



FY11-12
STRATEGIC
PLAN



Mission Statement

To operate the lottery with the highest degree of integrity and security to maximize net revenues raised for the education programs identified by the Legislature.

History

On March 30, 2006, the North Carolina Education Lottery (NCEL) began selling instant scratch-off tickets. That initial offering included four instant scratch-off games with new games being added every two to three weeks. This sales kick-off occurred three months and 25 days after the first employee came on board and was the fastest start-up of any lottery in the country up until that time. Nearly 5,000 retailers sold lottery tickets from day one.

Quick on the heels of instant scratch-off tickets, the NCEL offered Powerball tickets for sale on May 30, 2006. North Carolina had a \$200,000 winner in the first draw in which we participated. We quickly became the Powerball jurisdiction with the first or second highest sales. So in just slightly more than six months the NCEL was in the instant and online business.

To round out the online games, the NCEL offered in-state 3-digit and 5-digit games. On October 6, 2006, Carolina Pick 3 began and on October 27, 2006, Carolina Cash 5. WRAL became the primary draw station with stations in four other media markets televising the draw.

On the November 29, 2006 draw, the NCEL had its first Powerball Jackpot winner. Jackie Alston won \$74.5 million. Anticipation mounted around the state waiting for Ms. Alston to identify herself and claim her winnings, which she did in February 2007.

The NCEL finished its first full fiscal year with sales of \$889 million. The FY07 transfer, including FY06 carryover, totaled \$325 million.

The second year of the lottery maintained the fast pace of the first and saw new activities for our continuing effort to attract different players. The NCEL gave away five Ford Mustangs in five Carolina Cash 5 promotional drawings and conducted two raffles with multiple one million dollar top prizes. We surpassed \$1 billion, then \$2 billion in sales. We gave away Harley-Davidson® Fat Boy® Motorcycles, both as a prize on an instant scratch-off ticket and as a Second Chance Drawing prize. In the last quarter of the year, we added a mid-day draw to the Carolina Pick 3 game.

The NCEL finished its second full fiscal year with sales of \$1.078 billion. The FY 08 transfer totaled over \$350 million which met the amount appropriated by the Legislature in the FY08 budget.

In the third and fourth years of the lottery, we added Carolina Pick 4 to the game offerings and added a \$20 instant scratch-off ticket. We continued our second chance drawings with drawings associated with World Series of Poker, Mustang Madness, and Monopoly. The Monopoly drawing included the opportunity to play a web-based second chance drawing promotional game. A promotion for Carolina Cash 5 included drawings for Ford F-150 trucks. We also had a drawing associated with \$130 Million Blockbuster instant game that awarded \$50,000 a year for life. We added a Triad TV station to the list of stations televising the draw.

The lottery also had its second Powerball winner, Jeff Wilson of Kings Mountain. He won \$88.1 million.

The NCEL finished its third full fiscal year with sales of \$1.293 billion. The FY09 transfer totaled over \$410 million which was \$60 million more than appropriated by the Legislature in the FY09 budget. Total transfers crossed the \$1 billion mark in FY09. Sales for FY10 are projected to be \$1.371 billion with transfers of \$419 million.



