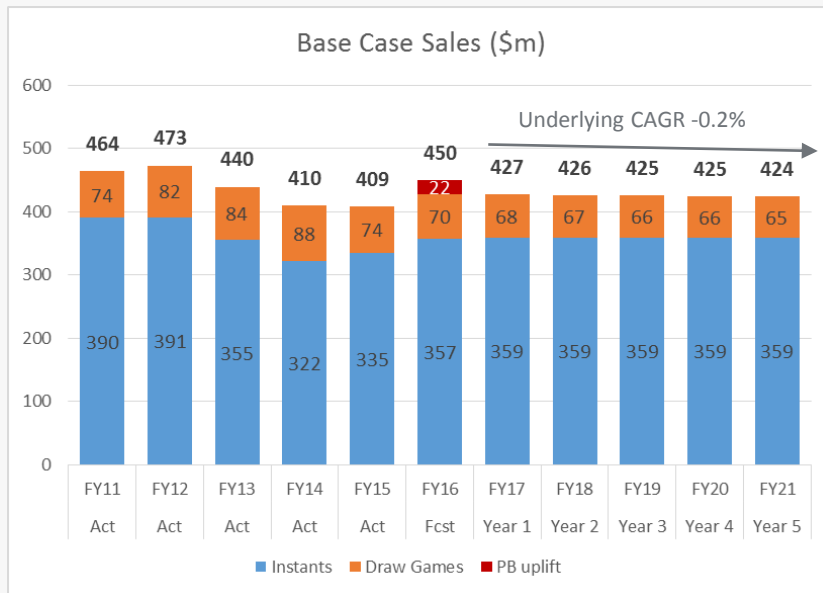
Camelot has taken the following approach to developing the financial plan:

- In the first instance a 'base case' has been established without the initiatives included in the Business Plan to provide a counterfactual scenario
- The Business Plan scenario includes the initiatives identified in the plan
- Over the five years to FY21, the Business Plan delivers proceeds to Scholarships of \$486m, compared to \$369m in the Base Case, an increase of \$117m



6.1 Base Case - Headlines

- Sales and Proceeds to Scholarships delivered by the Base Case are shown below:
- Base Case sales reduce from \$427m in FY17 to \$424m in FY21 (the one-time \$22m sales benefit of the exceptional Powerball roll series in FY16 is isolated, giving an underlying sales forecast of \$428m for FY16)
- Proceeds to Scholarships in the Base Case fall slightly from \$75m in FY17 to \$73m in FY21 due to the impact of a) increased Instants sales mix and b) higher price point mix within Instants
- Over the five years to FY21 proceeds to Scholarships total \$369m



6.1 Base Case – P & L

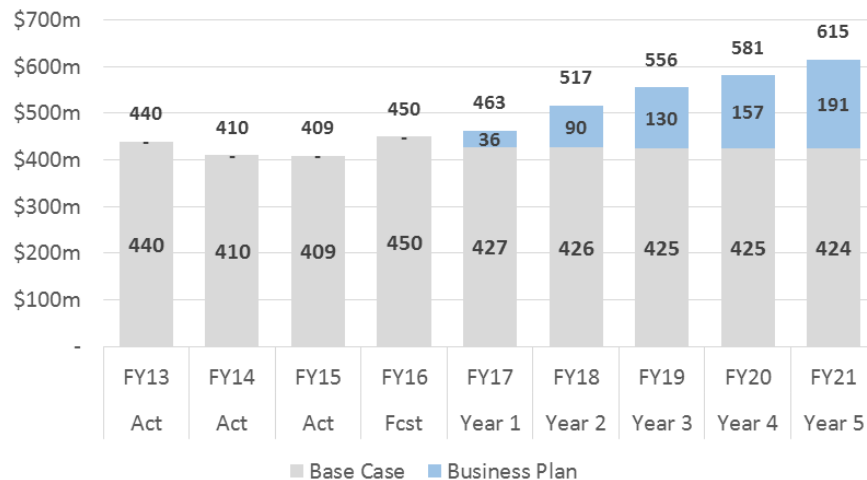
- Summary P & L for the Base Case is shown below

