



Summertime Blues?

DIRECTORS' NOTE

Having received positive feedback from our readers for including data from our National Poll on general economic trends, this month we report on lottery spending during summer time and the ongoing impact of the national economy on Joes and Jacks. We will pursue these subjects and discuss how best to gauge them at ILR's Research Camp on the first day of the NASPL conference (October 11th). Please visit our website (www.ilresearch.net) for details and registration information. Representatives from six lotteries and an online vendor have already taken advantage of the early-bird registration.

We also welcome Mark Zamarippa to ILR's management team. Mark, the former Director of the Colorado Lottery and past President of NASPL, will concentrate on making our research actionable and well balanced in investigating both Joes and Jacks as current and future lottery players.

SUMMERTIME: IT'S NOT ALL FUN AND GAMES

Back to school time is here. The weather in Chicago is starting to change. Kids are back in school. Labor Day festivities have come and gone. People should no longer be wearing white. It's time to look back over the summer and try to understand what our lottery clients across the country have been asking about the legendary lottery "Summer Slump." Why does it happen? Is it inevitable? What can we do about it?

We have dedicated the July and August polls to addressing these questions, along with how this summer's economic slowdown and increased gas prices pinch the wallets of both Joes (regular players) and Jacks (infrequent/lapsed players). As you may recall, the last newsletter on retailers and continued economic slowdown begged the question whether non-cash prizes, such as free gas, family vacations, or college scholarships would motivate cash-strapped Jacks to play. As promised, we investigate their interest in non-cash prizes and possible ways to motivate Jacks to play more.

This newsletter begins with our regular discussion of the overall economy. We then move on to discuss the results of our investigation, exploring the differences between Joes and Jacks, and providing you with implications that could lead to increased profits.

DON'T MISS OUR RESEARCH CAMP!

When: October 11th 2006
10:30 am to 4:30pm
Where: Chicago, Illinois

Come and see us before heading to NASPL!

For more details visit us at:

<http://www.ilresearch.net/camp/>



THE ILR NATIONAL POLL LOOKS AT THE OVERALL ECONOMY

OUT OF THE PAST: STAGFLATION

Recession, combined with growing inflation, significantly impacted the economy in the early 1970s. This schizoid beast, labeled stagflation, haunts consumers old enough to remember it. The average age of consumers who see the US heading into a period of stagflation is 51 years; only 7% are under age 30.

Fear of stagflation stops some consumers dead in their tracks. Although their incomes and spending power are about the same, consumers, some fearful of stagflation, are pulling back on spending and feel that their personal finances are in jeopardy.

For those in the know, fears of a recurrence of stagflation can deal severe blows to the economy. As we move forward, close attention will be given to this topic each month.

