Where The Rubber Hits The Road

DIRECTORS' NOTE

Several ILR Directors have attended industry meetings or met with lotteries over the last few months and have been surprised at the number of lottery employees and vendors who read our monthly newsletters. We really appreciate the feedback on topics to be covered, the results of our implications being acted upon in individual states, and the almost universal suggestion as to what we can do with our attempts at humor. In this newsletter we are returning to a format that includes more of the national data generated through our partner Leo Shapiro & Associates to give a socio-economic context to our lottery questions. We then take a look at where all of efforts lead us: to the retailer who sells our tickets and the retailer's interaction with Joe (core players) and Jack (lapsed, infrequent, and non-players).

One of our Directors visited the legendary Lothar Lammers when he ran the Westdeutsch Lotterie and remarked upon the large artwork hanging in the lobby of his beautiful headquarters…'What artist did that?' he asked, 'Picasso, Arp, Monet, Van Gogh, Michelangelo, Disney?' 'No, my dear friend…none of those.' Lothar answered with a smile, 'It isn't even art…it's a section of the street in front of our first office in a bombed out building, I put it there to remind everyone that everything we do starts on the street…where you Americans say: the rubber meets the road.'

So National data that will impact your lottery sales and a look at our retailers, and, of course, a bit of humor.

THE OVERALL ECONOMY

Consumer Spending: Worried about rising prices and slowing income growth, consumers say they are pulling back from major purchases and withdrawing from the housing market. But as households pull back from major purchases, their spending for day-to-day goods remains stable. The percentage of households cutting back on driving is unchanged from last month as gasoline prices stabilized around $3 a gallon. Restraints on spending for food, clothing and medical expenses also show little change from a month ago.

Consumer Confidence: Income growth slows as just 44% of households report higher income year-to-year, a two-point decline from last month and the lowest level of income growth since December. Households that feel it is now harder to get by than a year ago rise to 52%.

	2005/2006									Change
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	May/June
Income year-to-year										
…Increased	41%	44%	43%	50%	47%	50%	46%	46%	44%	-2%
…Decreased	22	19	24	20	18	19	20	22	22	None
Compared to a year ago										
…Harder to get by	59	52	47	51	45	46	44	49	52	+3%

Again, evidence supports past National Jack Poll℠ findings that "Joes" (core players) are hit much harder by economic downturns than "Jacks," with seven in ten "Joes" saying it is harder to get by now that than a year ago (70%) compared to only 53% of lapsed players and 46% of non-players.

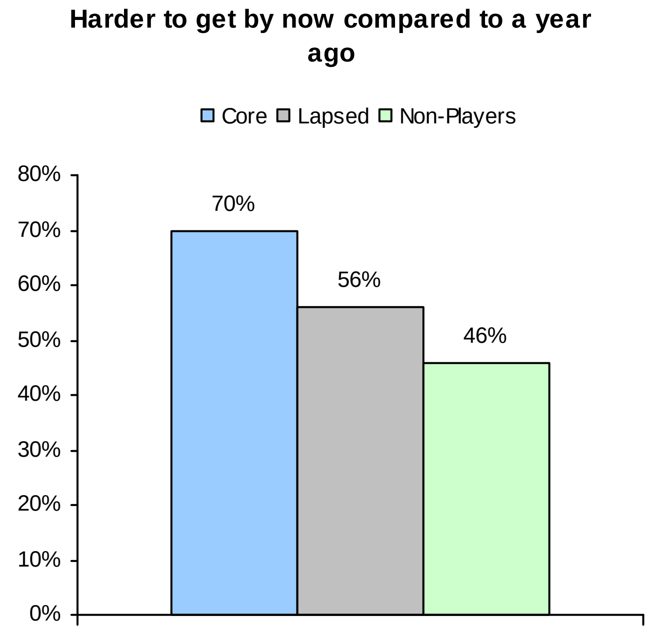
Economic Implications: Americans have decided to stay put, quite literally, in withdrawing from the housing market, and more generally in their reluctance to commit to major purchases. However, their day-to-day buying of food, clothing, health services, and even driving continues without much change.

THE OVERALL ECONOMY

(Continued)

Although income growth is slowing, feelings of job security remain high. But, even with stable incomes, the fear of inflation is now causing some Americans to pull in their horns. The combination of slowing income growth and rising prices focuses consumers on preserving their living standard, rather than on raising it.

What does this mean for Joes and Jacks? We have all noticed slow builds in bloc lotto jackpots. Could a downturn in consumer confidence be why? Perhaps we also need to revisit price-point structure of our instant tickets with fewer consumers being able or willing to spend $20 on an instant ticket. How can we motivate Jack to play when he has less disposable income to spend? A free-gas instant game? A free vacation for your family? We'll tell you what Jack says about this next month.



