



What Do You Think About Privatizing Your Lottery?

Questions Linger in the Minds of Consumers Over Lottery Privatization

INTRODUCTION

In response to numerous inquiries, Independent Lottery Research has recently used its National Poll to ask adults what they think about lotteries being run by private companies. In two separate polls, beginning the first week of January and continuing in February, we asked a series of questions about the issue. The results may surprise you.

Data from the January and February 2007 polls reinforce many of the findings from previous ILR polls about the importance of proceeds messaging, the potential of "Jack," and the importance of lottery "brands." Over the last month, ILR Directors have fielded numerous calls from media outlets seeking independent views on the pros and cons of privatization. You may have read some of our thoughts in *The New York Times*, *The Charlotte Observer*, or *The Indianapolis Business Journal*. In all of these interviews we have maintained our belief that lotteries have great potential to increase sales and profits in an ethical and socially responsible manner, and that the way to accomplish such increases is through understanding and selling to a broader adult audience.

The future may or may not be privatization, but the future is definitely "Jack."

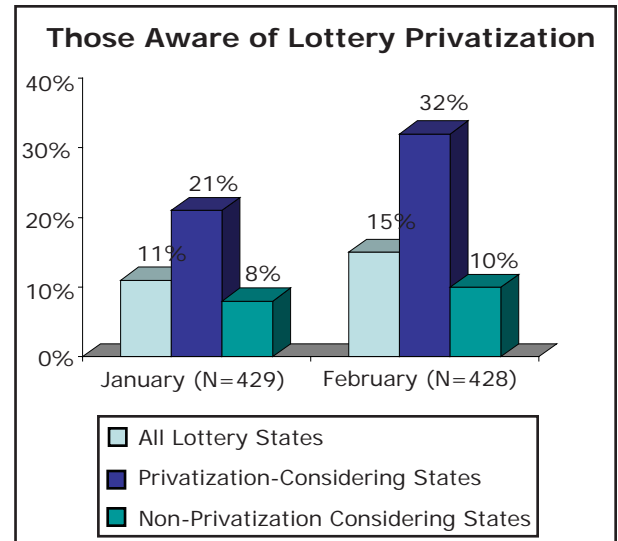
AWARENESS IS HIGH, YET UNCERTAINTY GROWS

Awareness of lottery privatization is high, even in states that have not considered privatizing their lotteries. In January, one in ten adults nationwide, and one in five in states that have publicly announced considering privatizing their lottery, were aware of the issue. Those numbers rose to 15% and 32% in February.

Initial reactions to privatization among survey respondents overall are negative. However, the majority of our random sample had not heard of the issue until the survey question was asked. Interestingly, those who have heard and read about the issue in the media are more than twice as likely to support the idea.

Asked whether they think "selling the lottery to a private company is a good idea or a bad idea," just over half of respondents think it is a "bad idea," one in ten think it is a "good idea," and over one-third are not sure. But, these percentages double among those previously aware that some states are considering privatizing their lotteries.

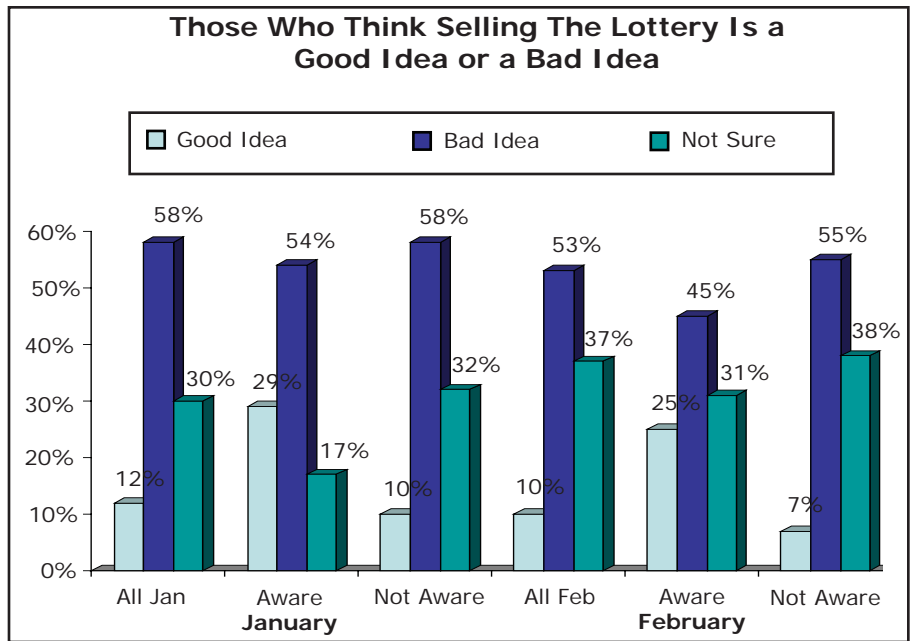
Attitudes have changed from one month to the next as the idea takes on more media traction: in February, one quarter of adults aware of the privatization issue believe it is a "good idea," slightly down from 29% in January. The percent of those "not sure" about the idea increased seven points from January to February; and almost doubled among those aware, suggesting that uncertainty about privatization has grown in the past few months. And, as we have seen in previous surveys, whether they play the lottery or not, most people have opinions about their lotteries: no differences exist between Joes (core players) and Jacks (infrequent/lapsed players).