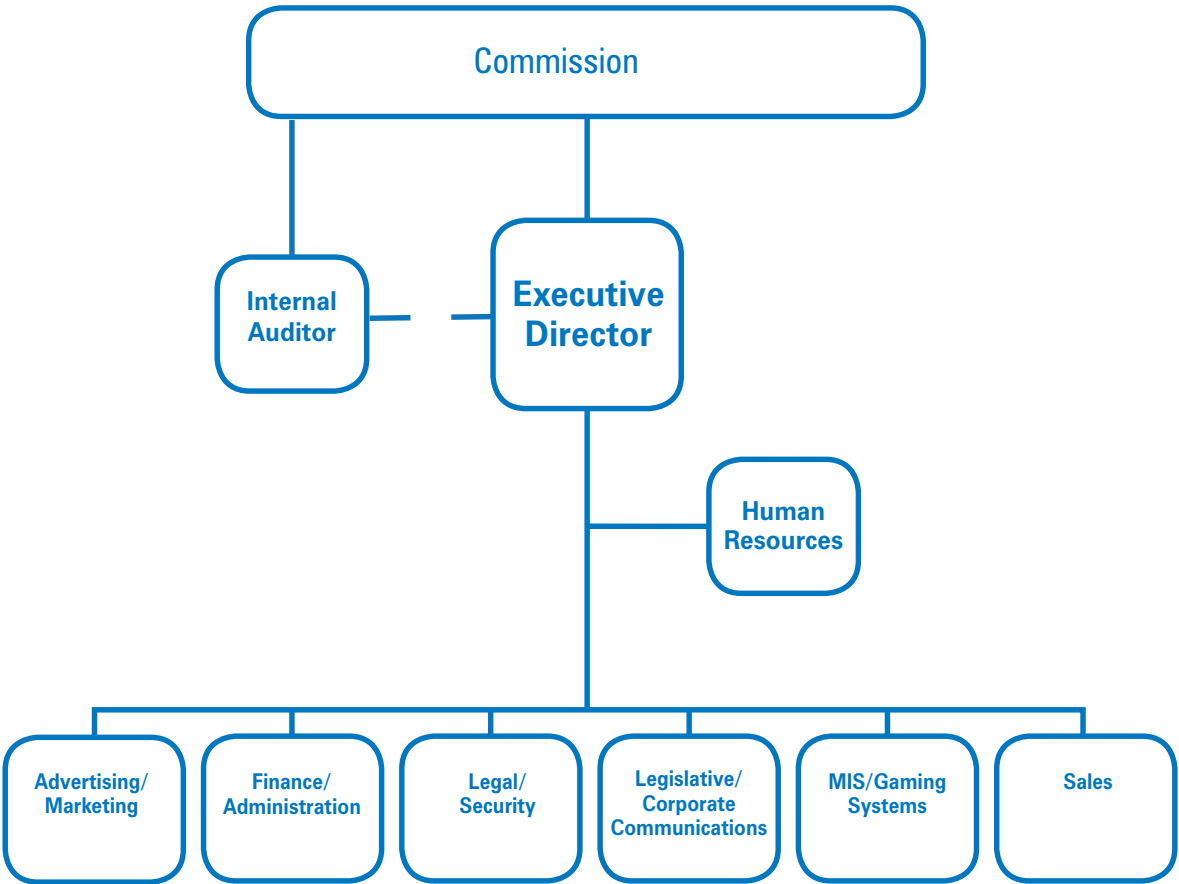
Organization

The NCEL is governed by N.C.G.S.18C – the North Carolina State Lottery Act, passed into law on August 31, 2005.

www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/ByChapter/Chapter_18C.html

The North Carolina Education Lottery Commission oversees the operations of the NCEL. The Commission is a nine-member body; five members appointed by the Governor and two members each appointed by the President Pro Tem of the Senate and the Speaker of the House. The Commission meets quarterly.

The Executive Director oversees the daily operations of the NCEL. Under the executive director there are six operating divisions and an executive staff.



Advertising and Marketing

The Advertising and Marketing Division is responsible for the positioning and development of the NCEL brand and its games by projecting an entertaining, socially acceptable image of the NCEL that complies with the legislative mandate and its mission to raise revenue for education. We develop marketing programs that educate players about our games and latest promotional offerings, our winners and our contributions to education. We also provide players with fun, entertaining experiences through the play of our games and through participation in promotional events at fairs, festivals and sports sponsorships.

Finance and Administration

The Finance Department is responsible for accounting, budgeting, and purchasing functions of the Lottery. The Administration Department is responsible for contracting with retailers desiring to do business with the Lottery; providing a telephone hotline for retailers to call for assistance when needed on their lottery accounts; validating and payment of player prizes; facility services and motor fleet management.