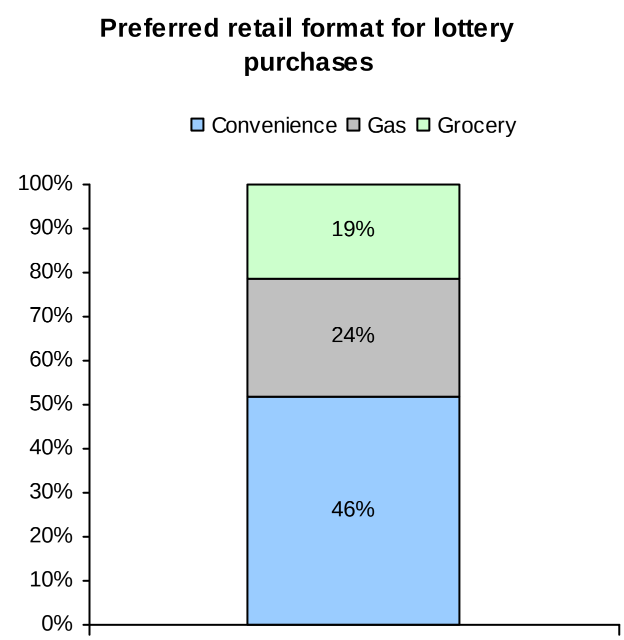
CAN I BUY LOTTERY TICKETS HERE?

We asked lottery players what retailer trade style was their favorite Nearly one-half of all lottery players say they prefer to purchase tickets at local convenience stores (46%). One-quarter (24%) favor gas stations and one in five favor grocery stores (19%).

Regular lottery players are faithful to their retailer. Four in five "Joes" (self-defined "regular" players) say they purchase tickets at their favorite retailer (convenience store, gas station, or grocery store) "almost every time" or "most of the time" they play (83%).

However, the actual type of retailer has little impact on a player's loyalty; just over half of all players who favor convenience stores (54%), gas stations (53%), or grocery stores (54%) say they purchase there "almost every time" or "most of the time" they play.

Retailers are always in a relatively strong position when consumers have money to spend, even when they are resolved not to spend it. In a climate of buying resistance, we need to be cognizant of consumer attitudes, spending and behavior during times of economic uncertainty.



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

WOULD YOU LIKE TO BUY OUR NEW LOTTERY GAME?

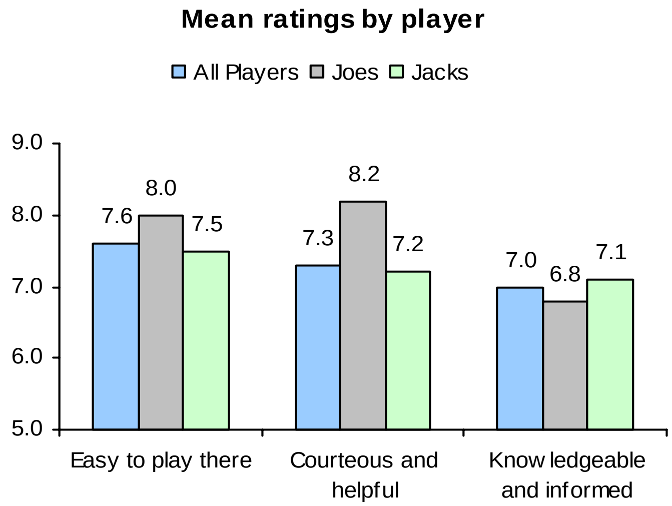
We asked lottery players to rate the people who work at their preferred retailer on three attributes:

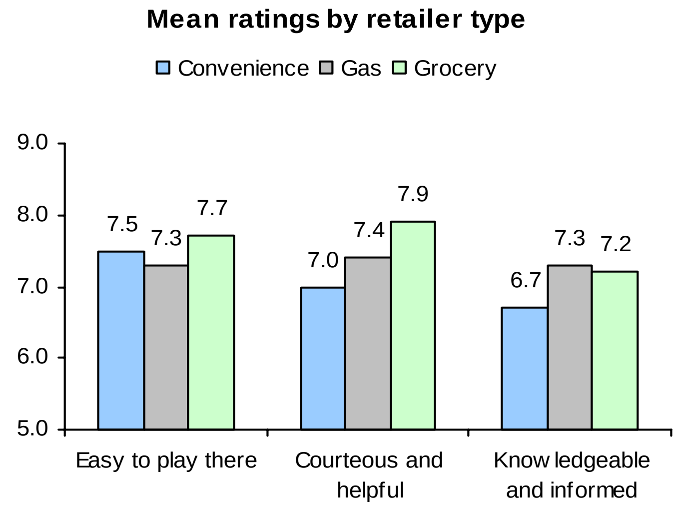
1. How easy the people who work there make it to play the lottery
2. How courteous and helpful they are
3. How knowledgeable and informed they are about how to play lottery games

Overall, players rate retailers high across the board.They receive the highest ratings for having employees who make it easy to play there (mean 7.6 on a nine-point scale). Having courteous and helpful employees (mean 7.3), and employees who are knowledgeable and informed about how to play (mean 7.0) also receive high ratings.

