



Instant Karma Is Going To Get You!

DIRECTORS' NOTE

This newsletter signals the culmination of our instant/scratch-off series. We hope our online friends and customers do not feel too neglected. Stay tuned for future newsletters focused on online games. This March we conducted a follow-up wave to the survey we conducted at the same time last March (2005) to understand how consumers' lottery attitudes and behavior overall may have changed in the past year. Overall, the survey found that while lottery trial is up, with more people saying they have "ever played" their state lottery, core playership and frequency of play are down. The increased participation has been caused by two huge bloc lotto prizes available within a month of our survey.

Our principle focus at ILR, is, as always, to use our proprietary research techniques and knowledge of the lottery industry to provide actionable information to the industry. Although we were pleased at the increased participation we found we wanted to understand why more players, especially core players, are telling ILR that they are playing less. This is especially interesting to us because last year's reasons for no longer playing the lottery tended to focus mostly on the classic rationale of not winning and a new more troublesome indication that the expense of lottery tickets is inhibiting play. This year, consumers cite a variety of reasons for not playing, affordability, other uses for their money, poor odds, and that they don't like gambling.

But, a key finding of ILR's National Jack PollSM this month and more alarming for our industry, is the dramatic drop in the level of enjoyment consumers get from playing the lottery. In the two polls we used a nine point scale to ascertain how players and non players feel about their lottery and their lottery play. The results are alarming. We report them in a chart below.

The reasons that anybody stops playing our lottery games are not simple and attracting and retaining 'Jacks' is not a simple task. But, core players are the low hanging fruit of our lotteries and it is essential to understand what this recent poll indicates. If core players, our Joes, are not only being buffeted by high gas prices, higher instant ticket prices, no longer consider our games to be fun, and are no longer enjoying themselves...well ILR is ready to extend our university of Jack-ology to our Masters program studying Joe behavior as well.

WHAT IS JOE THINKING THESE DAYS ABOUT THE LOTTERIES? OR JACK?

The percentage of people who have ever played their state lottery is up 6 points from last year. The percentage of those who have "ever played" was 66% in March 2005, compared to 72% in March 2006.

However, the percentage of active players remains the same. About one-third of people in lottery jurisdictions say that they currently play their state lottery. Again we caution that there is an implicit artificiality to this data given the impact of recent huge bloc lotto prizes.

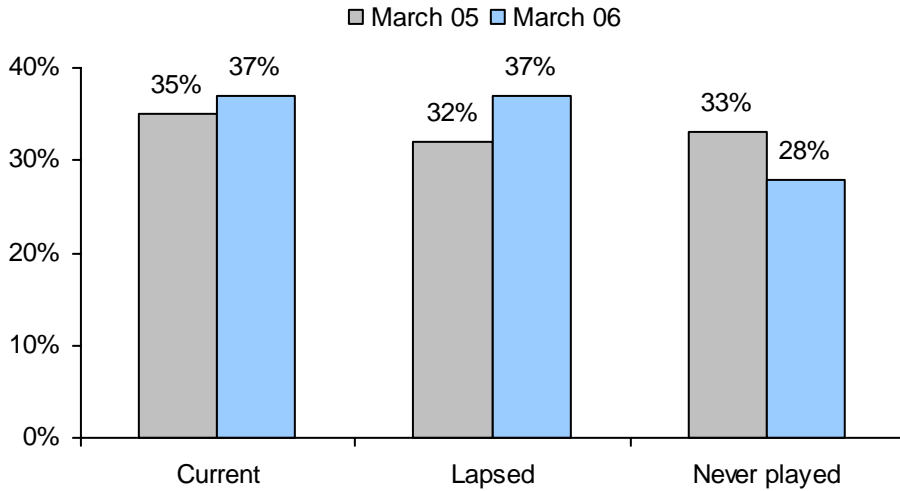
Among lapsed players, the reasons for not playing have shifted dramatically compared to last year. (Continued...)

Comments or suggestions about the new format for our newsletter? Email: info@ilresearch.com