Summary P&L	Act	Act	Act	Act	Act	Fcst	Year 1	Year 2	Year 3	Year 4	Year 5
Figures in \$m	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Sales	465.1	473.6	440.1	410.6	409.2	450.3	427.6	426.8	426.0	425.2	424.4
Prizes	(307.5)	(315.3)	(292.1)	(275.0)	(280.5)	(304.9)	(295.8)	(295.8)	(295.8)	(295.7)	(295.6)
Gross Margin	157.6	158.3	148.0	135.7	128.8	145.4	131.7	131.0	130.2	129.5	128.8
% Sales	33.9%	33.4%	33.6%	33.0%	31.5%	32.3%	30.8%	30.7%	30.6%	30.5%	30.3%
Retailer Commissions	(26.2)	(26.5)	(25.0)	(23.0)	(23.3)	(25.6)	(24.3)	(24.3)	(24.3)	(24.2)	(24.2)
Vendor Fees	(24.1)	(24.3)	(22.1)	(20.5)	(20.6)	(22.1)	(20.0)	(19.8)	(19.6)	(18.9)	(18.8)
Marketing	(4.6)	(4.5)	(4.4)	(4.5)	(5.0)	(5.0)	(5.1)	(5.1)	(5.2)	(5.2)	(5.3)
Personnel costs	(6.2)	(6.0)	(6.0)	(6.0)	(5.4)	(5.4)	(5.5)	(5.5)	(5.6)	(5.7)	(5.7)
Other Op. costs	(2.6)	(0.2)	(2.0)	(1.8)	(1.9)	(1.9)	(1.9)	(1.9)	(1.9)	(2.0)	(2.0)
Operating Costs	(63.8)	(61.5)	(59.6)	(55.8)	(56.2)	(60.1)	(56.8)	(56.7)	(56.6)	(56.0)	(55.9)
% Sales	-13.7%	-13.0%	-13.5%	-13.6%	-13.7%	-13.3%	-13.3%	-13.3%	-13.3%	-13.2%	-13.2%
Income before transfers	93.8	96.9	88.4	79.9	72.6	85.3	74.9	74.3	73.6	73.5	72.8
% Sales	20.2%	20.4%	20.1%	19.5%	17.7%	18.9%	17.5%	17.4%	17.3%	17.3%	17.2%

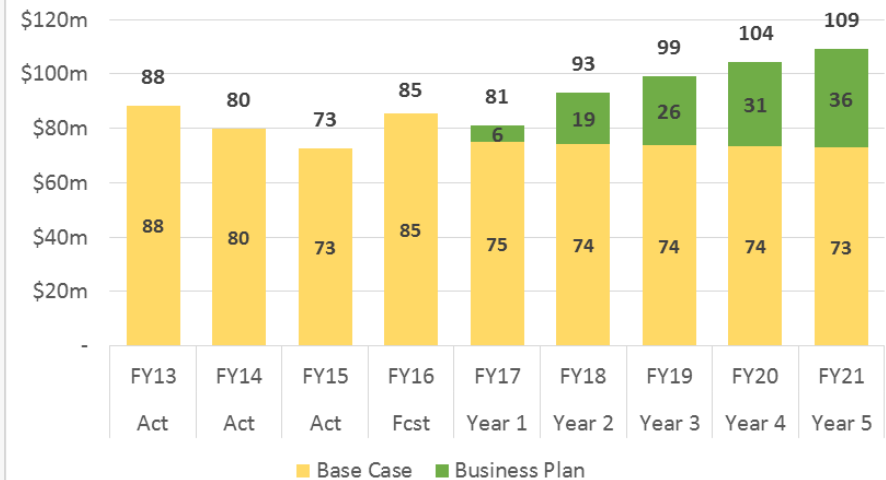
6.2 Business Plan - Headlines

- Sales and proceeds to Scholarships delivered by the Business Plan are shown below:
- Sales increase from \$450m in FY16 to \$615m in FY21
- Proceeds to Scholarships increase from \$75m in the FY17 Base Case to \$109m in FY21
- Over the five years to FY21, proceeds to Scholarships total \$486m vs. \$369m in the Base Case