BRAND LOYALTY OR OPERATOR LOYALTY?

About half of consumers say that their lottery play would not change if it were privatized. Over one-third of consumers say they think they would be less likely to play the lottery if it were owned by a private company, while only 2% say they would be more likely to play. That includes 2% of non-players, people who have never played their lottery, who say they would be more likely to play if it were owned by a private company.

“Joes” (core players) have stronger convictions about playing a privatized lottery on both sides of the issue. The proportion of “Joes” who say they would play more is double (4%), and the number who will play less is also higher at 43% (data not shown).



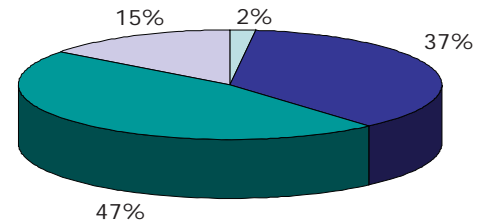
A full detailed report of the past month of data collected from our National Jack PollSM, with implications, recommendations and a breakout of residents in your state (where available) is available for purchase. Please allow one to two weeks for delivery.

- 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

Playership If The Lottery Were Owned By a Private Company

More Likely to Play | No Difference | Less Likely To Play | Don't Know

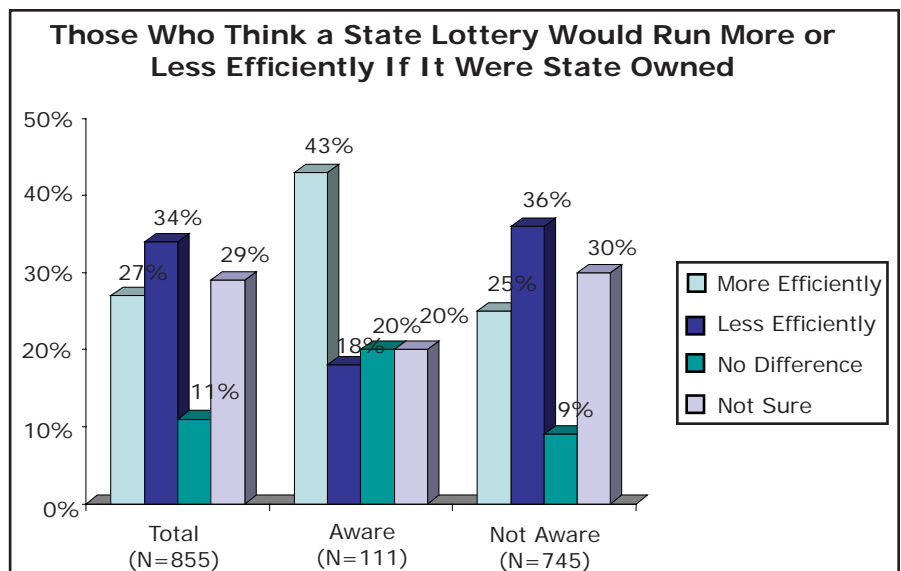


PRIVATE VERSUS PUBLIC EFFICIENCIES

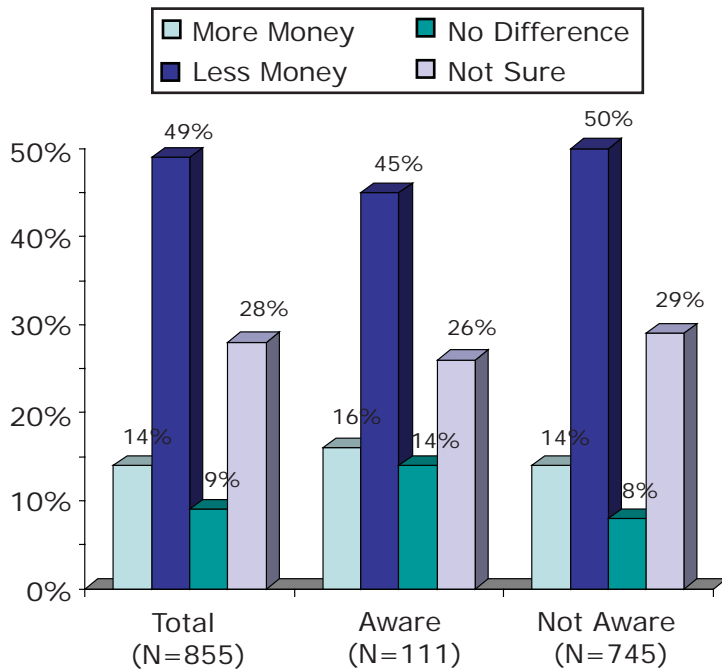
One-quarter of respondents think a privately-owned lottery would run more efficiently than a state-owned lottery.

One major concern among consumers is that a privately run lottery would raise less money for good causes than a state run lottery (49%). Yet, one in seven believe a privately run lottery would actually raise more money for the state.