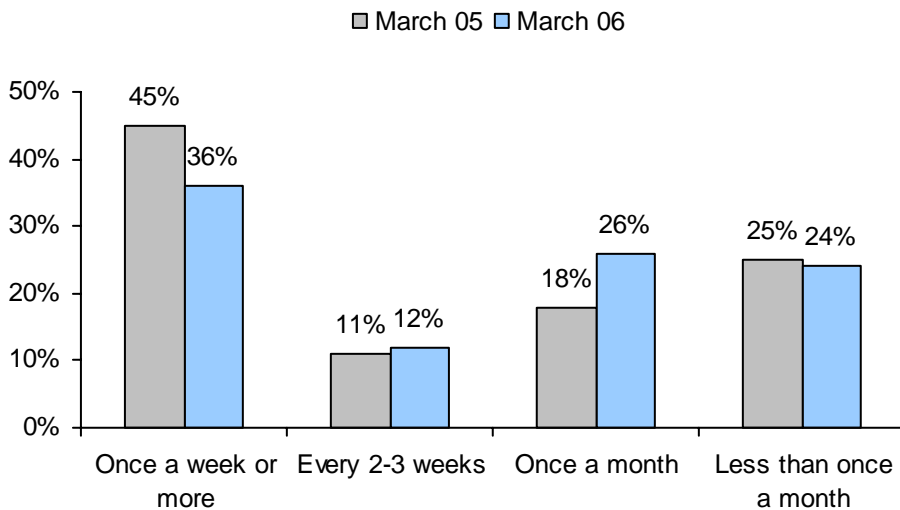


The ILR team from left to right: Michael Jones, Gary Kubo, Margaret Mueller, Matthew Smith

Do you play any state lottery? Have you ever played any state lottery?



How often do you play? (Base: Current players)



Last year reasons for no longer playing the lottery tended to focus on feeling that it is a waste of money and not winning. This year, consumers cite a wider variety of reasons for not playing, including that they cannot afford it, that there are better things to spend their money on, poor odds and that they don't like gambling.

In addition to an increase in current players lapsing, current players in 2006 are playing less often than current players a year ago. In 2005, almost half of current players reported playing once a week or more, falling dramatically to just over a third in 2006. The majority of current players report playing once a month or more.

The vast majority of current players play numbers games (we believe that 'numbers games' in this context mean bloc lotto games), with half playing only numbers games. Only one-fifth of current players normally only play instant games.

IS FUN REALLY FUN?

The shocking finding of this month's poll is how low players' enjoyment of playing the lottery has become. Even current players express much less pleasure in playing our games from just one year to the next than we in the industry would expect. The already low enjoyment levels that we found in 2005 (unpublished in a newsletter)

decline even further in 2006. Using a nine-point rating scale where "9" means "I enjoy it a lot" and "1" means "I don't enjoy it very much", almost one-in-five current lottery players in 2005 rated their enjoyment the highest rating of "9" (19%). That percentage dropped in half to only 10% in 2006. Based on our other work with more traditional consumer products, this finding is alarming.

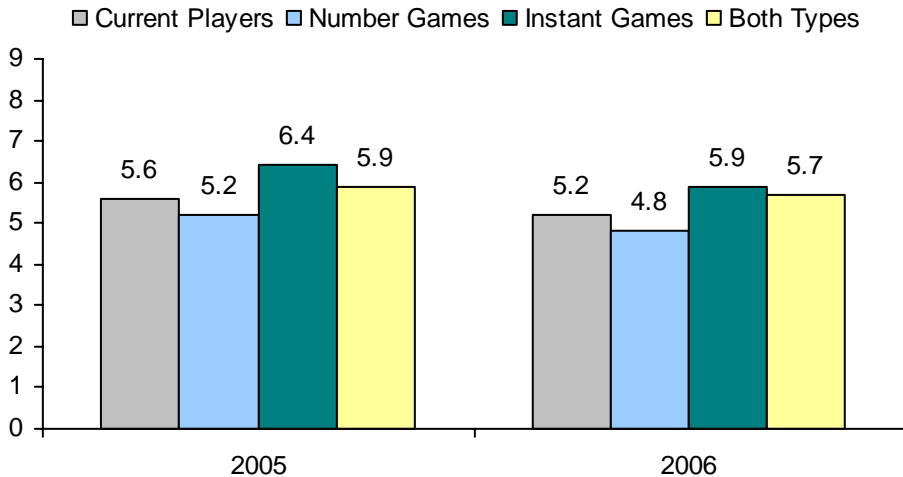
Current instant players report the greatest enjoyment playing the lottery. Over one-third of instant-only players rated their enjoyment a "9" in 2005 (36%). This figure has dropped by two-thirds to only 12% in 2006.

One in ten current players have neither positive nor negative feelings about the lottery. A majority of these respondents (60% in 2005 and 2006) are jackpot-dependent players, while the remaining participants simply do not play that often (4% in 2005 vs. 6% in 2006).

When asked if state lottery games are fun to play, using a nine-point scale with "9" meaning "completely agree" and "1" being "completely disagree", we find no change in the low mean rating of 5.1.

Overall, people do not have very negative perceptions of lotteries as taking advantage of people. Using the same scale, respondents are also asked if they personally agree or disagree with the statement that state lotteries take advantage of people. There is a slight increase in the mean rating of people who do consider this to be an accurate statement. More dramatic is the full quarter (25%) in both 2005 and 2006 who rate this statement a "9" saying they "completely agree" with it. (Continued...)

How much do you enjoy playing the lottery? (Mean ratings)



Finally, using the same nine-point scale, respondents are asked if they personally agree or disagree with the statement that money spent on lottery tickets goes to good use in states that have them. The mean rating drops nearly half a point between 2005 and 2006. Furthermore, in 2006, one in five respondents say they “completely disagree” (14% in 2005) versus only 9% of respondents answering that they “completely agree” (down from 14% in 2005).