Legal and Security

The Legal Department supports all other NCEL Departments in furtherance of their goals and objectives by providing legal advice and counsel. Specifically, this Department drafts and reviews contracts, drafts internal policies and procedures, drafts procurement documents, responds to legal claims, and actively participates in all civil and criminal litigation affecting the NCEL.

The Security Department not only provides for the physical security of all NCEL employees and its assets, but most importantly, this Department upholds the integrity of the NCEL by securing the instant ticket and online games of the NCEL, as well as handling retailer and player security.

Legislative and Corporate Communications

The Legislative group interacts with state legislators, handling NCEL-originated legislation and tracking legislation of interest or impact to the NCEL. Communications manages internal and external communications, including press releases, newsletters, media events, daily clips, media interviews, public information requests, social media and speaking engagements. Communications also manages the players' hotline and communications with players, written and telephonic.

MIS and Gaming Systems

Gaming Systems coordinates and tests changes to the online gaming system, troubleshoots gaming system issues, operates the ICS (Internal Control System), and provides analysis and reporting of gaming system and lottery industry data. MIS provides technology services such as email, Internet access, helpdesk, desktop and laptop computers, mobile computing, printing, phone and network services.

Sales

The Sales Division manages the sales programs with independent retailers and large chains. The Division motivates and educates retailers by establishing and maintaining rapport. Additional duties include the recruitment and expansion of the retailer base with the overall goal of increasing sales for the NCEL education programs.



Beneficiaries

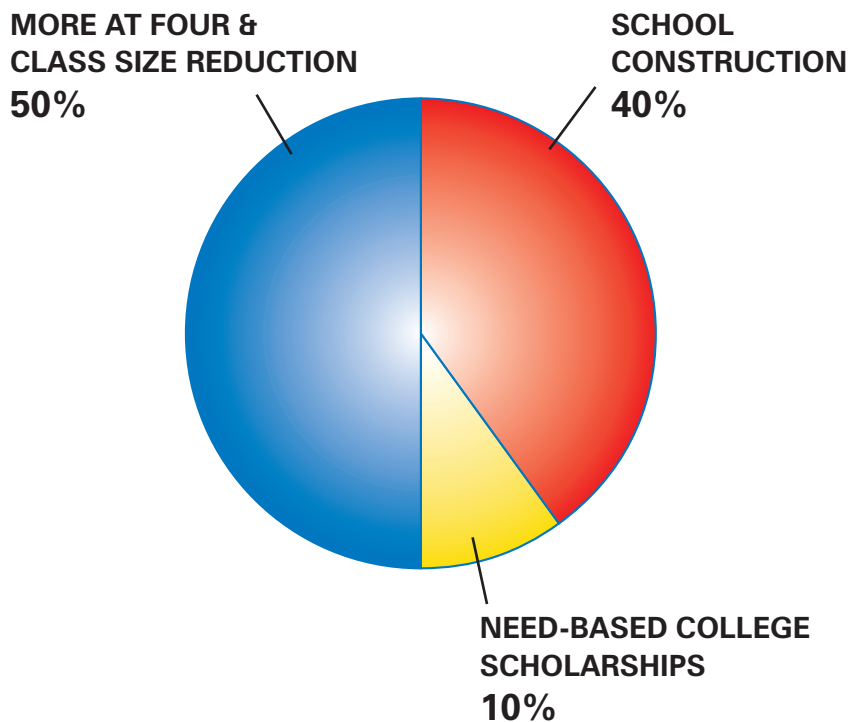
The State Lottery Act designates the following four beneficiary programs: pre-kindergarten for at-risk four year olds, class size reduction to one teacher per 18 students in grades K-3, school construction, and need-based college scholarships.

