



# Back Issues Hot Bid Items on Ebay! Pulitzer Prize in the Offing?\*

THE ONE YEAR ANNIVERSARY OF INDEPENDENT LOTTERY RESEARCH NEWSLETTERS!

## INTRODUCTION

It's been one year since our inaugural newsletter, which the lottery industry received in October 2005. Over the past twelve months, we have created Joe and Jack as industry wide terms for core players and lapsed, infrequent players. We have investigated the effect of increased gas prices on lottery sales, forecasted the potential of holiday games during Christmas 2005, looked at proceeds in a way no research company had ever done, measured advertising effectiveness, asked about instant games, online games, and all things lottery. We have provided actionable research data in a clear and approachable way. It's been a great year and we appreciate all the feedback we have received from our readers through emails and website comments. If you have ideas for questions for next year's National Jack Polls, please let us know.

And, thanks again to all who attended Research Camp...a group of pioneers who didn't just listen to the presentations but actively participated. And, who knew that Leo Shapiro's alpha to the omega remarks on life and research and bill paying would be the hit of the Camp.

If you weren't able to attend this year's ILR Research Camp visit our website for information on Research Camp 2007 July 16-17 in Chicago. Over a two-day period (while the Cubs are in town...next year WILL be their year) we will offer parallel tracks for those new to research and those expert in its design, use, and implementation. We invite Directors, Marketing Directors, Research Directors, Product Managers, Vendors, Advertising Agencies, and other interested parties to learn, share, and discuss Joe and Jack.

Thanks as well to all who came by our booth at NASPL and participated in our live web-streamed focus groups of Joes and Jacks. Wasn't it instructive to be able to talk to your customers and potential customers without filters?

Thanks to those who told us how much they enjoy our newsletters and thanks to all who told Tom Tulloch and David Gale how much they like our columns in NASPL Lottery Insights magazine.

In our second year we make this pledge to you: To continue to be unbiased, current, innovative, actionable, and to give guidance on how to maximize your lottery's sales and profits in an ethical and socially responsible manner.

## THIS MONTH'S NEWSLETTER

In this newsletter we track Joe and Jack behavior over the course of a year: We ask what really happened to lottery spending in the face of fluctuating gas prices. We also ask what effect lower prices may have on future lottery spending.

## THE NATIONAL POLL

We find that overall consumer confidence is up. Feelings that inflation is in check, combined with growing job security drive a robust retail picture this upcoming holiday season. Both current spending and Christmas buying plans surge.

Each month we conduct our monthly National Jack Poll<sup>SM</sup> 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](mailto:info@ilresearch.com)

\* Just kidding!

**SPENDING**

Day-to-day spending grows as consumers spend more freely for apparel, food and driving. The LJS consumables index rises nine points to 101, the second-best level of the year. (<http://www.ljs.com/NATOCT06ns.htm>)

**PRICES**

Households reporting price increases during the past thirty days drop to 43%, the lowest percentage in more than three years. At the same time, more consumers than in any month in nearly five years say that prices have declined (28%). Expectations that the present pace of inflation will hold steady or decline in the coming months rise to 64% from 52% last month. A solid majority of Americans now feel that inflation has been checked for the immediate future.