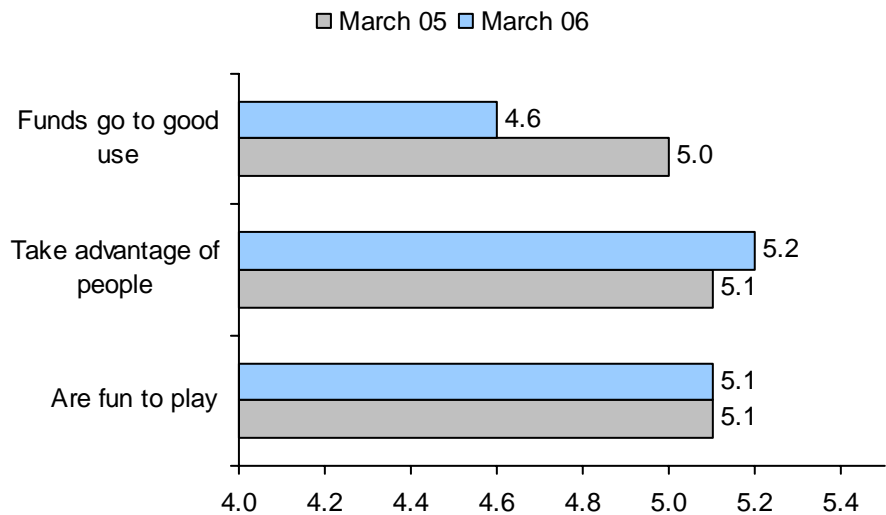
IMPLICATIONS

This may be the most compelling of all of ILR’s ‘Jack’ polls. By using a proprietary sequence of questions from 2005 to 2006 we have discovered a number of highly important findings. Using a nine point scale to determine attitudes from one year to the next we see dramatic shifts among core players and players: More people playing at least lotto style games and fewer people enjoying the experience; More core players playing but not finding the pleasure that games like our instant product once provided. The implications are that the core messaging that we have used with our core audience has finally been shown to be the Emperor wearing no clothes. Stressing odds and winning when in a lottery the odds will never be noticeably favorable and winning consistently impossible may have sensitized core players to what they are not able to experience rather than what our products can intrinsically provide.

We believe that a decade of increasing industry focus on odds and prize percentage payouts and price point strategies in our messaging has potentially caused lottery games to be no longer “fun” for even core players. A self inflicted phenomena that is the reality of lottery odds, appreciation that prizes less than twenty dollars or so are no longer considered to be ‘winning’ and churn coarsening the lottery experience.

The potential of the huge numbers of ‘Jacks’ described in previous newsletters is a key area of attention for our lottery customers, but this finding is troubling. We need to find out what is going on within our core constituency from 2005 to 2006. Instant games have been the backbone of lottery sales increases for a decade, but if core playership is expressing dissatisfaction, we must react.

Lottery games... (Mean ratings)



Visit the ILR website for supplemental data

<http://www.ilresearch.com>

RECOMMENDATIONS

ILR always uses this space in the monthly newsletter to urge lotteries not to ignore Jack and to use research to understand what needs to be done to encourage Jack to start playing again or more often...this month we urge our readers to start the process to look closely at Joe. Perhaps our findings as to what was happening to Joe over the holidays and Joe's sensitivity to market forces were an indication as to what we would find when we looked at Joe from one year to the next.

An analysis we did for another client on the impact of a \$20 instant ticket on other price points is a case in point: beyond a sales spike from a 2000% increase from the purchase of a traditional \$1 ticket there is a real numbers consideration. In a state with millions of potential purchasers our research indicated that the total number of \$20 ticket purchasers was at most in the tens of thousands. When an industry is so dependent on so few for so much, satisfaction levels become a key factor for sustained growth.

A NOTE FOR VENDORS

Our industry will never ultimately succeed in arguing odds and winning. Lotteries are widely supported and at times widely played. Instant games have far greater appeal than the core that creates most of the sales. If the 'core values' that are defined as odds, winning, chances of winning on the ticket, and churn are becoming less relevant to the 'core' and affecting their favorability so dramatically we need to act. Perhaps we have always know what this poll indicates: a typical instant ticket trumpets the number of \$20 winners within the game...who asked? Who needed to be reassured? Is this really a reaction to core player's negative reaction to 'churn?'

We can answer these questions and give specific recommendations to assist in designing games and testing prize structures. We hope our poll next year at this same time shows a dramatic favorability rebound, together we can ensure it with the products we design and test against an audience of Joes and Jacks we use research to understand.

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

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

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 (Joe's) as well as non-players and lapsed players (Jack's). Lotteries and vendors have spent a lot of time understanding who Joe is. The question is: **DO YOU KNOW JACK?**



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