JACK UPDATE[SM]: The Monthly Newsletter From Independent Lottery Research. Issue 12, December 2006

Holiday Insights From Independent Lottery Research

INTRODUCTION

Happy Holidays to all our lottery and vendor friends. Just a few days before Christmas and we know you're all busy shopping for last minute gifts, but we hope you take a minute to read about our interesting findings this month. An ILR preview of the Holiday Instant/Scratch/Scratcher tickets on sale this month is encouraging. Looking at this month's *Lottery Insights* magazine, maybe it was our National Poll's findings, maybe it was just a banner year for creativity in graphic design, either way, the ticket displays look great! Perhaps without obvious appeals to young adults or women (two demographics that told us they bought stockings full of tickets last year and thus became prime Jack to Joe possibilities), but pleasing to the eye, colorful, and imaginative.

This newsletter looks at what consumers are thinking going into the Holiday/Christmas season, both in terms of general buying plans and specific lottery gift shopping. So let's see what Santa might be packing his bag with, and if he could be delayed by scratching that $10/$100K prize ticket while coming down the chimney.

This newsletter combines two months' worth of data, ask questions about anticipated holiday purchasing in both November and December, and reports net results of both months here. Given a sample size of 900 adults across the U.S., with 75-100 adults in large population states, this data is projectible for individual states. For a detailed analysis of holiday

CONSUMER CONFIDENCE AND SPENDING PLANS FOR THE HOLIDAYS

Our National Poll finds that consumers are pulling back even further from major purchases, but are spending more freely for day-to-day purchases as they ratchet up spending for the holidays.

The consumables spending index, which is tracked each month by measuring spending for day-to-day goods, edges higher, led by freer spending for food and gasoline. We also find that Christmas buying plans are at the best December level in five years. Both of which bode well for lotteries.

Job confidence is also up as fear of a job loss or income interruption declines two points to 35%; near the best level of this year. The percent reporting loss of a job or earning power during the year declines five points to 22%.

Shopping for Day-to-Day and Major Purchases

	2005 Dec	2006 Nov	2006 Dec	Change: Month-To-Month	Change: Year-To-Year
SPENDING FREELY FOR: (Not cutting back on)					
Maintaining Standard of Living	62%	65%	64%	**-1**	+2
Clothing	50	54	55	**+1**	+5
Food	59	59	63	**+4**	+4
Driving (Gasoline)	41	46	50	**+4**	+9
Medical Care	76	76	77	**+1**	+1

PERSONAL FINANCIAL OUTLOOK

Households across the nation expect their present stability to continue in the year ahead. While fewer see improvement, the percent who feel that their income and overall financial situation will be the same as it is now stands at or near the highest level of the year. In addition to the present stability that households enjoy, the percentage who feel it will be harder for them to get by a year from now drops six points to 27%, the lowest percentage in two years.

HO HO HO-LIDAY SPENDING PLANS

If consumers act on their buying plans, this will be the best retail Christmas season in five years. The percentage of households who expect to spend less this Christmas has now dropped to 40%, two points less than in November and the lowest expected level to curb Christmas spending this December in six years. The percent who expect Christmas spending to increase this year drops one point this month to 24% but, nonetheless, stands at the highest level in December since 2003.

	2006					2005	Change
	Aug	Sep	Oct	Nov	Dec	Dec	Dec '05/'06
THIS YEAR EXPECT TO SPEND FOR CHRISTMAS:							
More	18%	20%	23%	25%	24%	22%	+2
Less	43	42	38	42	40	48	-8
The Same	39	38	39	33	36	30	+6

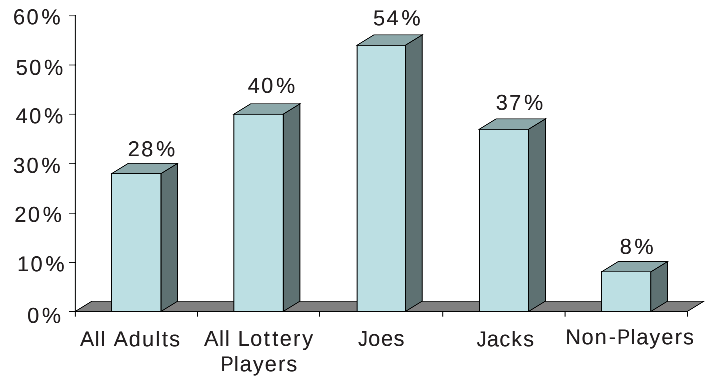
JOES AND JACKS AND SANTA

Two in five lottery players report having ever bought a lottery ticket as a Christmas gift or stocking stuffer (40%): half of Joes (54%), one third of Jacks (37%), and 8% of non-players say they have given a lottery ticket gift.