Sales - Business Plan vs. Base Case



Proceeds to Scholarships - Business Plan vs. Base Case



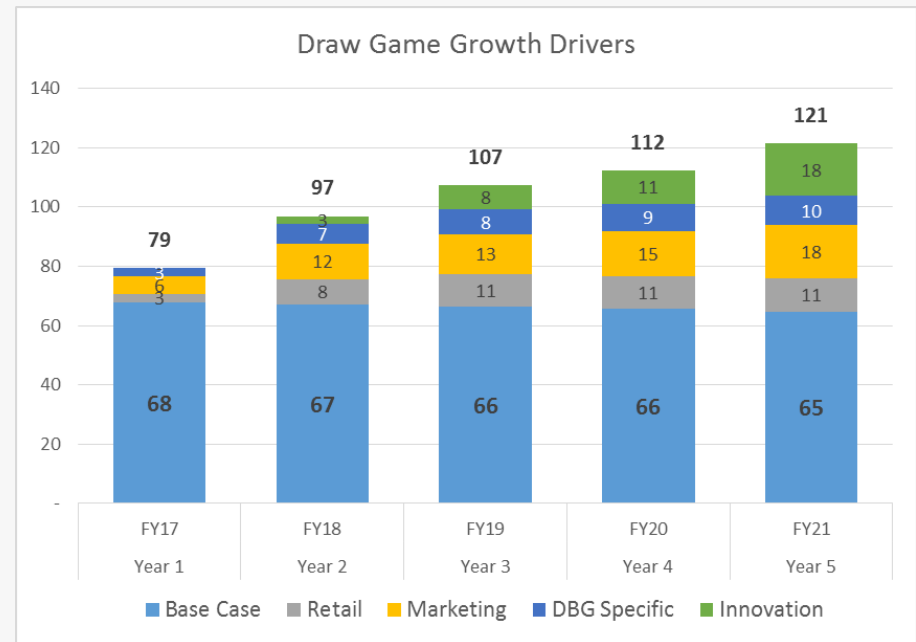
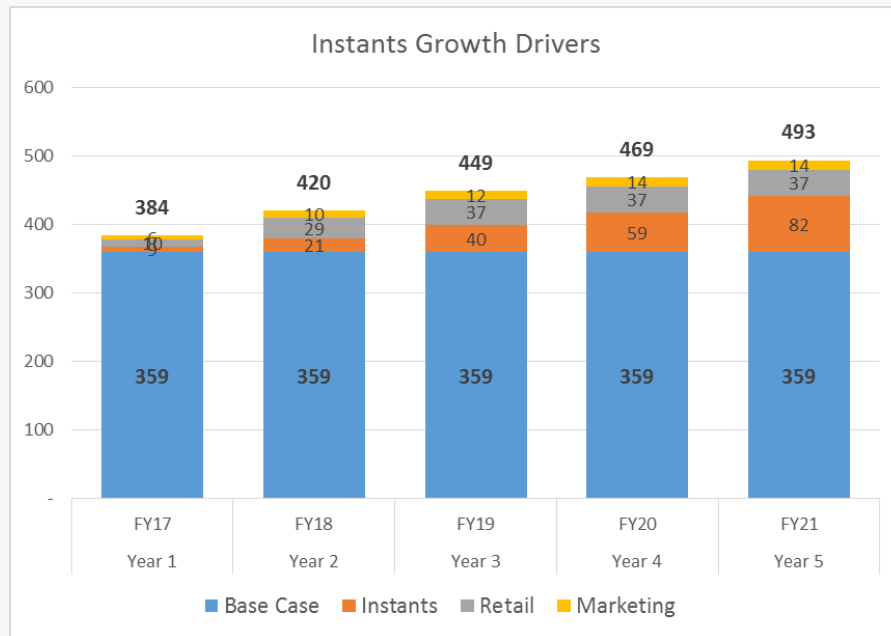
6.2 Business Plan – P & L