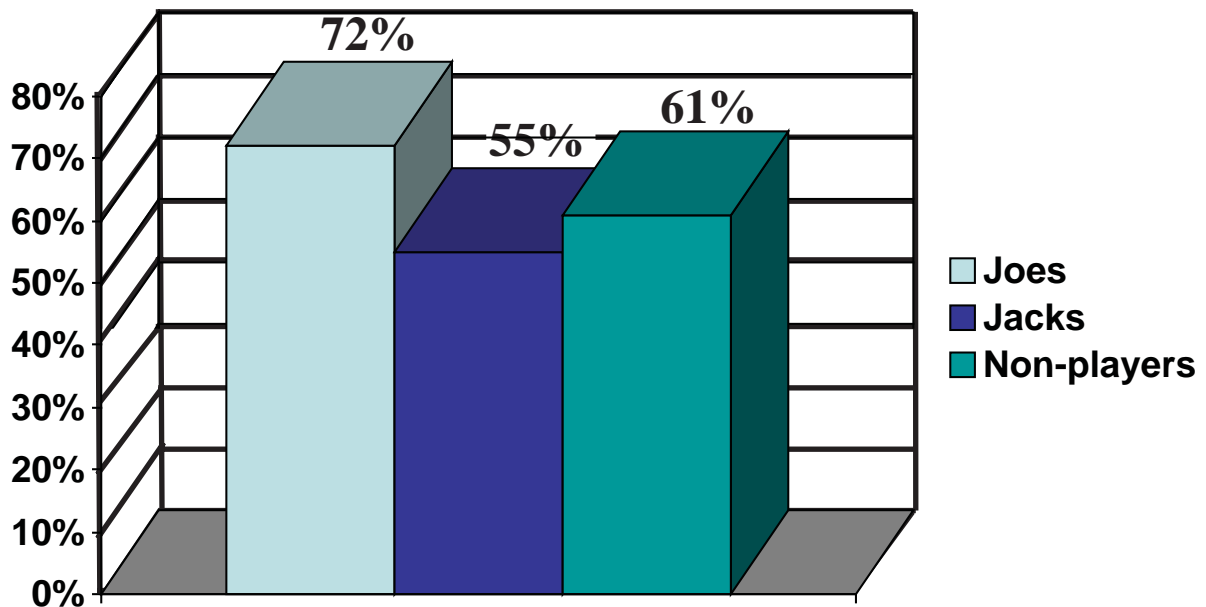
JOES, JACKS AND THE ECONOMY

The general attitude of consumers for July and August seems to be one of apprehension, with Joes being more pessimistic about the future than Jacks. When asked whether they thought the economic picture for the US was getting better, worse, or staying the same, 72% of Joes felt the picture was "getting worse." Only 55% of the Jacks felt this way, and with a slightly larger percentage, 61% of Non-players felt this way.

On average, one in four Joes (24%) say that they are making less money now than they did a year ago, compared with only 18% of Jacks.

The overall impact of Joes' beliefs that they have less money to spend and their increased pessimism of the country's economy on lottery sales remains to be seen.

Those Who Believe the Economy is Getting Worse



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 possible) is available for purchase. Please allow one to two weeks for delivery.

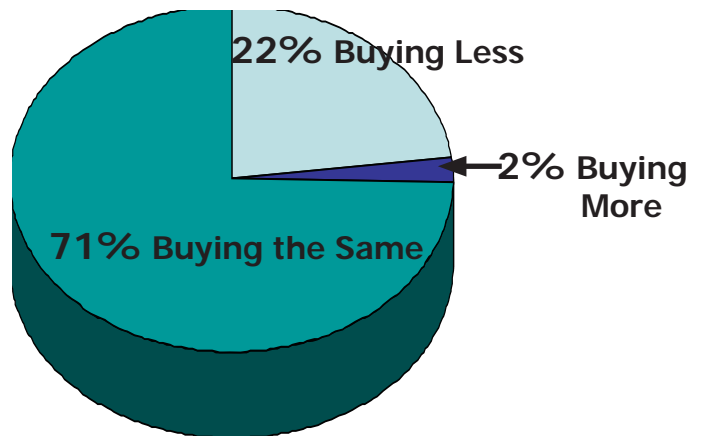
- A detailed report, summary tables, data tables, as well as implications is available for \$2,500
- \$1,500 for data tables only
- \$24,000 for a full year's subscription of detailed reports, a savings of \$6,000
- Contact Margaret Mueller at (312) 546-5925 x3 or margaretm@ilresearch.com to purchase

SCRATCH-FLATION?

THE GOOD NEWS: The majority of lottery players say they spend the same on lottery tickets during the summer as they do during the rest of the year. This means that the bulk of players intended to spend as much during the summer as they do other times.

THE BAD NEWS: Yet, one in five do say that they spend less on lottery tickets during the summer. Of those buying less, one in four (27%) report they are buying fewer instants/scratch-offs, 11% say they are buying less of "everything," and 11% say they are buying fewer "Powerball/Mega Millions." The remaining respondents either mention nothing specific they are buying less of, or other non-lottery products.