**INCOME**

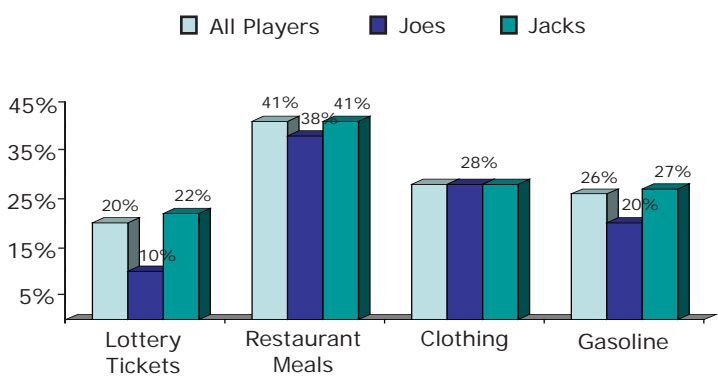
Income growth holds steady, with a one point rise to 47% reporting a year-to-year income increase. Expectations for an income increase in the coming year rise five points to 48%, the most optimistic outlook in nearly five years. Consumers are confident that they can and will manage. The percent who feel it is harder to get by now compared to a year ago drops eight points this month to 44%, the lowest percent of the year. Assessing their overall financial situation, two points fewer than last month (43%) say it has improved; at the same time, one point fewer also say that it has gotten worse (28%).

	2006					Change Sept/Oct
	May	Jun	Jul	Aug	Sept	
<b>INCOME YEAR-TO-YEAR:</b>						
Increased	46%	44%	39%	45%	46%	+1
Decreased	22	22	22	26	18	NONE
Expect income in coming year to:						
Increase	38	36	37	44	43	+5
<b>COMPARED TO A YEAR AGO, GETTING BY IS:</b>						
Easier	20	16	18	17	23	-2
Harder	49	52	54	54	52	-8
<b>OVERALL FINANCIAL SITUATION YEAR-TO-YEAR IS:</b>						
Better	42	38	37	39	45	-2
Worse	30	30	37	36	29	-1

**YEAR-TO-YEAR TREND: IMPACT OF GAS PRICES ON LOTTERY SALES**

This month we ask lottery players about their spending behavior during the gas price increase last year compared to their current spending. Consistent with what we found last year, both Joes and Jacks report that they significantly decreased their spending in a number of areas last year, with lottery tickets being hit less drastically than other forms of entertainment. *Graph A* indicates that one in five Jacks (22%) and one in ten Joes (10%) say that overall, their purchase of lottery tickets decreased last year. Losing ten percent of the purchasers that make up 80% of your sales again underlines the fragile nature of depending on a small core for your lottery's fiscal health.

*Graph A*  
**Percent Who Say Purchase Decreased  
(Base: Ever Played Lottery)**

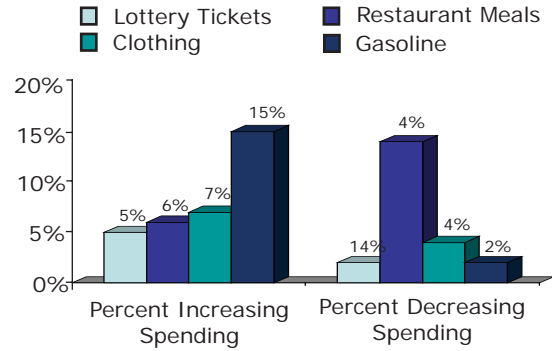


In light of the recent drop in gas prices, Joes and Jacks have differing confidence levels in what they are purchasing, but *Graph A* remains ominous for core playership. Comparing intent to buy for lottery tickets, meals, clothes, and gas is instructive: Joes are most obviously sensitive to reduction in price increases and react accordingly...Jacks less so. However, *Graph B* does not measure the effect of new games, effective advertising or large jackpots on purchasing plans.

The good news is that cutting back on spending of lottery tickets appears to have reached its max and some are starting to actually increase their spending. If gas prices rise again, one in ten players overall (and only 6% of Joes) say they will further cut back their purchasing of lottery tickets (10%) (See *Graph C*). Compared to other purchases asked about, they are least likely to decrease their spending on lottery tickets.