The More at Four program receives the pre-kindergarten funds. Through FY09, lottery proceeds funded over 53,924 slots for at-risk four year olds. Local programs in all 100 counties benefited from lottery dollars.

Through FY09, lottery dollars fully funded over 6,249 teaching positions with all 100 counties receiving these dollars. These two programs, More at Four and class size reduction, receive 50 percent of lottery proceeds.

School construction dollars are awarded to counties based on a formula in the statute. School construction receives 40 percent of lottery proceeds. Of this, 65% is awarded to counties based on student population and 35% is awarded to those counties with property tax above the state average, again based on student population. Counties can bank their funds in order to amass sufficient funds to pay for a large project or they can use the funds as they become available for smaller projects. At the end of FY09, counties had scheduled 458 projects using lottery proceeds.

College scholarships receive ten percent of lottery proceeds. The scholarships are need-based and may be used for in-state schools: colleges, universities, and community colleges. Students must qualify for the federal Pell Grant in order to qualify for a lottery scholarship. The State Education Assistance Authority oversees this program. Starting with the 07/08 school year, 59,657 students have received lottery scholarships. They came from all 100 counties.



Where the Money Goes

The State Lottery Act provides guidelines for how lottery revenues are spent. Over ninety-five percent of revenues are returned to the public in some form.

At least 50 percent of revenues are paid out in prizes. The 2007 Legislature provided the NCEL flexibility in prize payout and allowed the NCEL to spend more than 50 percent on prizes paid in order to meet the annual Legislative Budget.

To the extent practicable, 35 percent is transferred to the State Lottery Fund which then goes to the beneficiary programs. The allowance to increase the prize payout means that less than 35 percent may be transferred to beneficiary. However, by paying out more in prizes, the NCEL has been able to increase sales. Consequently, the beneficiary programs receive a greater dollar return.

Retailers receive a seven percent commission for their efforts to sell lottery tickets.

While the lottery statute provides that up to eight percent may be used for administration, the remaining dollars, which amount to less than five percent, go to administration. Of that five percent, the gaming contractor, GTECH, receives 1.5999 percent. The NCEL spends no more than one percent on advertising. The Department of Health and Human Services receives \$1 million annually for their problem gambling program. This leaves about 2.3 percent for the remainder of administrative costs.

After the NC Legislature approved a retailer incentive program, the NCEL Commission adopted a program to award incentives to retailers selling the top prize tickets on online games. The new retailer incentive program is funded out of administration dollars as well.



SWOT Analysis

To prepare for its third full year of operations, the NCEL undertook the development of a strategic plan to guide its activities for the next one to three years. The first step in this process was the development of a SWOT analysis: the identification of strengths, weaknesses, opportunities and threats.

Strengths

1. Highly diversified Commission represents entire state and all business disciplines
2. Experienced, diversified staff
3. Strong customer service
4. Detailed policy and procedures already developed
5. Solid base of experienced and knowledgeable retailers – 41% corporate/59% independent
6. Staff investments
 - Development and Training
 - Communications
 - Proper tools
7. Low cost administration
8. Continuation of Operation Plan (COOP) prepared and tested

Weaknesses

1. Inability to perform fully as a market driven organization
2. External perception is impacted by uniqueness of industry (sales organization within state government)
3. Limited upward mobility for staff
4. High turnover of retail clerks
5. Limited advertising budget

Opportunities

1. Ongoing retailer training to maximize retailer performance
2. Continuing to increase retailer base and improve market penetration
3. Increasing community awareness about where the money goes, how to play games and number of winners and encourage support from beneficiary agencies to deliver message
4. Legislation that would allow new revenue sources
5. Review of information systems to increase operational efficiencies

Threats

1. Maintaining a competitive position within the job market
2. Downturn in the economy; small business closings
3. Negative perception created by those opposed to the lottery leading to negative media, negative player perception, damaged reputation, disinterest in lottery participating in events
4. Loss of knowledgeable staff and experience
5. Diminished integrity due to internal fraud, data loss, retailer fraud
6. Increased cost of advertising media
8. Severe weather/storms (natural disasters)
9. Competition from other gaming entities



Goals

The NCEL used the SWOT analysis to develop the four goals needed to carry out the mission of the organization: To operate the lottery with the highest degree of integrity and security to maximize net revenues raised for the education programs identified by the Legislature.