The effect is similar across type of retailer; all but one type receive mean ratings of 7.0 or higher on all three attributes. Lottery players who favor convenience stores believe the employees are less knowledgeable and informed (mean 6.7) than those who favor gas stations (mean 7.3) or grocery stores (mean 7.2).

“Joes” (regular players) rate retailers higher for making it easy to play and being helpful, than “Jacks” (the occasional, once-in-awhile players).





Note: Rated on a scale of 1 to 9, where 9 is “absolutely the best” and 1 is “just so-so.”

YOU PUT YOUR MONEY IN AND YOU (HOPEFULLY) TAKE A TICKET OUT

Use of Lottery Ticket Vending Machines

One in five lottery players have ever used a lottery ticket vending machine to purchase tickets (21%). Those who prefer to purchase at a gas station or grocery store are more likely to have used a vending machine than those who favor convenience stores.

Of the one in five who have used a lottery ticket vending machine, one quarter have experienced a problem trying to make a purchase (25%). Sixteen percent of all lottery ticket vending machine users cite problems with the ticket not coming out of the machine (62% of those experiencing problems), 5% say they encountered a malfunctioning machine (23% of those experiencing problems), and 4% say they had difficulty figuring out how the machine works.

IMPLICATIONS

Joes are loyal. Joes are loyal to the lottery, loyal to lottery retailers, with fixed buying habits and good opinions of where the rubber meets the road. Lotteries are doing a great job of training retailer employees. Who would have thought that such a high percentage of our best customers would think that the people they buy our tickets from are helpful and informed? It’s great news that retailers are doing a good job of gaining loyalty among their player base. These players view these retailers as being helpful and making it easy for them to play.

Joes are loyal. Joes may be biased or so familiar with our games and how tickets are sold and the data as far as retailer effectiveness may be skewed by that knowledge and bias.

IMPLICATIONS

(Continued)

But, take a look at the graph above. The differences in opinion between Joes and Jacks as far as our retailers are minor compared to previous polls. Jacks, when they are finally ready to buy our products generally like the retail experience they have to go through: which ticket, which game, how much, what numbers, fill out the play slip etc.

But, based on previous findings it may be reflective of a simpler set of actions and the efficacy learned through experience of our retailers as to the situation when they are finally facing a Jack across a retail counter: "I'll take a five dollar quick pick Mega Millions/Powerball ticket."

But, even so we should be pleased and congratulate our partners behind the counter.

Lottery vending machines are popular with Joes but too many Joes are experiencing problems using them. It's hard to extrapolate from this data how large an impact these experiences have on overall lottery sales but if loyal Joes are reporting such failures just think of what a bad experience would have on a Jack trying the lottery for the first time. We have worked with ITVM providers in the past and know how hard they try through their technology to ensure the problems we have reported are minimalized…well they are there and they are serious.

Rising gas prices, interest rates, and the onset of summer may result in some lotteries seeing a slight downturn these next couple of months. Next month we ask: "Is there a summer slump? What does it really mean?"…

A NOTE FOR VENDORS

Be sure you are invited to any meetings concerning retailer training, POP, or planning for the next $300 million drawing. You can assist in closing the satisfaction gap between Joe and Jack. If you are a ITVM provider, do some in field research and discover whether its your technology or the consumer's misuse of your technology that has led to such a significant reporting of problems in buying tickets from stand alone machines. If you are Southland Corporation, or BP, or Albertson's…stand up and take a bow! Despite a lot of employee turnover your employees are appreciated by both Joes and Jacks.

RECOMMENDATIONS

Joes like us. Jacks aren't crazy about us and generally rank their interactions with retailers lower than Joe, but keep doing what you're doing with retailer training and reward. You might want to have ILR drill down a bit more on these retailer questions to the effectiveness of POP and the interaction with Jacks in transactions other than Quick Pick tickets for huge prize amounts. We would suggest exit interviews, buying our Street Talk DVDs and modifying POP to trade style as areas to examine.

On a national level, lotteries should be worried about macro economic events affecting their core audiences. As we saw last fall and Christmas with our findings on gas prices, lotteries can be significantly impacted by event beyond their control if they depend too much on a finite group of players.

Remember there are far more Jacks than Joes and Jacks weathered higher gas prices far better than their lottery playing cousins.

Each month we conduct our monthly National Jack Poll℠ 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

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?***