- Summary P & L for the Business Plan is shown below:

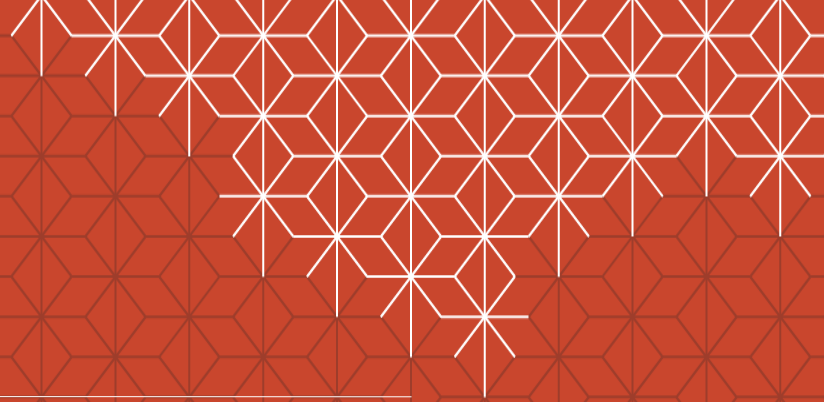
Summary P&L Figures in \$m	Act FY11	Act FY12	Act FY13	Act FY14	Act FY15	Fcst FY16	Year 1 FY17	Year 2 FY18	Year 3 FY19	Year 4 FY20	Year 5 FY21
Sales	465.1	473.6	440.1	410.6	409.2	450.3	463.8	517.2	556.2	581.9	615.4
Prizes	(307.5)	(315.3)	(292.1)	(275.0)	(280.5)	(304.9)	(317.7)	(351.0)	(377.5)	(395.3)	(418.3)
Gross Margin	157.6	158.3	148.0	135.7	128.8	145.4	146.1	166.2	178.8	186.5	197.2
% Sales	33.9%	33.4%	33.6%	33.0%	31.5%	32.3%	31.5%	32.1%	32.1%	32.1%	32.0%
Retailer Commissions	(26.2)	(26.5)	(25.0)	(23.0)	(23.3)	(25.6)	(26.4)	(29.4)	(31.7)	(33.1)	(35.0)
Vendor Fees	(24.1)	(24.3)	(22.1)	(20.5)	(20.6)	(22.1)	(24.3)	(28.8)	(32.7)	(33.4)	(36.5)
Marketing	(4.6)	(4.5)	(4.4)	(4.5)	(5.0)	(5.0)	(6.0)	(6.5)	(7.0)	(7.5)	(7.9)
Personnel costs	(6.2)	(6.0)	(6.0)	(6.0)	(5.4)	(5.4)	(5.6)	(5.6)	(5.7)	(5.7)	(5.8)
Other Op. costs	(2.6)	(0.2)	(2.0)	(1.8)	(1.9)	(1.9)	(2.9)	(2.8)	(2.6)	(2.5)	(2.7)
Operating Costs	(63.8)	(61.5)	(59.6)	(55.8)	(56.2)	(60.1)	(65.2)	(73.2)	(79.6)	(82.3)	(88.0)
% Sales	-13.7%	-13.0%	-13.5%	-13.6%	-13.7%	-13.3%	-14.1%	-14.1%	-14.3%	-14.1%	-14.3%
Income before transfers	93.8	96.9	88.4	79.9	72.6	85.3	80.9	93.0	99.1	104.2	109.1
% Sales	20.2%	20.4%	20.1%	19.5%	17.7%	18.9%	17.4%	18.0%	17.8%	17.9%	17.7%

6.2 Business Plan - Sales drivers

- Based on the key recommendations in section five, the two charts below show the primary drivers of growth for Instants and Draw Games