Asked if they plan to give lottery tickets as gifts this year, however, only one in six adults overall say they will (17%). More Jacks and Joes, than non-players, say they will purchase a lottery ticket for Christmas (35% Joes, 22% Jacks, 4% non-players).

Two-thirds of those who plan to purchase lottery tickets as gifts this year plan to spend about the same as last year. The other third are split evenly between those planning on spending more and those planning on spending less.

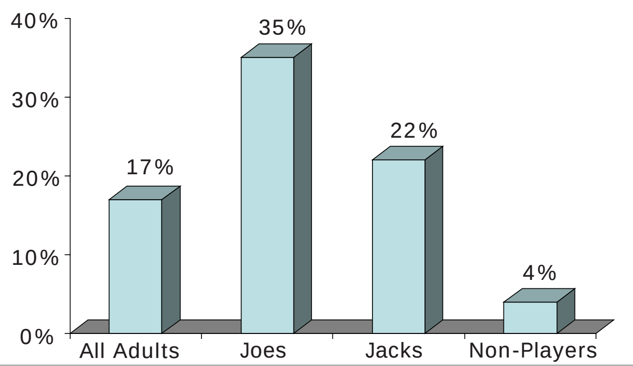
Those Who *Have Ever Bought* a Lottery Ticket as a Christmas Gift or Stocking Stuffer?



WHO'S BUYING? YOUNG JOES AND JACKS, JOSEPHINES AND JACKIES

As we reported last year, the demographics of lottery instant ticket buyers changes dramatically during the holiday season. Those who purchase lottery tickets as Christmas gifts are younger and much more likely to have teenage children at home than the typical lottery player. Half of Christmas lottery ticket purchasers are women. Let us repeat that: **Half of all Christmas lottery instant ticket purchasers are women.**

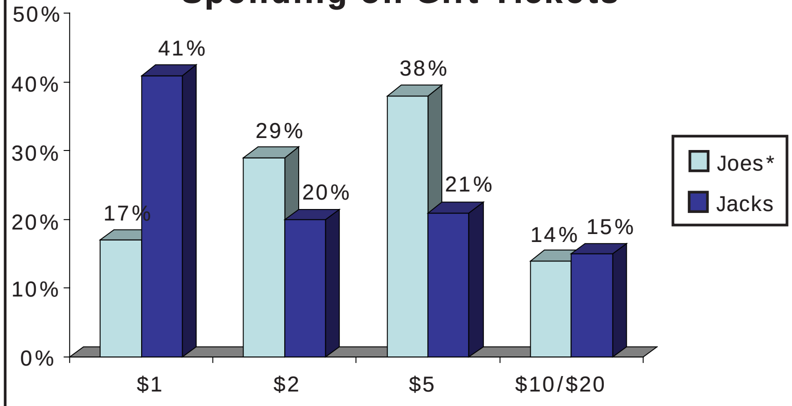
Those Who *Will Buy* a Lottery Ticket as a Christmas Gift or Stocking Stuffer?



AS GIFTS, PERSONAL SHOPPING, OR STOCKING STUFFERS?

Of the 75% who have ever given a lottery ticket as a gift, 53% say at least half of the tickets they give are holiday-themed . One quarter say that "almost" none of the tickets they buy as gifts are holiday themed (8% Joes, 32% Jacks).

Most people tend to buy $1 (35%), $2 (20%), or $5 (26%) denominations as gifts, with Jacks significantly more likely to buy $1 tickets. However, they are likely to spend an average of about $10 on lottery tickets for an individual. This means that they are buying multiple lower priced tickets rather than a single $10 ticket, which has major implications for holiday ticket marketing.

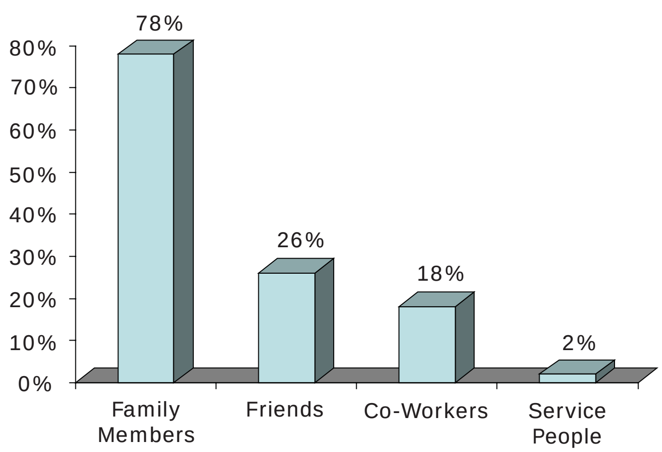


Only asked in December. N=450 *Caution, small sample sizes

Each month we conduct our monthly National Jack Poll[SM] and will share this information with you. If you would like to suggest a question to add to our poll, email us: info@ilresearch.com.