1. Maximize net revenues for defined education programs in North Carolina
2. Maintain an organizational culture of high trust and total participation
3. Continue to build public confidence and trust
4. Continue to achieve diversity internally and externally

The NCEL developed actions steps and a time frame, whose successful completion should lead to accomplishing the four goals, as detailed on the following pages.



Action Steps

1. Maximize net revenues for defined education programs in North Carolina

ACTION STEP

Include operational reviews in each audit for cost efficiency in order to maximize revenue for education.

Responsibility: Audit

Measurement: 100% of audits where scope includes review of cost efficiency; review annually

ACTION STEP

Analyze and research products and/or promotions within statutory authority that are exciting to existing players and create interest and trial by new players.

Responsibility: Advertising/Marketing/Sales/Gaming Systems

Measurement: Evaluate 20 new ideas; review annually

ACTION STEP

Evaluate and develop promotions as needed for online games.

Responsibility: Advertising/Marketing/Sales/Gaming Systems

Measurement: 5% increase in product sales achieved during that promotion; review annually

ACTION STEP

Conduct summertime raffle promotion.

Responsibility: Advertising/Marketing/Sales/Gaming Systems

Measurement: Implement summertime raffle FY11

ACTION STEP

Evaluate current online games for enhancement as they mature in the market place and implement changes as necessary to refresh the product.

Responsibility: Advertising/Marketing/Sales/Gaming Systems

Measurement: Sales analysis of any changes implemented

ACTION STEP

Continue to evaluate special events and promotions programs to disseminate the message statewide that playing the lottery is fun and entertaining.

Responsibility: Advertising/Marketing

Measurement: Overall value of special events and promotions tracked and available; review annually



ACTION STEP

Continue expansion of the NCEL website’s player registration site to develop and brand an interactive site.

Responsibility: Advertising/Marketing

Measurement: 10% increase in subscribers; user satisfaction measured via player survey

ACTION STEP

Continue webcasting of commercials and winner videos to increase player awareness.

Responsibility: Advertising/Marketing and Communications

Measurement: Post updated commercials day of game launch/beginning of advertising program; refresh winner videos monthly

ACTION STEP

Develop interactive videos for new online game education and include player survey at end of video.

Responsibility: Advertising/Marketing

Measurement: Results of player survey regarding educational value of interactive videos are available

ACTION STEP

Continue to explore opportunities for internet advertising plan on other news and entertainment sites.

Responsibility: Advertising/Marketing

Measurement: Documented evaluation of opportunities available; review annually

ACTION STEP

Analyze cost savings suggestions and implement where feasible to maintain costs at or below budget.

Responsibility: All Divisions

Measurement: Actual expenditures are at or below budget at end of fiscal year

ACTION STEP

Revamp retailer recognition program and develop evaluation criteria.

Responsibility: Communications/Sales/Marketing

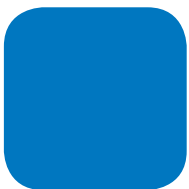
Measurement: Recognition posted periodically on webpage; included in NCEL retailer newsletter; and provided to industry groups for publication

ACTION STEP

Continue to create winner awareness.

Responsibility: Communications/Marketing

Measurement: Winner releases issued semi-weekly; winners added to webpage upon receipt; updated winner DVD compiled and provided to Regional Offices; review annually



ACTION STEP

Maintain quality communications with players.

Responsibility: Communications

Measurement: Player call logs maintained and analyzed; emails sent to Sales and/or Security as need arises; two new DVDs produced annually; big winners survey FY12

ACTION STEP

Keep public informed on programs benefiting from lottery net proceeds.