7. SUMMARY



7. Summary

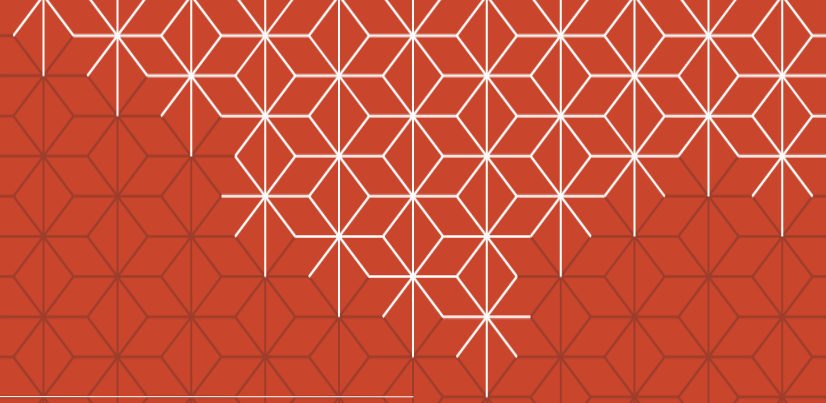
- The plan that Camelot recommends to the OAL is to grow sales by recruiting new players, increasing the frequency of less committed players and protecting the play of those who play regularly
- Simply put, this plan aspires to: RECRUIT new players, NURTURE less frequent players and PROTECT regular play
- Achievement of this ambitious plan will grow proceeds to Scholarships from \$73m in FY15 to \$109m in FY21



Appendices

- A. Situation Analysis
- B. Commissioned Research
- C. Supplementary Information

APPENDIX A –SITUATION ANALYSIS





APPENDIX B – COMMISSIONED RESEARCH

Draw Games – Summary of Recommendations

Differentiate the core portfolio offerings by segmentation each Game into clearly defined Need State categories (i.e. the consumer motivations to play). This should be done before investing in Game renovation... which will create wider appeal and increased player participation

MOTIVATIONAL NEED STATE: Transform My Everything	MOTIVATIONAL NEED STATE: Transform My Year	MOTIVATIONAL NEED STATE: Brighten My Day	MOTIVATIONAL NEED STATE: Secure My Years to Come	MOTIVATIONAL NEED STATE: Brighten my Now, Now, Now!
				
Influence multi-state developments	Renovate to deliver bigger but still winnable jackpots and improved overall win frequency	Exercise category management principles – consolidate once a more potent game is found with a focus on more relevance in Arkansas	Influence multi-state developments	Establish new product pipeline with a ambition to develop games that genuinely appeal to under-served Player Need States, with a focus on delivering better win frequency and local appeal and immediacy
Invest Significant Marketing Expenditure to grow revenues	Invest Marketing Expenditure to grow revenues	No Marketing Investment to maintain current revenue, Invest Moderate Marketing Expenditure to establish any game changes	Invest Moderate Marketing Expenditure to test growth potential	