WHO MADE THE "NICE" LIST?

Three-quarters of ticket gift-givers say they typically give tickets to family members (78%), but they also indulge friends (26%) and co-workers (18%). Only 2% purchase tickets for service people. We find that young adults who purchase are much more likely to buy for co-workers than older players.



FOR VENDORS ONLY

Great tickets, vendors! Now how about marketing strategies, retail tactics, prizes, prices, packaging, in-workplace signage, new POP, imaginative creative, new retail employee incentives and training. What wonderful opportunities are inherent in these findings. New consumers, different consumers, new markets, young people, women buyers, a whole Christmas list of possibilities. Did you design this year's games based on our last holiday season's findings? If you did we'd love to hear about your success…we'll post it on our website (visitors from all over the world on a weekly basis)…did you include iPods (we'll post it) concert tickets (we'll post it), XBox 360s, iTunes gift cards, hard to find electronics, Shure 5.0s…and on and on?

A full detailed report of the past month of data collected from our National Jack Poll[SM], with implications, recommendations and a breakout of residents in your state (where available) is available for purchase. Please allow one to two weeks for delivery.

- A detailed report, summary tables, data tables, as well as implications is available for **$2,500**
- **$1,500** for data tables only
- **$24,000** for a full year's subscription of detailed reports, a savings of **$6,000**

Contact Margaret Mueller at (312) 546-5925 x3 or margaretm@ilresearch.com to purchase

IMPLICATIONS

This Christmas, half of all holiday tickets will have been sold to women. Many, as we reported last year, to the elusive Gen X and Y-ers who, based on two years of research, should maybe be called Gen-Instanters. But, deep within the numbers above are some interesting insights and implications. Jacks report not buying "holiday" themed tickets. On its face this seems problematic and compared to findings from a year ago, contradictory. But, we think of it in a different way: Jacks bought "holiday" tickets in the past year without focusing on themes, play values, or graphics. Their purchases were automatic: I need last minute gifts…lottery tickets are convenient…Hey, give me ten! And, that was it. No emotional involvement. No lingering desire to buy more after the season is over. The graphics, etc. were not designed to engage them. The prizes: invisible. The play: an afterthought. Jacks' holiday spending represents an opportunity lost by the lottery industry.

Keep in mind for next year the way young adults buy holiday instant games: they rank high in terms of buying for co-workers. Just like office pools for the NCAA basketball tournament, just like our previous newsletters and columns in *Lottery Insights* magazine detailing the potential for office pools during large bloc lotto events, ILR is discovering a new, unrealized, potentially explosive market during the holidays. Let's make it easier for this activity to happen and let's design games to encourage such behavior.

Finally, once again the data calls into question the whole accepted price point strategy, at least from reported behavior. The vast majority of Joes and Jacks buy $1 holiday tickets and their numbers as a percentage decline precipitously as they move up the price point ladder. Ones and twos must be appearing on Santa's lists…not fives and tens.

RECOMMENDATIONS

This should be a banner holiday season in the United States. Lottery sales should be strong. The question to be answered is, beyond the luck of a big bloc lotto prize, did we maximize the holiday market for instant games? Did we have in place games that would appeal to the consumers we described as being "willing and able" last year, did we plan to sell them during Christmas, and did we have more games that would appeal to motivate them to keep buying our products in the New Year?

Did we use the Holiday Season to educate the broader group in buying our products and what we are all about? Did we emphasize proceeds? Giving? Office behavior? Did we use creative methods to reach out to younger Jack adults, and to women of all ages with graphics, co-promotion partners, prizes and pricing?

This seems to be just a list of questions. But, in each question is a possible increase in sales and profits and each question is an example of actionable research.

We can't wait for next Christmas. We know what should be on every adults' list of things they want Santa to make available.

Please let us know about your Lottery's hoiday ticket sales and promotions and we will include them in our next newsletter.

The ILR team from left to right: Michael Jones, Gary Kubo, Margaret Mueller, Matthew Smith

Independent Lottery Research (ILR) is a internationally respected consumer behavior research firm dedicated to ensuring lotteries maximize sales and profits in a socially and ethically responsible manner through independent and objective research concerning players (Joes) as well as non-players and lapsed players (Jacks). Lotteries and vendors have spent a lot of time understanding who Joe is. The question is:

DO YOU KNOW JACK?

We Know Jack