Responsibility: Communications/Marketing

Measurement: Annual Report completed and distributed annually; beneficiary brochure completed and distributed annually and requests for additional brochures tracked; updated beneficiary DVD produced and provided to Regional Offices; all requests to speak to civic groups accepted

ACTION STEP

Continue to develop the enterprise retail management system.

Responsibility: MIS

Measurement: Retail management, retail services, prize validation and security modules completed

ACTION STEP

Manage instant ticket distribution in order to maximize sales.

Responsibility: Sales

Measurement: Increased instant ticket sales over previous year and minimized retailer out-of-stock issues

ACTION STEP

Grow the NCEL retailer base to maximize sales.

Responsibility: Sales

Measurement: Retailer base at 6500 at end of FY12

ACTION STEP

Continue to focus the retail base on the benefits of selling lottery.

Responsibility: Sales

Measurement: Articles produced for trade group newsletters; quarterly sales reviews conducted by Sales Reps with retailers; retailer newsletter produced quarterly; retailer workshops conducted regionally; review annually



2. Maintain an organizational culture of high trust and total participation

ACTION STEP

Continue to cross train staff within divisions to maximize efficiencies and maintain harmony among employees.

Responsibility: All Divisions

Measurement: Cross-training database available and based on information provided to HR by the divisions; review annually

ACTION STEP

Continue to foster interdivisional cooperation and support through directors' meeting, NCEL special events and promotions, and in-house gatherings.

Responsibility: All Divisions

Measurement: DED and Directors' meeting held on regular basis, special milestones recognized; employee event committee conducts 10 events

ACTION STEP

Provide professional skills development at all levels of the organization in order to provide opportunities for employees to move up in their careers.

Responsibility: All Division

Measurement: Number of employees who participate in training activities both internal and external

ACTION STEP

Continue to educate employees about the NCEL Policies and Procedures and make them aware of any changes; ensure consistent application across the organization.

Responsibility: All Divisions

Measurement: Failures to follow policy and procedures tracked and available; monthly HR chooses policy to highlight and sends to all employees; Legal sends policy changes to all employees each time change is made

ACTION STEP

Perform periodic compensation reviews to ensure market competitiveness.

Responsibility: Human Resources

Measurement: Documentation of any compensation review conducted

ACTION STEP

In FY12 evaluate salary and benefits package, including non-monetary benefits, to consider any changes within the authority of the Commission.

Responsibility: Human Resources

Measurement: Evaluation completed and reported to DEDs by end of FY12



ACTION STEP

Maintain regular communication with employees.

Responsibility: All Divisions

Measurement: Employee newsletter posted on intranet monthly; all employee meetings conducted quarterly; daily clips, press releases, weekly legislative report and monthly status report posted on intranet; divisional staff meetings conducted periodically; intranet functionality expanded; benefit updates; policy updates

ACTION STEP

Implement document management and workflow system within the organization.

Responsibility: MIS

Measurement: Document management and workflow system requirements gathered, evaluated and implemented by end of FY12

ACTION STEP

Gaming Data Integration and Reporting System

Responsibility: Gaming Systems

Measurement: By end FY11, consolidation of gaming system data for reporting and data analysis completed

ACTION STEP

Supply mobile disaster recovery technology to personnel identified to perform key business functions.

Responsibility: MIS/Security

Measurement: Key personnel identified; tools distributed; and Mobile Disaster Recovery strategy implemented and published by end of FY11

ACTION STEP

Conduct bi-monthly sales staff brainstorming sessions.

Responsibility: Sales

Measurement: Meetings conducted and results available

ACTION STEP

Conduct weekly conference calls with all regional managers and sales staff and quarterly face-to-face meetings.