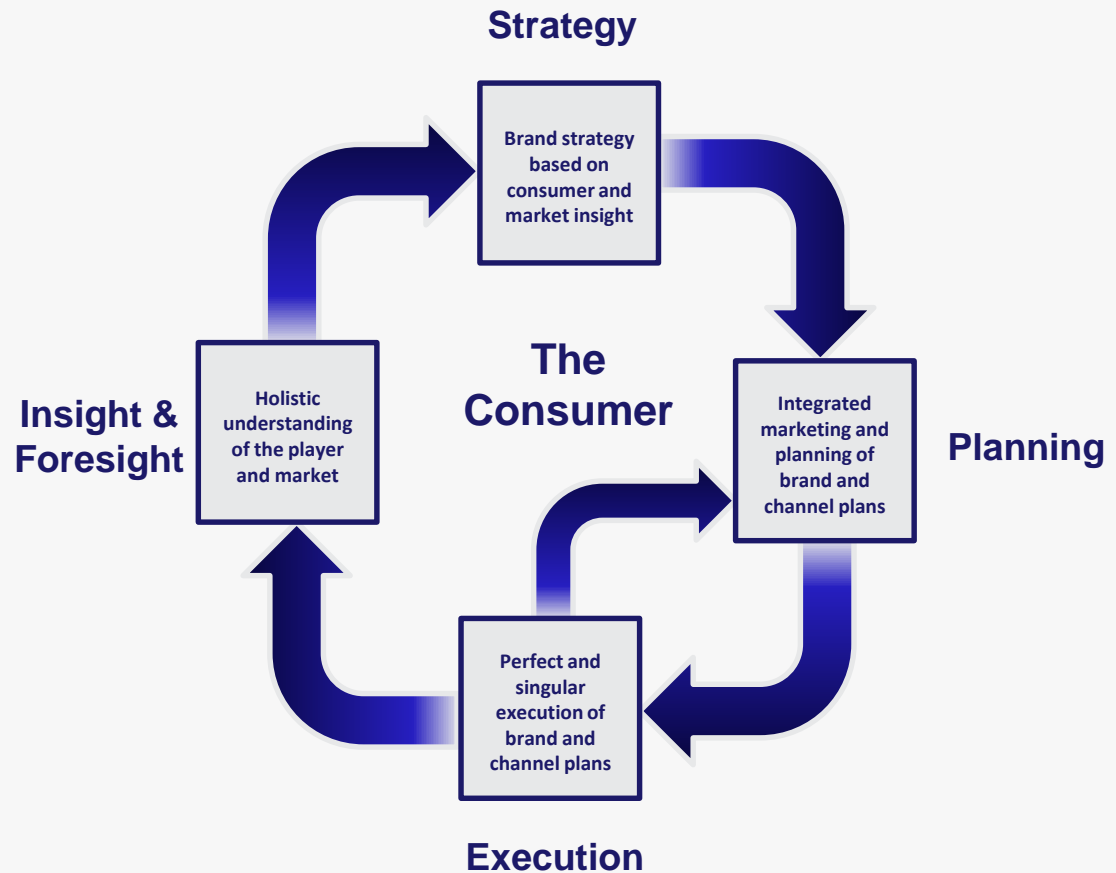
Mission and Vision from OAL Comprehensive Business Plan fiscal years 2016 - 2021

Mission: The OAL is a self-supporting and revenue-producing agency of the State of Arkansas, housed in the Department of Finance and Administration's Management Services Division. The Arkansas Constitution states that the OAL's net proceeds, through administration of the Department of Higher Education, will provide scholarships and grants to citizens of the State of Arkansas enrolled in public and private nonprofit two-year and four-year colleges and universities located within the state, and supplement, not supplant, non-lottery educational resources.

Vision: OAL's vision is to operate the lottery in a "world-class" manner. Every aspect of the operation will function at a level of excellence, with the intent to maintain integrity through openness, honesty and hard work. Achieving this level of performance requires a talented and well-trained workforce. Understanding this, we intend to be known for employing the brightest, best and most diverse workforce. We are also for our support of responsible gaming. We control our expense in an attempt to give the legislature as much money as possible to allocate toward education in Arkansas. These dollars should go to the support of a broad range of educational benefits across the entire age spectrum. We will not compromise our integrity. What we do at the OAL must not only look right, it must be right.

iSPEX

Camelot adopts a holistic brand management process known as iSPEX (an acronym representing ‘**I**nsight led **S**trategies that we **P**lan and **E**Xecute against’) to help determine the foundations for game innovation and portfolio growth, developing compelling insight driven products and sales and marketing. The iSPEX process puts the consumer at the heart of decision making and starts with ‘Insight and Foresight’ or more simply, the identification of opportunities through consumer and market research.



iMAP

iMAP stands for integrated **Marketing, Activity Plan**. It is used to map the marketing communications across all brand touch points to ensure consistent/integrated messaging