Concerns over expansion of gambling are also an issue. Two in five consumers think privatization will lead to an expansion of gambling. However, this number decreases by ten points among those previously aware of the issue.



Those Who Think That A Privately-Run Lottery Would Raise More or Less Money For Good Causes Than a State-Run Lottery



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Each month we conduct our monthly National Jack PollSM 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.

OVERALL RESULTS

In just one month, awareness of privatization has increased by 36% overall, 50% in the states of Illinois, Indiana, New Jersey, Michigan, and Texas.

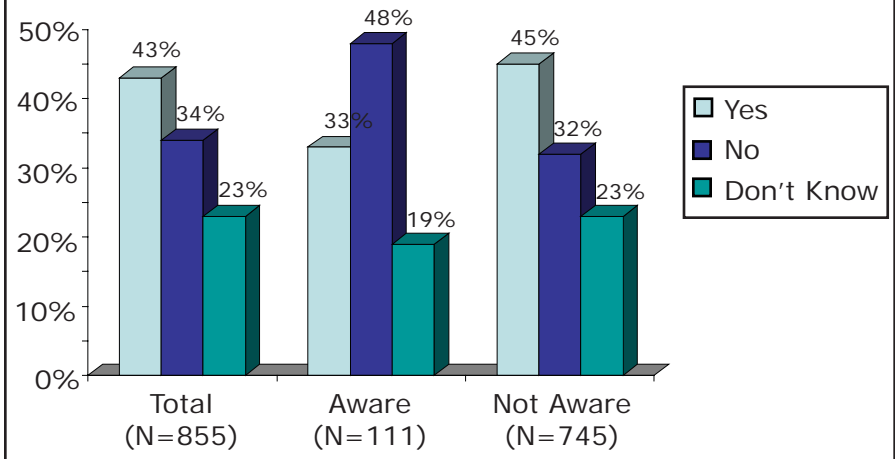
Consumers are becoming increasingly confused on the issue, as the percentage not sure whether they believe it is a "good" or "bad" idea rises.

The data may also reflect the level of attention local and national the media have given the story.

These initial data suggest that a number of questions remain in the minds of consumers; questions that may affect the future value of a lottery license. Top concerns are how the money from the sale will be used by the state, whether gambling will be expanded, who the "private company" will be, and how much money the private company gives back to the state. Answers to these questions are likely to play a major role in how consumers feel about the lottery post-sale, whether or not they feel like playing the lottery is "worth it," and – most important to political decision makers – whether they agree that their lottery should be privatized at all.

The potential for controversy exists as well if bids indicate that would-be managers in the private sector see ways not being pursued by current lottery management to get more value, higher sales, and bigger profits out of a lottery.

Those Who Think That Privatizing The Lottery Will Lead To An Expansion of Gambling



IMPLICATIONS

Last Spring the Governor of Illinois, facing a potential primary opponent and desperate for new sources of revenue to fund programs that would head off such a challenge, announced a plan to privatize the Illinois Lottery for a potential immediate \$10 billion windfall. Since that announcement, a general momentum seems to have developed among states examining the potential of a privatized lottery and gauging both the private sector's interest and the public's reaction to such a dramatic change in how the modern-day lottery is operated.

These actions by states have major implications for both lotteries and lottery vendors. The National Jack PollSM results indicate a great deal of concern by both Joes and Jacks about privatization. In interviews with media there seems to be a general concern about letting private companies run lotteries, but there also seems to be a general consensus that lotteries could be more successful than they are now. This is a major opportunity for all lotteries.

ILR data has always indicated opportunities for lotteries and lottery vendors if they rethink their current template for success. The opportunities for increased brand awareness and proceeds support are obvious. The possibilities inherent in broadening the base of current playership are real, measurable, and dynamic.

The paradox lottery vendors find themselves in is palpable: if they bid these contracts with new ideas and new methods of increasing sales and playership that they have not offered to current customers they will find themselves in a difficult position; if they push for expansion of gambling they will be labeled negatively in states not considering privatization; if they don't push hard to obtain private licenses they may allow new companies, new technologies, and new strategies to compete with them all over the world.

The public is skeptical but willing to listen. Lotteries need to be proactive in proving what one of our directors argued in front of the National Gambling Impact Study Commission: that lotteries should be run by Government – if Government understands that its role is to maximize sales and profits in an ethical and socially responsible manner – and they should be run well.

RECOMMENDATIONS

It's time to rethink strategies and brand. The National Poll indicates, as always, that everyone has an opinion about their lottery and that there is significant concern about changing how lotteries operate. As we have written in these pages over the last year, current strategies based on increasing sales through selling more to "Joes" has not captured the imagination of state houses or maximized the potential inherent in "Jacks." Such strategies, pursued for over a decade, resulting in incremental sales increases year to year and declining profitability as a percentage of sales, do have a cost. A cost in the attitudes of both "Joes" and "Jacks." A cost now made real by the enthusiasm shown by some for radically changing how lotteries are operated. Privatization may be a good thing or a bad thing, but improved performance by state-run lotteries might go far in blunting the momentum toward changing lottery ownership.



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

Independent Lottery Research (ILR) is an 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?