Responsibility: Sales

Measurement: Meetings conducted and minutes available



3. Continue to build public confidence and trust

ACTION STEP

By end of FY11, create video describing internal controls for the gaming system and provide to regional offices for public viewing.

Responsibility: Security/Audit

Measurement: Video or handout produced

ACTION STEP

Continue to utilize marketing/advertising to create public awareness about where the money goes.

Responsibility: Advertising/Marketing

Measurement: Player feedback through consumer market research utilized to gauge awareness and effectiveness of message and to refine message as needed

ACTION STEP

Continue to create winner awareness through videos and public presentations for big winners throughout the state that benefit retailers as well as the NCEL.

Responsibility: Advertising/Marketing/Communications

Measurement: Number of winner presentation events conducted; media coverage of events tracked using Metro Monitor and clips

ACTION STEP

Continue to operate in such a manner that there are minimal to no material audit findings.

Responsibility: All Divisions

Measurement: Minimal to zero material audit findings

ACTION STEP

Pay players in timely manner.

Responsibility: Administration/Sales

Measurement: 99% of players paid day of claim

ACTION STEP

Provide quality retailer customer service.

Responsibility: Administration/Sales

Measurement: Using a retailer survey, 90% of retailers satisfied with our customer service



ACTION STEP

Continue to Monitor retailer compliance with state and federal policies and laws such as sales to minors, ADA, and problem gambling.

Responsibility: Legal/Security; Administration; Sales

Measurement: Number of Sales to Minors violations; percentage of stores that are ADA compliant

ACTION STEP

Familiarize district attorneys on developing and litigating lottery cases.

Responsibility: Legal/Security

Measurement: Speaking engagements and educational documents at annual District Attorneys' Conference

ACTION STEP

Players representatives provide clear and accurate answers to players and show sincere interest in players' needs.

Responsibility: Communications

Measurement: Annual survey of players who call players' hotline conducted, with goal of 95% favorable rating of service received

ACTION STEP

Respond to all external inquiries and requests for information timely and provide complete information based on the request and availability of data.

Responsibility: Legislative/Communications

Measurement: Response time to inquiries tracked and available

ACTION STEP

Provide factual, timely information to legislators and opinion leaders about the status of lottery revenues and the dollars transferred.

Responsibility: Legislative/Communications

Measurement: Winner information provided semi-weekly; beneficiary newsletter mailed quarterly; annual report mailed yearly; press release on transfers emailed quarterly

ACTION STEP

Inform the public on sales, winners and beneficiaries.

Responsibility: Communications

Measurement: Press releases, annual report, beneficiary brochure, DVDs produced and disseminated; speaking engagements tracked



4. Continue to achieve diversity internally and externally

ACTION STEP

Continue to work with all hiring managers and recommend additional recruiting sources to ensure a diverse candidate pool for all positions.

Responsibility: Human Resources

Measurement: Minority percentages established at equal to or higher than that of the state of NC

ACTION STEP

Continue to seek HUB vendors and encourage all major vendors to do the same, share vendor lists, and continue to provide updated information on efforts to expand minority business opportunities and programs by adding information to the vendor tab on the NCEL website.

Responsibility: All Divisions

Measurement: Minority participation equals or exceeds the state goal of 10 percent

ACTION STEP

Conduct Minority Business Conference.

Responsibility: Legal/Security

Measurement: Conference held within timeframe of this plan

ACTION STEP

Recruit summer interns of diverse background.

Responsibility: All Divisions

Measurement: Diverse interns hired

ACTION STEP

Include diverse participants in annual report, brochures, other print and video media, and commercials.

Responsibility: Communications/Advertising/Marketing

Measurement: Images used in various lottery media included participants that are equal to or greater than the NC minority participation goal of 10%



Conclusion

This strategic plan should serve the NCEL for the next 2 years. We will revisit the plan annually to determine whether action steps need to be added, removed, or altered. The ultimate test of this strategic plan is whether we meet our sales target for the year, with security and integrity.