Lottery Spending Trends During the Summer Months



SUMMER THEMES

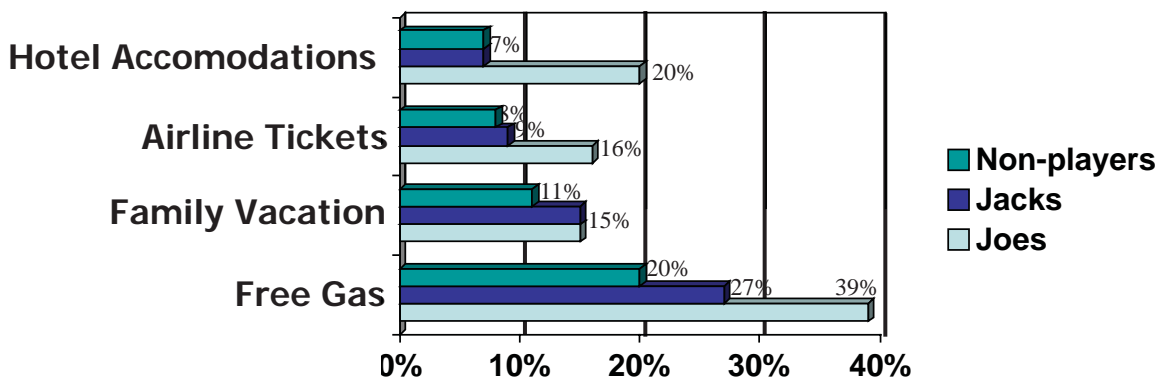
Nearly two in five lottery players report that their lottery offers summer themed instant or scratch-off games or promotions. However, few could identify what they were. The few mentions include: camping, baseball tickets, pick-up trucks and Troy Aikman and Emmitt Smith Powerball.

We asked Joes and Jacks, as well as non-players about whether four non-cash prizes would entice them to play the lottery more during the summer.

How About The Chance To Win Free Gas By Playing That \$5 Instant/Scratch Off/Cash 5/Pick 3/Daily Game/Win 4/Lotto/Pick 4/Quickpick Powerball/Mega Millions Ticket?

In July, we asked about four potential summer vacation related non-cash prizes, including: free gas, family vacation, airplane tickets, and hotel accommodations. We then asked regular players (Joes), infrequent/lapsed players (Jacks), and Non-players whether they would be more or less likely to play the lottery during the summer if a variety of different prizes were offered. Consistent with our findings in July of last year, we find the greatest enthusiasm for free gas prizes, followed by family vacations, airline tickets and hotel accommodations.

Those Who Would Buy Lottery Tickets with a Non-cash Incentive



SUMMER THEMES

(Continued)

The fondness for the substitute prize “free gas” cannot be overstated. A free gas instant game has the potential to significantly increase lottery tickets sales and profits. Jacks would play more, Joes would still play, and non-players would start playing. As our most recent start-up state has showed us with their hugely successful “Trucks and Bucks” game, the right non-cash prize can generate tremendous trial from non-players or lapsed players. Chicago retail maven Marshall Field sagely said: “Give the lady what she wants.” Maybe if you give Jackie what she wants, she just may start playing. Maybe the opportunity to win free gas or other timely prizes during these economic times is exactly the kind of concrete prizes non-core players are looking for.

Further research will have to be invested into the best ways to structure the prize offerings of “free gas” or “hybrid car”, or “nuclear powered jetmobile.” Many more possibilities exist. From instant scratch off tickets that cover one free “tank-up,” to Pick 3 prizes that supply gas for a month, to countless other ideas, possibilities abound. Nevertheless, the market has made it very clear: These are promotion ideas likely to get Jacks to start playing or play more.

WHY MARKETING IS KEY

We also asked about awareness and recall of summer promotions. Specifically: “Thinking about your own state lottery, do they offer any summer themed instant or scratch-off games, or rather other summer themed promotions?”

We found a distinct difference between Joes and Jacks. The surveys showed that almost two thirds of Joes (63%) were aware of summer themed promotions, while, conversely, less than one third (31%) of Jacks were aware of them.

So when creating a summer (or any) promotion, we must remember that making it a good promotion (like a nuclear powered jetmobile) is only half the battle. Relevance is a critical element. Not only do we have to make them aware of what we are offering, most importantly we need to ask them if the idea offers something that would encourage them enough to play.

