



## State of New Jersey

DEPARTMENT OF THE TREASURY

DIVISION OF LOTTERY

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*State Treasurer*

December 12, 2012

Dear Lottery Partners,

You may have read recently that the New Jersey Lottery is seeking a business partner who can help increase sales and improve marketing operations. This initiative started in January 2011 with a request for quotations for a consultant that ultimately led to the release of a request for proposals (RFP) in August 2012. That RFP process is expected to end in March 2013 with the awarding of a contract to a sales and marketing manager.

Given the importance of the Lottery to New Jersey's retailers, the Lottery has provided a Question and Answer section to our retailer web site and I am enclosing them now for your review.

We value our relationship with our retail partners and will continue to provide total support and assistance to help you grow your customer traffic with the promotion of the Lottery.

Sincerely,

A handwritten signature in cursive script that reads "Carole Hedinger".

Carole Hedinger, CPA

Executive Director

New Jersey Lottery

# Lottery Growth Management Services

## Frequently Asked Questions



*The New Jersey Lottery is seeking a business partner who can help increase sales and improve marketing operations. This initiative started in January 2011 with a request for qualifications (RFQ) for a consultant that ultimately led to the release of a request for proposals (RFP) in August 2012. That RFP process is expected to end in March 2013 with the awarding of a contract to a sales and marketing manager. Given the importance of the Lottery to New Jersey's retailers, the Lottery is making these facts available to help them understand what's happening and why.*

### **Why did the State initiate the bid request to contract out the Lottery's sales and marketing functions?**

After an intensive review of the Lottery's operations in 2011, consultants from Macquarie Capital (USA) concluded that the best way for the Lottery to protect and expand revenues over the long run is to partner with an independent business entity to manage its marketing and sales functions.

Lottery has many such business-government partnerships already in place, including its long-standing relationships with private retailers who sell tickets in their stores. The State issued the RFP so Lottery could consider proposals from firms with solid expertise in product development, website content, social media presence and other state-of-the-art marketing techniques and technologies.

### **Is it correct to say the State is selling or privatizing the Lottery?**

No. We are not selling or "privatizing" the Lottery. Both Federal and New Jersey law prohibit the sale of the New Jersey Lottery. The State will retain full ownership. Management will remain in place and continue to have the first and final say about how the Lottery is run.

### **How will hiring a contractor for Lottery Sales and Marketing affect retailers?**

The Lottery considers its retailer network to be an indispensable asset. That will not change. In fact, it's fully expected that retailers will benefit from a broader array of gaming products and higher overall product sales generated by the efforts of a professional marketing and sales force motivated by powerful financial incentives to generate higher ticket sales.

### **Will the contracted manager increase fees to retailers?**

No. The contracted manager will not have the authority to impose fees on retailers of any kind.

### **Will retailer commissions be cut by the contracted manager?**

No. The contracted manager will not have the authority to cut commissions.

### **Will there be any change in the way information technology services are provided to retailers?**

Contractor GTECH now provides communications links, makes repairs to technological systems, and distributes Lottery products and supplies. Current levels of service provided by GTECH will be maintained and, as always, Lottery will continuously review our technology to see if improvements can be made.

### **How will independent retailers compete with the large chains with which the Lottery may partner?**

It's worth noting that Lottery already sells tickets through a mix of large retail stores, supermarket chains and independent retailers. Lottery management believes the RFP will lead to a sales and marketing plan that will benefit its entire retail network, creating more opportunities for everyone – large, small and mid-sized businesses alike.

**How will hiring a partner for Lottery Sales and Marketing affect education and state institutions?**

Improving the success of the Lottery will provide increased revenues to education and the other Lottery beneficiaries. Since it began, the Lottery has contributed more than \$20 billion to support education and state institutions. A partnership with a sales and marketing team will increase these contributions and strengthen the education infrastructure of New Jersey.

**Will Internet sales be instituted by the contracted manager?**

Any discussion by the Lottery to sell tickets over the Internet is a separate issue from whether it hires a contractor for marketing and sales. Section 1.2.2 of the RFP titled **Compensation Model** states that a contractor “may ... have the opportunity” to work with the Division of Lottery on developing new Internet sales channels for Lottery products. It does not direct or require a contractor to do so. Importantly, any final decision to offer Internet sales will be made by Lottery management, not the contracted manager.

The Lottery continually monitors trends in technology, marketing and consumer preferences in an effort to stay ahead of changes in the marketplace and provide better services and products. That monitoring includes studying other state lotteries that are boosting their returns through the use of Internet sales.

Contrary to the information being presented by some organizations regarding the effect of Internet sales on brick and mortar retailers, the facts are there is no evidence that Internet sales reduce retail sales. Based on the results in Illinois – the first State Lottery to offer Internet sales – Internet ticket purchases have accounted for less than 2 percent of that lottery’s overall revenue. However, under the guidance of a contractor managing its sales and marketing operations, total retail sales have increased by 18 percent in their first year of operation.

**What oversight will the Lottery exercise over the contractor?**

As is stated in section 1.2.3 of the RFP titled **Oversight by the Division of Lottery**, the Division “will exercise *actual control* and *oversight* over all significant business decisions and will retain the authority to direct and countermand the operating decisions of the Manager as described in the Services Agreement.” (*Emphasis added.*) The contractor will also be required to submit detailed business plans for approval by Lottery’s management on an annual basis. These plans will cover all aspects of the contractor’s operations and marketing plans. Lottery management will have the right to reject or revise the entire plan or any individual element of it.

**How will the integrity of the Lottery be maintained? How will you insure that proceeds from Lottery sales are transferred to State programs?**

The Lottery will maintain authority and control over all aspects of the work performed by the contracted manager as it does with all of its other contractors, which now include its advertising agency, instant ticket printing companies, an outside auditor and its gaming system provider. Additionally, the Lottery, not the contracted vendor, will continue to collect all Lottery revenues, perform game draws, validations and claims processing, financial reporting, retailer licensing, and security. Finally, the Lottery Executive Director will continue to report to the Lottery Commission, which will retain all of its present authority under the law, which includes approval of all games and game rules.

**Have other states taken similar steps?**

Illinois was the first state to engage a contractor to perform sales and marketing for its lottery. Indiana recently awarded a contract for similar services. Pennsylvania is currently reviewing a proposal and may make an award for a contractor by the end of December. Texas has outsourced its sales force for many years. These are a few examples of successful partnerships between State lotteries and private businesses working together to increase revenues.

**What steps has New Jersey taken so far to identify a suitable partner for sales and marketing?**

- January 2011 – RFQ issued for Lottery management review
- December 2011 – RFI issued to solicit information from industry on ways to improve Lottery performance
- August 2012 – RFP issued for company to perform sales and marketing functions