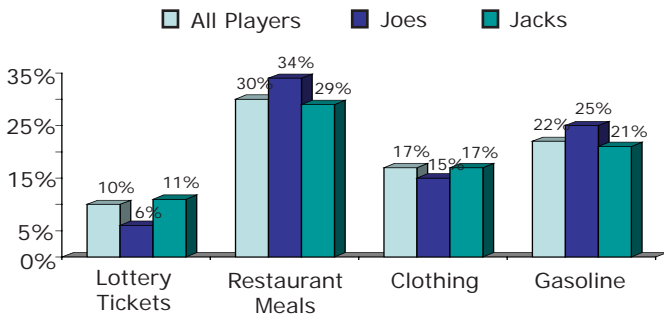
Graph B

**The Increase/Decrease of Spending on Items Purchased Due to the Increase of Gas Prices Last Year**



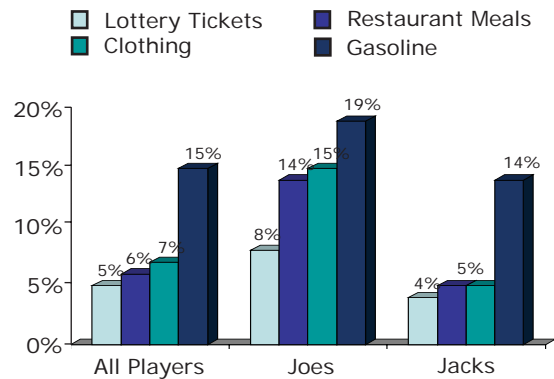
Graph C

**Percent Who Say Purchase Will Decrease (Base: Ever Played Lottery)**



Graph D

**Percent Increasing Each**



**FOR VENDORS ONLY**

Have you reshaped your product recommendations for this holiday season? Are there games, prizes and promotions designed for young adults and women? That's what our national poll data suggested would work last year. Significant numbers of Jacks, women and 18 to 24-year-olds bought holiday tickets last year even in the face of high gas prices. A whole new market beckoned...a market with money, a market literally untapped, a market buying tickets not designed to appeal to them. Are we going to see increased sales and profits to your customers as you take advantage of this actionable research?

Let us know what you created and sold and how it has done and we'll publish the results in a future newsletter and on our website.

A full detailed report of the past month of data collected from our National Jack Poll<sup>SM</sup>, 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](mailto:margaretm@ilresearch.com) to purchase

## IMPLICATIONS

This month's poll, based on slightly different questions, can be compared to November 2005's findings reported in our newsletter. That newsletter correctly forecasted a drop in lottery sales, especially among the lottery's core audience. This month's data tells us that both Joe and Jack feel more confident about the future. Confident, but still leery about purchasing decisions. Lottery tickets seem more immune to "tuning out" than other consumer goods. We think because of their relatively small costs, but these attitudes could spell trouble for high price instant tickets.

The data continue to support ILR's contention that there are two worlds out there: (Joes and Jacks) and that Joes are far more affected by economic changes. Thus they impact lottery sales more significantly than the larger group of Jacks who are less susceptible to economic fluctuations. Remember our findings about young adults and holiday games last year? The data do suggest that the worm has turned and the potential for increased sales is out there. Both Joes and Jacks feel more secure about having more disposable income in the Fall of 2006 than they did in the Fall of 2005.

Capturing lost Joe sales is a distinct possibility...creating Jack sales is a wonderful opportunity.

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## RECOMMENDATIONS

Push hard at marketing to Joes through POS and Jacks through broadcast vehicles. They are a buyer's market. The continued fall of gasoline prices means that people will be out and about more and while out and about, they will be more open to buying our tickets. Trucks and Bucks promotions become politically correct and economically more attractive with gas prices far lower for fuel inefficient, but seductive, 4x4s. Creative incorporating positive economic attitudes and general feelings of security and well-being may attract both Joes and Jacks. The easing economic tensions may also allow more emphasis on proceeds rather than winning.

Both Joes and Jacks are ready to buy. Joes are still problematic and a pure dependence on them for sales and profits will be a precarious strategy. Jacks, 70% plus of your lottery market, remain the target of choice based on twelve months of ILR data.



The ILR team 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?**



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