IF THIS NEWSLETTER HAS SPARKED YOUR INTEREST IN AN IDEA YOU WANT TO PURSUE FURTHER, WE HAVE A VARIETY OF TOOLS TO GET YOU THE ACTIONABLE INFORMATION YOU NEED IMMEDIATELY.
E-MAIL US AT info@ilresearch.com OR CALL US AT 312-546-5926 ex. 6

FOR VENDORS ONLY

You’ve done a heck of a job providing lotteries with a wide range of games and prizes. Decisions on what games, when, and what prizes beyond cash, and in what quantities (and how to win them) available in new or existing games are only as good as how they will be marketed. Recall of summer promotions and summer prizes are not what we would expect from a gaming monopoly.

Plan now for Christmas. There were spikes in sales to young adults and women last year and there was a welcome and surprising spike in sales to Jacks...just as there will be if planned for and buttressed with research for the summer of 2007.

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?



IMPLICATIONS

Up to 20% of Joes play lottery games less in the summer. Calling all Jacks. Many of our respondents are familiar with lottery summer promotion efforts but that is it: like our newsletter on advertising last month we again find awareness but not knowledge, reach but not action. Share this newsletter with your advertising agency, marketing department, existing (but soon, we hope to be changed) research company and push for relevance and media impact beyond reach and frequency measurement.

Any negative change in consumer confidence, economic condition, buying power, energy costs, or fears of 'stagflation' impact our existing sales inordinately. Joes are much more sensitive to economic pressure than are Jacks. Lottery sales are showing that the reliance on a core playership has its limitations and each National Poll and ILR newsletter illustrates clearly how important for future lottery sales and profits Jacks are. Whether it is their size in the adult population, their more stable and disposable income, or their confidence in and support of lotteries, Jacks are the key target for future games, prizes, and advertising.

Cash is king, but gas is the new "gold." As shown in other national consumer products, as the butt of late night TV host jokes, and as seen in recent movie plot lines, the new reality is that Joes and Jacks universally accept gasoline as a great "prize." Joes and Jacks stand united over the gas pump at the gasoline mini-mart where they can buy another (or their first) lottery ticket that wins gas for a week/month/year/lifetime. Cash is king but a well-designed vertically integrated lottery game/promotion has proven to be a terrific way to excite Joes and attract Jacks and to make non-players proto Jacks soon to be (maybe) Joes. Ask Oklahoma.

A former (lost the election) President's ignored advice, "it's the economy, stupid," should be warning enough that we should look at our industry and plan for the reality of what is happening on the streets

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RECOMMENDATIONS

Re-read last Christmas's ILR newsletter on consumer behavior during the holidays. The economic conditions of last year are here again and will impact sales this holiday season. We say this because it is perhaps too early to design next summer's consumer/product promotions now but the data reported in this newsletter will be key for a more successful non-Summertime Blues summertime in '07. But it is not too late to recall the implications and recommendations from the gas impacted fall/holiday 2005.

It's not just gas prices, it's confidence, and Win for Life/Gas for Life/college tuition for a family/nuclear powered jetmobiles can mitigate the first and promote the second.

Keep making Joe happy, but fight for Jack. Jack is the key to weathering a hot summer made hotter by high energy costs and declining wages and consumer confidence. Some merchandise prizes can excite new play from new players if packaged in a manner that allows wide awareness of what can be won and where losses go. Use this newsletter as a guide for what to expect this holiday season and if sales slowed this summer, they slowed for many companies.

NASPL 2006 TRADESHOW

As many of you know, ILR officially debuted at the 2005 NASPL Tradeshow in Minneapolis. In celebration of one year of lottery research revolution, ILR is planning a variety of educational activities at this year's conference. Details to follow. If you would like to meet with ILR or one of our directors during the tradeshow, contact us at 312-546-5925 or get more details at:

http://www.ilresearch.com/fileadmin/files/NASPL_Events_Notice.pdf



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